Sagicor Bank Jamaica Limited

Financial Statements
31 December 2019

Sagicor Bank Jamaica Limited
Index
31 December 2019

	Page
Independent Auditor's Report to the Members	
Financial Statements	
Income statement	1
Statement of comprehensive income	2
Statement of financial position	3 – 4
Statement of changes in shareholders' equity	5 – 6
Statement of cash flows	7 – 8
Notes to the financial statements	9 – 108

Independent auditor's report

To the Members of Sagicor Bank Jamaica Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of Sagicor Bank Jamaica Limited (the Bank) as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of 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 financial statements* section of our report.

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

Independence

We are independent of the Bank in accordance with the International 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.

Responsibilities of management for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

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

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



Chartered Accountants
Kingston, Jamaica
31 March 2020

Sagicor Bank Jamaica Limited

Income Statement

Year ended 31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2019 $'000	2018 $'000
Net Interest Income and Other Revenue			
Interest income earned from financial assets measured at amortised cost and FVOCI		9,662,501	8,716,648
Interest income earned from financial assets measured at fair value through profit and loss		-	6,399
Other operating income		48,687	167,906
Total interest income	6	9,711,188	8,890,953
Interest expense	7	(1,471,845)	(1,620,862)
Net interest income		8,239,343	7,270,091
Fees and commission income	8	4,005,236	3,584,070
Trading income	9	1,800,463	1,514,325
Other revenue		162,183	662,516
		5,967,882	5,760,911
		14,207,225	13,031,002
Operating Expenses			
Team member costs	10	2,880,963	2,867,086
Occupancy costs		407,716	466,662
Credit impairment losses, net of recoveries	11	345,449	633,082
Asset tax		281,264	264,757
Other expenses	12	5,666,317	4,869,043
		9,581,709	9,100,630
Profit before Taxation		4,625,516	3,930,372
Taxation	13	(1,582,109)	(1,077,437)
Net Profit		3,043,407	2,852,935
EARNINGS PER STOCK UNIT			
Basic and diluted	14	$0.72	$0.67

The accompanying notes on pages 9 to 108 form an integral part of these financial statements.

Sagicor Bank Jamaica Limited

Statement of Comprehensive Income

Year ended 31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

	2019 $'000	2018 $'000
Net profit	3,043,407	2,852,935
Other comprehensive income -		
Item that will not be reclassified to profit or loss		
Re-measurements of post-employment benefits	178,020	362,626
Items that will be reclassified to profit or loss		
Financial assets at FVOCI -		
Net gains on investments in debt instruments measured at FVOCI	757,236	29,194
Net loss on financial assets measured at FVOCI reclassified to profit or loss on disposal	(272,396)	(339,829)
	484,840	(310,635)
Total other comprehensive income, net of taxes	662,860	51,991
Total Comprehensive Income	3,706,267	2,904,926

The accompanying notes on pages 9 to 108 form an integral part of these financial statements.

Sagicor Bank Jamaica Limited

Statement of Financial Position

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2019 $'000	2018 $'000
ASSETS			
Cash and balances due from other financial institutions	15	9,392,097	10,940,722
Cash reserves at Bank of Jamaica	16	11,139,755	12,330,758
Securities purchased under agreements to resell	18	1,650,423	1,702,395
Investment securities	19	25,860,442	22,165,329
Loans, net of provision for credit losses	20	84,377,133	68,837,392
Lease receivables, net of provision for credit losses	21	285,867	223,813
Pledged assets	22	3,899,474	1,019,346
Due from related companies	23	313	14,198
Intangible assets	24	1,204,889	1,284,201
Income tax recoverable		175,704	35,906
Property, plant and equipment	25	1,162,362	1,329,121
Right-of-use assets	46	1,017,578	-
Deferred income tax assets	27	146,942	1,242,812
Post-employment benefit obigations	26	337,987	150,121
Other assets	28	1,830,972	1,638,522
Total Assets		142,481,938	122,914,636

The accompanying notes on pages 9 to 108 form an integral part of these financial statements.

Sagicor Bank Jamaica Limited

Statement of Financial Position (Continued)

31 December 2019

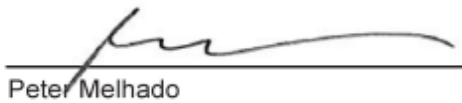
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2019 $'000	2018 $'000
LIABILITIES			
Customer deposits		107,249,593	92,264,299
Securities sold under agreements to repurchase		2,937,479	702,712
Borrowings, due to banks and other financial institutions	29	3,061,511	4,965,850
Due to related companies	23	136,516	44,162
Post-employment benefit obligations	26	869,797	898,988
Provision	30	142,171	122,643
Lease liabilities	46	1,062,459	-
Other liabilities	31	2,940,371	2,484,001
Total Liabilities		118,399,897	101,482,655
SHAREHOLDERS' EQUITY			
Share capital	32	8,400,000	8,400,000
Fair value reserve	33	371,322	(113,518)
Loan loss reserve	34	731,422	703,325
Reserve fund	35	4,646,504	3,429,142
Capital reserve	36	309,465	309,465
Capital redemption reserve	37	2,061,500	646,800
Retained earnings reserve	38	3,088,063	3,088,063
Merger reserve		3,759,440	3,759,440
Retained earnings		714,325	1,209,264
Total Equity		24,082,041	21,431,981
Total Liabilities and Equity		142,481,938	122,914,636

Approved for issue by the Board of Directors on 31 March 2020 and signed on its behalf by:



Bruce James Director



Peter Melhado Director

Sagicor Bank Jamaica Limited

Statement of Changes in Shareholders' Equity

Year ended 31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

	Share Capital	Fair Value Reserve (FVOCI)	Loan Loss Reserve	Reserve Fund	Capital Reserve	Capital Redemption Reserve	Retained Earnings Reserve	Retained Earnings	Merger Reserve	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 31 December 2018	8,400,000	(113,518)	703,325	3,429,142	309,465	646,800	3,088,063	1,209,264	3,759,440	21,431,981
Net profit	-	-	-	-	-	-	-	3,043,407	-	3,043,407
Net unrealised gains on FVOCI securities	-	757,236	-	-	-	-	-	-	-	757,236
Net gains recycled to revenue on disposal and maturity of FVOCI securities	-	(272,396)	-	-	-	-	-	-	-	(272,396)
Re-measurements of post-employment benefits	-	-	-	-	-	-	-	178,020	-	178,020
Other comprehensive income	-	484,840	-	-	-	-	-	178,020	-	662,860
Total comprehensive income for 2019	-	484,840	-	-	-	-	-	3,221,427	-	3,706,267
Dividends paid	-	-	-	-	-	-	-	(1,000,000)	-	(1,000,000)
Shares to fulfil stock options	-	-	-	-	-	-	-	(56,207)	-	(56,207)
Transfer to/(from) reserves	-	-	-	1,217,362	-	1,414,700	-	(2,632,062)	-	-
Adjustment between regulatory loan provisioning and IFRS	-	-	28,097	-	-	-	-	(28,097)	-	-
	-	-	28,097	1,217,362	-	1,414,700	-	(3,716,366)	-	(1,056,207)
Balance at 31 December 2019	8,400,000	371,322	731,422	4,646,504	309,465	2,061,500	3,088,063	714,325	3,759,440	24,082,041

The accompanying notes on pages 9 to 108 form an integral part of these financial statements.

Sagicor Bank Jamaica Limited

Statement of Changes in Shareholders' Equity (Continued)

Year ended 31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

	Share Capital	Fair Value Reserve	Loan Loss Reserve	Reserve Fund	Capital Reserve	Capital Redemption Reserve	Retained Earnings Reserve	Retained Earnings	Merger Reserve	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 31 December 2017	8,400,000	181,775	989,667	2,291,968	309,465	-	3,088,063	899,878	3,759,440	19,920,256
Changes on initial application of IFRS 9	-	15,342	(348,421)	-	-	-	-	(48,649)	-	(381,728)
Balance as at January 1, 2019	8,400,000	197,117	641,246	2,291,968	309,465	-	3,088,063	851,229	3,759,440	19,538,528
Net profit	-	-	-	-	-	-	-	2,852,935	-	2,852,935
Net unrealised gains on FVOCI securities	-	29,194	-	-	-	-	-	-	-	29,194
Net gains recycled to revenue on disposal and maturity of FVOCI securities	-	(339,829)	-	-	-	-	-	-	-	(339,829)
Re-measurements of post-employment benefits	-	-	-	-	-	-	-	362,626	-	362,626
Other comprehensive income	-	(310,635)	-	-	-	-	-	362,626	-	51,991
Total comprehensive income for 2019	-	(310,635)	-	-	-	-	-	3,215,561	-	2,904,926
Dividends paid	-	-	-	-	-	-	-	(1,000,000)	-	(1,000,000)
Shares to fulfil stock options	-	-	-	-	-	-	-	(11,473)	-	(11,473)
Transfer to/(from) reserves	-	-	34,619	1,137,174	-	646,800	-	(1,818,593)	-	-
Adjustment between regulatory loan provisioning and IFRS	-	-	27,460	-	-	-	-	(27,460)	-	-
	-	-	62,079	1,137,174	-	646,800	-	(1,857,526)	-	(11,473)
Balance at 31 December 2018	8,400,000	(113,518)	703,325	3,429,142	309,465	646,800	3,088,063	1,209,264	3,759,440	21,431,981

The accompanying notes on pages 9 to 108 form an integral part of these financial statements.

Sagicor Bank Jamaica Limited

Statement of Cash Flows

Year ended 31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2019 $'000	2018 $'000
Cash Flows from Operating Activities			
Net profit		3,043,407	2,852,935
Adjustments for -			
Interest income		(9,711,188)	(8,890,953)
Interest expense	7	1,471,845	1,620,862
Income tax charge	13	1,582,109	1,077,437
Credit impairment losses	11	345,449	633,082
Amortisation of intangible assets	24	204,043	172,769
Depreciation of property, plant and equipment	25	256,484	256,618
Depreciation of right of use asset	46	147,050	-
Gain on disposal of property, plant and equipment		(116,170)	(582,687)
Gain on disposal of investment		-	(268,493)
Change in post-employment benefits		(217,057)	(353,195)
Change in provision for legal claim		19,528	(8,715,445)
Stock options and grants expense		(56,207)	(11,473)
Foreign exchange gains on foreign assets and liabilities		3,277	(34,470)
		(3,027,430)	(12,243,013)
Changes in operating assets and liabilities –			
Statutory reserves at Bank of Jamaica		1,191,003	(911,919)
Loans		(15,779,937)	(8,994,904)
Lease receivables		(59,678)	(124,983)
Securities sold under agreements to resell		1,860,472	(700,000)
Customer deposits		14,931,280	7,879,561
Other assets		(930,348)	9,077,697
Other liabilities		577,654	(621,649)
		(1,236,984)	(6,639,210)

Sagicor Bank Jamaica Limited

Statement of Cash Flows (Continued)

Year ended 31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2019 $'000	2018 $'000
Cash Flows from Operating Activities (continued)		(1,236,984)	(6,639,210)
Interest received		9,654,467	8,999,902
Interest paid		(1,410,062)	(1,532,672)
Taxation paid		(955,282)	(314,590)
Net cash provided by operating activities		6,052,139	513,430
Cash Flows from Investing Activities			
Securities purchased under agreements to resell		400,000	(400,000)
Purchase of investment securities		(42,846,120)	(29,634,740)
Proceeds from sale of investment securities		39,339,628	29,595,313
Purchase of intangible assets	24	(124,731)	(155,623)
Purchase of property, plant and equipment	25	(120,842)	(235,919)
Proceeds from disposal of property plant and equipment		147,287	1,458,636
Net cash (used in)/provided by investing activities		(3,204,778)	627,667
Cash Flows from Financing Activities			
Due to related parties		106,239	(70,699)
Dividends paid		(1,000,000)	(1,000,000)
Proceeds from debts in issue		(1,414,700)	(646,800)
Principal element of lease payments		(102,169)	-
Proceeds from borrowings, due to banks and other financial institutions – long term		11,707,420	8,859,394
Repayments from borrowings, due to banks and other financial institutions – long term		(11,583,221)	(9,199,563)
Net cash used in financing activities		(2,286,431)	(2,057,668)
Effect of exchange rate changes on cash and cash equivalents		109,203	(4,093)
Net increase/(decrease) in cash and cash equivalents		670,133	(920,664)
Cash and cash equivalents at beginning of year		10,210,309	11,130,973
CASH AND CASH EQUIVALENTS AT END OF YEAR	17	10,880,442	10,210,309

The accompanying notes on pages 9 to 108 form an integral part of these financial statements.

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

1. Identification and Principal Activities

Sagicor Bank Jamaica Limited (the Bank) is incorporated and is domiciled in Jamaica. The Bank is licensed under the Banking Act, 1992. The registered office of the Bank is located at 17 Dominica Drive, Kingston 5. The principal activities of the Bank involve retail and corporate banking services, foreign exchange trading, investment management and provision of various credit facilities including loans and leases.

The Bank is a wholly owned subsidiary of Sagicor Group Jamaica Limited, which is incorporated and domiciled in Jamaica. Sagicor Group Jamaica Limited (the parent) is listed on the Jamaica Stock Exchange. The parent is 32.45% (2018 – 32.45%) owned by LOJ Holdings Limited which is also incorporated and domiciled in Jamaica. Sagicor Life Inc., which is incorporated in Barbados directly holds a 16.66% interest in the parent. The ultimate parent company is Sagicor Financial Corporation (SFC), which is incorporated and domiciled in Bermuda. SFC has an overall interest of 49.11% (2018 – 49.11%) in the parent. The other significant shareholder of the parent is PanJam Investment Limited with a 30.22% (2018 – 31.55%) holding.

The financial statements have been prepared in accordance with the provisions of the Banking Services Act, 2014.

2. Summary of Significant Accounting Policies

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

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale and fair through profit or loss financial assets.

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 Bank's accounting policies. The areas involving a high degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

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

Certain new standards, interpretations and amendments to existing standards have been published that became effective during the current financial year. The Bank has assessed the relevance of all such new interpretations and amendments, and has adopted the following, which are relevant to its operations .

IFRIC 23, 'Uncertainty over income tax treatments', (effective for annual periods beginning on or after 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 IC 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. There was no significant impact from the adoption of this amendment during the year.

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

Amendment to IAS 19, 'Employee benefits ' (effective for annual periods beginning on or after 1 January 2019). This amendment requires an entity to:

- Use updated assumptions to determine current service cost and net interest for the reminder of the period after a plan amendment, curtailment or settlement; and
- Recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in surplus, even if that surplus was not previously recognized because of the impact of the asset ceiling.

There was no significant impact from the adoption of this amendment during the year.

Annual improvement 2015-2017, (effective for annual periods beginning on or after 1 January 2019). *These amendments includes minor changes to:*

- IFRS 3, 'Business Combinations', a company measures its previously held interest in a joint operation when it obtains control of the business.
- IFRS 11, 'Joint arrangements', a company does not measure its previously owed interest in a joint operation when it obtains joint control of the business.
- IAS 12, 'Income taxes', a company accounts for all income taxes consequences of dividend payments in the same way.
- IAS 23, 'Borrowing costs', a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

There was no significant impact from the adoption of this amendment during the year

IFRS 16, 'Leases', (effective for annual periods beginning on or after 1 January 2019) was issued in January 2017 and replaces IAS 17, 'Leases'. A company can choose to apply IFRS 16 before the effective date but only if it also applies IFRS 15, 'Revenue from Contracts with Customers'. The standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. IFRS 16 also requires enhanced disclosures to be provided by lessors and lessees that will improve information provided to users of the financial statements.

Amendment to IFRS 9, 'Financial instruments', on prepayment features with negative compensation (effective for annual periods beginning on or after 1 January 2019). The Board has issued a narrow-scope amendment to IFRS 9 to enable companies to measure at amortised cost some prepayable financial assets with negative compensation. The assets affected, that include some loans and debt securities, would otherwise have been measured at fair value through profit or loss (FVTPL). Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than unpaid amounts of principal and interest. However, to qualify for amortised cost measurement, the negative compensation1 must be reasonable compensation for early termination of the contract. There was no significant impact from the adoption of this amendment during the year.

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of 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 Bank

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

Amendment to IAS 1 and IAS 8, (effective for annual periods beginning on or after 1 January 2020). These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs: i) use of a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information. The Company is currently assessing the impact of future adoption of the new standard on its financial statements.

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

(b) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the President and CEO.

2. Summary of Significant Accounting Policies (Continued)

(c) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined. These rates represent the weighted average rates at which the Bank trades in foreign currency.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity.

All foreign exchange gains and losses recognised in the income statement are presented net in the income statement within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in the income statement, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in shareholders' equity.

(d) Interest and other expenses

Interest expense

Interest expense is recognised in the income statement on an accrual basis using the effective interest method. Amounts paid under contracts with principally financial risk are recorded directly to the income statement as an adjustment. The interest credited to these funds is recorded as an interest expense.

Loyalty expense

The Bank operates a rewards-based credit card program whereby customers earn reward points for purchases made using their credit card. The points can be redeemed for value at selected merchants who participate in the programme, once certain conditions are met. The Bank recognises revenue in the period in which the points are earned and a provision for the value of outstanding point

2. Summary of Significant Accounting Policies (Continued)

(e) Revenue recognition

Revenue from service contracts with customers is recognised when (or as) the Bank satisfies the performance obligation of the contract. For obligations satisfied over time, revenue is recognised monthly or over some other period. For performance obligations satisfied at a point in time, revenue is recognised at that point in time.

(i) Fees and commission income

Fees and commission income are 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. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. Performance linked fees or fee components are recognised when the performance criteria are fulfilled.

(ii) Net trading income

Net trading income includes all gains and losses from changes in fair value and related income or expense and dividends for financial assets and liabilities for instruments (including derivatives) at fair value through profit or loss. Net trading income also includes spreads on foreign currency trading, foreign exchange on translated assets and liabilities and net gains and loss on investment securities.

(iii) Interest income

Interest income is recognised in the income statement for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price.

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 expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Jamaican banking regulations stipulate that, where collection of interest income is considered doubtful or payment is outstanding for 90 days or more, interest should be taken into account on the cash basis. IFRS require that when loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

2. Summary of Significant Accounting Policies (Continued)

(f) Income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is recognised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be recognised. Consequently, the Bank recognized deferred tax assets on tax losses previously not recognized from RBC Royal Bank Jamaica Limited as management is confident that the Bank will become profitable based on its reorganization of the bank.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Income tax is calculated at an individual entity basis.

(g) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including cash and non-restricted balances with Bank of Jamaica (BOJ), balances due from other banks, securities purchased under agreements to resell, items in the course of payment, securities sold under repurchased agreements and other short term liabilities held with financial institutions.

(h) Sale and repurchase agreements

Securities purchased under agreements to resell (reverse repurchase agreements) and securities sold under agreements to repurchase (repurchase agreements) are treated as collateralised financing transactions and are recorded at the amount at which the securities were acquired or sold plus accrued interest.

Securities sold subject to repurchase agreements (‘repos’) are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell (‘reverse repos’) are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

2. Summary of Significant Accounting Policies (Continued)

(i) Financial assets

(i) Classification of financial assets
IFRS 9 introduces a principles-based approach to the classification of financial assets. Debt instruments, including hybrid contracts, are measured at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") or amortized cost based on the nature of the cash flows of these assets and the Bank's business model. These categories replace the existing IAS 39 classification of FVTPL, available for sale, loans and receivables and held-to-maturity. Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification to profit or loss.

Financial assets are measured on initial recognition at fair value and are classified as and subsequently measured either at amortised cost, at FVOCI or at FVTPL. Financial assets and liabilities are recognised when the Bank becomes a party to the contractual provision of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset.

Financial assets measured at amortized 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 solely payments of principal and interest, such as most loans and advances to banks and customers and some debt securities, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs.

Financial assets measured at fair value through other comprehensive income
Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. These comprise primarily debt securities.

Financial assets measured at fair value through profit and loss
Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below and are so designated irrevocably at inception:
the use of the designation removes or significantly reduces an accounting mismatch;
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.

Held for trading securities are acquired principally for the purpose of selling in the short-term or if they form part of a portfolio of financial assets in which there is evidence of short-term profit taking. Derivatives are also classified as held for trading unless designated as hedges. Assets held for trading are measured at fair value through profit and loss.

2. Summary of Significant Accounting Policies (Continued)

(i) Financial assets (continued)

(i) Classification of financial assets (continued)

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

- The nature of liabilities, if any, funding a portfolio of assets;
- The nature of the market of the assets in the country of origination of a portfolio of assets;
- How the Bank intends to generate profits from holding a portfolio of assets;
- The historical and future expectations of asset sales within a portfolio.

Solely repayments of principle and interest ("SPPI")
Where the business model is hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principle and interest. In making this assessment, the Bank 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 assets is classified and measured at FVTPL.

(ii) Unit linked funds fair value model
The bank's liabilities include unit linked funds which are components of insurance contracts issued or unit linked investment contracts issued with terms that the full investment return earned on the backing assets accrue to the contract-holders. As these liabilities are accounted for at FVTPL, the financial assets backing these liabilities are consequently classified as and measured at FVTPL.

(iii) Embedded derivatives
The Bank may hold debt securities and preferred equity securities which may contain embedded derivatives. The embedded derivative of a financial asset is classified in the same manner as the host contract.

(iv) Impairment of financial assets measured at amortized cost and FVTOCI
IFRS 9 introduces an impairment model that requires the recognition of 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, 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 so are considered to be in default or otherwise credit-impaired are in 'stage 3'. Purchased or originated credit-impaired financial assets ("POCI") are treated differently as set out below.

2. Summary of Significant Accounting Policies (Continued)

(i) Financial assets (continued)

(iv) Impairment of financial assets measured at amortized cost and FVTOCI (continued)

To determine whether the life-time credit risk has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is available including information from the past and forward-looking information. Factors such as whether payments of principal and interest are in default, 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.

(v) Purchased or originated credit-impaired assets
Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL is less than the amount of ECL included in the estimated cash flows on initial recognition.

(vi) Definition of default
The Bank determines that a financial instrument is 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 90 days past due.

(vii) Write-off
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, this is generally 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.

(viii) The general approach to recognising and measuring ECL
The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money;
- 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.

2. Summary of Significant Accounting Policies (Continued)

(i) Financial assets (continued)

(viii) The general approach to recognising and measuring ECL (continued)

Measurement
Expected credit losses are calculated by multiplying three main components, being the probability of default ("PD"), 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 historical experience of the portfolios adjusted for the current point in time. A simplified approach to calculating the ECL is applied to contract and 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 (i.e. Stage 3). 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 regularly in light of differences between loss estimates and actual loss experience, but given that IFRS 9 requirements have only just been applied, there has been little time available to make these comparisons. 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 regulatory modelling and for the incorporation of 'downside 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 highly subjective and sensitive to the risk factors, in particular to changes in economic and credit conditions across a large number of geographical areas. Many of the factors have a high degree of interdependency and there is no single factor to which loan 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 the results should not be further extrapolated.

The main difference between Stage 1 and Stage 2 expected credit losses is the respective PD horizon. Stage 1 estimates will use a maximum of a 12-month PD while Stage 2 estimates will use a lifetime PD. Stage 3 estimates will continue to leverage existing processes for estimating losses on impaired loans, however, these processes will be updated to reflect the requirements of IFRS 9, including the requirement to consider multiple forward-looking scenarios. An expected credit loss estimate will be produced for each individual exposure, including amounts which are subject to a more simplified model for estimating expected credit losses.

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment.

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must 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 Bank 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.

2. Summary of Significant Accounting Policies (Continued)

(i) Financial assets (continued)

(viii) The general approach to recognising and measuring ECL (continued)

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 will require 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 expected credit loss calculation will have forecasts of the relevant macroeconomic variables – including, but not limited to, unemployment rates and gross domestic product, for a three year period, subsequently reverting to long-run averages. Our estimation of expected credit losses in Stage 1 and Stage 2 will be a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios. Our base case scenario will be based on macroeconomic forecasts where available. Upside and downside scenarios will be set relative to our base case scenario based on reasonably possible alternative macroeconomic conditions.

Scenario design, including the identification of additional downside scenarios will occur on at least an annual basis and more frequently if conditions warrant. Scenarios will be probability-weighted according to our best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights will be updated on a quarterly basis.

The weightings assigned to each economic scenario as at January 1 and December 31, 2019 were as follows:

	Base	Upside	Downside
Sagicor Jamaica portfolios	80	10	10

Financial assets measured at amortized cost and FVTOCI, recognize impairment gains and losses in the statement of profit and loss. Unrealised gains and losses arising from changes in fair value on FVTOCI assets are measured in other comprehensive income. When the asset is sold, the cumulative gain or loss is reclassified to investment income. Interest income, dividend income and gains and losses arising from changes in fair value are included in investment income.

(ix) Interest income and interest earned on assets measured at fair value through profit and loss
Interest income is earned based on the effective interest rate based on the carrying amount before allowances. Interest earned on assets measured at fair value through profit and loss is recognised based on the effective interest rate. For assets that are credit-impaired when purchased or originated, the carrying amount after allowances for ECL is the basis for applying the effective interest rate.

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(i) Financial assets (continued)

Financial assets are derecognised when the right to received cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished, that is, when the obligation is discharged, cancelled or expires.

Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the statement of financial position as 'Pledged assets', if the transferee has the right to sell or repledge them.

Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the statement of financial position as 'Pledged assets', if the transferee has the right to sell or repledge them.

(j) Leases -Policies under IAS 16

The company has changed its accounting policy for leases where the company is the lessee. The new policy is described in Note 46 and the impact of the change in Note 47.

Until 31 December 2018, leases of property, plant and equipment where the company, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life, or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the company will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Bank as lessee were classified as operating leases (Note 42). Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease

Leases -Policies under IAS 17

(i) As lessee

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to occupancy costs in the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(ii) As lessor

When assets are held subject to 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.

2. Summary of Significant Accounting Policies (Continued)

(k) 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 three years. Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Customer relationships

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.

(l) Offsetting of financial instruments

Financial assets and liabilities are offset with the net amount presented in the statements of financial position, only if the Bank holds a currently enforceable legal right to set off the recognized amounts and there is an intention to settle on a net basis or to relies an assets and settle the liability simultaneously. The legal right to set off the recognized amounts must be enforceable in both the normal course of business, in the event of default, insolvency or bankruptcy of both the Bank and its counterparty. In all other situations they are presented gross. When financial assets and financial liabilities are offset in the statement of financial position, the associated income and expense items will also be offset in the income statements, unless specifically prohibited by an applicable accounting standards.

The majority of the offsetting applied by the Bank relates to repurchase and reserve repurchase agreements.

2. Summary of Significant Accounting Policies (Continued)

(m) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation is calculated on the straight-line basis at annual rates that will write off the carrying value of each asset over the period of its expected useful life. Estimated useful lives are as follows:

Leasehold improvements	10 years
Office equipment	7 - 10 years
Furniture and fixtures	7 - 10 years
Motor vehicles	5 years
Computer equipment	2 - 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains or losses on disposal of property, plant and equipment are determined by reference to their carrying amount. These are included in other operating expenses in the income statement.

Repairs and renewals are charged to the income statement when the expenditure is incurred.

2. Summary of Significant Accounting Policies (Continued)

(n) Impairment of assets

(i) Assets carried at amortised cost – loans and advances and provisions for credit losses

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
The Bank 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 Bank 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 Bank 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 Bank 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.

2. Summary of Significant Accounting Policies (Continued)

(n) Impairment of assets (continued)

(i) Assets carried at amortised cost loans and advances and provisions for credit losses (continued)

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

For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Bank'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.

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 over the preceding 12 months 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 over the most recent 24-month period with a 36-month look back period used on the highest risk portfolios. 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 Bank 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.

2. Summary of Significant Accounting Policies (Continued)

(n) Impairment of assets (continued)

(i) Assets carried at amortised cost loans and advances and provisions for credit losses (continued)

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

The effect of the provision for credit losses determined under the Bank of Jamaica regulatory requirements is to reserve 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", a "special provision" and a "general provision". The specific and special provisions are 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.

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 the estimated net loss 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.

In respect of loans that are considered sub-standard for reasons other than being non-performing, a special provision is established for the greater of 1% of the amounts outstanding or 20% of the estimated net loss.

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

2. Summary of Significant Accounting Policies (Continued)

(n) Impairment of assets (continued)

(ii) Renegotiated loans
Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(iii) Impairment of non-financial assets
Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(o) Employee benefits

(i) Pension obligations
The Bank participates in three retirement plans, the assets of which are generally held in separate trustee-administered funds. The pension plans are funded by payments from employees and by the Bank, taking into account the recommendations of qualified actuaries. The Bank has a defined benefit and two defined contribution plan.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The asset or liability recognised in the statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets, together with adjustments for past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

2. Summary of Significant Accounting Policies (Continued)

(o) Employee benefits (continued)

(i) Pension obligations (continued)

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

Past-service costs are recognised immediately in the income statement (team member costs).

For the defined contribution plans, the Bank pays contributions to privately administered pension insurance plans on a contractual basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are charged to the income statement in the period to which they relate.

(ii) Other post-employment obligations

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

(iii) Termination benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits at the earlier of the following dates: (a) when the Bank can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(iv) Annual leave

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the year-end date

(v) Productivity bonus plan

The Bank recognises a liability and an expense for productivity bonuses as profit-sharing, paid to employees based on a formula that takes into consideration the profit attributable of its parent Bank. The Bank recognises a provision where contractually obliged or where past practice has created a constructive obligation.

(vi) Share options

The Bank participates in a Group share based arrangement plan, in which, its executives are awarded stock options over the shares of its immediate parent, Sagicor Group Jamaica Limited (SGJ) whose shares are listed on the Jamaica Stock Exchange. The stock option plan is a group plan, that is:

2. Summary of Significant Accounting Policies (Continued)

(o) Employee benefits (continued)

(vii) Share options (continued)

- The plan is designed and implemented by SGJ;
- All terms and conditions of the plan are set by and can only be changed by SGJ;
- The valuation of the options are done by SGJ;
- SGJ has the obligation to settle all share-based payment transactions;
- All calculation and awards of options are done by SGJ and ;
- All options are on SGJ's shares.

SGJ's shares are held in a Trust, that is controlled and consolidated by SGJ for the stock option plan. The fair value of the options is done by the SGJ using the Black-Scholes model and amortise over the vesting period of the options, that is, four years, which is consistent with the stock option plan. At the group level, the share based payments transactions are accounted as equity-settled award as the Group is obligated to settle the liability with its own shares. The transaction is treated at the subsidiaries' level also as equity-settled as SGJ awards its own shares to the subsidiaries' executives and request a cash recharge to the subsidiaries for the shares that its acquire in the open market. In substance, this transaction is a funding arrangements between SGJ and its subsidiaries. As SGJ awards stock options over its own equity to the executives of its subsidiaries (equity-settled share based payment), the subsidiaries booked the debit to their income statement; and the credit to equity, as a capital contribution over the vesting period of the share-based plan.

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each statement of financial position date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to over the remaining vesting period. The proceeds received net of any directly attributable transaction costs, plus the fair value of the options is credited to share capital when the options are exercised and shares issued.

If the terms of an equity-settled award are modified, at a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

(viii) Share grants
The market value of the shares issued at grant date is recognised as an expense when granted.

2. Summary of Significant Accounting Policies (Continued)

(p) Share capital
Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities (note 29).

(q) Provisions
Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

(r) Borrowings
Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently 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 interest method.

(s) Deposits
Deposits are recognised initially at the nominal amount when funds are received. Deposits are subsequently stated at amortised cost using the effective interest method.

(t) Financial instruments
Financial instruments carried on the statement of financial position include cash resources, securities purchased under agreements to resell, loans, lease receivables, investment securities, derivatives, deposits by customers, securities sold under agreements to repurchase, and borrowings, due to banks and other financial institutions.

The fair values of the Bank's financial instruments are discussed in Note 41.

2. Summary of Significant Accounting Policies (Continued)

(u) Acceptance, guarantees, indemnities, letters of credit and undertakings

Policies under IFRS 9
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 debtors 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 other 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:
(i)The amount of the loss allowance; and
(ii) The premium received on initial recognition less income recognized in accordance with the principles of IFRS 15

Loan commitments provided by the Bank are measured as the amount as the amount of the loss allowance. The Bank 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 recognized as a provision. However, for contract that include both a loan and an undrawn commitment and the Bank 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 recognized 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 expected credit losses are recognized as a provision.

Where the Bank's obligations under acceptances, guarantees, indemnities and letters of credit and undertakings are not considered to be contingent, the amounts are reported as a liability in the statement of financial position. There are equal and offsetting claims against customers in the event of a call on these commitments, which are reported as an asset. Where the Bank's obligations are considered to be contingent, the amounts are disclosed in Note 42.

Assets carried at amortised cost loans and advances and provisions for credit losses

Provision for credit losses determined under the Bank of Jamaica regulatory requirements
The effect of the provision for credit losses determined under the Bank of Jamaica regulatory requirements is to reserve 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", a "special provision" and a "general provision". The specific and special provisions are 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. Summary of Significant Accounting Policies (Continued)

(v) Financial liabilities

The Bank's financial liabilities comprise primarily amounts due to other banks, customer deposits, repurchase agreements, and other borrowed funds.

(i) Classification of financial assets

Financial liabilities are measured at initial recognition at fair value and are classified as and subsequently measured either at amortised cost, or at fair value through income (FVTPL). Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The financial liabilities described under the unit linked fair value model (see section (a) above) are classified and measured at FVTPL as the Bank is obligated to provide investment returns to the unit holder in direct proportion to the investment returns on a specific portfolio of assets, which are also carried at FVTPL. Derivative financial liabilities are carried at FVTPL. All other financial liabilities are carried at amortised cost. It is noted that the financial liabilities measured at FVTPL do not have a cumulative own credit adjustment gain or loss.

(ii) Re-classified balances

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

Financial liability balances which were accounted for at amortised cost under IAS 39 continue to be so accounted for under IFRS 9 and financial liability balances which were accounted for at fair value through income under IAS 39 are now accounted at FVTPL on the adoption of IFRS 9. Consequently, no financial liability balances have been restated as of January 1, 2019.

(iii) Modification of loans

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers and debt instruments. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank 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 bank 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 Bank will assess if the asset is POCI.

2. Summary of Significant Accounting Policies (Continued)

(v) Financial liabilities (continued)

(iv) Modification of loans (continued)

During the ordinary course of business, the Bank issues investment contracts or otherwise assumes financial liabilities that expose the Bank to financial risk. The recognition and measurement of the Bank's principal types of financial liabilities are disclosed in 2 and in the following paragraphs.

Deposit liabilities
Deposits are recognised initially at fair value and are subsequently stated at amortised cost using the effective yield method.

Loans and other debts obligations
Loans and other debts obligations are recognised initially at fair value, being their issue proceeds, net of transaction costs incurred. Subsequently, obligations are stated at amortised cost and any difference net proceeds and the redemption value is recognised in the income statement over the period of the loan obligations using the effective yield method.

Obligations undertaken for the purposes of financing operations and capital support are classified as noted or loans payable and associated cost classified as finance costs. Loan obligations undertaken for the purposes of providing funds for on-lending, leasing or portfolio investments are classified as deposit and security liabilities and the associated cost is included in interest expense.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

(w) Fiduciary activities

The Bank acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Bank.

3. Financial Risk Management

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

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

The Board of Directors is ultimately responsible for the establishment and oversight of the Bank's risk management framework. The Board has established working groups for managing and monitoring risks, as follows:

(i) Risk Management Committee
The Risk Management Committee is responsible for the development of credit and investment policies and standards that conform to applicable law, regulations and corporate policies; approving credit proposal requests; reviewing and approving exceptions to core credit and investment policies that may represent unusual risk; and ensuring that aggregate credit risk exposure are within the Bank's risk taking capacity. All credit facilities require the approval of at least 2 members of this Committee. This Committee is also responsible for formulating and monitoring investment portfolios and investment strategies for the Bank. In addition, this Committee is responsible for approval and monitoring of appropriate trading limits, reports and compliance controls to ensure that the mandate is properly followed. The Committee's decisions receive final ratification at Board Meetings.

(ii) Audit and Compliance Committee
The Audit and Compliance Committee oversees how management monitors compliance with the Bank's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit and Compliance Committee is assisted in its oversight role by the Internal Audit Department and the Risk Management Committee. Internal Audit Department undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Compliance Committee. The Risk Management Committee ensures adherence to internal policies and procedures, and regulatory rules and guidelines.

(iii) The Treasury Division
The Treasury Division is responsible for managing the Bank's financial assets and liabilities and the overall financial structure. It is also primarily responsible for managing and maintaining appropriate funding and liquidity of the Bank.

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

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk

Credit risk exposure- financial investments subject to impairment

The following tables contain analyses of the credit risk exposure of financial investments for which an ECL allowance is recognized. The gross carrying amounts of investments below represent the Bank's maximum exposure to credit risk on these assets

For financial investments measured at FVTPL under the unit-linked funds fair value model, the unit holders bear the credit risk and the Company has no direct credit exposure.
Maximum exposure to credit risk - Financial instruments not subject to impairment

	Maximum exposure to credit risk
	$000
Financial assets designated at fair value	
Debt securities	-

Loss allowances
The allowance for ECL is recognised in each reporting period and is impacted by a variety of factors, as described below:

- Transfers between stages due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired during the period;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to inputs used in the calculation including the effect of 'step-up' (or 'step down') between 12-month and life-time ECL;
- Impacts on the measurement of ECL due to changes made to models and assumptions; and
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements;

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

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

	ECL Staging				31 December 2019	31 December 2018
Debt securities – amortised cost	**Stage 1 12-month ECL**	**Stage 2 life-time ECL**	**Stage 3 life-time ECL**	**Purchased credit-impaired**	**Total**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**	**$000**
Credit grade:						
Investment	3,233,502	-	-	-	3,233,502	497,255
Non-investment	4,312,579	-	-	-	4,312,579	6,547,536
Gross carrying amount	7,546,081	-	-		7,546,081	7,044,791
Loss allowance	(41,164)	-	-	-	(41,164)	(73,563)
Carrying amount	7,504,917	-	-	-	7,504,917	6,971,228

The Bank did not have any debt securities at amortised cost investments with credit grade of watch, default or unrated for this year or the prior year.

	ECL Staging				31 December 2019	31 December 2018
Loans, net of provision for credit losses	**Stage 1 12-month ECL**	**Stage 2 life-time ECL**	**Stage 3 life-time ECL**	**Purchased credit-impaired**	**Total**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**	**$000**
Credit grade:						
Non-investment	82,459,538	2,055,077	-	-	84,514,615	68,800,254
Default	-	-	1,499,468	-	1,499,468	1,987,081
Gross carrying amount	82,459,538	2,055,077	1,499,468	-	86,014,083	70,787,335
Loss allowance	(493,141)	(98,788)	(759,211)	-	(1,351,140)	(1,726,340)
Carrying amount	81,966,397	1,956,289	740,257	-	84,662,943	69,060,995

The Bank did not have any loans, net of provisions for credit losses with credit grade of investment or watch for this year or the prior year.

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Securities purchased for resale – amortised cost	ECL Staging				31 December 2019	31 December 2018
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL	Purchased credit-impaired	Total	Total
	$000	$000	$000	$000	$000	$000
Credit grade:						
Non-investment	1,650,423	-	-	-	1,650,423	1,702,395
Gross carrying amount	1,650,423	-	-	-	1,650,423	1,702,395

The Bank did not have any Securities purchased for resale at amortised cost investments with credit grade of investment, watch, default, unrated or loss allowance for this year or the prior year.

Deposits – amortised cost	ECL Staging				31 December 2019	31 December 2018
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL	Purchased credit-impaired	Total	Total
	$000	$000	$000	$000	$000	$000
Credit grade:						
Non-investment	-	-	-	-	-	2,000,137
Gross carrying amount	-	-	-	-	-	2,000,137

The Bank did not have any deposits at amortised cost wiith credit grade of investment, watch, default, unrated or loss allowance for this year or the prior year.

Debt securities – FVOCI	ECL Staging				31 December 2019	31 December 2018
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL	Purchased credit-impaired	Total	Total
	$000	$000	$000	$000	$000	$000
Credit grade:						
Investment	3,167,085	-	-	-	3,167,085	2,699,716
Non-investment	18,467,423	-	-	-	18,467,423	13,623,547
Gross carrying amount	21,634,508	-	-	-	21,634,508	16,323,263
Loss allowance	(14,386)	-	-	-	(14,386)	(14,536)
Carrying amount	21,620,122	-	-	-	21,620,122	16,308,727

The Bank did not have any debt securities at FVOCI investments with credit grade of watch, default or unrated for this year or the prior year.

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

	ECL staging					
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	31 December 2019 Total	31 December 2018 Total
Debt Securitie - FVOCI	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Loss Allowance as at 1 January 2019	14,536				14,536	23,013
New financial assets originated or purchased	4,622	-	-	-	4,622	3,853
Financial assets fully derecognised during the period	(2,523)	-	-	-	(2,523)	(7,130)
Changes in models/assumptions used in ECL calculation	-	-	-	-	-	-
Changes to inputs used in ECL calculation	(2,521)	-	-	-	(2,521)	(5,450)
Foreign exchange adjustment	272	-	-	-	272	250
Loss Allowance as at December 31, 2019	14,386	-	-	-	14,386	14,536

There were no transfers between stages during the current or prior year.

	ECL staging					
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	31 December 2019 Total	31 December 2018 Total
Debt Securities – Amortised Cost	**$000**	**$000**	**$000**	**$000**	**$000**	$'000
Loss Allowance as at January 01, 2019	73,563				73,563	49,960
New financial assets originated or purchased	9,584	-	-	-	9,584	-
Financial assets fully derecognised during the period	(19,004)	-	-	-	(19,004)	62,877
Changes in models/assumptions used in ECL calculation	-	-	-	-	-	(36,721)
Changes to inputs used in ECL calculation	(24,160)	-	-	-	(24,160)	(2,602)
Foreign exchange adjustment	1,181	-	-	-	1,181	49
Loss Allowance as at December 31, 2019	41,164	**-**	**-**	**-**	41,164	73,563

There were no transfers between stages during the current or prior year.

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

	ECL staging					
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	31 December 2019 Total	31 December 2018 Total
LOANS - AMORTISED COST	**$000**	**$000**	**$000**	**$000**	**$000**	**$'000**
Loss Allowance as at January 01, 2019	558,877	153,828	1,013,635	-	1,726,340	1,867,742
Transfers:						
Transfer from Stage 1 to Stage 2	(8,803)	8,803	-	-	-	-
Transfer from Stage 1 to Stage 3	(3,327)	-	3,327	-	-	-
Transfer from Stage 2 to Stage 1	46,311	(46,311)	-	-	-	-
Transfer from Stage 2 to Stage 3	-	(10,292)	10,292	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-	-
Transfer from Stage 3 to Stage 1	19,257	-	(19,257)	-	-	-
New financial assets originated or purchased	198,312	29,174	118,094	-	345,580	326,279
Financial assets fully derecognised during the period	(112,704)	(53,545)	(434,249)	-	(600,498)	(603,407)
Changes to inputs used in ECL calculation	(207,411)	16,448	63,397	-	(127,566)	130,421
Foreign exchange adjustments	2,629	683	3,972	-	7,284	5,306
Loss Allowance as at December 31, 2019	493,141	98,788	759,211	-	1,351,140	1,726,340

	ECL staging					
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	31 December 2019 Total	31 December 2018 Total
DEPOSITS - AMORTISED COST	**$000**	**$000**	**$000**	**$000**	**$000**	**$'000**
Loss Allowance as at January 01, 2019	-	-	-	-	-	-
New financial assets originated or purchased	-	-	-	-	-	-
Financial assets fully derecognised during the period	-	-	-	-	-	-
Changes to inputs used in ECL calculation	-	-	-	-	-	-
Foreign exchange adjustment	-	-	-	-	-	-
Loss Allowance as at December 31, 2019	-	-	-	-	-	-

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Loss allowances (continued)

The most significant period-end assumptions used for the ECL were as follows:

At December 31, 2019

Economic variable assumptions

		2020	2021	2022
S&P 500 Financial Index EPS	Base	38	41	41
	Upside	54	59	59
	Downside	25	27	27
World GDP	Base	3.4%	3.6%	3.6%
	Upside	5.0%	5.3%	5.3%
	Downside	2.5%	2.7%	2.7%
WTI Oil Prices/10	Base	5.62	5.32	5.19
	Upside	9.47	9.47	9.47
	Downside	3.45	3.27	3.19

At December 31, 2018

Economic variable assumptions

		2018	2019	2020
Unemployment rate	Base	4.20%	4.30%	4.40%
(USA)	Upside	4.00%	4.20%	4.30%
	Downside	4.40%	4.70%	4.80%
World GDP	Base	3.70%	3.70%	3.60%
	Upside	5.40%	5.40%	5.40%
	Downside	2.76%	2.76%	2.68%
WTI Oil Prices/10	Base	$4.80	$5.05	$5.15
	Upside	$9.48	$9.48	$9.48
	Downside	$2.95	$2.95	$3.16

Sagicor's lending operations in Jamaica have limited readily available information regarding economic forecasts. Management has examined the information within the market and selected economic drivers that have the best correlation to the portfolio's performance. Economic state is assigned to reflect the driver's impact on ECL.

Jamaica	Expected state for the next 12 months	
Interest rate	Base	Stable
	Upside	Stable
	Downside	Stable
Unemployment rate	Base	Stable
	Upside	Positive
	Downside	Negative

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Loss allowances (continued)

SICR and IAS 1 critical estimated disclosure

SICR criteria *	Actual threshold applied	Change in threshold	ECL impact of Change in threshold
Investments	2-notch downgrade since origination	1-notch downgrade since origination	7,601

* See note 4.iv for full criteria for staging. The staging for lending products are primarily based on days past due with 30-day used as backstop, thus sensitivity analysis is not performed.

Loss Given Default	Actual value applied	Change in value	ECL impact of Increase in value	Decrease in value
Investments - Corporate Debts	52%	(-/+5)%	4,206	(4,206)
Investments - Sovereign Debts (excluding Government of Barbados and Government of Jamaica)	35%	(-/+5)%	290	(290)
Investments - Sovereign Debts (Government of Barbados)	36%	(-/+5)%	-	-
Investments - Sovereign Debts (Government of Jamaica)	15%	(-/+5)%	3,258	(3,258)

Weighting for downside scenario	Actual value applied	Change in value	ECL impact of Increase in value	Decrease in value
Investments - excluding Government of Barbados	10% (80% for base scenario and 10% for upside scenario)	(- /+ 5) % - keep the weighting for base scenario and adjust the weighting for upside scenario accordingly	2,655	(2,655)
Lending products	15% (75% for base scenario and 10% for upside scenario)	(- /+ 5) % - keep the weighting for base scenario and adjust the weighting for upside scenario accordingly	8,402	(7,109)

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

IFRS 9 carrying values

The following tables explain the changes in the carrying value between the beginning and the end of the period due to these factors. The gross carrying amounts of investments below represent the Bank's maximum exposure to credit risk on these assets.

	ECL staging					
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Purchased credit-impaired**	**31 December 2019 Total**	**31 December 2018 Total**
	$000	**$000**	**$000**	**$000**	**$000**	**$'000**
DEBT SECURITIES – FVOCI						
Gross carrying amount as at January 01, 2019	16,323,263	-	-	-	16,323,263	17,180,539
New financial assets originated or purchased	10,802,137	-	-	-	10,802,137	6,896,256
Financial assets fully derecognised during the period	(5,696,473)	-	-	-	(5,696,473)	(7,434,533)
Changes in principle and interest	(23,379)	-	-	-	(23,379)	(466,662)
Foreign exchange adjustment	228,960	-	-	-	228,960	147,663
Gross carrying amount as at December 31, 2019	21,634,508	-	-	-	21,634,508	16,323,263

	ECL staging					
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Purchased credit-impaired**	**31 December 2019 Total**	**31 December 2018 Total**
	$000	**$000**	**$000**	**$000**	**$000**	**$'000**
DEBT SECURITIES - AMORTISED COST						
Gross carrying amount as at January 01, 2019	7,044,790	-	-	-	7,044,790	4,989,895
New financial assets originated or purchased	2,221,999	-	-	-	2,221,999	4,869,647
Financial assets fully derecognised during the period	(1,735,976)	-	-	-	(1,735,976)	(2,795,511)
Changes in principal and interest	(85,447)	-	-	-	(85,447)	(39,429)
Foreign exchange adjustment	100,715	-	-	-	100,715	20,188
Gross carrying amount as at December 31, 2019	7,546,081	-	-	-	7,546,081	7,044,790

There were no transfers between stages during the current or prior year.

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

IFRS 9 carrying values (continued)

	ECL staging				
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Purchased credit-impaired**	**Total**
LOANS - AMORTISED COST	**$000**	**$000**	**$000**	**$000**	**$000**
Gross carrying amount as at January 01, 2019	66,922,242	1,878,222	1,987,082	-	70,787,546
Transfers:					
Transfer from Stage 1 to Stage 2	(1,054,067)	1,054,067	-	-	-
Transfer from Stage 1 to Stage 3	(398,416)	-	398,416	-	-
Transfer from Stage 2 to Stage 1	565,453	(565,453)	-	-	-
Transfer from Stage 2 to Stage 3	-	(125,667)	125,667	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Transfer from Stage 3 to Stage 1	37,751	-	(37,751)	-	-
New financial assets originated or purchased	33,160,301	606,898	233,240	-	34,000,439
Financial assets fully derecognised during the period	(13,495,612)	(653,781)	(851,280)	-	(15,000,673)
Write-offs	-	-	-	-	-
Changes in principal and interest	(3,717,468)	(153,424)	(363,749)	-	(4,234,641)
Foreign exchange adjustment	439,410	14,215	7,844	-	461,469
Gross carrying amount as at December 31, 2019	82,459,594	2,055,077	1,499,469	-	86,014,140

	ECL staging				
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Purchased credit-impaired**	**Total**
SECURITIES PURCHASED FOR RESALE - AMORTISED COST	**$000**	**$000**	**$000**	**$000**	**$000**
Gross carrying amount as at January 01, 2019	1,702,395	-	-	-	1,702,395
Net new financial assets originated or purchased	(51,972)	-	-	-	(51,972)
Gross carrying amount as at December 31, 2019	1,650,423	-	-	-	1,650,423

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

IFRS 9 carrying values (continued)

	ECL staging				
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Purchased credit-impaired**	**Total**
LOANS - AMORTISED COST	**$000**	**$000**	**$000**	**$000**	**$000**
Gross carrying amount as at January 01, 2018	60,239,437	937,862	1,663,377		62,840,676
Transfers:					
Transfer from Stage 1 to Stage 2	(313,984)	313,984	-		-
Transfer from Stage 1 to Stage 3	(6,140)		6,140		-
Transfer from Stage 2 to Stage 1	1,226,376	(1,226,376)	-		-
Transfer from Stage 2 to Stage 3	-	(2,003)	2,003		-
Transfer from Stage 3 to Stage 2	-	165,618	(165,618)		-
Transfer from Stage 3 to Stage 1	256,868	-	(256,868)		-
New financial assets originated or purchased	26,960,721	270,083	161,431		27,392,235
Financial assets fully derecognised during the period	(17,640,257)	(314,595)	(514,289)		(18,469,141)
Write-offs	-	-	-		-
Changes in principal and interest	(4,044,197)	1,728,292	1,086,008		(1,229,897)
Foreign exchange adjustment	243,418	5,357	4,898		253,673
Gross carrying amount as at December 31, 2018	66,922,242	1,878,222	1,987,082		70,787,546

	ECL staging				
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Purchased credit-impaired**	**Total**
SECURITIES PURCHASED FOR RESALE - AMORTISED COST	**$000**	**$000**	**$000**	**$000**	**$000**
Gross carrying amount as at January 01, 2018	450,306	-	-	-	450,306
Net new financial assets originated or purchased	1,252,089	-	-	-	1,252,089
Gross carrying amount as at December 31, 2018	1,702,395	-	-	-	1,702,395

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

The Bank takes on exposure to credit risk, which is the risk that its customers or counterparties will cause a financial loss for the Bank by failing to discharge their contractual obligations. Credit risk is an important risk for the Bank's business; management therefore carefully monitors its exposure to credit risk. Credit exposures arise principally in lending and investment activities. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty or groups of related counterparties and to geographical and industry segments.

Credit-related commitment risks arise from guarantees that may require payment on behalf of customers. Such payments are collected from customers based on the terms of the letters of credit, guarantees or undertakings. They expose the Bank to similar risks to loans and the same control policies and processes mitigate these.

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

(i) Loans and leases
The Bank assesses the probability of default of individual counterparties using internal ratings. Clients of the Bank are segmented into five rating classes. The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class.

The Bank's internal rating scale:

Rating grades	Description of the grade
1	Standard
2	Potential problem credit
3	Sub-standard
4	Doubtful
5	Loss

(ii) Investments
The Bank limits its exposure to credit risk by investing in marketable securities, with counterparties that have acceptable credit quality and Government of Jamaica securities. As a result of the Central Securities Depository (CSD), all domestic Government of Jamaica securities have been dematerialised which has significantly reduced the settlement risk. The credit exposure is managed by establishing exposure limits after an internal analysis and approval. Actual exposures against limits are monitored frequently. It is also the Bank's policy to obtain control or take possession of securities purchased under agreements to resell. Management assesses the market value of the underlying securities that collaterise the transactions and takes the appropriate margins required. Management actively seeks to transact with counterparties that demonstrate an ability to meet their obligations.

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

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

The main types of collateral obtained are as follows:
Loans and leases – Cash and other near cash securities, mortgages over commercial and residential properties, charges over general business assets such as premises, equipment, inventory, accounts receivable, stocks and other securities and motor vehicles. Fair value of properties held as collateral is mainly based on obtained valuations from third parties.

Reverse repurchase transactions – cash equivalents or Government of Jamaica securities.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries and personal guarantees for loans to private companies.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral held.

Commitments and guarantees
To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.

Impairment
The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades or infringement of the original terms of the contract.

The Bank addresses impairment assessment by reviewing all loans and leases with risk ratings of 3 and above.

Individually assessed allowances are provided for financial assets based on a review conducted at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all accounts. The assessment normally encompasses collateral held and the anticipated receipts for that individual account.

The internal rating systems described above focus more on credit-quality mapping from the inception of lending activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the statement of financial position date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Impairment (Continued)

The internal rating tool assists management to determine whether objective evidence of impairment exists, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (eg. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The impairment provision shown in the statement of financial position at year-end is derived from the internal rating grades of 3 and above. However, the majority of the impairment provision comes from the last rating class (loss).

The table below shows the Bank's gross loans and leases (excluding interest receivable) and the associated impairment provision for each internal rating class:

Bank's rating

	2019		2018	
	Loans and leases $'000	**Impairment provision $'000**	**Loans and leases $'000**	**Impairment provision $'000**
Standard	77,150,957	482,010	59,496,073	558,877
Potential problem credit	7,144,019	109,920	9,219,284	153,828
Sub-standard	692,328	329,745	791,901	394,499
Doubtful	275,126	133,897	471,514	249,010
Loss	528,462	295,568	721,721	370,126
	85,790,892	1,351,140	70,700,493	1,726,340

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Impairment (continued)

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

	Maximum exposure	
	2019	**2018**
	$'000	**$'000**
Credit risk exposures relating to on-statement of financial position assets are as follows:		
Cash and bank balances due from other financial institutions (excluding cash on hand)	6,374,041	7,715,790
Cash reserve at Bank of Jamaica	11,139,755	12,330,758
Securities purchased under agreements to resell	1,650,423	1,702,395
Investment securities	25,860,442	22,165,329
Loans, net of provision for credit losses	84,377,133	68,837,392
Lease receivables, net of provision for credit losses	285,867	223,813
Pledged assets	3,899,474	1,019,346
Due from related companies	313	14,198
Other assets	985,829	1,038,680
	134,573,277	115,047,701
Credit risk exposures relating to off-statement of financial position items are as follows:		
Loan commitments	6,993,340	6,673,973
Guarantees and letters of credit	5,129,590	4,481,695
Operating lease commitments	61,783	653,546
	12,184,713	11,809,214

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2019 and 2018, without taking account of any collateral held or other credit enhancements. The exposures set out above are based on carrying amounts as reported in the statement of financial position.

Loans and Leases

(i) Credit quality of loans and leases are summarised as follows:

	2019	**2018**
	$'000	**$'000**
Neither past due nor impaired:		
Standard	77,150,958	59,496,073
Past due but not impaired	7,144,019	9,219,284
Impaired	1,495,916	1,985,136
Gross	85,790,893	70,700,493
Less: Provision for credit losses	(1,351,140)	(1,726,341)
Net	84,439,753	68,974,152

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Loans and Leases

(i) Credit quality of loans and leases (continued)

Loans and leases become past due when payments are not yet received on contractual repayment dates. The majority of past due loans are not considered impaired.

(ii) Aging analysis of past due but not impaired loans and leases:

	2019 $'000	2018 $'000
Less than 30 days	5,093,996	7,343,228
31 to 60 days	1,338,123	1,205,475
61 to 90 days	711,900	670,581
	7,144,019	9,219,284

The Bank holds adequate collateral for past due but not impaired loans and leases. There are no significant financial assets other than loans and leases that are past due.

(iii) Financial assets – individually impaired

Financial assets that are individually impaired before taking into consideration the cash flows from collateral held are as follows:

	2019 $'000	2018 $'000
Loans and leases	1,495,916	1,985,136

(iv) Renegotiated loans and leases

Restructuring activities include extended payment arrangements, approved external management plans, 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.

(v) Repossessed collateral

The Bank can obtain assets by taking possession of collateral held as security. Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness.

The Bank is in the process of repossessing collateral totalling $16,760,000 (2018 – $34,860,000).

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Loans and leases (continued)

(vi) Loans and leases

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

	2019 $'000	2018 $'000
Agriculture, fishing and mining	1,386,881	1,072,348
Construction and real estate	10,098,440	6,170,982
Distribution	10,832,763	9,702,869
Manufacturing	3,867,813	3,129,181
Personal	30,810,778	28,840,688
Professional and other services	13,377,114	9,800,592
Tourism and entertainment	5,870,767	4,679,566
Transportation, storage and communication	1,418,803	1,268,312
Other	8,127,534	6,035,955
	85,790,893	70,700,493
Less: Provision for credit losses	(1,351,140)	(1,726,341)
	84,439,753	68,974,152
Interest receivable	223,247	87,053
	84,663,000	69,061,205

The majority of loans and leases are extended to customers in Jamaica.

(vii) Investments

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

	2019 $'000	2018 $'000
Government of Jamaica	9,997,917	8,154,339
Bank of Jamaica	7,497,699	4,645,596
Corporate	6,283,531	5,807,369
Financial institutions	2,588,454	2,622,882
Other sovereign debt	5,042,738	3,656,884
	31,410,339	24,887,070

3. Financial Risk Management (Continued)

(b) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

The Bank is exposed to daily calls on its available cash resources from overnight placement of funds, maturing placement of funds, loan draw-downs and guarantees. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of investment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Liquidity risk management process

The Bank's liquidity management process, as carried out within the Bank and monitored by the Treasury Division, includes:

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

(ii) Maintaining assets than can readily be liquidated (T-Bills, BOJ CDs and secured secondary market repos) as protection against any unforeseen interruption to cash flow;

(iii) Maintaining committed lines of credit;

(iv) Optimising cash returns on investment;

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

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

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

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. 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 Bank and its exposure to changes in interest rates and exchange rates.

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Financial assets and liabilities cash flows

The tables below present the contractual maturities of undiscounted cash flows (both interest and principal cash flows) of the Bank's assets and liabilities based on the remaining period to maturity.

	Within 1 Month	2 to 3 Months	4 to 12 Months	2 to 5 Years	Over 5 Years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
At 31 December 2019:						
Cash and balances due from other financial institutions	9,392,097	-	-	-	-	9,392,097
Cash reserves at Bank of Jamaica	-	-	-	-	11,139,755	11,139,755
Securities purchased under agreements to resell	1,650,423	-	-	-	-	1,650,423
Investment securities and pledged assets	3,103,567	2,282,321	5,176,820	13,396,771	10,028,200	33,987,679
Loans, net of provision for credit losses	13,161,043	5,073,501	15,798,940	48,573,936	20,663,093	103,270,513
Lease receivables, net of provision for credit losses	14,696	23,946	99,359	191,661	491	330,153
Mortgages, net of provision for credit losses	65,182	130,713	592,481	3,062,873	9,420,696	13,271,945
Other	985,829	-	-	-	-	985,829
Financial assets	28,372,837	7,510,481	21,667,600	65,225,241	51,252,235	174,028,394
Customer deposits	85,956,449	9,902,468	12,258,792	36,876	-	108,154,585
Securities sold under agreements to repurchase	865,855	200,812	1,890,806	-	-	2,957,473
Borrowings, due to banks and other financial institutions	724,211	86,065	362,748	1,405,917	1,243,315	3,822,256
Other	2,856,976	-	-	-	-	2,856,976
Financial liabilities	90,403,491	10,189,345	14,512,346	1,442,793	1,243,315	117,791,290
Net Liquidity Gap	(62,030,654)	(2,678,864)	7,155,254	63,782,448	50,008,920	56,237,104
Cumulative Liquidity Gap	(62,030,654)	(64,709,518)	(57,554,264)	6,228,184	56,237,104	-

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Financial assets and liabilities cash flows (continued)

	Within 1 Month	2 to 3 Months	4 to 12 Months	2 to 5 Years	Over 5 Years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
At 31 December 2018:						
Cash and balances due from other financial institutions	10,940,722	-	-	-	-	10,940,722
Cash reserves at Bank of Jamaica	-	-	-	-	12,330,758	12,330,758
Securities purchased under agreements to resell	1,703,212	-	-	-	-	1,703,212
Investment securities and pledged assets	702,969	1,347,682	4,249,783	12,705,477	10,290,639	29,296,550
Loans, net of provision for credit losses	12,685,201	4,482,648	12,068,874	39,417,519	16,569,938	85,224,180
Lease receivables, net of provision for credit losses	9,472	16,949	74,418	168,313	-	269,152
Mortgages, net of provision for credit losses	66,941	134,410	612,209	2,619,244	6,757,168	10,189,972
Other	1,038,680	-	-	-	-	1,038,680
Financial assets	27,147,197	5,981,689	17,005,284	54,910,553	45,948,503	150,993,226
Customer deposits	71,523,941	7,351,295	10,034,625	3,828,775	-	92,738,636
Securities sold under agreements to repurchase	703,252	-	-	-	-	703,252
Borrowings, due to banks and other financial institutions	1,322,771	157,567	535,508	2,964,177	884,368	5,864,391
Other	2,404,037	-	-	-	-	2,404,037
Financial liabilities	75,954,001	7,508,862	10,570,133	6,792,952	884,368	101,710,316
Net Liquidity Gap	(48,806,804)	(1,527,173)	6,435,151	48,117,601	45,064,135	49,282,910
Cumulative Liquidity Gap	(48,806,804)	(50,333,977)	(43,898,826)	4,218,775	49,282,910	-

Source of funding available to meet all of the liabilities and to cover outstanding loan commitments includes cash, central bank balances, items in the course of collection, investments, loans and advances to banks and loans and advances to customers. In the normal course of business, a proportion of customer loans will be extended beyond their due dates. The Bank is also able to meet unexpected net cash outflows by selling securities and accessing additional funding sources from local and overseas financial institutions.

3. Financial Risk Management (Continued)

(c) Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rate, credit spreads, foreign exchange rates and equity prices. Market risk is monitored by the Risk Management Committee which carries out extensive research and monitors the price movement of financial assets on the local and international markets. Market risk exposures are measured using duration analysis, sensitivity analysis and historical value-at-risk.

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

(i) Currency risk

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

Foreign exchange risk occurs when the Bank takes on open position in a currency. To control this exchange risk the Risk Management Committee has approved limits for net open position in each currency for both intra-day and overnight position. This limit may vary from time to time as determined by Risk Management Committee assessment of the volatility in exchange rates.

The Bank also has transactional currency exposure. This exposure arises from having financial assets in currencies other than those in which financial liabilities are expected to settle. The Bank ensures that its net exposure is kept at approved levels.

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

Concentrations of currency risk

The tables below summarise the Bank's exposure to foreign currency exchange rate risk at 31 December.

	JM$	US$	GBP	CAN$	Other	Total
	J$'000	J$'000	J$'000	J$'000	J$'000	J$'000
At 31 December 2019						
Cash and balances due from other financial institutions	6,582,870	2,307,170	272,296	151,918	77,843	9,392,097
Cash reserves at Bank of Jamaica	4,175,597	6,692,749	201,641	69,768	-	11,139,755
Securities purchased under agreements to resell	1,650,423	-	-	-	-	1,650,423
Investment securities and pledged assets	13,235,936	15,460,140	865,732	198,108	-	29,759,916
Loans, net of provision for credit losses	63,388,678	20,988,202	253	-	-	84,377,133
Lease receivables, net of provision for credit losses	285,867	-	-	-	-	285,867
Right of use Asset	1,017,578	-	-	-	-	1,017,578
Other	906,917	77,366	283	1,262	-	985,828
Total assets	91,243,866	45,525,627	1,340,205	421,056	77,843	138,608,597
Customer deposits	60,558,605	44,842,427	1,344,979	466,630	36,952	107,249,593
Securities sold under agreements to repurchase	2,395,842	541,637	-	-	-	2,937,479
Borrowings, due to banks and other financial institutions	2,401,280	660,231	-	-	-	3,061,511
Lease Liability	1,062,459	-	-	-	-	1,062,459
Other liabilities	2,303,045	540,963	9,323	3,154	489	2,856,974
Total liabilities	68,721,231	46,585,258	1,354,302	469,784	37,441	117,168,016
Net statement of financial position	22,522,635	(1,059,631)	(14,097)	(48,728)	40,402	21,440,581
Credit commitments	8,356,946	3,827,767	-	-	-	12,184,713

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

Concentrations of currency risk (continued)

	JM$	US$	GBP	CAN$	Other	Total
	J$'000	J$'000	J$'000	J$'000	J$'000	J$'000
At 31 December 2018						
Cash and balances due from other financial institutions	6,767,696	3,536,778	349,052	239,608	47,588	10,940,722
Cash reserves at Bank of Jamaica	6,187,545	5,906,318	169,808	67,087		12,330,758
Securities purchased under agreements to resell	1,702,395	-	-	-	-	1,702,395
Investment securities and pledged assets	9,004,260	13,508,757	490,270	181,388	-	23,184,675
Loans, net of provision for credit losses	50,480,289	18,357,103	-	-	-	68,837,392
Lease receivables, net of provision for credit losses	223,813	-	-	-	-	223,813
Other	745,043	278,150	14,124	1,363	-	1,038,680
Total assets	75,111,041	41,587,106	1,023,254	489,446	47,588	118,258,435
Customer deposits	51,667,774	38,927,588	1,173,913	453,496	41,528	92,264,299
Securities sold under agreements to repurchase	702,712	-	-	-	-	702,712
Borrowings, due to banks and other financial institutions	3,659,325	1,306,525	-	-	-	4,965,850
Other liabilities	1,753,388	656,208	6,031	2,953	457	2,419,037
Total liabilities	57,783,199	40,890,321	1,179,944	456,449	41,985	100,351,898
Net statement of financial position	17,327,842	696,785	(156,690)	32,997	5,603	17,906,537
Credit commitments	7,181,621	4,129,138	-	-	31,939	11,342,698

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

Foreign currency sensitivity

The following tables indicate the currencies to which the Bank had significant exposure on its monetary assets and liabilities and its forecast cash flows. The change in currency rate below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a % change in foreign currency rates. The sensitivity analysis on pre-tax profit is based on foreign currency denominated monetary items at the year end. 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 on an individual basis.

	Change in Currency Rate 2019 %	Effect on Pre-tax Profit 2019 $'000	Change in Currency Rate 2018 %	Effect on Pre-tax Profit 2018 $'000
Currency:				
USD	+4	(46,400)	4	46,456
GBP	+4	(461)	4	(6,262)
EUR	+4	1,619	4	227
CDN	-2	(2,006)	4	1,316
USD	-2	23,200	-2	(23,228)
GBP	-2	230	-2	3,131
EUR	-2	(809)	-2	(113)
CDN	+4	1,003	-2	(658)

(ii) Interest rate risk

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

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

The Bank's interest rate risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities. Macaulay and Effective Duration analysis is also conducted on the financial assets of the Bank to determine the impact of changes in interest rates. Macaulay duration is the weighted average term to maturity of a bond's cash flows, while Effective duration is the change in the value of the portfolio in response to a change in interest rates. The Duration Gap is also assessed. This is the difference between the Macaulay duration of assets and the duration of liabilities. It measures how well the average timings of cash inflows are matched to cash outflows.

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

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	Within 1 Month	2 to 3 Months	4 to 12 Months	2 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 31 December 2019:							
Cash and balances due from other financial institutions	-	-	-	-	-	9,392,097	9,392,097
Cash reserves at Bank of Jamaica	-	-	-	-	-	11,139,755	11,139,755
Securities purchased under agreements to resell	1,650,000	-	-	-	-	423	1,650,423
Investment securities and pledged assets	5,024,322	2,503,475	2,571,368	11,627,782	7,675,641	357,328	29,759,916
Loans, net of provision for credit losses	31,438,082	51,268,129	230,695	846,548	370,432	223,247	84,377,133
Leases receivables, net of provision	12,159	19,556	83,324	170,343	485	-	285,867
Other	-		-	-	-	985,829	985,829
Total assets	38,124,563	53,791,160	2,885,387	12,644,673	8,046,558	22,098,679	137,591,020
Liabilities							
Customer deposits	85,753,112	9,634,047	11,435,938	28,604	-	397,892	107,249,593
Securities sold under agreements to repurchase	864,853	200,000	1,860,472	-	-	12,154	2,937,479
Borrowings, due to banks and other financial institutions	712,841	66,762	278,965	1,058,341	943,067	1,535	3,061,511
Lease Liability	8,811	17,769	82,427	478,117	475,335	-	1,062,459
Other	-		-	-	-	2,856,976	2,856,976
Total liabilities	87,339,617	9,918,578	13,657,802	1,565,062	1,418,402	3,268,557	117,168,018
Total interest repricing	(49,215,054)	43,872,582	(10,772,415)	11,079,611	6,628,156	18,830,122	20,423,002
Cumulative interest repricing gap	(49,215,054)	(5,342,472)	(16,114,887)	(5,035,276)	1,592,880	20,423,002	-

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	Within 1 Month	2 to 3 Months	4 to 12 Months	2 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 31 December 2018:							
Cash and balances due from other financial institutions	2,000,000	-	-	-	-	8,940,722	10,940,722
Cash reserves at Bank of Jamaica	-	-	-	-	-	12,330,758	12,330,758
Securities purchased under agreements to resell	1,300,000	400,000	-	-	-	2,395	1,702,395
Investment securities and pledged assets	2,479,968	1,530,424	3,436,035	7,784,291	7,638,634	315,323	23,184,675
Loans, net of provision for credit losses	26,958,119	39,670,166	309,093	1,005,272	560,247	334,495	68,837,392
Leases receivables, net of provision	4,711	12,793	58,833	147,476	-	-	223,813
Other						1,038,680	1,038,680
Total assets	32,742,798	41,613,383	3,803,961	8,937,039	8,198,881	22,962,374	118,258,435
Liabilities							
Customer deposits	71,417,251	7,237,382	9,762,629	3,503,159	-	343,878	92,264,299
Securities sold under agreements to repurchase	700,000	-	-	-	-	2,712	702,712
Borrowings, due to banks and other financial institutions	1,310,813	107,728	357,861	2,575,356	610,885	3,207	4,965,850
Other	-	-	-	-	-	2,419,014	2,419,014
Total liabilities	73,428,064	7,345,110	10,120,490	6,078,515	610,885	2,768,811	100,351,875
Total interest repricing gap	(40,685,266)	34,268,273	(6,316,529)	2,858,524	7,587,996	20,193,563	17,906,561
Cumulative interest repricing gap	(40,685,266)	(6,416,993)	(12,733,522)	(9,874,998)	(2,287,002)	17,906,561	-

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 Bank's income statement and shareholders' equity.

The sensitivity of the profit or loss is the effect of the assumed changes in interest rates on pre-tax profit or loss based on floating rate debt securities and financial liabilities. The sensitivity of shareholders' equity is calculated by revaluing fixed rate available-for-sale financial assets for the effects of the assumed changes in interest rates. The correlation of a number of variables will have an impact on market risk. It should be noted that movements in these variables are non-linear and are assessed individually.

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)
Interest rate sensitivity (continued)

	Effect on Pre-tax Profit 2019 $'000	Effect on Other components of Equity 2019 $'000	Effect on Pre-tax Profit 2018 $'000	Effect on Other components of Equity 2018 $'000
Change in basis points:				
J$ - 100, US$ -50 (2018 J$ -100, US$ - 50**)**	(834,984)	589,198	(681,863)	351,167
J$ +100, US$ +50 (2018 - J$ +100, US$ +50)	834,984	(545,514)	681,863	(331,566)

(d) Capital management

The Bank is required to maintain adequate quantity and quality of capital to support its current and prospective risk exposures, and meet regulatory requirements. Bank capital is critical to its going concern and is therefore the cornerstone of its solvency. The quantity and quality of capital must be sound to absorb unexpected bank losses.

The Bank's objectives when managing its capital are:

i. To comply with the capital requirements set by the Regulators of the financial market in Jamaica.
ii. To provide adequate returns to shareholders commensurate with the level of risk undertaken and adequate benefits to staff and other stakeholders.
iii. To safeguard the Bank's ability to meet its obligations to depositors, note-holders, and other stakeholders.
iv. To safeguard the Bank's ability to continue as a solvent going concern.

Capital adequacy and capital management ratios are monitored monthly and reported to the Bank of Jamaica. Capital is managed based on prudent best practices and employing techniques and guidelines developed by the Bank of Jamaica and the Bank's Board Risk Management Committee.

The Bank of Jamaica requires the Bank to, at least:

i. Hold the minimum level of regulatory capital.
ii. Maintain the minimum ratio of total regulatory capital to risk-weighted assets

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of 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 monitors two forms of capital required by Bank of Jamaica, namely, capital base and regulatory capital. Section 2 of The Banking Services Act, 2014, defines capital base as Tier 1 Capital only. The said Section also defines regulatory capital as the sum of Tier I capital, and Tier 2 capital less any deductions prescribed under The Banking Services (Deposit Taking Institutions) (Capital Adequacy) Regulations, 2015. As such the Bank's regulatory capital comprises:

3. Financial Risk Management (Continued)

(d) Capital Management (continued)

Tier 1 capital: Paid-up share capital, retained earnings and reserves created by appropriations of retained earnings; and Tier 2 capital qualifying: Subordinated loan capital and collective impairment allowances.

During 2019 and 2018, the Bank complied with all of their externally imposed capital requirements to which it is subject.

4. Critical Accounting Estimates and Judgments

The Bank's financial statements and its financial result are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements. The Bank makes estimates and assumptions that 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 judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events. Accounting policies and management's judgements for certain items are especially critical for the Bank's results and financial situation due to their materiality.

i. Recognition and measurement of intangible assets

The recognition and measurement of intangible assets, in a business combination, involve the utilization of valuation techniques. These intangibles are market related, consumer related, and contact based.

For significant amounts of intangibles arising from a business combination, the Bank has utilised independent professional advisors to assist management in determining the recognition and measurement of these assets.

ii. Valuation of financial instruments

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other permia used in estimating discount rates.

Considerable judgement is required in interpreting market data to arrive at estimates of fair values. Consequently, the estimates arrived at may be significantly different from the actual price of the instrument in an arm's length transaction.

iii. Income taxes

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

Management has assessed the Bank's ability to recognise the deferred tax asset arising from tax losses and has deemed it appropriate to have such recognition based on projections of future profits. The Bank's operations of the acquired and existing banks were combined during 2017 and management has restructured the organisation to remove duplication of resources and costs.

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

4. Critical Accounting Estimates and Judgments (Continued)

iv. Impairment losses of financial assets

In determining ECL, management is required to exercise judgement 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 earlier sections 'Measurement' and 'Forward-looking information'.

- Establishing staging for debt securities and deposits

  The Bank's internal credit rating model is a 10-point scale which allows for distinctions in risk characteristics and is referenced to the rating scale of international credit rating agencies. The scale is set out in the following table:

- Establishing staging for debt securities and deposits

Category		Sagicor Risk Rating	Classification	S&P	Moody's	Fitch	AM Best
Non-default	Investment grade	1	Minimal risk	AAA, AA	Aaa, Aa	AAA, AA	aaa, aa
		2	Low risk	A	A	A	a
		3	Moderate risk	BBB	Baa	BBB	bbb
	Non-investment grade	4	Acceptable risk	BB	Ba	BB	bb
		5	Average risk	B	B	B	b
	Watch	6	Higher risk	CCC, CC	Caa, Ca	CCC, CC	ccc, cc
		7	Special mention	C	C	C	c
Default		8	Substandard			DDD	
		9	Doubtful	D	C	DD	d
		10	Loss			D	

The Bank uses its internal credit rating model to determine which of the three stages an asset is to be categorized for the purposes of ECL.

Once the asset has experienced a significant increase in credit risk the investment will move from Stage 1 to Stage 2. Sagicor has assumed that the credit risk of a financial instruments 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 or Sagicor risk rating of 1-3 is considered low credit risk.

4. Critical Accounting Estimates and Judgments (Continued)

v. Impairment losses of financial assets (continued)

Stage 1 investments are rated (i) investment grade, or (ii) below investment grade and have not been downgraded more than 2 notches since origination. Stage 2 investments are assets which (i) have been downgraded from investment grade to below investment grade, or (ii) are rated below investment grade and have been downgraded more than 2 notches since origination. Stage 3 investments are assets in default.

- Establishing staging for other assets measured at amortised cost, lease receivables, loan commitments and financial guarantee contracts

  Exposures are considered to have resulted in a significant increase in credit risk and are moved to stage 2 when:

  Qualitative test
  Accounts that meet the portfolio's 'high risk' criteria and are subject to closer credit monitoring.

  Backstop Criteria
  Accounts that are 30 calendar days or more past due. The 30 days past due criteria is a backstop rather than a primary driver of moving exposures into stage 2.

- 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 Jamaica, Caymna Islandsa and Costa Rica to a lesser extent. 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 look into the future up to three years and subsequently the expected performance is then used for the remaining life of the product. These projections are re-assessed on a quarterly basis.

vi. Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. Additional information is disclosed in Note 27.

vii. Legal Claim

A Court judgement was granted against the Bank in favour of a claimant. The claim pre-dated the acquisition of control of the Bank. Management has recorded the judgement in these financial statements and has correspondingly recorded a receivable from the Government of Jamaica based on an indemnity that was issued by the said. Management is confident that the Government of Jamaica will honour its obligation under the indemnity. See Note 30 and 44 for further details.

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

5. Segment Reporting

Management has determined the operating segment based on the reports reviewed by the Board of Directors that are used to make strategic decisions. The Bank is organised and managed in four main reportable operating segments based on its business activities. The designated segments are as follows:

(i) Retail & Small & medium enterprise (SME) – This incorporates the provision of banking services to individual and small and medium business clients and money remittance services.
(ii) Corporate banking – This incorporates the provision of banking services to large corporate clients.
(iii) Treasury & correspondent banking – This incorporates the Bank's liquidity and investment management function, management of correspondent bank relationships, and relationships with other financial institutions as well as foreign currency dealing activities.
(iv) Card & Payments – This incorporate the provision of credit card and point of sale services.

The Bank measures the performance of its operating segments through a measure of segment profit or loss which is profit before taxation.

A measure of segment assets is only required to be disclosed if the measure is regularly provided to the chief operating decision-maker (CODM). Segment assets include interest-bearing assets. No other information is reported to or used by the CODM in order to assess performance and allocate resources.

Segment liabilities that are reviewed by the CODM include interest-bearing liabilities.

Transactions between the operating segments are on normal commercial terms and conditions. There has been no change in the basis of the pricing of transactions over the prior year.

Net interest income is reported as the CODM relies primarily on the net interest income in assessing segment performance.

The Bank's operations are located in Jamaica.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2019 or 2018.

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

5. Segment Reporting (Continued)

	Year ended 31 December 2019					
	Retail & SME	**Corporate banking**	**Treasury & correspondent banking**	**Card/Payments**	**Eliminations**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Gross external revenues	4,557,096	4,013,315	3,951,415	4,080,023	(922,779)	15,679,070
Revenues/expenses from other segments	(415,809)	10,301	315,261	90,247	-	-
Total gross revenues	4,141,287	4,023,616	4,266,676	4,170,270	(922,779)	15,679,070
Interest Expenses	(552,616)	(1,223,721)	(434,611)	(183,676)	922,779	(1,471,845)
Direct and allocated expenses	(2,273,812)	(342,106)	(69,222)	(2,198,889)	-	(4,884,029)
Profit before unallocated expenses and tax	1,314,859	2,457,789	3,762,843	1,787,705	-	9,323,196
Unallocated expense						(4,697,680)
Tax expense						(1,582,109)
Net profit						3,043,407
Segment assets	36,904,955	54,868,706	41,422,047	8,126,270	-	141,321,978
Assets from other segments	3,176,770	19,735,641	30,090,208	-	(53,002,619)	-
Unallocated assets						1,159,960
Total Assets						142,481,938
Segment liabilities	64,820,132	46,512,235	6,007,833	47,730	-	117,387,930
Liabilities from other segments	-	21,642,770	22,912,411	8,447,439	(53,002,620)	-
-Unallocated liabilities						1,011,968
Total Liabilities						118,399,898
Other segment items -						
Net interest income	3,167,871	2,443,305	1,009,707	1,618,460	-	8,239,343
Impairment charges	213,558	41,981	(150)	90,060	-	345,449
Capital expenditure	358,913	713	126	898	-	360,650
Depreciation	397,794	1,896	739	3,105	-	403,534
Amortisation charges	122,510	-	-	81,533	-	204,043

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

5. Segment Reporting (Continued)

	Year ended 31 December 2018					
	Retail & SME	**Corporate banking**	**Treasury & correspondent bankin**	**Card/Payments**	**Eliminations**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Gross external revenues	3,869,487	4,435,576	3,573,916	3,701,133	(928,247)	14,651,865
Revenues/expenses from other segments	(375,493)	31,106	130,752	213,635	-	-
Total gross revenues	3,493,994	4,466,682	3,704,668	3,914,768	(928,247)	14,651,865
Interest Expenses	(607,444)	(1,391,612)	(336,417)	(213,635)	928,247	(1,620,861)
Direct and allocated expenses	(2,423,082)	(364,773)	(167,618)	(2,133,861)	-	(5,089,334)
Profit before unallocated expenses and tax	463,468	2,710,297	3,200,634	1,567,272	-	7,941,671
Unallocated expense						(4,011,298)
Tax expense						(1,077,437)
Net profit						2,852,935
Segment assets	29,929,984	44,498,317	37,965,832	8,687,317	-	121,081,450
Assets from other segments	3,272,752	12,916,860	24,730,668	-	(40,920,280)	-
Unallocated assets						1,833,186
Total Assets						122,914,636
Segment liabilities	58,117,236	37,676,996	4,646,849	19,942	-	100.461.023
Liabilities from other segments	-	15,278,218	16,189,613	9,452,449	(40,920,280)	-
Unallocated liabilities						1,021,632
Total Liabilities						101,482,655
Other segment items -						
Net interest income	2,351,646	2,249,267	1,150,533	1,518,645		7,270,091
Impairment charges	269,260	(144,944)	15,126	493,640		633,082
Capital expenditure	328,159	917	681	150,942		480,699
Depreciation	252,303	1,302	638	2,375		256,618
Amortisation charges	115,108	-	-	57,661		172,769

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

6. Interest Income

	2019		
	Amortized cost assets	**FVOCI assets**	**Total**
	$'000	**$'000**	**$'000**
Interest income -			
Debt securities	514,010	842,306	1,356,316
Finance loans and finance leases	8,266,870	-	8,266,870
Securities purchased for re-sale	20,216	-	20,216
Dividend income	-	19,099	19,099
	8,801,096	861,405	9,662,501
Interest income from FVTPL investments			
Other operating income			48,687
			9,711,188

	2018		
	Amortized cost assets	**FVOCI assets**	**Total**
	$'000	**$'000**	**$'000**
Interest income -			
Debt securities	436,051	794,346	1,230,397
Finance loans and finance leases	7,405,481	-	7,405,481
Securities purchased for re-sale	63,198	-	63,198
Dividend income	-	17,572	17,572
	7,904,730	811,918	8,716,648
Interest income from FVTPL investments			
Total interest income (IAS 39 basis)			6,399
Other operating income			167,906
			174,305
			8,890,953

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

7. Interest Expense

	2019 $'000	2018 $'000
Customer deposits	1,162,653	1,229,799
Borrowings, due to banks and other financial institutions	190,573	391,063
Lease interest expense	70,015	-
Other	48,604	-
	1,471,845	1,620,862

8. Fees and Commission Income

	2019 $'000	2018 $'000
Banking fees	3,405,869	3,020,306
Credit related fees	530,480	486,257
Trust fees	68,887	77,507
	4,005,236	3,584,070

9. Net Trading Income

	2019 $'000	2018 $'000
Foreign exchange trading and translation gains	1,528,067	1,247,114
Securities trading gains on available-for-sale securities	272,396	339,829
Securities trading gains on financial assets at fair value through the profit and loss	-	(72,618)
	1,800,463	1,514,325

Foreign exchange trading and translation 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.

Sagicor Bank Jamaica Limited

Notes to the Financial Statements
31 December 2019
(expressed in Jamaican dollars unless otherwise indicated)

10. Team Member Costs

	2019 $'000	2018 $'000
Wages and salaries	2,173,513	1,987,961
Statutory contributions	233,893	227,027
Pension costs – defined benefit plan (Note 26)	96,720	93,153
Other post-employment benefits (Note 26)	87,285	198,902
Termination costs	11,996	75,225
Stock options and grants	45,306	33,339
Accommodation and other team member benefits	232,250	251,479
	2,880,963	2,867,086

The number of persons employed at the end of the year:

	2019 No.	2018 No.
Full – time	487	464
Part – time	173	177
	660	641

11. Credit Impairment Losses, Net of Recoveries

	2019 $'000	2018 $'000
Investments	(28,565)	15,126
Loans (Note 20)	706,022	1,031,357
Lease receivables (Note 21)	(2,376)	(5,045)
Recoveries (Note 20)	(329,632)	(408,356)
	345,449	633,082

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

12. Other Expenses

	2019 $'000	2018 $'000
Amortisation of intangible assets (Note 24)	204,043	172,769
Audit fees -		
Current	20,622	17,000
Cards and Automated service fees	1,064,485	941,109
Bank charges	209,828	181,181
Commissions and fees	1,980	1,450
Consultancy fees	56,143	55,966
Depreciation	403,534	256,618
Donations	3,291	4,574
Insurance	178,069	158,440
Legal and professional fees	87,958	135,872
Licensing fee	533,323	499,257
Miscellaneous	273,824	214,982
Motor vehicle expenses	7,963	9,553
Office expenses	10,114	11,261
Printing and stationery	119,718	141,011
Promotion and advertising	998,522	639,565
Repairs and maintenance	88,661	93,566
Security	160,164	121,239
Services outsourced	1,020,317	1,017,769
Telephone and postage	186,669	169,390
Travelling and entertainment	37,089	26,471
	5,666,317	4,869,043

13. Taxation

(a) Taxation is based on profit for the year adjusted for tax purposes and represents income tax at 33⅓%.

	2019 $'000	2018 $'000
Current tax	796,781	624,726
Prior year over provision	20,889	(60)
Deferred tax (Note 27)	764,439	452,771
	1,582,109	1,077,437

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

	2019 $'000	2018 $'000
Profit before taxation	4,625,516	3,930,372
Tax calculated at 33⅓%	1,541,839	1,305,124
Adjusted for the effects of:		
Income not subject to tax	(107,917)	(95,558)
Expenses not deductible for tax purposes	165,814	112,983
Net effect of other charges and allowances adjustments and allowances	(17,627)	(250,112)
Income tax expense	1,582,109	1,072,437

(c) The deferred tax credited relating to components of other comprehensive income is as follows:

	2019 $'000	2018 $'000
Arising on losses recognised in other comprehensive income -		
FVOCI investments	(242,421)	155,318
Available-for-sale investments IFRS Transition	-	16,653
Re-measurements of post-employment benefits	(89,010)	(181,313)
	(331,431)	(9,342)

Subject to the agreement of the Commissioner General, Tax Administration of Jamaica, at the end of the reporting period, the Bank had unused tax losses of $222,646,000 (2018 – $2,680,530,000) available for set off against future taxable profits.

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

14. Earnings per Stock Unit

Basic and diluted earnings per stock unit is calculated by dividing the net profit attributable to stockholders of the Bank by the weighted average number of ordinary stock units in issue during the year.

	2019	2018
Net profit attributable to stockholders ($'000)	3,043,407	2,852,935
Weighted average number of ordinary stock units in issue ('000)	4,241,887	4,241,887
Basic and diluted earnings per stock unit ($)	0.72	0.67

15. Cash and Balances Due from Other Financial Institutions

	2019 $'000	2018 $'000
Cash in hand and at bank	8,509,718	7,454,778
Items in course of collection from other financial institutions	882,379	985,784
Placements with other financial institutions	-	2,500,000
Included in cash and cash equivalents (Note 17)	9,392,097	10,940,562
Placements with other financial institutions	-	160
	9,392,097	10,940,722

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

16. Cash Reserves at Bank of Jamaica

Minimum cash reserve and liquid asset ratios in respect of deposit liabilities are required to be maintained by the Bank with the Bank of Jamaica. Cash reserves are not available for investment.

The cash and liquid asset requirement at year-end were as follows:

	2019	2018
Cash reserve - Foreign currency liabilities	15%	12%
Jamaica dollar liabilities	7%	12%
Liquid assets - Foreign currency liabilities	29%	26%
Jamaica dollar liabilities	21%	26%

Sagicor Bank Jamaica Limited

Notes to the Financial Statements
31 December 2019
(expressed in Jamaican dollars unless otherwise indicated)

17. Cash and Cash Equivalents

	2019 $'000	2018 $'000
Cash and balances due from other financial institutions (Note 15)	9,392,097	10,940,562
Investment securities	2,000,000	500,000
Securities purchased under agreements to resell (Note 18)	1,650,000	1,300,000
Securities sold under agreements to repurchase	(1,064,853)	(700,000)
Items in the course of payment (Note 31)	(440,917)	(562,204)
Short term loans due to other financial institutions (Note 29)	(655,885)	(1,268,049)
	10,880,442	10,210,309

Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	2019 $'000	2018 $'000
Cash and cash equivalents	10,880,442	10,210,309
Liquid investments (i)	2,000,000	500,000
Borrowings – repayable within one year (excluding overdraft)	(1,060,103)	(1,780,459)
Borrowings – repayable after one year	(2,001,408)	(3,185,391)
Net debt	9,818,931	5,744,459
Cash and liquid investments	12,880,442	10,710,309
Gross debt – fixed interest rates	(3,061,511)	(4,965,850)
Net debt	9,818,931	5,744,459

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

17. Cash and Cash Equivalents (Continued)

Net debt reconciliation (continued)

	Other assets		Liabilities from financing activities		
	Cash/ bank overdraft $'000	**Liquid investments (i) $'000**	**Borrowings due within 1 year $'000**	**Borrowings due after 1 year $'000**	**Total $'000**
Net debt as at 1 January 2018	11,130,973	722,208	(697,625)	(3,978,059)	7,177,497
Cash flows	(916,571)	-	(1,082,834)	792,668	(1,206,737)
Foreign exchange adjustments	(4,093)	-	-	-	(4,093)
Other non-cash movements	-	(222,208)	-	-	(222,208)
Net debt as at 31 December 2018	10,210,309	500,000	(1,780,459)	(3,185,391)	5,744,459
Cash flows	560,930	-	720,356	1,183,983	2,465,269
Foreign exchange adjustments	109,203	-	-	-	109,203
Other non-cash movements	-	1,500,000	-	-	1,500,000
Net debt as at 31 December 2019	10,880,442	2,000,000	(1,060,103)	(2,001,408)	9,818,931

(i) Liquid investments comprise current investments that are traded in an active market, being the Bank's financial assets held at fair value through profit or loss.

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

18. Securities Purchased Under Agreements to Resell

The Bank entered into reverse repurchase agreements collateralised by Government of Jamaica securities. These agreements may result in credit exposure in the event that the counterparty to the transaction is unable to fulfil its contractual obligation.

As at 31 December 2019, the Bank held $1,707,500,000 (2018 - $1,732,096,000) of securities, mainly representing Government of Jamaica debt securities, as collateral for reverse repurchase agreements.

	2019 $'000	2018 $'000
Securities purchased under agreements to resell		
Principal	1,650,000	1,700,000
Interest receivable	423	2,395
	1,650,423	1,702,395

	2019 $'000	2018 $'000
Securities purchased under agreement to resell with an original maturity of less than 90 days (Note 17)	1,650,000	1,300,000

19. Investment Securities

	2019 $'000	2018 $'000
Financial assets at FVOCI -		
Debt securities -		
Government of Jamaica	9,890,036	8,019,842
Corporate bonds	225,226	246,037
Bank of Jamaica Certificates of Deposit	7,430,738	4,582,142
Other sovereign debt	4,479,386	3,131,186
	22,025,386	15,979,207
Investments at amortised cost -		
Debt securities -		
Corporate bonds	6,905,897	6,393,070
Other sovereign debt	516,302	497,075
Unquoted equity securities	6,034	6,034
	29,453,619	22,875,386
Less: Pledged assets (Note 22)	(3,899,474)	(1,019,346)
	25,554,145	21,856,040
Interest receivable	306,297	309,289
	25,860,442	22,165,329

Sagicor Bank Jamaica Limited

Notes to the Financial Statements
31 December 2019
(expressed in Jamaican dollars unless otherwise indicated)

20. Loans, Net of Provision for Credit Losses

	2019 $'000	2018 $'000
Gross loans and advances	85,504,811	70,296,661
Less: Allowance for credit losses	(1,350,925)	(1,723,750)
	84,153,886	68,572,911
Loan interest receivable	223,247	264,481
	84,377,133	68,837,392

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

	2019 $'000	2018 $'000
Balance at beginning of year	1,723,750	1,512,416
IFRS 9 Transition adjustment	-	347,689
Previously provided for written off	(773,679)	(773,349)
Charged in the income statement (Note 11)	706,022	1,031,357
Recoveries (Note 11)	(329,632)	(408,356)
Currency revaluation adjustment	24,464	13,993
Balance at end of year	1,350,925	1,723,750

The aggregate amount of non-performing loans for the Bank on which interest was not being accrued amounted to $1,495,515,000 (2018 - $1,983,525,000).

21. Lease Receivables, Net of Provision for Credit Losses

	2019 $'000	2018 $'000
Gross investment in finance lease -		
Not later than one year	135,634	100,839
Later than one year and not later than five years	187,801	168,312
	323,435	269,151
Unearned finance income	(37,353)	(42,747)
Net investment in finance leases	286,082	226,404
Net investment in finance leases -		
Not later than one year	113,206	78,928
Later than one year and not later than five years	172,876	147,476
	286,082	226,404
Less: provision for credit losses	(215)	(2,591)
	285,867	223,813

21. Lease Receivables, Net of Provision for Credit Losses (Continued)

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

	2019 $'000	2018 $'000
Balance at beginning of year	2,591	6,904
IFRS 9 Transition adjustment	-	732
Charged in the income statement (Note 11)	(2,376)	(5,045)
Balance at end of year	215	2,591

The aggregate amount of non-performing lease receivables on which interest was not being accrued is $ NIL (2018 - $1,611,000).

22. Pledged Assets

Assets are pledged as collateral under repurchase agreements with customers and other financial institutions and for security relating to overdraft and other facilities with other financial institutions and with the Bank of Jamaica.

	Asset		Related liability	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Investment securities and securities purchased under resale agreements	3,899,474	1,019,346	2,925,325	700,000

Of the assets pledged as security, the following represents the total for those assets pledged for which the transferee has the right by contract or custom to sell or re-pledge the collateral.

	2019 $'000	2018 $'000
Investment securities	3,899,474	1,019,346

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

23. Related Party Balances and Transactions

Parties are considered to be related if one has the ability to control or exercise significant influence over the other parties in making financial or operational decisions. There were no related party transactions with the ultimate parent company.

Related companies include ultimate parent company, intermediate parent company, fellow subsidiaries, subsidiaries and an entity which has significant influence over the intermediate parent company. Related parties include directors, key management and companies/funds for which the Bank's parent company and fellow subsidiary provides management services. PanJamaican Trust Investment Limited is a related party by virtue of being a shareholder with significant influence over the intermediate parent company, Sagicor Life Jamaica Limited.

(i) The following transactions were carried out with related parties and companies:

	2019 $'000	2018 $'000
With parent company -		
Interest and other income earned	3,743	4,435
Interest and other expenses paid	(3,859)	(1,225)
Investment management fee paid	(446,124)	(413,067)
Information Technology rental	(381,610)	(365,219)
Party with significant influence over intermediate party company -		
Interest and other income earned	84,925	50,382
Interest and other expenses paid	(125,730)	(179,917)
Management fees and other expenses paid	(50,625)	(84,106)
Rental and net lease paid	(156,189)	(46,075)

Key management compensation was as follows –

	2019 $'000	2018 $'000
With directors and key management personnel -		
Salaries and other short-term benefits	51,731	39,719
Post-employment benefits	1,446	1,301
	53,177	41,020

	2019 $'000	2018 $'000
Directors' emoluments – Fees	25,114	25,832
Other	1,959	1,264

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

23. Related Party Balances and Transactions (Continued)

(ii) Year-end balances with related companies and parties are as follows:

	2019	2018
	$'000	$'000
Due from related companies -		
Balances due from parent company	-	14,018
Balances due from fellow subsidiaries	313	180
	313	14,198
Due to related companies -		
Balances due to parent company	(68,355)	-
Balances due to fellow subsidiaries	(68,161)	(44,162)
	(136,516)	(44,162)

The amount due from parent company represents an advance that has no fixed repayment term, unsecured and is interest free.

	2019	2018
	$'000	$'000
Other year-end balances with related companies -		
With parent company -		
Customer deposits	(600,737)	(466,399)
With fellow subsidiaries -		
Loans	251,842	198,500
Repo agreement	500,010	1,300,094
Customer deposits	(3,229,279)	(2,952,754)
With directors and key management personnel -		
Loans	426,315	158,553
Customer deposits	(369,516)	(285,878)
Party with significant influence over intermediate party company		
Customer deposits	(4,011,625)	(3,608,973)
Loans	483,224	475,956

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

24. Intangible Assets

	Customer Relationships	Computer Software	Total
	$'000	$'000	$'000
Cost -			
At 1 January 2018	1,139,000	630,982	1,769,982
Additions	-	155,623	155,623
At 31 December 2018	1,139,000	786,605	1,925,605
Additions	-	124,731	124,731
At 31 December 2019	1,139,000	911,336	2,050,336
Accumulated Depreciation -			
At 1 January 2018	199,325	269,310	468,635
Charge for the year	56,950	115,819	172,769
At 31 December 2018	256,275	385,129	641,404
Charge for the year	56,950	147,093	204,043
At 31 December 2019	313,225	532,222	845,447
Net Book Value -			
At 31 December 2019	825,775	379,114	1,204,889
At 31 December 2018	882,725	401,476	1,284,201

(i) Computer software

This represents computer software purchased. The intangible assets have finite useful lives and are amortised over five years. The amortisation of intangible assets is included in other expenses in the income statement (Note 12).

(ii) Customer relationships

This represents valuation of customer base acquired as part of RBC acquisition on June 27, 2014. The customer base has been determined to have a finite useful life and is amortised over 20 years. The associated amortisation costs of $56,950,000 included in other expenses category in the income statement.

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

25. Property, Plant and Equipment

	Land & Building	Leasehold Improvement	Office Equipment	Furniture & Fixtures	Motor Vehicles	Computer Equipment	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Costs -							
At 1 January 2018	1,448,454	577,124	647,950	163,675	36,307	449,022	3,322,532
Additions	312	44,371	102,663	4,417	9,077	75,079	235,919
Disposals	(1,050,614)	-	(494)	-	(22,114)	(292)	(1,073,514)
At 31 December 2018	398,152	621,495	750,119	168,092	23,270	523,809	2,484,937
Additions	-	24,741	31,968	503	798	62,832	120,842
Disposals	(52,732)	-	(4,099)	-	(567)	-	(57,398)
At 31 December 2019	345,420	646,236	777,988	168,595	23,501	586,641	2,548,381
Accumulated Depreciation -							
1 January 2018	277,918	238,739	257,977	38,249	22,901	260,980	1,096,764
Charge of the year	20,002	52,925	94,422	6,124	3,762	79,383	256,618
Disposals	(183,881)	-	(116)	-	(13,497)	(72)	(197,566)
At December 2018	114,039	291,664	352,283	44,373	13,166	340,291	1,155,816
Charge of the year	6,992	55,654	104,553	6,204	3,121	79,960	256,484
Disposals	(22,857)	-	(2,857)	-	(567)	-	(26,281)
At December 2019	98,174	347,318	453,979	50,577	15,720	420,251	1,386,019
Net Book Value -							
31 December 2019	247,246	298,918	324,009	118,018	7,781	166,390	1,162,362
31 December 2018	284,113	329,831	397,836	123,719	10,104	183,518	1,329,121

During 2018, the Bank sold its head office to Sagicor Pooled Investment Limited. The Bank, subsequently, entered into a leased back agreement with the purchaser of the building for a period of ten years.

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

26. Post-employment Benefits

	2019 $'000	2018 $'000
(a) Pension benefits	(337,987)	(150,121)
(b) Other post-employment benefit obligations	869,797	898,988
	531,810	748,867

(a) Pension schemes

The Bank has established a number of pension schemes covering all permanent employees, a defined benefit plan and a defined contribution plan. The assets of the funded plans are held independently of the Bank's assets in separate trustee administered funds.

Defined contribution plan
The Defined contribution plan received regulatory approval in 2013 and all new employees subsequently are included in this plan.

Apart from the defined contribution plan, the Bank operates post-retirement benefits plans in respect of a medical plan and group life insurance for it retirees.

Defined benefit plan
The defined benefit plan is valued by independent actuaries annually using the Projected Unit Credit Method. The latest actuarial valuation was carried out as at 31 December 2016. The plan provides pensionable salary to members based on the average member's earnings over the 5 years immediately prior to exit.

The law requires each plan sponsor to be an ordinary annual contributor but does not stipulate a minimum funding rate or solvency level. In absence of guidance from the regulator, the actuaries have agreed on a minimum employer contribution rate of 0.25% of payroll per annum where plan rules do not specify a minimum.

The Trustees of the pension scheme ensure benefits are funded, benefits are paid, assets invested to maximise returns subject to acceptable investment risks while considering the liability profile.

The next triennial valuation is due to be completed as at 31 December 2019.

Any plan surplus or funding deficiency for the defined benefit plan is absorbed by the Bank.

The solvency level (the ratio of assets to past service liabilities) as at the last triennial funding valuation (2016) was 109%.

26. Post-employment Benefits (Continued)

(a) Pension schemes (continued)

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

	2019 $'000	2018 $'000
Present value of funded obligations	5,874,755	5,348,474
Fair value of plan assets	(6,212,742)	(5,498,595)
Surplus of funded plan	(337,987)	(150,121)

The movement in the defined benefit obligation over the year is as follows:

	2019 $'000	2018 $'000
Balance at beginning of year	5,348,474	4,816,706
Current service cost	114,672	121,756
Interest cost	367,347	377,329
	482,019	499,085
Re-measurements -		
Change in financial assumptions	(135,110)	115,705
Experience adjustments	273,670	14,691
	138,560	130,396
Members' contributions	110,492	106,402
Benefits paid	(284,743)	(315,810)
Purchased annuities	79,953	111,695
Balance at end of year	5,874,755	5,348,474

26. Post-employment Benefits (Continued)

(a) Pension schemes (continued)

The movement in the defined benefit asset during the year is as follows:

	2019 $'000	2018 $'000
Balance at beginning of year	5,498,595	5,101,749
Return on plan assets	385,299	405,932
Re-measurements -		
Change in financial assumptions	(16,081)	28,449
Experience adjustment	333,393	(14,720)
Members' contributions	110,492	106,402
Employer's contributions	105,834	74,898
Benefits paid	(284,743)	(315,810)
Purchased annuities	79,953	111,695
Balance at end of year	6,212,742	5,498,595

The amounts recognised in the income statement are as follows:

	2019 $'000	2018 $'000
Current service cost	114,672	121,756
Interest cost on plan obligation	367,347	377,329
Interest income on plan assets	(385,299)	(405,932)
Total, included in team member costs (Note 10)	96,720	93,153

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

26. Post-employment Benefits (Continued)

(a) Pension schemes (continued)

The amount recognised in other comprehensive income is as follows:

	2019 $'000	2018 $'000
Change in financial assumptions	(119,029)	87,256
Experience adjustments	(59,723)	29,411
	(178,752)	116,667
Deferred tax	59,584	(38,889)
	(119,168)	77,778

Plan assets are comprised as follows:

	2019					2018				
	$'000 Level 1	$'000 Level 2	$'000 Level 3	$'000 Total	%	$'000 Level 1	$'000 Level 2	$'000 Level 3	$'000 Total	%
Equities Fund	2,256,886	-	-	2,256,886	36	1,717,014	-	-	1,717,014	31
Mortgage & Real Estate Fund	964,976	-	-	964,976	16	994,146	-	-	994,146	18
Fixed Income Fund	843,616	-	-	843,616	14	886,033	-	-	886,033	16
Money Market Fund	84,246	-	-	84,246	1	90,513	-	-	90,513	2
International Equity Fund	157,971	-	-	157,971	3	119,184	-	-	119,184	2
Foreign Currency Fund	1,030,313	-	-	1,030,313	17	941,478	-	-	941,478	17
CPI Indexed Fund	87,566	-	-	87,566	1	10,857	-	-	10,857	-
Global Market Funds	89,910	-	-	89,910	1	83,668	-	-	83,668	2
Current Assets	28,348	-	-	28,348	0	30,180	-	-	30,180	1
Purchased annuities	-	703,258	-	703,258	11	-	625,714	-	625,714	11
Adjustments	(34,348)	-	-	(34,348)	-1	(192)	-	-	(192)	-
	5,509,484	703,258	-	6,212,742	100	4,872,881	625,714	-	5,498,595	100

26. Post-employment Benefits (Continued)

(a) Pension schemes (continued)

Expected contributions to the post-employment plan for the year ending 31 December 2020 are $215,342,000.

Movements in the amounts recognised in the statement of financial position:

	2019 $'000	2018 $'000
Asset at beginning of year	(150,121)	(252,843)
Amounts recognised in the income statement (Note 10)	96,720	93,153
Re-measurements recognised in other comprehensive income	(178,752)	116,667
Contributions paid	(105,834)	(107,098)
Liability at end of year	(337,987)	(150,121)

The significant actuarial assumptions used were as follows:

	2019	2018
Discount rate	7.5%	7.0%
Future salary increases	9.0%	7.0%

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

		Impact on post-employment benefits	
	Change in Assumption	Increase in Assumption	Decrease in Assumption
Discount rate – pension scheme	1%	583,000	(498,000)
Discount rate – medical scheme	1%	(128,000)	165,000
Future salary increases	1%	35,000	(31,000)
Health cost	1%	153,000	(120,000)
Future pension increases	1%	583,000	(498,000)
Life expectancy	1 year	17,000	(17,000)

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. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

26. Post-employment Benefits (Continued)

(b) Other post-employment benefits

In addition to pension benefits, the Bank offers retirees 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 the pension scheme, the main actuarial assumption is the long-term increase in health cost of 5% (2018 – 5%) per annum.

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

	2019 $'000	2018 $'000
Present value of unfunded obligations	869,797	898,988

The movement in the defined benefit obligation over the year is as follows:

	2019 $'000	2018 $'000
Balance at beginning of year	898,988	1,387,105
Current service cost	25,326	88,970
Interest expense	61,959	109,932
Re-measurements -		
Loss from change in financial assumptions	(68,065)	367,769
Experience adjustments	(20,213)	(1,028,375)
	(88,278)	(660,606)
Benefits paid	(28,198)	(26,413)
Balance at end of year	869,797	898,988

The amounts recognised in the income statement are as follows:

	2019 $'000	2018 $'000
Current service cost	25,326	88,970
Interest cost	61,959	109,932
Total, included in team member costs (Note 10)	87,285	198,902

26. Post-employment Benefits (Continued)

(b) Other post-employment benefits (continued)

The amount recognised in other comprehensive income is as follows:

	2019 $'000	2018 $'000
Change in demographic assumptions		
Change in financial assumptions	(68,065)	367,769
Experience adjustments	(20,213)	(1,028,375)
	(88,278)	(660,606)
Deferred tax	29,426	220,202
	(58,852)	(440,404)

Movement in the amounts recognised in the statement of financial position:

	2019 $'000	2018 $'000
Liability at beginning of year	898,988	1,387,104
Amounts recognised in the income statement (Note 10)	87,285	198,902
Amount recognised in other comprehensive income	(88,278)	(660,606)
Benefits paid	(28,198)	(26,412)
Liability at end of year	869,797	898,988

26. Post-employment Benefits (Continued)

Plan risks
Through its defined benefit pension plans and post-employment medical plans, the Bank is exposed to a number of risks. The Bank does not use derivatives to manage its plan risks. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. Pensions are secured through the purchase of annuities from Sagicor Life Jamaica Limited. The remaining assets are invested in segregated pooled funds managed by Sagicor Life Jamaica Limited. The Bank has not changed the processes used to manage its risks from previous periods.

The most significant of these plan risks are detailed below:

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

The Bank ensures that the investment positions are managed within an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the pension scheme. Within this framework, the Bank's ALM objective is to match assets to the pension obligations by investing in long-term assets with maturities that match the benefit payments as they fall due. The Bank actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations.

Changes in bond yields
A decrease in Government of Jamaica bond yields will increase plan liability, although this will be partially offset by an increase in the return on plan's assets which are linked to debt investment.

Salary risk
The present value of the plan liabilities is calculated in reference to the future salaries of members. Therefore an increase in the salary of members will increase the plan's liability.

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

The weighted average duration of liability of the defined benefit obligation is as follows:

	2019 Years	2018 Years
Active members	442	414
Deferred pensioners	160	148

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

27. Deferred Income Taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 33⅓% for the Bank. The movement in the deferred income tax balance is as follows:

	2019 $'000	2018 $'000
Balance at beginning of year	1,242,812	1,704,925
Charged to the income statement (Note 13)	(764,439)	(452,771)
Tax credited relating to components in other comprehensive income (Note 13) - Transition	-	16,653
Tax credited relating to components in other comprehensive income (Note 13)	(331,431)	(25,995)
Balance at end of year	146,942	1,242,812

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

	2019 $'000	2018 $'000
Deferred tax assets to be recovered after more than 12 months	323,933	980,714
Deferred tax liabilities to be recovered after more than 12 months	(244,908)	(106,678)

Deferred income tax assets and liabilities are due to the following items:

	2019 $'000	2018 $'000
Deferred income tax assets -		
Post-employment benefit obligations	177,270	249,622
Tax losses	74,214	893,509
Provision	13,721	24,521
Property, plant and equipment	92,921	86,611
Investment securities	-	61,605
Other	33,724	33,622
	391,850	1,349,490
Deferred income tax liabilities -		
Investment securities	180,866	-
Loan loss provision	64,042	106,678
	244,908	106,678
Net deferred tax asset	146,942	1,242,812

27. Deferred Income Taxes (Continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current assets against current liabilities and when the deferred income taxes relate to the same fiscal authority.

The movement in deferred tax assets and liabilities is as follows:

	Accelerated tax depreciated	Fair value gains	Loan loss provision	Provision	Post-employment benefits	Tax losses	Other	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 January 2018, restated	(58,898)	(49,173)	(116,382)	-	367,352	1,521,457	40,569	1,704,925
Credited/(charged) to the income statement	145,509	(41,714)	9,704	5,042	63,583	(627,948)	(6,947)	(452,771)
Credited to other comprehensive income	-	152,492	-	19,479	(181,313)	-	-	(9,342)
At 31 December 2018	86,611	61,605	(106,678)	24,521	249,622	893,509	33,622	1,242,812
Credited/(charged) to the income statement	6,310	(49)	42,636	(10,800)	16,657	(819,294)	101	(764,439)
Credited to other comprehensive income	-	(242,421)	-	-	(89,010)	-	-	(331,431)
At 31 December 2019	92,921	(180,865)	(64,042)	13,721	177,269	74,215	33,723	146,942

Management has assessed the entity's ability to recognize the deferred tax asset arising from tax losses and has deemed it appropriate to have such recognition based on projections of future profits.

28. Other Assets

	2019 $'000	2018 $'000
Withholding tax recoverable with Government of Jamaica	357,156	281,704
Prepayments	437,721	205,038
Property, plant and equipment deposits	504,869	335,344
Customer settlement accounts	23,537	30,628
Legal claim (Note 44)	142,171	122,643
Credit card suspense	310,600	435,192
Other	54,918	227,973
	1,830,972	1,638,522

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

29. Borrowings, Due to Banks and Other Financial Institutions

	Currency	Rate %	2019 $'000	2018 $'000
Secured				
Long Term Loans				
Development Bank of Jamaica Limited				
Repayable over varying periods from 6 months to 118 months	JMD & USD	Various	1,715,777	1,944,813
National Housing Trust	JMD	Various	668,048	315,081
			2,383,825	2,259,894
Short Term Loans				
Citibank N. A . – Jamaica Branch	JMD	Various	655,885	1,268,049
			655,885	1,268,049
			3,039,710	3,527,943
Interest payable			1,509	1,878
Total secured borrowings			3,041,219	3,529,821
Unsecured				
Redeemable preference shares	JMD	Various	-	1,414,700
Unamortised Costs			-	(8,319)
			-	1,406,381
Sagicor Life Jamaica Limited	JMD	4.00	20,266	20,000
			20,266	1,426,381
Interest payable			26	9,648
Total unsecured borrowings			20,292	1,436,029
Total Borrowings, Due to Banks and Other Financial Insitutions			3,061,511	4,965,850

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during 2019 and 2018.

29. Borrowings, Due to Banks and Other Financial Institutions (continued)

(a) Development Bank of Jamaica Limited
The agreement with the Development Bank of Jamaica Limited (DBJ) allows DBJ, at its absolute discretion, to approve financing to the Bank for on-lending to farmers, other agricultural projects and development projects on such terms and conditions as DBJ may stipulate
Funds disbursed to the Bank bear interest at DBJ's lending rate prevailing at the date of approval of each disbursement unless otherwise varied by DBJ and are extended to the clients a maximum spread as stipulated by DBJ.

(b) National Housing Trust
The agreement with the National Housing Trust (NHT) allows NHT, at its absolute discretion, to approve mortgage financing to its contributors under such terms and conditions as the Trust may stipulate.

Funds disbursed to the Bank bears interest at NHT's lending rate prevailing at the date of approval of each disbursement unless otherwise varied by the Trust and are extended to the clients at a maximum spread as stipulated by NHT.

(c) Sagicor Life Jamaica Limited
This loan is repayable on November 7, 2020; interest is paid at maturity at a rate of 4% and is unsecured.

(d) Redeemable Preference shares
8.25% cumulative redeemable preference shares 1,414,700,000 was repaid on June 3, 2019.

(e) Citibank N.A Jamaica Branch
This represents unsecured short-term inter-bank borrowing with $656M repayable on January 29, 2020.

Included in borrowings, due to banks and other financial institutions are $655,885,000 (2018 - $ 1,268,000) which is regarded as cash equivalents for purposes of the statement of cash flows.

Fair value
For the majority of the borrowings, the fair values are not materially different to their carrying amounts, since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature.

30. Provision

	2019 $'000	2018 $'000
Legal claim (Note 44)	142,171	122,643

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

31. Other Liabilities

	2019	2018
	$'000	$'000
Accruals	702,094	564,189
Customer settlement accounts	119,196	44,412
Items in the course of payment (Note 17)	440,917	562,204
Staff related payables	64,525	79,957
Stale dated cheques	416,504	355,259
Withholding tax payable	13,763	15,198
Credit card settlement accounts	6,534	280,006
Accounts payables	854,829	249,183
Other	322,009	331,593
	2,940,371	2,482,001

32. Share Capital

	2019 Number of shares '000	2018 Number of shares '000
Authorised:		
JMD denominated ordinary shares	4,271,640	4,271,640
Issued:		
JMD denominated ordinary shares	4,241,887	4,241,887
	$'000	$'000
Issued capital comprises:		
4,241,886,728 fully paid JMD denominated ordinary shares	8,400,000	8,400,000
	8,400,000	8,400,000

The shares are stated in these financial statements without a nominal or par value.

Pursuant to court approved scheme of arrangement dated December 2015 the Bank's authorized share capital was cancelled and reissued to facilitate the elimination of accumulated deficit and the simplification of capital structure. Share capital denominated in JMD, USD including ordinary and non-redeemable non-cumulative preference shares were cancelled. As at the same date these shares were subsequently reissued to existing shareholders' as one class JMD denominated ordinary shares totaling $8,400,000,000. The remaining portion along with other capital reserves were issued to eliminate the accumulated deficit that existed on said date.

33. Fair Value Reserve

This represents the unrealised surplus or deficit on the revaluation of Financial assets at FVOCI, net of deferred taxation.

34. 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.

The loan loss reserve is determined as follows:

	2019 $'000	2018 $'000
Provision for credit losses determined under IFRS -		
Loans (Note 20)	1,350,925	1,723,750
Lease receivables (Note 21)	215	2,591
	1,351,140	1,726,341
The provision for credit losses determined under regulatory requirements -		
Specific provision	1,194,845	1,697,952
General provision	887,717	731,714
	2,082,562	2,429,666
Excess of regulatory provision over IFRS provision reflected in a non-distributable loan loss reserve	731,422	703,325

35. Reserve Fund

This fund is maintained in accordance with the Banking Services Act, 2014, which requires that a minimum of 15% of the net profit of the Bank as defined by the Act be transferred annually to the reserve fund until the amount of the fund is 50% of the paid-up share capital of the Bank, and thereafter 10% of the net profit until the amount of the fund is equal to the paid-up capital of the Bank.

During the year the Bank transferred $1,217,362,000 (2018 - $1,137,174,000) from retained earnings to the reserve fund.

The deposit liabilities of the Bank and other indebtedness for borrowed money together with all interest accrued should not exceed twenty times its capital base.

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

36. Capital Reserve

	2019 $'000	2018 $'000
Realised capital gain on disposal of subsidiary	309,465	309,465

37. Capital Redemption Reserve

	2019 $'000	2018 $'000
7.75% cumulative redeemable preference shares redeemed	2,061,500	646,800

The provisons of section 62 (1) (d) of The Companies Act 2004, require the transfer from profit to the capital redemption reserve fund a sum equal to the amount of the redeemable preference shares redeemed otherwise than out of the proceeds of a fresh issue.

38. Retained Earnings Reserve

Section 42 of 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 for the purpose of determining the maximum level of deposit liabilities and lending to customers. Transfers to the retained earnings reserve are made at the discretion of the Board; such transfers must be notified to the Bank of Jamaica.

39. Dividends

During the year, the Bank declared and paid dividends of $1,000,000,000 (2018 – $1,000,000,000). This represents dividend per share of $0.24 (2018 - $0.24).

40. Fiduciary Activities

The Bank provides custody, trustee, corporate administration, investment management and advisory services to third parties which involve the Bank 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. As at 31 December 2019, the Bank had financial assets under administration and held in trust of approximately $589,507,000 (2018 - $531,252,000).

41. Fair Value of Financial Instruments

The Bank 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 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 and most liquid corporate bonds. 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 Bank'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 tenor. Foreign currency forward contracts are valued using a discounted cash flow model using spot exchange rates and the observable risk-free interest rates between the two currencies. 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. This category includes certain unquoted equity securities.

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. The Bank's holdings of unquoted equity instruments are not significant and, therefore, the effects of using reasonably possible alternative valuation assumptions would not be material.

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

41. Fair Value of Financial Instruments (Continued)

The table below summarises the carrying amount and fair value of financial asset not presented on the Bank's statement of financial position at their fair value:

	Carrying Value 2019 $'000	Fair Value 2019 $'000	Carrying Value 2018 $'000	Fair Value 2018 $'000
Financial Assets				
Loans, net of provision for credit losses	84,377,133	85,389,136	69,061,205	67,336,365
Customer deposits	107,249,593	107,726,196	92,264,299	92,743,685
Borrowings, due to banks and other financial institutions	3,061,511	3,090,892	3,549,876	3,632,745
Securities sold under repurchase agreement	2,937,479	2,937,479	702,712	705,009

	2019			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Assets				
Investment securities	-	25,854,408	6,034	25,860,442
Pledged assets	-	3,899,474	-	3,899,474
	-	29,753,882	6,034	29,759,916

	2018			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Assets				
Investment securities	-	22,159,295	6,034	22,165,329
Pledged assets	-	1,019,346	-	1,019,346
	-	23,178,641	6,034	23,184,675

There was no movement in the Bank's financial assets classified as Level 3 during the year.

The fair values for all other financial instruments approximate their carrying values and also fall within Level 2 based on the following:

- The fair value of liquid assets and other assets maturing within one year (such as cash and balances at Central Banks and amounts due from other banks) is assumed to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities;

41. Fair Value of Financial Instruments (Continued)

- The fair value of borrowings, due to banks and other financial institutions, customer deposits and other accounts, other liabilities, due to related companies and demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the date of the statement of financial position;
- The fair value of variable rate loans is assumed to approximate their carrying amounts and management does not believe that, after deduction of provision for credit losses, there is any significant difference between the fair value of fixed rate loans and their carrying values as interest rates approximate current market rates offered on similar loans.

42. Contingent Liabilities and Commitments

(a) Legal proceedings
The Bank is subject to various claims, disputes and legal proceedings, as part of the normal course of business at 31 December 2019. Except for the provision made in Note 30, no other provision has been made, as professional advice indicates that it is unlikely that any significant loss will arise.

Suit has been filed by an independent contractor against the Bank for breach of contract arising from alleged contractual agreement. The Claimant alleges that the Bank failed to pursue initiatives contemplated by the contract with a third party and that by not doing so, it caused the Claimant company significant losses which they have estimated at over US$300,000,000. No provision was made in these financial statements for this claim as the claim has been stayed to accommodate arbitration as required under the Agreement between the parties coupled with the probability of success against the Bank is considered low.

(b) Contingent liabilities and commitments
The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments.

At 31 December 2019	No later than 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Loan commitments	5,390,738	1,457,743	144,859	6,993,340
Guarantees, acceptances and other financial facilities	2,503,926	1,118,124	1,507,540	5,129,590
Operating lease commitments	61,783	-	-	61,783
	7,956,447	2,575,867	1,652,399	12,184,713
At 31 December 2018				
Loan commitments	4,270,152	1,349,380	1,054,441	6,673,973
Guarantees, acceptances and other financial facilities	2,608,866	135,529	1,737,300	4,481,695
Operating lease commitments	118,051	68,979	-	187,030
Operating lease commitments- Dominica Drive	106,186	457,569	653,546	1,217,301
	7,103,255	2,011,457	3,445,287	12,559,999

Lease payments, including maintenance, during the year were $200,427,000 (2018 - $205,483,000).

The Bank is contingently liable in respect of offshore standby letters of credit amounting to US$8,160,000 (2018-US$8,160,000) with one of their correspondent bank and US$600,000 with a Government Agency.

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

43. Stock Options

Details of the stock options outstanding are as follows:

	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
	2019	2019	2018	2018
	'000	$	'000	$
Balance at beginning of year	3,185	10.45	3,448	8.02
Granted	622	36.45	422	34.10
Exercised	(1,803)	12.17	(453)	9.75
Lapsed/forfeited	(666)	26.03	(232)	18.66
Options outstanding	1,338	12.47	3,185	10.45
Exercisable at the end of the year	865	17.71	2,271	12.50

Stock options outstanding at the end of the year for the Bank have the following expiry date and exercise price:

Expiry date	Exercise price	No. of stock options	
		2019	2018
		'000	'000
31 March 2019	$14.10	-	109
31 March 2020	$10.75	147	147
31 March 2021	$7.11	-	285
31 March 2022	$9.50	53	516
31 March 2023	$10.49	349	1,228
31 March 2024	$23.65	205	529
31 March 2025	$34.10	170	371
31 March 2026	$36.45	414	-
		1,338	3,185

For options outstanding at the end of the year, the exercise price ranges from $9.50 - $36.45 (2018 - $7.11 - $34.10). The weighted average remaining contractual term to expiry is 4 years (2018 – 4 years).

Options for 1,803,000 stock units were exercised during the current year (2018 – 453,000). The weighted average stock unit price at the date of exercise for options exercised during the year was $35.09 (2018 - $34.04).

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

43. Stock Options (Continued)

The stock options reserve balance at the year end represents the accumulated fair value of services provided by employees in consideration for shares, as measured by reference to the fair value of the shares for outstanding options. The fair value of the options at the year end is measured at the grant date using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the instruments were granted. The services received and a liability to pay for those services is recognised over the expected vesting period. The significant inputs into the model were weighted average stock unit prices at the grant date, exercise price shown above; standard deviation of expected share price returns, option life disclosed above, and annual average risk free interest rate. The expected volatility is based on statistical analysis of daily stock unit prices over one year.

The Bank recognised cumulative expenses of $4,140,000 (2018 - $6,979,000) as stock options expense of which $2,231,000 (2018 - $5,800,000) was recognised in the income statement during the year.

The company provides share grants to executives based on the performance of the Group. Shares granted during the year were 351,465 (2018 – 917,482). The prices are based on the trading price on the Jamaica Stock Exchange.

44. Litigation

On March 17, 2014 the Supreme Court of Jamaica granted judgement in favour of a claimant in a case brought against Sagicor Bank Jamaica Limited (formerly RBC Royal Bank Jamaica Limited).

This claim pre-dated the acquisition of control of the Bank by Sagicor Group Jamaica Limited, and also pre-dated the acquisition of control of the Bank by RBTT from Finsac Limited (“Finsac”) in 2001.

By virtue of the Share Sale Agreement entered into between Finsac, RBTT Financial Holdings Limited and RBTT International Limited, Finsac agreed to fully indemnify RBTT International Limited (now SGJ Holdings (St. Lucia) Limited) against any loss the bank may suffer in this matter.

The decision of the Supreme Court was handed down on July 31, 2018. The amount previously awarded to the Claimant has been recorded as a payable to the claimant with accrued interest and correspondingly receivable from Finsac.

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

45. Offsetting Financial Assets and Financial Liabilities

(a) Financial assets

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements.

	2019						
				Related amounts not set off in the statement of financial position			
	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts of financial assets presented on the balance sheet	Impact of master Netting Agreements	Cash collateral	Financial instruments collateral	Net Amount
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
ASSETS							
Cash and balances due from other financial institutions	9,392,097		9,392,097	-	-	-	9,392,097
Cash reserves at Bank of Jamaica	11,139,755		11,139,755	-	11,139,755	-	-
Securities purchased under agreements to resell	1,650,423		1,650,423	-	-	1,650,423	-
Investment securities	25,860,442		25,860,442	-	-	-	25,860,442
Loans, net of provision for credit losses	84,377,133		84,377,133	-	-	-	84,377,133
Lease receivables, net of provision for credit losses	285,867		285,867	-	-	-	285,867
Pledged assets	3,899,474		3,899,474	-	-	3,899,474	-
Due from related companies	313		313	-	-	-	313
Other assets	1,830,972		1,830,972	-	-	-	1,830,972
	138,436,476		138,436,476	-	11,139,755	5,549,897	121,746,824

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

45. Offsetting Financial Assets and Financial Liabilities (Continued)

(a) Financial assets (continued)

	2018						
				Related amounts not set off in the statement of financial position			
	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts of financial assets presented on the balance sheet	Impact of master Netting Agreements	Cash collateral	Financial instruments collateral	Net Amount
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
ASSETS							
Cash and balances due from other financial institutions	10,940,722	-	10,940,722	-	-	-	10,940,722
Cash reserves at Bank of Jamaica	12,330,758	-	12,330,758	-	12,330,758	-	-
Securities purchased under agreements to resell	1,702,395	-	1,702,395	-	-	1,702,395	-
Investment securities	22,165,329	-	22,165,329	-	-	-	22,165,329
Loans, net of provision for credit losses	68,837,392	-	68,837,392	-	-	-	68,837,392
Lease receivables, net of provision for credit losses	223,813	-	223,813	-	-	-	223,813
Pledged assets	1,019,346		1,019,346	-	-	1,019,346	-
Due from related companies	14,198	-	14,198	-	-	-	14,198
Other assets	1,638,522	-	1,638,522	-	-	-	1,638,522
	118,872,475	-	118,872,475	-	12,330,758	2,721,741	103,819,976

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

45. Offsetting Financial Assets and Financial Liabilities (Continued)

(a) Financial liabilities

The following financial liabiltiies are subject to offsetting, enforceable master netting arrangements and similar agreements.

	2019						
				Related amounts not set off in the statement of financial position			
	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts of financial assets presented on the balance sheet	Impact of master Netting Agreements	Cash collateral	Financial instruments collateral	Net Amount
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
LIABILITIES							
Customer deposits and other accounts	107,249,593	-	107,249,593	-	-	-	107,249,593
Securities sold under agreement to repurchase	2,937,479	-	2,937,479	3,899,474	-	-	(961,995)
Borrowings,due to banks and other financial institutions	3,061,511	-	3,061,511	-	-	-	3,061,511
Due to related companies	136,516	-	136,516	-	-	-	136,516
Other liabilities	2,940,371	-	2,940,371	-	-	-	2,940,371
	116,325,470	-	116,325,470	3,899,474	-	-	112,425,996

	2018						
				Related amounts not set off in the statement of financial position			
	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts of financial assets presented on the balance sheet	Impact of master Netting Agreements	Cash collateral	Financial instruments collateral	Net Amount
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
LIABILITIES							
Customer deposits and other accounts	92,264,299	-	92,264,299	-	-	-	92,264,299
Securities sold under agreement to repurchase	702,712	-	702,712	1,019,346	-	-	(316,634)
Borrowings, due to banks and other financial institutions	4,965,850	-	4,965,850	-	-	-	4,965,850
Due to related companies	44,162	-	44,162	-	-	-	44,162
Other liabilities	2,484,001	-	2,484,001	-	-	-	2,484,001
	100,461,024	-	100,461,024	1,019,346	-	-	99,441,678

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

46. Leases

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

	2019	2018
	$'000	$'000
Right-of-use assets - Buildings	1,164,628	-
Depreciation	(147,050)	-
Net book value	1,017,578	-
Lease liabilities		
Current	102,169	-
Non-current	960,290	-
	1,062,459	-

In the previous year, the company only disclosed its operating lease commitments in relation to leases that were classified as 'operating leases' under IAS 17 Leases. Please refer to Note 42.

Additions to the right-of-use assets during the 2019 financial year were $nil.

(b) Amounts recognized in the income statement shows the following amounts relating to leases:

	2019	2018
	$'000	$'000
Depreciation charge of right-of-use assets - Buildings	147,050	-

	2019	2018
	$'000	$'000
Interest expense (included in Interest and other interest expense)	70,015	-
Expense relating to short-term leases (included in administration expenses)	61,783	-

The total cash outflow for leases in 2019 was $172,184,249.00.

46. Leases (Continued)

(c) The company's leasing activities and how these are accounted for

The company leases various office spaces. Rental contracts are typically made for fixed periods of twelve months to 10 years, but may have extension options as described in (v) below.

Contracts may contain both lease and non-lease components. The company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the company is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases, see note xx for details. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:
(i) fixed payments (including in-substance fixed payments), less any lease incentives receivable
(ii) variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
(iii) amounts expected to be payable by the company under residual value guarantees
(iv) the exercise price of a purchase option if the company is reasonably certain to exercise that option, and
(v) payments of penalties for terminating the lease, if the lease term reflects the company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the company:
(i) where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
(ii) uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by Sagicor Life Jamaica Limited, which does not have recent third party financing, and
(iii) makes adjustments specific to the lease, e.g. term, country, currency and security.

46. Leases (Continued)

(c) The company's leasing activities and how these are accounted for (Con't)

The company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the company revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the company.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

(d) Extension and termination options

Extension and termination options are included in a number of property leases across the company. These are used to maximise operational flexibility in terms of managing the assets used in the company's operations. The majority of extension and termination options held are exercisable only by the company and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

As at 31 December 2019, potential future cash outflows of $61,782,914.00 (undiscounted) have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

The lease term is reassessed if an option is actually exercised (or not exercised) or the company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee. During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was an increase in recognised lease liabilities and right-of-use assets of $166,754,652.00

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

47. Changes in Accounting Policies

This note explains the impact of the adoption of IFRS 16 Leases on the company's financial statements.

As indicated in Note 2, the company has adopted IFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 38. On adoption of IFRS 16, the company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6.5%.

(a) Practical expedients applied

In applying IFRS 16 for the first time, the company has used the following practical expedients permitted by the standard:

(i) applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
(ii) relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
(iii) accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
(iv) excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and;
(v) using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

(b) Measurement of lease liabilities

	2019 **$'000**
Operating lease commitments disclosed as at 31 December 2018	1,404,331
Discounted using the lessee's incremental borrowing rate of at the date of initial application	1,226,411
(Less): short-term leases not recognised as a liability	(61,783)
(Less): low-value leases not recognised as a liability	-
Lease liability recognised as at 1 January 2019	1,164,628
Of which are:	
Current lease liabilities	102,169
Non-current lease liabilities	960,290

48. Subsequent Events

Subsequent to the end of the financial year, the World Health Organisation declared the Coronavirus to be a global pandemic. The pandemic has resulted in a significant downturn in commercial activity as there is currently no cure, and the means most recommended to manage contagion is social distancing. Schools have therefore been temporarily closed, entertainment and sporting events which typically generate huge revenues and profits have been either cancelled or suspended, global travel restrictions have been implemented, all of which will have negative global economic consequences.

The Bank is exposed to the potential effects of the Coronavirus on the economic downturn that could lead to depressed asset values from a market risk perspective, lower fees and interest income as well as increased ECL's consequent on higher PD's and LGD's associated with financial assets.

There has not been a sufficient passage of time for management to quantify the impact of the foregoing on its financial results at the time of reporting.