FIRSTCARIBBEAN INTERNATIONAL BANK (JAMAICA) LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 OCTOBER 2019

(Expressed in Jamaican dollars unless otherwise indicated)

FirstCaribbean International Bank (Jamaica) Limited

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Year ended 31 October 2019

Ernst & Young Chartered Accountants
8 Olivier Road, Kingston 8
Jamaica W.I.

Tel: 876 925 2501
Fax: 876 755 0413
http://www.ey.com

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of FirstCaribbean International Bank (Jamaica) Limited

Report on the Audit of the Financial Statements

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

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

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

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

In preparing the financial statements, management is responsible for assessing the 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.

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

To the Shareholders of FirstCaribbean International Bank (Jamaica) Limited (Continued)

Report on the Audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

To the Shareholders of FirstCaribbean International Bank (Jamaica) Limited (Continued)

Report on the Audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)
We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on additional matters as required by the Jamaican Companies Act

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

Ernst & Young

Chartered Accountants
Kingston, Jamaica

19 December 2019

FirstCaribbean International Bank (Jamaica) Limited

Statement of Financial Position
As at 31 October 2019
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2019 $'000	2018 $'000
ASSETS			
Cash and balances with Central Bank	3	24,174,146	19,882,504
Due from other banks	4	12,324,992	12,905,575
Derivative financial instruments	5	82,991	-
Other assets	6	144,681	462,847
Investment securities	7	3,695,852	4,205,584
Loans and advances to customers	8	67,979,393	53,988,020
Property and equipment	9	1,578,496	1,630,540
Retirement benefit asset	10	1,535,147	1,524,438
TOTAL ASSETS		111,515,698	94,599,508

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

FirstCaribbean International Bank (Jamaica) Limited

Statement of Financial Position
As at 31 October 2019
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2019 $'000	2018 $'000
LIABILITIES AND EQUITY			
LIABILITIES			
Customer deposits	11	95,643,119	79,983,242
Derivative financial instruments	5	82,991	-
Other liabilities	12	1,087,366	906,390
Taxation payable		238,495	41,516
Deferred tax liabilities	13	128,980	20,253
Debt securities in issue	14	1,935,789	1,936,575
Retirement benefit obligation	10	104,532	86,641
TOTAL LIABILITIES		99,221,272	82,974,617
EQUITY			
Share capital	15	4,930,258	4,930,258
Reserves	15	5,652,525	5,449,637
Retained earnings		1,711,643	1,244,996
TOTAL EQUITY		12,294,426	11,624,891
TOTAL LIABILITIES AND EQUITY		111,515,698	94,599,508

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

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

Mark St. Hill

Jean Lowrie-Chin

Nigel Holness

Allison Rattray

FirstCaribbean International Bank (Jamaica) Limited

Statement of Changes in Equity
Year ended 31 October 2019
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	Share Capital $'000	Reserves $'000	Retained Earnings $'000	Total $'000
Balance at 31 October 2017		4,930,258	4,979,870	474,431	10,384,559
Impact of adopting IFRS 9 at 1 November 2017		-	193,744	(327,351)	(133,607)
Restated balance at 1 November 2017 after adopting IFRS 9		4,930,258	5,173,614	147,080	10,250,952
Total comprehensive income for the year	30	-	501,701	872,238	1,373,939
Transfer to statutory reserve fund	18	-	20,000	(20,000)	-
Transfer from loan loss reserve	20	-	(245,678)	245,678	-
Balance at 31 October 2018		4,930,258	5,449,637	1,244,996	11,624,891
Total comprehensive income for the year	30	-	70,745	598,790	669,535
Transfer to statutory reserve fund	18	-	90,000	(90,000)	-
Transfer to loan loss reserve	20	-	42,143	(42,143)	-
Balance at 31 October 2019		4,930,258	5,652,525	1,711,643	12,294,426

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

FirstCaribbean International Bank (Jamaica) Limited

Statement of Income
Year ended 31 October 2019
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2019 $'000	2018 $'000
Interest and similar income		5,897,996	5,386,873
Interest and similar expense		(1,500,654)	(1,540,491)
Net interest income	24	4,397,342	3,846,382
Other operating income	25	3,146,761	2,208,341
Total operating income		7,544,103	6,054,723
Credit loss (expense)/credit on financial assets	7, 8	(277,959)	73,355
Net operating income		7,266,144	6,128,078
Operating expenses	26	(6,262,108)	(4,895,090)
Profit before taxation	27	1,004,036	1,232,988
Income tax expense	28	(405,246)	(360,750)
NET PROFIT FOR THE YEAR, ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	29	598,790	872,238
BASIC AND DILUTED EARNINGS PER STOCK UNIT	29	1.13	1.65

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

FirstCaribbean International Bank (Jamaica) Limited

Statement of Comprehensive Income
Year ended 31 October 2019
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2019 $'000	2018 $'000
Net profit for the year		598,790	872,238
Other comprehensive income, net of tax, to be reclassified to net income in subsequent periods:			
Net losses on debt securities at fair value through OCI	30	(11,337)	(134,843)
Other comprehensive income, net of tax, not to be reclassified to net income in subsequent periods:			
Re-measurement gains on retirement benefit plans	30	82,082	636,544
Other comprehensive income for the year, net of tax		70,745	501,701
Comprehensive income for the year, attributable to equity holders of the parent		669,535	1,373,939

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

FirstCaribbean International Bank (Jamaica) Limited

Statement of Cash Flows
Year ended 31 October 2019
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2019 $'000	2018 $'000
Cash Flows from Operating Activities			
Profit before taxation		1,004,036	1,232,988
Adjustments to reconcile profit to net cash provided by operating activities:			
Credit loss expense/(credit) on financial assets	7, 8	277,959	(73,355)
(Gain)/Loss on disposal of property and equipment		(15,833)	16,807
Depreciation	9	368,849	350,819
Interest income	24	(5,897,996)	(5,386,873)
Interest expense	24	1,500,654	1,540,491
Retirement benefit asset		19,047	67,212
Retirement benefit obligations		6,417	6,697
Unrealised foreign exchange (gains)/losses		(237,274)	9,156
		(2,974,141)	(2,236,058)
Changes in operating assets and liabilities:			
Loans and advances to customers		(11,661,384)	(3,383,481)
Customer deposits		12,364,062	7,593,748
Other assets		295,598	(199,923)
Other liabilities		207,280	(208,838)
Statutory reserves at Bank of Jamaica		192,162	(1,721,907)
		(1,576,423)	(156,459)
Interest received		5,822,482	5,372,684
Interest paid		(1,535,124)	(1,630,735)
Income tax paid		(134,913)	(187,898)
Cash provided by operating activities		2,576,022	3,397,592
Cash Flows from Investing Activities			
Investment securities, net		484,718	934,639
Money market placements		3,190,433	354,477
Additions to property and equipment	9	(358,707)	(494,781)
Proceeds from disposal of property and equipment		57,735	-
Net cash provided by investing activities		3,374,179	794,335
Cash Flows from Financing Activities			
Repayment of debt securities		-	(3,000,000)
Net cash used in financing activities		-	(3,000,000)
Net increase in cash and cash equivalents		5,950,201	1,191,927
Effect of exchange rate changes on cash and cash equivalents		1,162,225	67,080
Cash and cash equivalents at beginning of year		18,967,180	17,708,173
CASH AND CASH EQUIVALENTS AT END OF YEAR	3	26,079,606	18,967,180

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

1. Corporate Information

FirstCaribbean International Bank (Jamaica) Limited (the "Bank"), which is incorporated and domiciled in Jamaica, is a wholly owned subsidiary of FirstCaribbean International Bank Limited (the "Parent"), a bank incorporated and domiciled in Barbados. The ultimate parent company and controlling party is Canadian Imperial Bank of Commerce ("CIBC"), a company incorporated in Canada.

The registered office of the Bank is located at 23-27 Knutsford Boulevard, Kingston 5, Jamaica.

The Bank is licensed to carry on banking and other related services and is regulated by the Bank of Jamaica (BOJ) under the Banking Services Act (BSA) which was passed in June 2014 and became effective on 30 September 2015. The BSA and related regulations, provide a standardized legal framework for the operations of licensed deposit-taking intermediaries and provide the statutory principles on which supervision is conducted. The legal framework is further complemented by supervisory notes and Standards of Best Practice issued by the BOJ. The legislation serves to further strengthen oversight of the deposit-taking financial sector and achieve greater conformity with the Basel Core Principles.

The Board of Directors has the power to amend these financial statements after issue, if required.

2. Summary of Significant Accounting Policies

The principal financial accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in conformity with International Reporting Financial Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and the requirements of the Jamaican Companies Act.

The financial statements provide comparative information in respect of the previous period.

(ii) Basis of measurement

These financial statements have been prepared under the historical cost basis, except for debt securities at fair value through other comprehensive income (FVOCI) and derivative financial instruments, which have all been measured at fair value. The carrying value of recognized assets that are hedged items in fair value hedges, are adjusted to record changes in fair value attributable to the risks that are being hedged. Additionally, certain land and buildings are measured at deemed cost. Deemed cost represents fair value at the date of transition to IFRS. These financial statements are presented in Jamaican dollars, and all values are rounded to the nearest thousand except where otherwise indicated.

(iii) Judgements and estimates

The preparation of financial statements in conformity with IFRS requires management to make certain critical estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Other disclosures relating to the Bank's exposure to risks and uncertainties include:

- Capital management - Note 15
- Financial risk management and policies - Note 36
- Sensitivity analyses disclosures - Notes 10 and 36

The areas requiring a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 37.

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2019
(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(b) Changes in accounting policies

(i) Standards, interpretations and amendments to published standards that were adopted during the year

The accounting policies adopted are consistent with those of the previous financial year with the exception of those affected by new and amended standards and interpretations.

New and amended standards and interpretations

In these financial statements, the Bank adopted IFRS 15 “Revenue from Contracts with Customers” (IFRS 15) as at 1 November 2018 in place of prior guidance, including IAS 18 “Revenue” (IAS 18) and IFRIC 13 “Customer Loyalty Programmes” (IFRIC 13). The nature and the impact of the new standard is described below.

Several other amendments and interpretations apply for the first time in 2019, but did not have an impact on the Bank’s financial statements. The Bank has not adopted early any other standard, interpretations or amendments that has been issued but is not yet effective.

IFRS 15 Revenue from Contracts with Customers
The Bank applied IFRS 15 as at 1 November 2018 on a modified retrospective basis with no effect on the Bank’s financial position and performance.

The new guidance includes a five-step, principles-based recognition and measurement approach, as well as requirements for accounting for contract costs, and enhanced quantitative and qualitative disclosure requirements. The application of this guidance involves the use of judgment. IFRS 15 excludes from its scope revenue related to financial instruments, lease contracts and insurance contracts. As a result, the majority of the Bank’s revenue was not impacted by the adoption of this standard, including net interest income, net gains/(losses) from financial instruments measured/designated at FVTPL and net gains/(losses) from debt securities measured at FVOCI.

Based on management’s assessment, there were either no measurement differences or no measurement differences that were considered material on adopting IFRS 15. The revised fee and commission income policy in accordance with this adoption is effective 1 November 2018 and included in Note 2u(ii).

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

The relevant standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company’s financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective:

2. Summary of Significant Accounting Policies (Continued)

(b) Changes in accounting policies (Continued)

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

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). The Bank will make use of both exemptions.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset, which will lead to a higher charge being recorded in the income statement compared to IAS 17. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

During 2019, the Bank performed a detailed impact assessment of IFRS 16 and will apply the modified retrospective approach as permitted by the standard. The Bank will recognise a right-of-use asset at the date of initial application for leases previously classified as an operating lease applying IAS 17. As permitted by the standard, this amount will be equal to the lease liability, adjusted for any prepayments or accrued lease payments relating to that lease. The lease liability will be measured at an amount equal to the outstanding lease payments at the date of initial application, considering extension and termination options, discounted at the Bank's incremental borrowing rate in the economic environment of the lease. The capitalised right-of-use asset will mainly consist of office property, namely the retail branches and some warehouses used for storage.

In summary, the adoption of IFRS 16 is expected to have no impact on retained earnings, while the increase in the risk-weighted assets (treated as 100% risk-weighted, consistently with the nature of the underlying asset) is expected to consume $106,014,000 of excess capital. The recognised right-of-use asset and lease liability will both equal approximately $1,060,142,000.

2. Summary of Significant Accounting Policies (Continued)

(b) Changes in accounting policies (continued)

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

IFRIC Interpretation 23 - Uncertainty over Income Tax Treatments
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax. The Interpretation specifically addresses (i) Whether an entity considers uncertain tax treatments separately (ii) The assumptions an entity makes about the examination of tax treatments by taxation authorities (iii) How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates (iv) How an entity considers changes in facts and circumstances. An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The Interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. Applying the Interpretation could be challenging for entities, particularly those that operate in more complex multinational tax environments. Entities may also need to evaluate whether they have established appropriate processes and procedures to obtain information on a timely basis that is necessary to apply the requirements in the Interpretation and make the required disclosures. The Bank is currently assessing the potential effect of these amendments.

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

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the financial statements of the Bank.

FirstCaribbean International Bank (Jamaica) Limited

2. Summary of Significant Accounting Policies (Continued)

(b) Changes in accounting policies (continued)

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

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

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

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

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Bank.

Annual Improvements 2016 - 2017 Cycle
The improvements in this cycle include:

IFRS 3 Business Combinations
The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Bank.

2. Summary of Significant Accounting Policies (Continued)

(b) Changes in accounting policies (continued)

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

IFRS 11 Joint Arrangements
A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Bank but may apply to future transactions.

IAS 12 Income Taxes
The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Bank's current practice is in line with these amendments, the Bank does not expect any effect on its financial statements.

IAS 23 Borrowing Costs
The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Bank's current practice is in line with these amendments, the Bank does not expect any effect on its financial statements.

2. Summary of Significant Accounting Policies (Continued)

(c) Segment reporting

Business 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 person or group that allocates resources to and assesses the performance of the business segments of an entity. The Bank has determined the Executive Management Committee as its chief operating decision-maker.

Interest income is reported net within revenue as management primarily relies on net interest income as a performance measure and not the gross income and expense.

All transactions between business segments are conducted on an arm´s length basis, with intra-segment revenue and costs being eliminated on consolidation. Income and expenses directly associated with each segment are included in determining business segment performance.

(d) Foreign currency translation

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates, referred to as the functional currency. The functional currency of the Bank is the same as its presentation currency. The financial statements are presented in Jamaican dollars, which is the Bank’s functional and presentation currency.

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from such transactions and from the translation of foreign currency monetary assets and liabilities at the year-end exchange rates are recognised in the statement of income.

Translation differences resulting from changes in the amortised cost of foreign currency monetary assets classified as FVOCI are recognised in the statement of income. Other changes in the fair value of these assets are recognised in other comprehensive income. Translation differences on non-monetary financial assets classified as FVOCI are reported as a component of the fair value gain or loss in other comprehensive income, and included in the fair value reserve in equity.

(e) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Bank uses interest rate swaps to manage its foreign currency risks and interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives are taken directly to the statement of income, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2019
(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(e) Derivative financial instruments and hedge accounting (continued)

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk)
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment
- Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Bank formally designates and documents the hedge relationship to which the Bank wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed at inception and on a monthly basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the Bank's strict criteria for hedge accounting are accounted for as follows:

(i) Fair value hedge
For hedging relationships which are designated and qualify as fair value hedges and that prove to be highly effective in relation to hedged risk, changes in the fair value of the derivatives are recorded in the statement of income, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

If the hedge no longer meets the criteria for hedge accounting, an adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortised to net profit or loss over the remaining period to maturity.

(ii) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of income. The Bank has not entered into any cash flow hedge arrangements during the financial year. Amounts accumulated in other comprehensive income are recycled to the statement of income in the periods in which the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place). When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised when the forecast transaction is ultimately recognised in the statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the statement of income.

Certain derivative instruments do not qualify for hedge accounting or are not so designated, and changes in the fair value of these derivatives are included in net trading income or losses in the statement of income.

2. Summary of Significant Accounting Policies (Continued)

(f) Financial instruments: financial assets and liabilities

Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the settlement date, which is the date that an asset is delivered to or by the Bank. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to customers when funds are transferred to the Bank.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities not recorded at FVPL, where transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

Measurement categories of financial assets and liabilities

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost
- FVOCI (Fair value through other comprehensive income)
- FVPL (Fair value through profit or loss)

The Bank classifies and measures its derivative and trading portfolio at FVPL. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Due from banks, Loans and advances to customers, Financial investments at amortised cost

The Bank measures Due from banks, Loans and advances to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. The details of these conditions are outlined below.

2. Summary of Significant Accounting Policies (Continued)

(f) Financial instruments: financial assets and liabilities (continued)

Business model assessment
The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test
As a second step of its classification process the Bank assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

2. Summary of Significant Accounting Policies (Continued)

(f) Financial instruments: financial assets and liabilities (continued)

Derivatives recorded at fair value through profit or loss

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the ‘underlying’).
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Bank enters into derivative transactions with various counterparties. This includes interest rate zero cost collars. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. The notional amount and fair value of such derivatives are disclosed separately in Note 5. Changes in the fair value of derivatives are included in net trading income unless hedge accounting is applied.

Debt instruments at FVOCI

The Bank applies the category of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. The ECL calculation for debt instruments at FVOCI is explained in Note 2(i). Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Equity instruments at FVOCI

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

2. Summary of Significant Accounting Policies (Continued)

(f) Financial instruments: financial assets and liabilities (continued)

Debt issued and other borrowed funds
After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the effective interest rate. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

Disclosures for the Bank's issued debt are set out in Note 14.

Financial assets and financial liabilities at fair value through profit or loss
Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis, or

- The liabilities (and assets until 1 November 2017 under IAS 39) are part of a group of financial liabilities (or financial assets, or both under IAS 39), which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or

- The liabilities (and assets until 1 November 2017 under IAS 39) containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using contractual interest rate. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established.

2. Summary of Significant Accounting Policies (Continued)

(f) Financial instruments: financial assets and liabilities (continued)

Financial guarantees, letters of credit and undrawn loan commitments
The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement. ECL provisions are set out in Note 8.

The premium received is recognised in the income statement in net fees and commission income on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. These contracts are in the scope of the ECL requirements and attract allowances based on credit quality.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 32(b) and Note 8, respectively.

The Bank occasionally issues loan commitments at below market interest rates. Such commitments are subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

FirstCaribbean International Bank (Jamaica) Limited

2. Summary of Significant Accounting Policies (Continued)

(f) Financial instruments: financial assets and liabilities (continued)

Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2019.

(g) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including cash and balances with Bank of Jamaica (excluding statutory reserves) and accounts with other banks (Note 3).

(h) Offsetting financial instruments

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

(i) Impairment of financial assets

Overview of the ECL principles

The Bank records the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as ‘financial instruments’. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months’ expected credit loss (12mECL) as outlined in Notes 7 and 8. The Bank’s policies for determining if there has been a significant increase in credit risk are set out below.

The 12mECL is the portion of LTECLs that represents the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

2. Summary of Significant Accounting Policies (Continued)

(i) Impairment of financial assets (continued)

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- **Stage 1:** When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

- **Stage 2:** When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

- **Stage 3:** Loans considered credit-impaired (as outlined in Note 8). The Bank records an allowance for the LTECLs.

- **POCI:** Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

The calculation of ECLs

The Bank calculates ECLs based on probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

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Notes to the Financial Statements
Year ended 31 October 2019
(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(i) Impairment of financial assets (continued)

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- **PD -** The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PDs is further explained in Note 36.
- **EAD -** The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 36.
- **LGD -** The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 36.

With the exception of credit cards and other revolving facilities, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

Provisions for ECLs for undrawn loan commitments are assessed as set out in Note 8.

The mechanics of the ECL method are summarised below:

- **Stage 1:** The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.

- **Stage 2:** When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, but PDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

- **Stage 3:** For loans considered credit-impaired, the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

2. Summary of Significant Accounting Policies (Continued)

(i) Impairment of financial assets (continued)

Purchased or originated credit impaired financial assets (POCI)
POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting scenarios, discounted by the credit adjusted EIR, as follows:

- Loan commitments and letters of credit: When estimating 12mECL for undrawn loan commitments, the Bank applies the PD and LGD to the undrawn amount, and this amount is discounted at an approximation to the expected EIR on the loan.

  For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within Provisions.

- Financial guarantee contracts: The Bank estimates ECLs by applying the PD and LGD to the exposure, and this amount is discounted at an approximation to the interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within credit loss on financial assets.

Debt instruments measured at fair value through OCI
The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

Credit cards and other revolving facilities
The Bank’s product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day’s notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank’s expectations of the customer behaviour, its likelihood of default and the Bank’s future risk mitigation procedures, which could include reducing or cancelling the facilities.

2. Summary of Significant Accounting Policies (Continued)

(i) Impairment of financial assets (continued)

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade or history of delinquency, as explained in Note 36 but greater emphasis is also given to qualitative factors such as changes in usage.

The calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made, as explained in Note 36, on a collective basis for retail products. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

Forward looking information

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth
- Unemployment rate
- Consumer price index and inflation
- Interest rates

For the majority of our loan portfolios, our forecast of forward-looking information variables is established from a "base case" or most likely scenario. In forming the "base case" scenario, we consider the forecasts of monetary authorities such as the International Monetary Fund (IMF), World Bank and regulatory/statutory bodies. We then derive reasonably possible "upside case" and "downside case" scenarios using the historical performance of variables that are above and below our "base case" along with the application of management judgment. A probability weighting is assigned to our "base case", "upside case" and "downside case" scenarios based on management judgment.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. The use of management overlays requires the application of significant expert judgment that may impact on the amount and timing of the ECL allowance being recognized. As such overlays, are continuously reviewed for relevance and accuracy. Detailed information about these inputs and sensitivity analysis are provided in Note 36.

Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a quarterly basis. Details of the impact of the Bank's various credit enhancements are disclosed in Note 36(b).

The Bank's credit risk management policies include requirements relating to collateral valuation and management, including verification requirements and legal certainty. Valuations are updated periodically depending upon the nature of the collateral. Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement during its periodic review of loan accounts in arrears. Policies are in place to monitor the existence of undesirable concentration in the collateral supporting the Bank's credit exposure.

2. Summary of Significant Accounting Policies (Continued)

(i) Impairment of financial assets (continued)

Collateral repossessed

The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

In its normal course of business, the Bank does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the statement of financial position.

Write-offs

Financial assets are written off, either partially or in their entirety, only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Forborne and modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department.

Forbearance 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 EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

2. Summary of Significant Accounting Policies (Continued)

(i) Impairment of financial assets (continued)

Forborne and modified loans (continued)
When the loan has been renegotiated or modified but not derecognised, the Bank also reassesses whether there has been a significant increase in credit risk, as set out in Note 36(b). The Bank also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum probation period of one year, over which the asset must be serviced in line with contractual obligations. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing
- The probation period has passed from the date the forborne contract was considered performing
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contract that is more than 30 days past due.

Details of forborne and modified assets are disclosed in Note 36(d). If modifications are substantial, the loan is derecognised, as explained in Note 2(j).

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

(i) significant financial difficulty of the issuer or obligor;
(ii) a breach of contract, such as a default or delinquency in interest or principal payments;
(iii) the Bank granting to a borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
(v) the disappearance of an active market for that financial asset because of financial difficulties; or
(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including:
    - adverse changes in the payment status of borrowers in the Bank; or
    - national or local economic conditions that correlate with default on the assets in the Bank.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the carrying amount and the recoverable amount, being the estimated present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate.

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2. Summary of Significant Accounting Policies (Continued)

(i) Impairment of financial assets (continued)

In certain instances, the terms of advances to customers are restructured or renegotiated. These facilities are subject to the impairment review noted above, and where there is objective evidence of impairment, the amount of any impairment loss is measured as the difference between the carrying value of the facility and the present value of estimated future cash flows based on the renegotiated terms and conditions discounted at the original effective interest rate before restructuring.

Loans are written off, in whole or in part, against the related allowance for credit losses upon settlement (realisation) of collateral or in advance of settlement (no realisation) where the determination of the recoverable value is completed and there is no realistic prospect of recovery above the recoverable value. Any subsequent recoveries are credited to the statement of income. If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the statement of income.

In circumstances where Central Bank guidelines and regulatory rules require provisions in excess of those calculated under IFRS, the difference is disclosed as an appropriation of retained earnings and is included in a non-distributable general banking reserve.

(j) Derecognition of financial assets and liabilities

Derecognition due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

2. Summary of Significant Accounting Policies (Continued)

(j) Derecognition of financial assets and liabilities (continued)

Derecognition other than for substantial modification

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset, or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement. Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:
  - i. The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
  - ii. The Bank cannot sell or pledge the original asset other than as security to the eventual recipients
  - iii. The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset, or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

2. Summary of Significant Accounting Policies (Continued)

(j) Derecognition of financial assets and liabilities (continued)

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

(k) Sale and repurchase agreements and lending of securities

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

2. Summary of Significant Accounting Policies (Continued)

(l) Leases

(i) As lessee

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

(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 using the net investment method, which reflects a constant periodic rate of return.

(m) Financial guarantees

Financial guarantees are financial contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts issued by the Bank are treated as contingent liabilities and not recognised in the statement of financial position until a payment under the guarantee has been made, at which time the payment is treated as a loan and advance to customers.

(n) Property and equipment

Land and buildings comprise mainly branches and offices and are shown at deemed cost, less subsequent depreciation for buildings. Under IFRS 1, a first time adopter may elect to use a previous GAAP revaluation of an item of property and equipment as its deemed cost. The Bank elected to apply this provision on transition to IFRS on 1 November 2002.

All other property 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 the statement of income during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other property and equipment is computed on the straight line method at rates considered adequate to write-off the cost of depreciable assets, less salvage, over their useful lives.

The annual rates used are:

- Buildings	2½%
- Leasehold improvements	10% or over the life of the lease
- Equipment, furniture and vehicles	6.67% - 50%

2. Summary of Significant Accounting Policies (Continued)

(n) Property and equipment (continued)

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The asset's recoverable amount is the higher of the asset's fair value less costs to sell and the value in use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal of property and equipment are determined by reference to its carrying amount and are taken into account in determining net income.

Depreciation methods, useful lives and residual values are reviewed at each annual reporting date and are adjusted if appropriate.

(o) Transactions with jointly controlled entities

IFRS 3 Business Combinations does not apply to a business combination of entities or businesses under common control. A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The Bank accounts for the acquisition of commonly controlled entities as follows:

- The assets, liabilities, income and expenses of a subsidiary are included in the financial statement prospectively from the date of acquisition.
- The assets and liability of the subsidiaries are reflected in the financial statements at their carrying amounts and are not revalued to fair value.
- No new goodwill is recognized as a result of the combination. Instead, any difference between the value of consideration and the carrying value of the assets acquired is reflected as an adjustment to retained earnings.

(p) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events; it is more than likely that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

(q) Income taxes

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

Current tax charges are based on taxable income for the year, which differs from the income before tax reported because taxable income excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The Bank's liability for current tax is calculated at tax rates that have been enacted at the reporting date.

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2. Summary of Significant Accounting Policies (Continued)

(q) Income taxes (continued)

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

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilised. Management's judgement is required to determine the amount of the deferred tax asset that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Deferred tax assets are reviewed at each reporting date to determine whether it is probable that the related tax benefit will be realized. Deferred tax is charged or credited in the statement of income, except where it relates to items charged or credited to other comprehensive income, in which case deferred tax is also dealt with in the statement of comprehensive income.

(r) Customer loyalty programme

The Bank offers customer points programmes through its credit card products. A portion of the net fee revenues are deferred in relation to award credits under customer loyalty programmes as a separately identifiable revenue component. The amount deferred represents the fair value of the award credits and is recognised when the awards are utilised or expire.

(s) Retirement benefit obligations

(i) Pension obligations

The Bank operates a defined benefit plan and a defined contribution plan, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from the Bank, taking account of the recommendations of independent qualified actuaries.

A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation. The asset recognised in the statement of financial position in respect of the defined benefit pension plan is the difference between the present value of the defined benefit obligation at the reporting date and the fair value of plan assets, together with adjustments for unrecognised actuarial gains and losses and past service cost. 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 the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability.

Re-measurements, comprising where applicable actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets (excluding net interest), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Bank recognises restructuring-related cost.

2. Summary of Significant Accounting Policies (Continued)

(s) Retirement benefit obligations (continued)

(i) Pension obligations (continued)

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Bank recognises the following changes in the net defined benefit obligation as part of staff costs expenses in the statement of income:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements.
- Net interest expense or income.

A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in staff costs. The Bank's contributions to defined contribution pension plans are charged to the statement of income in the year to which they relate.

(ii) Other post-retirement obligations

The Bank provides post-retirement health care benefits to its retirees. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using a methodology similar to that for defined benefit pension plans. These obligations are valued annually by independent qualified actuaries.

(iii) Annual leave and other benefits

Employee entitlements to annual leave and other benefits are recognised when they accrue to employees. A provision is made for the established liability for annual leave and other benefits as a result of services rendered by employees up to the statement of financial position date.

2. Summary of Significant Accounting Policies (Continued)

(t) Recognition of income and expenses

(i) Interest and similar income and expense

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

Where collection of interest income is considered doubtful, or payment is outstanding for more than 90 days, the banking regulations stipulate that interest should be taken into account on the cash basis. IFRS requires 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. The difference between the regulatory and IFRS bases of interest recognition was assessed to be immaterial.

Interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost and financial instruments designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9, are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges). If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the statement of financial position with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest and similar income in the income statement.

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. When a financial asset becomes credit-impaired (as set out in Note 8) and is, therefore, regarded as ‘Stage 3’, the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets are reclassified out of foreborne assets and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

Interest income on financial assets mandatorily required to be measured at FVPL is recognised using the contractual interest rate in net gains/(losses) on financial assets at fair value through profit or loss, respectively.

2. Summary of Significant Accounting Policies (Continued)

(t) Recognition of income and expenses (continued)

(ii) Fee and commission income

The recognition of fee and commission income is determined by the purpose of the fee or commission and the terms specified in the contract with the customer. Revenue is recognized when, or as, a performance obligation is satisfied by transferring control of the service to the customer, in the amount of the consideration to which the Bank expects to be entitled. Revenue may therefore be recognized at a point in time upon completion of the service or over time as the services are provided. When revenue is recognized over time, the Bank is generally required to provide the services each period and therefore measures its progress towards completion of the service based upon the time elapsed. When another party is involved in providing a service to a customer, the Bank determines whether the nature of its performance obligation is that of a principal or an agent. If the Bank controls the service before it is transferred to the customer, the Bank is acting as the principal and presents revenue separately from the amount paid to the other party; otherwise the Bank is the agent and presents revenue net of the amount paid to the other party. Income which forms an integral part of the effective interest rate of a financial instrument continues to be recognized as an adjustment to the effective interest rate.

Underwriting and advisory fees are earned on debt and equity securities placements and transaction-based advisory services. Underwriting fees are typically recognized at the point in time when the transaction is completed. Advisory fees are generally recognized as revenue over the period of the engagement as the related services are provided or at the point in time when the transaction is completed.

Deposit services fees arise from personal and business deposit accounts and cash management services. Monthly and annual fees are recognized over the period that the related services are provided. Transactional fees are recognized at the point in time the related services are provided.

Credit services fees consist of loan syndication fees, loan commitment fees, negotiation & collection fees, credit advisory fees, letters of credit and guarantees & bonds fees. Credit fees are generally recognized over the period that the related services are provided, except for loan syndication fees, which are typically recognized at the point in time that the financing placement is completed. Letters of credit and guarantees & bonds fees are charged annually and covers a one year period starting on the date that the contract was first issued.

Card fees primarily include interchange income, over limit fees, cash advance fees, and annual fees. Card fees are recognized at the point in time the related services are provided, except for annual fees, which are recognized over the 12-month period to which they relate. The cost of credit card loyalty points is recognized as a reduction of interchange income when the loyalty points are issued for both self-managed and third-party loyalty points programs. Credit card loyalty point liabilities are recognized for self-managed loyalty point programs and are subject to periodic re-measurement to reflect the expected cost of redemption as this expectation changes over time.

Investment management fees are primarily based on the respective value of the assets under management (AUM) or assets under administration (AUA) and are recognized over the period that the related services are provided. Investment management fees are generally calculated based on point-in-time AUM and AUA balances. Custodial fees are recognized as revenue over the applicable service period, which is generally the contract term.

2. Summary of Significant Accounting Policies (Continued)

(u) Earnings per stock unit

Basic earnings per stock unit is calculated by dividing the net profit attributable to equity holders of the parent by the weighted average number of common shares outstanding during the year.

(v) Fair value measurement

The Bank measures financial instruments, such as, derivatives, and FVOCI debt securities at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 36. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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3. Cash and Balances with Central Bank

	2019 $'000	2018 $'000
Cash	1,550,678	1,243,188
Deposits with Central Bank – interest bearing	19,318,910	13,454,242
Deposits with Central Bank – non-interest bearing	3,300,000	5,178,805
	24,169,588	19,876,235
Interest receivable	4,558	6,269
	24,174,146	19,882,504

Under Section 43 of the Banking Services Act, 2014, the Bank is required to place deposits with the Bank of Jamaica ("Central Bank") which are held substantially on a non-interest-bearing basis as a cash reserve; accordingly, these amounts are not available for investment or other use by the Bank. These reserves represent the required ratio of the Bank's prescribed liabilities as follows:

	2019	2018
Jamaica dollar denominated cash reserves	7%	12%
Foreign currency denominated reserves	15%	15%

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2019 $'000	2018 $'000
Cash and balances with Central Bank	24,169,588	19,876,235
Less: Mandatory reserve deposits with Central Bank (Note 34)	(10,402,801)	(10,594,963)
	13,766,787	9,281,272
Due from other banks (Note 4)	12,312,819	12,876,341
	26,079,606	22,157,613
Less: Balances with maturity dates over 90 days	-	(3,190,433)
	26,079,606	18,967,180

4. Due From Other Banks

	2019 $'000	2018 $'000
Money market placements (Note 3)	12,312,819	12,876,341
Interest receivable	12,173	29,234
	12,324,992	12,905,575

Included in money market placements are deposits with the ultimate parent company of $549,523,000 (2018 – $223,507,000) (Note 31).

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5. Derivative Financial Instruments

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are indicative of neither the market risk nor the credit risk.

	Notional Amount	Fair Values	
		Assets	Liabilities
	US$'000	J$'000	J$'000
As at 31 October 2019			
Interest rate zero cost collar	42,392	82,991	82,991
As at 31 October 2018			
Interest rate zero cost collar	-	-	-

Interest rate zero cost collar
An interest rate zero cost collar is a contractual agreement between two parties to pay or receive a specified amount calculated from movements in interest rates, above a specified cap or below a specified floor.

6. Other Assets

	2019	2018
	$'000	$'000
Prepayments and deferred items	93,738	94,212
Due from related parties	-	208,990
Other	50,943	159,645
	144,681	462,847

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7. Investment Securities

	2019 $'000	2018 $'000
Debt securities measured at FVOCI		
Issued or guaranteed by the Government of Jamaica	3,662,038	4,158,617
Equity securities – unquoted (see note below)	5,034	5,034
Total securities at FVOCI	3,667,072	4,163,651
Add: Interest receivable	28,780	41,933
Balance at end of period	3,695,852	4,205,584

Unquoted equity instruments for which fair values cannot be measured reliably are recognised at cost less impairment.

The movement in securities may be summarised as follows:

	2019 $'000	2018 $'000
Balance at the beginning of the year	4,163,651	5,074,687
Additions	2,789,758	2,555,855
Changes in fair value (Note 30)	11,337	134,843
Amortisation of (discount)/premium on purchases	(19,353)	26,546
Disposals	(3,255,647)	(3,628,280)
Balance at end of the year	3,667,072	4,163,651

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7. Investment Securities (Continued)

Allowance for credit losses on investment securities

The table below provides a reconciliation of the opening balance to the closing balance of the ECL allowance under the IFRS 9 for debt securities measured at FVOCI:

	Stage 1	Stage 2	Stage 3	2019
	Collective provision 12 month ECL non-credit impaired $'000	Collective provision lifetime ECL non-credit impaired $'000	Collective and individual provision lifetime ECL credit impaired $'000	Total $'000
Debt securities measured at FVOCI				
Balance at beginning of period	43,658	21,091	-	64,749
Originations net of repayments and other derecognitions	24,658	(7,670)	-	16,988
Net remeasurement	(14,628)	(7,504)	-	(22,132)
Credit loss expense/(credit)	10,030	(15,174)	-	(5,144)
Balance at end of period	53,688	5,917	-	59,605

	Stage 1	Stage 2	Stage 3	2018
	Collective provision 12 month ECL non-credit impaired $'000	Collective provision lifetime ECL non-credit impaired $'000	Collective and individual provision lifetime ECL credit impaired $'000	Total $'000
Debt securities measured at FVOCI				
Balance at beginning of period	-	290,616	-	290,616
Originations net of repayments and other derecognitions	43,779	(142,980)	-	(99,201)
Net remeasurement	(121)	(126,545)	-	(126,666)
Credit loss expense/(credit)	43,658	(269,525)	-	(225,867)
Balance at end of period	43,658	21,091	-	64,749

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8. Loans and Advances to Customers

	Stage 1 Collective Provision 12 month ECL non-credit impaired $'000	Stage 2 Collective Provision lifetime ECL non-credit impaired $'000	Stage 3 Collective and individual Provision lifetime ECL credit impaired $'000	2019 Total $'000
Mortgages				
Gross loans	9,581,893	884,100	358,682	10,824,675
ECL allowance	(18,802)	(6,290)	(137,865)	(162,957)
Net mortgages	9,563,091	877,810	220,817	10,661,718
Personal loans				
Gross loans	11,068,312	621,517	363,565	12,053,394
ECL allowance	(125,683)	(36,214)	(215,883)	(377,780)
Net personal loans	10,942,629	585,303	147,682	11,675,614
Business & Government				
Gross loans	43,107,342	3,018,685	115,502	46,241,529
ECL allowance	(361,895)	(32,686)	(53,104)	(447,685)
Net business and government loans	42,745,447	2,985,999	62,398	45,793,844
Total net loans	63,251,167	4,449,112	430,897	68,131,176
Add: Interest receivable				394,869
Less: Unearned fee income				(546,652)
				67,979,393

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8. Loans and Advances to Customers (Continued)

	Stage 1	Stage 2	Stage 3	2018
	Collective Provision 12 month ECL non-credit impaired $'000	Collective provision lifetime ECL non-credit impaired $'000	Collective and individual provision lifetime ECL credit impaired $'000	Total $'000
Mortgages				
Gross loans	9,261,862	689,346	265,193	10,216,401
ECL allowance	(23,751)	(23,989)	(193,363)	(241,103)
Net mortgages	9,238,111	665,357	71,830	9,975,298
Personal loans				
Gross loans	10,052,879	388,638	290,142	10,731,659
ECL allowance	(117,454)	(28,724)	(187,966)	(334,144)
Net personal loans	9,935,425	359,914	102,176	10,397,515
Business & Government				
Gross loans	32,231,957	1,824,148	103,974	34,160,079
ECL allowance	(165,241)	(52,489)	(99,945)	(317,675)
Net business and government loans	32,066,716	1,771,659	4,029	33,842,404
Total net loans	51,240,252	2,796,930	178,035	54,215,217
Add: Interest receivable				287,430
Less: Unearned fee income				(514,627)
				53,988,020

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8. Loans and Advances to Customers (Continued)

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

As at 31 October 2019	Mortgages $'000	Personal Loans $'000	Business & Government $'000	Total $'000
Less than 30 days	31,350	88,275	184,663	304,288
31 – 60 days	307,038	264,275	180,538	751,851
61- 90 days	89,100	125,400	22,275	236,775
	427,488	477,950	387,476	1,292,914

As at 31 October 2018	Mortgages $'000	Personal Loans $'000	Business & Government $'000	Total $'000
Less than 30 days	24,480	94,988	462,060	581,528
31 – 60 days	324,615	185,767	209,100	719,482
61- 90 days	129,285	89,377	21,038	239,700
	478,380	370,132	692,198	1,540,710

ECL allowances comprise: -

	2019 $'000	2018 $'000
Specific allowance	406,852	481,274
General allowance	581,570	411,648
	988,422	892,922

As at 31 October 2019, loans with principal balances outstanding of $837,749,000 (2018 - $659,309,000) were in non-performing status. Interest receivable on these loans amounted to $ Nil (2018 - $101,221,000). Interest taken to income in respect of these loans amounted to $1,162,000 (2018 - $41,805,000).

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

	2019 $'000	2018 $'000
Specific provision	554,583	552,697
General provision	630,649	494,892
	1,185,232	1,047,589
Excess of regulatory provision over IFRS provision reflected in non-distributable loan loss reserve (Note 20)	196,810	154,667

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8. Loans and Advances to Customers (Continued)

The movement in the ECL allowances during the year is as follows:

	Stage 1	Stage 2	Stage 3	2019 In accordance with IFRS9
	Collective Provision 12 month ECL non-credit impaired $'000	Collective Provision lifetime ECL non-credit impaired $'000	Collective and individual provision lifetime ECL credit impaired $'000	Total $'000
Mortgages				
Balance at beginning of period	23,751	23,989	193,363	241,103
Originations net of repayments and other derecognitions	3,182	(401)	(16,395)	(13,614)
Changes in model	74	(14,664)	(11,541)	(26,131)
Net remeasurement	(26,760)	18,271	16,993	8,504
Transfers:				
- to 12-month ECL	21,583	(21,583)	-	-
- to lifetime ECL performing	(2,974)	2,974	-	-
- to lifetime ECL credit-impaired	(54)	(2,296)	2,350	-
Credit loss	(4,949)	(17,699)	(8,593)	(31,241)
Provision for time value interest	-	-	15,706	15,706
Total credit loss expense/(credit)	(4,949)	(17,699)	7,113	(15,535)
Write-offs	-	-	12,973	12,973
Interest income on impaired loans	-	-	(75,584)	(75,584)
Balance at end of year	18,802	6,290	137,865	162,957
Personal Loans				
Balance at beginning of period	117,454	28,724	187,966	334,144
Originations net of repayments and other derecognitions	33,202	(221)	5,746	38,727
Changes in model	(10,941)	(4,921)	3,144	(12,718)
Net remeasurement	(15,123)	15,714	108,940	109,531
Transfers:				
- to 12-month ECL	7,561	(7,561)	-	-
- to lifetime ECL performing	(6,435)	7,542	(1,107)	-
- to lifetime ECL credit-impaired	(35)	(3,063)	3,098	-
Credit loss expense	8,229	7,490	119,821	135,540
Provision for time value interest	-	-	13,471	13,471
Total credit loss expense	8,229	7,490	133,292	149,011
Write-offs	-	-	(108,158)	(108,158)
Recoveries	-	-	52,457	52,457
Interest income on impaired loans	-	-	(49,674)	(49,674)
Balance at end of year	125,683	36,214	215,883	377,780

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8. Loans and Advances to Customers (Continued)

The movement in the ECL allowances during the year is as follows (continued):

	Stage 1	Stage 2	Stage 3	2019
	Collective provision 12 month ECL non-credit impaired $'000	Collective provision lifetime ECL non-credit impaired $'000	Collective and Individual Provision lifetime ECL credit impaired $'000	Total $'000
Business and Government				
Balance at beginning of period	165,241	52,489	99,945	317,675
Originations net of repayments and other derecognitions	129,071	(668)	(1,849)	126,554
Changes in model	7,798	(13,347)	(1,573)	(7,122)
Net remeasurement	29,749	25,712	(30,136)	25,325
Transfers:				
- to 12-month ECL	47,749	(47,749)	-	-
- to lifetime ECL performing	(17,665)	17,665	-	-
- to lifetime ECL credit-impaired	(48)	(1,416)	1,464	-
Credit loss expense/(credit)	196,654	(19,803)	(32,094)	144,757
Provision for time value interest	-	-	4,870	4,870
Total credit loss expense/(credit)	196,654	(19,803)	(27,224)	149,627
Write-offs	-	-	6,648	6,648
Interest income on impaired loans	-	-	(26,265)	(26,265)
Balance at end of year	361,895	32,686	53,104	447,685
Total ECL allowance	506,380	75,190	406,852	988,422

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8. Loans and Advances to Customers (Continued)

The movement in the ECL allowances during the year is as follows (continued):

	Stage 1	**Stage 2**	**Stage 3**	**2019**
	Collective provision 12 month ECL non-credit impaired $'000	**Collective provision lifetime ECL non-credit impaired $'000**	**Collective and individual provision lifetime ECL credit impaired $'000**	**Total $'000**
Total Bank				
Balance at beginning of period	306,446	105,202	481,274	892,922
Originations net of repayments and other derecognitions	165,455	(1,290)	(12,498)	151,667
Changes in model	(3,069)	(32,932)	(9,970)	(45,971)
Net remeasurement	(12,134)	59,697	95,797	143,360
Transfers:				
- to 12-month ECL	76,893	(76,893)	-	-
- to lifetime ECL performing	(27,074)	28,181	(1,107)	-
- to lifetime ECL credit-impaired	(137)	(6,775)	6,912	-
Credit loss expense/(credit)	199,934	(30,012)	79,134	249,056
Provision for time value interest	-	-	34,047	34,047
Total credit loss expense/(credit)	199,934	(30,012)	113,181	283,103
Write-offs	-	-	(88,537)	(88,537)
Recoveries	-	-	52,457	52,457
Interest income on impaired loans	-	-	(151,523)	(151,523)
Balance at end of year	506,380	75,190	406,852	988,422
Comprises:				
Loans	421,792	74,579	406,852	903,223
Undrawn credit facilities and other	84,588	611	-	85,199
Total ECL allowance	506,380	75,190	406,852	988,422

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8. Loans and Advances to Customers (Continued)

The movement in the ECL allowances during the year is as follows:

	Stage 1	Stage 2	Stage 3	2018
	Collective provision 12 month ECL non-credit impaired $'000	Collective provision lifetime ECL non-credit impaired $'000	Collective and individual provision lifetime ECL credit impaired $'000	Total $'000
Mortgages				
Balance at beginning of period	6,536	26,679	209,424	242,639
Originations net of repayments and other derecognitions	3,484	(1,032)	(19,608)	(17,156)
Changes in model	(19,509)	(10,333)	24,885	(4,957)
Net remeasurement	27,837	15,261	(1,753)	41,345
Transfers:				
- to 12-month ECL	5,573	(5,573)	-	-
- to lifetime ECL performing	(167)	268	(101)	-
- to lifetime ECL credit-impaired	(3)	(1,281)	1,284	-
Credit loss expense/(credit)	17,215	(2,690)	4,707	19,232
Write-offs	-	-	(2,178)	(2,178)
Interest income on impaired loans	-	-	(18,590)	(18,590)
Balance at end of year	23,751	23,989	193,363	241,103
Personal Loans				
Balance at beginning of period	143,890	10,973	209,511	364,374
Originations net of repayments and other derecognitions	23,928	1,037	1,666	26,631
Changes in model	(36,608)	14,773	(14,425)	(36,260)
Net remeasurement	(11,701)	3,515	98,210	90,024
Transfers:				
- to 12-month ECL	2,027	(2,027)	-	-
- to lifetime ECL performing	(3,385)	3,385	-	-
- to lifetime ECL credit-impaired	(697)	(2,932)	3,629	-
Credit loss (credit)/expense	(26,436)	17,751	89,080	80,395
Write-offs	-	-	(110,733)	(110,733)
Recoveries	-	-	35,131	35,131
Interest income on impaired loans	-	-	(35,023)	(35,023)
Balance at end of year	117,454	28,724	187,966	334,144

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8. Loans and Advances to Customers (Continued)

The movement in the ECL allowances during the year is as follows (continued):

	Stage 1	Stage 2	Stage 3	2018
	Collective provision 12 month ECL non-credit impaired $'000	Collective provision lifetime ECL non-credit impaired $'000	Collective and individual provision lifetime ECL credit impaired $'000	Total $'000
Business and Government				
Balance at beginning of period	116,147	77,630	104,050	297,827
Originations net of repayments and other derecognitions	34,169	(3,010)	3,433	34,592
Changes in model	(12,173)	(4,558)	(1,087)	(17,818)
Net remeasurement	(31,711)	40,990	26,832	36,111
Transfers:				
- to 12-month ECL	63,401	(62,804)	(597)	-
- to lifetime ECL performing	(4,589)	4,589	-	-
- to lifetime ECL credit-impaired	(3)	(348)	351	-
Credit loss expense/(credit)	49,094	(25,141)	28,932	52,885
Write-offs	-	-	(22,325)	(22,325)
Interest income on impaired loans	-	-	(10,712)	(10,712)
Balance at end of year	165,241	52,489	99,945	317,675
Total ECL allowance	306,446	105,202	481,274	892,922

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8. Loans and Advances to Customers (Continued)

The movement in the ECL allowances during the year is as follows (continued):

	Stage 1	Stage 2	Stage 3	2018
	Collective provision 12 month ECL non-credit impaired $'000	Collective provision lifetime ECL non-credit impaired $'000	Collective and individual provision lifetime ECL credit impaired $'000	Total $'000
Total Bank				
Balance at beginning of period	266,573	115,282	522,985	904,840
Originations net of repayments and other derecognitions	61,581	(3,005)	(14,509)	44,067
Changes in model	(68,290)	(118)	9,373	(59,035)
Net remeasurement	(15,575)	59,766	123,289	167,480
Transfers:				
- to 12-month ECL	71,001	(70,404)	(597)	-
- to lifetime ECL performing	(8,141)	8,242	(101)	-
- to lifetime ECL credit-impaired	(703)	(4,561)	5,264	-
Credit loss expense/(credit)	39,873	(10,080)	122,719	152,512
Write-offs	-	-	(135,236)	(135,236)
Recoveries	-	-	35,131	35,131
Interest income on impaired loans	-	-	(64,325)	(64,325)
Balance at end of year	306,446	105,202	481,274	892,922
Comprises:				
Loans	251,108	104,578	481,274	836,960
Undrawn credit facilities and other	55,338	624	-	55,962
Total ECL allowance	306,446	105,202	481,274	892,922

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9. Property and Equipment

	Land $'000	Buildings $'000	Leasehold Improvements $'000	Equipment, Furniture and Vehicles $'000	Total $'000
			2019		
Cost					
1 November 2018	55,000	288,646	434,682	3,245,825	4,024,153
Additions	-	33,168	17,954	307,585	358,707
Disposals	-	-	(20,404)	(425,508)	(445,912)
Transfers	-	27,888	20,728	(48,616)	-
31 October 2019	55,000	349,702	452,960	3,079,286	3,936,948
Accumulated depreciation					
1 November 2018	-	64,672	253,723	2,075,218	2,393,613
Charge for the year (Note 27)	-	8,207	34,305	326,337	368,849
Relieved on disposals	-	-	(10,043)	(393,967)	(404,010)
31 October 2019	-	72,879	277,985	2,007,588	2,358,452
Net book value					
31 October 2019	55,000	276,823	174,975	1,071,698	1,578,496
			2018		
Cost					
1 November 2017	55,000	223,863	409,834	3,085,534	3,774,231
Additions	-	15,458	52,008	427,315	494,781
Disposals	-	-	(47,118)	(197,741)	(244,859)
Transfers	-	49,325	19,958	(69,283)	-
31 October 2018	55,000	288,646	434,682	3,245,825	4,024,153
Accumulated depreciation					
1 November 2017	-	57,610	262,470	1,950,766	2,270,846
Charge for the year (Note 27)	-	7,062	30,335	313,422	350,819
Relieved on disposals	-	-	(39,082)	(188,970)	(228,052)
31 October 2018	-	64,672	253,723	2,075,218	2,393,613
Net book value					
31 October 2018	55,000	223,974	180,959	1,170,607	1,630,540

Included in the table above are amounts totaling $14,430,000 (2018 – $14,430,000) representing the revalued amount of land and buildings which has been used as the deemed cost of these assets under the provision of IFRS 1 on transition to IFRS on 1 November 2002. Subsequent additions and other property and equipment are shown at cost. Equipment, furniture and vehicles include $142,161,000 (2018 - $147,298,000) relating to work-in-progress on which no depreciation has been charged.

10. Retirement Benefit Asset (Obligation)

Plan Characteristics, funding and risks

The Bank operates a pension scheme covering all permanent employees. The pension benefit is based on the average of the best five consecutive years' earnings in the last ten years, multiplied by the years of credited service. The assets of the plan are held independently of the Bank's assets in a separate trustee fund. The scheme is valued by independent actuaries annually using the Projected Unit Credit Method. The latest actuarial valuation for IFRS purposes was carried out as at 31 October 2019.

Benefit changes

There were no material changes to the terms of the defined benefit pension or post-retirement medical benefit plans in 2019 or 2018.

Risks

The defined benefit pension and post-retirement medical benefit plans expose the Bank to actuarial risks, such as longevity risk, currency risk, interest rate risk, market (investment risks) and health care cost inflation risks arising in the relevant sectors.

Plan Governance

The Bank is responsible for the establishment of the plan and has oversight of its management and administration. The Bank's Board of Directors has delegated powers and authorities to a Pension Steering Committee ("PSC") and an Investment Sub-Committee ("ISC") as advisory sub-committees and delegated to each of them certain of its responsibilities in connection with the management and administration of the plan and the investment of plan assets. These are set out in the documented mandates for these committees. The day to day oversight of the management and administration of the plan is the responsibility of the Board of Trustees who ensures the plan is operated in accordance with the Trust Deed and Rules and local legislation and that all benefits are calculated and paid in accordance with the plan Rules. The Trustees have appointed an Investment Manager who holds the funds on behalf of the Trustees and invests the plan assets as directed by the Trustees. The PSC and ISC provide support and guidance to the Board of Trustees on matters such as investment strategy, risk management, funding and administration. The Trustees set the contribution rates, in consultation with the PSC, based on the results of the triennial actuarial funding valuation. The last actuarial valuation to determine the adequacy of funding done as at 31 October 2018 revealed that the scheme was adequately funded at that date. The investment strategy for the plan, as set out in the Statement of Investment Objectives, Policies and Procedures, is reviewed annually the Trustees in consultation with the ISC. The current plan assets include investments in locally quoted equities, bonds and real estate.

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10. Retirement Benefit Asset (Obligation) (Continued)

Amounts recognized in the statement of financial position:

	2019 $'000	2018 $'000
Defined benefit pension scheme (Note 10(a))	1,535,147	1,524,438
Other post retirement benefits (Note 10(b))	(104,532)	(86,641)

(a) Defined benefit pension scheme

	2019 $'000	2018 $'000
Fair value of plan asset	5,653,567	5,278,549
Present value of funded obligation	(4,118,420)	(3,754,111)
Asset in the statement of financial position	1,535,147	1,524,438

At 31 October 2019, pension plan assets include the Parent's ordinary stock units with a fair value of $65,264,000 (2018 – $61,817,000).

	2019 $'000	2018 $'000
Balance at 1 November	1,524,438	729,342
Charge for the year (Note 26)	(19,047)	(67,212)
Transfer of assets to pay contributions for defined contribution plan	(107,533)	(99,885)
Effect on statement of other comprehensive income (Note 30)	137,239	962,143
Contributions paid	50	50
Balance at 31 October	1,535,147	1,524,438

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

	2019 $'000	2018 $'000
Current service cost	101,017	107,272
Interest cost	276,714	333,721
Interest income	(385,693)	(394,809)
Administration and other non-plan investment management expenses	27,009	21,028
Included in staff costs (Note 26)	19,047	67,212
Actual return on plan assets	654,927	1,012,669

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10. Retirement Benefit Asset (Obligation) (Continued)

(a) Defined benefit pension scheme (continued)

Changes in the fair value of plan asset are as follows:

	2019 $'000	2018 $'000
Fair value of plan asset at start of year	5,278,549	4,487,954
Asset transferred into the plan	18,963	-
Asset transferred out of the plan	(142,730)	(99,885)
Actual return on plan asset	654,927	1,012,669
Contributions	50	50
Benefits paid during year	(129,183)	(101,211)
Administration and other non-plan investment management expenses	(27,009)	(21,028)
Fair value of plan asset at end of year	5,653,567	5,278,549

Changes in the present value of obligation are as follows:

	2019 $'000	2018 $'000
Present value of obligation at start of year	3,754,111	3,758,612
Interest cost	276,714	333,721
Current service cost	101,017	107,272
Benefits paid during year	(129,183)	(101,211)
Actuarial loss/(gain) on plan obligation	131,995	(344,283)
Liabilities transferred in	18,963	-
Liabilities transferred out	(35,197)	-
Present value of obligation at end of year	4,118,420	3,754,111

The Bank expects to contribute $50,000 (2018 - $50,000) to its defined benefit pension plan in the next year.

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10. Retirement Benefit Asset (Obligation) (Continued)

(a) Defined benefit pension scheme (continued)

The net remeasurement gains recognized in statement of other comprehensive income were as follows:

	2019 $'000	2018 $'000
Actuarial gains/(losses) on defined benefit obligation arising from:		
- Financial assumptions	(230,879)	319,014
- Experience adjustments	98,884	25,269
Return on plan assets excluding interest income	269,234	617,860
Net remeasurement gains recognized in OCI	137,239	962,143

The breakdown of the net obligations between active members and inactive and retired members is as follows:

	2019 $'000	2018 $'000
Active members	2,760,725	2,431,088
Inactive and retired members	1,357,695	1,323,023
	4,118,420	3,754,111

The average duration of the net asset/(obligations) at the end of the reporting period is as follows:

	2019	2017
Average duration, in years	18	18

The major categories of plan assets as a percentage of the fair value of total plan assets were as follows:

	2019 %	2018 %
Quoted equity instruments:		
Local	18	20
International	5	1
Quoted debt instruments:		
Government bonds	21	31
Corporate bonds	15	7
Real estate	22	23
Other assets	19	18
	100	100

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10. Retirement Benefit Asset (Obligation) (Continued)

(a) Defined benefit pension scheme (continued)

The principal actuarial assumptions used were as follows:

	2019	2018
	%	%
Discount rate	6.50	7.50
Future salary increases	4.50	5.50
Future pension increases	2.25	3.25

Defined benefit pension plan amounts for the current and previous four years were as follows:

	2019	2018	2017	2016	2015
	$'000	$'000	$'000	$'000	$'000
Fair value of plan assets	5,653,567	5,278,549	4,487,954	4,110,997	3,606,573
Present value of obligation	(4,118,420)	(3,754,111)	(3,758,612)	(3,474,715)	(2,962,087)
	1,535,147	1,524,438	729,342	636,282	644,486

A quantitative sensitivity analysis for significant assumptions as at 31 October 2019 is shown below:

Assumption	Sensitivity level	Impact on net defined benefit pension plans	
		Increase	Decrease
		$'000	$'000
Discount rate	1.00%	3,472,434	4,946,057
Future salary increases	0.50%	4,239,887	4,003,589
Future pension increases	0.50%	4,362,355	3,895,070
Existing retiree age	1 year	4,234,351	N/A

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10. Retirement Benefit Asset (Obligation) (Continued)

(a) Defined benefit pension scheme (continued)

A quantitative sensitivity analysis for significant assumptions as at 31 October 2018 is shown below:

Assumption	Sensitivity level	Impact on net defined benefit pension plans	
		Increase $'000	Decrease $'000
Discount rate	1.00%	3,166,375	4,507,499
Future salary increases	0.50%	3,867,334	3,647,260
Future pension increases	0.50%	3,977,054	3,550,073
Existing retiree age	1 year	3,860,909	N/A

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

The following payments are expected benefit payments to be made in future years out of the defined benefit plan:

	2019 $'000	2018 $'000
Within the next 12 months	75,650	84,870
Between 1 and 5 years	450,180	458,160
Between 5 and 10 years	987 270	968,350
Total expected payment	1,513,100	1,511,380

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10. Retirement Benefit Asset (Obligation) (Continued)

(b) Post-retirement medical benefits

In addition to pension benefits, the Bank offers medical 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 the defined benefit pension scheme.

In addition to the assumptions used for the pension scheme, the main actuarial assumption is a long-term increase in health costs of 6% per year (2018: 6%).

A quantitative sensitivity analysis for significant assumptions as at 31 October 2019 is as shown below:

Assumption	Sensitivity level	Impact on post-retirement medical benefits	
		Increase $'000	Decrease $'000
Discount rate	1.00%	95,155	115,540
Medical premium inflation	1.00%	115,353	95,141
Existing retiree age	1 year	109,023	N/A

A quantitative sensitivity analysis for significant assumptions as at 31 October 2018 is as shown below:

Assumption	Sensitivity level	Impact on post-retirement medical benefits	
		Increase $'000	Decrease $'000
Discount rate	1.00%	79,545	95,999
Medical premium inflation	1.00%	95,935	79,470
Existing retiree age	1 year	90,477	N/A

	2019 $'000	2018 $'000
Present value of unfunded obligations and liability in the statement of financial position	104,532	86,641

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10. Retirement Benefit Asset/(Obligation) (Continued)

(b) Post-retirement medical benefits (continued)

The following payments are expected benefit payments to be made in future years out of the benefit plan:

	2019 $'000	2018 $'000
Within the next 12 months	6,720	5,940
Between 1 and 5 years	31,120	27,530
Between 5 and 10 years	40,490	36,560
Total expected payment	78,330	70,030

	2019 $'000	2018 $'000
Obligation at beginning of year	86,641	75,727
Charge for the year (Note 26)	6,417	6,697
Employer contributions	(2,642)	(3,110)
Effect of statement of other comprehensive income (Note 30)	14,116	7,327
Obligation at end of year	104,532	86,641

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

	2019 $'000	2018 $'000
Interest cost	6,417	6,697
Total included in staff costs (Note 26)	6,417	6,697

The net re-measurement (losses)/gains recognized in the statement of other comprehensive income was as follows:

	2019 $'000	2018 $'000
Actuarial (losses)/gains on defined benefit obligation arising from:		
- Financial adjustments	(9,378)	(10,280)
- Experience adjustments	(4,738)	2,953
Net re-measurement losses recognized in OCI	(14,116)	(7,327)

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10. Retirement Benefit Asset/(Obligation) (Continued)

(b) Post-retirement medical benefits (continued)

The breakdown of the obligation between active members and inactive and retired members is as follows:

	2019 $'000	2018 $'000
Inactive and retired members	104,532	86,641

The average duration of the obligation at the end of the reporting period of the obligation is as follows:

	2019	2018
Average duration, in years	10	9

11. Customer Deposits

	2019 $'000	2018 $'000
Individuals	33,416,515	28,722,905
Business and Government	44,376,891	40,948,876
Banks	17,623,586	10,051,650
	95,416,992	79,723,431
Interest payable	226,127	259,811
	95,643,119	79,983,242

12. Other Liabilities

	2019 $'000	2018 $'000
Accounts payable and accruals	865,314	807,060
Due to related parties	22,102	-
Items in transit, net	121,925	285
Other taxation payable	53,695	56,360
Other	24,330	42,685
	1,087,366	906,390

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13. Deferred Income Taxes

Deferred income taxes are calculated on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes using the statutory tax rate of 33⅓% (2018 - 33⅓%).

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities.

The movement in the deferred income tax account was as follows:

	2019 $'000	2018 $'000
Balance as at 1 November	(20,253)	407,715
Charge to the statement of income (Note 28)	(73,354)	(243,920)
Prior year adjustment - impact of IFRS 9 adoption (Note 28)	-	66,803
Charge to other comprehensive income (Note 30)	(35,373)	(250,851)
Balance as at 31 October	(128,980)	(20,253)

Deferred income tax assets and liabilities were attributable to the following items:

	2019 $'000	2018 $'000
Deferred tax assets:		
Expected credit loss allowances	260,660	225,602
Post-retirement medical and insurance benefits	34,844	28,880
Unearned fees	182,217	171,542
Foreign exchange revaluation losses	-	3,052
Other provisions	13,653	15,887
Tax losses carried forward	-	98,326
	491,374	543,289
Deferred tax liabilities:		
Accelerated tax depreciation	17,804	18,116
Retirement benefit asset	511,716	508,146
Debt securities at FVOCI	11,743	37,280
Foreign exchange revaluation gains	79,091	-
	620,354	563,542
Net deferred tax liability	(128,980)	(20,253)

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13. Deferred Income Taxes (Continued)

Deferred income taxes are recognized on tax losses carried forward only to the extent that realization of the related tax benefit is probable.

As at 31 October 2018, the Bank has tax losses, subject to agreement with the Commissioner General of Tax Administration Jamaica, amounting to $294,978,000. If unutilized, these tax losses can be carried forward indefinitely, however, the amount that can be utilized is restricted to 50% of chargeable income (before prior year losses) in any one year. There were no tax losses as at 31 October 2019.

14. Debt Securities in Issue

	2019 $'000	2018 $'000
Notes due 2019	1,875,000	1,875,000
Add: interest payable	60,789	61,575
	1,935,789	1,936,575

The J$1.875 billion bond is repayable by 9 December 2019, with a fixed interest rate at 7.65% and constitutes senior unsecured debt with a guarantee by the ultimate parent.

15. Share Capital and Reserves

	2019 No. of Shares (000)	2018 No. of shares (000)
Share Capital		
Authorised -		
Ordinary shares of no par value [1]	300,000	300,000
'A' ordinary shares of no par value [1]	900,000	900,000
	1,200,000	1,200,000

[1] These shares rank pari passu.

	2019 $'000	2018 $'000
Issued and fully paid -		
265,756,730 (2018 – 265,756,730) ordinary stock units of no par value	1,396,667	1,396,667
264,000,000 (2018 – 264,000,000) 'A' ordinary shares of no par value:	3,533,591	3,533,591
	4,930,258	4,930,258

15. Share Capital and Reserves (Continued)

Objectives, policies and procedures

Capital strength provides protection for depositors and creditors, allows the Bank to undertake profitable business opportunities as they arise and helps maintain favourable credit ratings.

The Bank's objective is to employ a strong and efficient capital base. It manages capital in accordance with policies established by the Board. These policies relate to capital strength, capital mix, dividends and return of capital, and the capital adequacy requirements applicable to a regulated entity. Each policy has associated guidelines, and capital is monitored continuously for compliance.

There were no significant changes made in the objectives, policies and procedures during the year.

Regulatory requirements

The Bank's regulatory capital requirements are determined in accordance with the Banking Services Act, 2014, and Regulations issued thereunder, primarily, The Banking Services (Deposit Taking Institutions) (Capital Adequacy) Regulations, 2015. Capital adequacy is measured by the ratio of regulatory capital to risk-weighted assets.

Regulatory capital consists of Tier 1 capital plus Tier 2 capital, less certain prescribed deductions.

- Tier 1 capital (also referred to as "capital base") is comprised substantially of ordinary shares or stock, non-redeemable non-cumulative preference shares, plus certain eligible reserves, less: aggregate net losses as defined; goodwill, start-up expenses and other intangible assets; and any other designated deductions.
- Tier 2 capital principally comprises hybrid capital instruments (such as non-redeemable cumulative preference shares and qualifying redeemable preference shares having an original term to maturity of five years or more), and general provisions (subject to certain limitations).
- A deduction from Tier 1 and 2 Capital is required for certain prescribed items such as investments in, and share of accumulated losses in unconsolidated subsidiaries.

Risk-weighted assets is the sum of on-balance sheet assets, off-balance sheets assets (contingent accounts), and foreign currency positions.

- On-balance sheet assets are classified in one of four broad risk-weighting categories. Classification is dependent on the Regulator's assessment of the nature of the counter-party or where applicable, the guarantor or the collateral.
- Off-balance sheet assets (contingent accounts) are first assigned a credit conversion factor to determine an on-balance sheet credit equivalent amount, which is then risk weighted in a manner similar to on-balance sheet assets.

A capital charge is assessed for foreign currency risk, being the higher of aggregated long/short foreign currency positions.

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15. Share Capital and Reserves (Continued)

Objectives, policies and procedures (Continued)

Global capital standards require that banks maintain minimum Tier 1 and Capital Adequacy Ratio of 4% and 8%, respectively. Under the Banking Services Act, 2014, Jamaican deposit-taking financial institutions are required to maintain a minimum capital adequacy ratio of 10% and Tier 1 capital should be not less than 50% of regulatory capital. During the year, the Bank complied in full with all of its regulatory capital requirements, as follows:

Tier 1 and Total Capital ratios were 12.53% and 12.59%, respectively (2018: 13.71% and 13.84%).

Reserves

	2019	2018
	$'000	$'000
Capital reserves (Note 16)	12,833	12,833
Retirement benefit reserve (Note 17)	871,307	789,225
Statutory reserve fund (Note 18)	2,756,667	2,666,667
Retained earnings reserve (Note 19)	1,706,163	1,706,163
Loan loss reserve (Note 20)	196,810	154,667
General reserve (Note 21)	45,522	45,522
Fair value reserves – debt instruments through OCI (Note 23(b))	63,223	74,560
Total reserves at end of the year	5,652,525	5,449,637

16. Capital Reserves

	2019 $'000	2018 $'000
Comprised:		
Unrealised –		
Surplus on revaluation of premises	5,493	5,493
Realised –		
Profit on sale of property and equipment	7,340	7,340
Balance at end of year	12,833	12,833

17. Retirement Benefit Reserve

	2019 $'000	2018 $'000
Balance at beginning of year	789,225	152,681
Re-measurement gains on retirement benefit plans during the year (Note 30)	82,082	636,544
Balance at end of year	871,307	789,225

Gains and losses arising from re-measurement of retirement benefit plans in other comprehensive income are reflected in this reserve.

18. Statutory Reserve Fund

	2019 $'000	2018 $'000
Balance at beginning of the year	2,666,667	2,646,667
Transfer from retained earnings	90,000	20,000
Balance at end of the year	2,756,667	2,666,667

The fund is maintained in accordance with the Banking Services Act, 2014. The Bank is required to make transfers of a minimum of 15% of net profit until the amount in the fund is equal to 50% of the paid-up capital of the Bank and thereafter 10% of the net profits until the reserve fund is not less than paid up share capital. On 19 December 2019 the Board of Directors approved the transfer of $450,000,000 (2018: $90,000,000) from retained earnings to the statutory reserve fund effective 31 January 2020. The transfer will be done based on the net profits for the year ended 31 October 2019.

19. Retained Earnings Reserve

	2019 $'000	2018 $'000
Balance at beginning of the year	1,706,163	2,616,163
Transfer from other share capital reserve (Note 22)	-	(910,000)
Balance at end of year	1,706,163	1,706,163

Section 42(1) of the Banking Services Act, 2014, permits the transfer of any portion of 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 reported to the Bank of Jamaica.

In the prior year, the Bank sought and received supervisory non-objection to the transfer of $910,000,000 from the Retained Earning Reserve to cover the deficit on the Other Share Capital Reserve.

20. Loan Loss Reserve

	2019 $'000	2018 $'000
Balance at beginning of year	154,667	400,345
Transfer from (to) retained earnings	42,143	(245,678)
Balance at end of the year	196,810	154,667

This is a non-distributable reserve representing the excess of the provision for loan losses determined using the Bank of Jamaica's regulatory requirements over the amount determined under IFRS (Note 8).

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21. General Reserve

	2019 $'000	2018 $'000
Balance at beginning and end of the year	45,522	45,522

This represents a transfer by the former subsidiary, FirstCaribbean International Building Society, on amalgamation for amounts transferred from retained earnings to a general reserve on a tax free basis.

22. Other Share Capital Reserve

	2019 $'000	2018 $'000
Balance at beginning of year	-	(910,000)
Transfer from retained earnings reserve (Note 19)	-	910,000
Balance at end of the year	-	-

The ‘A’ ordinary shares were denominated in United States Dollars when issued. The rate of exchange used to record the US$70 million capital injection on 29 August 2013 was J$101/US$1, and equity is not set to revalue with changes in exchange rates. The rate of exchange on 26 October 2017 used to retranslate the 264,000,000 ‘A’ ordinary shares that were repurchased and cancelled, was J$127/US$1. The effect of the change in the exchange rate from J$101 to J$127 was, therefore, recognized directly in equity in accordance with IFRS. In the prior year, the Bank sought and received supervisory non-objection to the transfer of $910,000,000 from the Retained Earning Reserve to cover the deficit on the Other Share Capital Reserve.

23. Fair Value Reserves

Debt instruments at fair value through OCI:

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	2019 $'000	2018 $'000
Balance at beginning of year (2018: on adopting IFRS 9)	74,560	-
Reclassification from available-for-sale securities	-	15,659
Recognition of expected credit losses under IFRS 9	-	193,744
Opening balance restated under IFRS 9	74,560	209,403
Net losses on debt securities measured at FVOCI during the year (Note 30)	(11,337)	(134,843)
Balance at end of the year	63,223	74,560

24. Net Interest Income

	2019 $'000	2018 $'000
Interest and similar income:		
Cash and balances due from banks	445,544	491,172
Investment securities	176,266	195,038
Loans and advances	5,276,186	4,700,663
	5,897,996	5,386,873
Interest and similar expense:		
Customer deposits	(1,354,644)	(1,333,018)
Debt securities in issue	(146,010)	(207,473)
	(1,500,654)	(1,540,491)
Net interest income	4,397,342	3,846,382

25. Other Operating Income

	2019 $'000	2018 $'000
Net fees and commissions	1,048,740	995,692
Foreign exchange transactional net gains	1,726,252	1,129,722
Foreign exchange revaluation net gains/(losses)	237,273	(9,156)
Securities net gains/(losses)	17,021	(6,421)
Other operating income	117,475	98,504
	3,146,761	2,208,341

Foreign exchange transactional net gains include gains and losses arising from foreign currency trading activities.

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26. Operating Expenses

	2019 $'000	2018 $'000
Staff costs	1,506,799	1,516,554
Depreciation	368,849	350,819
Occupancy costs	473,238	422,374
Other operating expenses	3,913,222	2,605,343
	6,262,108	4,895,090

Analysis of staff costs:

	2019 $'000	2018 $'000
Wages and salaries	1,032,275	1,032,632
Pension costs –		
Defined benefit plan (Note 10)	19,047	67,212
Defined contribution plan	47,655	46,693
Other post retirement benefits (Note 10)	6,417	6,697
Other share and cash-based benefits (Note 38)	9,744	9,622
Severance	997	14,025
Other staff-related costs	390,664	339,673
	1,506,799	1,516,554

27. Profit Before Taxation

Profit before taxation is stated after charging:

	2019 $'000	2018 $'000
Depreciation (Note 9)	368,849	350,819
Directors' emoluments-		
Fees	9,856	9,575
Management remuneration (Note 31(b))	51,781	48,351
Auditor's remuneration	14,996	14,094

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28. Income Tax Expense

(a) The taxation expense is based on the profit for the year adjusted for taxation purposes and comprises:

	2019 $'000	2018 $'000
Current year income tax	323,787	112,900
Prior year under accrual	5,756	29
Tax on income at source	2,349	3,901
	331,892	116,830
Deferred tax charge (Note 13)	73,354	243,920
	405,246	360,750

Income tax is calculated at the rate of 33⅓%.

(b) Tax on the Bank's income before tax differs from the theoretical amount that would arise using the statutory tax rate for the Bank as follows:

	2019 $'000	2018 $'000
Profit before taxation	1,004,036	1,232,988
Tax calculated at 33⅓%	334,679	410,996
Effect of:		
Income not subject to tax	(1,767)	(50,605)
Expenses not deductible for tax	74,980	70,719
Dividend income tax at 15%	(2,509)	(3,527)
Prior year under accrual on corporation tax liability	5,756	29
Prior year adjustment for impact of IFRS 9 adoption (Note 13)	-	(66,803)
Other charges and allowances	(5,893)	(59)
	405,246	360,750

29. Earnings Per Stock Unit

Earnings per ordinary stock unit for the Bank is calculated by dividing the net profit for the year by the weighted average number of ordinary stock units in issue:

	2019	2018
Net profit for the year ($'000)	598,790	872,238
Weighted average number of ordinary stock units in issue ('000)	529,757	529,757
Earnings per stock unit ($)	1.13	1.65

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30. Components of Other Comprehensive Income

	2019 $'000	2018 $'000
Debt instruments at fair value through OCI:		
Losses arising during the year	(17,005)	(202,264)
Less: Deferred tax	5,668	67,421
Other comprehensive losses for the year (Note 23)	(11,337)	(134,843)
Re-measurement on retirement benefit plans:		
Gains arising during the year	123,123	954,816
Less: Deferred tax	(41,041)	(318,272)
Other comprehensive gains for the year (Note 17)	82,082	636,544
Total other comprehensive gains for the year, net of tax	70,745	501,701

31. Related Party Transactions

In the ordinary course of business, the Bank provides to its connected persons normal banking services on terms similar to those offered to persons not connected to the Bank.

(a) Transactions and balances with FirstCaribbean entities and their associates

	2019 $'000	2018 $'000
The Parent, FirstCaribbean International Bank Limited:		
Net receivable	-	195,193
Net payable	18,604	-
Other expenses for banking and support services	1,865,028	770,478
Other FirstCaribbean entities and affiliates:		
Interest income	63,097	106,986
Interest expense	434,491	366,872
Net receivable	-	13,797
Net payable	3,498	-
Deposits by other FirstCaribbean entities	18,206,254	10,117,122
Money market placements	2,482,014	6,621,274
The ultimate parent, CIBC:		
Interest income	4,725	1,080
Customer deposits	29,468	11,810
Money market placements (Note 4)	549,523	223,507
Loans and advances to customers	97	95

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31. Related Party Transactions (Continued)

(b) Transactions and balances with directors

	2019 $'000	2018 $'000
Loans outstanding	17,254	19,196
Deposits	45,031	35,263
Interest income	795	928
Interest expense	366	73
Directors' fees	9,856	9,575
Post retirement benefits	6,417	5,426
Management remuneration paid (included below) (Note 27)	51,781	48,351

(c) Key management remuneration paid during the year

	2019 $'000	2018 $'000
Wages and salaries	115,705	98,056
Statutory contributions	11,007	9,573
Post retirement benefits	14,368	12,850
	141,080	120,479

32. Commitments

(a) Future rental commitments under operating leases

At 31 October 2019, the Bank held leases on buildings for extended periods. The future rental commitments under these leases were as follows:

	2019 $'000	2018 $'000
Not later than 1 year	312,331	298,985
Later than 1 year and less than 5 years	751,011	859,256
Later than 5 years	-	45,702
	1,063,342	1,203,943

During the year, $320,726,000 (2018 - $286,614,000) of lease payments was charged to net income.

(b) Other

The following table indicates the contractual amounts of financial instruments not presented in the statement of financial position that commit the Bank to extend credit to customers:

	2019 $'000	2018 $'000
Guarantees and indemnities	1,235,798	1,444,894
Letters of credit	3,445,543	3,136,468
Loan commitments	9,983,079	13,305,893
	14,664,420	17,887,255

33. Contingencies

The Bank, because of the nature of its business, is subject to various threatened or filed legal actions. At 31 October 2019 material claims filed amounted to approximately $2,078,887,000 (2018 - $2,090,855,000). The majority of this amount relates to a specific counter claim of approximately $2,004,810,000 (2018 - $2,002,923,000), filed by a former customer against the Bank. Another counter claim was brought against the former customer by the Bank for approximately $652,841,000 (2018 – $605,362,000). Although the amount of the ultimate exposure, if any, cannot be determined at this time, the Directors are of the opinion, based upon the advice of Counsel, that the final outcome of threatened or filed suits will not have a material adverse effect on the financial position of the Bank.

34. Pledged Assets

Mandatory reserve deposits are held at the Bank of Jamaica in accordance with statutory requirements. These deposits are not available to finance the Bank's day to day operations. Additionally, assets are pledged as collateral to third parties.

	2019 $'000	2018 $'000
Cash and balances with Central Bank		
Statutory reserves at Bank of Jamaica (Note 3)	10,402,801	10,594,963
Securities – bonds & debentures:		
Pledged as collateral for clearing services	193,599	166,324
	10,596,400	10,761,287

35. Business Segments

The Bank's operations are organised into two business segments, Retail, Business Banking (RBB); and Corporate and Investment Banking (CIB) which are supported by the functional units within the Administration (Admin) segment (which includes Finance, Human Resources, Technology and Operations, Treasury, Risk and Other). The Administration segment results include credits or capital charges for Treasury market-based cost of funds on assets, liabilities and capital; the offset of the same for RBB and CIB earnings unattributed capital remains in Administration.

Management monitors the operating results of its business segments separately for the purpose of making decisions about resource allocation and performance assessment.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties. The Bank reviews its transfer pricing methodologies on an ongoing basis to ensure they reflect changing market environments and industry practices.

Transactions between the business segments are on normal commercial terms and conditions.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position, but exclude items such as taxation and intangible assets. Securities and cash placements are normally held within the Treasury unit within the Administration segment.

The Bank's operations are located solely in Jamaica.

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35. Business Segments (Continued)

	Retail & Business Banking $'000	Corporate & Investment Banking $'000	Administration $'000	Total $'000
31 October 2019				
External revenue	2,106,112	2,225,452	65,778	4,397,342
Internal revenue	1,510,911	(306,419)	(1,204,492)	-
Net interest income	3,617,023	1,919,033	(1,138,71)	4,397,342
Operating Income	1,097,892	1,685,709	363,160	3,146,761
Total Revenue	4,714,915	3,604,742	(775,554)	7,544,103
Depreciation	152,497	18,518	197,834	368,849
Non-interest expenses	1,966,673	341,981	3,584,605	5,893,259
Indirect expenses	2,348,358	1,318,724	(3,667,082)	-
Credit loss expense on financial assets	199,275	83,828	(5,144)	277,959
Income before taxation	48,112	1,841,691	(885,767)	1,004,036
Income tax expense	13,837	607,444	(216,035)	405,246
Net income for the year	34,275	1,234,247	(669,732)	598,790
Segment assets	25,766,190	43,251,602	42,497,906	111,515,698
Segment liabilities	21,911,213	37,824,363	39,485,696	99,221,272
Other segment information				
Interest income	4,098,268	2,356,883	(557,155)	5,897,996
Interest expense	481,244	437,851	581,559	1,500,654
Capital expenditure	152,877	-	205,830	358,707

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35. Business Segments (Continued)

	Retail & Business Banking	Corporate & Investment Banking	Administration	Total
	$'000	$'000	$'000	$'000
31 October 2018				
External revenue	1,980,397	1,754,562	111,423	3,846,382
Internal revenue	1,380,908	148,619	(1,529,527)	-
Net interest income	3,361,305	1,903,181	(1,418,104)	3,846,382
Operating Income	844,030	1,250,958	113,353	2,208,341
Total Revenue	4,205,335	3,154,139	(1,304,751)	6,054,723
Depreciation	135,797	50,034	164,988	350,819
Non-interest expenses	1,880,503	352,378	2,311,390	4,544,271
Indirect expenses	2,112,572	1,288,771	(3,401,343)	-
Credit loss expense on financial assets	120,421	32,091	(225,867)	(73,355)
Income before taxation	(43,958)	1,430,865	(153,919)	1,232,988
Income tax expense	(16,624)	474,363	(96,989)	360,750
Net income for the year	(27,334	956,502	(56,930)	872,238
Segment assets	23,532,829	31,267,591	39,799,088	94,599,508
Segment liabilities	20,829,068	28,087,782	34,057,768	82,974,617
Other segment information				
Interest income	3,810,036	2,420,162	(843,325)	5,386,873
Interest expense	448,731	516,982	574,778	1,540,491
Capital expenditure	273,117	92	221,572	494,781

36. Financial Risk Management

(a) Strategy in using financial instruments

Risk is inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk, market risk, and operating risk.

By its nature, the Bank's activities are principally related to the use of financial instruments. The Bank accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just loans and advances which are disclosed on the statement of financial position, but the Bank also enters into guarantees and other commitments such as letters of credit and performance and other bonds.

(b) Credit risk

Credit risk primarily arises from direct lending activities, as well as from trading, investment and hedging activities. Credit risk is defined as the risk of financial loss due to a borrower or counter party failing to meet its obligations in accordance with agreed terms.

Process and Control

The Risk Management Team is responsible for the provision of the Bank's adjudication, oversight and management of credit risk within its portfolios. The Credit Executive Committee (CrExCo) has responsibility for monitoring credit metrics, providing direction on credit issues and making recommendations on credit policy.

The Risk Management Team is guided by the Bank's Delegation of Authority policy which is based on the levels of exposure and risk. Credits above the discretion delegated to certain front line employees are approved by Risk Management and where applicable by the Credit Committee and the Finance Risk & Conduct Review Committee of the Board (FRCRC). The FRCRC also has the responsibility for approving credit policies and key risk limits including portfolio limits, which are reviewed annually.

36. Financial Risk Management (Continued)

(b) Credit risk (continued)

Credit Risk Limits

Credit risk limits are established for all loans (mortgages, personal, business & sovereign) for the purposes of diversification and managing concentration. Limits are also established for individual borrowers, groups of related borrowers, industry sectors, individual countries and geographic regions and also for products and portfolios. Such risks are monitored on a revolving basis and the limits are subject to an annual or more frequent review.

The exposure to any one counterparty including banks and brokers is further restricted by sub-limits, which include exposures not recognised in the statement of financial position, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral including corporate and personal guarantees.

Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances to customers are:

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

The Bank’s credit risk management policies include requirements relating to collateral valuation and management, including verification requirements and legal certainty. Valuations are updated periodically depending upon the nature of the collateral. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement during its periodic review of loan accounts in arrears. Policies are in place to monitor the existence of undesirable concentration in the collateral supporting the Bank’s credit exposure.

As at 31 October 2019, 58% (2018: 67%) of stage 3 impaired loans were either fully or partially collaterized.

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36. Financial Risk Management (Continued)

(b) Credit risk (continued)

Exposures by Industry Groups

The following table provides an industry-wide break down of total exposures by industry groups:

	2019			2018		
	Loans and Leases $'000	Acceptances, Guarantees and Letters of Credit $'000	Total 2019 $'000	Loans and Leases $'000	Acceptances, Guarantees and Letters of Credit $'000	Total 2018 $'000
Agriculture, fishing and mining	1,755,931	3,633	1,759,564	1,219,420	3,633	1,223,053
Construction	5,954,391	39,398	5,993,789	4,621,531	-	4,621,531
Distribution	5,580,305	2,839,490	8,419,795	5,135,220	2,392,546	7,527,766
Electricity, gas and water	16,229,239	729,750	16,958,989	8,269,543	676,750	8,946,293
Financial institutions	19,696	500	20,196	17,184	500	17,684
Government and public entities	4,508,404	-	4,508,404	2,326,942	-	2,326,942
Manufacturing and production	1,222,895	6,251	1,229,146	1,865,559	6,251	1,871,810
Personal	22,361,349	7,533,905	29,895,254	20,521,605	5,492,758	26,014,363
Professional and other services	3,158,489	3,187,080	6,345,569	2,975,685	9,229,699	12,205,384
Tourism and entertainment	4,914,896	4,401	4,919,297	4,777,775	4,101	4,781,876
Transport, storage and communication	3,414,003	320,012	3,734,015	3,377,675	81,017	3,458,692
Total	69,119,598	14,664,420	83,784,018	55,108,139	17,887,255	72,995,394
ECL allowances			(988,422)			(892,922)
			82,795,596			72,102,472

Impaired Financial Assets and ECL Allowances

The Bank takes on exposure to credit risk, which is the risk that a counter party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one counterparty, borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

The exposure to any one counterparty, including banks and brokers, is further restricted by sub-limits, which include exposures not recognised in the statement of financial position. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral including corporate and personal guarantees.

36. Financial Risk Management (Continued)

(b) Credit risk (continued)

Impairment assessment

The references below show where the Bank's impairment assessment and measurement approach is set out in this report. This section should be read in conjunction with the summary of significant accounting policies (Note 2(i)).

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Bank
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Bank
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

It is the Bank's policy to consider a financial instrument as 'cured' and, therefore, re-classified out of Stage 3 when none of the default criteria have been present for at least twelve consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the obligor risk rating (ORR); if available, or the days past due and delinquency criteria in the Bank's policy, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

The Bank's internal rating and PD estimation process

The Bank's Credit Risk Department operates its internal rating models. The Bank monitors all corporate facilities with a value exceeding US$250,000 which are assigned an ORR of 1 to 9 under the Bank's internal rating system. The models used incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. This internal rating system is also mapped to Moody's and Standard and Poor's ratings. Movement in a facility's ORR from origination to the reporting date is what determines the stage assigned to that facility. Staging for facilities that do not have an ORR is based on historical days past due and delinquency.

The Bank calculates 12-month and lifetime PDs on a product by country basis. 12-month PDs are determined using historical default data and then incorporate forward looking information. Lifetime PDs are determined using historical data.

36. Financial Risk Management (Continued)

(b) Credit risk (continued)

Treasury, trading and interbank relationships

The Bank's treasury, trading and interbank relationships and counterparties comprise financial services institutions, Groups, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank's credit risk department analyses publicly available information such as financial information and other external data, e.g., the rating of Moody's and Standard and Poor's, and assigns the internal rating, as shown in the table below.

Corporate and small business lending

For corporate and investment banking loans, the borrowers are assessed by specialised credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information, together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

Consumer lending and retail mortgages

Consumer lending comprises unsecured personal loans, credit cards and overdrafts. These products along with retail mortgages and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing.

<u>Derivatives</u>

The Bank maintains strict control limits on net open derivative positions, i.e., the difference between purchase and sale contracts, by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. assets), which, in relation to derivatives, is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is usually obtained for credit risk exposures on these instruments.

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36. Financial Risk Management (Continued)

(b) Credit risk (continued)

Master Netting Arrangements

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities presented on the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Bank's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period since it is affected by each transaction subject to the arrangement.

Credit Related Commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and, therefore, carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term of maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Maximum Exposure to Credit Risk

The maximum exposure to credit risk would be all statement of financial position carrying values of all financial assets plus the contingent liabilities and commitments [these disclosures are shown in Note 32(b)] not recognised in the statement of financial position. The gross maximum exposure would be before ECL allowances and the effect of mitigation through the use of master netting and collateral arrangements. The maximum exposure to credit risk within the customer loan portfolio would be all the statement of financial position carrying values plus the loan commitments [these disclosures are shown in Note 32(b)] not recognised in the statement of financial position. The gross maximum exposure within the customer loan portfolio would be before ECL allowances and the effect of mitigation through the use of master netting and collateral arrangements, plus the loan commitments amount not recognised in the statement of financial position.

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Notes to the Financial Statements
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36. Financial Risk Management (Continued)

(c) Geographical concentration of assets, liabilities, off-balance sheet items, revenues and capital expenditure

The Bank operates in only the Jamaican geographical market.

(d) Credit rating system and credit quality per class of financial assets

Credit Quality
A mapping between the Bank's internal ratings and the ratings used by external agencies is shown in the table below. As part of the Bank's risk-rating methodology, the risk assessed includes a review of external ratings of the obligor. The obligor rating assessment takes into consideration the Bank's financial assessment of the obligor, the industry, and the economic environment of the country in which the obligor operates. In certain circumstances, where a guarantee from a third party exists, both the obligor and the guarantor will be assessed.

	Loans and advances to customers	**Investment securities**	
Grade Description	**Days past due**	**Standards & Poor's equivalent**	**Moody's Investor Services**
High grade	0-7	AAA to BBB-	Aaa to Baa3
Standard	8-60	BB+ to B-	Ba to B3
Substandard	61-89	CCC+ to CC	Caa1 to Ca
Impaired	90+	D	C

This risk rating system is used for portfolio management, risk limit setting, product pricing, and in the determination of economic capital.

The effectiveness of the risk rating system and the parameters associated with the risk ratings are monitored within Credit Risk Management and are subject to an annual review.

At the reporting date, securities were all rated standard or high grade. Cash balances and amounts due from banks are held with counterparties that are standard, high grade or CIBC group entities.

The table below shows the credit quality by class of asset for gross loans and advances to customers, based on the risk rating, systems, trends and the methodology to support performing credits, along with significant increases in credit risk. Amounts provided are before allowance for credit losses, and after credit risk mitigation, valuation adjustments related to the financial guarantors, and collateral on agreements.

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36. Financial Risk Management (Continued)

(d) Credit rating system and credit quality per class of financial assets (continued)

Credit Quality (Continued)

	2019				
	Performing				
Grade description	**High Grade $'000**	**Standard Grade $'000**	**Sub Standard Grade $'000**	**Impaired $'000**	**Total $'000**
Loans and advances to customers:					
Mortgages	10,031,293	345,544	89,156	358,682	10,824,675
Personal loans	11,239,564	324,810	125,455	363,565	12,053,394
Business & government loans	45,813,903	304,037	8,087	115,502	46,241,529
Total	67,084,760	974,391	222,698	837,749	69,119,598

	2018				
	Performing				
Grade description	**High Grade $'000**	**Standard Grade $'000**	**Sub Standard Grade $'000**	**Impaired $'000**	**Total $'000**
Loans and advances to customers:					
Mortgages	9,475,602	346,105	129,501	265,193	10,216,401
Personal loans	10,139,196	215,714	86,607	290,142	10,731,659
Business & government loans	33,663,572	371,298	21,235	103,974	34,160,079
Total	53,278,370	933,117	237,343	659,309	55,108,139

For business and government loans, the Bank further employs risk ratings in managing the credit portfolio. Business and government borrowers with elevated default risk are monitored on the Early Warning List. Early Warning List characteristics include borrowers exhibiting a significant decline in revenue, income, or cash flow or where the Bank has doubts as to the continuing viability of the business. Early Warning List customers are often also delinquent, but this is not always the case. As of 31 October 2019, Early Warning List customers in the medium to high risk category amounted to $1,338,920,000 (2018 - $1,828,930,000).

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset which involves assessment of a customer's historical days past due and delinquency pattern. If contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly.

When estimating ECLs on a collective basis for a group of similar assets, the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

36. Financial Risk Management (Continued)

(d) Credit rating system and credit quality per class of financial assets (continued)

Model adjustments
The Bank considers the use and nature of material additional adjustments which are used to capture factors not specifically embedded in the models used. While many adjustments are part of the normal modelling process (e.g., to adjust PDs as defined for capital purposes to accounting requirements or to incorporate forward-looking information), management may determine that additional, post-modelling adjustments are needed to reflect macro-economic or other factors which are not adequately addressed by the current models such as management overlays for unexpected events e.g. hurricanes. Such adjustments would result in an increase or decrease in the overall ECLs.

Impact on regulatory capital
Annually, the base Capital Plan is assessed under a central stress scenario with ranges (mild & severe) as part of stress testing. The results of the stress tests are taken into consideration when setting the annual capital targets and may, by extension, have an effect on the quantum or timing of planned capital initiatives. However, stress testing results that drive the capital ratio below threshold(s) do not immediately imply an automatic increase in required capital, provided there is comfort that the Bank would remain well-capitalized even under plausible stressed ranges.

The recession scenario ranges are as follows:
i. mild recession;
ii. severe recession

Under each range within the recession scenario, the following key assumptions are varied adversely/negatively to arrive at Capital Plan results:

i. Changes in GDP growth rates are assumed to directionally affect performing loan growth rates and fee & commission income levels.
ii. Changes in interest rate are assumed to impact net interest income based on the proportion of hard vs. soft currency balance split for interest earning and bearing assets and liabilities, namely cash placements, securities, loans and deposit liabilities.
iii. Changes in GDP growth rates are assumed to impact non-performing loans growth rates which in turn affect interest income and loan loss expenses.

Changes in inflation rates are assumed to directionally impact expense growth.

The Bank meets each key regulatory ratio such as the net stable funding ratio, liquidity coverage ratio and leverage ratio.

- Net Stable Funding Ratio and the Liquidity Coverage Ratio: The Bank is not required to monitor these ratios during 2019 and is currently in the process of developing an automated solution for calculation of the ratios.
- Leverage Ratio: The Bank reports the leverage ratio monthly. The leverage ratio is also provided to the Board of Directors in quarterly reporting.

FirstCaribbean International Bank (Jamaica) Limited

36. Financial Risk Management (Continued)

(d) Credit rating system and credit quality per class of financial assets (continued)

Modified financial assets

From time to time, we may modify the contractual terms of loans classified as stage 2 and stage 3 for which the borrower has experienced financial difficulties, through the granting of a concession in the form of below-market rates or terms that we would not otherwise have considered. Changes to the present value of the estimated future cash payments through the expected life of the modified loan discounted at the loan's original effective interest rate are recognised through changes in the ECL allowance and provision for credit losses. During the year ended 31 October 2019, loans classified as stage 2 with an amortised cost of $28,701,000 (2018: $9,180,000) and loans classified as stage 3 with an amortised cost of $883,000 (2018: $Nil), in each case before the time of modification, were modified through the granting of a financial concession in response to the borrower having experienced financial difficulties. In addition, the gross carrying amount of previously modified stage 2 or stage 3 loans that have returned to stage 1 during the year ended 31 October 2019 was $8,720,000 (2018: $4,208,000).

(e) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables. Market risk arises from positions in securities and derivatives as well as from the core retail, wealth and corporate businesses. The key risks to the Bank are foreign exchange, interest rate and credit spread. Management of market risk within the Bank is centralized at the Parent which mirrors the way that the hard currencies are managed by Treasury and although the local currency exposures are managed in their respective geographic regions, these exposures are still monitored, measured and controlled centrally from a market risk perspective. The following sections give a comprehensive review of the Bank's entire exposures.

Policies and Standards:
The Parent has a comprehensive policy for market risk management related to its identification and to the measurement, monitoring and control of those risks. This policy is reviewed and approved every two years by the Finance, Risk and Conduct Review Committee. The Board limits, which are approved annually, are used by the Bank to establish explicit risk tolerances expressed in terms of the three main risk measures mentioned below. There is a three tiered approach to limits at the Bank. The highest level is set at the Board. The second tier is delegated by the Chief Risk Officer and the third tier to the Business Unit, which limits traders to specific products and size of deals. Trading limits are documented through a formal delegation letter and monitored using the Bank's treasury system.

Process and Control:
Market risk measures are monitored with differing degrees of frequency dependent upon the relative risk and speed with which the risk changes. Foreign exchange (FX) positions, Value at Risk (VaR) and certain profit & loss measures are all measured daily whereas others such as stress tests and credit spread sensitivity are performed on either a weekly or monthly basis. Detailed market risk compliance reports are produced and circulated to senior management on a daily, weekly and monthly basis and a summary version is reported quarterly to the Parent Board. A summary of key risks is also presented to the local Board on a quarterly basis.

36. Financial Risk Management (Continued)

(e) Market risk (continued)

Risk Measurement:
The Bank has three main measures of market risk:

- Outright position, used predominantly for FX,
- Sensitivity to a 1 basis point move in a curve, used for both interest rate and credit spread risk,
- Stress scenarios based upon a combination of theoretical situations and historical events.

Position:
This risk measurement is used predominantly for the Bank's foreign exchange business. The measure produced and reported daily focuses upon the outright long or short position in each currency from both a pre-structural and post structural basis. Any forward contracts or FX swaps are also incorporated.

Sensitivity:
The main two measures utilized by the Bank are the DV01 (delta value of a 1 basis point move, also known as the PV01 or Present value of a 1 basis point move) and the CSDV01 (Credit Spread Delta of a 1 basis point move). The DV01 measure is calculated for a 1 basis point move down in the yield curve. This generates the effect on earnings by individual currency of a parallel shift down in the related yield curve. As curves rarely move in a parallel fashion it is measured across different tenors to ensure that there is no further curve risk of having for example a long position in the short end of the curve offset by a short position in the longer tenors. This is then utilized within the scenario analysis. The sensitivities are calculated using a post-structural basis that considers core balances for non contractual maturities as well as assigning risk to capital and non product general ledger accounts as well as considering market specific pricing situations that exist in the region.

Stress Testing & Scenario Analysis:
Stress testing and scenario analysis are designed to add insight to possible outcomes of abnormal (or tail event) market conditions and to highlight where risk concentrations could be a concern.

The Bank has two distinct approaches as follows:

- For the hard currency testing, it sends its position sensitivity to CIBC and utilizes the suite of measures that the parent company has developed. The stress testing measures the effect on the Bank's hard currency portfolio values over a wide range of extreme moves in market prices. The stress testing methodology assumes no actions are taken or are able to be taken during the event to mitigate the risk, reflecting the decreased liquidity that frequently accompanies market shocks. The scenario analysis approach for the Bank's hard currency exposures simulate an impact on earnings of extreme market events up to a period of one quarter. Scenarios are developed using actual historical data during periods of market disruption, or are based upon hypothetical occurrence of economic or political events or natural disasters and are designed by the parent company's economists, business leaders and risk managers. These tests are run on a weekly basis.

- The local currency stress tests are designed on a similar but smaller scale. For interest rate stresses, Market risk in conjunction with Treasury consider the market data over approximately the last ten years and identify the greatest curve or data point moves over both sixty day and single day periods. These are then applied to the existing positions/sensitivities of the Bank. This is performed and reported on a monthly basis as they do not tend to change rapidly.

FirstCaribbean International Bank (Jamaica) Limited

36. Financial Risk Management (Continued)

(e) Market risk (continued)

Foreign Exchange Risk

Foreign exchange (or currency) risk is defined as the risk that the value of a financial instrument will fluctuate as a result of changes in foreign exchange rates. Since the JMD is not pegged to the USD, the VaR measure can be used. However, due to some of the known inherent weaknesses of the VaR methodology, emphasis is placed particularly on the overall position limit and the related stress tests. The Parent Board has set limits on Total Positions (Structural plus country) by currency while Credit Risk Officer limits are utilized at the country or trading level Positions are monitored on a daily basis and the Forex & Derivative Sales department is solely responsible for the hedging of the exposure of the Bank.

The following table highlights large currency exposures of the Bank in USD. It also highlights the measures used to monitor, measure and control that risk.

Foreign exchange exposure and risk

31 October 2019:

Currency	Position Long (Short) vs USD $'000	6% Deval $'000	4% Reval $'000	Average Position $'000
Jamaican dollar	(1,458)	58	(58)	7,145

31 October 2018:

Currency	Position Long (Short) vs USD $'000	6% Deval $'000	2% Reval $'000	Average Position $'000
Jamaican dollar	8,436	(337)	169	2,132

The Bank utilizes a measure to quantify non-trading foreign exchange risk, also referred to as post-structural foreign exchange risk. This considers the effect of currency changes on the Bank's retained earnings and profit derived throughout the year in non-USD currencies. Full details of the structural positions are included in the Parent's financial statements.

The Bank will occasionally trade non-USD/JMD currencies, but these are quickly hedged. There were no material balances at either 2019 or 2018 fiscal year end.

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36. Financial Risk Management (Continued)

(e) Market risk (continued)

Foreign Exchange Risk (Continued)

The table below summarizes the Bank's exposure to foreign currency exchange rate risk at 31 October:

Concentrations of assets, liabilities and credit commitments:

	2019							
	EC	**BDS**	**CAY**	**BAH**	**US**	**JA**	**Other**	**Total**
As at 31 October 2019	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**
Assets								
Cash resources	-	413	496	-	7,346,763	16,543,096	283,378	24,174,146
Due from banks	11,766	(7,364)	12,081	1,946	10,468,013	105,091	1,733,459	12,324,992
Derivative financial instruments	-	-	-	-	82,991	-	-	82,991
Other assets	-	-	-	-	7,425	137,256	-	144,681
Retirement benefit asset	-	-	-	-	-	1,535,147	-	1,535,147
Investment securities	-	-	-	-	-	3,695,852	-	3,695,852
Loans and advances to customers	-	-	-	-	35,955,975	31,996,331	27,087	67,979,393
Property and equipment	-	-	-	-	-	1,578,496	-	1,578,496
Total assets	11,766	(6,951)	12,577	1,946	53,861,167	55,591,269	2,043,924	111,515,698
Liabilities								
Customer deposits	-	-	-	-	47,247,888	46,443,572	1,951,659	95,643,119
Derivative financial instruments	-	-	-	-	82,991	-	-	82,991
Other liabilities	(242)	-	-	-	1,090,375	(3,701)	934	1,087,366
Taxation payable	-	-	-	-	-	238,495	-	238,495
Deferred tax liabilities	-	-	-	-	-	128,980	-	128,980
Debt securities in issue	-	-	-	-	-	1,935,789	-	1,935,789
Retirement benefit obligation	-	-	-	-	-	104,532	-	104,532
Total liabilities	(242)	-	-	-	48,421,254	48,847,667	1,952,593	99,221,272
Net assets	12,008	(6,951)	12,577	1,946	5,439,913	6,743,602	91,331	12,294,426
Credit commitments	-	-	-	-	5,044,926	9,031,201	588,293	14,664,420

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36. Financial Risk Management (Continued)

(e) Market risk (continued)

Foreign Exchange Risk (Continued)

	2018							
	EC	**BDS**	**CAY**	**BAH**	**US**	**JA**	**Other**	**Total**
As at 31 October 2018	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**
Assets								
Cash resources	-	511	767	-	5,755,988	13,846,505	278,733	19,882,504
Due from banks	(404)	(3,255)	7,366	1,933	11,482,380	63,604	1,353,951	12,905,575
Other assets	-	-	-	-	(813,960)	1,276,789	18	462,847
Investment securities	-	-	-	-	-	4,205,584	-	4,205,584
Retirement benefit asset	-	-	-	-	-	1,524,438	-	1,524,438
Loans and advances to customers	-	-	-	-	25,274,733	28,685,980	27,307	53,988,020
Property and equipment	-	-	-	-	-	1,630,540	-	1,630,540
Total assets	(404)	(2,744)	8,133	1,933	41,699,141	51,233,440	1,660,009	94,599,508
Liabilities								
Customer deposits	-	-	-	-	37,507,297	40,847,575	1,628,370	79,983,242
Other liabilities	-	(128)	-	-	427,508	535,130	(56,120)	906,390
Taxation payable	-	-	-	-	-	41,516	-	41,516
Deferred tax liabilities	-	-	-	-	-	20,253	-	20,253
Debt securities in issue	-	-	-	-	-	1,936,575	-	1,936,575
Retirement benefit obligation	-	-	-	-	-	86,641	-	86,641
Total liabilities	-	(128)	-	-	37,934,805	43,467,690	1,572,250	82,974,617
Net assets	(404)	(2,616)	8,133	1,933	3,764,336	7,765,750	87,759	11,624,891
Credit commitments	-	-	-	-	9,264,952	8,135,303	487,000	17,887,255

36. Financial Risk Management (Continued)

(e) Market risk (continued)

Foreign Exchange Risk (Continued)
Analysis was conducted to determine the sensitivity to reasonable possible movements of selected currencies against the Jamaican dollar to which the Bank had significant exposure at 31 October 2019 in respect of its assets and liabilities holding all other variables constant. The results revealed that as of 31 October 2019, if the Jamaican dollar had depreciated by 6% (2018 – 4%) against foreign currencies, profit before tax for the year would have been $391,372,000 higher (2018 - $200,232,000 higher) and shareholders' equity would have been $392,532,000 higher (2018 - $200,509,000 higher). Similarly, if the Jamaican dollar had revalued by 4% (2018 – 2%) against foreign currencies, profit before tax for the year would have been $260,915,000 lower (2018 - $100,116,000 lower) and shareholders' equity would have been $261,689,000 lower (2018 - $100,255,000 lower).

(f) Liquidity risk

Liquidity risk arises from the Bank's general funding activities in the course of managing assets and liabilities. It is the risk of having insufficient cash resources to meet current financial obligations without raising funds at unfavourable rates or selling assets on a forced basis.

The Bank's liquidity management strategies seek to maintain sufficient liquid financial resources to continually fund our financial position under both normal and stressed market environments.

Process and Control
Actual and anticipated inflows and outflows of funds generated from exposures, including those not recognised in the statement of financial position, are managed on a daily basis within specific short term asset/liability mismatch limits by operational entity.

Potential cash flows under various stress scenarios are modelled using amounts recognised in the statement of financial position. Prescribed liquidity levels under a selected benchmark stress scenario are maintained for a minimum time horizon.

Risk Measurement
The Bank's liquidity measurement system provides daily liquidity risk exposure reports for monitoring and review by the Treasury department. The Bank's Assets and Liabilities Committee – ALCO is responsible for recommending the liquidity ratio targets, the stress scenarios and the contingency funding plans. The Bank's Board of Directors is ultimately responsible for the Bank's liquidity.

The Bank manages liquidity risk by maintaining a significant base of core customer deposits, liquid assets and access to contingent funding as part of its management of risk. Each operational entity has internally established specific liquidity requirements that are approved by the Bank ALCO and reviewed annually.

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36. Financial Risk Management (Continued)

(f) Liquidity risk (continued)

The table below analyses assets, liabilities and commitments, guarantees and contingent liabilities of the Bank into relevant maturity groupings based on the remaining period at statement of financial position date to the contractual maturity date.

	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
	$'000	$'000	$'000	$'000	$'000
As at 31 October 2019					
Cash and balances with Central Bank	23,824,146	350,000	-	-	24,174,146
Due from other banks	12,324,992	-	-	-	12,324,992
Derivative financial instruments	-	-	-	82,991	82,991
Other assets	144,681	-	-	-	144,681
Investment securities	211,615	432,875	3,000,607	50,755	3,695,852
Loans and advances to customers	4,070,157	3,027,423	20,485,864	40,395,949	67,979,393
Property and equipment	-	-	1,045,019	533,477	1,578,496
Retirement benefit asset	-	-	-	1,535,147	1,535,147
Total assets	40,575,591	3,810,298	24,531,490	42,598,319	111,515,698
Customer deposits	88,041,994	5,852,983	1,673,751	74,391	95,643,119
Derivative financial instruments	-	-	-	82,991	82,991
Other liabilities	1,087,366	-	-	-	1,087,366
Taxation payable	-	238,495	-	-	238,495
Deferred tax liability	-	-	128,980	-	128,980
Debt securities in issue	1,935,789	-	-	-	1,935,789
Retirement benefit obligation	-	-	-	104,532	104,532
Total liabilities	91,065,149	6,091,478	1,802,731	261,914	99,221,272
Net assets/(liabilities)	(50,489,558)	(2,281,180)	22,728,759	42,336,405	12,294,426
Commitments, guarantees and contingent liabilities	11,265,140	3,391,542	7,738	-	14,664,420

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36. Financial Risk Management (Continued)

(f) Liquidity risk (continued)

	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
	$'000	$'000	$'000	$'000	$'000
As at 31 October 2018					
Cash and balances with Central Bank	19,882,504	-	-	-	19,882,504
Due from other banks	12,905,575	-	-	-	12,905,575
Other assets	462,847	-	-	-	462,847
Investment securities	338,014	1,092,301	2,770,235	5,034	4,205,584
Loans and advances to customers	3,948,801	3,204,667	11,537,249	35,297,303	53,988,020
Property and equipment	-	-	1,031,209	599,331	1,630,540
Retirement benefit asset	-	-	-	1,524,438	1,524,438
Total assets	37,537,741	4,296,968	15,338,693	37,426,106	94,599,508
Customer deposits	67,824,151	10,068,975	628,957	1,461,159	79,983,242
Other liabilities	906,390	-	-	-	906,390
Taxation payable	-	41,516	-	-	41,516
Deferred tax liability	-	-	20,253	-	20,253
Debt securities in issue	61,575	-	1,875,000	-	1,936,575
Retirement benefit obligation	-	-	-	86,641	86,641
Total liabilities	68,792,116	10,110,491	2,524,210	1,547,800	82,974,617
Net assets/(liabilities)	(31,254,375)	(5,813,523)	12,814,483	35,878,306	11,624,891
Commitments, guarantees and contingent liabilities	15,221,631	2,662,914	2,710	-	17,887,255

36. Financial Risk Management (Continued)

(g) Interest rate risk

Interest rate risk arises from the changes in interest rate affecting the future cash flows of financial instruments. For the Bank, there is currently no trading interest rate risk. Non-trading interest rate risk consists primarily of a combination of the risks inherent in asset and liability management activities and the activities of the core retail and corporate businesses. Interest rate risk results from differences in the maturities or re-pricing dates of assets inclusive of those not recognised in the statement of financial position.

As at 31 October 2019, there are no market risk limits against the VaR.

The following table highlights the other key interest rate risk measures utilised by the Bank:

31 October 2019

Currency	Post Structural DV01 $	Increase 100 basis points $'000	Decrease 100 basis points $'000	60-day Stressed Loss $'000
Jamaican dollar	1,179	(118)	118	2,772

31 October 2018

Currency	Post Structural DV01 $	Increase 100 basis points $'000	Decrease 100 basis points $'000	60-day Stressed Loss $'000
Jamaican dollar	2,734	(273)	273	3,191

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36. Financial Risk Management (Continued)

(g) Interest rate risk (continued)

The Bank's sensitivity did not move significantly throughout the year. Generally, the contractual sensitivities are marginally long, but the effect of the structural interest rate assumptions, particularly with regard to core deposit balances, generate the relatively small net short position reflected above.

USD Interest Rate Exposure
The USD interest rate risk exposure is calculated for the Bank and reported monthly at both a product and tenor level at the Assets and Liabilities Committee. As at 31 October the risk sensitivity and related stress results to a 1 basis point drop in the underlying USD yield curve are as follows:

31 October 2019

Currency	Post Structural DV01	Increase 100 basis points	Decrease 100 basis points	60-Day Stressed Loss
	$'000	$'000	$'000	$'000
USD	19,132	(1,913)	1,913	2,700

31 October 2018

Currency	Post Structural DV01	Increase 100 basis points	Decrease 100 basis points	60-Day Stressed Loss
	$'000	$'000	$'000	$'000
USD	(6,493)	649	(649)	1,353

The main components of this risk on the asset side, are fixed rate loans and mortgages offset by core deposit and transactional accounts and inter-company borrowing on the liability side.

36. Financial Risk Management (Continued)

(g) Interest rate risk (continued)

Derivatives held for ALM purposes

Where derivatives are held as hedges against either sizeable loans from core businesses or to reduce interest risk exposure to USD denominated local bond issues and the transactions meet the accounting criteria, then the Bank applies hedge accounting. Derivative hedges that do not qualify for hedge accounting treatment are considered to be economic hedges and are recorded at fair value on the statement of financial position with changes in the fair value recognised through profit or loss. It should be noted that these are only interest rate risk hedges and other risks such as credit spread on the underlying still exist and are measured separately.

(h) Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes' but may reduce or create losses in the event that unexpected movements arise. Limits are set on the level of mismatch of interest rate repricing that may be undertaken, which are monitored on an ongoing basis.

Expected repricing and maturity dates do not differ significantly from the contract dates, except for the maturity of deposits up to 1 month, which represent balances on current accounts considered by the Bank as a relatively stable core source of funding of its operations.

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36. Financial Risk Management (Continued)

(h) Cash flow and fair value interest rate risk (continued)

The following tables summarise carrying amounts of statement of financial position, asset and liabilities in order to arrive at the Bank's interest rate gap based on earlier of contractual re-pricing or maturity dates.

	Immediately Rate Sensitive[1]	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non Rate Sensitive[2&3]	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
As at 31 October 2019							
Cash and balances with Central Bank	-	18,973,468	350,000	-	-	4,850,678	24,174,146
Due from other banks	1,717,366	9,901,034	-	-	-	706,592	12,324,992
Derivative financial instruments	-	82,991	-	-	-	-	82,991
Other assets	-	-	-	-	-	144,681	144,681
Investment securities	-	1,417,392	-	2,273,426	-	5,034	3,695,852
Loans and advances to customers	2,355,262	2,671,416	2,992,771	20,545,186	39,414,758	-	67,979,393
Property and equipment	-	-	-	-	-	1,578,496	1,578,496
Retirement benefit asset	-	-	-	-	-	1,535,147	1,535,147
Total assets	4,072,628	33,046,301	3,342,771	22,818,612	39,414,758	8,820,628	111,515,698
Customer deposits	57,829,171	30,134,830	5,930,410	346,755	1,401,953	-	95,643,119
Derivative financial instruments	-	82,991	-	-	-	-	82,991
Other liabilities	-	-	-	-	-	1,087,366	1,087,366
Taxation payable	-	-	-	-	-	238,495	238,495
Deferred tax liabilities	-	-	-	-	-	128,980	128,980
Debt securities in issue	-	1,935,789	-	-	-	-	1,935,789
Retirement benefit obligation	-	-	-	-	-	104,532	104,532
Total liabilities	57,829,171	32,153,610	5,930,410	346,755	1,401,953	1,559,373	99,221,272
Total interest rate sensitivity gap	(53,756,543)	892,691	(2,587,639)	22,471,857	38,012,805	7,261,255	12,294,426
Cumulative gap	(53,756,543)	(52,863,852)	(55,451,491)	(32,979,634)	5,033,171	12,294,426	-

[1] This represents those financial instruments whose interest rates change concurrently with a change in the underlying interest rate basis, for example base rate loans.
[2] This includes financial instruments such as equity investments.
[3] This includes non-financial instruments.

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36. Financial Risk Management (Continued)

(h) Cash flow and fair value interest rate risk (continued)

	Immediately Rate Sensitive[1]	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non Rate Sensitive[2&3]	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
As at 31 October 2018							
Cash and balances with Central Bank	-	13,460,511	-	-	-	6,421,993	19,882,504
Due from other banks	338,994	12,379,533	-	-	-	187,048	12,905,575
Other assets	-	-	-	-	-	462,847	462,847
Securities	-	2,956,061	1,244,489	-	-	5,034	4,205,584
Loans and advances to customers	2,091,879	2,762,596	3,189,887	11,279,326	34,664,332	-	53,988,020
Property and equipment	-	-	-	-	-	1,630,540	1,630,540
Retirement benefit asset	-	-	-	-		1,524,438	1,524,438
Total assets	2,430,873	31,558,701	4,434,376	11,279,326	34,664,332	10,231,900	94,599,508
Customer deposits	50,004,781	17,801,499	10,086,434	629,369	1,461,159	-	79,983,242
Other liabilities	-	-	-	-	-	906,390	906,390
Taxation payable	-	-	-	-	-	41,516	41,516
Deferred tax liabilities						20,253	20,253
Debt securities in issue	-	61,575	-	1,875,000	-	-	1,936,575
Retirement benefit obligation	-	-	-	-	-	86,641	86,641
Total liabilities	50,004,781	17,863,074	10,086,434	2,504,369	1,461,159	1,054,800	82,974,617
Total interest rate sensitivity gap	(47,573,908)	13,695,627	(5,652,058)	8,774,957	33,203,173	9,177,100	11,624,891
Cumulative gap	(47,573,908)	(33,878,281)	(39,530,339)	(30,755,382)	2,447,791	11,624,891	-

(1) This represents those financial instruments whose interest rates change concurrently with a change in the underlying interest rate basis, for example base rate loans.
(2) This includes financial instruments such as equity investments.
(3) This includes non-financial instruments.

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36. Financial Risk Management (Continued)

(h) Cash flow and fair value interest rate risk (continued)

Average effective yields by the earlier of the contractual re-pricing or maturity dates:

	2019					
	Immediately Rate Sensitive %	Within 3 Months %	3 to 12 Months %	1 to 5 Years %	Over 5 Years %	Total %
Cash and balances with Central Bank	-	0.53	2.29	-	-	0.56
Due from other banks	-	1.95	-	-	-	1.95
Securities[1]	-	2.00	-	6.93	-	5.06
Loans to customers [2]	39.12	5.97	5.64	7.28	7.41	8.33
Debt securities in issue	-	7.65	-	-	-	7.65
Customer deposits[3]	0.08	2.14	3.04	4.59	4.36	1.00

	2018					
	Immediately Rate Sensitive %	Within 3 Months %	3 to 12 Months %	1 to 5 Years %	Over 5 Years %	Total %
Cash and balances with Central Bank	-	1.12	-	-	-	1.12
Due from other banks	-	2.24	-	-	-	2.24
Securities[1]	-	4.93	5.57	-	-	5.12
Loans to customers [2]	40.54	8.61	5.36	8.75	7.84	9.19
Debt securities in issue	-	7.65	-	7.65	-	7.65
Customer deposits[3]	0.08	3.06	3.47	5.64	4.60	1.30

[1] Yields are based on book values and contractual interest rates adjusted for amortisation of premiums and discounts.
[2] Yields are based on book values, net of allowance for credit losses and contractual interest rates.
[3] Yields are based on contractual interest rates.

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36. Financial Risk Management (Continued)

(i) Fair value of financial instruments

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, between market participants in an orderly transaction in the principal market at the measurement date under current market conditions (i.e., the exit price).

The determination of fair value requires judgment and is based on market information, where available and appropriate. Fair value measurements are categorized into three levels within a fair value hierarchy (Level 1, 2 or 3) based on the valuation inputs used in measuring the fair value, as outlined below:

- Level 1 - Unadjusted quoted market prices in active markets for identical assets or liabilities we can access at the measurement date. Bid prices, ask prices or prices within the bid and ask, which are the most representative of the fair value, are used as appropriate to measure fair value. Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where transactions are occurring with sufficient frequency and volume to provide quoted prices on an ongoing basis.
- Level 2 - Quoted prices for identical assets or liabilities in markets that are inactive or observable market quotes for similar instruments, or use of valuation technique where all significant inputs are observable. Inactive markets may be characterized by a significant decline in the volume and level of observed trading activity or through large or erratic bid/offer spreads. In instances where traded markets do not exist or are not considered sufficiently active, we measure fair value using valuation models.
- Level 3 - Non-observable or indicative prices or use of valuation technique where one or more significant inputs are non-observable.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31 October 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Derivative financial instrument	-	82,991	-	82,991
Securities:				
Government debt securities	-	3,690,818	-	3,690,818
Unquoted equities	-	-	5,034	5,034
Total financial assets	-	3,773,809	5,034	3,778,843

31 October 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Securities:				
Government debt securities	-	4,200,550	-	4,200,550
Unquoted equities	-	-	5,034	5,034
Total financial assets	-	4,200,550	5,034	4,205,584

There were no transfers between levels in the fair value hierarchy during the year.

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36. Financial Risk Management (Continued)

(i) Fair value of financial instruments (continued)

Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments:

a) Debt instruments at FVOCI
Debt instruments at FVOCI are valued using a valuation technique or pricing models primarily consist of debt securities. These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions about liquidity and price disclosure, counterparty credit spreads and sector specific risks.

b) Derivative financial instruments
Derivative products valued using a valuation technique with market observable inputs are interest rate swaps and foreign exchange forward contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Fair value of financial instruments not carried at fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

i. Due from other banks
Loans and advances to banks include inter-bank placements and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity. Their carrying values approximate their fair values.

ii. Loans and advances to customers
The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. The balances are net of specific and other provisions for impairment.

iii. Customer deposits
The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

iv. Debt securities in issue
The fair value of debt securities in issue is calculated using a discounted cash flow model based on a current interest rate yield curve appropriate for the remaining term to maturity.

v. Financial assets and liabilities with carrying values that approximate fair values
For financial assets and liabilities that are liquid or have a short-term maturity, it is assumed that the carrying amounts approximate to their fair values. This assumption is also applied to demand deposits savings accounts without a specific maturity and variable rate financial instruments.

36. Financial Risk Management (Continued)

(i) Fair value of financial instruments (continued)

Fair value of financial instruments not carried at fair value (continued)

The following tables set out the fair values of the financial instruments of the Bank not shown on the statement of financial position at fair value:

	Carrying value 2019 $'000	Fair value 2019 $'000	Carrying value 2018 $'000	Fair value 2018 $'000
Loans and advances to customers (1)	67,979,393	66,237,885	53,988,020	52,117,578
Customer deposits (1)	95,643,119	95,951,926	79,983,242	80,380,463
Debt securities in issue (2)	1,935,789	1,948,237	1,936,575	2,030,096

(1) These financial instruments are all Level 3 items by level of the fair value hierarchy.
(2) These financial instruments are all Level 2 items by level of the fair value hierarchy.

Transfers between levels in the fair value hierarchy are deemed to have occurred at the beginning of the year in which the transfer occurred. Transfers between levels can occur as a result of additional or new information regarding valuation inputs and changes in their observability. There were no transfers between levels during the year.

Quantitative information about significant non-observable inputs

Valuation techniques using one or more non-observable inputs are used for a number of financial instruments. The following table discloses the valuation techniques and quantitative information about the significant non-observable inputs used in Level 3 financial instruments:

			Range of inputs			
			2019		2018	
As at 31 October	**Valuation technique**	**Key non-observable inputs**	**Low**	**High**	**Low**	**High**
Loans and advances to customers	Market proxy or direct broker quote	Market proxy or direct broker quote	0%	24.7%	0%	38.0%
Customer deposits	Market proxy or direct broker quote	Market proxy or direct broker quote	0%	10.0%	-	10.0%

37. Critical Accounting Judgements and Estimates in Applying Accounting Policies

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and judgements that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Impairment losses on financial assets

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's Expected Credit Loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns a probability of default (PD) to the individual grades
- The Bank's criteria for assessing if there has been a significant increase in credit risk, and therefore allowances for financial assets should be measured on a Lifetime ECL (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, Exposure at Default (EADs) and Loss Given Default (LGDs)
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

(b) Retirement benefit obligation

Accounting for some retirement benefit obligation requires the use of actuarial techniques to make a reliable estimate of the amount of benefit that employees have earned in return for their service in the current and prior periods. These actuarial assumptions are based on management's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits and comprise both demographic and financial assumptions. This includes assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Variations in the financial assumptions can cause material adjustments in future years, if it is determined that the actual experience differed from the estimate.

(c) Property and equipment

Management exercises judgement in determining whether costs incurred can accrue significant future economic benefits to the Bank to enable the value to be treated as a capital expense.

Further judgement is applied in the annual review of the useful lives and residual values of all categories of property and equipment and the resulting depreciation determined thereon.

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

(d) Income taxes

The Bank is subject to taxation and significant estimates are required in determining the provision for income taxes. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Management's judgement is required to determine the amount of the deferred tax asset that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

(e) Fair value of financial instruments

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices of or inputs to actual market transactions and using the Bank's best estimates of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, counterparty credit, liquidity spread and limitations in the model.

38. Employee Share Ownership Plan

Under the employee share ownership plan, qualifying employees can choose each year to have up to 6% of their eligible earnings withheld to purchase common shares in the Parent. The Bank matches 50% of the employee contribution amount, up to a maximum contribution of 6% of eligible earnings, depending upon length of service and job level. The Bank's contributions vest after employees have two years of continuous participation in the plan. All contributions are paid into a trust and used by the plan trustees to purchase common shares in the open market. The Bank's contributions are expensed as incurred and totalled $9,744,000 (2018 - $9,622,000) (Note 26).

39. Subsequent Event

On 8 November 2019, CIBC signed an agreement to sell a significant portion of its majority stake in the Parent to GNB Financial Group Limited ("GNB"). Under the terms of the agreement, GNB will acquire 66.73% of the outstanding shares from CIBC for total consideration of US$797 million which represents a company valuation of approximately US$1,195 million, subject to closing adjustments to reflect certain changes in the Parent's book value prior to closing. GNB is wholly owned by Starmites Corporation S.ar.L, the financial holding company of the Gilinski Group. The Gilinski Group has banking operations in Colombia, Peru, Paraguay, Panama, and Cayman Islands. Following the close of the transaction, CIBC will remain a 24.9% minority shareholder of the Parent.