FIRSTCARIBBEAN INTERNATIONAL BANK (JAMAICA) LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 OCTOBER 2020

(Expressed in Jamaican dollars unless otherwise indicated)

FirstCaribbean International Bank (Jamaica) Limited

Index to the Financial Statements
Year ended 31 October 2020

	Page
Independent Auditor's Report	
Financial Statements	
Statement of financial position	1 - 2
Statement of changes in equity	3
Statement of income	4
Statement of comprehensive income	5
Statement of cash flows	6
Notes to the financial statements	7 - 109

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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 2020, 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 2020, 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 Auditors' 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' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) ("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.

A member firm of Ernst & Young Global Limited
Partners: Winston Robinson, Anura Jayatillake, Kayann Sudlow, Juliette Brown, Kay-Ann Steer

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 appropri ate 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

17 December 2020

FirstCaribbean International Bank (Jamaica) Limited

Statement of Financial Position
As at 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2020 $'000	2019 $'000
ASSETS			
Cash and balances with Central Bank	3	19,979,396	24,174,146
Due from other banks	4	7,422,723	12,587,106
Derivative financial instruments	5	619,474	82,991
Other assets	6	266,590	159,260
Investment securities	7	13,794,338	3,695,852
Loans and advances to customers	8	74,046,837	67,979,393
Property and equipment	9	2,327,877	1,578,496
Deferred tax assets	10	296,717	-
Retirement benefit asset	11	1,516,652	1,535,147
TOTAL ASSETS		120,270,604	111,792,391

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

FirstCaribbean International Bank (Jamaica) Limited

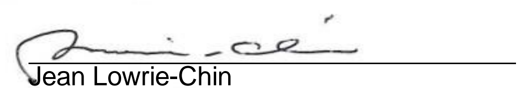
Statement of Financial Position
As at 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

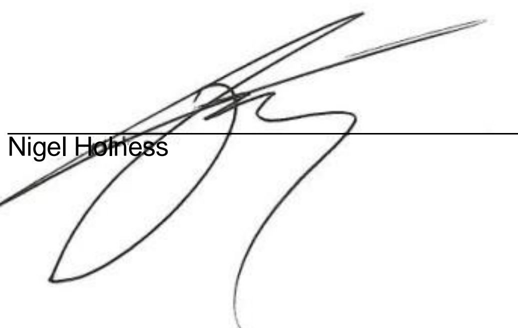
	Notes	2020 $'000	2019 $'000
LIABILITIES AND EQUITY			
LIABILITIES			
Customer deposits	12	104,870,335	95,643,119
Derivative financial instruments	5	619,474	82,991
Other liabilities	13	2,296,169	1,364,059
Taxation payable		235,036	238,495
Deferred tax liabilities	10	-	128,980
Debt securities in issue	14	-	1,935,789
Retirement benefit obligation	11	81,758	104,532
TOTAL LIABILITIES		108,102,772	99,497,965
EQUITY			
Share capital	15	4,930,258	4,930,258
Reserves	15	7,207,635	5,652,525
Retained earnings		29,939	1,711,643
TOTAL EQUITY		12,167,832	12,294,426
TOTAL LIABILITIES AND EQUITY		120,270,604	111,792,391

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

Approved for issue by the Board of Directors on 17 December 2020 and signed on its behalf by:

Lincoln Eatmon


Jean Lowrie-Chin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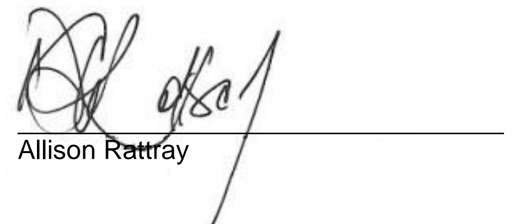
Allison Rattray

FirstCaribbean International Bank (Jamaica) Limited

Statement of Changes in Equity
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	Share Capital	Reserves	Retained Earnings	Total
		$'000	$'000	$'000	$'000
Balance at 31 October 2018		4,930,258	5,449,637	1,244,996	11,624,891
Total comprehensive income for the year	29	-	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
Total comprehensive income / (loss) for the year	29	-	146,920	(273,514)	(126,594)
Transfer to statutory reserve fund	18	-	450,000	(450,000)	-
Transfer to retained earnings reserve	19	-	1,155,000	(1,155,000)	-
Transfer from loan loss reserve	20	-	(196,810)	196,810	-
Balance at 31 October 2020		4,930,258	7,207,635	29,939	12,167,832

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

FirstCaribbean International Bank (Jamaica) Limited

Statement of Income
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2020 $'000	2019 $'000
Interest and similar income		5,896,555	5,897,996
Interest and similar expense		(1,125,601)	(1,500,654)
Net interest income	23	4,770,954	4,397,342
Other operating income	24	3,085,114	3,146,761
Total operating income		7,856,068	7,544,103
Credit loss expense on financial assets	7, 8	(1,423,161)	(277,959)
Net operating income		6,432,907	7,266,144
Operating expenses	25	(6,729,577)	(6,262,108)
(Loss) / Profit before taxation	26	(296,670)	1,004,036
Income tax credit / (expense)	27	23,156	(405,246)
NET (LOSS) / PROFIT FOR THE YEAR, ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	28	(273,514)	598,790
BASIC AND DILUTED (LOSS) / EARNINGS PER STOCK UNIT	28	(0.52)	1.13

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

FirstCaribbean International Bank (Jamaica) Limited

Statement of Comprehensive Income
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2020 $'000	2019 $'000
Net (loss) / profit for the year		(273,514)	598,790
Other comprehensive income, net of tax, to be reclassified to net income in subsequent periods:			
Net gains / (losses) on debt securities at fair value through OCI	29	63,247	(11,337)
Other comprehensive income, net of tax, not to be reclassified to net income in subsequent periods:			
Re-measurement gains on retirement benefit plans	29	83,673	82,082
Other comprehensive income for the year, net of tax		146,920	70,745
Comprehensive (loss) / income for the year, attributable to equity holders of the parent		(126,594)	669,535

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

FirstCaribbean International Bank (Jamaica) Limited

Statement of Cash Flows
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2020 $'000	2019 $'000
Cash Flows from Operating Activities			
(Loss) / Profit before taxation		(296,670)	1,004,036
Adjustments to reconcile profit to net cash provided by operating activities:			
Credit loss expense on financial assets	7, 8	1,423,161	277,959
Loss / (Gain) on disposal of property and equipment		214	(15,833)
Depreciation, including for right-of-use leased assets	9	671,789	368,849
Interest income	23	(5,896,555)	(5,897,996)
Interest expense, including on lease liabilities	23	1,125,601	1,500,654
Retirement benefit asset	11	60,917	19,047
Retirement benefit obligations	11	6,693	6,417
Unrealised foreign exchange gains		(134,194)	(237,274)
		(3,039,044)	(2,974,141)
Changes in operating assets and liabilities:			
Loans and advances to customers		(5,279,911)	(11,661,384)
Customer deposits		6,402,226	12,364,062
Other assets		(103,840)	281,019
Other liabilities		1,258,276	483,974
Statutory reserves at Bank of Jamaica		1,322,044	192,162
		559,751	(1,314,308)
Interest received		5,869,561	5,822,482
Interest paid		(1,248,508)	(1,535,124)
Income tax paid		(479,460)	(134,913)
Cash provided by operating activities		4,701,344	2,838,135
Cash Flows from Investing Activities			
Investment securities, net		(9,602,828)	484,718
Money market placements		-	3,190,433
Additions to property and equipment	9	(1,421,385)	(358,707)
Proceeds from disposal of property and equipment		-	57,735
Net cash (used in)/provided by investing activities		(11,024,213)	3,374,179
Cash Flows from Financing Activities			
Repayment of debt securities		(1,875,000)	-
Repayment of principal portion of lease liability		(290,083)	-
Net cash used in financing activities		(2,165,083)	-
Net (decrease)/increase in cash and cash equivalents		(8,487,952)	6,212,314
Effect of exchange rate changes on cash and cash equivalents		466,505	1,162,225
Cash and cash equivalents at beginning of year		26,341,720	18,967,180
CASH AND CASH EQUIVALENTS AT END OF YEAR	3	18,320,273	26,341,720

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

FirstCaribbean International Bank (Jamaica) Limited

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. In addition, the Bank presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the financial statements.

(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.

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

(iii) Judgements and estimates (continued)

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 COVID-19 pandemic gives rise to heightened uncertainty as it relates to accounting estimates and assumptions and increases the need to apply judgment in evaluating the economic and market environment and its impact on significant estimates. This particularly impacts estimates and assumptions relating to allowance for credit losses, valuation of financial instruments and asset impairment.

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

- Capital management - Note 15
- Financial risk management and policies - Note 35
- Sensitivity analyses disclosures - Notes 11 and 35

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 36.

(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 16 “Leases” as at 1 November 2019 which supercedes 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. The nature and the impact of the new standard is described below.

Several other amendments and interpretations apply for the first time in 2020, but did not have an impact on the financial statements. The Bank has not adopted early any other standards, interpretations or amendments that have been issued but is not yet effective.

2. Summary of Significant Accounting Policies (Continued)

(b) Changes in accounting policies (continued)

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

New and amended standards and interpretations (continued)

IFRS 16 Leases

The Bank applied IFRS 16 as at 1 November 2019 using the modified retrospective method of adoption (alternative 2) without restatement of comparative periods as permitted by the standard. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. Therefore, comparative figures for 2019 are not restated. 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. Under IFRS 16, the Bank recognized right-of-use assets and lease liabilities for its leases previously recognized as operating leases per IAS 17. Depreciation expense on the right-of-use asset and interest expense on the lease liability replaces the previous operating lease expense. IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in the leased assets. On initial recognition, the lease liability related to leases previously recognized as operating leases was measured at an amount equal to the present value of 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 weighted average incremental borrowing rate applied on the Bank's existing lease portfolio was 3.96%. The capitalized right-of-use assets mainly consist of office property, namely the retail branches and AMBs. The standard includes two recognition exemptions for lessees which were applied by the Bank - leases of 'low-value' assets and short-term leases (i.e. leases with a lease term of 12 months). Additionally as a practical expedient, each lease component and associated non-lease components was accounted for as a single lease component. The Bank excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application and also used hindsight in determining the lease term where the contract contained options to extend or terminate the lease. The Bank is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. Based on the above as at 1 November 2019:

i. Right-of-use assets of $1,060,142,000 were recognised and presented in the statement of financial position within 'Property and equipment'
ii. Lease liabilities of $1,060,142,000 (included in 'Other liabilities') were recognized
iii. The adoption of IFRS 16 had no impact on the Bank's retained earnings

The lease liabilities as at 1 November 2019 can be reconciled to the operating lease commitments as of 31 October 2019 as follows:

	$'000
Operating lease commitments as at 31 October 2019	1,063,342
Adjustments as a result of renewal and termination assumptions	(3,200)
Lease liability recognised as at 1 November 2019	1,060,142

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(b) Changes in accounting policies (continued)

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

New and amended standards and interpretations (continued)

IFRS 16 Leases (continued)
For the impact of IFRS 16 on profit or loss for the year, see Note 9. For further details of the Bank's accounting policy for leases under IFRS 16 see Note 2(n).

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

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

The Bank determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. The Bank applies significant judgement in identifying uncertainties over income tax treatments. Since the Bank operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its financial statements. Upon adoption, the Bank considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Bank determined, based on its tax compliance and transfer pricing study that it is probable that its tax treatments will be accepted by the taxation authorities. The Interpretation did not have an impact on the financial statements of the Bank.

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. Early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract. Where the prepayment is made at current fair value or at an amount that includes the fair value of the cost to terminate an associated hedging instruments, the Bank assesses the specific contractual cash flows for the relevant debt instruments in order to determine whether they meet the SPPI criterion. These amendments had 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)

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

New and amended standards and interpretations (continued)

Annual Improvements 2015 - 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 and had no impact on the financial statements of the Bank.

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, they had no impact on the financial statements of the Bank.

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, they had no impact on the financial statements of the Bank.

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(b) Changes in accounting policies (continued)

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

New and amended standards and interpretations (continued)

Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
The amendment clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. Entities must apply the amendments retrospectively, with certain exceptions. These amendments are currently not applicable to the Bank but may apply to future transactions.

(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 Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective:

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS
Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark based cash flows of the hedged item or the hedging instrument. As indicated in the accounting policies, the Bank elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. IAS 39 requires that for cash flow hedges, a forecast transaction must be highly probable. IAS 39 also requires that a hedging relationship only qualifies for hedge accounting if the hedging relationship is highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk. The assessment of hedge effectiveness is made prospectively and retrospectively. As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective. The amendments are effective for annual reporting periods beginning on or after1 January 2020. We continue to evaluate the impact of the amendments to IAS 39 and IFRS 7 on the Bank's financial statements.

Covid-19 related Rent Concessions – Amendments to IFRS 16
As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. In May 2020, the IASB made an amendment to IFRS 16 Leases which provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

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)

Covid-19 related Rent Concessions – Amendments to IFRS 16 (continued)
Entities applying the practical expedients must disclose this fact, whether the expedient has been applied to all qualifying rent concessions or, if not, information about the nature of the contracts to which it has been applied, as well as the amount recognised in profit or loss arising from the rent concessions. An entity applies the amendments for annual reporting periods beginning on or after 30 June 2020, with early application permitted. These amendments are not expected to have any material any impact on the financial statements of the Bank and no specific disclosures are required.

IFRS 17 Insurance contracts
In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4). IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. IFRS 17 was originally effective for reporting periods beginning on or after 1 January 2021, with comparative figures required but has been extended to 1 January 2023 by the IASB. This standard is not applicable to the Bank.

Amendments to IFRS 3: Definition of a Business
In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2020, with early application permitted. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application on, the Bank will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material
In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2020, with early application permitted. The amendments to the definition of material are not expected to have a significant impact on the Bank's financial statements.

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)

Classification of Liabilities as Current or Non-current – Amendments to IAS 1
The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability.

The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. In May 2020, the IASB issued an Exposure Draft proposing to defer the effective date of the amendments from 1 January 2022 to 1 January 2023. The amendments to the classification of liabilities are not expected to have a significant impact on the Bank's financial statements.

Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16
The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2022, with early application permitted. The Bank is currently assessing the impact of these amendments and plans to adopt the new amendment on the required effective date.

Reference to the Conceptual Framework – Amendments to IFRS 3
Minor amendments were made to IFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2022, with early application permitted. The amendments to IFRS 3 Business Combinations not expected to have a significant impact on the Bank's financial statements.

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

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)

Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37
The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2022, with early application permitted. The Bank is currently assessing the impact of these amendments and plans to adopt the new amendment on the required effective date.

Annual Improvements to IFRS Standards 2018–2020
The following improvements were finalised in May 2020:

IFRS 9 Financial Instruments
The amendment clarifies which fees should be included in the 10% test for derecognition of financial liabilities.

IFRS 16 Leases
The amendment removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16, to remove any confusion about the treatment of lease incentives. These amendments are currently not applicable to the Bank.

IFRS 1 First-time Adoption of International Financial Reporting Standards
The amendment allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption. These amendments are currently not applicable to the Bank.

(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.

2. Summary of Significant Accounting Policies (Continued)

(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.

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.

2. Summary of Significant Accounting Policies (Continued)

(e) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement (continued)
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.

(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.

FirstCaribbean International Bank (Jamaica) Limited

2. Summary of Significant Accounting Policies (Continued)

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

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.

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

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

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

Business model assessment (continued)

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.

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.

2. Summary of Significant Accounting Policies (Continued)

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

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.

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:

2. Summary of Significant Accounting Policies (Continued)

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

Financial assets and financial liabilities at fair value through profit or loss (continued)

- 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.

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 31(b) and Note 8, respectively.

FirstCaribbean International Bank (Jamaica) Limited

2. Summary of Significant Accounting Policies (Continued)

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

Financial guarantees, letters of credit and undrawn loan commitments (continued)
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.

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 2020.

(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.

FirstCaribbean International Bank (Jamaica) Limited

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 35.
- **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 35.
- **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 35.

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):** These 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.

- **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 35 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 35, 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 the Bank's loan portfolios, the forecast of forward-looking information variables is established from a "base case" or most likely scenario. In forming the "base case" scenario, the Bank considers the forecasts of monetary authorities such as the International Monetary Fund (IMF), World Bank and regulatory/statutory bodies. The Bank then derives reasonably possible "upside case" and "downside case" scenarios using the historical performance of variables that are above and below its "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 35.

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 35(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 35(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 35(d). If modifications are substantial, the loan is derecognised, as explained in Note 2(j).

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.

FirstCaribbean International Bank (Jamaica) Limited

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) 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.

(m) 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. Right-of-use assets are presented together with property and equipment in the statement of financial position. Refer to the accounting policy for leases at Note 2(n). Right-of-use assets are depreciated on a straight-line basis over the lease term.

Land is not depreciated. Depreciation on other owned 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%

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.

2. Summary of Significant Accounting Policies (Continued)

(n) Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Bank leases various buildings for extended periods. Contracts may contain both lease and non-lease components, however where the Bank has a lease, it has elected not to separate these components and instead accounts for these as a single lease component.

(i) As lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (that is, the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within Note 9 and are subject to similar impairment in line with the Bank's impairment policy for non-financial assets.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is memeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used)
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The lease liabilities are presented within other liabilities on the statement of financial position.

2. Summary of Significant Accounting Policies (Continued)

(n) Leases (continued)

(ii) As lessor

Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Determination of the lease term for lease contracts with renewal and termination options (As a lessee)
The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Bank has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

Estimating the incremental borrowing rate
The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (‘IBR’) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank ‘would have to pay’, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary’s functional currency).The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the subsidiary’s stand-alone credit rating, or to reflect the terms and conditions of the lease).

To determine the incremental borrowing rate, the Bank uses a build-up approach which incorporates internal Funds Transfer Pricing (FTP) methodology to derive the discount rates which are further duration adjusted to better reflect the amortizing nature of the lease portfolio. The approach makes adjustments specific to the lease, eg term, country and currency.

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

2. Summary of Significant Accounting Policies (Continued)

(n) Leases (continued)

Finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Amounts due from lessees under finance leases mainly relate to the leasing of vehicles & equipment and are recorded under loans and advances to customers in the statement of financial position at the amount of the net investment in the leases. At the commencement of the lease term, the Bank recognizes finance leases at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. To calculate the present value of the lease payments the interest rate stipulated in the finance lease is used. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment in the lease.

(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.

Restructuring provisions are recognised only when the recognition criteria for provisions are fulfilled. The Bank has a constructive obligation when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs, and an appropriate timeline. Furthermore, the employees affected have been notified of the plan's main features. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(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.

FirstCaribbean International Bank (Jamaica) Limited

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.

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

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) 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 35. 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.

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

3. Cash and Balances with Central Bank

	2020 $'000	2019 $'000
Cash	2,372,286	1,550,678
Deposits with Central Bank – interest bearing	15,131,121	19,318,910
Deposits with Central Bank – non-interest bearing	2,475,000	3,300,000
	19,978,407	24,169,588
Interest receivable	989	4,558
	19,979,396	24,174,146

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:

	2020	2019
Jamaica dollar denominated cash reserves	5%	7%
Foreign currency denominated reserves	13%	15%

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

	2020 $'000	2019 $'000
Cash and balances with Central Bank	19,978,407	24,169,588
Less: Mandatory reserve deposits with Central Bank (Note 33)	(9,080,757)	(10,402,801)
	10,897,650	13,766,787
Due from other banks (Note 4)	7,422,623	12,574,933
	18,320,273	26,341,720

4. Due From Other Banks

	2020 $'000	2019 $'000
Money market placements (Note 3)	7,422,623	12,574,933
Interest receivable	100	12,173
	7,422,723	12,587,106

Included in money market placements are deposits with the ultimate parent company of $763,460,000 (2019 – $549,523,000) (Note 30).

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 2020			
Interest rate zero cost collar	89,294	619,474	619,474
As at 31 October 2019			
Interest rate zero cost collar	42,392	82,991	82,991

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

	2020	2019
	$'000	$'000
Prepayments and deferred items	95,619	93,738
Withholding tax recoverable	118,057	18,003
Other	52,914	47,519
	266,590	159,260

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

7. Investment Securities

	2020 $'000	2019 $'000
Debt securities measured at FVOCI		
Government securities	13,755,896	3,662,038
Equity securities – unquoted (see note below)	5,034	5,034
Total securities at FVOCI	13,760,930	3,667,072
Add: Interest receivable	33,408	28,780
Balance at end of period	13,794,338	3,695,852

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:

	2020 $'000	2019 $'000
Balance at the beginning of the year	3,667,072	4,163,651
Additions	19,541,426	2,789,758
Changes in fair value	(6,215)	(11,861)
Amortisation of discount on purchases	(10,056)	(18,829)
Disposals	(9,431,297)	(3,255,647)
Balance at end of the year	13,760,930	3,667,072

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

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	2020
	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	53,688	5,917	-	59,605
Originations net of repayments and other derecognitions	5,030	-	-	5,030
Changes in model	(2,448)	(1,335)	-	(3,783)
Net remeasurement	56,715	43,109		99,824
Credit loss expense	59,297	41,774	-	101,071
Balance at end of period	112,985	47,691	-	160,676

	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

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

8. Loans and Advances to Customers

	Stage 1	Stage 2	Stage 3	2020
	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	8,569,866	3,448,414	286,855	12,305,135
ECL allowance	(45,872)	(115,048)	(163,258)	(324,178)
Net mortgages	8,523,994	3,333,366	123,597	11,980,957
Personal loans				
Gross loans	8,910,048	3,375,807	413,060	12,698,915
ECL allowance	(269,109)	(258,289)	(275,403)	(802,801)
Net personal loans	8,640,939	3,117,518	137,657	11,896,114
Business & Government				
Gross loans	46,912,876	4,336,372	194,250	51,443,498
ECL allowance	(738,895)	(183,515)	(103,280)	(1,025,690)
Net business and government loans	46,173,981	4,152,857	90,970	50,417,808
Total net loans	63,338,914	10,603,741	352,224	74,294,879
Add: Interest receivable				432,877
Less: Unearned fee income				(680,919)
				74,046,837

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

8. Loans and Advances to Customers (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
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

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

8. Loans and Advances to Customers (Continued)

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

As at 31 October 2020	Mortgages $'000	Personal Loans $'000	Business & Government $'000	Total $'000
Less than 30 days	19,508	215,450	419,194	654,152
31 – 60 days	311,831	385,381	79,042	776,254
61- 90 days	376,856	288,133	66,181	731,170
	708,195	888,964	564,417	2,161,576

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

ECL allowances comprise: -

	2020 $'000	2019 $'000
Specific allowance	541,942	406,852
General allowance	1,610,727	581,570
	2,152,669	988,422

As at 31 October 2020, loans with principal balances outstanding of $894,165,000 (2019 - $837,749,000) were in non-performing status. Interest receivable on these loans amounted to $Nil (2019 - $Nil). Interest taken to income in respect of these loans amounted to $1,095,000 (2019 - $1,162,000).

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

	2020 $'000	2019 $'000
Specific provision	541,942	554,583
General provision	1,610,727	630,649
	2,152,669	1,185,232
Excess of regulatory provision over IFRS provision reflected in non-distributable loan loss reserve (Note 20)	-	196,810

8. Loans and Advances to Customers (Continued)

As a result of the impact of the COVID-19 pandemic and the potential negative impact on the Bank's loan portfolio arising from the decline in economic activity, a heightened application of judgement in a number of areas was required in the determination of whether a significant increase in credit risk (SICR) has occurred. This included the careful evaluation of the evolving macroeconomic environment and the various client relief programs provided to our clients. Consistent with guidance issued by the IASB, interest or principal deferments pursuant to various relief programs provided have not automatically resulted in a SICR that would trigger migration to stage 2 by reason only that a deferral under the program was granted. However, the inclusion of a loan in a relief program did not preclude its migration to stage 2 if we determined that there was a SICR based on our assessment of related forward looking indicators.

Management overlays to ECL allowance estimates are adjustments which the Bank uses in circumstances where its existing inputs, assumptions and model techniques are determined to not capture all relevant risk factors. To address the uncertainties inherent in the current environment, management overlays were utilized for the impact that the COVID-19 pandemic will have on the migration of exposures that are most susceptible to these risks. Based on the COVID-19 management overlay assessment performed, the Bank has made high level assumptions related to the probability of default, stage migration and loss given default rates and estimated an increase in ECL of approximately $915,093,000 during the year.

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

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	2020 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	18,802	6,290	137,865	162,957
Originations net of repayments and other derecognitions	6,689	(1,572)	(4,565)	552
Changes in model	-	1,397	968	2,365
Net remeasurement	46,591	84,207	27,043	157,841
Transfers:				
- to 12-month ECL	14,123	(14,123)	-	-
- to lifetime ECL performing	(40,325)	40,325	-	-
- to lifetime ECL credit-impaired	(8)	(1,476)	1,484	-
Credit loss	27,070	108,758	24,930	160,758
Provision for time value interest	-	-	14,020	14,020
Total credit loss expense/(credit)	27,070	108,758	38,950	174,778
Write-offs			463	463
Interest income on impaired loans	-	-	(14,020)	(14,020)
Balance at end of year	45,872	115,048	163,258	324,178
Personal Loans				
Balance at beginning of period	125,683	36,214	215,883	377,780
Originations net of repayments and other derecognitions	54,541	2,927	(22,930)	34,538
Changes in model	-	(187)	(71)	(258)
Net remeasurement	197,469	115,922	197,055	510,446
Transfers:				
- to 12-month ECL	9,880	(9,880)	-	-
- to lifetime ECL performing	(118,132)	118,139	(7)	-
- to lifetime ECL credit-impaired	(332)	(4,846)	5,178	-
Credit loss expense	143,426	222,075	179,225	544,726
Provision for time value interest	-	-	16,791	16,791
Total credit loss expense	143,426	222,075	196,016	561,517
Write-offs	-	-	(161,427)	(161,427)
Recoveries	-	-	42,568	42,568
Interest income on impaired loans	-	-	(17,637)	(17,637)
Balance at end of year	269,109	258,289	275,403	802,801

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

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	2020
	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	361,895	32,686	53,104	447,685
Originations net of repayments and other derecognitions	126,286	14,965	(5,452)	135,799
Changes in model	(16,063)	(6,235)	357	(21,941)
Net remeasurement	483,335	(69,306)	48,332	462,361
Transfers:				
- to 12-month ECL	10,567	(10,556)	(11)	-
- to lifetime ECL performing	(226,610)	226,617	(7)	-
- to lifetime ECL credit-impaired	(515)	(4,656)	5,171	-
Credit loss expense/(credit)	377,000	150,829	48,390	576,219
Provision for time value interest	-	-	9,576	9,576
Total credit loss expense/(credit)	377,000	150,829	57,966	585,795
Write-offs	-	-	2,035	2,035
Interest income on impaired loans	-	-	(9,825)	(9,825)
Balance at end of year	738,895	183,515	103,280	1,025,690
Total ECL allowance	1,053,876	556,852	541,941	2,152,669

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

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	2020
	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	506,380	75,190	406,852	988,422
Originations net of repayments and other derecognitions	187,516	16,320	(32,947)	170,889
Changes in model	(16,063)	(5,025)	1,254	(19,834)
Net remeasurement	727,395	130,823	272,430	1,130,648
Transfers:				
- to 12-month ECL	34,570	(34,559)	(11)	-
- to lifetime ECL performing	(385,067)	385,081	(14)	-
- to lifetime ECL credit-impaired	(855)	(10,978)	11,833	-
Credit loss expense/(credit)	547,496	481,662	252,545	1,281,703
Provision for time value interest	-	-	40,387	40,387
Total credit loss expense/(credit)	547,496	481,662	292,932	1,322,090
Write-offs	-	-	(158,929)	(158,929)
Recoveries	-	-	42,568	42,568
Interest income on impaired loans	-	-	(41,482)	(41,482)
Balance at end of year	1,053,876	556,852	541,941	2,152,669
Comprises:				
Loans	987,318	534,153	541,941	2,063,412
Undrawn credit facilities and other	66,558	22,699	-	89,257
Total ECL allowance	1,053,876	556,852	541,941	2,152,669

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

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

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

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

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

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

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

9. Property and Equipment

	Land $'000	Buildings $'000	Leasehold Improvements $'000	Equipment, Furniture and Vehicles $'000	Right-of-Use-Assets-Buildings $'000	Total $'000
			2020			
Cost						
1 November 2019	55,000	349,702	452,960	3,079,286	-	3,936,948
Additions	-	22,426	2,107	327,355	1,069,497	1,421,385
Disposals	-	(128)	-	(352)	-	(480)
Transfers	-	19,186	7,122	(26,308)	-	-
31 October 2020	55,000	391,186	462,189	3,379,981	1,069,497	5,357,853
Accumulated depreciation						
1 November 2019	-	72,879	277,985	2,007,588	-	2,358,452
Charge for the year (Note 26)	-	9,447	28,650	329,605	304,087	671,789
Relieved on disposals	-	(62)	-	(203)	-	(265)
31 October 2020	-	82,264	306,635	2,336,990	304,087	3,029,976
Net book value						
31 October 2020	55,000	308,922	155,554	1,042,991	765,410	2,327,877
			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 26)	-	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

9. Property and Equipment (Continued)

This note also provides information for operating leases where the Bank is a lessee. There are no operating leases where the Bank is a lessor.

Included in the table above are amounts totaling $14,430,000 (2019 – $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 $55,874,000 (2019 - $142,161,000) relating to work-in-progress on which no depreciation has been charged.

Set out below are the carrying amounts of lease liabilities (included under 'Other liabilities' in Note 13) and the movements during the period:

	2020 **$'000**
As at 1 November 2019- effect of adoption of IFRS 16	1,060,142
Modification	9,355
	1,069,497
Accretion of interest	36,999
Payments	(327,082)
Revaluation	39,851
As at 31 October 2020	819,265

The maturity analysis of lease liabilities are disclosed in Note 35.

Total expenditure related to leases which are not recognized on balance sheet due to the recognition exemption per the IFRS 16 practical expedients are outlined below:

The Bank had total cash outflows for leases of $327,082,000 as at 31 October 2020. The initial application of IFRS 16 resulted in non-cash additions to right-of-use assets and lease liabilities of $1,060,142,000 at 1 November 2019.

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

10. 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% (2019 - 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:

	2020 $'000	2019 $'000
Balance as at 1 November	(128,980)	(20,253)
(Credit)/Charge to the statement of income (Note 27)	499,157	(73,354)
Charge to other comprehensive income (Note 29)	(73,460)	(35,373)
Balance as at 31 October	296,717	(128,980)

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

	2020 $'000	2019 $'000
Deferred tax assets:		
Expected credit loss allowances	603,712	260,660
Post-retirement medical and insurance benefits	27,253	34,844
Unearned fees	226,973	182,217
Other provisions	24,463	13,653
	882,401	491,374
Deferred tax liabilities:		
Accelerated tax depreciation	12,442	17,804
Retirement benefit asset	505,551	511,716
Debt securities at FVOCI	9,676	11,743
Foreign exchange revaluation gains	58,015	79,091
	585,684	620,354
Net deferred tax asset/(liability)	296,717	(128,980)

11. 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 2020.

Benefit changes

There were no material changes to the terms of the defined benefit pension or post-retirement medical benefit plans in 2020 or 2019.

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.

Amounts recognized in the statement of financial position:

	2020 $'000	2019 $'000
Defined benefit pension scheme (Note 11(a))	1,516,652	1,535,147
Other post retirement benefits (Note 11(b))	(81,758)	(104,532)

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

11. Retirement Benefit Asset (Obligation) (Continued)

(a) Defined benefit pension scheme

	2020 $'000	2019 $'000
Fair value of plan asset	5,304,505	5,653,567
Present value of funded obligation	(3,787,853)	(4,118,420)
Asset in the statement of financial position	1,516,652	1,535,147

At 31 October 2020, pension plan assets include the Parent's ordinary stock units with a fair value of $44,098,000 (2019 – $65,264,000).

	2020 $'000	2019 $'000
Balance at 1 November	1,535,147	1,524,438
Charge for the year (Note 25)	(60,917)	(19,047)
Employer Contribution	(56,733)	(107,483)
Effect on statement of other comprehensive income (Note 29)	99,155	137,239
Balance at 31 October	1,516,652	1,535,147

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

	2020 $'000	2019 $'000
Current service cost	116,813	101,017
Interest cost	264,698	276,714
Interest income	(362,135)	(385,693)
Losses from settlements	15,500	-
Administration and other non-plan investment management expenses	26,041	27,009
Included in staff costs (Note 25)	60,917	19,047
Actual return on plan assets	(158,515)	654,927

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

11. Retirement Benefit Asset (Obligation) (Continued)

(a) Defined benefit pension scheme (continued)

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

	2020 $'000	2019 $'000
Fair value of plan asset at start of year	5,653,567	5,278,549
Asset transferred into the plan	-	18,963
Asset transferred out of the plan	(15,500)	(35,197)
Actual return on plan asset	(158,515)	654,927
Employer contributions (including direct benefit payments for unfunded plans)	(56,733)	(107,483)
Benefits paid during year	(92,273)	(129,183)
Administration and other non-plan investment management expenses	(26,041)	(27,009)
Fair value of plan asset at end of year	5,304,505	5,653,567

Changes in the present value of obligation are as follows:

	2020 $'000	2019 $'000
Present value of obligation at start of year	4,118,420	3,754,111
Interest cost	264,698	276,714
Current service cost	116,813	101,017
Benefits paid during year	(92,273)	(129,183)
Actuarial loss/(gain) on plan obligation	(619,805)	131,995
Liabilities transferred in	-	18,963
Liabilities transferred out	-	(35,197)
Present value of obligation at end of year	3,787,853	4,118,420

The Bank expects to contribute $50,000 (2019 - $50,000) to its defined benefit pension plan in the next year.

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

11. 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:

	2020 $'000	2019 $'000
Actuarial gains/(losses) on defined benefit obligation arising from:		
- Financial assumptions	740,484	(230,879)
- Experience adjustments	(120,679)	98,884
Return on plan assets excluding interest income	(520,650)	269,234
Net remeasurement gains recognized in OCI	99,155	137,239

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

	2020 $'000	2019 $'000
Active members	2,468,906	2,760,725
Inactive and retired members	1,318,947	1,357,695
	3,787,853	4,118,420

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

	2020	2019
Average duration, in years	16	18

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

	2020 %	2019 %
Quoted equity instruments:		
Local	11	18
International	6	5
Quoted debt instruments:		
Government bonds	31	21
Corporate bonds	13	15
Real estate	24	22
Other assets	15	19
	100	100

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

11. Retirement Benefit Asset (Obligation) (Continued)

(a) Defined benefit pension scheme (continued)

The principal actuarial assumptions used were as follows:

	2020	2019
	%	%
Discount rate	9.00	6.50
Future salary increases	6.50	4.50
Future pension increases	3.75	2.25

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

	2020	2019	2018	2017	2016
	$'000	$'000	$'000	$'000	$'000
Fair value of plan assets	5,304,505	5,653,567	5,278,549	4,487,954	4,110,997
Present value of obligation	(3,787,853)	(4,118,420)	(3,754,111)	(3,758,612)	(3,474,715)
	1,516,652	1,535,147	1,524,438	729,342	636,282

A quantitative sensitivity analysis for significant assumptions as at 31 October 2020 is shown below:

Assumption	Sensitivity level	Impact on net defined benefit pension plans	
		Increase	Decrease
		$'000	$'000
Discount rate	1.00%	534,880	671,895
Future salary increases	0.50%	95,043	90,181
Future pension increases	0.50%	205,131	188,926
Existing retiree age	1 year	97,534	N/A

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

11. Retirement Benefit Asset (Obligation) (Continued)

(a) Defined benefit pension scheme (continued)

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%	645,986	827,637
Future salary increases	0.50%	121,467	114,831
Future pension increases	0.50%	243,935	223,350
Existing retiree age	1 year	115,931	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:

	2020	2019
	$'000	$'000
Within the next 12 months	88,898	75,650
Between 1 and 5 years	557,110	450,180
Between 5 and 10 years	1,234,172	987 270
Total expected payment	1,880,180	1,513,100

11. 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 (2019: 6%).

A quantitative sensitivity analysis for significant assumptions as at 31 October 2020 is as shown below:

Assumption	Sensitivity level	Impact on post-retirement medical benefits	
		Increase $'000	Decrease $'000
Discount rate	1.00%	6,135	7,057
Medical premium inflation	1.00%	7,098	6,265
Existing retiree age	1 year	2,905	N/A

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%	9,377	11,008
Medical premium inflation	1.00%	10,821	9,391
Existing retiree age	1 year	4,491	N/A

	2020 $'000	2019 $'000
Present value of unfunded obligations and liability in the statement of financial position	81,758	104,532

FirstCaribbean International Bank (Jamaica) Limited

11. 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:

	2020 $'000	2019 $'000
Within the next 12 months	6,788	6,720
Between 1 and 5 years	31,499	31,120
Between 5 and 10 years	40,080	40,490
Total expected payment	78,367	78,330

	2020 $'000	2019 $'000
Obligation at beginning of year	104,532	86,641
Charge for the year (Note 25)	6,693	6,417
Employer contributions	(3,113)	(2,642)
Effect of statement of other comprehensive income (Note 29)	(26,354)	14,116
Obligation at end of year	81,758	104,532

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

	2020 $'000	2019 $'000
Interest cost	6,693	6,417
Total included in staff costs (Note 25)	6,693	6,417

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

	2020 $'000	2019 $'000
Actuarial gains/(losses) on defined benefit obligation arising from:		
- Financial adjustments	19,793	(9,378)
- Experience adjustments	6,561	(4,738)
Net re-measurement losses recognized in OCI	26,354	(14,116)

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

11. 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:

	2020 $'000	2019 $'000
Inactive and retired members	81,758	104,532

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

	2020	2019
Average duration, in years	8	10

12. Customer Deposits

	2020 $'000	2019 $'000
Individuals	37,576,345	33,416,515
Business and Government	46,838,130	44,376,891
Banks	20,291,851	17,623,586
	104,706,326	95,416,992
Interest payable	164,009	226,127
	104,870,335	95,643,119

13. Other Liabilities

	2020 $'000	2019 $'000
Accounts payable and accruals	813,247	843,210
Lease liability (Note 9)	819,265	-
Due to related parties	60,057	22,102
Items in transit, net	552,689	398,618
Other taxation payable	50,911	53,695
Other	-	46,434
	2,296,169	1,364,059

Included in other liabilities is severance provision of $35,052,000 (2019 $Nil) to account for severance payments and anticipated exit costs.

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

14. Debt Securities in Issue

	2020 $'000	2019 $'000
Notes due 2019	-	1,875,000
Add: interest payable	-	60,789
	-	1,935,789

The J$1.875 billion bond matured on 9 December 2019, had a fixed interest rate of 7.65% and constituted senior unsecured debt with a guarantee by the ultimate parent.

15. Share Capital and Reserves

	2020 No. of Shares (000)	2019 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.

	2020 $'000	2019 $'000
Issued and fully paid -		
265,756,730 (2019 – 265,756,730) ordinary stock units of no par value	1,396,667	1,396,667
264,000,000 (2019 – 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.

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

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 14.32% and 14.32%, respectively (2019: 12.53% and 12.59%).

Reserves

	2020 $'000	2019 $'000
Capital reserves (Note 16)	12,833	12,833
Retirement benefit reserve (Note 17)	954,980	871,307
Statutory reserve fund (Note 18)	3,206,667	2,756,667
Retained earnings reserve (Note 19)	2,861,163	1,706,163
Loan loss reserve (Note 20)	-	196,810
General reserve (Note 21)	45,522	45,522
Fair value reserves – debt instruments through OCI (Note 22)	126,470	63,223
Total reserves at end of the year	7,207,635	5,652,525

16. Capital Reserves

	2020 $'000	2019 $'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

	2020 $'000	2019 $'000
Balance at beginning of year	871,307	789,225
Re-measurement gains on retirement benefit plans during the year (Note 29)	83,673	82,082
Balance at end of year	954,980	871,307

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

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

18. Statutory Reserve Fund

	2020 $'000	2019 $'000
Balance at beginning of the year	2,756,667	2,666,667
Transfer from retained earnings	450,000	90,000
Balance at end of the year	3,206,667	2,756,667

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. In the prior year, the Board of Directors approved the transfer of $450,000,000 from retained earnings to the statutory reserve fund effective 31 January 2020. The transfer was done based on the net profits for the year ended 31 October 2019. There will be no transfer for the year ended 31 October 2020.

19. Retained Earnings Reserve

	2020 $'000	2019 $'000
Balance at beginning of the year	1,706,163	1,706,163
Transfer from retained earnings	1,155,000	-
Balance at end of the year	2,861,163	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 Board of Directors approved the transfer of $1,155,000,000 from retained earnings to the retained earnings reserve effective 31 January 2020.

20. Loan Loss Reserve

	2020 $'000	2019 $'000
Balance at beginning of year	196,810	154,667
Transfer (to) / from retained earnings	(196,810)	42,143
Balance at end of the year	-	196,810

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).

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

21. General Reserve

	2020 $'000	2019 $'000
Balance at beginning and end of the year	45,522	45,522

This represents a transfer from retained earnings to a general reserve on a tax free basis.

22. Fair Value Reserves

Debt instruments at fair value through OCI:

	2020 $'000	2019 $'000
Balance at beginning of year	63,223	74,560
Net gains / (losses) on debt securities measured at FVOCI during the year (Note 29)	63,247	(11,337)
Balance at end of the year	126,470	63,223

23. Net Interest Income

	2020 $'000	2019 $'000
Interest and similar income:		
Cash and balances due from banks	154,318	445,544
Investment securities	147,607	176,266
Loans and advances	5,594,630	5,276,186
	5,896,555	5,897,996
Interest and similar expense:		
Customer deposits	(1,073,680)	(1,354,644)
Lease liability	(36,999)	-
Debt securities in issue	(14,922)	(146,010)
	(1,125,601)	(1,500,654)
Net interest income	4,770,954	4,397,342

24. Other Operating Income

	2020 $'000	2019 $'000
Net fees and commissions	961,287	1,048,740
Foreign exchange transactional net gains	1,817,320	1,726,252
Foreign exchange revaluation net gains	134,194	237,273
Securities net gains	32,585	17,021
Other operating income	139,728	117,475
	3,085,114	3,146,761

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

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

25. Operating Expenses

	2020 $'000	2019 $'000
Staff costs	1,609,332	1,506,799
Depreciation	671,789	368,849
Occupancy costs	170,248	473,238
Other operating expenses	4,278,208	3,913,222
	6,729,577	6,262,108

Analysis of staff costs:

	2020 $'000	2019 $'000
Wages and salaries	1,070,572	1,032,275
Pension costs –		
Defined benefit plan (Note 11)	60,917	19,047
Defined contribution plan	20,753	47,655
Other post retirement benefits (Note 11)	6,693	6,417
Other share and cash-based benefits (Note 37)	12,545	9,744
Severance	35,827	997
Other staff-related costs	402,025	390,664
	1,609,332	1,506,799

Depreciation includes depreciation on right-of-use assets of $304,087,000 (2019:$NIL). Other operating expenses include expenses relating to short-term leases of $535,000 and to leases of low-value assets of $57,317,000.

26. (Loss) / Profit Before Taxation

(Loss) / Profit before taxation is stated after charging:

	2020 $'000	2019 $'000
Depreciation (Note 9)	671,789	368,849
Directors' emoluments-		
Fees	10,437	9,856
Management remuneration (Note 30(b))	62,866	51,781
Auditor's remuneration	16,153	14,996

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

27. Income Tax Expense

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

	2020 $'000	2019 $'000
Current year income tax	475,295	323,787
Prior year under accrual	83	5,756
Tax on income at source	623	2,349
	476,001	331,892
Deferred tax charge (Note 10)	(499,157)	73,354
	(23,156)	405,246

Income tax is calculated at the rate of 33⅓% (2019: 33⅓%).

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

	2019 $'000	2018 $'000
(Loss) / Profit before taxation	(296,670)	1,004,036
Tax calculated at 33⅓%	(98,890)	334,679
Effect of:		
Income not subject to tax	(14,318)	(1,767)
Expenses not deductible for tax	90,723	74,980
Dividend income tax at 15%	(760)	(2,509)
Prior year under accrual on corporation tax liability	83	5,756
Other charges and allowances	6	(5,893)
	(23,156)	405,246

28. (Loss) / Earnings Per Stock Unit

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

	2020	2019
Net (loss) / profit for the year ($'000)	(273,514)	598,790
Weighted average number of ordinary stock units in issue ('000)	529,757	529,757
(Loss) / Earnings per stock unit ($)	(0.52)	1.13

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

29. Components of Other Comprehensive Income

	2020 $'000	2019 $'000
Debt instruments at fair value through OCI:		
Gains / (Losses) arising during the year	94,871	(17,005)
Less: Deferred tax	(31,624)	5,668
Other comprehensive gains / (losses) for the year (Note 22)	63,247	(11,337)
Re-measurement on retirement benefit plans:		
Gains arising during the year	125,509	123,123
Less: Deferred tax	(41,836)	(41,041)
Other comprehensive gains for the year (Note 17)	83,673	82,082
Total other comprehensive gains for the year, net of tax	146,920	70,745

30. 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

	2020 $'000	2019 $'000
The Parent, FirstCaribbean International Bank Limited:		
Net payable	60,057	18,604
Other expenses for banking and support services	2,336,295	1,865,028
Other FirstCaribbean entities and affiliates:		
Interest income	24,687	63,097
Interest expense	279,651	434,491
Net payable	-	3,498
Deposits by other FirstCaribbean entities	20,877,219	18,206,254
Money market placements	2,649,753	2,482,014
The ultimate parent, CIBC:		
Interest income	1,153	4,725
Interest expense	4	-
Customer deposits	14,385	29,468
Money market placements (Note 4)	763,460	549,523
Loans and advances to customers	100	97

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

30. Related Party Transactions (Continued)

(b) Transactions and balances with directors

	2020 $'000	2019 $'000
Loans outstanding	46,023	17,254
Deposits	48,426	45,031
Interest income	3,255	795
Interest expense	344	366
Directors' fees	10,437	9,856
Post retirement benefits	7,220	6,417
Management remuneration paid (included below) (Note 26)	62,866	51,781

(c) Key management remuneration paid during the year

	2020 $'000	2019 $'000
Wages and salaries	126,698	109,583
Statutory contributions	11,946	10,395
Post retirement benefits	17,995	14,368
	156,639	134,346

31. Commitments

(a) Future rental commitments under operating leases

At 31 October 2019, the Bank held leases on buildings for extended periods. The leases have an average life of between 1 and 5 years. There are no restrictions placed upon the lessee by entering into these contracts. The Bank has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Bank's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised (refer to Note 2). As at 31 October 2020 there are no material extension options expected not to be exercised or termination options expected to be exercised.

The future rental commitments under these leases were as follows:

	2020 $'000	2019 $'000
Not later than 1 year	326,624	312,331
Later than 1 year and less than 5 years	545,591	751,011
	872,715	1,063,342

Commitments related to short-term and low-value leases amounted to $69,317,000; of which $65,986,000 relate to items later than 1 year and less that 5 years.

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

31. Commitments (Continued)

(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:

	2020 $'000	2019 $'000
Guarantees and indemnities	912,250	1,235,798
Letters of credit	2,181,608	3,445,543
Loan commitments	19,412,236	9,983,079
	22,506,094	14,664,420

32. Contingencies

The Bank, because of the nature of its business, is subject to various threatened or filed legal actions. At 31 October 2020 material claims filed amounted to approximately $2,101,003,0000 (2019 - $2,078,887,000). The majority of this amount relates to a specific counter claim of approximately $2,006,132,000 (2019 - $2,004,810,000), filed by a former customer against the Bank. A counter claim was brought against the former customer by the Bank for approximately $686,077,000 (2019 – $652,841,000). 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.

33. 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.

	2020 $'000	2019 $'000
Cash and balances with Central Bank		
Statutory reserves at Bank of Jamaica (Note 3)	9,080,757	10,402,801
Securities – bonds & debentures:		
Pledged as collateral for clearing services	188,414	193,599
	9,269,171	10,596,400

34. 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.

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

34. Business Segments (Continued)

	Retail & Business Banking	Corporate & Investment Banking	Administration	Total
	$'000	$'000	$'000	$'000
31 October 2020				
External revenue	2,237,192	2,564,537	(30,775)	4,770,954
Internal revenue	1,048,875	(327,672)	(721,203)	-
Net interest income	3,286,067	2,236,865	(751,978)	4,770,954
Operating Income	1,096,361	1,850,205	138,548	3,085,114
Total Revenue	4,382,428	4,087,070	(613,430)	7,856,068
Depreciation	152,759	8,863	510,167	671,789
Non-interest expenses	1,930,511	421,930	3,705,347	6,057,788
Indirect expenses	2,527,590	1,182,791	(3,710,381)	-
Credit loss expense on financial assets	898,680	423,409	101,072	1,423,161
(Loss) / Income before taxation	(1,127,112)	2,050,077	(1,219,635)	(296,670)
Income tax credit	(366,896)	658,511	(314,771)	23,156
Net loss for the year	(760,216)	1,391,566	(904,864)	(273,514)
Segment assets	27,302,317	48,265,729	44,702,558	120,270,604
Segment liabilities	51,086,433	24,644,031	32,372,308	108,102,772
Other segment information				
Interest income	3,723,484	2,592,264	(419,193)	5,896,555
Interest expense	437,416	355,400	332,785	1,125,601
Capital expenditure	84,602	37,697	1,299,086	1,421,385

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

34. Business Segments (Continued)

	Retail & Business Banking	Corporate & Investment Banking	Administration	Total
	$'000	$'000	$'000	$'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	(1,138,714)	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	25,756,058	43,251,602	42,784,731	111,792,391
Segment liabilities	46,225,150	22,103,357	31,169,458	99,497,965
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

35. 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.

FirstCaribbean International Bank (Jamaica) Limited

35. 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 2020, 33% (2019: 58%) of stage 3 impaired loans were either fully or partially collateralized.

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

35. 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:

	2020			2019		
	Loans and Leases $'000	**Acceptances, Guarantees and Letters of Credit $'000**	**Total 2020 $'000**	**Loans and Leases $'000**	**Acceptances, Guarantees and Letters of Credit $'000**	**Total 2019 $'000**
Agriculture, fishing and mining	3,569,518	201,733	3,771,251	1,755,931	3,633	1,759,564
Construction	10,549,899	419,139	10,969,038	5,954,391	39,398	5,993,789
Distribution	5,246,292	3,312,881	5,559,173	5,580,305	2,839,490	8,419,795
Electricity, gas and water	17,427,726	7,639,775	25,067,501	16,229,239	729,750	16,958,989
Financial institutions	11,900	67,568	79,468	19,696	500	20,196
Government and public entities	3,826,415	-	3,826,415	4,508,404	-	4,508,404
Manufacturing and production	1,923,623	1,963,816	3,887,439	1,222,895	6,251	1,229,146
Personal	24,084,618	6,886,148	30,970,766	22,361,349	7,533,905	29,895,254
Professional and other services	4,608,489	1,860,246	6,468,735	3,158,489	3,187,080	6,345,569
Tourism and entertainment	583,003	79,525	662,528	4,914,896	4,401	4,919,297
Transport, storage and communication	4,616,065	75,263	4,691,328	3,414,003	320,012	3,734,015
Total	76,447,548	22,506,094	98,953,642	69,119,598	14,664,420	83,784,018
ECL allowances			(2,152,669)			(988,422)
			96,800,973			82,795,596

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.

35. 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.

35. 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.

Derivatives

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.

FirstCaribbean International Bank (Jamaica) Limited

35. 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 31(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 31(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.

FirstCaribbean International Bank (Jamaica) Limited

35. 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 rating

For the retail portfolio, which includes residential mortgages and personal loans, the Bank's assessment of credit quality is in line with the IFRS 9 methodology for staging which is based on days past due and trends to support significant increases in credit risk on a more forward looking basis. The trends are established in order to avoid volatility in the movement of significant increases in credit risk. For the business & government loans and securities, a mapping between the obligor risk rating grades used by the Bank and the external agencies' ratings 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
Grade description	Days past due
Very low (Stage 1)	0
Low (Stage 1)	1 – 29
Medium (Stage 2)	30-60[1]
High (Stage 2)	61-89
Default (Stage 3)	90+

	Securities	
Grade description	Standard & Poor's equivalent	Moody's Investor
Investment grade	AAA to BBB-	Aaa to Baa3
Non-investment grade	BB+ to C	Ba to C
Default	D	D
Not rated	No obligor risk rating (ORR)	

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 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 high grade including CIBC group entities.

1 Includes accounts subject to trends for significant increases in credit risk less than 29 days past due at reporting date

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

35. Financial Risk Management (Continued)

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

Credit quality (continued)

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, after credit risk mitigation, valuation adjustments related to the financial guarantors, and collateral on agreements.

2020	Stage 1	Stage 2	Stage 3	Total
Residential Mortgages	**$'000**	**$'000**	**$'000**	**$'000**
Very low	8,430,713	-	-	8,430,713
Low	139,153	-	-	139,153
Medium	-	3,314,969	-	3,314,969
High	-	133,445	-	133,445
Default	-	-	286,855	286,855
Gross residential mortgages	8,569,866	3,448,414	286,855	12,305,135
Personal (including cards)				
Very low	8,600,052	-	-	8,600,052
Low	309,996	-	-	309,996
Medium	-	3,177,051	-	3,177,051
High	-	198,756	-	198,756
Default	-	-	413,060	413,060
Gross personal	8,910,048	3,375,807	413,060	12,698,915
Business and Government				
Investment Grade	1,051,968	-	-	1,051,968
Non-Investment Grade	43,683,183	3,580,626	-	47,263,809
Default	-	-	194,250	194,250
Not rated	2,177,725	755,746	-	2,933,471
Gross business and government	46,912,876	4,336,372	194,250	51,443,498
Total gross amount of loans	64,392,790	11,160,593	894,165	76,447,548

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

35. Financial Risk Management (Continued)

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

Credit quality (continued)

2019 Residential Mortgages	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
Very low	7,631,728	-	-	7,631,728
Low	1,950,165	-	-	1,950,165
Medium	-	688,096	-	688,096
High	-	196,004	-	196,004
Default	-	-	358,682	358,682
Gross residential mortgages	9,581,893	884,100	358,682	10,824,675
Personal (including cards)				
Very low	9,434,280	-	-	9,434,280
Low	1,634,032	-	-	1,634,032
Medium	-	496,393	-	496,393
High	-	125,124	-	125,124
Default	-	-	363,565	363,565
Gross personal	11,068,312	621,517	363,565	12,053,394
Business and Government				
Investment Grade	1,677,563	-	-	1,677,563
Non-Investment Grade	40,663,197	1,249,175	-	41,912,372
Default	-	-	115,502	115,502
Not rated	766,582	1,769,510	-	2,536,092
Gross business and government	43,107,342	3,018,685	115,502	46,241,529
Total gross amount of loans	63,757,547	4,524,302	837,749	69,119,598

For the Bank's Business & Government loans, it employs risk ratings in managing its credit portfolio. Business borrowers with elevated default risk are monitored on the Bank's 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, but not always, also delinquent. As of October 31, 2020, Early Warning List customers in the medium to high risk category amounted to $1,161,666,000 (2019 - $1,338,920,000).

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 and the trends of delinquency over the lifetime of the loan indicates increased risk, 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.

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

35. Financial Risk Management (Continued)

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

Credit quality (continued)

At the beginning of the year, the Bank reassesses the key economic indicators used in its ECL models with further reassessment during the year as required.

The following table highlights credit quality of debt securities held at Fair Value through Other Comprehensive Income (FVOCI) based on the risk rating, systems, trends and the methodology to support performing securities, along with significant increases in credit risk.

2020	**Stage 1 $'000**	**Stage 2 $'000**	**Stage 3 $'000**	**Total $'000**
Debt securities at FVOCI:				
Government securities				
- GOJ	5,806,676	724,350	-	6,531,026
- International	7,224,870	-	-	7,224,870
Total debt securities	13,031,546	724,350	-	13,755,896
Equity securities – unquoted	5,034	-	-	5,034
Total debt securities at FVOCI	13,036,580	724,350	-	13,760,930
Add: Interest receivable	-	-		33,408
Total				13,794,338

2019	**Stage 1 $'000**	**Stage 2 $'000**	**Stage 3 $'000**	**Total $'000**
Debt securities at FVOCI:				
Government securities				
- GOJ	2,501,544	1,160,494	-	3,662,038
- International	-	-	-	-
Total debt securities	2,501,544	1,160,494	-	3,662,038
Equity securities – unquoted	5,034	-	-	5,034
Total debt securities at FVOCI	2,506,578	1,160,494	-	3,667,072
Add: Interest receivable				28,780
Total				3,695,852

Impact of COVID-19 pandemic on Securities expected credit losses
To address the uncertainties inherent in the current environment, management overlays were utilized for the impact that the COVID-19 pandemic will have on the migration of exposures that are most susceptible to these risks. This resulted in an ECL increase of approximately $99,924,000 during the year.

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 (for example, 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 and the COVID-19 pandemic. Such adjustments would result in an increase or decrease in the overall ECLs.

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

35. Financial Risk Management (Continued)

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

COVID-19 moratorium

During the financial year, the COVID-19 pandemic significantly impacted the world resulting in economic and financial fallout. All territories across the region were negatively affected, however given the contingency management planning process implemented across the group, the Bank was able to respond by providing support to its clients and staff via our COVID-19 relief program. As at 31 October 2020 the gross outstanding balance of loans in the moratorium program was $1,651,225,000 for residential mortgages, $1,399,320,000 for personal loans and $15,122,931,000 for business and government loans. Of the loans that were under the program as of 31 October 2020, the gross outstanding balance of loans that received extension of an initial deferral or in the process of being provided an extension was $4,040,000,000..

Several of the regional regulators have provided guidance stating that clients who have entered into the COVID-19 moratorium programs should be frozen at their days past due position prior to entry into the program until expiry of the moratorium period. Additionally, no loans which have greater than 90 days past due (non- performing) should be granted entry into the program.

The following table provides the aging profile of accounts under moratorium by product as at 31 October 2020.

	Clean	1-30 days	31-60 days	61-90 days	Total
Residential Mortgage	1,204,783	216,013	96,493	133,936	1,651,225
Personal	1,066,374	160,669	105,922	66,355	1,399,320
Corporate Loans	14,387,366	715,231	2,022	18,312	15,122,931
Total	16,658,523	1,091,913	204,437	218,603	18,173,476

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

35. Financial Risk Management (Continued)

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

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 2020 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

35. Financial Risk Management (Continued)

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

Modified financial assets

From time to time, the Bank 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 the Bank 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 2020, loans classified as stage 2 with an amortised cost of $5,897,033,000 (2019: $28,701,000) and loans classified as stage 3 with an amortised cost of $31,328,000 (2019: $883,000), 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 or were subject to the client relief programs in response to COVID-19, in each case before the time modification or deferred. 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 2020 was $77,702,000 (2019: $8,720,000).

(e) Market risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to the change in market variables. Market risk arises from positions in securities and derivatives as well as from our core retail, wealth and corporate businesses. The key risks to the Bank are foreign exchange, interest rate and credit spread. Market Risk within the Bank is a centralized group that is independent from the front line. Local currencies are handled by the local Bank and also monitored, measured and controlled from a market risk perspective, centrally.

Policies and Standards:
The Bank adheres to the comprehensive Parent policy for market risk management related to the identification, measurement, monitoring and control of market risks. This policy is reviewed and approved every two years by the Risk Committee of the Board of Directors. 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 nature of the risk. Foreign exchange (FX) positions and certain Profit and Loss (P&L) measures are all measured daily whereas others such as stress tests and credit spread sensitivity are performed on a weekly or monthly basis. Detailed market risk compliance reports are produced and circulated to senior management on a monthly basis and a summary version supplied to the Parent Board quarterly.

FirstCaribbean International Bank (Jamaica) Limited

35. 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 measure is used predominantly for the Bank's foreign exchange business. The measure, monitored daily, focuses upon the outright long or short position in each currency from either the spot or trading position and on a structural basis. Any forward contracts or FX swaps are also incorporated. There are also notional position limits on the size of the bond portfolios.

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 change in economic value 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 on a post-structural basis that includes structural assumptions for core balances of non-contractual maturity positions. The CSDV01 sensitivity is a way to measure the risk of the interest rate spread between Treasury securities and the non-Treasury securities in the bond portfolio widening or narrowing.

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 to this which are as follows:

- For the hard currency testing it utilizes the suite of measures that the parent company has developed. The stress testing measures the effect on the 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 again for the Bank's hard currency exposures simulate an impact on earnings of extreme market events up to a period of one month. 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 economists, business leaders and risk managers. These tests are run on a daily 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 10 years and identify the greatest curve or data point moves over both sixty and single days. These are then applied to the existing positions/sensitivities of the Bank. This is performed daily and reported on a monthly basis as they do not tend to change rapidly.

35. Financial Risk Management (Continued)

(e) Market risk (continued)

Summary of Key Market Risks
Of the market risks arising from the various currencies, yield curves and spreads throughout the regional and broader international markets, management considers the risk of credit spreads widening in a similar fashion to the Credit Crisis of 2008 on bonds held within the investment portfolio to be the most significant.

The largest interest rate risk run through multiple scenarios is that if the USD yield curve moves in a similar fashion to a 60 day period during the Subprime Crisis and Lehman Collapse. The following section highlights these key risks as well as some of the lesser ones that arise from the Bank's ongoing banking operations.

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. A significant number of the regional currencies are pegged to the USD and hence the VaR measure is not appropriate and as such more emphasis is put on the overall position limit and related stress tests. The Board has set limits on positions by currency. Positions are monitored on a daily basis and the Forex & Derivatives Sales department are solely responsible for the hedging of the exposure of the Group.

The following table highlights the currencies that the Bank had significant exposures to at October 31, 2020. It also highlights the metrics used by the Bank to measure, monitor and control that risk.

Foreign exchange exposure and risk

31 October 2020:

Currency	Position Long (Short) vs USD $'000	6% Deval $'000	2% Reval $'000	Average Position $'000
Jamaican dollar	5,874	(352)	117	8,261

31 October 2019:

Currency	Position Long (Short) vs USD $'000	6% Deval $'000	2% Reval $'000	Average Position $'000
Jamaican dollar	(1,458)	58	(58)	7,145

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.

The Bank will occasionally trade non-USD/JMD currencies, but these are quickly hedged. There were no material balances at either 2020 or 2019 fiscal year end.

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

35. 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:

	2020							
	EC	**BDS**	**CAY**	**BAH**	**US**	**JA**	**Other**	**Total**
As at 31 October 2020	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**
Assets								
Cash resources	51	796	696	-	6,870,397	12,593,627	513,829	19,979,396
Due from banks	4,785	(2,460)	9,915	2,337	5,973,630	189,002	1,245,514	7,422,723
Derivative financial instruments	-	-	-	-	619,474	-	-	619,474
Other assets	-	-	-	-	7,836	258,754	-	266,590
Deferred tax assets	-	-	-	-	-	296,717	-	296,717
Retirement benefit asset	-	-	-	-	-	1,516,652	-	1,516,652
Investment securities	-	-	-	-	7,224,856	6,569,482	-	13,794,338
Loans and advances to customers	-	-	-	-	37,178,550	36,842,812	25,475	74,046,837
Property and equipment	-	-	-	-	-	2,327,877	-	2,327,877
Total assets	4,836	(1,664)	10,611	2,337	57,874,743	60,594,923	1,784,818	120,270,604
Liabilities								
Customer deposits	-	-	-	-	52,062,917	51,029,916	1,777,502	104,870,335
Derivative financial instruments	-	-	-	-	619,474	-	-	619,474
Other liabilities	1,659	1,819	684	292	1,500,665	768,330	22,720	2,296,169
Taxation payable	-	-	-	-	-	235,036	-	235,036
Retirement benefit obligation	-	-	-	-	-	81,758	-	81,758
Total liabilities	1.659	1,819	684	292	54,183,056	52,115,040	1,800,222	108,102,772
Net assets	3,177	(3,483)	9,927	2,045	3,691,687	8,479,883	(15,404)	12,167,832
Credit commitments	-	-	-	-	11,034,140	10,645,767	598,230	22,506,094

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

35. Financial Risk Management (Continued)

(e) Market risk (continued)

Foreign Exchange Risk (Continued)

	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	13,344	(5,633)	12,731	2,224	10,693,567	105,091	1,765,782	12,587,106
Derivative financial instruments	-	-	-	-	82,991	-	-	82,991
Other assets	-	-	-	-	7,425	151,835	-	159,260
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	13.344	(5,220)	13,227	2,224	54,086,721	55,605,848	2,076,247	111,792,391
Liabilities								
Customer deposits	-	-	-	-	47,247,888	46,443,572	1,951,659	95,643,119
Derivative financial instruments	-	-	-	-	82,991	-	-	82,991
Other liabilities	1,335	1,731	651	278	1,315,928	10,878	33,258	1,364,059
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	1,335	1,731	651	278	48,646,807	48,862,246	1,984,917	99,497,965
Net assets	12,009	(6,951)	12,576	1,946	5,439,914	6,743,602	91,330	12,294,426
Credit commitments	-	-	-	-	5,044,926	9,031,201	588,293	14,664,420

35. 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 2020, if the Jamaican dollar had depreciated by 6% (2019 – 6%) against foreign currencies, profit before tax for the year would have been $311,071,000 higher (2019 - $391,372,000 higher) and shareholders' equity would have been $312,038,000 higher (2019 - $392,532,000 higher). Similarly, if the Jamaican dollar had revalued by 2% (2019 – 4%) against foreign currencies, profit before tax for the year would have been $103,690,000 lower (2019 - $260,915,000 lower) and shareholders' equity would have been $104,013,000 lower (2019 - $261,689,000 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.

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

35. 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 2020					
Cash and balances with Central Bank	19,979,396	-	-	-	19,979,396
Due from other banks	7,422,723	-	-	-	7,422,723
Derivative financial instruments	-	-	-	619,474	619,474
Other assets	266,590	-	-	-	266,590
Investment securities	8,756,719	1,862,499	3,170,086	5,034	13,794,338
Loans and advances to customers	3,077,295	5,725,331	19,726,551	45,517,660	74,046,837
Property and equipment	89,114	211,738	1,516,554	510,471	2,327,877
Deferred tax assets	-	-	296,717	-	296,717
Retirement benefit asset	-	-	-	1,516,652	1,516,652
Total assets	39,591,837	7,799,568	24,709,908	48,169,291	120,270,604
Customer deposits	92,927,988	10,843,482	1,081,408	17,457	104,870,335
Derivative financial instruments	-	-	-	619,474	619,474
Other liabilities	1,547,828	225,175	523,166	-	2,296,169
Taxation payable	-	235,036	-	-	235,036
Retirement benefit obligation	-	-	-	81,758	81,758
Total liabilities	94,475,816	11,303,693	1,604,574	718,689	108,102,772
Net assets/(liabilities)	(54,883,979)	(3,504,125)	23,105,334	47,450,602	12,167,832
Commitments, guarantees and contingent liabilities	20,309,281	2,196,707	106	-	22,506,094

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

35. 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 2019					
Cash and balances with Central Bank	23,824,146	350,000	-	-	24,174,146
Due from other banks	12,587,106	-	-	-	12,587,106
Derivative financial instruments	-	-	-	82,991	82,991
Other assets	159,260	-	-	-	159,260
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	40,852,284	3,810,298	24,531,490	42,598,319	111,792,391
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	1.364,059	-	-	-	1,364,059
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	91,341,842	6,091,478	1,802,731	261,914	99,497,965
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

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

35. 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 2020, 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 2020

Currency	Post Structural DV01 $	Increase 100 basis points $'000	Decrease 100 basis points $'000	60-day Stressed Loss $'000
Jamaican dollar	6,066	(607)	607	8,507

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

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

35. 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 2020

Currency	Post Structural DV01	Increase 100 basis points	Decrease 100 basis points	60-Day Stressed Loss
	$'000	$'000	$'000	$'000
USD	11,686	(1,169)	1,169	1,957

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

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.

Credit Spread Risk

Credit spread exists as the benchmark curve and the reference asset curves either converge or diverge. The Bank has two portfolios that have a material amount of credit spread risk. The risk is measured using an estimated CSDV01 and stress scenarios. The results of these are reported daily to senior management. There are no credit spread risks for the Bank in 2019 and 2020 as there are no non-sovereign bonds booked in the Bank.

35. 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 if the transactions meet the regulatory criteria then the Bank applies for hedge accounting. Derivative hedges that do not qualify for hedge accounting treatment are considered to be economic hedges and are recorded at market value on the Statement of Financial Position with changes in the fair value reflected through the 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.

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

35. 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 2020							
Cash and balances with Central Bank	-	15,223,667	-	-	-	4,755,729	19,979,396
Due from other banks	3,594,831	2,637,486	-	-	-	1,190,406	7,422,723
Derivative financial instruments	-	619,474	-	-	-	-	619,474
Other assets	-	-	-	-	-	266,590	266,590
Deferred tax assets	-	-	-	-	-	296,717	296,717
Investment securities	-	10,297,124	1,887,794	1,604,386	-	5,034	13,794,338
Loans and advances to customers	2,412,632	1,929,770	6,023,296	19,431,871	44,249,268	-	74,046,837
Property and equipment	-	-	-	-	-	2,327,877	2,327,877
Retirement benefit asset	-	-	-	-	-	1,516,652	1,516,652
Total assets	6,007,463	30,707,521	7,911,090	21,036,257	44,249,268	10,359,005	120,270,604
Customer deposits	63,629,381	28,974,569	11,167,520	174,608	924,257	-	104,870,335
Derivative financial instruments	-	619,474	-	-	-	-	619,474
Other liabilities	-	-	-	-	-	2,296,169	2,296,169
Taxation payable	-	-	-	-	-	235,036	235,036
Retirement benefit obligation	-	-	-	-	-	81,758	81,758
Total liabilities	63,629,381	29,594,043	11,167,520	174,608	924,257	2,612,963	108,102,772
Total interest rate sensitivity gap	(57,621,918)	1,113,478	(3,256,430)	20,861,649	43,325,011	7.746,042	12,167,832
Cumulative gap	(57,621,918)	(56,508,440)	(59,764,870)	(38,903,221)	4,421,790	12,167,832	-

[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.

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

35. 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 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	-	-	-	968,706	12,587,106
Derivative financial instruments	-	82,991	-	-	-	-	82,991
Other assets	-	-	-	-	-	159,260	159260
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	9,097,321	111,792,391
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	-	-	-	-	-	1,364,059	1,364,059
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	1,836,066	99,497,965
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.

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

35. 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:

	2020					
	Immediately Rate Sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
	%	%	%	%	%	%
Cash and balances with Central Bank	-	0.28	-	-	-	0.28
Due from other banks	-	0.12	-	-	-	0.12
Securities[1]	-	1.57	4.15	5.50	-	2.38
Loans to customers [2]	38.57	6.63	4.37	7.07	6.71	7.65
Customer deposits[3]	0.05	1.09	2.39	3.13	3.99	0.63

	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

[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.

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

35. 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 2020	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Derivative financial instrument	-	619,474	-	619,474
Securities:				
Government debt securities	-	13,789,304	-	13,789,304
Unquoted equities			5,034	5,034
Total financial assets	-	14,408,778	5,034	14,413,812

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

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

FirstCaribbean International Bank (Jamaica) Limited

35. 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 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.

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2020
(Expressed in Jamaican dollars unless otherwise indicated)

35. 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 2020 $'000	Fair value 2020 $'000	Carrying value 2019 $'000	Fair value 2019 $'000
Loans and advances to customers (1)	74,046,837	71,261,153	67,979,393	66,237,885
Customer deposits (1)	104,870,335	104,598,076	95,643,119	95,951,926
Debt securities in issue (2)	-	-	1,935,789	1,948,237

(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			
			2020		2019	
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%	24.0%	0%	24.7%
Customer deposits	Market proxy or direct broker quote	Market proxy or direct broker quote	0%	10.0%	0%	10.0%

36. 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.

36. 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.

37. 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 $12,545,000 (2019 - $9,744,000) (Note 25).