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INDEPENDENT AUDITORS' REPORT

To the Members of
JN BANK LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of JN Bank Limited ("the Bank"), set out on pages 5 to 92, which comprise the statement of financial position as at March 31, 2020, the statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at March 31, 2020, and of its financial performance and its 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 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.

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
JN BANK LIMITED

Report on the Audit of the Financial Statements (continued)

Responsibilities of Management and Those Charged with Governance 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.

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

Auditors' 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 auditors' 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
JN BANK LIMITED

Report on the Audit of the Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
JN BANK LIMITED

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.

KPMG

Chartered Accountants
Kingston, Jamaica

August 14, 2020

JN BANK LIMITED

Statement of Financial Position
March 31, 2020

	Notes	2020 $'000	2019 $'000
ASSETS			
Cash and cash equivalents	6,9(c)	26,792,575	22,793,176
Securities purchased under resale agreements	7	-	2,299,632
Investments	8	46,872,684	50,156,151
Due from related entities	9(b)(i)	1,162,497	916,705
Taxation recoverable		1,032,909	1,000,827
Interest in associate	10	175,152	161,093
Loans, after allowance for impairment losses	11,9(c)	102,949,004	89,577,885
Other assets	12,9(c)	683,691	660,691
Assets held for sale	13	205,783	404,560
Investment properties	14	176,475	182,311
Property, plant and equipment	15	4,136,896	3,417,458
Intangible assets	16	209,925	142,928
Deferred tax asset	17	1,476,337	724,119
Right-of-use-assets	23(a)	437,804	-
Total assets		186,311,732	172,437,536
LIABILITIES			
Due to specialised financial institutions		19,882,426	18,614,327
Customer deposits	18,9(c)	138,734,327	127,460,523
Securities sold under repurchase agreements	19,9(c)	6,020,708	3,317,838
Other payables	20,9(c)	2,240,485	1,636,682
Margin loan payable	21	-	898,159
Taxation payable		238,835	350,003
Employee benefits obligation	22(a)	1,202,797	1,524,407
Lease liabilities	23(b)	451,752	-
Total liabilities		168,771,330	153,801,939
EQUITY			
Share capital	24	4,511,000	4,511,000
Reserve fund	25	7,600,000	7,600,000
Contractual savings reserve	26	14,223	14,223
Other reserves	27	3,089,872	4,835,869
Retained earnings		2,325,307	1,674,505
Total equity		17,540,402	18,635,597
Total liabilities and equity		186,311,732	172,437,536

The financial statements on pages 5 to 92 were approved for issue by the Board of Directors on August 13, 2020 and signed on its behalf by:

Kathleen Moss — Director

Hon. Earl Jarrett, OJ, CD, JP, CStJ. — Director

Curtis Martin — Director

JN BANK LIMITED

Statement of Profit or Loss
Year ended March 31, 2020

	Notes	2020 $'000	2019 $'000
Interest revenue calculated using the effective interest method:			
Interest on loans	9(d)	8,351,936	7,452,188
Interest on investments		1,634,623	2,265,427
		9,986,559	9,717,615
Interest expense	29,9(d)	(1,815,674)	(2,141,784)
Net interest revenue		8,170,885	7,575,831
Impairment losses on financial instruments	34(b)(v)	(486,262)	(180,545)
Gain on disposal of fair value through other comprehensive income (FVOCI) investment securities		738,003	708,386
Unrealised loss on fair value through profit or loss (FVTPL) investment securities		-	(78,985)
Other operating income	30,9(d)	4,847,191	3,764,576
Operating expenses	31,9(d)	(12,021,980)	(10,836,749)
Finance expense – lease	23(c)	(17,705)	-
Operating profit		1,230,132	952,514
Share of profit of associate	10	40,874	40,103
Unrealised foreign exchange losses		(209,619)	(202,295)
Profit before taxation		1,061,387	790,322
Taxation	32	(492,778)	(267,714)
Profit for the year		568,609	522,608

To be read in conjunction with the accompanying notes to the financial statements.

JN BANK LIMITED

Statement of Other Comprehensive Income
Year ended March 31, 2020

	Notes	2020 $'000	2019 $'000
Profit for the year		568,609	522,608
Other comprehensive income:			
Items that are or may be reclassified to profit or loss:			
Realised gain on investments recognised in statement of profit or loss		(738,003)	(708,387)
(Decrease)/increase in fair value of FVOCI investment securities, net of impairment losses		(1,717,904)	545,504
Deferred tax on FVOCI investment securities and ECL	17	824,042	54,295
		(1,631,865)	(108,588)
Items that will never be reclassified to profit or loss:			
Remeasurement of employee benefits obligation	22(d)	523,591	(118,295)
Deferred tax on employee benefits obligation	17	(174,530)	39,432
		349,061	(78,863)
Total other comprehensive loss for the year		(1,282,804)	(187,451)
Total comprehensive (loss)/income for the year		(714,195)	335,157

To be read in conjunction with the accompanying notes to the financial statements.

JN BANK LIMITED

Statement of Changes in Equity
Year ended March 31, 2020

	Share capital $'000 (note 24)	Reserve fund $'000 (note 25)	Contractual savings reserve $'000 (note 26)	Other reserves $'000 (note 27)	Retained earnings $'000	Total $'000
Restated balances as at March 31, 2018	4,511,000	7,600,000	14,223	4,108,252	2,403,581	18,637,056
Changes on initial application of IFRS 9	-	-	-	98,973	(195,589)	(96,616)
Restated balances at April 1, 2018	4,511,000	7,600,000	14,223	4,207,225	2,207,992	18,540,440
Total comprehensive income for the year:						
Profit for the year	-	-	-	-	522,608	522,608
Other comprehensive income						
Realised gain on investments recognised in statement of profit or loss	-	-	-	(708,387)	-	(708,387)
Increase in fair value of investment securities classified as fair value through other comprehensive income (FVOCI), net of impairment losses	-	-	-	545,504	-	545,504
Deferred tax on FVOCI investment securities	-	-	-	54,295	-	54,295
Remeasurement of employee benefits obligation	-	-	-	-	(118,295)	(118,295)
Deferred tax on employee benefits obligation	-	-	-	-	39,432	39,432
Total other comprehensive loss	-	-	-	(108,588)	(78,863)	(187,451)
Total comprehensive (loss)/income	-	-	-	(108,588)	443,745	335,157
Movements between reserves:						
Transfer to credit loss reserve				(262,768)	262,768	-
Transfer to retained earnings reserve	-	-	-	1,000,000	(1,000,000)	-
	-	-	-	737,232	(737,232)	-
Transaction with owners:						
Dividends (note 38)	-	-	-	-	(240,000)	(240,000)
Balances as at March 31, 2019	4,511,000	7,600,000	14,223	4,835,869	1,674,505	18,635,597
Total comprehensive income for the year:						
Profit for the year	-	-	-	-	568,609	568,609
Other comprehensive income:						
Realised gain on investments recognised in statement of profit or loss	-	-	-	(738,003)	-	(738,003)
Decrease in fair value of FVOCI investment securities, classified as FVOCI, net of impairment losses	-	-	-	(1,717,904)	-	(1,717,904)
Deferred tax on FVOCI investment securites	-	-	-	824,042	-	824,042
Remeasurement of employee benefits obligation	-	-	-	-	523,591	523,591
Deferred tax on employee benefits obligation	-	-	-	-	(174,530)	(174,530)
Total other comprehensive loss	-	-	-	(1,631,865)	349,061	(1,282,804)
Total comprehensive (loss)/income	-	-	-	(1,631,865)	917,670	(714,195)
Movements between reserves:						
Transfer to credit loss reserve	-	-	-	(114,132)	114,132	-
Transaction with owners:						
Dividends (note 38)	-	-	-	-	(381,000)	(381,000)
Balances as at March 31, 2020	4,511,000	7,600,000	14,223	3,089,872	2,325,307	17,540,402

To be read in conjunction with the accompanying notes to the financial statements.

JN BANK LIMITED

Statement of Cash Flows
Year ended March 31, 2020

	Notes	2020 $'000	2019 $'000
Cash flows from operating activities			
Profit for the year		568,609	522,608
Adjustments to reconcile profit to net cash provided by operating activities:			
Depreciation - property, plant and equipment and investment properties	14,15	350,259	351,809
Depreciation on right-of-use assets	23(c)	91,604	-
Amortisation of intangible assets	16	148,827	102,720
Gain on disposal of property, plant and equipment		(47,641)	(6,087)
Gain on disposal of foreclosed properties		(19,355)	(17,079)
Gain on disposal of investments		(738,003)	(708,386)
Gain from foreign exchange rate changes		(54,465)	(475,460)
Share of profit in associate	10	(40,874)	(40,103)
Impairment losses on financial instruments	34(b)(v)	486,262	180,545
Dividend income	30	(24,290)	(23,226)
Interest income		(9,986,559)	(9,717,615)
Interest expense	29	1,815,674	2,141,784
Interest expense on lease liabilities	23(c)	17,705	-
Tax expense	32(a)(i)	595,484	619,548
Deferred taxation	32(a)(ii)	(102,706)	(351,834)
Employee benefits obligation		201,981	157,816
Net decrease in foreclosed properties		(49,662)	(40,955)
		(6,787,150)	(7,303,915)
Changes in operating assets and liabilities:			
Securities purchased under resale agreements		2,298,000	(1,378,909)
Due from related entities		(246,111)	665,616
Taxation recoverable		(32,052)	(67,298)
Net additions to loans		(13,447,718)	(10,547,696)
Other assets		93,813	(268,579)
Due to specialised financial institutions		1,268,100	1,279,359
Net receipts from customers deposits		8,649,884	12,761,453
Securities sold under repurchase agreements		2,704,666	(5,396,411)
Other payables		(308,257)	(1,505,579)
		(5,806,825)	(11,761,959)
Interest paid		(1,891,590)	(2,109,515)
Interest received		9,998,760	9,697,479
Income tax paid		(706,682)	(367,743)
Net cash provided by/ (used in) operating activities		1,593,663	(4,541,738)
Cash flows from investing activities			
Investments		(23,864,189)	(11,838,768)
Dividend received		24,290	23,226
Assets held for sale		99,324	(7,728)
Dividends from equity accounted investee	10	39,001	60,303
Purchase of intangible assets	16	(134,723)	(82,685)
Purchase of property, plant and equipment	15	(1,345,543)	(371,012)
Proceeds from disposal of assets held for sale		168,470	90,121
Proceeds from disposal of property, plant and equipment		148,747	37,196
Proceeds from disposal of investments		27,204,410	13,372,820
Net cash provided by investing activities		2,339,787	1,243,371
Net cash provided by/(used in) operating and investing activities (page 10)		3,933,450	(3,258,264)

To be read in conjunction with the accompanying notes to the financial statements.

JN BANK LIMITED

Statement of Cash Flows (Continued)
Year ended March 31, 2020

	Notes	2020 $'000	2019 $'000
Net cash provided by/(used in) operating and investing activities (page 9)		3,933,450	(3,258,264)
Cash flows from financing activities			
Payment of lease liabilities	23(d)	(95,361)	-
Dividends paid		(381,000)	(240,000)
Net cash used in financing activities		(476,361)	(240,000)
Net increase/(decrease)in cash and cash equivalents		3,457,089	(3,498,264)
Cash and cash equivalents at beginning of the year		22,793,176	26,602,881
Effects of exchange rate changes on cash and cash equivalents		542,310	(311,441)
Cash and cash equivalents at end of the year	6	26,792,575	22,793,176

JN BANK LIMITED

Notes to the Financial Statements
March 31, 2020

1. The Bank

JN Bank Limited ("the Bank") commenced business on February 1, 2017, subsequent to the granting of a licence under the Banking Services Act, 2014, by virtue of the conversion of The Jamaica National Building Society ("the Building Society").

The Bank's registered office is located at 2-4 Constant Spring Road, Kingston 10. Its principal activities are granting home and other loans, operating savings and current accounts and buying and selling of foreign exchange.

The Bank is a wholly-owned subsidiary of JN Financial Group Limited, which is a subsidiary of The Jamaica National Group Limited ("ultimate parent"). The entities are incorporated in Jamaica under the Jamaican Companies Act.

2. Licence and regulation

The Bank is licensed, and the financial statements are delivered, under the Banking Services Act, 2014 and the Banking Services Regulations, 2015, which became effective on September 30, 2015.

3. Statement of compliance and basis of preparation

(a) Statement of compliance:

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and comply with the relevant provisions of the Jamaican Companies Act.

Details of the Bank's accounting policies, including changes during the year, are included in notes 39 and 40.

This is the first set of the Bank's annual financial statements in which IFRS 16 *Leases* has been applied.

(b) Basis of preparation:

The financial statements are prepared on the historical cost basis, except for the following:

- financial instruments at fair value through profit or loss are measured at fair value;
- financial instruments at fair value through other comprehensive income are measured at fair value;
- the liability for defined-benefit obligations is recognised as the present value of the defined-benefit obligations.

(c) Functional and presentation currency

The financial statements are presented in Jamaica dollars, which is the functional currency of the Bank, and are rounded to the nearest thousand dollars, unless otherwise stated.

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

3 Statement of compliance and basis of preparation (continued)

(d) Use of estimates, assumptions and judgements:

The preparation of the financial statements in conformity with IFRS requires management to make estimates, assumptions and judgement that affect the reported amounts of, and disclosures relating to, assets, liabilities, contingent assets and contingent liabilities at the reporting date and the income and expenses for the year then ended. Although these estimates are based on management's best knowledge of current events and actions, actual amounts could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 4.

(e) Comparative information:

Wherever necessary, the comparative figures are reclassified to conform to the current year's presentation.

4. Accounting estimates and judgements

The key sources of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on amounts recognised in the financial statements, or which have a risk of material adjustment in the next year, are as follows:

(a) Key sources of estimation uncertainty:

(i) Post-retirement benefits:

The amounts recognised in the statements of financial position, profit or loss and other comprehensive income for certain post-retirement benefits are determined actuarially using several assumptions. The primary assumptions used in determining the amounts recognised include the discount rate used to determine the present value of estimated future cash flows required to settle the post-retirement obligations and the expected rate of increase in medical costs for post-retirement medical benefits. +

The discount rate is determined based on the estimate of yield on long-term government securities that have maturity dates approximating the terms of the Bank's obligation. In the absence of such instruments in Jamaica, it has been necessary to estimate the rate by extrapolating from the longest-tenor security on the market. The estimate of expected rate of increase in medical costs is determined based on inflationary factors. Any changes in these assumptions will impact the amounts recorded in the financial statements for these obligations.

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

4. Accounting estimates and judgements (continued)

(a) Key sources of estimation uncertainty (continued):

(ii) Allowance for impairment losses:

Measurement of the expected credit loss (ECL) allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and fair value through other comprehensive income (FVOCI) requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in notes 34(b) and 40(a).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Bank in the above areas is set out in note 34(b).

(iii) Valuation of financial instruments:

The Bank's accounting policy on fair value measurements is discussed in accounting policy note 40(b)].

When measuring the fair value of an asset or liability, the Bank uses market observation data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques, as follows:

- Level 1 – Quoted market price (unadjusted) in an active market for identical assets or liabilities.

- Level 2 – Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

4. Accounting estimates and judgements (continued)

(a) Key sources of estimation uncertainty (continued):

(iii) Valuation of financial instruments (continued):

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

Considerable judgment is required in interpreting market data to arrive at estimates of fair values for levels 2 and 3. Consequently, the estimates arrived at may be significantly different from the actual price of the instrument in an arm's length transaction.

The Bank recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

(iv) Residual value and expected useful life of property, plant and equipment and investment properties:

The residual value and expected useful life of an asset are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change is accounted for. The useful life on an asset is defined in terms of the asset's expected utility to the Bank.

(b) Critical accounting judgements in applying accounting policies:

(i) Classification of financial assets:

The assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest (SPPI) on the principal amount outstanding requires management to make certain judgements on its business operations.

(ii) Impairment of investment in equity securities:

Investments in equity securities are evaluated for impairment on the basis described in accounting policy [note 40(b)].

For an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. In this respect, the Bank regards a decline in fair value in excess of 20 percent to be "significant" and a decline in a quoted market price that persists for nine months or longer to be "prolonged".

(iii) Deferred tax asset:

The recognition of a deferred tax asset requires management to make assumptions concerning future taxable profits against which deferred tax assets can be recovered.

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

4. Accounting estimates and judgements (continued)

(b) Critical accounting judgements in applying accounting policies (continued):

(iii) Deferred tax asset (continued):

It is reasonably probable, based on existing knowledge, that outcomes within the next financial year that are different from these assumptions could require a material adjustment to the carrying amount reflected in the financial statements.

5. Responsibilities of the appointed actuaries and external auditors

The actuaries have been appointed by management pursuant to the requirements of IAS 19. With respect to preparation of financial statements, the actuaries are required to carry out an actuarial valuation of management's estimate of the Bank's health and life liabilities and report thereon to the members.

The valuation is made in accordance with accepted actuarial practice, as well as any other matter specified in any directive made by regulatory authorities. The actuaries, in their verification of the management information provided by the Bank and used in the valuation, also make use of the work of the external auditors. The actuary's reports outline the scope of their work and opinion. An actuarial valuation is prepared annually.

The external auditors have been appointed by the shareholders pursuant to the Jamaican Companies Act, to conduct an independent and objective audit of the financial statements of the Bank in accordance with International Standards on Auditing, and report thereon to the shareholders. In carrying out their audit, the auditors also make use of the work of the actuaries and their report on the Bank's post-employment and other obligations. The auditors' report outlines the scope of their audit and their opinion.

6. Cash and cash equivalents

	2020 $'000	2019 $'000
Cash reserve with Bank of Jamaica [see (a)]	13,753,527	13,976,951
Cash and cash equivalents [see (b)]	13,039,048	8,816,225
	26,792,575	22,793,176

(a) Statutory reserves, required by regulation to be held at Bank of Jamaica, comprise cash reserves not available for use by the Bank and are determined by the percentage of average prescribed liabilities stipulated by Bank of Jamaica.

At March 31, 2020, the required percentage of average prescribed liabilities was seven percent (7%) (2019: 9%) for Jamaica dollars and fifteen percent (15%) (2019: 15%) for foreign currency liabilities, respectively. On May 15, 2020 the cash reserves requirement was further reduced to 5% for Jamaica dollars of the average prescribed liabilities.

6. Cash and cash equivalents (continued)

(b) Certain amounts included in cash and cash equivalents have been pledged and are accordingly restricted, as follows:

(i) $472,800,000 (2019: $360,900,000) to facilitate settlement of Multilink transactions;

(ii) $2,977,000 (2019: $2,945,000) with a commercial bank to cover a third party guarantee;

(iii) $66,979,000 (2019: $62,510,000) for bid collateral; and

(iv) $6,683,645,000 (2019: $3,548,667,000) for repurchase agreements collateral.

(c) The Bank has a $145,000,000 (2019: $145,000,000) unsecured overdraft facility with a commercial bank.

(d) Cash and cash equivalents include cash collected on behalf of related entities amounting to $173,215,000 (2019: $214,328,000) (see note 20).

7. Securities purchased under resale agreements

	2020 $'000	2019 $'000
Principal	-	2,298,000
Interest receivable	-	1,632
	-	2,299,632

At March 31, 2020, securities obtained and held under resale agreements had a fair value of $Nil (2019: $2,620,890,000).

Securities purchased under resale agreements, excluding interest receivable, are due from the reporting date, as follows:

	2020 $'000	2019 $'000
Within 3 months	-	2,298,000

8. Investments

	2020 $'000	2019 $'000
Amortised cost		
Corporate bonds	1,500	1,500
Certificates of deposit	4,683,830	7,348,540
Sub-total carried forward	4,685,330	7,350,040

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

8. Investments (continued)

	2020 $'000	2019 $'000
Sub-total carried forward	4,685,330	7,350,040
Fair value through other comprehensive income		
Corporate bonds	11,147,591	9,187,499
Government of Jamaica securities	16,626,019	24,240,846
Treasury bills	13,687,478	8,651,201
Quoted equities	219,430	145,586
Promissory note	52,561	50,000
Unquoted equities [see (i) below]	19,614	29,353
	41,752,693	42,304,485
Sub-total	46,438,023	49,654,525
Interest receivable	437,789	520,706
	46,875,812	50,175,231
Less ECL	(3,128)	(19,080)
	46,872,684	50,156,151

(i) The Bank holds 29,273 units of shares in Automated Payments Limited, an automated clearing house operator. These shares are classified as fair value through other comprehensive income.

(ii) Investments, excluding interest receivable, are due from the reporting date, as follows:

	2020 $'000	2019 $'000
No specific maturity	239,044	174,939
Within 3 months	12,607,444	8,789,966
3 months to 1 year	7,279,193	5,648,321
1 year to 5 years	8,698,960	12,002,948
5 years and over	17,613,382	23,038,351
	46,438,023	49,654,525

9. Related party balances and transactions

(a) Identity of related parties:

The Bank has a related party relationship with its parent, ultimate parent, fellow subsidiaries, associate, pension scheme, directors, companies owned by directors, and other key management personnel and JN Foundation.

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

9. Related party balances and transactions (continued)

(b) Balances with related entities:

	2020 $'000	2019 $'000
(i) Due from related entities:		
Due from parent (1)	547,094	547,094
Due from other related entities	615,403	369,611
	1,162,497	916,705

(1) This represents a $547,094,000 secured debenture note issued by the parent as consideration for the transfer of the Bank's shares held in JN Cayman Limited . It bears interest at a fixed rate of 6% per annum, payable quarterly. The note becomes due at March 31, 2021.

(c) The statement of financial position includes balances arising in the ordinary course of business, with related parties as follows:

	2020 $'000	2019 $'000
Cash and cash equivalents		
Other related entities	43,323	105,897
Other assets		
Other related entities	14,265	84,968
Loans		
Directors	8,933	3,555
Other key management personnel	82,529	66,207
Other related entities	345,000	-
Customer deposits		
Directors	(30,326)	(61,892)
Other key management personnel	(18,422)	(24,709)
Ultimate parent company	(157,013)	(30,614)
Parent company	(117,058)	(100,709)
Other related entities	(3,767,847)	(2,470,974)
Securities sold under repurchase agreements		
Other related entities	(3,031,515)	(195,020)
Other payables		
Other related entities	(406,742)	(230,797)

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

9. Related party balances and transactions (continued)

(d) The profit before taxation includes income earned from, and expenses incurred in, transactions with related parties in the ordinary course of business as follows:

	2020 $'000	2019 $'000
Related entities:		
Interest income	(80,521)	(62,472)
Management fees	(762,439)	(895,837)
Other income	(172,940)	(175,881)
Maintenance expenses	30,886	23,397
Management fees	844,528	465,663*
Computer related expenses	436,899	263,520
Commission	260,538	280,306
Service expense	915,455	571,981*
Insurance	103,914	128,089
Interest expense	71,670	44,905
Marketing	124,490	267,073
Other related parties:		
Contribution to pension scheme	133,777	120,197
Contribution to Foundation	30,107	27,570

* Service expense previously included as management fees has been reclassified and disclosed separately.

(e) Compensation paid to key management personnel (directors and senior executives), included in staff costs (note 33), is as follows:

	2020 $'000	2019 $'000
Short-term benefits	153,767	132,865
Post-employment benefits	4,680	4,140
	158,447	137,005

10. Interest in associate

Interest in associate held by the Bank represents a 20% shareholding in JN Money Services (Cayman) Limited. The nature of business is money transfer service, including remittance and bill payments. The Bank's share of interest in associate has been recorded in these financial statements using the equity method [see note 40(n)].

	JN Money Services (Cayman) Limited	
	2020 $'000	2019 $'000
Percentage ownership interest	**20%**	**20%**
Non-current assets	500,067	547,595
Current assets	714,617	735,663
Current liabilities	(391,802)	(523,760)
Net assets (100%)	822,882	759,498

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

10. Interest in associate (continued)

	JN Money Services (Cayman) Limited	
	2020	2019
	$'000	$'000
Percentage ownership interest	**20%**	**20%**
Group's share of net assets (20%)	164,576	151,900
Foreign currency adjustment	10,576	9,193
Carrying amount of interest in associate	175,152	161,093
Revenue	939,538	895,435
Expenses	(735,169)	(694,920)
Profit, being (100%)	204,369	200,515
Bank's share of profit in associate Profit, being (20%)	40,874	40,103
Dividends received by Bank	39,001	60,303

11. Loans, after allowance for impairment losses

	2020	2019
	$'000	$'000
Mortgage loans – principal [see (a)]	74,027,798	69,517,577
Term loans	1,507,053	1,471,783
Other loans [see (b)]	26,864,369	18,132,226
	102,399,220	89,121,586
Accrued interest	549,784	456,299
	102,949,004	89,577,885

(a) Included in mortgage loans are balances due from directors and companies controlled by directors amounting to $8,927,000 (2019: $15,094,000) and interest due on these loans of $6,000 (2019: $23,000).

(b) In prior year the Bank entered into a Non-Recourse Participation Agreement with JN Small Business Loans Limited to purchase an interest in a portfolio of loans for the sum of six hundred million, six hundred and thirty nine thousand dollars ($600,639,000). The fair value of the portfolio at acquisition was $ 614,711,000. The balance of the portfolio of loans as at March 31, 2020 was $206,786,000 inclusive of interest.

The Bank's mortgage loan agreements include the right to call mortgages at any time with six months' notice, except for new loans, which cannot be called until six months after the issue date.

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

11. Loans, after allowances for impairment losses (continued)

Loans, less allowance for losses, excluding interest receivable, are due from the reporting date, as follows:

	2020 $'000	2019 $'000
Within 3 months	2,347,414	1,004,239
3 months to 1 year	2,852,856	2,522,796
1 year to 5 years	15,172,781	12,942,931
5 years and over	82,026,169	72,651,620
	102,399,220	89,121,586

The Bank's loan portfolio, less allowance for losses, is concentrated as follows:

	Number of accounts		Value	
	2020	2019	2020 $'000	2019 $'000
Professional and other services	411	418	608,034	981,805
Individuals	57,498	47,363	88,681,803	78,479,746
Corporations	391	431	13,659,167	10,116,334
	58,300	48,212	102,949,004	89,577,885

Loans and advances on which interest is no longer accrued [see note 40(q)] amounted to $11,089,242,000 (2019: $10,738,187,000). This represents 10.75% (2019: 11.93%) of the gross loan portfolio. These loans are included in the financial statements, net of allowance for losses.

Impairment losses on loans are as follows:

	2020 $'000	2019 $'000
At beginning of the year	898,804	975,698
IFRS 9 transition	-	122,544
Increase in allowance made during the year [note 34(b)(v)]	448,544	163,285
Write-offs during the year [note 34(b)(v)]	(53,367)	(362,723)
At end of the year [note 34(b)(v)]	1,293,981	898,804

Allowance for loan losses made in accordance with the requirements of IFRS is as follows:

	2020 $'000	2019 $'000
Allowance for expected credit losses based on IFRS	1,293,981	898,804

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

11. Loans, after allowances for impairment losses (continued)

Provisions made in accordance with Bank of Jamaica and other provisioning requirements are as follows:

	2020 $'000	2019 $'000
Specific provision	1,675,334	1,505,840
General provision	630,630	519,079
	2,305,964	2,024,919

The total provision is broken down as follows:

	2020 $'000	2019 $'000
Provision as per IFRS	1,293,981	898,804
Additional provision based on Bank of Jamaica and other provisioning requirements [note 27(b)]	1,011,983	1,126,115
	2,305,964	2,024,919

12. Other assets

	2020 $'000	2019 $'000
Other receivables	674,008	640,984
Inventories	9,683	19,707
	683,691	660,691

13. Assets held for sale

	2020 $'000	2019 $'000
Foreclosed properties	684,713	920,362
Less impairment losses (see note below)	(478,930)	(515,802)
	205,783	404,560

Movement on impairment losses is as follows:

	2020 $'000	2019 $'000
At beginning of year	515,802	474,847
Increase in allowance	6,395	40,955
Write-off	(43,267)	-
At end of year	478,930	515,802

13. Assets held for sale (continued)

The Bank acquired real properties through foreclosure on collateral held as securities against loans. Foreclosed properties should be disposed of within 3 years of acquisition, in accordance with Section 53(1) of the Banking Services Act, 2014 [see note 40(h)].

14. Investment properties

	$'000
At cost:	
March 31, 2018	232,414
Transfers from property, plant and equipment (note 15)	6,720
March 31, 2019 and 2020	239,134
Depreciation:	
March 31, 2018	51,806
Charge for the year	5,017
March 31, 2019	56,823
Charge for the year	5,836
March 31, 2020	62,659
Carrying values:	
March 31, 2020	176,475
March 31, 2019	182,311
March 31, 2018	180,608

Included in investment properties is the cost of land at $5,736,000 (2019: $5,736,000).

	2020 $'000	2019 $'000
Fair value of investment properties	687,596	535,912
Income earned from the properties	18,698	42,958
Expenses incurred by the properties	18,960	42,516

Measurement of fair value:

The fair value of investment properties is categorised as level 3 in the fair value hierarchy. The following table shows the valuation technique used in measuring the fair value as well as the significant unobservable inputs used.

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

14. Investment properties (continued)

Measurement of fair value (continued):

Valuation technique	Significant unobservable inputs	Inter-relationship between key inputs and fair value measurement
Income approach: The valuation model examines the price an investor would be prepared to pay for the right to receive a certain income stream. The model considers the present value of net cash flows to be generated from the property, taking into account expected rental growth rate, and current rental rates. The estimated net cash flows are discounted using current yields. Among other factors, the yield estimation considers the quality of a building and its location, tenants' credit quality and lease terms.	• Expected market rental growth yields • Rental rates	The estimated fair value would increase/(decrease) if: • Expected market rental growth were higher/(lower); • The occupancy rates were higher/(lower); • Rent-free periods were shorter/(longer); or • Yields were lower/(higher)

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

15. Property, plant and equipment

	Freehold land and buildings $'000	Leasehold land and buildings $'000	Computers and office equipment $'000	Motor vehicles $'000	Work-in-progress $'000	Total $'000
Cost:						
March 31, 2018	2,796,199	247,184	2,911,067	705,356	46,135	6,705,941
Additions	3,593	-	125,838	59,281	182,300	371,012
Disposals	-	-	(481)	(118,860)	-	(119,341)
Transfer to investment properties (note 14)	(6,720)	-	-	-	-	(6,720)
Transfers	14,516	-	2,013	-	(16,529)	-
Write-off	-	-	(6,174)	-	(17,077)	(23,251)
March 31, 2019	2,807,588	247,184	3,032,263	645,777	194,829	6,927,641
Additions	-	-	433,129	58,837	853,577	1,345,543
Disposals	(101,484)	-	(5,302)	(148,797)	-	(255,583)
Transfer to intangible asset (note 16)	-	-	-	-	(81,101)	(81,101)
Transfers	-	988	-	-	(988)	-
Reclassification	-	-	-	-	(99,475)	(99,475)
March 31, 2020	2,706,104	248,172	3,460,090	555,817	866,842	7,837,025
Depreciation:						
March 31, 2018	479,650	195,828	2,109,672	489,724	-	3,274,874
Charge for the year	59,556	12,875	183,046	91,315	-	346,792
Eliminated on disposals	-	-	(466)	(111,017)	-	(111,483)
March 31, 2019	539,206	208,703	2,292,252	470,022	-	3,510,183
Charge for the year	73,543	8,933	188,218	73,729	-	344,423
Eliminated on disposals	(10,571)	-	(3,986)	(139,920)	-	(154,477)
March 31, 2020	602,178	217,636	2,476,484	403,831	-	3,700,129
Net book values:						
March 31, 2020	2,103,926	30,536	983,606	151,986	866,842	4,136,896
March 31, 2019	2,268,382	38,481	740,011	175,755	194,829	3,417,458
March 31, 2018	2,316,549	51,356	801,395	215,632	46,135	3,431,067

Included in freehold land and buildings is the cost of land at $103,793,000 (2019: $103,793,000).

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

16. Intangible assets

	Software $'000
Cost:	
March 31, 2018	850,877
Additions	82,685
March 31, 2019	933,562
Additions	134,723
Transfer from property, plant and equipment (note 15)	81,101
March 31, 2020	1,149,386
Amortisation:	
March 31, 2018	687,914
Charge for the year	102,720
March 31, 2019	790,634
Charge for the year	148,827
March 31, 2020	939,461
Net book values:	
March 31, 2020	209,925
March 31, 2019	142,928
March 31, 2018	162,963

17. Deferred tax asset

	Assets		Liabilities		Net	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Property, plant and equipment	216,126	78,210	-	-	216,126	78,210
Employee benefits obligation	400,932	508,136	-	-	400,932	508,136
Other payables	41,750	33,068	-	-	41,750	33,068
Contractual savings reserve	-	-	(4,267)	(4,267)	(4,267)	(4,267)
FVOCI investment securities	760,791	-	-	(75,734)	760,791	(75,734)
Expected credit loss on investment securities at FVOCI	-	7,015	(1,697)	-	(1,697)	7,015
Impairment losses on loans	126,060	243,193	-	-	126,060	243,193
Right-of-use-assets	-	-	(145,935)	-	(145,935)	-
Lease liabilities	150,584	-	-	-	150,584	-
Unrealised foreign exchange gains	-	-	(68,007)	(65,502)	(68,007)	(65,502)
Net deferred tax asset	1,696,243	869,622	(219,906)	(145,503)	1,476,337	724,119

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

17. Deferred tax asset (continued)

Movement in net temporary differences during the year are as follows:

	2020			
	Balances at April 1, 2019 $'000	Recognised in profit $'000	Recognised in other comprehensive income $'000	Balances at March 31, 2020 $'000
Property, plant and equipment	78,210	137,916	-	216,126
Employee benefits obligation	508,136	67,326	(174,530)	400,932
Other payables	33,068	8,682	-	41,750
Contractual savings reserve	(4,267)	-	-	(4,267)
FVOCI investment securities	(75,734)	-	836,525	760,791
Expected credit loss on investment securities at FVOCI	7,015	3,771	(12,483)	(1,697)
Impairment losses on loans	243,193	(117,133)	-	126,060
Right-of-use-assets	-	(145,935)	-	(145,935)
Lease liabilities	-	150,584	-	150,584
Unrealised foreign exchange gains	(65,502)	(2,505)	-	(68,007)
	724,119	102,706	649,512	1,476,337

	2019				
	Balances at April 1, 2018 $'000	Recognised in profit $'000	Recognised in other comprehensive income $'000	Recognised in equity $'000	Balances at March 31, 2019 $'000
Property, plant and equipment	151,846	(73,636)	-	-	78,210
Employee benefits obligation	416,099	52,605	39,432	-	508,136
Other payables	29,715	3,353	-	-	33,068
Contractual savings reserve	(4,267)	-	-	-	(4,267)
FVOCI investment securities	(136,882)	6,853	54,295	-	(75,734)
Impairment losses on loans	(65,419)	267,764	-	40,848	243,193
Investment securities at amortised cost	-	(445)	-	7,460	7,015
Unrealised foreign exchange gains	(160,842)	95,340	-	-	(65,502)
	230,250	351,834	93,727	48,308	724,119

Movement in temporary differences during the year:

	2020 $'000	2019 $'000
Net deferred tax asset at beginning of year	724,119	230,250
Recognised in other comprehensive income:		
Deferred tax adjustment on FVOCI investment securities	824,042	54,295
Employee benefits obligation	(174,530)	39,432
ECL on loans recognised in equity at transition	-	48,308
Recognised in statement of profit or loss [note 32(a)(ii)]	102,706	351,834
Net deferred tax asset at end of year	1,476,337	724,119

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

18. Customer deposits

	2020 $'000	2019 $'000
Deposits	138,455,200	127,107,276
Accrued interest	279,127	353,247
	138,734,327	127,460,523

Customer deposits are due from the reporting date as follows:

	2020 $'000	2019 $'000
Within 3 months	121,008,340	113,997,044
From 3 months to 1 year	15,903,694	12,386,483
Over 1 year	1,822,293	1,076,996
	138,734,327	127,460,523

The Bank's customer deposits portfolio is concentrated as follows:

	Number of accounts		Value	
	2020	2019	2020 $'000	2019 $'000
Public authorities	653	791	864,982	942,468
Financial institutions	241	236	8,719,785	6,685,337
Commercial and business	7,597	6,819	10,584,716	9,495,558
Individuals	919,440	851,428	118,564,844	110,337,160
	927,931	859,274	138,734,327	127,460,523

19. Securities sold under repurchase agreements

	2020 $'000	2019 $'000
Principal	6,007,766	3,303,099
Interest payable	12,942	14,739
	6,020,708	3,317,838

Securities sold under repurchase agreements, excluding interest payable, are due from the reporting date, as follows:

	2020 $'000	2019 $'000
Within 3 months	5,657,766	2,728,099
From 3 months to 1 year	350,000	575,000
	6,007,766	3,303,099

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

19. Securities sold under repurchase agreements (continued)

At March 31, 2020, securities obtained under resale agreements and certain investments have been pledged by the Bank as collateral for repurchase agreements. These financial instruments have a carrying value of $6,735,928,000 (2019: $3,735,928,000).

20. Other payables

	2020 $'000	2019 $'000
Staff related accrual	208,094	202,553
Insurance payable	152,187	78,860
Operating payables	958,649	611,993
Other payables	707,521	415,447
Customers' deposits [see (i) below]	214,034	327,829
	2,240,485	1,636,682

(i) Customers' deposits include amounts collected from customers on behalf of related entities amounting to $173,215,000 (2019: $214,328,000) [see note 6(d)].

21. Margin loan payable

Margin loan payable represented a short-term debt facility provided by a brokerage firm to the Bank to acquire securities on its own account. The facility which was repaid during the year was collateralised by the securities held with the brokerage firm and bore interest at Nil% (2019: 3.4%) per annum.

22. Employee benefits obligation

The Bank provides post-retirement pension benefits through a defined-contribution scheme which replaced a prior defined-benefit pension scheme for its employees. The pensioners in the defined-benefit scheme were transferred to a defined-contribution scheme, with the guarantee of their pension payments, and active members started to contribute on a defined-contribution basis. The scheme is funded by contributions from the Bank and employees in accordance with the rules of the scheme.

Under the defined-contribution scheme, retirement benefits are based on the Bank's and employees' accumulated contributions, plus interest and, therefore, the Bank has no further liability to fund pension benefits. During a prior period, the trustees of the scheme purchased annuities for the transferring pensioners in the scheme, thereby removing the liabilities of the guarantee of the pension payments from the scheme.

The total contributions made for the year are included in employee costs (note 33).

The Bank provides post-retirement health insurance benefits to retirees who have met certain minimum service requirements.

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

22. Employee benefits obligation (continued)

The amounts recognised in the statement of financial position for employee benefits in respect of the group life and health insurance plans are as follows:

(a) Employee benefits obligation recognised in the statement of financial position:

	2020	2019
	$'000	$'000
Present value of unfunded obligations	1,202,797	1,524,407

(b) Movement in the present value of unfunded obligations:

	2020	2019
	$'000	$'000
Present value of unfunded obligations and supplementary benefit at beginning of year	1,524,407	1,248,296
Benefits paid	(11,053)	(10,421)
Current service cost	99,775	75,006
Past service cost	6,941	-
Interest cost	106,318	93,231
Actuarial loss/(gain) arising from:		
Experience adjustments	(22,367)	(3,283)
Demographic assumption	(370,712)	(12,555)
Financial assumptions	(130,512)	134,133
Balances at end of year	1,202,797	1,524,407

(c) Expenses recognised in the statement of profit or loss:

	2020	2019
	$'000	$'000
Current service costs	99,775	75,006
Past service cost	6,941	-
Interest cost on obligation	106,318	93,231
	213,034	168,237

(d) Items recognised in other comprehensive income:

	2020	2019
	$'000	$'000
Remeasurement (gain)/loss on obligation	(523,591)	118,295

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

22. Employee benefits obligation (continued)

(e) Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2020	2019
	%	%
Discount rate at March 31	6.5	7.0
Health cost inflation rate	5.0	6.0
Interest on contributions	6.5	7.0

(f) Sensitivity analysis:

Sensitivity analysis on projected benefit obligation:

The calculation of the projected benefit obligation is sensitive to the assumptions used. The table below summarizes how the projected benefit obligation measured at the end of the reporting period would have increased/(decreased) as a result of a change in the respective assumptions by one percentage point. In preparing the analyses for each assumption, all others were held constant. The economic assumptions are somewhat linked as they are all related to inflation. Hence, for example, a 1% reduction in the long-term discount rate, would cause some reduction in the medical trend rate.

	2020		2019	
	Increase 1%	Decrease 1%	Increase 1 %	Decrease 1 %
	$'000	$'000	$'000	$'000
Discount rate	(247,573)	338,129	(308,377)	422,136
Health inflation rate	294,127	(217,264)	388,497	(288,395)
Interest on contributions	27,627	(22,017)	14,388	(11,483)

(g) At March 31, 2020, the weighted average duration of the defined benefit obligation was 23.3 years (2019: 22.9 years).

(h) As mortality continues to improve, estimates of life expectancy are expected to increase. An increase of one year in life expectancy will increase the employee benefits obligation by approximately $42,790,000 (2019: $54,150,000) while a decrease of one year in life expectancy will result in a decrease in the employee benefits obligation by approximately $8,673,000 (2019: $8,079,000).

23. Leases

(i) The Bank leases property. The leases typically run for a period of 3 years, with an option to renew the lease after that date. Lease payments are renegotiated annually to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices. Previously, these leases were classified as operating leases under IAS 17.

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases that are short- term and/or leases of low-value items.

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

23. Leases (continued)

Information about leases for which the Bank is a lessee is presented below.

(a) Right-of-use assets

	Buildings $'000
Cost:	
April 1, 2019	242,569
Recognition of right-of-use assets on transition to IFRS 16, being total additions during the year	286,839
March 31, 2020	529,408
Depreciation:	
Charge for the year, being total charge at March 31, 2020	(91,604)
March 31, 2020	437,804

(b) Lease liabilities

	2020 $'000
Lease liabilities included in the statement of financial position At March 31, 2020	451,752
Lease liabilities are classified as follows:	
Current	40,181
Non-current	411,571
	451,752
Maturity analysis of contractual undiscounted cash flows:	
Less than one year	131,438
One to two years	190,934
Two to three years	59,063
More than five years	90,025

(c) Amounts recognised in profit of loss

	2020 $'000
Interest expense on lease liabilities	17,705
Depreciation on right-of-use assets	91,604

(d) Amounts recognised in statement of cash flows:

	2020 $'000
Total cash outflow for leases	95,361

(e) Extension options

Some property leases contain extension options exercisable by the Bank up to one year before the end of the non-cancellable contract period. Where practicable, the Bank seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Bank and not by the lessors. The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

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Notes to the Financial Statements (Continued)
March 31, 2020

23. Leases (continued)

(e) Extension options (continued)

The Bank has estimated that the potential future lease payments, should it exercise the extension options, would result in an increase in lease liability of $15,668,000.

(ii) Leases as lessor

The Bank leases out properties. The Bank has classified these as operating leases because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

Operating leases under IFRS 16	$'000
Less than one year	90,621
One to five years	140,721
Total	231,342

24. Share capital

Issued and fully paid:

	Number of units ('000)		Carrying value ('000)	
	2020	2019	2020	2019
Ordinary shares	4,511,000	4,511,000	4,511,000	4,511,000

The number of shares which the Bank is authorised to issue is unlimited.

25. Reserve fund

In accordance with the Banking Services Act, 2014 and regulations under which it operates, the Bank is required to make transfers to reserve fund of a minimum of 15% of net profits, 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 equal to its paid-up capital.

26. Contractual savings reserve

Under the previously operated scheme, the members, after meeting certain criteria, including saving a contracted sum at a fixed rate of 3% per annum, became eligible to apply for a mortgage loan at a fixed rate of 5% per annum. The reserve was established in anticipation of the shortfall in interest income in future years, from the provision of this facility. Management constantly monitors the adequacy of the reserve and makes appropriate adjustments, as necessary.

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

27. Other reserves

	2020 $'000	2019 $'000
Retained earnings reserve [see note 28]	3,429,000	3,429,000
Investment revaluation reserve [see (a)]	(1,367,467)	264,398
Credit loss reserve [see (b)]	1,011,983	1,126,115
Other	16,356	16,356
	3,089,872	4,835,869

(a) This represents unrealised gains on the revaluation of investments classified as FVOCI, net deferred taxes and expected credit losses.

(b) This is a non-distributable reserve representing the excess of regulatory and other provisions over the IFRS provision for loan losses (note 11).

28. Retained earnings reserve

The Banking Services Act, 2014 permits transfers from the Bank's net profit to retained earnings reserve, which constitutes a part of the capital base. Transfers to the retained earnings reserve are made at the discretion of the Board of Directors. Such transfers must be notified to Bank of Jamaica and any reversal must be approved by Bank of Jamaica (note 27).

29. Interest expense

	2020 $'000	2019 $'000
Customer deposits	1,164,390	1,209,356
Specialised financial institutions	583,079	737,667
Other	68,205	194,761
	1,815,674	2,141,784

30. Other operating income

(a) Fees and commission

	2020 $'000	2019 $'000
Commission income	2,416	2,866
Transaction fees	693,619	583,488
Loan fees	730,022	489,837
	1,426,057	1,076,191

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

30. Other operating income (continued)

(b) Sundry income

	2020 $'000	2019 $'000
Realised gains on foreign exchange trading	2,243,985	1,474,269
Management fees	860,696	918,778
Dividends	24,290	23,226
Other	292,163	272,112
	3,421,134	2,688,385
Total other operating income	4,847,191	3,764,576

31. Operating expenses

	2020 $'000	2019 $'000
Administrative	4,709,998	4,176,089
Advertising and promotion	518,941	584,935
Audit fees	39,700	34,100
Bad debts written-off for loans and other receivables	238,233	134,031
Depreciation and amortisation	499,086	454,529
Depreciation of right-of-use-assets	91,604	-
Employee costs (note 33)	5,375,348	4,836,311
Impairment losses	49,662	85,025
Legal and other professional fees	499,408	531,729
	12,021,980	10,836,749

32. Taxation

(a) Taxation is based on the profit for the year, as adjusted for income tax purposes, and is made up as follows:

	2020 $'000	2019 $'000
(i) Current tax expense:		
Income tax	595,484	619,548
(ii) Deferred taxation:		
Origination and reversal of temporary differences (note 17)	(102,706)	(351,834)
Total taxation in statement of profit or loss	492,778	267,714

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

32. Taxation (continued)

(b) Reconciliation of effective tax charge:

Taxation is computed at a rate of 33⅓% and dividends received at 15%. The effective tax rate for the year was 46.43% (2019: 33.87%) of $1,061,387,000 (2019: $790,322,000) pre-tax profit for the Bank. The actual charge differs from the "expected" tax charge for the year as follows:

	2020 $'000	2019 $'000
Profit before taxation	1,061,387	790,322
Computed "expected" tax expense at 15%	2,525	2,774
Computed "expected" tax expense at 33⅓%	335,910	263,440
	338,435	266,214
Tax effect of difference between profit for financial statements, and tax reporting purposes on -		
Depreciation charge and capital allowances	(115,083)	98,393
Gain on disposal of property, plant and equipment	(2,960)	(10,959)
Unfranked and exempt income	(4,504)	(6,932)
Gain on disposal of investments	(230,428)	(149,264)
Disallowed expenses, net	507,318	70,262
Actual tax charge	492,778	267,714

33. Employee costs

The aggregate staff costs were as follows:

	2020 $'000	2019 $'000
Salaries	3,712,263	3,388,703
Pension, group life and health contributions	438,324	367,914
Statutory payroll contributions	421,735	385,710
Staff welfare	403,374	369,271
Other	399,652	324,713
	5,375,348	4,836,311

34. Financial risk management

(a) Overview

The Bank has exposure to the following financial risks from its operations and the use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

34. Financial risk management (continued)

(a) Overview (continued)

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Certain risk management activities are arranged on a group-wide basis and overseen or performed at that level, hence references to "Group" in this note.

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Finance Committee, the Risk and Compliance Unit, Asset and Liability Committee and Audit Committee, which are responsible for developing and monitoring risk management policies in their specified areas. These committees have both executive and non-executive members and report to the Board of Directors on their activities.

The Bank's risk management policies are established to identify, assess and measure the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The focus of financial risk management for the Bank is ensuring that the Bank has adequate economic capital and that the use of and proceeds from disposal of its financial assets are sufficient to fund the obligations arising from its deposit base and disposal of other contractual liabilities.

The goal of the investment management process is to, within the policy guidelines, optimise the after-tax investment income and total return by investing in a diversified portfolio of securities, whilst ensuring that the assets and liabilities are managed on a cash flow and duration basis.

A key aspect of the management of the Bank's financial risk is matching the timing of cash flows from assets and liabilities. The Bank actively manages its investments using an approach that balances quality, diversification, liquidity and return. The portfolio is reviewed on a periodic basis, as are investment guidelines and limits with the objective of ensuring that the Bank can always meet its obligations without undue cost and in accordance with the Bank's internal and regulatory capital requirements.

The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures. The Audit Committee is assisted by the Internal Audit Department which undertakes cyclical reviews of risk management controls and procedures, the results of which are reported to the Chief of Risk and Compliance Department, the Audit Committee and the Board of Directors.

(b) Credit risk:

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit risk arises mainly from interbank, commercial and consumer loans and advances, and loan commitments arising from such lending activities, financial guarantees, letters of credit, endorsements and acceptances. The Bank is also exposed to credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures') including non-equity trading portfolio assets and derivatives as well as settlement balances with market counterparties and reverse repurchase agreements.

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Notes to the Financial Statements (Continued)
March 31, 2020

34. Financial risk management (continued)

(b) Credit risk (continued):

Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised in the credit risk and treasury management teams which report regularly to the appropriate board committees.

Credit risk measurement

(i) Loans (including loan commitments and guarantees)

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations as to the likelihood of defaults occurring, for the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9.

Credit risk grading

The Bank uses internal credit risk gradings that reflect its assessment of the credit-worthiness of individual borrowers. Borrower and loan specific information collected at the time of application (such as age, total debt service ratio, type of employment, net worth and level of collateral for retail exposures; turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgement from management to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

The below table reflects the Bank's internal rating classification:

Credit classification	**Credit score**	**Credit risk rating at origination**
Excellent	789 - 866	R1
Good	712 - 788	R2
Average	634 - 711	R3
Acceptable	557 - 633	R4
Marginal	479 - 556	R5
Potential problem	401 - 478	R6
Substandard	324 - 400	R7
NPL doubtful	246 - 323	R8

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

34. Financial risk management (continued)

(b) Credit risk (continued):

Credit risk measurement (continued)

(ii) Investments

For debt securities in the Treasury portfolio, external rating agency (Moody's) credit grades are used.

These published grades are continually monitored and updated. The PDs associated with each grade are determined based on realised default rates over the prior 12 months, as published by the rating agency.

The Bank's rating method comprises 25 rating levels for instruments not in default (1 to 25) and five default classes (26 to 30). The master scale assigns each rating category a specified range of probabilities of default, which is stable over time. The rating methods are subject to an annual validation and recalibration so that they reflect the latest projections in the light of all actually observed defaults.

The mapping of the Bank's internal rating scale to external ratings is set out below:

Bank rating	PD range as percentage	S & P	Moody's	Description of the grade
1	0	AAA	Aaa	Investment Grade
2	0 - 0.02			
3	0.02 - 0.03	AA+	Aa1	
4	0.03 - 0.05	AA, AA-	Aa2, Aa1	
5	0.05 - 0.08	A+, A	A1, A2	
6	0.08 - 0.13	A-	A3	
7	0.13 - 0.21	BBB+	Baa1	
8	0.21 - 0.31	BBB	Baa2	
9	0.31 - 0.47			
10	0.47 - 0.68	BBB-	Baa3	
11	0.68 - 0.96	BB+	Ba1	Speculative Grade
12	0.96 - 1.34	BB	Ba2	
13	1.34 - 1.81			
14	1.81 - 2.4	BB-	Ba3	
15	2.4 - 3.1	B+	B1	
16	3.1 - 3.9			
17	3.9 - 4.86	B	B2	
18	4.86 - 6.04			
19	6.04 - 7.52			

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

34. Financial risk management (continued)

(b) Credit risk (continued):

Credit risk measurement (continued)

(ii) Investments (continued)

The mapping of the Bank's internal rating scale to external ratings is set out below (continued):

Bank's rating	PD range as percentage	S & P	Moody's	Description of the grade
20	7.52 - 9.35	B-	B3	Speculative Grade
21	9.35 - 11.64			
22	11.64 - 14.48	CCC+	Caa1	
23	14.48 - 18.01			
24	18.01 - 22.41	CCC to CC-	Caa2 to Ca	
25	22.41 - 99.99			

Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition, as summarised below:

Stage 1:

A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continually monitored by the Bank.

Stage 2:

If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.

Stage 3:

Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis.

Change in credit quality since initial recognition

Stage 1	**Stage 2**	**Stage 3**
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

34. Financial risk management (continued)

(b) Credit risk (continued):

Expected credit loss measurement (continued)

Stage 3 (continued).

Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.

A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward looking information. Note 40(a) includes an explanation of how the Bank has incorporated this in its ECL models.

The key judgements and assumptions adopted by the Bank in addressing the requirements of the standard are discussed below:

(i) Significant increase in credit risk (SICR)

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

- In short-term forbearance;
- Direct debit cancellation;
- Extension to the terms granted;
- Previous arrears within the last 12 months.

Quantitative criteria:

Loans

The Bank has concluded that delinquency status is the most reliable and appropriate measure as it has not utilised PDs throughout the history of operations. As the Caribbean region has not yet adopted Basel III guidelines, development of PDs has not been required.

Investments

The external credit rating grades are used as a basis for the assessment of increases in credit risk. Movements within investment grade are not construed as significant increases in credit risk; however, exceptional conditions may be taken into consideration. The number of notches required to trigger a migration to Stage 2 will be two notches.

34. Financial risk management (continued)

(b) Credit risk (continued):

Expected credit loss measurement (continued)

(i) Significant increase in credit risk (SICR) (continued)

Investments (continued)

Qualitative criteria:

As it relates to Corporate and Sovereign portfolios, if the borrower is on the Watchlist and/or the instrument meets one or more of the following criteria:

- Significant increase in credit spread;
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates;
- Actual or expected forbearance or restructuring;
- Actual or expected significant adverse change in operating results of the borrower;
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default;
- Early signs of cashflow/liquidity problems such as delay in servicing of trade creditors/loans.

The assessment of SICR incorporates forward-looking information and is performed on an annual basis at a portfolio level for all financial instruments held by the Bank. In relation to Corporate and Sovereign financial instruments, where a Watchlist is used to monitor credit risk, this assessment is performed at the counterparty level and on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the Credit Risk team.

Backstop:

A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

The Bank has used the low credit risk exemption for Intercompany exposures in the year ended March 31, 2020.

(ii) Definition of default and credit-impaired assets:

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

1) The borrower is more than 90 days past due on its contractual payments.

34. Financial risk management (continued)

(b) Credit risk (continued):

Expected credit loss measurement (continued)

(ii) Definition of default and credit-impaired assets (continued):

2) The borrower meets unlikeliness-to-pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance;
- The borrower is deceased;
- The borrower is insolvent;
- The borrower is in breach of financial covenant(s);
- An active market for that financial asset has disappeared because of financial difficulties;
- Concessions have been made by the lender relating to the borrower's financial difficulty;
- It is becoming probable that the borrower will enter bankruptcy;
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Bank's expected loss calculations.

An instrument is considered to no longer be in default (i.e. default has been cured) when it no longer meets any of the default criteria for a period of three (3) consecutive months. This period of three months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

(iii) Measuring ECL - Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

34. Financial risk management (continued)

(b) Credit risk (continued):

Expected credit loss measurement (continued)

(iii) Measuring ECL - Explanation of inputs, assumptions and estimation techniques (continued)

- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

  Loss Given Default (LGD) represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD).

- The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

  The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

  The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.

- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Bank's recent default data.

  The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.

34. Financial risk management (continued)

(b) Credit risk (continued):

Expected credit loss measurement (continued)

(iii) Measuring ECL - Explanation of inputs, assumptions and estimation techniques (continued)

- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type.

The assumptions underlying the ECL calculation - such as how the underwriting terms, performance of the portfolio and changes in market conditions are monitored and reviewed on an annual basis.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

(iv) Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgment has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are provided by the Group's Business Advisory Service team on a quarterly basis and provide the best-estimate view of the economy over the next five years. After five years, to project the economic variables out for the full remaining lifetime of each instrument, a mean reversion approach has been used, which means that economic variables tend to either a long run average rate (e.g. for unemployment) or a long run average growth rate (e.g. GDP) over a period of two to five years.

The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

In addition to the base economic scenario, the Bank's Risk and Compliance Unit also provide other possible scenarios along with scenario weightings. The number of other scenarios used is set based on the analysis of each major product type to ensure non-linearities are captured. The number of scenarios and their attributes are reassessed at each reporting date.

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Notes to the Financial Statements (Continued)
March 31, 2020

34. Financial risk management (continued)

(b) Credit risk (continued):

Expected credit loss measurement (continued)

(iv) Forward-looking information incorporated in the ECL models (continued)

The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of.

The assessment of SICR is performed using the Lifetime PD under each of the base, and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2 or Stage 3 and hence whether 12-month or lifetime ECL should be recorded. Following this assessment, the Bank measures ECL as either a probability weighted 12 month ECL (Stage 1), a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs). As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at March 31, 2020 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

The weightings assigned to each economic scenario at March 31, 2020 and 2019 were as follows:

	Base	**Upside**	**Downside**
All portfolios	75%	15%	10%

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

Management used the Vasicek model to apply forward-looking information in the prior year. The scorecard approach was used in the current reporting year which utilized IMF's projected macro-economic variables for the period 2020-2021 to determine the possible impact on loans, investments and other receivable portfolios.

34. Financial risk management (continued)

(b) Credit risk (continued):

Expected credit loss measurement (continued)

(iv) Forward-looking information incorporated in the ECL models (continued)

This was applied as a post model overlay to the current Vasicek model to reflect the effects of the pandemic on the economy and its impact at March 31, 2020 (see note 41, Impact of COVID-19).

As a result of COVID-19, management considered the application of an overlay in respect of the computation of the ECL to take into account the potential impact of the pandemic on the macroeconomic indicators. In order to inform the forward-looking component of the ECL, macroeconomic variables, which are statistically significant and most correlated with the Bank's Non-Performing Loans (NPLs) and investment default rates, were selected. For the loan portfolio these include: Unemployment, GDP Growth and Inflation Rate; for the investment securities the macro factors applied were: interest rates, real GDP growth rate and the inflation rate. The weighting for each variable was applied based on its ability to reflect the projected economic changes resulting from the pandemic (Note 41).

(v) Management of credit risk

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Bank has considered benchmarking internal/external supplementary data to use for modelling purposes.

The appropriateness of groupings is monitored and reviewed on a periodic basis by the Credit Risk management team.

There was no change in the nature of exposure to credit risk to which the Bank is subject or its approach to measuring and managing the risk during the year.

The Bank manages credit risk associated with loans by evaluating the borrowers' ability to repay loans, ensuring that:

(i) where collateral is held against an outstanding loan, it is sufficiently insured;

(ii) loan loss provisioning is in keeping with the requirements of the Bank of Jamaica (BOJ);

(iii) loans are not concentrated in one individual, company or group; and

(iv) strong underwriting and credit administration systems are in place.

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

34. Financial risk management (continued)

(b) Credit risk (continued):

Expected credit loss measurement (continued)

(v) Management of credit risk (continued)

Counterparty credit risk

With the exception of Government of Jamaica securities, there is no significant concentration of credit risk related to liquid fund and debt securities. Further, locally issued Government of Jamaica notes are held with the Central Securities Depository (CSD), while global bonds issued by the Government of Jamaica and other investment assets are held with financial institutions which management regards as reputable and sound. These entities are regularly reviewed and risk rated by the Risk and Compliance Unit.

Credits to borrowers

Credit facilities to customers and other borrowers primarily comprise mortgage loans. The management of this type of credit risk is carried out through the use of a tiered approval framework within the Underwriting Unit, up to the Loan Committee of the Board. This framework allows for the evaluation of proposed credits, and the formal approval of those commitments. The Board of Directors has the responsibility for the oversight of the Bank's credit risk and the development of credit policies.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the customer's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured, it remains in this category irrespective of satisfactory performance after restructuring. At March 31, 2020, the outstanding principal balances on loans that were restructured amounted to $1,326,185,000 (2019: $2,241,570,000).

Impaired credits to borrowers

Impaired credits to customers and other borrowers are credits for which management determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the credit.

Past due but unimpaied credits to borrowers

These are credits where contractual interest or principal payments are past due but they are not considered impaired based on the quality and value of security available or the stage of collection of amounts owed by debtors.

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

34. Financial risk management (continued)

(b) Credit risk (continued):

Expected credit loss measurement (continued)

(v) Management of credit risk (continued)

Allowances for impairment

The Bank has established an allowance for impairment losses that represents its estimate of incurred losses on loans and receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established on a portfolio basis, based on requirements of the Bank of Jamaica.

Write-off policy

The Bank writes off credits to borrowers (and any related allowances for impairment losses) when it determines that the balances are uncollectible. This determination is usually made after considering information such as changes in the borrower's financial position, or that proceeds from collateral will not be sufficient to pay back the entire exposure. Credits to borrowers for write-off must be submitted to the Credit Committee and or Board of Directors for approval.

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Bank may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended March 31, 2020 was $120,943,000 (2019: $362,723,000). The Bank still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

Concentration by class and geographical area

The Bank limits its exposure to credit risk by investing substantially with counterparties that have high credit ratings and in Government of Jamaica securities. Therefore, management does not expect any counterparty to fail to meet its obligations.

The Bank has documented investment policies in place, which guide in managing credit risk on loans, investment securities, other assets excluding inventory, securities purchased under resale agreements and cash and cash equivalents. The Bank's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties based on their credit ratings and limits set.

34. Financial risk management (continued)

(b) Credit risk (continued):

Expected credit loss measurement (continued)

(v) Management of credit risk (continued)

Concentration by class and geographical area (continued)

The Bank's significant concentration of credit exposure, as at the reporting date, by geographic area were as follows:

	2020 $'000	2019 $'000
Jamaica	155,058,049	147,603,410
United States of America	10,011,378	9,636,589
United Kingdom	10,557,705	5,656,424
Canada	1,474,767	900,318
Cayman Islands	186,373	195,984
Bahamas	-	460,883
Trinidad & Tobago	-	373,253
Dominican Republic	-	633,244
	177,288,272	165,460,105

Credit quality of loans

The credit quality of the Bank's loans are summarised as follows:

	2020 $'000	2019* $'000
Neither past due nor impaired	78,859,365	75,461,799
Past due but not impaired:		
Below 30 days	15,248,779	6,905,385
30 to 60 days	4,190,962	3,585,346
60 to 90 days	2,180,435	1,436,327
Individually impaired:		
90-180 days	1,947,983	1,549,831
180-365 days	713,005	664,118
12-18 months	363,339	243,042
18 months and over	739,117	630,841
Less allowance for losses (note 11)	(1,293,981)	(898,804)
	102,949,004	89,577,885

*Reclassified to conform to current year presentation.

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

34. Financial risk management (continued)

(b) Credit risk (continued):

Expected credit loss measurement (continued)

(v) Management of credit risk (continued)

Exposure to credit risk

Credit risk exposure is the amount of loss that the Bank would suffer if all counterparties to which the Bank is exposed were to default at once. This is represented substantially by the carrying amount of financial assets shown on the statement of financial position, without taking account of the value of any collateral held.

The maximum exposure to credit risk is represented by the amount of financial assets in the statement of financial position, including off balance sheet assets and unused credit limits.

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

	Loans			
	2020			
	Stage 1	Stage 2	Stage 3	Total
	$'000	$'000	$'000	$'000
Credit grade				
Standard monitoring	94,678,391	-	-	94,678,391
Special monitoring	-	12,040,371	-	12,040,371
Default	-	-	3,682,348	3,682,348
Gross carrying amount	94,678,391	12,040,371	3,682,348	110,401,110
Loss allowance (note 11)	(534,468)	(282,147)	(477,366)	(1,293,981)
Carrying amount	94,143,923	11,758,224	3,204,982	109,107,129
Ageing of loans receivable				
Current	77,203,483	3,336,895	-	80,540,378
Past due 1-30 days	13,176,198	2,377,768	3	15,553,969
Past due 31-60 days	-	4,165,680	1,019	4,166,699
Past due 61-89 days	-	2,160,028	418	2,160,446
90 days and over	-	-	3,680,908	3,680,908
Gross carrying amount	90,379,681	12,040,371	3,682,348	106,102,400
Loss allowance (note 11)	(522,410)	(282,147)	(477,366)	(1,281,923)
	89,857,271	11,758,224	3,204,982	104,820,477
Loan commitments	4,298,710	-	-	4,298,710
Loss allowance on loan commitment	(12,058)	-	-	(12,058)
	4,286,652	-	-	4,286,652
Net carrying amount	94,143,923	11,758,224	3,204,982	109,107,129

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

34. Financial risk management (continued)

(b) Credit risk (continued):

Expected credit loss measurement (continued)

(v) Management of credit risk (continued)

Exposure to credit risk (continued)

	Loans			
	2019			
	Stage 1 12-month $'000	Stage 2 Lifetime $'000	Stage 3 Lifetime $'000	Total $'000
Credit grade				
Standard monitoring	81,558,690	-	-	81,558,690
Special monitoring	-	11,381,369	-	11,381,369
Default	-	-	3,243,114	3,243,114
Gross carrying amount	81,558,690	11,381,369	3,243,114	96,183,173
Loss allowance (note 11)	(481,327)	(203,507)	(213,970)	(898,804)
Carrying amount	81,077,363	11,177,862	3,029,144	95,284,369
Ageing of loans receivable				
Current	71,053,409	4,377,193	73,282	75,503,884
Past due 1-30 days	6,641,350	1,987,970	886	8,630,206
Past due 31-60 days	44,520	3,488,446	2,039	3,535,005
Past due 61-89 days	9,048	1,486,842	1,325	1,497,215
90 days and over	3,519	40,918	3,165,582	3,210,019
Gross carrying amount	77,751,846	11,381,369	3,243,114	92,376,329
Loss allowance (note 11)	(481,327)	(203,507)	(213,970)	(898,804)
	77,270,519	11,177,862	3,029,144	91,477,525
Loan commitments	3,815,818	-	-	3,815,818
Loss allowance on loan commitment	(8,974)	-	-	(8,974)
	3,806,844	-	-	3,806,844
Net carrying amount	81,077,363	11,177,862	3,029,144	95,284,369

Information on how the Expected Credit Loss (ECL) is measured and how the three stages above are determined is included in note 34(b)(iii) 'Expected credit loss measurement'.

Collateral and other credit enhancements held against financial assets

The Bank holds collateral against credits to borrowers primarily in the form of mortgage interests over properties. Estimates of fair values are based on the value of the collateral assessed at the time of borrowing and are generally not updated except when credits to borrowers are individually assessed as impaired. Other forms of collateral used by the Bank include an insurance policy, properties, motor vehicles, personal or corporate guarantees to secure loans.

The Bank's collateral generally is not held over balances with banks or brokers/dealers, except when securities are held under resale agreements.

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

34. Financial risk management (continued)

(b) Credit risk (continued):

Expected credit loss measurement (continued)

(v) Management of credit risk (continued)

Collateral and other credit enhancements held against financial assets

The Bank employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Bank has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The fair value of collateral held against loans to borrowers and others is shown below:

	Loans and advances		Securities purchased under resale agreements	
	2020	2019*	2020	2019
	$'000	$'000	$'000	$'000
Against neither past due nor impaired financial assets:				
Properties	101,696,131	101,024,654	-	-
Debt securities	4,829,626	2,904,878	-	2,620,890
Hypothecation of deposits	2,215,867	2,585,881	-	-
Subtotal	108,741,624	106,515,413	-	2,620,890
Against past due but not impaired financial assets:				
Properties	30,364,957	38,989,727	-	-
Hypothecation of deposits	756,466	707,907	-	-
Liens on motor vehicles	847,413	139,469	-	-
Subtotal	31,968,836	39,837,103	-	-
	140,710,460	146,352,516	-	2,620,890
Against past due and impaired financial assets:				
Properties	7,522,902	9,655,588	-	-
Hypothecation of deposits	10,695	618	-	-
Liens on motor vehicles	144,142	112,665	-	-
Subtotal	7,677,739	9,768,871	-	-
Grand total	148,388,199	156,121,387	-	2,620,890

* The fair value of properties held against neither past due nor impaired financial assets has been restated from $183,716,415,000 to $107,024,654,000 to exclude amounts previously included in error.

In addition, amounts previously disclosed as hypothecation of deposits have been restated to include balances previously omitted in error and are as follows:

	2019	
	Previously stated	Restated
	$'000	$'000
Against neither past due nor impaired financial assets	880,111	2,585,881
Against neither past due but not impaired financial assets	-	707,907
Against past due and impaired financial assets	1,876,091	618

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

34. Financial risk management (continued)

(b) Credit risk (continued):

Expected credit loss measurement (continued)

(vi) Management of credit risk (continued)

Collateral and other credit enhancements held against financial assets (continued)

The Bank prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

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

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period.

The Bank closely monitors collateral held for financial assets considered to be credit-impaired as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	2020			
	Gross exposure	**Impairment allowance**	**Carrying amount**	**Fair value of collateral held**
Credit-impaired assets	$'000	$'000	$'000	$'000
Loans				
- Credit cards	54,173	(48,280)	5,893	-
- Term loans	678,078	(183,451)	494,627	154,837
- Mortgages	2,936,693	(241,954)	2,694,739	7,522,902
- Other	13,404	(3,681)	9,723	-
Total credit-impaired assets	3,682,348	(477,366)	3,204,982	7,677,739

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

34. Financial risk management (continued)

(b) Credit risk (continued):

Expected credit loss measurement (continued)

(vii) Management of credit risk (continued)

	2019			
	Gross exposure	**Impairment allowance**	**Carrying amount**	**Fair value of collateral held**
Credit-impaired assets	$'000	$'000	$'000	$'000
Loans				
- Credit cards	102,280	(30,628)	71,652	-
- Term loans	312,538	(57,954)	254,584	75,980
- Mortgages	2,826,609	(205,974)	2,620,635	9,541,592
- Other	1,677	(327)	1,350	-
Total credit-impaired assets	3,243,104	(294,883)	2,948,221	9,617,572

Loss allowance

Loss allowance recognised in profit or loss during the period is summarised below:

	2020	2019
	$'000	$'000
Loans (note 11)	448,544	163,285
Investment securities – at amortised cost	6,923	(1,336)
Investment securities – at FVOCI	30,795	18,596
	486,262	180,545

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL:

- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Discount unwound within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

34. Financial risk management (continued)

(b) Credit risk (continued):

Expected credit loss measurement (continued)

(v) Management of credit risk (continued)

Loss allowance (continued)

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

	2020			
	Stage 1	Stage 2	Stage 3	
Loans	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
	$'000	$'000	$'000	$'000
Loss allowance as at April 1, 2019	481,327	203,507	213,970	898,804
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(18,410)	96,127	-	77,717
Transfer from Stage 1 to Stage 3	(4,324)	-	109,043	104,719
Transfer from Stage 2 to Stage 1	14,866	(50,920)	-	(36,054)
Transfer from Stage 2 to Stage 3	-	(20,767)	130,205	109,438
Transfer from Stage 3 to Stage 2	-	18,248	(65,995)	(47,747)
Transfer from Stage 3 to Stage 1	950	-	(11,858)	(10,908)
New financial assets originated or purchased	160,871	44,855	57,376	263,102
Financial assets derecognised during the period	(166,468)	(29,019)	(5,802)	(201,289)
Other movements	65,672	21,077	102,817	189,566
Loss allowance recognised in profit or loss	53,157	79,601	315,786	448,544
Other movements:				
Write-offs against provision	(16)	(961)	(52,390)	(53,367)
Loss allowance as at March 31, 2020	534,468	282,147	477,366	1,293,981

34. Financial risk management (continued)

(b) Credit risk (continued):

Expected credit loss measurement (continued)

(vi) Management of credit risk (continued)

Loss allowance (continued)

	2019			
	Stage 1	Stage 2	Stage 3	
Loans	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
	$'000	$'000	$'000	$'000
Loss allowance as at April 1, 2018	340,416	202,521	555,305	1,098,242
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(11,571)	44,438	-	32,867
Transfer from Stage 1 to Stage 3	(2,805)	-	60,326	57,521
Transfer from Stage 2 to Stage 1	14,615	(54,287)	-	(39,672)
Transfer from Stage 2 to Stage 3	-	(21,467)	102,147	80,680
Transfer from Stage 3 to Stage 2	-	9,423	(57,269)	(47,846)
New financial assets originated or purchased	166,422	40,256	18,981	225,659
Financial assets derecognised during the Period	(25,750)	(17,377)	(102,797)	(145,924)
Loss allowance recognised in profit or loss	140,911	986	21,388	163,285
Other movements:				
Write-offs against provision	-	-	(362,723)	(362,723)
Loss allowance as at March 31, 2019	481,327	203,507	213,970	898,804

Significant changes in the gross carrying amount of financial assets that contributed to changes in the loss allowance were as follows:

- The high volume of new loans originated during the period, aligned with the Bank's strategy.
- The write-off of loans with a total gross carrying amount of $120,943,000 (2019: $362,723,000) resulted in the reduction of the Stage 3 loss allowance by the same amount.

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

34. Financial risk management (continued)

(b) Credit risk (continued):

Expected credit loss measurement (continued)

(v) Management of credit risk (continued)

Loss allowance (continued)

The following table further explains changes in the gross carrying amount of the loan portfolio to help explain their significance to the changes in the loss allowance for the same portfolio as discussed above:

	2020			
	Stage 1	**Stage 2**	**Stage 3**	
Loans	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	$000	$000	$000	$000
Gross carrying amount as at beginning of year	81,558,690	11,381,369	3,243,114	96,183,173
Transfers:				
Transfer from Stage 1 to Stage 2	(3,939,009)	3,739,511	-	(199,498)
Transfer from Stage 1 to Stage 3	(586,994)	-	547,346	(39,648)
Transfer from Stage 2 to Stage 3	-	(1,338,484)	1,288,284	(50,200)
Transfer from Stage 3 to Stage 2	-	818,792	(894,810)	(76,018)
Transfer from Stage 2 to Stage 1	2,261,510	(2,343,824)	-	(82,314)
Transfer from Stage 3 to Stage 1	59,646	-	(59,592)	54
New financial assets originated or purchased	26,993,035	1,149,021	186,984	28,329,040
Financial assets derecognised during the period other than write-offs	(11,667,458)	(1,327,583)	(547,496)	(13,542,537)
	13,120,730	697,433	520,716	14,338,879
Other movements:				
Write-offs	(1,030)	(38,431)	(81,482)	(120,943)
Gross carrying amount as at end of year	94,678,390	12,040,371	3,682,348	110,401,109

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

34. Financial risk management (continued)

(b) Credit risk (continued):

Expected credit loss measurement (continued)

(v) Management of credit risk (continued)

Loss allowance (continued)

	2019			
	Stage 1	**Stage 2**	**Stage 3**	
Loans	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	$000	$000	$000	$000
Gross carrying amount as at beginning of year	70,471,204	12,041,493	2,551,954	85,064,651
Transfers:				
Transfer from Stage 1 to Stage 2	(1,968,841)	1,907,574	-	(61,267)
Transfer from Stage 1 to Stage 3	(536,540)		525,493	(11,047)
Transfer from Stage 2 to Stage 3	-	(1,387,717)	1,335,134	(52,583)
Transfer from Stage 3 to Stage 2	-	639,430	(730,980)	(91,550)
Transfer from Stage 2 to Stage 1	3,200,829	(2,801,307)	-	399,522
New financial assets originated or purchased	18,708,221	2,172,800	516,350	21,397,371
Financial assets derecognised during the period other than write-offs	(8,316,183)	(1,190,904)	(592,114)	(10,099,201)
	11,087,486	(660,124)	1,053,883	11,481,245
Other movements:				
Write-offs against provision	-	-	(362,723)	(362,723)
Gross carrying amount as at end of year	81,558,690	11,381,369	3,243,114	96,183,173

The total amount of undiscounted expected credit losses at initial recognition for purchased or originated credit-impaired financial assets recognised during the period was $Nil (2019: $Nil).

	2020			
Investments	**Stage 1**	**Stage 2**	**Stage 3**	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	$000	$000	$000	$000
Balance April 1	138,615	-	-	138,615
Stage 1 to Stage 2	(9,828)	9,828	-	-
New financial assets originated or purchased	65,984	10,710	-	76,694
Financial assets derecognised during the period other than write-offs	(38,978)	-	-	(38,978)
Loss allowance	17,178	20,538	-	37,716
Balance March 31	155,793	20,538	-	176,331

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

34. Financial risk management (continued)

(b) Credit risk (continued):

Expected credit loss measurement (continued)

(v) Management of credit risk (continued)

Loss allowance (continued)

Investments

In prior year all investments were in Stage 1.

The Bank had investments and securities purchased under resale agreement at:

(i) Fair value through Other Comprehensive Income (FVOCI) of $41,752,693,000 (2019: $42,304,485,000) (see note 8) divided between Investment grade of $13,988,915,000 (2019: $4,602,344,000) and Speculative grade of $27,763,778,000 (2019: $36,648,490,000) and ECL provision of $158,273,000 (2019: $119,533,000).

(ii) Securities purchased under resale agreements and investments measured at amortised cost of $Nil (2019: $2,299,632,000) and $4,685,330,000 (2019: $8,482,676,000) (see notes 7 and 8), respectively, with investment grading of $820,974,000 and Speculative grading of $3,864,356,000. ECL provision was $3,128,000 (2019: $19,080,000) [see note 8].

(c) Liquidity risk:

Liquidity risk is the potential for loss to the Bank arising from either its inability to meet its obligations or to fund increases in assets as they fall due without incurring unacceptable costs or losses. Liquidity risk is broken down into two primary categories:

(i) *Funding liquidity risk* - the risk that the Bank will not be able to meet the expected and unexpected current and future cash flows and collateral needs without affecting either its daily operations or its financial condition; and

(ii) *Asset/market liquidity risk* - is the Bank's inability to liquidate assets in an orderly fashion without incurring loss on liquidation. This usually stems from illiquid markets or market disruptions.

Management of liquidity risk

The key measurement used for assessing liquidity risk is the ratio of liquid assets (as defined) to total liabilities. The liquidity ratios at the reporting date for the Bank are as follows:

	Requirement		Actual	
	2020	2019	2020	2019
	%	%	%	%
Jamaica Dollar	21	23	24	28
United States of America Dollar	29	29	34	33
Canadian Dollar	29	29	95	74
Pound Sterling	29	29	69	36

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

34. Financial risk management (continued)

(c) Liquidity risk (continued):

Management of liquidity risk (continued)

There was no change in the nature of exposure to liquidity risk which the Bank is subjected to or its approach to measuring and managing the risk during the year.

An analysis of the undiscounted cash flows of the Bank's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity is presented below. The analysis provided is by estimating timing of the amounts recognised in the statement of financial position. The Bank does not expect that all its customers will demand the payment of funds at the earliest date possible.

	2020						
		Contractual undiscounted cash flows					
	Carrying amount $'000	Total cash outflow $'000	Less than 3 months $'000	3-12 months $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000
Due to specialised financial institutions	19,882,426	33,490,880	158	1,554	13,566	25,058	33,450,544
Customer deposits	138,734,327	177,904,430	121,312,163	16,024,164	20,083,239	20,484,864	-
Securities sold under repurchase agreements	6,020,708	6,073,307	5,696,708	361,418	15,181	-	-
Other payables	2,240,485	2,240,485	2,240,485	-	-	-	-
Lease liabilites	451,752	471,460	-	131,438	190,934	59,063	90,025
	167,329,698	220,180,562	129,249,514	16,518,574	20,302,920	20,568,985	33,540,569
Unrecognised loan commitments	-	6,226,445	6,226,445	-	-	-	-
	167,329,698	226,407,007	135,475,959	16,518,574	20,302,920	20,568,985	33,540,569

	2019						
		Contractual undiscounted cash flows					
	Carrying amount $'000	Total cash outflow $'000	Less than 3 months $'000	3-12 months $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000
Due to specialised financial institutions	18,614,327	31,342,631	247	2,388	20,720	35,818	31,283,458
Customer deposits	127,460,523	129,466,574	113,468,980	12,480,311	1,948,345	1,568,938	-
Securities sold under repurchase agreements	3,317,838	3,351,979	2,728,410	608,388	15,181	-	-
Other payables	1,636,682	1,636,682	1,636,682	-	-	-	-
Margin loan payable	898,159	903,548	903,548	-	-	-	-
	151,927,529	166,701,414	118,737,867	13,091,087	1,984,246	1,604,756	31,283,458
Unrecognised loan commitments	-	8,028,457	8,028,457	-	-	-	-
	151,927,529	174,729,871	126,766,324	13,091,087	1,984,246	1,604,756	31,283,458

34. Financial risk management (continued)

(d) Market risk:

Market risk is the risk that changes in market prices, such as interest rate, foreign exchange rates and equity prices will affect the value of the Bank's assets, the amount of its liabilities and/or the Bank's income. Market risk arises in the Bank due to fluctuations in the value of liabilities and the value of investments held. The Bank is exposed to market risk on all of its financial assets.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Management of market risk

The Asset and Liability Committee manages market risks in accordance with the Bank's Investment Policy. The Committee, through the Board Finance Committee, reports regularly to the Board of Directors on its activities. For each of the major components of market risk, the Bank has policies and procedures in place which detail how each risk should be monitored and managed. The management of each of these major components of risk and the exposure of the Bank at the reporting date to each major risk are addressed below.

There was no change in the nature of exposure to market risk which the Bank is subjected to, or its approach to measuring and managing the risk during the year.

(i) Interest rate risk:

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Bank manages this risk by regularly re-evaluating the yield, duration and modified duration on given financial instruments.

The interest rate risk analysis shows significant excess of short-term interest-bearing liabilities over short-term interest-earning assets. This is a direct consequence of the nature of the Bank's business, which involves granting long-term loans (up to 30 years) funded by deposits which are withdrawable on demand or at short notice. The Bank may, provided that one month's notice is given, change the interest rates on its mortgages. In addition, mortgages may be called after six months' notice. The savings fund has been stable and is expected to remain so.

The Bank manages the risk by monitoring its customer deposits, taking steps to ensure its stability, and by adjusting interest rates to the extent practicable within the overall policy of encouraging long-term savings and facilitating home ownership.

The following table summarises the carrying amounts of recognised assets and liabilities to arrive at the Bank interest rate gap based on the earlier of contractual repricing and maturity dates. There were no off-balance sheet financial instruments giving rise to interest rate risk.

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Notes to the Financial Statements (Continued)
March 31, 2020

34. Financial risk management (continued)

(d) Market risk (continued):

Management of market risk (continued)

(i) Interest rate risk (continued):

	2020						
	Immediately rate sensitive	Within 3 months	Three to 12 months	Over 1 year	Non-rate sensitive	Total	Weighted average interest rate
	$'000	$'000	$'000	$'000	$'000	$'000	%
Assets							
Cash and cash equivalents	9,431,399	323,884	-	-	17,037,292	26,792,575	1.0
Investments	161,460	16,226,200	6,808,118	23,389,403	287,503	46,872,684	3.31
Due from related entities	-	-	-	-	1,162,497	1,162,497	-
Loans	-	2,317,266	2,852,856	97,229,098	549,784	102,949,004	8.06
Other assets	-	-	-	-	683,691	683,691	-
Total financial assets	9,592,859	18,867,350	9,660,974	120,618,501	19,720,767	178,460,451	
Liabilities							
Due to specialised financial institutions	-	19,882,426	-	-	-	19,882,426	6.29
Customer deposits	99,517,246	21,489,375	15,681,247	1,765,613	280,846	138,734,327	1.01
Securities sold under repurchase agreements	-	6,020,708	-	-	-	6,020,708	2.21
Other payables	-	-	-	-	2,240,485	2,240,485	-
Total financial liabilities	99,517,246	47,392,509	15,681,247	1,765,613	2,521,331	166,877,946	
On statement of financial position gap, being total interest rate sensitivity gap	(89,924,387)	(28,525,159)	(6,020,273)	118,852,888	17,199,436	11,582,505	
Cumulative gap	89,924,387	(118,449,546)	(124,469,819)	(5,616,931)	11,582,505	-	

	2019						
	Immediately rate sensitive	Within 3 months	Three to 12 months	Over 1 year	Non-rate sensitive	Total	Weighted average interest rate
	$'000	$'000	$'000	$'000	$'000	$'000	%
Assets							
Cash and cash equivalents	2,542,113	-	-	-	20,251,063	22,793,176	0.14
Securities purchased under resale agreements	-	2,299,632	-	-	-	2,299,632	2.10
Investments	-	8,789,966	5,648,321	35,051,561	666,303	50,156,151	4.5
Due from related entities	-	-	-	-	916,705	916,705	-
Loans	-	89,171,166	-	-	406,719	89,577,885	8.8
Other assets	-	-	-	-	660,691	660,691	-
Total financial assets	2,542,113	100,260,764	5,648,321	35,051,561	22,901,481	166,404,240	
Liabilities							
Due to specialised financial institutions	-	18,614,327	-	-	-	18,614,327	4.18
Customer deposits	89,313,583	23,168,342	12,386,483	1,076,996	1,515,119	127,460,523	1.00
Securities sold under repurchase agreements	-	2,708,099	595,000	-	14,739	3,317,838	3.00
Other payables	-		-	-	1,636,682	1,636,682	-
Margin loan payable	-	898,159	-	-	-	898,159	3.40
Total financial liabilities	89,313,583	45,388,927	12,981,483	1,076,996	3,166,540	151,927,529	
On statement of financial position gap, being total interest rate sensitivity gap	(86,771,470)	54,871,837	(7,333,162)	33,974,565	19,734,941	14,476,711	
Cumulative gap	(86,771,470)	(31,899,633)	(39,232,795)	(5,258,230)	14,476,711	-	

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

34. Financial risk management (continued)

(d) Market risk (continued):

Management of market risk (continued)

(i) Interest rate risk (continued):

Sensitivity to interest rate movements:

The sensitivity of the Bank's financial assets and financial liabilities to interest rate risk is monitored using the following scenarios:

	Increase in interest rate	**Decrease in interest rate**
J$ denominated instruments	100 basis points	100 basis points
US$ denominated instruments	100 basis points	100 basis points

An increase/decrease, using the above scenarios, would adjust reserves and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	2020		2019	
	Increase $'000	Decrease $'000	Increase $'000	Decrease $'000
Other comprehensive income	(1,526,415)	1,781,583	(1,831,974)	2,277,983

Cash flow sensitivity analysis for variable rate instruments:

An increase/decrease using the above scenarios would adjust reserves and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is done on the same basis as for 2019.

	Effect on profit	
	Increase $'000	Decrease $'000
March 31, 2020		
Variable rate instruments	39,922	(39,922)
March 31, 2019		
Variable rate instruments	59,378	(59,378)

(ii) Equity price risk

Equity price risk arises from equity instruments measured at FVOCI held by the Bank as part of its investment portfolio. Management monitors the mix of debt and equity securities in its investment portfolio based on market expectations. The primary goal of the Bank's investment strategy is to maximise risk-adjusted investment returns.

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

34. Financial risk management (continued)

(d) Market risk (continued):

Management of market risk (continued)

(ii) Equity price risk (continued)

Sensitivity to equity price movements

A 5% increase (2019: 10%) in the market prices and a 10% (2019: 10%) decrease at the reporting date would result in changes in reserves for the Bank of $10,971,000 and $21,943,000 (2019: $14,559,000) respectively.

(iii) Foreign currency risk:

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Bank incurs foreign currency risk on transactions that are denominated in a currency other than the Jamaica dollar. The main currencies giving rise to this risk are United States dollar, Canadian dollar, Cayman dollar, Euro and Pound sterling.

The Bank ensures that the net exposure is kept to an acceptable level by daily monitoring its cost of funds against market price so as to ensure that a consistent positive spread is maintained between the buying and selling price of the traded currencies. Foreign currency liabilities are generally backed by foreign currency assets.

Net foreign currency assets/(liabilities) were as follows:

	2020 $'000	2019 $'000
United States dollar	(6,063)	55,249
Canadian dollar	(15)	(6,450)
Pound sterling	(3,437)	(39,039)
Euro	149	292
Cayman dollar	1,467	1,710

The Bank of Jamaica's weighted average exchange rates ruling at the year-end are shown at note 40(p)(i).

Sensitivity to exchange rate movements:

A 6% (2019: 6%) weakening of the Jamaica dollar against the various currencies at March 31 would have decreased profit by the amounts shown in the table below. A 2% (2019: 4%) strengthening of the Jamaica dollar against these currencies at March 31 would have had the opposite effect to that shown in the table below. The analysis assumes that all other variables, in particular, interest rates, remain constant. The analysis was done on the same basis for 2019.

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

34. Financial risk management (continued)

(d) Market risk (continued):

Management of market risk (continued)

(iii) Foreign currency risk (continued):

Sensitivity to exchange rate movements (continued):

	2020 $'000		2019 $'000	
	6%	2%	6%	4%
United States dollar	(48,519)	16,173	44,433	(276,289)
Canadian dollar	(85)	28	(35,983)	23,989
Pounds sterling	(34,124)	11,375	(385,453)	256,969
Euro	1,307	(436)	2,420	(1,613)
Cayman dollar	14,529	(4,843)	15,777	(10,518)

(e) Operational risk:

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors, other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements, natural and man-made disasters as well as corporate behaviour.

The Bank's objective is to manage operational risk to achieve the optimal balance between the Bank's financial viability and its performance against the requirements of an effective operational risk management framework.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Bank's Risk and Compliance Unit centrally and in daily operations through the senior management team.

There was no change to the Bank's approach to operational risk management during the year.

This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- risk policies/guidelines for assisting management to understand the ways in which risks can be measured, managed, identified and controlled;
- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial actions;
- development of business continuity programmes including contingency plans, testing and training;

34. Financial risk management (continued)

(e) Operational risk (continued):

- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

The Bank's Risk and Compliance Unit conducts frequent operational risk reviews of business lines in keeping with established policies and is supported with independent reviews undertaken by Group Internal Audit. The results of all operational risk reviews are discussed with the management of the business unit to which they relate and the recommendations and required actions agreed. Summaries of the operational risk reviews are submitted to the Audit Committee and to the Board of Directors.

(f) Capital management:

Regulatory capital

The Bank's main regulator is the Bank of Jamaica, which monitors the capital requirements. The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the Bank. This is supported by the annual Bank Internal Capital Adequacy Assessment Process which seeks to ensure that the Bank is adequately capitalised.

The Bank of Jamaica requires the Bank to maintain a prescribed ratio of total capital to total risk weighted assets of 10%. The total regulatory capital expressed as a percentage of the total risk weighted assets at March 31, 2020 was 15% (2019: 14%).

35. Fair value of financial instruments

The fair values of financial assets that are traded in an active market are based on quoted market prices. For all other financial assets, the Bank determines fair values using other valuation techniques as detailed in note [40(b)].

The fair values of cash and cash equivalents, securities purchased under resale agreements, other assets, due to/from related parties, securities sold under repurchase agreements and other payables are considered to approximate their carrying values due to their relatively short-term nature.

The estimated fair value of loans is the principal receivable less any allowance for losses.

(a) Accounting classifications and fair values:

The following table shows the carrying amounts (excluding interest receivable) and fair values of financial assets and liabilities, including their levels in the fair value hierarchy. The carrying amounts of financial assets and liabilities not measured at fair value are a reasonable approximation of their fair values. Where the carrying amounts of financial assets and financial liabilities are measured at fair value, their levels in the fair value hierarchy are also shown. Where the carrying amounts of financial assets and financial liabilities are not measured at fair value, and those carrying amounts are a reasonable approximation of fair value, fair value information (including amounts, and levels in the fair value hierarchy) is not disclosed.

35. Fair value of financial instruments (continued)

(a) Accounting classifications and fair values (continued):

	2020							
	Carrying amount				Fair value			
	Amortised cost	Fair value through through other comprehensive income	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets measured at fair value:								
Corporate bonds	-	11,147,591	-	11,147,591	-	11,147,591	-	11,147,591
Government of Jamaica securities	-	16,626,019	-	16,626,019	-	16,626,019	-	16,626,019
Treasury bills	-	13,687,478	-	13,687,478	-	13,687,478	-	13,687,478
Promissory note		52,561		52,561		52,561		52,561
Quoted equities	-	219,430	-	219,430	219,430		-	219,430
Unquoted equities	-	19,614	-	19,614	-	19,614	-	19,614
	-	41,752,693	-	41,752,693	219,430	41,533,263	-	41,752,693
Financial assets not measured at fair value:								
Cash and cash equivalents	26,792,575	-	-	26,792,575				
Due from related entities	1,162,497	-	-	1,162,497				
Corporate bonds	1,500	-	-	1,500				
Certificates of deposit	4,683,830	-	-	4,683,830				
Loans	102,949,004	-	-	102,949,004				
Other assets	683,691	-	-	683,691				
	136,273,097	-	-	136,273,097				
Financial liabilities not measured at fair value:								
Due to specialised financial institutions	-	-	19,882,426	19,882,426				
Customer deposits	-	-	138,734,327	138,734,327				
Securities sold under repurchase agreements	-	-	6,020,708	6,020,708				
Other payables	-	-	2,240,485	2,240,485				
	-	-	166,877,946	166,877,946				

35. Fair value of financial instruments (continued)

(a) Accounting classifications and fair values (continued):

	2019							
	Carrying amount				Fair value			
	Amortised cost	Fair value through through other comprehensive income	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets measured at fair value:								
Corporate bonds	-	9,187,499	-	9,187,499	-	9,187,499	-	9,187,499
Government of Jamaica securities	-	24,240,846	-	24,240,846	-	24,240,846	-	24,240,846
Treasury bills	-	8,651,201	-	8,651,201	-	8,651,201	-	8,651,201
Promissory note		50,000		50,000		50,000		50,000
Quoted equities	-	145,586	-	145,586	145,586	-	-	145,586
Unquoted equities	-	29,353	-	29,353	-	29,353	-	29,353
	-	42,304,485	-	42,304,485	145,586	42,158,899	-	42,304,485
Financial assets not measured at fair value:								
Cash and cash equivalents	22,793,176	-	-	22,793,176				
Securities purchased under resale agreements	2,299,632	-	-	2,299,632				
Due from related entities	916,705	-	-	916,705				
Corporate bonds	1,500	-	-	1,500				
Certificates of deposit	7,348,540	-	-	7,348,540				
Loans	89,577,885	-	-	89,577,885				
Other assets	660,691	-	-	660,691				
	123,598,129	-	-	123,598,129				
Financial liabilities not measured at fair value:								
Due to specialised financial institutions	-	-	18,614,327	18,614,327				
Customer deposits	-	-	127,460,523	127,460,523				
Securities sold under repurchase agreements	-	-	3,317,838	3,317,838				
Other payables	-	-	1,636,682	1,636,682				
Margin loan payable	-	-	898,159	898,159				
	-	-	151,927,529	151,927,529				

35. Fair value of financial instruments (continued)

(b) Valuation techniques for investment securities classified as Level 2:

The following table shows the valuation techniques used in measuring the fair value of investment securities classified as level 2.

Type	Valuation techniques
US$ denominated Government of Jamaica (GOJ) securities sovereign and corporate bonds	• Obtain bid price provided by a recognised broker/dealer • Apply price to estimate fair value.
J$ denominated securities issued or guaranteed by GOJ	• Obtain bid price provided by a recognised pricing source (which uses Jamaica-market-supplied indicative bids) • Apply price to estimate fair value.
Quoted equities	• Calculated using closing bid price published by the respective stock exchange.
Foreign exchange forward contracts	• Obtain forward foreign exchange rates • Apply rates to estimate fair value.

There are no significant unobservable inputs in computing the fair values.

36. Commitments

At March 31, 2020, the Bank had:

(a) Undisbursed approved loans amounting to approximately $6,226,445,000 (2019: $8,028,457,000).

(b) Capital commitments:

Commitments for capital expenditure amounted to $24,307,000 (2019: $22,362,000) as at the reporting date.

(c) Sponsorship commitments:

Commitments for sponsorship expenditures amounted to $87,000,000 (2019: $97,000,000).

37. Contingent liabilities

There are several claims which have been brought against the Bank in respect of damages for alleged breach of contract and other matters. It is the opinion of the Bank's Legal Counsel that, in the unlikely event that these claims should be successful, liability should not be significant.

38. Distribution to equity shareholders

	2020	2019
	$'000	$'000
Dividends	381,000	240,000

At the Board of Directors' meeting held on June 20, 2019 (2019: September 28, 2018, January 10, 2018 and December 31, 2018) the directors declared total interim dividends of $381,000,000 (2019: $240,000,000).

39. Changes in accounting policies

Except for the changes below, the Bank has consistently applied the accounting policies set out in note 40 for all periods presented in these financial statements.

The details, nature and effects of the changes are as follows:

New, revised and amended standard and interpretation that became effective during the year:

The Bank initially applied IFRS 16 *Leases* from April 1, 2019. A number of other new standards are also effective from April 1, 2019 but they do not have a material effect on the Bank's financial statements.

The Bank applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised at April 1, 2019. Accordingly, the comparative information presented for 2019 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

(a) Definition of a lease

Previously, the Bank determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Bank now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 40(t).

On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Bank applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after April 1, 2019.

(b) As a lessee

As a lessee, the Bank leases assets such as property. The Bank previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Bank. Under IFRS 16, the Bank recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

39. Changes in accounting policies (continued)

(b) As a lessee (continued)

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

Leases classified as operating leases under IAS 17

Previously, the Bank classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as at April 1, 2019.

Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Bank's incremental borrowing rate at the date of initial application; the Bank applied this approach to its property lease.

The Bank tested its right-of-use assets for impairment on the date of transition and has concluded that there was no indication that the right-of-use assets were impaired.

The Bank used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Bank:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

(c) As a lessor

The Bank leases out its investment property, including own property, and right-of-use assets. The Bank has classified these leases as operating leases.

The Bank is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease.

The Bank sub-leases some of its properties. Under IAS 17, the head lease and sub-lease contracts were classified as operating leases. On transition to IFRS 16, the right-of-use assets recognised from the head leases are presented in investment property, and measured at fair value at that date. The Bank assessed the classification of the sub-lease contracts with reference to the right-of-use asset rather than the underlying asset, and concluded that they are operating leases under IFRS 16.

The Bank also entered into a sub-lease during 2019, which has been classified as a finance lease.

The Bank has applied IFRS 15, *Revenue from Contracts with Customers*, to allocate consideration in the contract to each lease and non-lease component.

39. Changes in accounting policies (continued)

(c) As a lessor (continued)

Impact on transition

On transition to IFRS 16, the Bank recognised additional right-of-use assets and lease liabilities. The impact on transition is summarised below.

	$'000
Right-of-use assets – property, plant and equipment	242,569
Lease liabilities	242,569

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at April 1, 2019. The weighted-borrowing rate applied is 4.77%.

	$'000
Operating lease commitments at March 31, 2019 as disclosed under IAS 17 in the Bank's financial statements	201,998
Discount, using the incremental borrowing rate at April 1, 2019	165,143
Extension and termination options reasonably certain to be exercised	77,426
Lease liabilities recognised at April 1, 2019	242,569

The Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

40. Significant accounting policies

Except for changes in note 39, the Bank has consistently applied the following accounting policies to all periods presented in the financial statements.

(a) Financial assets and liabilities

Recognition and initial measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) if any, is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

40. Significant accounting policies (continued)

(a) Financial assets and liabilities (continued)

Recognition and initial measurement (continued)

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Financial assets

Classification and subsequent measurement

From April 1, 2018, the Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

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

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds.

Classification and subsequent measurement of debt instruments depend on:

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

Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 34(b). Interest income from these financial assets is included in 'Interest revenue' using the effective interest rate method.

40. Significant accounting policies (continued)

(a) Financial assets and liabilities (continued)

Financial assets (continued)

Classification and subsequent measurement (continued)

Debt instruments (continued)

- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amounts are recognised in OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost, which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net gains/(losses) on derecognition of financial assets measured at amortised cost'. Interest income from these financial assets is included in 'interest revenue' using the effective interest rate method.

- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'net trading revenue' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net gains/(losses) on derecognition of financial assets measured at amortised cost'. Interest income from these financial assets is included in 'Interest revenue' using the effective interest rate method.

Business model: the business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of the assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

For example, the Bank's business model for the mortgage portfolio is to hold to collect contractual cash flows. Another example is the liquidity portfolio of assets, which is held by the Bank as part of liquidity management and is generally classified within the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the 'other' business model and measured at FVTPL.

40. Significant accounting policies (continued)

(a) Financial assets and liabilities (continued)

Financial assets (continued)

Classification and subsequent measurement (continued)

Debt instruments (continued)

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

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

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidences a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Bank subsequently measures all equity investments at fair value through profit or loss, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established.

Gains and losses on equity investments at FVTPL are included in the 'Other operating income' line in the statement of revenue and expenses.

JN BANK LIMITED

Notes to the Financial Statements (Continued)
March 31, 2020

40. Significant accounting policies (continued)

(a) Financial assets and liabilities (continued)

Financial assets (continued)

Classification and subsequent measurement (continued)

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts, fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets - assets that are credit-impaired [see definition on note 40(r)] at initial recognition - the Bank calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Modification of loans

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

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

40. Significant accounting policies (continued)

(a) Financial assets and liabilities (continued)

Modification of loans (continued)

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

The impact of modifications of financial assets on the expected credit loss calculation is discussed in note 34(b)(v).

Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

Where the Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards, these transactions are accounted for as 'pass through' transfers that result in derecognition if the Bank:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;

(ii) Is prohibited from selling or pledging the assets; and has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Bank retains a subordinated residual interest.

40. Significant accounting policies (continued)

(a) Financial assets and liabilities (continued)

Identification and measurement of impairment

The Bank assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments. The Bank recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

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

Note 34(b) provides more details of how the expected credit loss allowance is measured.

Allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets.
- Loan commitments and financial guarantee contracts: generally, as a provision.
- Debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss is recognised in profit or loss as a reclassification from OCI.

Financial guarantee contracts and loan commitments

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

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

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

The Bank has not made any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

40. Significant accounting policies (continued)

(a) Financial assets and liabilities (continued)

Financial guarantee contracts and loan commitments (continued)

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

(b) Financial instruments:

Fair value measurement:

'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 in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

40. Significant accounting policies (continued)

(b) Financial instruments (continued):

Fair value measurement (continued):

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(c) Property, plant and equipment:

Items of property, plant and equipment are measured at cost, less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item, if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be reliably measured. The cost of day-to-day servicing of property, plant and equipment is recognised in surplus or deficit as incurred.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

Property, plant and equipment, with the exception of artwork and freehold land on which no depreciation is provided, are depreciated on the straight-line basis at annual rates to write down the assets to their estimated residual values over their estimated useful lives and is generally recognised in profit or loss. Leasehold properties are amortised in equal instalments over the shorter of the lease term and the properties' estimated useful lives.

The depreciation rates are as follows:

Freehold buildings	2½%
Leasehold buildings	Shorter of lease term and useful life
Leasehold improvements	Shorter of lease term and useful life
Computer hardware	33⅓%
Furniture, fixtures and office equipment	10%
Motor vehicles	20%

The depreciation methods, useful lives and residual values are reassessed at each reporting date.

40. Significant accounting policies (continued)

(d) Securities purchased/sold under resale/repurchase agreements:

Securities purchased under resale agreements ("Reverse repo") and securities sold under repurchase agreements ("Repo") are short-term transactions whereby securities are bought/sold with simultaneous agreements to resell/repurchase the securities on a specified date and at a specified price. Reverse repos and repos are accounted for as short-term collateralised lending and borrowing, respectively, and are measured at amortised cost, less impairment.

The difference between the purchase/sale and resale/repurchase considerations is recognised on the accrual basis over the period of the agreements, using the effective yield method, and is included in interest income and expense, respectively.

(e) Cash and cash equivalents:

Cash and cash equivalents are measured at amortised cost. They comprise cash balances and cash reserve at the Bank of Jamaica, cash in hand and short-term, highly liquid investments where original maturities do not exceed three months from the reporting date, are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term commitments. Bank overdrafts are repayable on demand. Bank overdrafts that form an integral part of the Bank's cash management for financing operations are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(f) Investment property:

Investment property is measured at cost, less accumulated depreciation and impairment losses. Rental income from investment property is recognised on the straight-line basis over the term of the lease, and accounted for on the accrual basis.

(g) Intangible assets:

[i] Initial acquisition:

Intangible assets that are acquired by the Bank and have finite useful lives are measured at cost, less accumulated amortisation and any accumulated impairment losses.

[ii] Subsequent expenditure:

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

[iii] Amortisation:

Amortisation is charged to profit or loss on the straight-line basis over the estimated useful lives of intangible assets, unless such lives are indefinite. The Bank's intangible assets comprise software which is amortised from the date it is available for use. The estimated use of the software is 3 years.

40. Significant accounting policies (continued)

(h) Assets held for sale:

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale, rather than continuing use, are classified as held for sale. Assets held for sale are measured at the lower of their carrying amount and fair values less cost to sell.

Impairment losses on initial reclassification as held for sale and subsequent gains and losses on re-measurement are recognised in profit or loss. Once classified as held for sale, property, plant and equipment are no longer depreciated.

(i) Other assets:

Other assets are measured at amortised cost less impairment losses.

(j) Employee benefits:

Employee benefits are all forms of consideration given by the Bank in exchange for service rendered by employees. These include current or short-term benefits such as salaries, bonuses, statutory contributions, annual vacation leave, and non-monetary benefits such as medical care and housing; post-employment benefits such as pension; and other long-term employee benefits such as termination benefits.

The Bank provides post-retirement pension and health insurance benefits to employees who have satisfied certain minimum service requirements.

Employee benefits that are earned as a result of past or current service are recognised in the following manner:

[i] Short-term employee benefits:

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be estimated reliably.

[ii] Defined contribution plans:

Obligation for contributions to defined contribution plans is expensed as the related services are provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

[iii] Defined-benefit plans:

Employee benefits, comprising post-employment obligations included in the financial statements, have been actuarially determined by a qualified independent actuary, appointed by management using the projected unit credit method. The actuary’s report outlines the scope of the valuation and the actuary’s opinion.

40. Significant accounting policies (continued)

(j) Employee benefits (continued):

[iii] Defined-benefit plans (continued):

The actuarial valuation is conducted in accordance with IAS 19, and the financial statements reflect the Bank's post-employment benefit obligations as computed by the actuary. In carrying out their audit, the auditors rely on the actuary's report.

The Bank's net obligation in respect of its defined-benefit plans (note 22) is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; that value is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is determined by reference to the yield at the reporting date on long-term government instruments of terms approximating those of the Bank's obligation.

Remeasurements of the net defined-benefit liability, which comprise actuarial gains and losses, are recognised immediately in other comprehensive income. The Bank determines the net interest expense on the net defined-benefit liability for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the year as a result of the contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of the plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in surplus or deficit. The Bank recognise gains and losses on the settlement of a defined benefit plan when the settlement occurs.

[iv] Other long-term employee benefits:

The Bank's net obligation in respect of long-term employee benefits is the amount of future benefits that employees have earned in return for their services in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or losses in the period in which they arise.

[v] Termination benefits:

Termination benefits are expensed at the earlier of, when the Bank can no longer withdraw the offer of those benefits, and when the Bank recognises cost for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(k) Loans payable:

Loans payable are recognised initially at cost, being their issue proceeds, less attributable transaction costs incurred. Subsequent to initial recognition, they are stated at amortised cost, with any difference between net proceeds and redemption value being recognised in profit or loss on the effective interest rate basis. The associated costs are included in interest expense.

40. Significant accounting policies (continued)

(l) Contingencies:

When it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability unless the probability of outflow of economic benefits is remote. Contingent assets are not recognised in the financial statements but are disclosed when an inflow of economic benefits is probable.

(m) Other payables:

Other payables are measured at amortised cost.

(n) Interest in equity-accounted investee

The Bank's interests in equity-accounted investee comprise interests in associates.

Associates are those entities in which the Bank has significant influence, but not control or joint control, over the financial and operating policies. Interest in associate is accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the financial statements include the Bank's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases.

When the Bank's share of losses exceeds its interest in an associate, the Bank's carrying amount is reduced to $Nil and recognition of further losses is discontinued, except to the extent that the Bank has incurred legal or constructive obligations, or made payments on behalf of an associate. If the associate subsequently reports profits, the Bank resumes recognising its share of those profits only after its share of profits equals the share of losses not recognised.

(o) Taxation:

[i] Income tax:

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss, except to the extent that it relates to a business combination or to items recognised directly in equity or in other comprehensive income.

Current tax comprises expected tax payable on the taxable income or loss for the year, as adjusted for tax purposes, using tax rates substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

[ii] Deferred tax:

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries, to the extent that it is probable that they will not reverse in the foreseeable future.

40. Significant accounting policies (continued)

(o) Taxation (continued):

[ii] Deferred tax (continued):

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences only to the extent that it is probable that future taxable profits will be available against which the asset can be realised. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversal of existing temporary differences, are considered based on the business plans for the Bank. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future profits improves.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted as at the reporting date. Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

(p) Foreign currencies:

[i] Monetary foreign currency balances at the reporting date are translated at the Bank of Jamaica's weighted average rate of US$1.00 = J$133.9592 (2019: J$125.0201), UK£1.00 = J$165.4943 (2019: J$164.5582) and Cdn$1.00 = J$93.7718 (2019: J$92.9814), being the rates of exchange ruling on that date. Other foreign currency balances at the reporting date have been translated using indicative rates provided by the Bank of Jamaica of €1.00 = J$146.4085 (2019: J$138.3505) and Cayman Dollar 1.00 = J$165.0387 (2019: J$153.7757).

[ii] Transactions in foreign currencies are converted at the rates of exchange ruling on the dates of those transactions. Realised and unrealised gains and losses arising from fluctuations in exchange rates are included in profit or loss, except for differences arising on the re-translation of available-for-sale equity investments [note 40(b)].

(q) Allowance for credit losses:

The allowance for credit losses is maintained at a level considered adequate to provide for probable credit losses and is based on management's evaluation of individual loans in the credit portfolio. The evaluation takes all relevant matters into consideration, including prevailing and anticipated business and economic conditions, the collateral held, the debtor's ability to repay the loan and guidance provided by BOJ, which requires that appropriate provision be made for all loans on which interest payments and principal repayments are ninety or more days in arrears. Amounts are written-off from the provision whenever management has concluded that such amounts may not be recovered.

40. Significant accounting policies (continued)

(q) Allowance for credit losses (continued):

General provisions for credit losses are established against the portfolio where a prudent assessment by the Bank of adverse economic trends and losses inherent in its portfolio suggest that losses may occur, but such losses cannot be determined on an item-by-item basis. This provision is maintained at levels in excess of the minimum ½% established by the Bank of Jamaica.

IFRS 9 only permits specific loan loss provision based upon the Bank's actual credit loss experience. It also requires that the expected future cash flows of impaired loans be discounted and the increase in the present value be reported as interest income. The credit loss provision required under the Regulations (note 2) that is in excess of the requirements of IFRS is treated as an appropriation of retained earnings and included in a non-distributable credit loss reserve.

(r) Interest income and expense:

Interest income and expense are calculated by applying the effective interest rate to the gross carrying amount of financial assets or liabilities, except for:

(a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset; and

(b) Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

(s) Impairment of non-financial assets:

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists for any assets, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units (CGUs).

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

40. Significant accounting policies (continued)

(s) Impairment of non-financial assets (continued):

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(t) Operating leases:

Policy applicable before April 1, 2019

Payments made under operating leases are recognised in profit or loss on the straight-line basis over the life of the lease.

Leases

Policy applicable from April 1, 2019

The Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after January 1, 2019.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Bank by the end of the lease term or the cost of the right-of-use asset reflects that the Bank will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

40. Significant accounting policies (continued)

(t) Operating leases (continued):

Leases (continued)

Policy applicable from April 1, 2019 (continued)

As a lessee (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and the corresponding obligation as lease liabilities.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

40. Significant accounting policies (continued)

(u) Revenue recognition:

Revenue from the provision of services is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer and the consideration can be reliably measured. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, or material associated costs on the possible return of goods.

Investment income arises from financial assets and is comprised of interest and dividends and recognised gains/losses on financial assets. Dividend income is recognised when the right to receive income is established.

The accounting policy for interest income is described at note 40(r).

(v) Fees and commission

The nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies are as follows:

Type of service	*Nature and timing of satisfaction of performance obligations, including significant payment terms.*	*Revenue recognition under IFRS.*
Servicing fees	The Bank provides administrative services to its customers in respect of service delivery within the branch network. Fees are varied based on the service provided.	Revenue from service is recognised over time as the service is provided.
Commission fees	The Bank provides services to its clients based on duly executed client agreements. Fees are charged on a monthly basis and are based on fixed rates agreed.	Revenue from service fees is recognised over time as the services are provided.

(w) New and amended standards and interpretations not yet effective:

Certain new and amended standards and interpretations have been issued which are not effective for the current year and which the Bank has not early-adopted. The Bank has assessed the relevance of all such new standards, amendments and interpretations with respect to the Bank's operations and has determined that the following are likely to have an effect on the financial statements.

40. Significant accounting policies (continued)

(w) New and amended standards and interpretations not yet effective (continued):

- Amendment to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* is effective for annual reporting periods beginning on or after January 1, 2020, and provides a definition of 'material' to guide preparers of financial statements in making judgements about information to be included in financial statements.

  "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

  The Bank is assessing the impact that the amendment will have on its 2021 financial statements.

- Amendments to *References to Conceptual Framework in IFRS Standards* is effective retrospectively for annual reporting periods beginning on or after January 1, 2020. The revised framework covers all aspects of standard setting including the objective of financial reporting.

  The main change relates to how and when assets and liabilities are recognised and derecognised in the financial statements:

  - New 'bundle of rights' approach to assets will mean that an entity may recognise a right to use an asset rather than the asset itself;
  - A liability will be recognised if a Bank has no practical ability to avoid it. This may bring liabilities on balance sheet earlier than at present.
  - A new control-based approach to derecognition will allow an entity to derecognise an asset when it loses control over all or part of it; the focus will no longer be on the transfer of risks and rewards.

  The Bank is assessing the impact that the amendments will have on its 2021 financial statements.

41. Impact of COVID-19

The World Health Organization declared the novel Coronavirus (COVID-19) outbreak a pandemic on March 11, 2020 and the Government of Jamaica declared the island a disaster area on March 13, 2020. The pandemic and the measures to control its human impact have resulted in significant disruptions to economic activities, business operations and asset prices.

In light of the heightened concerns and in accordance with the directives of the various governments, JN Group activated its Business Continuity Plan ("BCP") to minimize the potential exposure to staff and clients, whilst ensuring that any disruption to the business is kept at a minimum. With the launch of the BCP as at March 17, 2020, specific work from home protocols were established and implemented to minimize the number of employees physically in office. In-Office staff are equipped with hand sanitizers, masks and face shields (where necessary), and are required to comply with the social/physical distancing rules mandated by governments in the various jurisdictions.

41. Impact of COVID-19 (continued)

Furthermore, JN Group acquired additional equipment, including computer hardware and software, to support the increased flexible working arrangements.

The Bank continues to monitor the impact of COVID-19 on its members/customers and has implemented forbearance measures inclusive of granting moratoria, which included deferral of loan payments for up to three months. The Bank ensures that all its locations remain compliant with government/public health restrictions and attendant mitigating measures.

Under IFRS 9, businesses are expected to include the impact of forward-looking macroeconomic indicators in their Expected Credit Loss (ECL) computation as at March 31, 2020.

Management continues to review developments arising from the pandemic on the risks faced by the Bank. Management believes the Bank is in a sufficiently strong position to deal with the possible significant economic downturn. However, management is aware that a long duration of the pandemic and the attendant containment measures could have a material adverse effect on the Bank, and its customers, employees and suppliers.

42. Subsequent event

For the major foreign currencies in which the Bank operates at August 13, 2020, the rate of approval of these financial statements, being the Bank of Jamaica weighted average exchange rate of the Jamaica dollar was US$1 to J$149.1468, £1 to J$194.0126, Cdn$1 to J$113.9544, €1 to J$174.8376, and Cayman dollar 1 to J$181.9437, compared to US$1 to J$133.9592, £1 to J$165.4943, Cdn$1 to J$93.7718, €1 to J$146.4085 and Cayman dollar 1 to J$165.0387, at March 31, 2020.