Sagicor Bank Jamaica Limited

Financial Statements
31 December 2018

Sagicor Bank Jamaica Limited
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31 December 2018

Independent auditor's report

To the members of Sagicor Bank Jamaica Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of Sagicor Bank Jamaica Limited (the Bank) as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and with the requirements of the Jamaican Companies Act.

What we have audited

Sagicor Bank Jamaica Limited's financial statements comprise:

- The statement of financial position as at 31 December 2018;
- The income statement for the year then ended;
- The statement of comprehensive income for the year then ended;
- The statement of changes in shareholders' equity for the year then ended;
- The statement of cash flows for the year then ended; and
- The notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

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Our audit approach

Audit scope

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

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Valuation of Pension scheme liabilities *See notes 2 (o), 4 (vi) and 27 of the financial statements for disclosures of related accounting policies, judgements, estimates and balances.*	
The Bank has a post-employment obligation of $749 million. We focused on this area as the valuation of the pension liabilities requires significant levels of judgement and technical expertise in choosing appropriate assumptions. A number of key assumptions, including salary increases, inflation, discount rates and mortality data, can have a material impact on the calculation of the liability. Management uses external actuaries to assist in determining these assumptions and in valuing the liabilities within the pension plan.	We engaged our own actuarial specialists to assess the methodology and underlying assumptions used in the calculation of the pension liability. We compared the discount rates, inflation rate, salary increases and mortality data used in the valuation of the pension liability to independently determined available benchmarks or underlying source data. We tested the consensus and employee data used in calculating the obligation to the underlying source information. Based on the audit evidence obtained, we determined that the data and assumptions used by management in the actuarial valuations were supported by the available audit evidence.

Key audit matter	How our audit addressed the key audit matter
Expected credit losses in relation to financial assets *Refer to note 2.i. , 3.a. & 47 to the financial statements for disclosures of related accounting policies, judgements, estimates and balances.* The Bank adopted the accounting standard IFRS 9 'Financial instruments' effective January 1, 2018. The standard introduces new requirements around two main aspects of how financial instruments are treated namely; measurement & classification and impairment. In relation to impairment, the standard prescribes a new forward looking, expected credit loss ('ECL') impairment model which takes into account reasonable and supportable forward looking information which will generally result in the earlier recognition of impairment provisions. The introduction of the new standard required the Bank to build and implement new models to measure the expected credit losses for relevant financial assets. With the most significant impact to debt securities and loans and advances, including off balance sheet exposures. We have focused on this area, because there are a number of significant management determined judgements as well as key inputs including: • Criteria for a significant increase in credit risk, which impacts the staging of the assets and related expected loss calculations (i.e. one year or lifetime expected losses.) Including, determining management's use of the optional practical expedient to assess credit risk on financial assets as low at the date of initial application and at the reporting date which allowed management to measure impairment using a 12-month expected credit loss. • Relevant inputs and techniques included in the expected credit loss model utilised in probability of default (PD), loss given default (LGD) and exposures at default (EAD) parameters. There is a large	We obtained the Bank's accounting policies as they relate to the adoption of IFRS 9 and assessed the reasonableness of those accounting policies with the requirements of the standard. We obtained an understanding of the Bank's business model assessment and for a sample of instruments verified the inputs into the solely payments of principal and interest test performed by the client with original contracts. We evaluated the design and tested the operating effectiveness of the relevant controls for IFRS 9 including: • The staging of debt securities are appropriately reflected and updated in the ECL model. This included testing whether the significant increase in credit risk and default definitions were appropriately applied and the resulting impact of this on the staging of the instruments. • Review and approval of key assumptions, judgments and forward-looking assumptions prior to being incorporated within the ECL model. • Review and approval of the output of the ECL model and related transition impacts. • Credit rating of debt securities are reviewed and appropriately updated within the ECL model. • The staging of loan and advances are appropriately prepared, reviewed and reflected in the ECL model. We found that these controls were designed, implemented and operated effectively, and therefore we determined that we could place reliance on these key controls for the purpose of our audit. We tested the opening equity adjustments in relation to the adoption of the new standard's classification and measurement requirements.

Key audit matter	How our audit addressed the key audit matter
increase in the data inputs of these models, which increases the risk that the data used to develop assumptions and operate the model is not complete or accurate. • Use of multiple forward looking economic scenarios. • For loans and advances, a significant amount of historical data is built into the PD, LGD and EAD risk parameters. PD models are developed based on the Bank's specific historical default rates for each industry classification. LGD models are developed based on the Bank's specific historical loss rate for the given exposure. The Bank determined the principal and accrued interest on loan and advances as the EAD. • Valuation of real estate property pledged as collateral for term loans as this is the most significant repayment source for credit impaired assets, i.e. stage 3. Management engaged a credit modeller expert to assist in the more complex aspects of the expected credit loss model. The impact of adopting the new standard resulted in a reduction in the opening retained earnings of $49 million. As at 31 December 2018, the Bank on balance sheet loans and advances, net of provision for credit losses totaled $69 billion. Off-balance sheet exposures which includes undrawn commitments such as credit cards, overdrafts and loan commitments totaled $6 billion. The Bank's debt securities, measured at amortised cost and fair value through other comprehensive income (FVOCI) totaled $22.9 billion. Overall, the total of the above exposures represent 18.6% of total assets. The resultant impairment recorded under the ECL amounted to $1 billion for loans and advances, including off balance sheet items and $15 million for debt securities.	With the assistance of our valuation specialists, we performed the following procedures: • Obtained an understanding of management's ECL model including source data, evaluated the theoretical soundness and tested the mathematical integrity of the model. • Tested reliability of source data used in the models on a sample basis by corroborating to historical data or external public information where available. • Where management has applied practical expedient calculations in accordance with the standard, tested the Bank's application of the low credit risk simplification at reporting date by using rating agencies definition of investment grade and evaluated the appropriateness of the Bank classification of stage 1 and 2 debt securities. • Tested management's ECL calculations to determine if there were in line with management's assumptions, model design and were consistently applied. • We evaluated the appropriateness of management's judgement pertaining to forward looking information, including macro-economic factors, the basis of the multiple economic scenarios used and the weighting applied to capture nonlinear losses. **Debt Securities:** We recalculated the amortised cost for a sample of debt securities to test the accuracy of management's calculations, which is used as the EAD value. We tested on a sample basis the completeness and accuracy of the initial credit risk and the credit risk at the reporting date using rating agencies definition of investment grade and evaluated the appropriateness of the Bank's classification of debt securities as stage 2.

Key audit matter	How our audit addressed the key audit matter
	We tested the critical data fields used in the ECL model, such as the maturity date, amortised cost, accrued interest, credit rating, date of default if any, interest rate, write-off data, and product category by tracing data back to source documents. **Loans and advances, including the off-balance sheet exposures:** We tested a sample of the calculation of the days past due, which drives the historical default rate, for the loans and advances including off-balances sheet exposures by performing the following procedures. We reperformed the calculation of days past due, a key data input into the PD parameter, in the Bank's banking system on a sample basis. We tested the completeness and accuracy of the historical data used on a sample basis in the opening expected credit loss and 2018 model by agreeing the details of the customer payment profile to source documents. We tested the critical data fields used in the ECL model, such as origination date, date of maturity, default date, principal, effective interest rate, write-off data, and product category by tracing data back to source documents. For a sample of stage 3 loans we obtained an understanding of the latest development at the borrowers and the basis of measuring the impairment provisions and considered whether key judgments were appropriate given the borrower's circumstances. We reperformed management's impairment calculation. We tested key inputs to the impairment calculation including the expected future cash flows and valuation of collateral held, and determined reasonableness of the valuation of the real estate collateral with the assistance of our auditor's expert. Based on the procedures described above, no material exceptions were noted in our assessment of the Bank's implementation of IFRS 9, including its provisioning in accordance with its newly adopted expected credit loss model.

Other information

Management is responsible for the other information. The other information comprises the Sagicor Bank Jamaica Limited Annual Report (Annual Report) (but does not include the financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

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

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

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS and with the requirements of the Jamaican Companies Act, and for such internal control as management determines is necessary to enable the preparation of 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.

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on other legal and regulatory requirements

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

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

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

Chartered Accountants
1 April 2019
Kingston, Jamaica

Sagicor Bank Jamaica Limited

Income Statement

Year ended 31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2018 $'000	2017 $'000
Net Interest Income and Other Revenue			
Interest income earned from financial assets measured at amortised cost and FVOCI		8,716,648	8,320,746
Interest income earned from financial assets measured at fair value through profit and loss		6,399	45,012
Other operating income		167,906	82,970
Total interest income	6	8,890,953	8,448,728
Interest expense	7	(1,620,862)	(1,759,482)
Net interest income		7,270,091	6,689,246
Fees and commission income	8	3,584,070	3,129,559
Trading income	9	1,514,325	832,075
Other revenue		662,516	194,714
		5,760,911	4,156,348
		13,031,002	10,845,594
Operating Expenses			
Team member costs	10	2,867,086	2,983,490
Occupancy costs		466,662	470,005
Credit impairment losses, net of recoveries	11	633,082	714,521
Asset tax		264,757	245,667
Other expenses	12	4,869,043	4,010,715
		9,100,630	8,424,398
Profit before Taxation		3,930,372	2,421,196
Taxation	13	(1,077,437)	(644,624)
Net Profit		2,852,935	1,776,572
EARNINGS PER STOCK UNIT			
Basic and diluted	14	$0.67	$0.42

The accompanying notes on pages 9 to 117 form an integral part of these financial statements.

Sagicor Bank Jamaica Limited

Statement of Comprehensive Income

Year ended 31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

	2018 $'000	2017 $'000
Net profit	2,852,935	1,776,572
Other comprehensive income -		
Item that will not be reclassified to profit or loss		
Re-measurements of post-employment benefits	362,626	654,335
Items that will be reclassified to profit or loss		
Financial assets at FVOCI -		
Net gains on investments in debt instruments measured at FVOCI	29,194	488,967
Net loss on financial assets measured at FVOCI reclassified to profit or loss on disposal	(339,829)	(184,804)
	(310,635)	304,163
Total other comprehensive income, net of taxes	51,991	958,498
Total Comprehensive Income	2,904,926	2,735,070

The accompanying notes on pages 9 to 117 form an integral part of these financial statements.

Sagicor Bank Jamaica Limited

Statement of Financial Position

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2018 $'000	2017 $'000
ASSETS			
Cash and balances due from other financial institutions	15	10,940,722	12,455,836
Cash reserves at Bank of Jamaica	16	12,330,758	11,418,839
Financial assets at fair value through profit or loss	17	-	735,198
Securities purchased under agreements to resell	19	1,702,395	450,306
Investment securities	20	22,165,329	19,002,433
Loans, net of provision for credit losses	21	68,837,392	61,218,944
Lease receivables, net of provision for credit losses	22	223,813	102,412
Pledged assets	23	1,019,346	3,513,269
Due from related companies	24	14,198	725
Intangible assets	25	1,284,201	1,301,347
Income tax recoverable		35,906	260,466
Property, plant and equipment	26	1,329,121	2,225,768
Deferred income tax assets	28	1,242,812	1,704,925
Post-employment benefit obigations	27	150,121	285,043
Other assets	29	1,638,522	10,571,337
Total Assets		122,914,636	125,246,848

The accompanying notes on pages 9 to 117 form an integral part of these financial statements.

Sagicor Bank Jamaica Limited

Statement of Financial Position (Continued)

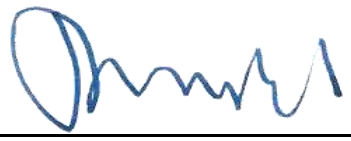
31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

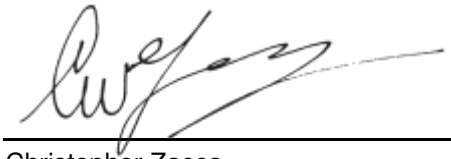
	Note	2018 $'000	2017 $'000
LIABILITIES			
Customer deposits		92,264,299	84,279,661
Securities sold under agreements to repurchase		702,712	3,082,721
Borrowings, due to banks and other financial institutions	30	4,965,850	4,675,684
Due to related companies	24	44,162	101,388
Post-employment benefit obligations	27	898,988	1,387,105
Provision	31	122,643	8,838,088
Other liabilities	32	2,484,001	2,961,945
Total Liabilities		101,482,655	105,326,592
SHAREHOLDERS' EQUITY			
Share capital	33	8,400,000	8,400,000
Fair value reserve	34	(113,518)	181,775
Loan loss reserve	35	703,325	989,667
Reserve fund	36	3,429,142	2,291,968
Capital reserve	37	309,465	309,465
Capital redemption reserve	38	646,800	-
Retained earnings reserve	39	3,088,063	3,088,063
Merger reserve		3,759,440	3,759,440
Retained earnings		1,209,264	899,878
Total Equity		21,431,981	19,920,256
Total Liabilities and Equity		122,914,636	125,246,848

The accompanying notes on pages 9 to 117 form an integral part of these financial statements.

Approved for issue by the Board of Directors on 29 March 2019 and signed on its behalf by:



Richard Byles Director



Christopher Zacca Director

Sagicor Bank Jamaica Limited

Statement of Changes in Shareholders' Equity

Year ended 31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital	Fair Value Reserve (FVOCI)	Loan Loss Reserve	Reserve Fund	Capital Reserve	Capital Redemption Reserve	Retained Earnings Reserve	Retained Earnings	Merger Reserve	Total
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 31 December 2017		8,400,000	181,775	989,667	2,291,968	309,465	-	3,088,063	899,878	3,759,440	19,920,256
Changes on initial application of IFRS 9	47	-	15,342	(348,421)	-	-	-	-	(48,649)	-	(381,728)
Balance as at January 1, 2018		8,400,000	197,117	641,246	2,291,968	309,465	-	3,088,063	851,229	3,759,440	19,538,528
Net profit		-	-	-	-	-	-	-	2,852,935	-	2,852,935
Net unrealised gains on FVOCI securities		-	29,194	-	-	-	-	-	-	-	29,194
Net gains recycled to revenue on disposal and maturity of FVOCI securities		-	(339,829)	-	-	-	-	-	-	-	(339,829)
Re-measurements of post-employment benefits		-	-	-	-	-	-	-	362,626	-	362,626
Other comprehensive income		-	(310,635)	-	-	-	-	-	362,626	-	51,991
Total comprehensive income for 2018		-	(310,635)	-	-	-	-	-	3,215,561	-	2,904,926
Dividends paid		-	-	-	-	-	-	-	(1,000,000)	-	(1,000,000)
Shares to fulfil stock options		-	-	-	-	-	-	-	(11,473)	-	(11,473)
Transfer to/(from) reserves		-	-	34,619	1,137,174	-	646,800	-	(1,818,593)	-	-
Adjustment between regulatory loan provisioning and IFRS		-	-	27,460	-	-	-	-	(27,460)	-	-
		-	-	62,079	1,137,174	-	646,800	-	(1,857,526)	-	(11,473)
Balance at 31 December 2018		8,400,000	(113,518)	703,325	3,429,142	309,465	646,800	3,088,063	1,209,264	3,759,440	21,431,981

The accompanying notes on pages 9 to 117 form an integral part of these financial statements.

Sagicor Bank Jamaica Limited

Statement of Changes in Shareholders' Equity (Continued)

Year ended 31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

	Share Capital	Fair Value Reserve	Loan Loss Reserve	Reserve Fund	Capital Reserve	Retained Earnings Reserve	Retained Earnings	Merger Reserve	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 31 December 2016	8,400,000	(122,388)	541,503	1,558,102	309,465	3,088,063	859,782	3,759,440	18,393,967
Net profit	-	-	-	-	-	-	1,776,572	-	1,776,572
Unrealised gains on available-for-sale investments	-	488,967	-	-	-	-	-	-	488,967
Gains reclassified and reported in profit	-	(184,804)	-	-	-	-	-	-	(184,804)
Re-measurements of post-employment benefits	-	-	-	-	-	-	654,335	-	654,335
Other comprehensive income	-	304,163	-	-	-	-	654,335	-	958,498
Total comprehensive income for 2017	-	304,163	-	-	-	-	2,430,907	-	2,735,070
Dividends paid	-	-	-	-	-	-	(1,000,000)	-	(1,000,000)
Shares to fulfil stock options	-	-	-	-	-	-	(171,844)	-	(171,844)
Shares based payments	-	-	-	-	-	-	(36,937)	-	(36,937)
Transfer to/(from) reserves	-	-	448,164	733,866	-	-	(1,182,030)	-	-
	-	-	448,164	733,866	-	-	(1,390,811)	-	(208,781)
Balance at 31 December 2017	8,400,000	181,775	989,667	2,291,968	309,465	3,088,063	899,878	3,759,440	19,920,256

The accompanying notes on pages 9 to 117 form an integral part of these financial statements.

Sagicor Bank Jamaica Limited

Statement of Cash Flows (Continued)

Year ended 31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2018 $'000	2017 $'000
Cash Flows from Operating Activities			
Net profit		2,852,935	1,776,572
Adjustments for -			
Interest income		(8,890,953)	(8,448,728)
Interest expense	7	1,620,862	1,759,482
Income tax charge	13	1,077,437	644,624
Credit impairment losses	11	633,082	714,521
Amortisation of intangible assets	25	172,769	164,137
Depreciation of property, plant and equipment	26	256,618	226,280
Loss/ (Gain) on disposal of property, plant and equipment		(582,687)	4,409
Gain on disposal of investment		(268,493)	(184,803)
Gain on disposal of mortgages		-	(136,266)
Change in post-employment benefits		(353,195)	(763,173)
Change in provision for legal claim		(8,715,445)	2,090,858
Stock options and grants expense		(11,473)	(208,781)
Foreign exchange gains on foreign assets and liabilities		(34,470)	102,502
		(12,243,013)	(2,258,366)
Changes in operating assets and liabilities –			
Statutory reserves at Bank of Jamaica		(911,919)	(3,169,306)
Placement with other financial insitutions		-	190,768
Financial assets valued through profit and loss		-	(69,741)
Loans		(8,994,904)	(10,221,253)
Lease receivables		(124,983)	(12,962)
Securities sold under agreements to resell		(700,000)	(219,000)
Customer deposits		7,879,561	9,015,398
Other assets		9,077,697	(1,469,631)
Other liabilities		(621,649)	1,687,132
		(6,639,210)	(6,526,961)

The accompanying notes on pages 9 to 117 form an integral part of these financial statements.

Sagicor Bank Jamaica Limited

Statement of Cash Flows (Continued)

Year ended 31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2018 $'000	2017 $'000
Cash Flows from Operating Activities (continued)		(6,639,210)	(6,526,961)
Interest received		8,999,902	8,401,614
Interest paid		(1,532,672)	(1,663,105)
Taxation paid		(314,590)	(420,279)
Net cash provided by/(used in) operating activities		513,430	(208,731)
Cash Flows from Investing Activities			
Securities purchased under agreements to resell		(400,000)	-
Proceeds from sale of mortgages, net		-	4,365,457
Purchase of investment securities		(29,634,740)	(13,982,703)
Proceeds from sale of investment securities		29,595,313	18,323,334
Purchase of intangible assets	25	(155,623)	(294,245)
Purchase of property, plant and equipment	26	(235,919)	(325,076)
Proceeds from disposal of property plant and equipment		1,458,636	833
Net cash provided by investing activities		627,667	8,087,600
Cash Flows from Financing Activities			
Due to related parties		(70,699)	116,488
Dividends paid		(1,000,000)	(1,000,000)
Proceeds from debts in issue		(646,800)	2,040,518
Proceeds from borrowings, due to banks and other financial institutions – long term		8,859,394	7,267,605
Repayments from borrowings, due to banks and other financial institutions – long term		(9,199,563)	(6,659,068)
Net cash (used in)/provided by financing activities		(2,057,668)	1,765,543
Effect of exchange rate changes on cash and cash equivalents		(4,093)	(95,388)
Net (decrease)/increase in cash and cash equivalents		(920,664)	9,549,024
Cash and cash equivalents at beginning of year		11,130,973	1,581,949
CASH AND CASH EQUIVALENTS AT END OF YEAR	18	10,210,309	11,130,973

The accompanying notes on pages 9 to 117 form an integral part of these financial statements.

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

1. Identification and Principal Activities

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

The Bank is a wholly owned subsidiary of Sagicor Group Jamaica Limited, which is incorporated and domiciled in Jamaica. Sagicor Group Jamaica Limited (the parent) is listed on the Jamaica Stock Exchange. The parent is 32.45% (2017 – 32.45%) owned by LOJ Holdings Limited which is also incorporated and domiciled in Jamaica. Sagicor Life Inc., which is incorporated in Barbados directly holds a 16.66% interest in the parent. The ultimate parent company is Sagicor Financial Corporation (SFC), which is incorporated and domiciled in Bermuda. SFC has an overall interest of 49.11% (2017 – 49.11%) in the parent. The other significant shareholder of the parent is Pan-Jamaican Investment Trust Limited with a 31.55% (2017 – 31.55%) holding.

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

2. Summary of Significant Accounting Policies

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

(a) Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a high degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

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

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

Amendments to IFRS 2, Share based payments (effective for annual periods beginning on or after 1 January 2018). This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principle in IFRS 2 that will require an award to be treaded as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share based payments and pay that amount to the tax authority. There was no significant impact from the adoption of this amendment during the year.

2. Summary of Significant Accounting Policies (continued)

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

IFRS 9, 'Financial Instruments', (effective for annual periods beginning on or after 1 January 2018). As of January 1, 2018, the Bank adopted IFRS 9 - Financial Instruments ("IFRS 9"). As a result of the application of this new standard, the Bank changed its accounting policies as outlined in note 2 (i) below. As permitted by the transition provisions in IFRS 9, the Bank has elected not to restate comparative period results; accordingly, the 2017 comparative financial information on financial assets is presented in accordance with IAS 39 – Financial Instruments – Recognition and Measurement (Note 2 (i).. Adjustments to the carrying amounts of financial assets and financial liabilities as of January 1, 2018 were recognised directly to statement of equity.

IFRS 15, 'Revenue from Contracts with Customers', (effective for the periods beginning on or after 1 January 2018). Sagicor Bank adopted IFRS 15. This standard clarifies revenue recognition principles and provides a framework for recognising revenue and cash flows from service contracts from customers. IFRS 15 does not apply to the Bank's primary activities of banking which are governed by IFRS 9 – 'Financial Instruments'.

In accordance with the transition provisions in IFRS 15, the standard has been implemented using the modified retrospective method with no restatement of comparative information. There was no significant impact on the Bank resulting from the implementation of the standard and consequently no transition adjustment has been recorded in the statement of equity.

The standard introduces new disclosure requirements for the financial statements which are set out in note 4.

IFRIC 22, 'Foreign currency transactions and advance consideration', (effective for annual periods beginning on or after 1 January 2018). This IFRIC address foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment / receipt is made as well as for situations where multiple payment / receipts are made. There was no significant impact from the adoption of this amendment during the year.

2. Summary of Significant Accounting Policies (continued)

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

Annual improvements 2014 – 2017, (effective for annual periods beginning on or after 1 January 2018). These amendments impact three standards as follows:

(i) IFRS 1, 'First-time adoption of IFRS' regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19 and IFRS 10, effective 1 January 2018.

(ii) IFRS 12, 'Disclosure of interest in other entities' regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2018.

(iii) IAS 28 'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value effective 1 January 2018. These amendments clarify that companies account for long term interests in associate or joint venture to which the equity method is not applied using IFRS 9. There was no significant impact from the adoption of this amendment during the year.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank

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

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

Amendment to IFRS 9, 'Financial instruments' (effective for annual periods beginning on or after 1 January 2019). This amendment confirms that when a financial liability measured at amortized cost is modified without this resulting in de-recognition, a gain or loss should be recognized immediately in the profit and loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread across the remaining life of the instrument which may be changed in practice from IAS 39. The Bank is currently assessing the impact of future adoption of the new standard on its financial statements.

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

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

IFRIC 23, 'Uncertainty over income tax treatments', (effective for annual periods beginning on or after 1 January 2019). This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates. The Bank does not expect that this amendment to have a significant impact on its operations

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

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

(b) Segment reporting

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

(c) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

(d) Interest and other expenses

Interest expense

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

Loyalty expense

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

(e) Revenue recognition

Revenue recognition – IFRS 15

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

Revenue recognition – year ended 31 December 2017

The various fees are billed periodically and are collected either by deduction or within a short period of time.

2. Summary of Significant Accounting Policies (Continued)

(e) Revenue recognition (continued)

(i) Fees and commission income

Fees and commission income are recognised on an accrual basis when the service has been provided. Fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. Performance linked fees or fee components are recognised when the performance criteria are fulfilled.

(ii) Net trading income

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

(iii) Interest income

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

(f) Income taxes

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

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

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

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

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

Income tax is calculated at an individual entity basis.

(g) Cash and cash equivalents

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

(h) Sale and repurchase agreements

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

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

2. Summary of Significant Accounting Policies (Continued)

(i) Financial assets – Policies under IFRS 9

(i) Classification of financial assets

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

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

Financial assets measured at amortized cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, such as most loans and advances to banks and customers and some debt securities, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs.

Financial assets measured at fair value through other comprehensive income

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

Financial assets measured at fair value through profit and loss

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below and are so designated irrevocably at inception:

the use of the designation removes or significantly reduces an accounting mismatch;

when a group of financial assets and liabilities or a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

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

2. Summary of Significant Accounting Policies (Continued)

(i) Financial assets – Policies under IFRS 9 (Continued)

(i) Classification of financial assets (continued)

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

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

Solely repayments of principle and interest ("SPPI")
Where the business model is hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principle and interest. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial assets is classified and measured at FVTPL.

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

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

(iv) Impairment of financial assets measured at amortized cost and FVTOCI
IFRS 9 introduces an impairment model that requires the recognition of expected credit losses ("ECL") on financial assets measured at amortised cost and FVOCI and off balance sheet loan commitments and financial guarantees which were previously provided for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

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

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

2. Summary of Significant Accounting Policies (Continued)

(i) Financial assets – Policies under IFRS 9 (Continued)

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

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

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

(vi) Definition of default
The Bank determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether: contractual payments of either principal or interest are past due for 90 days or more; there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and the financial asset is otherwise considered to be in default. If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due.

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

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

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

2. Summary of Significant Accounting Policies (Continued)

(i) Financial assets – Policies under IFRS 9 (Continued)

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

Measurement
Expected credit losses are calculated by multiplying three main components, being the probability of default ("PD"), loss given default ("LGD") and the exposure at default ("EAD"), discounted at the original effective interest rate. Management has calculated these inputs based on the historical experience of the portfolios adjusted for the current point in time. A simplified approach to calculating the ECL is applied to contract and other receivables which do not contain a significant financing component. Generally, these receivables are due within 12 months unless there are extenuating circumstances. Under this approach, an estimate is made of the life-time ECL on initial recognition (i.e. Stage 3). For ECL provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

The PD, LGD and EAD models which support these determinations are reviewed regularly in light of differences between loss estimates and actual loss experience, but given that IFRS 9 requirements have only just been applied, there has been little time available to make these comparisons. Therefore, the underlying models and their calibration, including how they react to forward-looking economic conditions remain subject to review and refinement. This is particularly relevant for lifetime PDs, which have not been previously used in regulatory modelling and for the incorporation of 'downside scenarios' which have not generally been subject to experience gained through stress testing. The exercise of judgement in making estimations requires the use of assumptions which are highly subjective and sensitive to the risk factors, in particular to changes in economic and credit conditions across a large number of geographical areas. Many of the factors have a high degree of interdependency and there is no single factor to which loan impairment allowances as a whole are sensitive. Therefore, sensitivities are considered in relation to key portfolios which are particularly sensitive to a few factors and the results should not be further extrapolated.

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

(i) Financial assets – Policies under IFRS 9 (Continued)

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

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

Forward looking information
The estimation and application of forward-looking information will require significant judgment. PD, LGD and EAD inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio.

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

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

The weightings assigned to each economic scenario as at January 1 and December 31, 2018 were as follows:

	Base	Upside	Downside
Sagicor Jamaica portfolios (excluding Government of Barbados)	80	10	10

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

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

2. Summary of Significant Accounting Policies (Continued)

(i) Financial assets – Policies under IFRS 9 (Continued)

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

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

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

Financial assets - Policies under IAS 39
The Bank classifies its financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets, and available-for-sale financial assets. Management determines the classification of its financial assets at initial recognition.

(i) Financial asset at fair value through profit or loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

(ii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are initially recognised at fair value, which is the cash consideration to originate or purchase the loan including any transaction costs.

(iii) Held-to-maturity
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell other than an insignificant amount of held-to-maturity assets, the entire category would be re-classified as available-for-sale. Held-to-maturity investments are initially recognised at fair value, which is the cash consideration including any transaction costs.

2. Summary of Significant Accounting Policies (Continued)

(i) Financial assets – Policies under IAS 39 (Continued)

(iv) Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Available-for-sale investments are initially recognised at fair value, which is the cash consideration including any transaction costs.

Purchases and sales of available-for-sale financial assets are recognised at the trade date – the date on which the Bank commits the purchase or sell the asset. Loans and receivables are recognised when cash is advanced to the borrowers.

Subsequent to initial recognition at cost, financial assets at fair value through profit or loss and available-for-sale financial assets are carried at fair value. Loans and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in consolidated statement of comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in the consolidated statement of comprehensive income is recognised in profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Bank's right to receive payment is established.

The fair values amounts represents the price (or estimates thereof) that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidence by a quoted market value, if one exists. The estimate fair values of the financial assets are based on quoted bid prices of securities as at December 31 where available.

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

The Bank may choose to reclassify a non-derivative financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the Bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification. Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

2. Summary of Significant Accounting Policies (Continued)

(j) Leases

(i) As lessee

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

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

(ii) As lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease in a manner which reflects a constant periodic rate of return.

(k) Intangible assets

Computer software

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

Customer relationships

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

2. Summary of Significant Accounting Policies (Continued)

(l) Offsetting of financial instruments

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

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

(m) Property, plant and equipment

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

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

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

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

(n) Impairment of assets

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

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

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

(i) significant financial difficulty of the obligor;

(ii) default or delinquency in interest or principal payments;

(iii) having to grant the borrower a concession that would not otherwise be considered due to the borrower's financial difficulty;

(iv) the probability that the borrower will enter bankruptcy or other financial reorganisation; or

(v) observable data indicating that there is a measurable decrease in the estimated future cash flows from the loan portfolio since the initial recognition of the loans, although the decrease cannot yet be identified with the individual loan in the portfolio, including:

a) adverse changes in the payment status of borrowers in the portfolio; and

b) national or local economic conditions that correlate with defaults on the loan portfolio.

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

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

2. Summary of Significant Accounting Policies (Continued)

(n) Impairment of assets (continued)

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

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

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

Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the loans in the group. Losses over the preceding 12 months are used as a baseline to determine historical loss experience for loans with credit risk characteristics similar to those in the group. This historical loss experience is then adjusted, if necessary, to reflect broader economic trends over the most recent 24-month period with a 36-month look back period used on the highest risk portfolios. Finally, applicable adjustments are made on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

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

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

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

2. Summary of Significant Accounting Policies (Continued)

(n) Impairment of assets (continued)

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

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

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

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

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

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

(ii) Assets classified as available-for-sale
The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. In this context, management considers a 40% decline in fair value below cost to be significant and a decline that has persisted for more than twelve months to be prolonged. For an available for sale security other than an equity security, which the Bank can hold to maturity, determination of which asset is impaired includes consideration of the volatility of the fair value, and the financial condition and financial viability of the issuer.

2. Summary of Significant Accounting Policies (Continued)

(n) Impairment of assets (continued)

(ii) Assets classified as available-for-sale (continued)

If any such evidence of impairment exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from stockholders' equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

(iii) Renegotiated loans

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

(iv) Impairment of non-financial assets

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

(o) Employee benefits

(i) Pension obligations

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

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

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

2. Summary of Significant Accounting Policies (Continued)

(o) Employee benefits (Continued)

(i) Pension obligations (Continued)

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

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

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

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

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

(o) Employee benefits (continued)

(vii) Share options (Continued)

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

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

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

(p) Share capital

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities (note 33).

(q) Provisions

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

(r) Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(s) Deposits

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

(t) Financial instruments

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

The fair values of the Bank's financial instruments are discussed in Note 42.

2. Summary of Significant Accounting Policies (Continued)

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

Policies under IFRS 9
Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtors fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:
(i) The amount of the loss allowance; and
(ii) The premium received on initial recognition less income recognized in accordance with the principles of IFRS 15

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

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

Policies under IAS 39
Acceptances, guarantees, indemnities and letters of credit and undertakings are various forms of contractual commitments to advance funds to or on behalf of customers and include:

(i) Obligations on the part of the Bank to make payments (directly or indirectly) to a designated third party contingent upon a default by the Bank's customer in the performance of an obligation under the terms of that customer's contract with the third party; and
(ii) Obligations to guarantee or stand as surety for the benefit of a third party.

Where the Bank's obligations under acceptances, guarantees, indemnities and letters of credit and undertakings are not considered to be contingent, the amounts are reported as a liability in the statement of financial position. There are equal and offsetting claims against customers in the event of a call on these commitments, which are reported as an asset. Where the Bank's obligations are considered to be contingent, the amounts are disclosed in Note 43.

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

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

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

2. Summary of Significant Accounting Policies (Continued)

(v) Financial liabilities

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

(i) Classification of financial assets

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

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

(ii) Re-classified balances

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

Financial liability balances which were accounted for at amortised cost under IAS 39 continue to be so accounted for under IFRS 9 and financial liability balances which were accounted for at fair value through income under IAS 39 are now accounted at FVTPL on the adoption of IFRS 9. Consequently, no financial liability balances have been restated as of January 1, 2018.

(iii) Modification of loans

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

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

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

2. Summary of Significant Accounting Policies (Continued)

(v) Financial liabilities (continued)

(iii) Modification of loans (Continued)

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

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

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

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

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

(w) Fiduciary activities

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

3. Financial Risk Management

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

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

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

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

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

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

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

Sagicor Bank Jamaica Limited

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3. Financial Risk Management (Continued)

(a) Credit risk

Credit risk exposure- financial investments subject to impairment

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

Debt securities – amortised cost	ECL Staging					December 31, 2017
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL	Purchased credit-impaired	Total	Total
	$000	$000	$000	$000	$000	$000
Credit grade:						
Investment	497,255	-	-	-	497,255	1,139,758
Non-investment	6,547,536	-	-	-	6,547,536	3,850,137
Watch	-	-	-	-	-	-
Default	-	-	-	-	-	-
Unrated	-	-	-	-	-	-
Gross carrying amount	7,044,791	-	-	-	7,044,791	4,989,895
Loss allowance	(73,563)				(73,563)	-
Carrying amount	6,971,228	-	-	-	6,971,228	4,989,895

Loans, net of provision for credit losses	ECL Staging					December 31, 2017
	Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL	Purchased credit-impaired	Total	Total
	$000	$000	$000	$000	$000	$000
Credit grade:						
Investment						
Non-investment	66,922,033	1,878,221	-	-	68,800,254	61,177,299
Watch	-	-				
Default	-	-	1,987,081	-	1,987,081	1,663,377
Gross carrying amount	66,922,033	1,878,221	1,987,081	-	70,787,335	62,840,676
Loss allowance	(558,877)	(153,828)	(1,013,635)	-	(1,726,340)	(1,519,320)
Carrying amount	66,363,156	1,724,393	973,447	-	69,060,995	61,321,356

Sagicor Bank Jamaica Limited

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Credit risk exposure- financial investments subject to impairment (continued)

Securities purchased for resale – amortised cost	ECL Staging Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL	Purchased credit-impaired	Total	December 31, 2017 Total
	$000	$000	$000	$000	$000	$000
Credit grade:						
Non-investment	1,702,395	-	-	-	1,702,395	450,306
Gross carrying amount	1,702,395				1,702,395	450,306
Loss allowance	-	-	-	-	-	-
Carrying amount	1,702,395	-	-	-	1,702,395	450,306

Deposits – amortised cost	ECL Staging Stage 1 12-month ECL	Stage 2 life-time ECL	Stage 3 life-time ECL	Purchased credit-impaired	Total	December 31, 2017 Total
	$000	$000	$000	$000	$000	$000
Credit grade:						
Investment	-	-	-	-	-	-
Non-investment	2,000,137	-	-	-	2,000,137	500,143
Watch	-	-	-	-	-	-
Unrated	-	-	-	-	-	-
Gross carrying amount	2,000,137	-	-	-	2,000,137	500,143
Loss allowance						
Carrying amount	2,000,137	-	-	-	2,000,137	500,143

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Credit risk exposure- financial investments subject to impairment (continued)

	ECL Staging					December 31, 2017
Debt securities – FVOCI	**Stage 1 12-month ECL**	**Stage 2 life-time ECL**	**Stage 3 life-time ECL**	**Purchased credit-impaired**	**Total**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**	**$000**
Credit grade:						
Investment	2,699,716	-	-	-	2,699,716	1,631,557
Non-investment	13,623,547	-	-	-	13,623,547	15,548,982
Watch	-	-	-	-	-	-
Default	-	-	-	-	-	-
Unrated	-	-	-	-	-	-
Gross carrying amount	16,323,263	-	-	-	16,323,263	17,180,539
Loss allowance	(14,536)	-	-	-	(14,536)	-
Carrying amount	16,308,727	-	-	-	16,308,727	17,180,539

For financial investments measured at FVTPL under the unit-linked funds fair value model, the unit holders bear the credit risk and the Company has no direct credit exposure.

Maximum exposure to credit risk - Financial instruments not subject to impairment

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

Loss allowances

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

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

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Loss allowances (continued)

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

	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
DEBT SECURITIES - FVOCI	**$000**	**$000**	**$000**	**$000**	**$000**
Loss Allowance as at January 01, 2018	**23,013**	**-**	**-**	**-**	**23,013**
Transfers:					
Transfer from Stage 1 to Stage 2	-	-	-	-	**-**
Transfer from Stage 1 to Stage 3	-	-	-	-	**-**
Transfer from Stage 2 to Stage 3	-	-	-	-	**-**
New financial assets originated or purchased	3,853	-	-	-	**3,853**
Financial assets fully derecognised during the period	(7,130)	-	-	-	**(7,130)**
Changes in models/assumptions used in ECL calculation	-	-	-	-	**-**
Changes to inputs used in ECL calculation	(5,450)	-	-	-	**(5,450)**
Foreign exchange adjustment	250	-	-	-	**250**
Loss Allowance as at December 31, 2018	**14,536**	**-**	**-**	**-**	**14,536**

	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
DEBT SECURITIES – AMORTISED COST	**$000**	**$000**	**$000**	**$000**	**$000**
Loss Allowance as at January 01, 2018	**49,960**	**-**	**-**	**-**	**49,960**
Transfers:					
Transfer from Stage 1 to Stage 3	-	-	-	-	**-**
Transfer from Stage 2 to Stage 3	-	-	-	-	**-**
New financial assets originated or purchased	-	-	-	-	**-**
Financial assets fully derecognised during the period	62,877	-	-	-	**62,877**
Changes in models/assumptions used in ECL calculation	(36,721)	-	-	-	**(36,721)**
Changes to inputs used in ECL calculation	(2,602)	-	-	-	**(2,602)**
Foreign exchange adjustment	49	-	-	-	**49**
Loss Allowance as at December 31, 2018	**73,563**	**-**	**-**	**-**	**73,563**

Sagicor Bank Jamaica Limited

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(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Loss allowances (continued)

	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
LOANS - AMORTISED COST	**$000**	**$000**	**$000**	**$000**	**$000**
Loss Allowance as at January 01, 2018	**691,139**	**161,301**	**1,015,302**	**-**	**1,867,742**
Transfers:					
Transfer from Stage 1 to Stage 2	(12,024)	12,024	-	-	**-**
Transfer from Stage 1 to Stage 3	(3,036)	-	3,036	-	**-**
- Transfer from Stage 2 to Stage 1	44,605	(44,605)	-	-	**-**
Transfer from Stage 2 to Stage 3	-	(33,066)	(33,066)	-	**-**
Transfer from Stage 3 to Stage 2	-	1,343	(1,343)	-	**-**
Transfer from Stage 3 to Stage 1	4,117		(4,117)	-	**-**
New financial assets originated or purchased	220,395	23,341	82,543	-	**326,279**
Financial assets fully derecognised during the period	(205,863)	(60,697)	(336,846)	-	**(603,407)**
Changes to inputs used in ECL calculation	(182,598)	93,693	219,325	-	**130,421**
Foreign exchange adjustments	2,142	494	2,669	-	**5,306**
Loss Allowance as at December 31, 2018	**558,877**	**153,828**	**1,013,635**	**-**	**1,726,341**

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

Under IAS 39 there was a collective provision for financial assets recognised of $1,519,320,000. Upon adoption of IFRS 9 as at January 1, 2018, an expected credit loss on assets in stage 1 and stage 2 replaced the IAS 39 collective provision. The IAS 39 collective provision was reversed from the opening adjustment presented in the condensed consolidated statement of changes in equity.

Sagicor Bank Jamaica Limited

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31 December 2018

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Loss allowances (continued)

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

At January 1, 2018

Economic variable assumptions

		2018	2019	2020
Unemployment rate	Base	4.15%	4.13%	4.50%
(USA)	Upside	4.23%	4.03%	4.15%
	Downside	4.55%	4.78%	5.00%
World GDP	Base	3.70%	3.70%	3.70%
	Upside	5.55%	5.55%	5.58%
	Downside	2.75%	2.75%	2.77%
WTI Oil Prices/10	Base	$5.94	$5.59	$5.34
	Upside	$1.96	$1.96	$1.96
	Downside	$9.52	$9.52	$9.52

At December 31, 2018

Economic variable assumptions

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

3. Financial Risk Management (Continued)

(a) Credit risk (continued)
Loss allowances (continued)

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

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

Sagicor Bank Jamaica Limited

Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Loss allowances (continued)

SICR and IAS 1 critical estimated disclosure

			ECL impact of
SICR criteria *	**Actual threshold applied**	**Change in threshold**	**Change in threshold**
Investments	2-notch downgrade since origination	1-notch downgrade since origination	15,841

* See note 3.1 for full criteria for staging. The staging for lending products are primarily based on days past due with 30-day used as backstop, thus sensitivity analysis is not performed.

			ECL impact of	
Loss Given Default	**Actual value applied**	**Change in value**	**Increase in value**	**Decrease in value**
Investments - Corporate Debts	52%	(- /+ 5) %	7,467	(7,467)
Investments - Sovereign Debts (excluding Government of Barbados and Government of Jamaica)	35%	(- /+ 5) %	85	(85)
Investments - Sovereign Debts (Government of Barbados)	36%	(- /+ 5) %	-	-
Investments - Sovereign Debts (Government of Jamaica)	15%	(- /+ 5) %	3,227	3,227

			ECL impact of	
Weighting for downside scenario	**Actual value applied**	**Change in value**	**Increase in value**	**Decrease in value**
Investments - excluding Government of Barbados	10% (80% for base scenario and 10% for upside scenario)	(- /+ 5) % - keep the weighting for base scenario and adjust the weighting for upside scenario accordingly	2,139	(2,139)
Lending products	10% (80% for base scenario and 10% for upside scenario)	(- /+ 5) % - keep the weighting for base scenario and adjust the weighting for upside scenario accordingly	23,606	(23,606)

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

IFRS 9 carrying values

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

	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
DEBT SECURITIES – FVOCI	**$000**	**$000**	**$000**	**$000**	**$000**
Gross carrying amount as at January 01, 2018	**17,180,539**				**17,180,539**
Transfers:	-	-	-	-	-
Transfer from Stage 1 to Stage 2	-	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-	-
New financial assets originated or purchased	6,896,256	-	-	-	6,896,256
Financial assets fully derecognised during the period	(7,434,533)	-	-	-	(7,434,533)
Changes in principle and interest	(466,662)	-	-	-	(466,662)
Foreign exchange adjustment	147,663	-	-	-	147,663
Gross carrying amount as at December 31, 2018	**16,323,263**	**-**	**-**	**-**	**16,323,263**

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

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

IFRS 9 carrying values (continued)

	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
LOANS - AMORTISED COST	**$000**	**$000**	**$000**	**$000**	**$000**
Gross carrying amount as at January 01, 2018	**60,239,437**	**937,862**	**1,663,377**		**62,840,676**
Transfers:					
Transfer from Stage 1 to Stage 2	(1,226,376)	1,226,376	-		**-**
Transfer from Stage 1 to Stage 3	(256,868)		256,868		**-**
Transfer from Stage 2 to Stage 1	313,984	(313,984)	-		**-**
Transfer from Stage 2 to Stage 3	-	(165,618)	165,618		**-**
Transfer from Stage 3 to Stage 2	-	2,003	(2,003)		**-**
Transfer from Stage 3 to Stage 1	6,140	-	(6,140)		**-**
New financial assets originated or purchased	26,960,721	270,083	161,431		**27,392,235**
Financial assets fully derecognised during the period	(17,640,257)	(314,595)	(514,289)		**(18,469,141)**
Write-offs	-	-	-		**-**
Changes in principal and interest	(1,717,957)	230,738	257,322		**(1,229,897)**
Foreign exchange adjustment	243,208	5,357	4,898		**253,463**
Gross carrying amount as at December 31, 2018	**66,922,032**	**1,878,222**	**1,987,082**		**70,787,336**

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

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

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

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

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

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

The Bank's internal rating scale:

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

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

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

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

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

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

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

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

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

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

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

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

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

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Impairment (Continued)

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

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

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

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

Bank's rating	**Loans and leases $'000**	**Impairment provision $'000**	**Loans and leases $'000**	**Impairment provision $'000**
Standard	59,496,073	558,877	56,346,808	416,471
Potential problem credit	9,219,284	153,828	4,259,825	30,915
Sub-standard	791,901	394,499	729,350	458,071
Doubtful	471,514	249,010	388,130	147,375
Loss	721,721	370,126	932,911	466,488
	70,700,493	1,726,340	62,657,024	1,519,320

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Impairment (continued)

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

	Maximum exposure	
	2018	**2017**
	$'000	**$'000**
Credit risk exposures relating to on-statement of financial position assets are as follows:		
Cash and bank balances due from other financial institutions (excluding cash on hand)	7,715,790	9,683,457
Cash reserve at Bank of Jamaica	12,330,758	11,418,839
Financial assets at fair value through profit or loss	-	735,198
Securities purchased under agreements to resell	1,702,395	450,306
Investment securities	22,165,329	19,002,433
Loans, net of provision for credit losses	68,837,392	61,218,944
Lease receivables, net of provision for credit losses	223,813	102,412
Pledged assets	1,019,346	3,513,269
Due from related companies	14,198	725
Other assets	1,038,680	10,291,723
	115,047,701	116,417,306
Credit risk exposures relating to off-statement of financial position items are as follows:		
Loan commitments	6,673,973	8,202,254
Guarantees and letters of credit	4,481,695	3,494,760
Operating lease commitments	653,546	162,363
	11,809,214	11,859,377

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2018 and 2017, without taking account of any collateral held or other credit enhancements. The exposures set out above are based on carrying amounts as reported in the statement of financial position.

Loans and Leases

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

	2018	**2017**
	$'000	**$'000**
Neither past due nor impaired:		
Standard	59,496,073	56,346,808
Past due but not impaired	9,219,284	4,259,825
Impaired	1,985,136	2,050,391
Gross	70,700,493	62,657,024
Less: Provision for credit losses	(1,726,341)	(1,519,320)
Net	68,974,152	61,137,704

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Loans and Leases

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

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

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

	2018 $'000	2017 $'000
Less than 30 days	7,343,228	2,834,297
31 to 60 days	1,205,475	979,775
61 to 90 days	670,581	445,753
	9,219,284	4,259,825

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

(iii) Financial assets – individually impaired

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

	2018 $'000	2017 $'000
Loans and leases	1,985,136	2,050,391

(iv) Renegotiated loans and leases

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

(v) Repossessed collateral

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

The Bank is in the process of repossessing collateral totalling $34,860,000 (2017 – $32,435,000).

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Loans and leases (continued)

(vi) Loans and leases

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

	2018 $'000	2017 $'000
Agriculture, fishing and mining	1,072,348	519,314
Construction and real estate	6,170,982	7,347,306
Distribution	9,702,869	9,962,814
Manufacturing	3,129,181	2,156,027
Personal	28,840,688	23,411,932
Professional and other services	9,800,592	9,573,461
Tourism and entertainment	4,679,566	4,245,719
Transportation, storage and communication	1,268,312	718,326
Other	6,035,955	4,722,125
	70,700,493	62,657,024
Less: Provision for credit losses	(1,726,341)	(1,519,320)
	69,974,152	61,137,704
Interest receivable	87,053	183,652
	70,061,205	61,321,356

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

(vii) Investments

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

	2018 $'000	2017 $'000
Government of Jamaica	8,154,339	8,482,826
Bank of Jamaica	4,645,596	7,028,698
Corporate	5,807,369	4,559,608
Financial institutions	2,622,882	956,486
Other sovereign debt	3,656,884	2,673,588
	24,887,070	23,701,206

3. Financial Risk Management (Continued)

(b) Liquidity risk

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

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

Liquidity risk management process

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

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

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

(iii) Maintaining committed lines of credit;

(iv) Optimising cash returns on investment;

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

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

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

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

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

Sagicor Bank Jamaica Limited

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3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Financial assets and liabilities cash flows

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

	Within 1 Month	2 to 3 Months	4 to 12 Months	2 to 5 Years	Over 5 Years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
At 31 December 2018:						
Cash and balances due from other financial institutions	10,940,722					10,940,722
Cash reserves at Bank of Jamaica					12,330,758	12,330,758
Financial assets at fair value through profit or loss					-	-
Securities purchased under agreements to resell	1,703,212					1,703,212
Investment securities and pledged assets	702,969	1,347,682	4,249,783	12,705,477	10,290,639	29,296,550
Loans, net of provision for credit losses	12,752,142	4,617,058	12,681,083	42,063,763	23,327,106	95,414,152
Lease receivables, net of provision for credit losses	9,472	16,949	74,418	168,313	-	269,152
Mortgages, net of provision for credit losses	66,941	134,410	612,209	2,619,244	6,757,168	10,189,972
Other	1,038,680	-	-	-	-	1,038,680
Financial assets	27,147,197	5,981,689	17,005,284	54,910,553	45,948,503	150,993,226
Customer deposits	71,523,941	7,351,295	10,034,625	3,828,775		92,738,636
Securities sold under agreements to repurchase	703,252					703,252
Borrowings, due to banks and other financial institutions	1,322,771	157,567	535,508	2,964,177	884,368	5,864,391
Other	2,404,037					2,404,037
Financial liabilities	75,954,001	7,508,862	10,570,133	6,792,952	884,368	101,710,316
Net Liquidity Gap	(48,806,804)	(1,527,173)	6,435,151	48,117,601	45,064,135	49,282,910
Cumulative Liquidity Gap	(48,806,804)	(50,333,978)	(43,898,827)	4,218,774	49,282,910	-

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3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Financial assets and liabilities cash flows (continued)

	Within 1 Month	2 to 3 Months	4 to 12 Months	2 to 5 Years	Over 5 Years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
At 31 December 2017:						
Cash and balances due from other financial institutions	12,455,836	-	-	-	-	12,455,836
Cash reserves at Bank of Jamaica	-	-	-	-	11,418,839	11,418,839
Financial assets at fair value through profit or loss	-	17,959	17,959	179,593	752,041	967,552
Securities purchased under agreements to resell	156,000	312,600	-	-	-	468,600
Investment securities and pledged assets	2,110,068	417,473	4,309,278	10,589,638	12,953,986	30,380,443
Loans, net of provision for credit losses	11,228,526	2,979,857	7,429,821	27,215,680	43,902,199	92,756,083
Lease receivables, net of provision for credit losses	14,366	7,219	33,278	73,634	-	128,497
Other	10,291,723	-	-	-	-	10,291,723
Financial assets	36,256,519	3,735,108	11,790,336	38,058,545	69,027,065	158,867,573
Customer deposits	61,625,128	8,253,642	10,357,890	4,899,999	-	85,136,659
Securities sold under agreements to repurchase	2,167,061	915,661	-	-	-	3,082,722
Borrowings, due to banks and other financial institutions	98,914	198,320	1,585,646	4,120,532	915,729	6,919,141
Other	2,874,220	-	-	-	-	2,874,220
Financial liabilities	66,765,323	9,367,623	11,943,536	9,020,531	915,729	98,012,742
Net Liquidity Gap	(30,508,804)	(5,632,515)	(153,200)	29,038,014	68,111,336	60,854,831
Cumulative Liquidity Gap	(30,508,804)	(36,141,319)	(36,294,519)	(7,256,505)	60,854,831	

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

3. Financial Risk Management (Continued)

(c) Market risk

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

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

(i) Currency risk

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

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

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

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(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

Concentrations of currency risk

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

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

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

Concentrations of currency risk (continued)

	JM$	US$	GBP	CAN$	Other	Total
	J$'000	J$'000	J$'000	J$'000	J$'000	J$'000
At 31 December 2017						
Cash and balances due from other financial institutions	8,119,047	2,854,173	1,034,859	419,790	27,967	12,455,836
Cash reserves at Bank of Jamaica	5,667,693	5,519,293	158,824	73,029	-	11,418,839
Financial assets at fair value through profit or loss	735,198	-	-	-	-	735,198
Securities purchased under agreements to resell	450,306	-	-	-	-	450,306
Investment securities and pledged assets	9,136,256	13,379,446	-	-	-	22,515,702
Loans, net of provision for credit losses	44,053,299	17,165,645	-	-	-	61,218,944
Lease receivables, net of provision for credit losses	102,412	-	-	-	-	102,412
Other	9,849,246	438,938	2,942	597	-	10,291,723
Total assets	78,113,457	39,357,495	1,196,625	493,416	27,967	119,188,960
Customer deposits	45,549,066	37,106,278	1,117,360	485,323	21,634	84,279,661
Securities sold under agreements to repurchase	3,082,721	-	-	-	-	3,082,721
Borrowings, due to banks and other financial institutions	4,611,630	64,054	-	-	-	4,675,684
Other liabilities	2,256,465	606,009	6,421	4,838	487	2,874,220
Total liabilities	55,499,882	37,776,341	1,123,781	490,161	22,121	94,912,286
Net statement of financial position	22,613,575	1,581,154	72,844	3,255	5,846	24,276,674
Credit commitments	5,689,310	2,512,944	-	-	-	8,202,254

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

Foreign currency sensitivity
The following tables indicate the currencies to which the Bank had significant exposure on its monetary assets and liabilities and its forecast cash flows. The change in currency rate below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a % change in foreign currency rates. The sensitivity analysis on pre-tax profit is based on foreign currency denominated monetary items at the year end. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variable, variables had to be on an individual basis.

	Change in Currency Rate	Effect on Pre-tax Profit	Change in Currency Rate	Effect on Pre-tax Profit
	2018 %	2018 $'000	2017 %	2017 $'000
Currency:				
USD	4	46,456	+4	76,934
GBP	4	(6,262)	+4	2,925
EUR	4	227	+4	236
CDN	4	1,316	+4	127
USD	-2	(23,228)	-2	(38,467)
GBP	-2	3,131	-2	(1,462)
EUR	-2	(113)	-2	(118)
CDN	-2	(658)	-2	(64)

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

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

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

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

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	Within 1 Month	2 to 3 Months	4 to 12 Months	2 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 31 December 2018:							
Cash and balances due from other financial institutions	2,000,000	-	-	-	-	8,940,722	10,940,722
Cash reserves at Bank of Jamaica	-	-	-	-	-	12,330,758	12,330,758
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Securities purchased under agreements to resell	1,300,000	400,000				2,395	1,702,395
Investment securities and pledged assets	2,479,968	1,530,424	3,436,035	7,784,291	7,638,634	315,323	23,184,675
Loans, net of provision for credit losses	26,958,119	39,670,166	309,093	1,005,272	560,247	334,495	68,837,392
Leases receivables, net of provision	4,711	12,793	58,833	147,476	-	-	223,813
Other						1,038,681	1,038,680
Total assets	32,742,798	41,613,383	3,803,961	8,937,039	8,198,881	22,962,374	118,258,435
Liabilities							
Customer deposits	71,417,251	7,237,382	9,762,629	3,503,159	-	343,878	92,264,299
Securities sold under agreements to	700,000	-	-	-	-	2,712	702,712
Borrowings, due to banks and other financial institutions	1,310,813	107,728	357,861	2,575,356	610,885	3,208	4,965,850
Other	-	-	-	-	-	2,419,014	2,419,014
Total liabilities	73,428,064	7,345,110	10,120,490	6,078,515	610,885	2,768,812	100,351,875
Total interest repricing	(40,685,266)	34,268,273	(6,316,529)	2,858,524	7,587,996	20,208,539	17,906,560
Cumulative interest repricing gap	(40,685,266)	(6,416,993)	(12,733,522)	(9,874,998)	(2,287,002)	17,906,560	-

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	Within 1 Month	2 to 3 Months	4 to 12 Months	2 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 31 December 2017:							
Cash and balances due from other financial institutions	5,300,000	-	-	-	-	7,155,836	12,455,836
Cash reserves at Bank of Jamaica	-	-	-	-	-	11,418,839	11,418,839
Financial assets at fair value through profit or loss	-	722,208	-	-	-	12,990	735,198
Securities purchased under agreements to resell	150,000	300,000	-	-	-	306	450,306
Investment securities and pledged assets	4,834,243	880,764	2,437,703	4,823,758	9,223,729	315,505	22,515,702
Loans, net of provision for credit losses	8,751,775	50,451,466	25,333	722,295	1,092,318	175,757	61,218,944
Leases receivables, net of provision	3,739	-	-	90,778	-	7,895	102,412
Other	-	-	-	-	-	10,291,723	10,291,723
Total assets	19,039,757	52,354,438	2,463,036	5,636,831	10,316,047	29,378,851	119,188,960
Liabilities							
Customer deposits	57,258	55,024,103	24,349,071	4,608,767	-	240,462	84,279,661
Securities sold under agreements to repurchase	2,156,700	910,000	-	-	-	16,021	3,082,721
Borrowings, due to banks and other financial institutions	-	1,875	693,311	2,422,543	1,563,834	(5,879)	4,675,684
Other	-	-	-	-	-	2,874,220	2,874,220
Total liabilities	2,213,958	55,935,978	25,042,382	7,031,310	1,563,834	3,124,824	94,912,286
Total interest repricing gap	16,825,799	(3,581,540)	(22,579,346)	(1,394,479)	8,752,213	26,254,027	24,276,674
Cumulative interest repricing gap	16,825,799	13,244,259	(9,335,087)	(10,729,566)	(1,977,353)	24,276,674	-

Interest rate sensitivity

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

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

3. Financial Risk Management (Continued)

(c) Market risk (continued)

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

	Effect on Pre-tax Profit 2018 $'000	Effect on Other components of Equity 2018 $'000	Effect on Pre-tax Profit 2017 $'000	Effect on Other components of Equity 2017 $'000
Change in basis points:				
J$ - 100, US$ -50 (2017 J$ -100, US$ - 50)	681,863	351,167	695,723	361,211
J$ +100, US$ +50 (2017 - J$ +100, US$ +50)	(681,863)	(331,566)	(694,762)	(337,254)

(d) Capital management

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

The Bank's objectives when managing its capital are:

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

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

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

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

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-statement of financial position exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The Bank monitors two forms of capital required by Bank of Jamaica, namely, capital base and regulatory capital. Section 2 of The Banking Services Act, 2014, defines capital base as Tier 1 Capital only. The said Section also defines regulatory capital as the sum of Tier I capital, and Tier 2 capital less any deductions prescribed under The Banking Services (Deposit Taking Institutions) (Capital Adequacy) Regulations, 2015. As such the Bank's regulatory capital comprises:

3. Financial Risk Management (Continued)

(d) Capital Management (continued)

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

During 2018 and 2017, the Bank complied with all of their externally imposed capital requirements to which it is subject.

4. Critical Accounting Estimates and Judgments

The Bank's financial statements and its financial result are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements. The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events. Accounting policies and management's judgements for certain items are especially critical for the Bank's results and financial situation due to their materiality.

i. Recognition and measurement of intangible assets

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

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

ii. Valuation of financial instruments

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

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

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

iii. Income taxes

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

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

4. Critical Accounting Estimates and Judgments (Continued)

iv. Impairment losses of financial assets

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

- Establishing staging for debt securities and deposits

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

- Establishing staging for debt securities and deposits

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

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

Once the asset has experienced a significant increase in credit risk the investment will move from Stage 1 to Stage 2. Sagicor has assumed that the credit risk of a financial instruments has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial asset that is investment grade or Sagicor risk rating of 1-3 is considered low credit risk.

4. Critical Accounting Estimates and Judgments (Continued)

v. Impairment losses of financial assets (continued)

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

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

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

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

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

- Forward looking information

  When management determines the macro-economic factors that impact the portfolios of financial assets, they first determine all readily available information within the relevant market. Portfolios of financial assets are segregated based on product type, historical performance and homogenous country exposures. There is often limited timely macro-economic data for Jamaica, Caymna Islandsa and Costa Rica to a lesser extent. Management assesses data sources from local government, International Monetary Fund and other reliable data sources. A regression analysis is performed to determine which factors are most closely correlated with the credit losses for each portfolio. Where projections are available, these are used to look into the future up to three years and subsequently the expected performance is then used for the remaining life of the product. These projections are re-assessed on a quarterly basis.

vi. Pension benefits

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

vii. Legal Claim

A Court judgement was granted against the Bank in favour of a claimant. The claim pre-dated the acquisition of control of the Bank. Management has recorded the judgement in these financial statements and has correspondingly recorded a receivable from the Government of Jamaica based on an indemnity that was issued by the said. Management is confident that the Government of Jamaica will honour its obligation under the indemnity. See Note 32 and 45 for further details.

5. Segment Reporting

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

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

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

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

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

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

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

The Bank's operations are located in Jamaica.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2018 or 2017.

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5. Segment Reporting (Continued)

	Year ended 31 December 2018					
	Retail & SME	**Corporate banking**	**Treasury & correspondent banking**	**Card/Payments**	**Eliminations**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Gross external revenues	3,869,487	4,435,576	3,573,916	3,701,133	(928,247)	14,651,865
Revenues/expenses from other segments	(375,493)	31,106	130,752	213,635	-	-
Total gross revenues	3,493,994	4,466,682	3,704,668	3,914,768	(928,247)	14,651,865
Interest Expenses	(607,444)	(1,391,612)	(336,417)	(213,635)	928,247	(1,620,861)
Direct and allocated expenses	(2,423,082)	(364,773)	(167,618)	(2,133,861)	-	(5,089,334)
Profit before unallocated expenses and tax	463,468	2,710,297	3,200,634	1,567,272	-	7,941,671
Unallocated expense						(4,011,298)
Tax expense						(1,077,437)
Net profit						2,852,935
Segment assets	29,929,984	44,498,317	37,965,832	8,687,317	-	121,081,450
Assets from other segments	3,272,752	12,916,860	24,730,668	-	(40,920,280)	-
Unallocated assets						1,833,186
Total Assets						122,914,636
Segment liabilities	58,117,236	37,676,996	4,646,849	19,942	-	100,461,023
Liabilities from other segments	-	15,278,218	16,189,613	9,452,449	(40,920,280)	-
-Unallocated liabilities						1,021,632
Total Liabilities						101,482,655
Other segment items -						
Net interest income	2,351,646	2,249,267	1,150,533	1,518,645		7,270,091
Impairment charges	269,260	(144,944)	15,126	493,640		633,082
Capital expenditure	328,159	917	681	150,942		480,699
Depreciation	252,303	1,302	638	2,375		256,618
Amortisation charges	115,108	-	-	57,661		172,769

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5. Segment reporting (continued)

	Year ended 31 December 2017					
	Retail & SME	**Corporate banking**	**Treasury & correspondent bankin**	**Card/Payments**	**Eliminations**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Gross external revenues	3,400,015	4,743,028	3,623,322	2,962,381	(2,123,670)	12,605,076
Revenues/expenses from other segments	(174,958)	147,743	(85,145)	112,360	-	-
Total gross revenues	3,225,057	4,890,771	3,538,177	3,074,741	(2,123,670)	12,605,076
Interest Expenses	(1,005,653)	(1,168,992)	(1,596,147)	(112,360)	2,123,670	(1,759,482)
Direct and allocated expenses	(4,282,809)	(658,303)	(270,672)	(1,782,657)	-	(6,994,441)
Profit before unallocated expenses and tax	(2,063,405)	3,063,476	1,671,358	1,179,724	-	3,851,153
Unallocated expense						(1,429,957)
Tax expense						(644,624)
Net profit						1,776,572
Segment assets	24,837,111	40,036,197	40,459,464	7,673,404	-	113,006,176
Assets from other segments	140,268	6,863,125	19,631,155	-	(26,634,548)	-
Unallocated assets						12,240,672
Total Assets						125,246,848
Segment liabilities	51,731,068	35,170,047	8,200,283	-	-	95,101,398
Liabilities from other segments	1,654,066	10,303,685	7,003,393	7,673,404	(26,634,548)	-
Unallocated liabilities						10,225,194
Total Liabilities						105,326,592
Other segment items -						
Net interest income	1,722,178	2,767,917	1,057,832	1,141,319	-	6,689,246
Impairment charges	77,623	147,612	200	489,086	-	714,521
Capital expenditure	370,052	1,740	1,124	246,405	-	619,321
Depreciation	222,738	1,862	402	1,278	-	226,280
Amortisation charges	112,707	-	-	51,430	-	164,137

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6. Interest Income

			Under IFRS 9	Under IAS 39
			2018	2017
	Amortized cost	FVOCI assets	Total	
	$'000	$'000	$'000	$'000
Interest income -				
Debt securities	436,051	794,346	1,230,397	1,462,701
Finance loans and finance leases	7,405,481	-	7,405,481	6,811,394
Securities purchased for re-sale	63,198	-	63,198	20,313
Dividend income	-	17,572	17,572	26,338
	7,904,730	811,918	8,716,648	8,320,746
Interest income from FVTPL investments				
Total interest income (IAS 39 basis)			6,399	45,012
Other operating income			167,906	82,970
			174,305	127,982
			8,890,953	8,448,728

7. Interest Expense

	2018 $'000	2017 $'000
Customer deposits	1,229,799	1,096,834
Borrowings, due to banks and other financial institutions	391,063	662,648
	1,620,862	1,759,482

8. Fees and Commission Income

	2018 $'000	2017 $'000
Banking fees	3,020,306	2,447,013
Credit related fees	486,257	594,548
Trust fees	77,507	87,998
	3,584,070	3,129,559

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9. Net Trading Income

	Under IFRS 9 2018 $'000	Under IAS 39 2017 $'000
Foreign exchange trading and translation gains	1,247,114	577,773
Securities trading gains on available-for-sale securities	339,829	193,655
Securities trading gains on financial assets at fair value through the profit and loss	(72,618)	60,647
	1,514,325	832,075

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

10. Team Member Costs

	2018 $'000	2017 $'000
Wages and salaries	1,987,961	1,990,721
Statutory contributions	227,027	212,616
Pension costs – defined benefit plan (Note 27)	93,153	159,600
Other post-employment benefits (Note 27)	198,902	211,643
Termination costs	75,225	14,873
Stock options and grants	33,339	169,066
Accommodation and other team member benefits	251,479	224,971
	2,867,086	2,983,490

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

	2018 No.	2017 No.
Full – time	464	456
Part – time	177	172
	641	628

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11. Credit impairment losses, net of recoveries

	2018 $'000	2017 $'000
Investments	15,126	-
Loans (Note 21)	1,031,357	934,809
Lease receivables (Note 22)	(5,045)	4,645
Recoveries (Note 21)	(408,356)	(224,933)
	633,082	714,521

12. Other Expenses

	2018 $'000	2017 $'000
Amortisation of intangible assets (Note 25)	172,769	164,137
Audit fees -		
Current	31,099	17,000
Prior	-	3
Cards and Automated service fees	941,109	665,002
Bank charges	181,181	183,849
Commissions and fees	1,450	1,633
Consultancy fees	55,966	55,500
Depreciation (Note 26)	256,618	226,280
Donations	4,574	855
Insurance	158,440	137,283
Legal and professional fees	121,773	68,742
Licensing fee	499,257	307,979
Miscellaneous	214,982	199,615
Motor vehicle expenses	9,553	11,568
Office expenses	11,261	12,420
Printing and stationery	141,011	128,256
Rebranding charges	-	-
Promotion and advertising	639,565	469,742
Repairs and maintenance	93,566	33,823
Security	121,239	133,762
Services outsourced	1,017,769	1,011,582
Telephone and postage	169,390	155,094
Travelling and entertainment	26,471	26,590
	4,869,043	4,010,715

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13. Taxation

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

	2018 $'000	2017 $'000
Current tax	624,726	337,335
Prior year over provision	(60)	7,124
Deferred tax (Note 28)	452,771	300,165
	1,077,437	644,624

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

	2018 $'000	2017 $'000
Profit before taxation	3,930,372	2,421,196
Tax calculated at 33⅓%	1,305,124	807,065
Adjusted for the effects of:		
Income not subject to tax	(95,558)	(112,187)
Expenses not deductible for tax purposes	112,983	114,874
Net effect of other charges and allowances adjustments and allowances	(250,112)	(165,128)
Income tax expense	1,072,437	644,624

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

	2018 $'000	2017 $'000
Arising on losses recognised in other comprehensive income -		
Available-for-sale investments	155,318	(152,081)
Available-for-sale investments IFRS Transition	16,653	-
Re-measurements of post-employment benefits	(181,313)	(327,168)
	(9,342)	(479,249)

Subject to the agreement of the Commissioner General, Tax Administration of Jamaica, at the end of the reporting period, the Bank had unused tax losses of $2,680,530,000 (2017 – $4,564,372,000) available for set off against future taxable profits.

14. Earnings per Stock Unit

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

	2018	2017
Net profit attributable to stockholders ($'000)	2,852,935	1,776,572
Weighted average number of ordinary stock units in issue ('000)	4,241,887	4,241,887
Basic and diluted earnings per stock unit ($)	0.67	0.42

7.75% and 8.25% cumulative redeemable preference shares
The 7.75% and 8.25% cumulative redeemable preference shares are not ordinary or potential ordinary shares and have not been included in the determination of basic and diluted earnings per share. These shares are classified as liabilities (see Note 30).

15. Cash and Balances Due from Other Financial Institutions

	2018 $'000	2017 $'000
Cash in hand and at bank	7,454,778	6,129,249
Items in course of collection from other financial institutions	985,783	1,025,161
Placements with other financial institutions	2,500,000	5,300,000
Included in cash and cash equivalents (Note 18)	10,940,512	12,454,410
Placements with other financial institutions	160	1,426
	10,940,722	12,455,836

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

16. Cash Reserves at Bank of Jamaica

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

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

	2018	2017
Cash reserve - Foreign currency liabilities	15%	15%
Jamaica dollar liabilities	12%	12%
Liquid assets - Foreign currency liabilities	29%	29%
Jamaica dollar liabilities	26%	26%

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17. Financial Assets at Fair Value through Profit or Loss

	2018 $'000	2017 $'000
Debt securities - Government of Jamaica	-	722,208
Interest receivable	-	12,990
	-	735,198

The Bank held certain Government of Jamaica debt securities which were issued in February 2013 and mature in February 2024. The terms of these securities contain an investor put option exercisable in February 2018 under which the holder may require the Government of Jamaica to redeem the securities at 100% of the principal value plus any accrued interest. The option was exercised in August 2017 and the Notes were redeemed in February 2018 at par.

18. Cash and Cash Equivalents

	2018 $'000	2017 $'000
Cash and balances due from other financial institutions (Note 16)	10,940,562	12,454,410
Investment securities	500,000	999,097
Securities purchased under agreements to resell (Note 19)	1,300,000	450,000
Securities sold under agreements to repurchase	(700,000)	(2,366,700)
Items in the course of payment (Note 32)	(562,204)	(405,834)
Short term loans due to other financial institutions (Note 30)	(1,268,049)	-
	10,210,309	11,130,973

Net debt reconciliation

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

	2018 $'000	2017 $'000
Cash and cash equivalents	10,210,309	11,130,973
Liquid investments (i)	500,000	722,208
Borrowings – repayable within one year (excluding overdraft)	(1,780,459)	(697,625)
Borrowings – repayable after one year	(3,185,391)	(3,978,059)
Net debt	5,744,459	7,177,497
Cash and liquid investments	10,710,309	11,853,181
Gross debt – fixed interest rates	(4,965,850)	(4,675,684)
Net debt	5,744,459	7,177,497

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18. Cash and Cash Equivalents (Continued)

Net debt reconciliation (continued)

	Other assets		Liabilities from financing activities		
	Cash/ bank overdraft $'000	**Liquid investments (i) $'000**	**Borrowings due within 1 year $'000**	**Borrowings due after 1 year $'000**	**Total $'000**
Net debt as at 1 January 2017	1,581,949	652,467	(1,539,826)	(1,922,656)	(1,228,066)
Cash flows	9,644,412	-	842,201	(2,055,403)	8,431,210
Foreign exchange adjustments	(95,388)	-	-	-	(95,388)
Other non-cash movements	-	69,741	-	-	69,741
Net debt as at 31 December 2017	11,130,973	722,208	(697,625)	(3,978,059)	7,177,497
Cash flows	(916,571)		(1,082,834)	792,668	(1,206,737)
Foreign exchange adjustments	(4,093)				(4,093)
Other non-cash movements	-	(222,208)	-	-	(222,208)
Net debt as at 31 December 2018	10,210,309	569,741	(1,780,459)	(3,185,391)	5,814,630

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

19. Securities Purchased Under Agreements to Resell

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

As at 31 December 2018, the Bank held $1,720,000,000 (2017 - $470,500,000) of securities, mainly representing Government of Jamaica debt securities, as collateral for reverse repurchase agreements.

	2018	2017
	$'000	$'000
Securities purchased under agreements to resell		
Principal	1,700,000	450,000
Interest receivable	2,395	306
	1,702,395	450,306

	2018	2017
	$'000	$'000
Securities purchased under agreement to resell with an original maturity of less than 90 days (Note 19)	1,300,000	450,000

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20. Investment Securities

	Under IFRS 9 2018 $'000	Under IAS 39 2017 $'000
Financial assets at FVOCI (available-for-sale securities)-		
Debt securities -		
Government of Jamaica	8,019,842	7,623,479
Corporate bonds	246,037	556,807
Bank of Jamaica Certificates of Deposit	4,582,142	6,947,954
Other sovereign debt	3,131,186	2,145,003
	15,979,207	17,273,243
Investments at amortized cost (loans and receivables) -		
Debt securities -		
Corporate bonds	6,393,070	3,787,365
Other sovereign debt	497,075	497,216
Promissory notes	-	642,373
Unquoted equity securities	6,034	6,034
	22,875,386	22,206,231
Less: Pledged assets (Note 23)	(1,019,346)	(3,513,269)
	21,856,040	18,692,962
Interest receivable	309,289	309,471
	22,165,329	19,002,433

Promissory notes are due from the Bank's immediate parent, Sagicor Group Jamaica Limited and resulted from the reorganization of the group, that occurred in the period 2013 to 2014. During 2018 the promissory note amounting to $647,564,000 was repaid.

20. Investment securities (continued)

(a) Reclassification from IAS 39 to IFRS 9

The following table summarises the results of management's reclassification of financial investments from their IAS 39 categories to their IFRS 9 categories:

	IAS 39 classification	Carrying value December 31, 2017 $'000	IFRS 9 classification	Carrying value January 1, 2018 $'000
Debt securities	Available for sale	17,519,774	FVOCI	17,519,774
Debt securities	Fair value through income	735,198	FVTPL	735,198
Debt securities	Loans and receivables	4,989,894	Amortised cost	4,939,934
Equity securities	Available for sale	6,034	FVOCI	6,034
Equity securities	Fair value through income	-	FVTPL	-
Derivative financial instruments	Fair value through income	-	FVTPL	-
Finance loans and finance leases	Loans and receivables	61,321,356	Amortized cost	60,972,934
Securities purchased for resale	Loans and receivables	450,306	Amortized cost	450,306
Deposits	Loans and receivables		Amortized cost	
		85,022,562		84,624,180

The Bank assessed its business model for securities within the Bank's portfolio and identified certain securities which are managed separately and actively traded for capital gains. These securities which were previously classified as available for sale are reclassified to FVTPL under IFRS 9.

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20. Investment securities (continued)

(a) Reclassification from IAS 39 to IFRS 9 (continued)

The Bank assessed its business model for securities within the Bank's portfolio and identified certain securities which are managed separately and actively traded for capital gains. These securities which were previously classified as available for sale are reclassified to FVTPL under IFRS 9.

Floating rate mortgages being held to received contractual cash flows, which were previously classified as fair value through income, are reclassified as amortised cost under IFRS 9.

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

The following tables reconcile the carrying amounts of financial investments, from their previous measurement category in accordance with IAS 39 as of December 31, 2017 to their new measurement categories upon transition to IFRS 9 as at January 1, 2018.

	IAS 39 carrying amount December 31, 2017 $'000	Reclass-ifications	Remeasure-ments	IFRS 9 carrying amount January 1, 2018 $'000
FINANCIAL INVESTMENTS AT AMORTISED COST:				
Debt securities				
Opening balance under IAS 39	4,347,434	-	-	4,347,434
Valuation re-measurement	-	-	-	-
Re-measurement: ECL allowance	-	-	(49,960)	(49,960)
Closing balance under IFRS 9	4,347,434		(49,960)	4,297,474
Loans receivable				
Opening balance under IAS 39	642,460	-	-	642,460
Addition: From FVTPL (IFRS 9)	-	-	-	-
Re-measurement: ECL allowance	-	-	-	-
Closing balance under IFRS 9	642,460	-	-	642,460

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20. Investment securities (continued)

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

	IAS 39 carrying amount December 31, 2017 $'000	Reclass-ifications	Remeasure-ments	IFRS 9 carrying amount January 1, 2018 $'000
Finance loans and leases				
Opening balance under IAS 39	61,321,356	-	-	61,321,356
ECL allowance	-	-	(348,422)	(348,422)
Closing balance under IFRS 9	61,321,356	-	(348,422)	60,972,934
Securities purchased under agreements to resell				
Opening balance under IAS 39	450,306	-	-	450,306
Closing balance under IFRS 9	450,306	-	-	450,306
Deposits				
Opening balance under IAS 39	-	-	-	-
ECL allowance	-	-	-	-
Closing balance under IFRS 9	-	-	-	-
Total financial investments at amortised cost	66,761,556	-	(398,382)	66,363,174

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20. Investment securities (continued)

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

	IAS 39 carrying amount December 31, 2017 $'000	Reclass-ifications	Remeasure-ments	IFRS 9 carrying amount January 1, 2018 $'000
MISCELLANEOUS ASSETS AND RECEIVABLES				
Cash resources				
Opening balance under IAS 39	23,874,675	-	-	23,874,675
Closing balance under IFRS 9	23,874,675	-	-	23,874,675
Other accounts receivables				
Opening balance under IAS 39	36,628	-	-	36,628
Re-measurement: ECL allowance	-	-	-	-
Closing balance under IFRS 9	36,628	-	-	36,628
Total Miscellaneous assets and receivables	23,911,303	-	-	23,911,303

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20. Investment securities (continued)

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

	IAS 39 carrying amount December 31, 2017 $'000	Reclass-ifications	Remeasure-ments	IFRS 9 carrying amount January 1, 2018 $'000
FINANCIAL INVESTMENTS AT FVOCI:				
Debt securities				
Opening balance: Available for sale under IAS 39	17,519,774	-	-	17,519,774
Subtraction: To FVTPL (IFRS 9)	-	-	-	-
Closing balance under IFRS 9	17,519,774	-	-	17,519,774
Equity securities				
Opening balance: Available for sale under IAS 39	6,034	-	-	6,034
Subtraction: To FVTPL (IFRS 9)	-	-	-	
Closing balance under IFRS 9	6,034	-	-	6,034
Total financial investments measured at FVOCI	17,525,808	-	-	17,525,808

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20. Investments securities (continued)

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

	IAS 39 carrying amount December 31, 2017 $'000	Reclass-ifications	Remeasure-ments	IFRS 9 carrying amount January 1, 2018 $'000
FINANCIAL INVESTMENTS AT FVTPL:				
Debt securities				
Opening balance under IAS 39	735,198	-	-	735,198
Addition: From available for sale (IAS 39)	-	-	-	-
Closing balance under IFRS 9	735,198	-	-	735,198
Equity securities				
Opening balance under IAS 39	-	-	-	-
Addition: From available for sale (IAS 39)	-	-	-	-
Closing balance under IFRS 9	-	-	-	-
Loans receivable				
Opening balance under IAS 39	-	-	-	-
ECL allowance	-	-	-	-
Closing balance under IFRS 9	-	-	-	-
Derivative financial instruments				
Opening balance under IAS 39	-	-	-	-
Closing balance under IFRS 9	-	-	-	-
Total financial investments measured at FVTPL	735,198	-	-	735,198

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21. Loans, Net of Provision for Credit Losses

	2018	2017
	$'000	$'000
Gross loans and advances	70,474,089	62,555,603
Less: Allowance for credit losses	(1,723,750)	(1,512,416)
	68,750,339	61,043,187
Loan interest receivable	87,053	175,757
	68,837,392	61,218,944

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

	2018	2017
	$'000	$'000
Balance at beginning of year	1,512,416	1,275,858
IFRS 9 Transition adjustment	347,689	-
Previously provided for written off	(773,349)	(452,858)
Charged in the income statement (Note 11)	1,031,357	934,809
Recoveries	(408,356)	(224,933)
Currency revaluation adjustment	13,993	(20,460)
Balance at end of year	1,723,750	1,512,416

The aggregate amount of non-performing loans for the Bank on which interest was not being accrued amounted to $1,983,525,000 (2017 - $2,037,858,000).

22. Lease Receivables, Net of Provision for Credit Losses

	2018	2017
	$'000	$'000
Gross investment in finance lease -		
Not later than one year	100,839	67,127
Later than one year and not later than five years	168,312	59,382
	269,151	126,509
Unearned finance income	(42,747)	(25,088)
Net investment in finance leases	226,404	101,421
Net investment in finance leases -		
Not later than one year	78,928	42,039
Later than one year and not later than five years	147,476	59,382
	226,404	101,421
Less: provision for credit losses	(2,591)	(6,904)
	223,813	94,517
Interest receivable	-	7,895
	223,813	102,412

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

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

	2018 $'000	2017 $'000
Balance at beginning of year	6,904	2,259
IFRS 9 Transition adjustment	732	-
Charged in the income statement (Note 11)	(5,045)	4,645
Balance at end of year	2,591	6,904

The aggregate amount of non-performing lease receivables on which interest was not being accrued is $1,611,000 (2017 - $12,533,000).

23. Pledged Assets

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

	Asset		Related liability	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Investment securities and securities purchased under resale agreements	1,019,346	3,513,269	700,000	3,086,700

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

	2018 $'000	2017 $'000
Investment securities	1,019,346	3,513,269

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24. Related Party Balances and Transactions

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

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

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

	2018 $'000	2017 $'000
With parent company -		
Interest and other income earned	4,435	32,357
Interest and other expenses paid	(1,225)	(371)
Investment management fee paid	(413,067	(385,805)
Information Technology rental	(365,219)	(286,446)
Party with significant influence over intermediate party company -		
Interest and other income earned	50,382	25,521
Interest and other expenses paid	(179,917)	(94,110)
Management fees and other expenses paid	(84,106)	(112,520)
Rental and net lease paid	(46,075)	(49,958)

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24. Related Party Balances and Transactions (Continued)

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

Key management compensation was as follows –

	2018 $'000	2017 $'000
With directors and key management personnel -		
Salaries and other short-term benefits	39,719	225,131
Post-employment benefits	1,301	4,533
	41,020	229,664

	2018 $'000	2017 $'000
Directors' emoluments – Fees	25,832	23,139
Other	1,264	1,113

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

	2018 $'000	2017 $'000
Due from related companies -		
Balances due from parent company	14,018	-
Balances due from fellow subsidiaries	180	725
	14,198	725
Due to related companies -		
Balances due to parent company		8,191
Balances due to fellow subsidiaries	(44,162)	93,197
	(44,162)	101,388

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

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24. Related Party Balances and Transactions (Continued)

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

	2018	2017
	$'000	$'000
Other year-end balances with related companies -		
With parent company -		
Promissary Note	0	642,460
Customer deposits	(466,399)	(227,662)
With fellow subsidiaries -		
Loans	198,500	(1,720,603)
Repo agreement	1,300,094	
Customer deposits	(2,952,754)	(7,521,797)
With directors and key management personnel -		
Loans	158,553	104,497
Customer deposits	(285,878)	(277,023)
Party with significant influence over intermediate party company -		
Customer deposits	(3,608,973)	(983,682)
Loans	475,956	517,622
With managed funds -		
Customer deposits	-	(40,019)

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25. Intangible Assets

	Customer relationships $'000	Computer Software $'000	Total $'000
Cost -			
At 1 January 2017	1,139,000	336,737	1,475,737
Additions	-	294,245	294,245
At 31 December 2017	1,139,000	630,982	1,769,982
Additions	-	155,623	155,623
At 31 December 2018	1,139,000	786,605	1,925,605
Accumulated Depreciation -			
At 1 January 2017	142,375	162,123	304,498
Charge for the year	56,950	107,187	164,137
At 31 December 2017	199,325	269,310	468,635
Charge for the year	56,950	115,819	172,769
At 31 December 2018	256,275	385,129	641,404
Net Book Value -			
At 31 December 2018	882,725	401,476	1,284,201
At 31 December 2017	939,675	361,672	1,301,347

(i) Computer software

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

(ii) Customer relationships

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

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26. Property, Plant and Equipment

	Land & Building	Leasehold Improvement	Office Equipment	Furniture & Fixtures	Motor Vehicles	Computer Equipment	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Costs -							
At 1 January 2017	1,448,454	524,621	506,564	153,449	44,004	339,441	3,016,533
Additions	-	52,503	141,386	10,226	11,380	109,581	325,076
Disposals	-	-	-	-	(19,077)	-	(19,077)
At 31 December 2017	1,448,454	577,124	647,950	163,675	36,307	449,022	3,322,532
Additions	312	44,371	102,663	4,417	9,077	75,079	235,919
Disposals	(1,050,614)		(494)		(22,114)	(292)	(1,073,514)
At 31 December 2018	398,152	621,495	750,119	168,092	23,270	523,809	2,484,937
Accumulated Depreciation -							
1 January 2017	256,778	191,360	179,589	32,864	30,767	192,961	884,319
Charge of the year	21,140	47,379	78,388	5,385	5,969	68,019	226,280
Disposals	-	-	-	-	(13,835)	-	(13,835)
At December 2017	277,918	238,739	257,977	38,49	22,901	260,980	1,096,764
Charge of the year	20,002	52,925	94,422	6,124	3,762	79,383	256,618
Disposals	(183,881)	-	(116)		(13,497)	(72)	(197,566)
At December 2018	114,039	291,664	352,283	44,373	13,166	340,291	1,155,816
Net Book Value -							
31 December 2018	284,113	329,831	397,836	123,719	10,104	183,518	1,329,121
31 December 2017	1,170,536	338,385	389,973	125,426	13,406	188,042	2,225,768

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

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27. Post-employment Benefits

		2018 $'000	2017 $'000
(a)	Pension benefits	(150,121)	(285,043)
(b)	Other post-employment benefit obligations	898,988	1,387,105
		748,867	1,102,062

(a) Pension schemes

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

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

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

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

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

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

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

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

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

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27. Post-employment Benefits (Continued)

(a) Pension schemes (continued)

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

	2018 $'000	2017 $'000
Present value of funded obligations	5,348,474	4,816,706
Fair value of plan assets	(5,498,595)	(5,101,749)
Surplus of funded plan	(150,121)	(285,043)

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

	2018 $'000	2017 $'000
Balance at beginning of year	4,816,706	4,824,119
Current service cost	121,756	124,755
Interest cost	377,329	426,768
	499,085	551,523
Re-measurements -		
Change in demographic assumptions		-
Change in financial assumptions	115,705	346,401
Experience adjustments	14,691	(832,549)
	130,396	(486,148)
Members' contributions	106,402	95,349
Benefits paid	(315,810)	(309,257)
Purchased annuities	111,695	141,120
Balance at end of year	5,348,474	4,816,706

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27. Post-employment Benefits (Continued)

(a) Pension schemes (continued)

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

	2018 $'000	2017 $'000
Balance at beginning of year	5,101,749	4,342,182
Return on plan assets	405,932	391,923
Re-measurements -		
Change in financial assumptions	28,449	28,828
Experience adjustment	(14,720)	281,026
Members' contributions	106,402	95,349
Employer's contributions	74,898	130,578
Benefits paid	(315,810)	(309,257)
Purchased annuities	111,695	141,120
Balance at end of year	5,498,595	5,101,749

The amounts recognised in the income statement are as follows:

	2018 $'000	2017 $'000
Current service cost	121,756	124,755
Interest cost on plan obligation	377,329	426,768
Interest income on plan assets	(405,932)	(391,923)
Total, included in team member costs (Note 10)	93,153	159,600

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27. Post-employment Benefits (Continued)

(a) Pension schemes (continued)

The amount recognised in other comprehensive income is as follows:

	2018 $'000	2017 $'000
Change in demographic assumptions		-
Change in financial assumptions	87,256	317,573
Experience adjustments	29,411	(1,113,579)
	116,667	(796,006)
Deferred tax	(38,889)	265,335
	77,778	(530,671)

Plan assets are comprised as follows:

	2018					2017				
	$'000 Level 1	$'000 Level 2	$'000 Level 3	$'000 Total	%	$'000 Level 1	$'000 Level 2	$'000 Level 3	$'000 Total	%
Equities Fund	1,717,014	-	-	1,717,014	31	1,638,371	-		1,638,371	32
Mortgage & Real Estate Fund	994,146	-	-	994,146	18	217,916	-		217,916	4
Fixed Income Fund	886,033	-	-	886,033	16	1,184,012	-		1,184,012	23
Money Market Fund	90,513	-	-	90,513	2	48,581	-		48,581	1
International Equity Fund	119,184	-	-	119,184	2	5,240	-		5,240	-
Foreign Currency Fund	941,478	-	-	941,478	17	1,027,145	-		1,027,145	20
CPI Indexed Fund	10,857	-	-	10,857	-	-	-	-	-	-
Diverisified Investment Fund	-	-	-	-	-	236,205	-		236,205	5
Global Market Funds	83,668	-	-	83,668	2	41,657	-		41,657	1
Current Assets	30,180	-	-	30,180	1	-	241,329		241,329	5
Purchased annuities	-	625,714	-	625,714	11	-	-	498,309	498,309	10
Adjustments	(192)	-	-	(192)	-	(37,016)	-	-	(37,016)	(1)
	4,862,024	625,714	-	5,487,738	100	4,362,111	241,329	498,309	5,101,749	100

27. Post-employment Benefits (Continued)

(a) Pension schemes (continued)

Expected contributions to the post-employment plan for the year ending 31 December 2018 are $201,602,000.

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

	2018 $'000	2017 $'000
Asset at beginning of year	(252,843)	481,937
Amounts recognised in the income statement (Note 10)	93,153	159,600
Re-measurements recognised in other comprehensive income	116,667	(796,006)
Contributions paid	(107,098)	(130,578)
Liability at end of year	(150,121)	(285,047)

The significant actuarial assumptions used were as follows:

	2018	2017
Discount rate	7.0%	8.0%
Future salary increases	7.0%	7.5%

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

	Impact on post-employment benefits		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
Discount rate – pension scheme	1%	(85,000)	102,533
Discount rate – medical scheme	1%	(139,000)	378,981
Future salary increases	1%	31,000	(20,491)
Health cost	1%	170,000	(275,307)
Future pension increases	1%	548,000	(412,945)
Life expectancy	1 year	11,000	(11,601)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

27. Post-employment Benefits (Continued)

(b) Other post-employment benefits

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

In addition to the assumptions used for the pension scheme, the main actuarial assumption is the long-term increase in health cost of 5% (2017 – 7%) per annum.

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

	2018 $'000	2017 $'000
Present value of unfunded obligations	898,988	1,387,105

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

	2018 $'000	2017 $'000
Balance at beginning of year	1,387,105	1,383,294
Current service cost	88,970	87,147
Interest expense	109,932	124,496
Re-measurements -		
Loss from change in financial assumptions	367,769	392,930
Experience adjustments	(1,028,375)	(578,427)
	(660,606)	(185,497)
Benefits paid	(26,413)	(22,335)
Balance at end of year	898,988	1,387,105

The amounts recognised in the income statement are as follows:

	2018 $'000	2017 $'000
Current service cost	88,970	87,147
Interest cost	109,932	124,496
Total, included in team member costs (Note 11)	198,902	211,643

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27. Post-employment Benefits (Continued)

(b) Other post-employment benefits (continued)

The amount recognised in other comprehensive income is as follows:

	2018 $'000	2017 $'000
Change in demographic assumptions		-
Change in financial assumptions	367,769	392,930
Experience adjustments	(1,028,375)	(578,427)
	(660,606)	(185,497)
Deferred tax	220,202	61,832
	(440,404)	(123,665)

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

	2018 $'000	2017 $'000
Liability at beginning of year	1,387,104	1,383,293
Amounts recognised in the income statement (Note 10)	198,902	211,643
Amount recognised in other comprehensive income	(660,606)	(185,497)
Benefits paid	(26,412)	(22,335)
Liability at end of year	898,988	1,387,104

27. Post-employment Benefits (Continued)

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

The most significant of these plan risks are detailed below:

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

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

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

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

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

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

	2018 Years	2017 Years
Active members	414	452
Deferred pensioners	148	136

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28. Deferred Income Taxes

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

	2018 $'000	2017 $'000
Balance at beginning of year	1,704,925	2,484,339
Charged to the income statement (Note 13)	(452,771)	
Tax credited relating to components in other comprehensive income (Note 13)	16,653	
- Transition		(300,165)
Tax credited relating to components in other comprehensive income (Note 13)	(25,995)	(479,249)
Balance at end of year	1,242,812	1,704,925

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

	2018 $'000	2017 $'000
Deferred tax assets to be recovered after more than 12 months	980,714	1,692,200
Deferred tax liabilities to be recovered after more than 12 months	(106,678)	(266,168)

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

	2018 $'000	2017 $'000
Deferred income tax assets -		
Financial asset at fair value through profit or loss	-	41,715
Post-employment benefit obligations	249,622	367,352
Tax losses	893,509	1,521,457
Provision	24,521	
Property, plant and equipment	86,611	-
Investment securities	61,605	-
Other	33,622	40,569
	1,349,490	1,971,093
Deferred income tax liabilities -		
Investment securities	-	90,888
Property, plant and equipment	-	58,898
Loan loss provision	106,678	
Other	-	116,382
	106,678	266,168
Net deferred tax asset	1,242,812	1,704,925

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28. Deferred Income Taxes (Continued)

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

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

	Accelerated tax depreciated $'000	Fair value gains $'000	Loan loss provision $'000	Provision $'000	Post-employment benefits $'000	Tax losses $'000	Other $'000	Total $'000
At 1 January 2017, restated	(117,231)	79,764	12,386	-	621,743	1,851,088	36,589	2,484,339
Credited/(charged) to the income statement	58,333	23,144	(128,768)	-	72,777	(329,631)	3,980	(300,165)
Credited to other comprehensive income	-	(152,081)	-	-	(327,168)	-	-	(479,249)
At 31 December 2017	(58,898)	(49,173)	(116,382)	-	367,352	1,521,457	40,569	1,704,925
Credited/(charged) to the income statement	145,509	(41,714)	9,704	5,042	63,583	(627,948)	(6,947)	(452,771)
Credited to other comprehensive income	-	152,492	-	19,479	(181,313)	-	-	(9,342)
At 31 December 2018	86,611	61,605	(106,678)	24,521	249,622	896,509	33,622	1,242,812

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

29. Other Assets

	2018 $'000	2017 $'000
Withholding tax recoverable with Government of Jamaica	281,704	250,570
Prepayments	205,038	206,027
Property, plant and equipment deposits	335,344	64,546
Customer settlement accounts	30,628	6,476
Legal claim (Note 44)	122,643	8,838,088
Credit card suspense	435,192	888,495
Other	227,973	317,135
	1,638,522	10,571,337

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30. Borrowings, Due to Banks and Other Financial Institutions

	Currency	Rate %	2018 $'000	2017 $'000
Secured				
Long Term Loans				
Development Bank of Jamaica Limited				
Repayable over varying periods from 6 months to 92 months	JMD & USD	Various	1,944,813	2,426,513
National Housing Trust	JMD	Various	315,081	173,550
			2,259,894	2,600,063
Short Term Loans				
Citibank N. A . – Jamaica Branch	JMD	Various	1,268,049	-
			1,268,049	-
			3,527,943	2,600,063
Interest payable			1,878	1,206
Total secured borrowings			3,529,821	2,601,269
Unsecured				
Redeemable preference shares	JMD	Various	1,414,700	2,061,500
Unamortised Costs			(8,319)	(20,982)
			1,406,381	2,040,518
Sagicor Life Jamaica Limited	JMD	4.00	20,000	20,000
			1,426,381	2,060,518
Interest payable			9,648	13,897
Total unsecured borrowings			1,436,029	2,074,415
Total Borrowings, Due to Banks and Other Financial Insitutions			4,965,850	4,675,684

The Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during 2018 and 2017.

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

(a) Development Bank of Jamaica Limited

The agreement with the Development Bank of Jamaica Limited (DBJ) allows DBJ, at its absolute discretion, to approve financing to the Bank for on-lending to farmers, other agricultural projects and development projects on such terms and conditions as DBJ may stipulate

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

(b) National Housing Trust

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

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

(c) Sagicor Life Jamaica Limited

This loan is repayable on November 7, 2019; interest is paid at maturity at a rate of 4% and is unsecured..

(d) Redeemable Preference shares

The redeemable preference shares represent 1,414,700,000 fully paid 8.25% cumulative redeemable preference shares. The shares are redeemable at par on March 1, 2020 or by the parent entity at any time before that date. The shares are entitled to dividends at the rate of 8.25%, per annum. If sufficient profits are not available in a particular financial year, the dividends accumulate and are payable when sufficient profits are available. The shares participate in a winding up of the company only to the extent of the par value per share. The 7.75% cumulative redeemable preference shares 646,800,000 was repaid on September 6, 2018.

(e) Citibank N.A Jamaica Branch

This represents unsecured short-term inter-bank borrowing with $634M repayable on January 4, 2019 and $634M on January 11, 2019.

Included in borrowings, due to banks and other financial institutions are $1,268,000 (2017 - $ NIL) which is regarded as cash equivalents for purposes of the statement of cash flows.

Fair value

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

31. Provision

	2018 $'000	2017 $'000
Legal claim (Note 45)	122,643	8,838,088

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32. Other Liabilities

	2018 $'000	2017 $'000
Accruals	564,189	510,648
Customer settlement accounts	44,412	37,141
Items in the course of payment (Note 18)	562,204	405,834
Staff related payables	79,957	70,707
Stale dated cheques	355,259	375,048
Withholding tax payable	15,198	62,221
Credit card settlement accounts	280,006	661,772
Accounts payables	249,183	506,567
Other	331,593	332,007
	2,482,001	2,961,945

33. Share Capital

	2018 Number of shares '000	2017 Number of shares '000
Authorised:		
JMD denominated ordinary shares	4,271,640	4,271,640
Issued:		
JMD denominated ordinary shares	4,241,887	4,241,887
		$'000
Issued capital comprises:		
4,241,886,728 fully paid JMD denominated ordinary shares	8,400,000	8,400,000
	8,400,000	8,400,000

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

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

34. Fair Value Reserve

This represents the unrealised surplus or deficit on the revaluation of Financial assets at FVOCI (available-for-sale securities), net of deferred taxation.

35. Loan Loss Reserve

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

The loan loss reserve is determined as follows:

	2018 $'000	2017 $'000
Provision for credit losses determined under IFRS -		
Loans (Note 21)	1,723,750	1,512,416
Lease receivables (Note 22)	2,591	6,904
	1,726,341	1,519,320
The provision for credit losses determined under regulatory requirements -		
Specific provision	1,697,952	1,868,466
General provision	731,714	640,521
	2,429,666	2,508,987
Excess of regulatory provision over IFRS provision reflected in a non-distributable loan loss reserve	703,325	989,667

36. Reserve Fund

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

During the year the Bank transferred $1,137,174,070 (2017 - 733,866,000) from retained earnings to the reserve fund.

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

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37. Capital Reserve

	2018 $'000	2017 $'000
Realised capital gain on disposal of subsidiary	309,465	309,465

38. Capital Redemption Reserve

	2018 $'000	2017 $'000
7.75% cumulative redeemable preference shares redeemed	646,800	-

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

39. Retained Earnings Reserve

Section 42 of The Banking Services Act, 2014 permits the transfer of any portion of the Bank's net profit to a retained earnings reserve. This reserve constitutes a part of the capital base for the purpose of determining the maximum level of deposit liabilities and lending to customers. Transfers to the retained earnings reserve are made at the discretion of the Board; such transfers must be notified to the Bank of Jamaica.

40. Dividends

During the year, the Bank declared and paid dividends of $1,000,000,000 (2017 – $1,000,000,000). This represents dividend per share of $0.24 (2017 - $0.24).

41. Fiduciary Activities

The Bank provides custody, trustee, corporate administration, investment management and advisory services to third parties which involve the Bank making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. As at 31 December 2018, the Bank had financial assets under administration and held in trust of approximately $531,252,000 (2017 - $473,835,000) and US$NIL (2017 –US$197,217,000) respectively.

42. Fair Value of Financial Instruments

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

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

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

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

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

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. This category includes certain unquoted equity securities.

The valuation of unquoted equity instruments is subjective by nature. The determination of the fair values of unquoted equity securities requires the use of a number of individual pricing benchmarks which would involve unobservable inputs, such as earnings estimates, multiples of comparative companies, marketability discounts and discount rates. The Bank's holdings of unquoted equity instruments are not significant and, therefore, the effects of using reasonably possible alternative valuation assumptions would not be material.

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42. Fair Value of Financial Instruments (Continued)

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

	Carrying Value 2018 $'000	Fair Value 2018 $'000	Carrying Value 2017 $'000	Fair Value 2017 $'000
Financial Assets				
Loans, net of provision for credit losses	69,061,205	67,336,365	68,218,944	59,767,002
Customer deposits	92,264,299	92,743,685	62,924,422	74,377,267
Borrowings, due to banks and other financial institutions	3,549,876	3,632,745	2,582,202	2,684,588
Securities sold under repurchase agreement	702,712	705,009	4,759,313	4,759,313

	2018			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Assets				
Financial assets valued through profit and loss		-	-	-
Investment securities	2,870,849	19,288,446	6,034	22,165,329
Pledged assets		1,019,346	-	1,019,346
	2,870,849	20,307,792	6,034	23,184,675

	2017			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Assets				
Financial assets valued through profit and loss	-	735,197	-	735,197
Investment securities	2,604,837	15,749,101	648,495	19,002,433
Pledged assets	-	3,513,269	-	3,513,269
	2,604,837	19,997,567	648,495	23,250,899

42. Fair Value of Financial Instruments (Continued)

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

	Level 3 $'000
Balance at beginning of year	648,495
Transfer from Level 2	-
Additions	-
Disposals	(642,461)
Balance at end of year	6,034

During the year ended 31 December 2018, the Bank transferred equities of $NIL (2017- $ NIL) and promissory note of $NIL (2017- $ NIL) from Level 2 to Level 3 as the investments are no longer actively traded.

Transfers of $NIL (2017- $NIL) were made from Level 2 to Level 1, respectively, during the year 31 December 2018.

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

- The fair value of liquid assets and other assets maturing within one year (such as cash and balances at Central Banks and amounts due from other banks) is assumed to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities;
- The fair value of borrowings, due to banks and other financial institutions, customer deposits and other accounts, other liabilities, due to related companies and demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the date of the statement of financial position;
- The fair value of variable rate loans is assumed to approximate their carrying amounts and management does not believe that, after deduction of provision for credit losses, there is any significant difference between the fair value of fixed rate loans and their carrying values as interest rates approximate current market rates offered on similar loans.

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43. Contingent Liabilities and Commitments

(a) Legal proceedings

The Bank is subject to various claims, disputes and legal proceedings, as part of the normal course of business at 31 December 2018. Except for the provision made in Note 30, no other provision has been made, as professional advice indicates that it is unlikely that any significant loss will arise.

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

(b) Contingent liabilities and commitments

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

At 31 December 2018	No later than 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Loan commitments	4,270,152	1,349,380	1,054,441	6,673,973
Guarantees, acceptances and other financial facilities	2,608,866	135,529	1,737,300	4,481,695
Operating lease commitments	118,051	68,979	-	187,030
Operating lease commitments- Dominica Drive	106,186	457,569	653,546	1,217,301
	7,103,255	2,011,457	3,445,287	12,559,999
At 31 December 2017				
Loan commitments	7,854,412	122,172	225,670	8,202,254
Guarantees, acceptances and other financial facilities	1,998,577	56,320	1,439,863	3,494,760
Operating lease commitments	96,401	65,962	-	162,363
	9,949,390	244,454	1,665,533	11,859,377

Lease payments, including maintenance, during the year were $205,483,000 (2017 - $205,668,000).

The Bank is contingently liable in respect of offshore standby letters of credit amounting to US$8,160,000 (2017- US$15,360,000) with one of their correspondent bank.

Operating lease commitments –Dominica Drive

On 28 December 2018 the Bank entered into a sale and leaseback agreement for premises at 17 Dominica Drive, Kingston 5 with Sagicor Pooled Investment Funds Limited for a tenor of ten years. Sagicor Pooled Investment Funds Limited is owned by Sagicor Life Jamaica Limited.

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44. Stock Options

Details of the stock options outstanding are as follows:

	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
	2018	2018	2017	2017
	'000	$	'000	$
Balance at beginning of year	3,448	8.02	13,418	8.65
Granted	422	34.10	1,081	23.65
Exercised	(453)	9.75	(8,495)	9.81
Lapsed/forfeited	(231)	18.66	(2,556)	12.02
Options outstanding	3,186	10.45	3,448	
Exercisable at the end of the year	2,271	12.50	1,855	

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

Expiry date	Exercise price	No. of stock options	
		2018	2017
		'000	'000
31 March 2018	$10.96	109	-
31 March 2019	$14.10	147	109
31 March 2020	$10.75	285	147
31 March 2021	$7.11	516	429
31 March 2022	$9.50	1,228	748
31 March 2023	$10.49	529	1,404
31 March 2024	23.65	371	611
31 March 2025			
		3,185	3,448

For options outstanding at the end of the year, the exercise price ranges from $7.11-$34.10 (2017 - $7.11 - $23.65). The weighted average remaining contractual term to expiry is 4 years (2017 – 4 years).

Options for 453,000 stock units were exercised during the current year (2017 – 8,495,000). The weighted average stock unit price at the date of exercise for options exercised during the year was $34.04 (2017 - $31.58).

44. Stock Options (Continued)

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

The Bank recognised cumulative expenses of $6,979,000 (2017 - $4,533,000) as stock options expense of which $3,481,000 (2017 - $7,898,000) was recognised in the income statement during the year.

The Bank provides share grants to executives based on the performance of the Group. Shares granted during the year were nil. The prices are based on the trading price on the Jamaica Stock Exchange.

45. Litigation

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

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

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

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

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46. Offsetting Financial Assets and Financial Liabilities

(a) Financial assets

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

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

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46. Offsetting Financial Assets and Financial Liabilities (Continued)

(a) Financial assets (continued)

	2017						
					Related amounts not set off in the statement of financial position		
	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts of financial assets presented on the balance sheet	Impact of master Netting Agreements	Cash collateral	Financial instruments collateral	Net Amount
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
ASSETS							
Cash and balances due from other financial institutions	12,455,836	-	12,455,836	-	-	-	12,455,836
Cash reserves at Bank of Jamaica	11,418,839	-	11,418,839	-	11,418,839	-	-
Financial assets at fair value through profit or loss	735,198	-	735,198	-	-	-	735,198
Securities purchased under agreements to resell	450,306	-	450,306	-	-	450,306	-
Investment securities	19,002,433	-	19,002,433	-	-	-	19,002,433
Loans, net of provision for credit losses	61,218,944	-	61,218,944	-	-	-	61,218,944
Lease receivables, net of provision for credit losses	102,412	-	102,412	-	-	-	102,412
Pledged assets	3,513,269	-	3,513,269	-	-	3,513,269	-
Due from related companies	725	-	725	-	-	-	725
Other assets	10,571,337	-	10,571,337	-	-	-	10,571,337
	119,469,299	-	119,469,299		11,418,839	3,963,575	104,086,885

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46. Offsetting Financial Assets and Financial Liabilities (Continued)

(a) Financial liabilities

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

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

	2017						
					Related amounts not set off in the statement of financial position		
	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts of financial assets presented on the balance sheet	Impact of master Netting Agreements	Cash collateral	Financial instruments collateral	Net Amount
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
LIABILITIES							
Customer deposits and other accounts	84,279,661	-	84,279,661	-	-	-	84,279,661
Securities sold under agreement to repurchase	3,082,721	-	3,082,721	3,513,269	-	-	(430,548)
Borrowings, due to banks and other financial institutions	4,675,684	-	4,675,684	-	-	-	4,675,684
Due to related companies	101,388	-	101,388	-	-	-	101,388
Other liabilities	2,961,945	-	2,961,945	-	-	-	2,961,945
	95,101,399	-	95,101,399	3,513,269	-	-	91,588,130

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(expressed in Jamaican dollars unless otherwise indicated)

47. Changes in accounting policies

The changes in accounting policies outlined in note 2 (a) which have resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements summarised in the following tables.

	December 31, 2017 as originally presented	Transition adjustment-IFRS 9	As at January 1, 2018
	$'000	$'000	$'000
ASSETS			
Cash and balances due from other financial institutions	12,455,836	-	12,455,836
Cash reserves at Bank of Jamaica	11,418,839	-	11,418,839
Financial assets at fair value through profit or loss	735,198	-	735,198
Securities purchased under agreements to resell	450,306	-	450,306
Investment securities	19,002,433	(49,960)	18,952,473
Loans, net of provision for credit losses	61,218,944	(347,689)	60,871,255
Lease receivables, net of provision for credit losses	102,412	(733)	101,679
Pledged assets	3,513,269	-	3,513,269
Due from related companies	725	-	725
Intangible assets	1,301,347	-	1,301,347
Income tax recoverable	260,466	-	260,466
Property, plant and equipment	2,225,768	-	2,225,768
Deferred income tax assets	1,704,925	16,654	1,721,579
Post-employment benefit obigations	285,043	-	285,043
Other assets	10,571,337	-	10,571,337
TOTAL ASSETS	125,246,848	(381,728)	124,865,120

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47. Changes in accounting policies (continued)

	December 31, 2017 as originally presented	Transition adjustment- IFRS 9	As at January 1, 2018
	$'000	$'000	$'000
STOCKHOLDERS' EQUITY AND LIABILITIES:			
Stockholders' Equity Attributable			
Stockholders' of the Company			
Share capital	8,400,000	-	8,400,000
Fair value reserve	181,775	15,342	197,117
Loan loss reserve	989,667	(348,421)	641,246
Reserve fund	2,291,968	-	2,291,968
Capital reserve	309,465	-	309,465
Retained earnings reserve	3,088,063	-	3,088,063
Merger reserve	3,759,440	-	3,759,440
Retained earnings	899,878	(48,649)	851,229
Total Equity	19,920,256	(381,728)	19,538,528
Liabilities			
Customer deposits	84,279,661	-	84,279,661
Securities sold under agreements to repurchase	3,082,721	-	3,082,721
Borrowings, due to banks and other financial institutions	4,675,684	-	4,675,684
Income tax payable	-	-	-
Due to related companies	101,388	-	101,388
Post-employment benefit obligations	1,387,105	-	1,387,105
Provision	8,838,088	-	8,838,088
Other liabilities	2,961,945	-	2,961,945
Total Liabilities	105,326,592	-	105,326,592
TOTAL EQUITY AND LIABILITIES	125,246,848	(381,728)	124,865,120

47. Changes in accounting policies (continued)

Consolidated Statement of Financial Position (continued)

	Retained earnings $'000
Balance as of December 31, 2017	899,878
Transition adjustments on adoption of IFRS 9:	
Reclassify investments from available-for-sale to FVTPL	
Increase in provision for miscellaneous receivables and contract assets	
Increase in provision for debt investments at amortised cost	(49,960)
Increase in provision for debt investments at FVOCI	(23,013)
Increase in deferred tax assets relating to impairment provisions	24,324
Other	-
Total transition adjustments	(48,649)
Balance as of January 1, 2018	851,229

48. Subsequent event

Effective March 1, 2019 cash reserves and liquid asset ratios for Commercial Banks were reduced by the Bank of Jamaica (BOJ) as follows:

	New	Previous
Cash Reserve:		
Foreign currency liabilities	15%	15%
Jamaican dollar liabilities	9%	12%
Liquid Assets:		
Foreign currency liabilities	29%	29%
Jamaican dollar liabilities	23%	26%