DEVELOPMENT BANK OF JAMAICA LIMITED

FINANCIAL STATEMENTS

MARCH 31, 2021

Development Bank of Jamaica Limited
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March 31, 2021

KPMG

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INDEPENDENT AUDITORS' REPORT

To the Members of
DEVELOPMENT BANK OF JAMAICA LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Development Bank of Jamaica Limited ("Bank"), set out on pages 4 to 85, which comprise the statement of financial position as at March 31, 2021, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at March 31, 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the Jamaican Companies Act.

Basis for Opinion

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

Report on the Audit of the Financial Statements (continued)

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
DEVELOPMENT BANK OF JAMAICA LIMITED

Report on the Audit of the Financial Statements (continued)

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

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

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

Report on additional matters as required by the Jamaican Companies Act

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

KPMG

Chartered Accountants
Kingston, Jamaica

June 14, 2021

Development Bank of Jamaica Limited

Statement of Profit or Loss and Other Comprehensive Income
Year ended March 31, 2021
(expressed in Jamaica dollars unless otherwise indicated)

	Notes	2021 $'000	2020 $'000
Operating Income			
Interest income, calculated using the effective interest method		1,391,564	1,380,015
Interest expense		(599,979)	(587,203)
Net interest income	6	791,585	792,812
Appreciation in fair value on investment property	13	10,514	250,000
Gain on disposal of bonds		173,995	-
Impairment recovery on financial assets		119,108	124,308*
Other income	7	623,264	876,503*
		1,718,466	2,034,623
Operating Expenses			
Staff costs	8	(703,960)	(657,022)
Discount on financial asset	18	(263,270)	(49,414)
Other operating expenses	9	(371,564)	(358,455)
		(1,338,794)	(1,064,891)
Operating Profit		379,672	969,732
Share of losses of associates	14	(65,815)	(20,537)
Profit from Credit Enhancement Facility Fund	17	181,975	83,207
Profit for the year		495,832	1,032,402
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurement of employee benefits asset	19	(5,032)	(61,128)
Revaluation of property, plant and equipment	21	137,922	446,799
Items that are or may be reclassified to profit or loss			
Fair value adjustments on investments at fair value through other comprehensive income	26(a)	549,301	(248,545)
Total other comprehensive income		682,191	137,126
TOTAL COMPREHENSIVE INCOME		1,178,023	1,169,528

*Reclassified to conform with current year's presentation.

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

Development Bank of Jamaica Limited

Statement of Financial Position

March 31, 2021

(expressed in Jamaica dollars unless otherwise indicated)

	Notes	2021 $'000	2020 $'000
ASSETS			
Cash and cash equivalents	10	1,705,290	1,222,674
Resale agreements	11	5,799,782	7,095,295
Investment securities	12	4,275,622	3,232,035
Investment property	13	943,114	932,600
Investment in associates	14	1,114,369	1,121,408
Loans receivable, net of impairment allowance	15	16,132,232	15,927,416
Due from Government of Jamaica	16	915,387	772,142
Due from Credit Enhancement Facility Fund	17	791,468	595,339
Other receivables	18	3,031,965	1,743,160
Employee benefits asset	19	422,632	417,380
Intangible assets	20	7,660	15,824
Property, plant and equipment	21	1,543,441	1,421,797
Taxation recoverable		454,907	393,036
Total assets		37,137,869	34,890,106
LIABILITIES			
Loans payable	22	21,857,080	20,772,959
Other	23	791,306	737,427
Total liabilities		22,648,386	21,510,386
EQUITY			
Share capital	24	1,757,539	1,757,539
Share premium	24	98,856	98,856
Capital reserves	25	1,297,509	1,212,761
Other reserves	26	6,628,856	5,773,742
Retained earnings		4,706,723	4,536,822
Total equity		14,489,483	13,379,720
Total liabilities and equity		37,137,869	34,890,106

The financial statements on pages 4 to 85 were approved for issue by the Board of Directors on June 30, 2021 and signed on its behalf by:

Milverton Reynolds Managing Director

Paul B. Scott Chairman

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

Development Bank of Jamaica Limited

Statement of Changes in Equity

Year ended March 31, 2021

(expressed in Jamaica dollars unless otherwise indicated)

	Note	Share Capital $'000	Share Premium $'000	Capital Reserves $'000	Other Reserves $'000	Retained Earnings $'000	Total $'000
Balances as at March 31, 2019		1,757,539	98,856	1,213,434	5,522,138	3,776,075	12,368,042
Total comprehensive income for the year							
Profit for the year		-	-	-	-	1,032,402	1,032,402
Other comprehensive income		-	-	-	137,126	-	137,126
Total comprehensive income for the year		-	-	-	137,126	1,032,402	1,169,528
Transfers							
Amortisation of grants	25(d)	-	-	(673)	-	-	(673)
Transfer of profit on CEF	26(f)	-	-	-	83,207	(83,207)	-
Transfer to technical assistance reserve	26(g)(ii)	-	-	-	31,271	(158,448)	(127,177)
		-	-	(673)	114,478	(241,655)	(127,850)
Transactions with owners, recognised directly in equity							
Dividends	27		-	-	-	(30,000)	(30,000)
Balances at March 31, 2020		1,757,539	98,856	1,212,761	5,773,742	4,536,822	13,379,720
Total comprehensive income for the year							
Profit for the year		-	-	-	-	495,832	495,832
Other comprehensive income		-	-	-	682,191	-	682,191
Total comprehensive income for the year		-	-	-	682,191	495,832	1,178,023
Transfers							
Transfer of profit on CEF	26(f)	-	-	-	181,975	(181,975)	-
Transfers		-	-	84,748	(9,052)	(108,956)	(33,260)
		-	-	84,748	172,923	(290,931)	(33,260)
Transactions with owners, recognised directly in equity							
Dividends	27		-	-	-	(35,000)	(35,000)
Balances at March 31, 2021		1,757,539	98,856	1,297,509	6,628,856	4,706,723	14,489,483

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

Development Bank of Jamaica Limited
Statement of Cash Flows
Year ended March 31, 2021
(expressed in Jamaica dollars unless otherwise indicated)

	Note	2021 $'000	2020 $'000
Cash Flows from Operating Activities			
Profit for the year		495,832	1,032,402
Adjustments for:			
Amortisation	20	9,009	7,582
Depreciation	21	37,798	44,176
Interest income		(1,391,564)	(1,380,015)
Interest expense		599,979	587,203
Adjustment for impairment losses recovered		(119,108)	(124,006)
Foreign exchange (gains)		(144,453)	(642,104)
Discount on advance to associated companies		28,630	(36,138)
Change in employee benefits asset		(10,284)	(18,107)
Share of losses in associated companies	14	65,815	20,537
Gain on disposal of property and equipment	7	(1,695)	(1,706)
Gain on disposal of investment property		-	(520)
Gain on disposal of bonds		(173,995)	-
Surplus on revaluation of investment property	13	(10,514)	(250,000)
Amortisation of grants	25(d)	-	(673)
		(614,550)	(761,369)
Changes in operating assets and liabilities:			
Loans receivable		467,486	1,863,109
Due from Government of Jamaica		(3,548)	(16,368)
Taxation recoverable		(61,872)	(6,498)
Credit Enhancement Facility Fund	17	(181,975)	(83,207)
Other receivables		(1,244,361)	16,002
Other liabilities		53,879	66,346
		(1,584,941)	1,078,015
Interest received		1,397,552	1,359,510
Interest paid		(587,740)	(623,464)
Net cash (used)/provided by operating activities		(775,129)	1,814,061

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

Development Bank of Jamaica Limited

Statement of Cash Flows (Continued)

Year ended March 31, 2021

(expressed in Jamaica dollars unless otherwise indicated)

	Note	2021 $'000	2020 $'000
Cash Flows from Investing Activities			
Resale agreements		1,614,510	(2,396,291)
Investment securities, net		(620,198)	(84,068)
Interest in associates companies		(46,679)	13,957
Dividends received		20,864	24,985
Purchase of intangible assets	20	(845)	(6,099)
Purchase of property, plant and equipment	21	(21,900)	(33,448)
Proceeds from disposal of investment property		-	17,109
Proceeds from disposals of property, plant and equipment		2,075	2,675
Proceeds from disposal of bonds		563,626	-
Net cash provided/(used) in investing activities		1,511,453	(2,461,180)
Cash Flows from Financing Activities			
Loans received		2,713,400	2,954,222
Loans repaid		(2,901,409)	(2,018,647)
Dividends paid	27	(35,000)	(30,000)
Net cash (used)/provided by financing activities		(223,009)	905,575
Net increase in cash and cash equivalents		513,315	258,456
Effect of exchange rate fluctuations on cash and cash equivalents		(30,699)	(68,089)
Cash and cash equivalents at beginning of year		1,222,674	1,032,307
Cash and cash equivalents at the year end	10	1,705,290	1,222,674

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

Development Bank of Jamaica Limited

Notes to the Financial Statements
March 31, 2021
(expressed in Jamaica dollars unless otherwise indicated)

1. Identification and Principal Activities

The Development Bank of Jamaica Limited ("the Bank") was established on April 1, 2000 and is domiciled in Jamaica with registered office at 11A-15 Oxford Road, Kingston 5, Jamaica.

On 24 July 2009, the Bank issued shares to the Accountant General, in trust for the Capital Development Fund, as compensation for an amount of $1,727,539,000 which represented the acquisition of certain assets and liabilities of the National Investment Bank of Jamaica Limited (NIBJ).

The primary business activity of the Bank is Development Banking.

The Bank is exempt from income tax under Section 11(b) of the Income Tax Act.

The Bank has interests in certain associated companies (Note 14) all of which are incorporated and domiciled in Jamaica. The ones currently in operation are as follows:

Name of Investee	Principal Activities	Percentage Holding	Financial Year End
Harmonisation Limited and its	Property development	50%	March 31
(i) 100% subsidiary:			
Silver Sands Estate Limited	Rental of resort accommodation	50%	March 31
(ii) 49% associate:			
Harmony Cove Limited	Property development	24%	March 31

The other 50% of Harmonisation Limited ("Harmonisation") is owned by the National Housing Trust, a statutory body.

Harmonisation entered into a Joint Venture Agreement and a Members' Agreement with Tavistock Group Inc. to develop lands owned by Harmonisation in Trelawny, Jamaica. The development will be done through Harmony Cove Limited ("Harmony"), of whose ordinary share capital Tavistock Group Inc. owns 51%, with Harmonisation owning the remaining 49%. The lands owned by Harmonisation were valued at US$45,000,000 for the purpose of their transfer to Harmony under the Joint Venture Agreement, dated September 28, 2006.

The joint venture agreement with Tavistock Group Inc. was amended on February 3, 2009 to reflect contribution by Harmonisation, through its subsidiary, Silver Sands Estate Limited, of additional parcels of lands. In consideration of the transfer of these additional lands, Harmonisation shall be deemed to have subscribed for cumulative preference shares to be issued by Tavistock Group Inc. in the amount of US$6,662,460.

2. Statement of compliance and basis of preparation

(a) Statement of compliance

The financial statements as at and for the year ended March 31, 2021 ("reporting date") are prepared in accordance with International Financial Reporting Standards ("IFRS"), and comply with the relevant provisions of the Jamaican Companies Act.

2. **Statement of compliance and basis of preparation (continued)**

(a) **Statement of compliance (continued)**

The financial statements are prepared on the historical cost basis, modified for the measurement of Fair Value through Other Comprehensive Income (FVOCI) securities, investment property and certain property and equipment at fair value.

Use of judgements and estimates:

The preparation of the 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 higher degree of judgment or complexity, or areas where assumptions or estimates are significant to the financial statements are disclosed in Note 5.

New and amended standards adopted during the year

Certain new and amended standards which were in issue came into effect during the year. The adoption of these standards did not have any impact on the amounts recognized or disclosures in the financial statements.

New and amended standards that are not yet effective

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

- Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures,* IFRS 4 *Insurance contracts and* IFRS 16 *Leases, is* effective for annual accounting periods beginning on or after January 1, 2021 and address issues affecting financial reporting in the period leading up to interbank offered rates (IBOR) reform. The second phase amendments apply to all hedging relationships directly affected by IBOR reform. The amendments principally address practical expedient for modifications. A practical expedient has been introduced where changes will be accounted for by updating the effective interest rate if the change results directly from IBOR reform and occurs on an 'economically equivalent' basis. A similar practical expedient will apply under IFRS 16 *Leases* for lessees when accounting for lease modifications required by IBOR reform. In these instances, a revise discount rate that reflects the change in interest rate will be used in remeasuring the lease liability.

  The amendments also address specific relief from discontinuing hedging relationships as well as new disclosure requirements.

2. **Statement of compliance and basis of preparation (continued)**

(a) Statement of compliance (continued)

***New and amended standards that are not yet effective* (continued)**

- Amendments to IAS 37 *Provision, Contingent Liabilities and Contingent Assets* is effective for annual accounting periods beginning on or after January 1, 2022 and clarifies those costs that comprise the costs of fulfilling the contract.

  The amendments clarify that the 'costs of fulfilling a contract' comprise both the incremental costs – e.g. direct labour and materials; and an allocation of other direct costs – e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract. This clarification will require entities that apply the 'incremental cost' approach to recognise bigger and potentially more provisions. At the date of initial application, the cumulative effect of applying the amendments is recognised as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated.

- Annual Improvements to IFRS Standards 2018-2020 cycle contain amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS *9 Financial Instruments*, IFRS 16 *Leases*, IAS 41 *Agriculture*, and are effective for annual accounting periods beginning on or after January 1, 2022.

  (i) IFRS 9 *Financial Instruments* amendment clarifies that – for the purpose of performing the "10 per cent test' for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

  (ii) IFRS 16 Leases amendment removes the illustration of payments from the lessor relating to leasehold improvements.

  (iii) The amendments to IAS 41 *Agriculture* remove the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in IAS 41 with those in IFRS 13 *Fair Value Measurement*.

2. Statement of compliance and basis of preparation (continued)

(a) Statement of compliance (continued)

New and amended standards that are not yet effective **(continued)**

- Amendments to IAS 1 *Presentation of Financial Statements*, will apply retrospectively for annual reporting periods beginning on or after January 1, 2023. The amendments promote consistency in application and clarify the requirements on determining if a liability is current or non-current.

  Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, the requirement for a right to be unconditional has been removed and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period. A company classifies a liability as non-current if it has a right to defer settlement for at least twelve months after the reporting period. It has now been clarified that a right to defer exists only if the company complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date.

  With the amendments, convertible instruments may become current. In light of this, the amendments clarify how a company classifies a liability that includes a counterparty conversion option, which could be recognised as either equity or a liability separately from the liability component under IAS 32. Generally, if a liability has any conversion options that involve a transfer of the company's own equity instruments, these would affect its classification as current or non-current. It has now been clarified that a company can ignore only those conversion options that are recognised as equity when classifying liabilities as current or non-current.

The Bank is assessing the impact that these new and amended standards will have on its financial statements when they are adopted.

(b) Interest in equity-accounted entities

Associates

The Bank's interests in equity-accounted investees comprise interests in associates and a joint venture.

Associates are those entities in which the Bank has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Bank has joint control, whereby the Bank has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint venture are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the financial statements include the Bank's share of the profit or loss and OCI of equity accounted investees, until the date on which significant influence or joint control ceases.

2. Statement of compliance and basis of preparation (continued)

(c) Foreign currency translation

These financial statements are presented in Jamaican dollars, which is the functional currency of the Bank. All financial information presented in Jamaica dollars has been rounded to the nearest thousands, except as otherwise indicated.

Transactions in foreign currencies are translated into the functional currency of the Bank at the exchange rates ruling at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss and presented within finance costs.

3. Significant Accounting Policies

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements.

(a) Revenue recognition

(i) *Interest income*

Effective interest rate

Interest income is recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to its gross carrying amount.

When calculating the effective interest rate for financial instruments other than purchased or originated credit impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition of a financial asset.

3. Significant Accounting Policies (continued)

(a) Revenue recognition (continued)

(i) *Interest income* (continued)

Effective interest rate (continued)

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset is the amount at which the financial asset is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any expected credit loss allowance. The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income

The effective interest rate of a financial asset is calculated on initial recognition of a financial asset. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to the gross basis even if the credit risk of the asset improves.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI, includes interest on financial assets measured at amortised cost, and interest on debt instruments measured at FVOCI.

3. Significant Accounting Policies (continued)

(a) Revenue recognition (continued)

(ii) Fee and commission income

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a service to a customer.

Fee and commission income – including account service and trustees fees are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residue.

Performance obligations and revenue recognition policies:

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

Type of service	**Nature and timing of satisfaction of performance obligations, including significant payment terms.**	**Revenue recognition under IFRS 15**
Loan origination fees	*The Bank provides lending services to customers which give rise to certain fees associated with lending.*	Revenue from loan *origination fees is recognised over time as the services are provided.*
Other service fees	*Other service fees are transaction-related and are charged when the transaction takes place.*	Revenue from other service fees is recognised at a point in time when the transaction is complete.

(iii) Dividend income

Dividend income is recognised when the right to receive payment is established.

3. Significant Accounting Policies (continued)

(a) Revenue recognition (continued)

(iv) Interest expense

Interest expense is recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument to the amortised cost of the financial liability.

The calculation of the effective interest rate includes transaction costs and fees that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the issue of a financial liability.

The 'amortised cost' of a financial liability is the amount at which the financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount.

The effective interest rate of a financial liability is calculated on initial recognition of the financial liability. In calculating interest expense, the effective interest rate is applied to the amortised cost of the liability.

Interest expense presented in the statement of profit or loss and OCI includes financial liabilities measured at amortised cost.

(b) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

(i) Recognition and initial measurement

The Bank recognises a financial instrument when it becomes a party to the contractual terms of the instrument. The Bank initially recognises loans on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

3. Significant Accounting Policies (continued)

(b) Financial instruments (continued)

(i) Recognition and initial measurement (continued)

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

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

(ii) Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt and equity investments; or fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

Debt instruments measured at amortised cost are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method. The amortised cost is reduced by impairment losses.

A debt investment is measured at FVOCI if it meets both the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

3. Significant Accounting Policies (continued)

(b) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL. On initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessments:

The Bank makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities that are funding these assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity. However, the information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purpose of this assessment, 'principal' is defined as the fair value of financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Bank considers:

3. Significant Accounting Policies (continued)

(b) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Assessment whether contractual cash flows are solely payments of principal and interest (continued)

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first reporting period following the change in business model.

(iii) Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expired. The Bank also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

3. **Significant Accounting Policies (continued)**

(b) **Financial instruments (continued)**

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(vi) Impairment

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets measured at amortised cost; and
- debt investments measured at FVOCI.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, which are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

Loss allowances for loans receivable are always measured at an amount equal to lifetime ECLs.

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank does not apply the low credit risk exemption to any other financial instruments.

12-month ECLs are the portion of ECLs that results from default events on a financial instrument that is possible within 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

3. **Significant Accounting Policies (continued)**

(b) **Financial instruments (continued)**

(vi) Impairment (continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses.

They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive);

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECLs are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

3. **Significant Accounting Policies (continued)**

(b) **Financial instruments (continued)**

(vi) Impairment (continued)

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised costs are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.

- The rating agencies' assessments of creditworthiness.

- The country's ability to access the capital markets for new debt issuance.

- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

3. Significant Accounting Policies (continued)

(b) Financial instruments (continued)

(vi) Impairment (continued)

Presentation of allowance for ECL in the statement of financial position

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

- *financial assets measured at amortised cost:* as a deduction from the gross carrying amount of the assets.

- *debt instruments measured at FVOCI:* no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

(vii) Specific financial instruments

(1) Loans receivable

Loans receivable are measured at amortised cost less impairment losses. They are initially measured at fair value plus direct transaction costs, and subsequently at their amortised cost using effective interest method.

(2) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents comprise short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term commitments rather than for investment purposes (these include short-term deposits where the maturities do not exceed three months from the acquisition date). Cash and cash equivalents are measured at amortised cost.

3. Significant Accounting Policies (continued)

(b) Financial instruments (continued)

(vii) Specific financial instruments (continued)

(3) Resale agreements

A resale agreement ("reverse repo") is a short-term collaterised transaction whereby an entity buys securities and simultaneously agrees to resell them on a specified date and at a specified price. Reverse repos are accounted for as short-term collateralised lending and are measured at amortised cost.

The difference between the purchase and resale consideration is recognised in interest income using the effective interest method.

(c) Investment property

Investment property is held for long-term rental yields and capital gains.

Investment property is measured initially at cost, including transaction costs, and is subsequently carried at fair value, representing open market value determined annually by the directors or by independent valuators. Changes in fair values are recorded in profit or loss.

Rental income from investment property is recognised as other income on a straight-line basis over the term of the lease.

(d) Property, plant and equipment

Land and buildings are shown at market values based on valuations done by external valuators less impairment losses, and less subsequent depreciation for buildings. All other property, plant and equipment are measured at historical cost less accumulated depreciation and impairment losses.

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 costs are charged to other operating expenses during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated on the straight-line basis at annual rates that will write down the carrying value of each asset to its estimated residual value over the period of its expected useful life. Annual depreciation rates are as follows:

Freehold buildings	2½%
Computer equipment	20-25%
Furniture, fixtures, plant and equipment	10-20%
Motor vehicles	20%

Gains or losses on disposals are determined by comparing proceeds with carrying amount and are included in profit or loss.

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

3. Significant Accounting Policies (continued)

(e) Borrowings

Borrowings, including those arising under securitisation arrangements, are recognised initially at fair value, being their issue proceeds, net of transaction costs incurred. Subsequently, borrowings are measured 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 yield method.

(f) Share capital

Share issue costs

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are declared.

(g) Impairment of long lived assets

Property, plant and equipment and intangibles are reviewed for impairment losses 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 carrying amount of the assets exceeds its recoverable amount, which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating unit (CGU).

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

An impairment is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

(h) Post-employment benefits

Pension benefits

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

Defined benefit pension plan

A defined benefit pension plan is a 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.

3. Significant Accounting Policies (continued)

(h) Post-employment benefits (continued)

Pension benefits (continued)

Defined benefit pension plan (continued)

The amount recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. 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 on Government of Jamaica bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension obligation.

The current service cost of the defined benefit plan, included in staff costs in profit or loss, reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. The cost is included in staff costs in profit or loss.

Past-service costs are recognised immediately in expenses.

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.

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the reporting date are discounted to present value.

(i) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and the Bank will comply with all attached conditions.

Government grants related to the purchase of property and equipment, or for other capital acquisitions, and not for the support of operating activities, are recorded in the statement of financial position as capitalisation reserve and are credited to profit or loss on the straight-line basis over the expected useful lives of the related assets.

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

3. Significant Accounting Policies (continued)

(k) Operating leases

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

As a lessor

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

The Bank separated non-lease components and account for the lease and non-lease components separately.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

Short-term leases and leases of low-value assets

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

4. Financial Risk Management

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Bank's overall risk management approach focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Bank's financial performance through policies approved by its Board of Directors and implemented by management.

4. Financial Risk Management (continued)

The Board has established committees with responsibility for developing and monitoring the Bank's risk management policies in their specified areas. All Board committees report regularly to the Board of Directors on their activities. The Board committees and their activities are as follows:

(i) Investment, Finance and Loans Committee

This committee is responsible for monitoring market risks that affect the Bank's investment portfolio; approving credit requests above specified amounts; ensuring that all credit facilities conform to standards agreed by the Board; and approving the mix of the Bank's investment portfolio. The committee is also responsible for approving credit write-offs, specific provisions against financial assets and the terms for any renegotiating specific loans.

(ii) Audit and Corporate Governance Committee

The Audit and Conduct Review Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to risks faced by the Bank. This committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and *ad hoc* reviews of risk management controls and procedures, the results of which are reported to the Audit and Conduct Review Committee.

(iii) Human Resource & Compensation Committee

The Compensation Committee aims to develop a disciplined and motivated staff complement through the Bank's human resource policies. The committee ensures that staff is remunerated at competitive rates and that employees are properly trained to perform their duties in such a manner as to reduce the risk of fraud and errors.

(iv) Enterprise Risk Management Committee

The Enterprise Risk Management Committee provides risk oversight to the operations of the Bank through frequent monitoring of the risk implementation policy and strategy, determines the risk tolerance levels of the Bank and approves risk management reports.

(a) Market risk

Market risk is the risk that changes in market prices, such as foreign currency, interest rate and equity prices, will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the returns. The overall responsibility for market risk resides with the Investment, Finance and Loans Committee along with the Enterprise Risk Management Committee. Market risk exposures are measured using sensitivity analysis.

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

(i) Currency risk

Foreign 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.

4. Financial Risk Management (continued)

(iv) Enterprise Risk Management Committee (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

The Bank takes on exposure to address the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank has special arrangements with Bank of Jamaica to facilitate the expeditious liquidation of foreign currency liabilities.

The Bank is exposed to foreign currency risk on transactions that are denominated in currencies other than the Jamaica dollar. The main currencies giving rise to this risk are the US Dollar and the Euro.

At the reporting date, the foreign currency assets and liabilities, by currency, were as follows:

	2021		2020	
	US$	€	US$	€
	'000	'000	'000	'000
Cash and cash equivalents	1,130	-	1,563	-
Resale agreements	17,538	-	32,620	-
Investment securities	28,430	-	19,316	-
Mortgage receivable and CEF	11,767	-	1,924	-
Loans, net of impairment losses	61,597	-	59,964	-
Total foreign currency assets	120,462	-	115,387	-
Loans payable	(99,849)	(396)	(104,813)	(428)
Net foreign currency assets/(liabilities)	20,613	(396)	10,574	(428)

Foreign currency sensitivity

The following table indicates the currencies to which the Bank have significant exposures on its monetary assets and liabilities and its forecast cash flows. The change in currency rates below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents the outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for changes in foreign currency rates. 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 each variable, variables have to be considered on an individual basis. It should be noted that movements in these variables are non-linear.

The exchange rates, as at the reporting date, for the US$ and Euro were US$1: J$146.27 (2020: J$134.57) and €1: J$174.40 (2020: J$151.21).

4. Financial Risk Management (continued)

(iv) Enterprise Risk Management Committee (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

	2021		2020	
	Change In Currency rate %	Effect on profit $'000	Change in Currency rate %	Effect on profit $'000
Strengthening of the Jamaica dollar:				
USD	2%	(60,301)	2%	(28,459)
Euro	2%	1,381	2%	1,294
Weakening of the Jamaica dollar:				
USD	6%	180,909	6%	85,376
Euro	6%	(4,143)	6%	(3,882)

The analysis is done on the same basis as 2020 and assumes that all other variables remain constant.

(ii) Interest rate risk

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

Variable rate instruments expose the Bank to cash flow risk, while fixed rate instruments expose the Bank to fair value risk. Interest rate risk is managed by holding primarily fixed rate financial instruments which form the majority of the Bank's financial assets.

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4. Financial Risk Management (Continued)

(iv) Enterprise Risk Management Committee (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

	2021						
	Immediately rate sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non - Interest Bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Assets							
Cash and cash equivalents	1,705,195	-	-	-	-	95	1,705,290
Resale agreements	-	5,772,680	-	-	-	27,102	5,799,782
Investments securities	-	-	-	199,447	4,051,582	24,593	4,275,622
Loans receivable, net of impairment losses	-	2,402,298	3,347,963	4,125,523	6,154,944	101,504	16,132,232
Due from Government of Jamaica	-	-	-	-	-	915,847	915,847
Due from Credit Enhancement Facility Fund	-	-	-	-	258,967	532,501	791,468
Other receivables	-	-	-	-	-	3,031,965	3,031,965
Total financial assets	1,705,195	8,174,978	3,347,963	4,324,970	10,465,493	4,633,147	32,651,746
Liabilities							
Loans payable		(415,924)	(1,283,599)	(611,653)	(14,807,859)	(4,738,046)	(21,857,080)
Other liabilities	-	-	-	-	-	(791,306)	(791,306)
Total financial liabilities	-	(415,924)	(1,283,599)	(611,653)	(14,807,859)	(5,529,351)	(22,648,386)
Interest rate sensitivity gap	1,705,195	7,759,054	2,064,364	3,713,317	(4,342,366)	(896,204)	10,003,360
Cumulative Interest sensitivity gap	1,705,195	9,464,249	11,528,613	15,241,930	10,899,564	10,003,360	-

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4. Financial Risk Management (Continued)

(iv) Enterprise Risk Management Committee (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

	2020						
	Immediately rate sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non - Interest Bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Assets							
Cash and cash equivalents	1,222,579	-	-	-	-	95	1,222,674
Resale agreements	-	7,056,543	-	-	-	38,752	7,095,295
Investments securities	-	-	-	199,447	2,569,076	463,512	3,232,035
Loans receivable, net of impairment losses	-	1,284,753	3,077,072	7,626,641	3,806,926	132,024	15,927,416
Due from Government of Jamaica	-	-	-	-	-	772,142	772,142
Due from Credit Enhancement Facility Fund	-	-	-	-	258,967	336,372	595,339
Other receivables	-	-	-	-	-	1,743,159	1,743,160
Total financial assets	1,222,579	8,341,296	3,077,072	7,826,088	6,634,969	3,486,056	30,588,060
Liabilities							
Loans payable		(415,923)	(1,372,063)	(1,046,046)	(13,261,208)	(4,677,719)	(20,772,959)
Other liabilities	-	-	-	-	-	(737,427)	(737,427)
Total financial liabilities	-	(415,923)	(1,372,063)	(1,046,046)	(13,261,208)	(5,415,146)	(21,510,386)
Interest rate sensitivity gap	1,222,579	7,925,373	1,705,009	6,780,042	(6,626,239)	(1,929,090)	9,077,674
Cumulative interest sensitivity gap	1,222,579	9,147,952	10,852,961	17,633,003	11,006,764	9,077,674	-

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4. Financial Risk Management (Continued)

(iv) Enterprise Risk Management Committee (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate sensitivity

The following table indicates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on profit or loss.

The sensitivity of the profit or loss is the effect of the assumed changes in interest rates on net income based on the floating rate of non-trading financial assets and financial liabilities. The sensitivity of other comprehensive income is calculated by revaluing fixed rate financial assets at FVOCI for the effects of the assumed changes in interest rates. 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 have to be on an individual basis. It should be noted that movements in these variables are non-linear.

	Effect on profit or loss	
	2021 $'000	2020 $'000
Change in basis points:		
Decrease - JMD -100 and USD -100	(283,354)	(277,973)
Increase - JMD +100 and USD +100	283,354	277,973

The Bank's exposure to security price risk is insignificant as the Bank's securities that derive their value from market prices are not significant.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The main financial assets giving rise to credit risk are cash and cash equivalents, resale agreements, investment securities, advances to associates, loans receivable, Government of Jamaica recoverables, due from Credit Enhancement Facility Fund, and other receivables.

(i) Exposure to credit risk

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

There has been no change in the nature of the Bank's exposure to credit risk or the way it measures and manages the risk.

Development Bank of Jamaica Limited

4. Financial Risk Management (Continued)

(b) Credit risk (continued)

(i) Exposure to credit risk (continued)

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

The maximum exposure to credit risk before taking account of collateral held and other credit enhancements is as follows:

- Credit risk exposures relating to items recognised:
  This exposure is the carrying amounts in the statement of financial position of financial assets that are subject to credit risk.

- Credit risk exposures relating to items not recognised:

	Maximum exposure	
	2021	**2020**
	$'000	**$'000**
Loan commitments	1,658,357	3,442,178
Guarantees	2,305,499	1,791,660
	3,963,856	5,233,838

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Notes to the Financial Statements (Continued)

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4. Financial Risk Management (Continued)

(b) Credit risk (continued)

(i) Exposure to credit risk (continued)

	2021						
	Cash and cash equivalents	Loans receivable	Investment securities	Resale agreements	Due from Govt. of Jamaica	Others	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Carrying amounts	1,705,290	16,132,232	3,747,574	5,799,782	915,387	3,031,965	31,332,230
Concentration sector:							
Financial institutions	1,705,290	-	3,731,209	5,772,679	-	-	11,209,178
Agriculture, fishing and mining	-	1,425,514	-	-	-	-	1,425,514
Government and public entities	-		-	-	915,387	-	915,847
Manufacturing	-	1,224,147	-	-	-	-	1,224,147
Professional and other services	-	11,345,296	-	-	-	3,031,965	14,377,261
Tourism and entertainment	-	2,502,762	-	-	-	-	2,502,762
Transportation , storage and communication	-	75,044	-	-	-	-	75,044
	1,705,290	16,572,763	3,731,209	5,772,679	915,387	3,031,965	31,729,293
Interest receivable	-	101,503	24,593	27,103	-	-	153,199
Less: Impairment losses	-	(542,034)	(8,228)	-	-	-	(550,262)
	1,705,290	16,132,232	3,747,574	5,799,782	915,387	3,031,965	31,332,230
Concentration by location:						-	
Jamaica	1,539,939	7,103,765	185,563	3,234,555	915,387	1,569,675	14,548,884
United States of America	165,351	9,028,467	3,562,011	2,565,227	-	1,462,290	16,783,346
	1,705,290	16,132,232	3,747,574	5,799,782	915,387	3,031,965	31,332,230

The DBJ lends to all viable projects mainly through the Approved Financial Institutions (AFIs). The sectors included in the above table highlight the Bank's lending as at March 31, 2021. The credit risks on these loans are considered low as the risk is borne by the Financial Institutions that maintain a direct relationship with the sub-borrowers.

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

(b) Credit risk (continued)

(i) Exposure to credit risk (continued)

	2020						
	Cash and cash equivalents	Loans receivable	Investment securities	Resale agreements	Due from Govt. of Jamaica	Others	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Carrying amounts	1,222,674	15,927,416	2,779,780	7,095,295	772,142	1,743,160	29,540,467
Concentration sector:							
Financial institutions	1,222,674	-	2,775,252	7,056,543	-	-	11,054,469
Agriculture, fishing and mining	-	2,078,248	-	-	-	-	2,078,248
Government and public entities	-		-	-	772,142	-	772,142
Manufacturing	-	1,045,435	-	-	-	-	1,045,435
Professional and other services	-	10,907,333	-	-	-	1,743,160	12,650,493
Tourism and entertainment	-	2,370,711	-	-	-	-	2,370,711
Transportation , storage and communication	-	50,815	-	-	-	-	50,815
	1,222,674	16,452,542	2,775,252	7,056,543	772,142	1,743,160	30,022,313
Interest receivable	-	132,025	14,067	38,752	-	-	184,844
	1,222,674	16,584,567	2,789,319	7,095,295	772,142	1,743,160	30,207,157
Less: Impairment losses	-	(657,151)	(9,539)	-	-	-	(666,690)
	1,222,674	15,927,416	2,779,780	7,095,295	772,142	1,743,160	29,540,467
Concentration by location:						-	
Jamaica	1,012,310	7,858,137	180,429	2,705,646	772,142	1,743,160	14,271,824
United States of America	210,364	8,069,279	2,599,351	4,389,649	-	-	15,268,643
	1,222,674	15,927,416	2,779,780	7,095,295	772,142	1,743,160	29,540,467

Development Bank of Jamaica Limited

Notes to the Financial Statements (Continued)
March 31, 2021
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4. Financial Risk Management (Continued)

(b) Credit risk (continued)

(i) Exposure to credit risk (continued)

Credit quality is measured and monitored after disbursement primarily by the extent to which the debtor is current:

- Loans

	2021	2020
	$'000	$'000
Direct loans	4,393,863	3,848,090
Financial and agricultural institutions loans	11,738,369	12,079,326
	16,132,232	15,927,416
Neither past due nor impaired	16,508,547	16,228,082
Past due but not impaired:		
1 to 3 months	24,945	24,764
3 to 6 months	4,523	2,245
6 to 12 months	-	-
Over 12 months	24,172	39,768
Past due and impaired	112,078	289,708
	16,674,266	16,584,567
Less allowance for ECL (note 15)	(542,034)	(657,151)
	16,132,232	15,927,416

4. Financial Risk Management (Continued)

(b) Credit risk (continued)

(i) Exposure to credit risk (continued)

- Other amounts receivable- contractual due dates:

	2021	2020
	$'000	$'000
Neither past due nor impaired		
Due from Government of Jamaica:		
Notes receivable	-	41,039
Other	796,480	658,783
	796,480	699,822

- Other amounts receivable- no contractual due dates:

	2021	2020
	$'000	$'000
No due date – deemed not impaired		
Due from Government of Jamaica:		
Privatisation	118,907	72,320
Other receivables (Notes receivable)	237,697	271,210
	356,604	343,530

The carrying amount, at the reporting date, of loans whose contractual provisions have been renegotiated was $3,069,682,972 (2020: $2,877,803,000).

(ii) Management of credit risk

The Bank manages its credit risk primarily by review of the financial status of each counterparty, and structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or group of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review. The exposure to any one borrower, including banks and brokers/dealers, is restricted by limits covering on and off-balance sheet exposures. Actual exposures against limits are monitored daily. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest payment and principal repayment obligations, obtaining collateral and corporate and personal guarantees, and by changing lending limits where appropriate.

4. Financial Risk Management (Continued)

(b) Credit risk (continued)

(ii) Management of credit risk (continued)

Credit risk is managed for specific financial assets in ways that include the following:

Cash and cash equivalents

Cash and cash equivalents are held with financial institutions that are licensed and regulated and which management regards as strong, and in such a way that there is no significant concentration. The strength of these financial institutions and the level of concentration are continually reviewed by management and the Investment, Finance and Loans Committee.

Investment securities and resale agreements

The Bank limits its exposure to credit risk for these assets by investing only with counterparties that have high credit ratings. Therefore, management's expectation of defaults by any counterparty is low.

The Bank has documented investment policies, which serve as a guide in managing credit risk on investment securities and resale agreements. The Bank's exposure and the credit ratings of its counterparties are continually monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Amounts due from Government of Jamaica

Balances with Government of Jamaica are regarded as sovereign debt and risk free investment by the regulators of licensed deposit taking and other financial institutions. The default risk of Government of Jamaica is low and, therefore, the Bank does not anticipate any default on the recovery of these balances.

Loans

The management of credit risk in respect of loans is executed by the management of the Bank. The Investment, Finance and Loans Committee of the Board of Directors is responsible for the oversight of the Bank's credit risk and the development of credit policies. There is a documented credit policy in place, which guides the Bank's credit process.

Credit quality

The Bank identifies changes in credit risk by tracking published external credit ratings.

Loss given default (LGD) parameters generally reflect an assumed recovery rate except when the security is credit-impaired, in which case the estimate of loss is based on the instrument's current market price and original effective interest rate.

The credit quality of investment securities has a B3 credit rating.

Development Bank of Jamaica Limited

Notes to the Financial Statements (Continued)
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4. Financial Risk Management (continued)

(b) Credit risk (continued)

(ii) Management of credit risk (continued)

Loans (continued)

The Bank assesses the probability of default of individual counterparties using internal ratings. Loans are segmented into six rating classes. The Bank's rating scale, which is shown below, reflects the risk rating assigned:

Credit Score Bands		
From	To	Risk Rating
81	100	Low
71	80	Moderately Low
51	70	Average
41	50	Moderately High
31	40	High
Under	30	Very High

Collateral

The Bank holds collateral against loans in the form of mortgage interests over properties, lien over motor vehicles, other registered securities over assets, hypothecation of shares and guarantees. Estimates of fair value are based on value of collateral assessed at the time of borrowing and are generally not updated except when a loan is individually assessed as impaired. In certain instances, without foreclosing, the Bank acts upon its lien over motor vehicles and mortgage interest over properties.

The credit quality of loans is as follows:

	2021			
	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
Loans receivable	15,471,282	637,924	565,060	16,674,266
Loss allowance	(262,598)	(204,831)	(74,605)	(542,034)
Carrying amount	15,208,684	433,093	490,455	16,132,232

	2020			
	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
Loans receivable	15,803,546	231,153	549,868	16,584,567
Loss allowance	(197,253)	(211,029)	(248,869)	(657,151)
Carrying amount	15,606,293	20,124	300,999	15,927,416

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

(b) Credit risk (continued)

(iii) Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment. See accounting policy at note 3(b)(vi).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and third party policies including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due.

Credit risk grades:

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. The Bank uses these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data:

- Data from credit reference agencies.
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.
- Payment record – this includes overdue status as well as a range of variables about payment ratios.
- Existing and forecast changes in business, financial and economic conditions.

4. Financial Risk Management (Continued)

(b) Credit risk (continued)

(iii) Amounts arising from ECL (continued)

Significant increase in credit risk (continued)

Determining whether credit risk has been increased significantly:

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower.

Credit risk is deemed to increase significantly where the credit rating of a security decreased by more than 150 points and if past due between 30 and 90 days. Both quantitative as well as qualitative considerations are included in determining whether there has been a significant change in credit risk (SICR) for the financial instrument since origination. Included in the Bank's assessment of a SICR on facilities extended to individual counterparties are material decline in credit scores as follows:

Loan Types	Decline in Credit Scores
Cash Secured	-60%
Unsecured	-30%
Real Estate	-50%
Motor Vehicles	-40%

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist.

In these cases, the Bank determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

4. Financial Risk Management (Continued)

(b) Credit risk (continued)

(iii) Amounts arising from ECL (continued)

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Definition of default:

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The Bank established an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established on a group basis in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

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Notes to the Financial Statements (Continued)
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4. **Financial Risk Management (Continued)**

   (b) **Credit risk (continued)**

   (iii) Amounts arising from ECL (continued)

Loss allowance

The loss allowance recognised is analysed as follow: (*prepare for each category of financial asset*)

Loans receivable

	2021			
	Stage 1 $`000	Stage 2 $`000	Stage 3 $`000	Total $`000
Loans receivable				
Balance at April 1, 2020	137,574	122,047	(916,672)	(657,051)
Net remeasurement of loss allowance	60,414	(130,113)	184,716	115,017
Balance at March 31, 2021	197,988	(8,066)	(731,956)	(542,034)

	2020			
	Stage 1 $`000	Stage 2 $`000	Stage 3 $`000	Total $`000
Loans receivable				
Balance at April 1, 2019	(59,678)	(10)	(721,368)	(781,056)
Net remeasurement of loss allowance	197,252	122,057	(195,304)	124,005
Balance at March 31, 2020	137,574	122,047	(916,672)	(657,051)

	Stage 1 $`000	Total $`000
Debt securities		
Balance at April 1, 2019	(9,539)	(9,539)
Net remeasurement of loss allowance	-	-
Balance at March 31, 2020	(9,539)	(9,539)
Net remeasurement of loss allowance	3,776	3,776
Balance at March 31, 2021	(5,763)	(5,763)

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

(b) Credit risk (continued)

(iii) Amounts arising from ECL (continued)

Loss allowance (continued)

Other receivable

	2021		
	Stage 1 $'000	Stage 3 $'000	Total $'000
Other receivables			
Balance at April 1, 2020	(1,269)	(659)	(1,928)
Net remeasurement of loss allowance	(719)	404	(315)
Balance at March 31, 2021 (Note 18)	(1,988)	(255)	(2,243)

	2020		
	Stage 1 $'000	Stage 3 $'000	Total $'000
Other receivables			
Balance at April 1, 2019	(966)	(659)	(1,625)
Net remeasurement of loss allowance	(303)	-	(303)
Balance at March 31, 2020	(1,269)	(659)	(1,928)

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Bank formulates three economic scenarios: a base case, which is the median scenario assigned a 50% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 20% and 30% respectively, probability of occurring. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in Jamaica.

The economic scenarios used as at March 31, 2021 assumed no significant changes in key indicators for Jamaica for the years ending March 31, 2022 to 2023.

For 2021, forward-looking information was incorporated in the ECL computation by use of a management overlay. Based on the economic scenario, a proxy of 0.6, 1.1 and 1.6 times ECL was determined to be appropriate for positive, stable and negative outlooks respectively.

4. **Financial Risk Management (Continued)**

(b) **Credit risk (continued)**

(iii) Amounts arising from ECL (continued)

Measurement of ECLs

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD)

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

For loans secured by properties, Loan-to-Value ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance.

Development Bank of Jamaica Limited

4. Financial Risk Management (Continued)

(b) Credit risk (continued)

(iv) Past due but not impaired loans

These are loans where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate based on the quality and value of collateral held or other security available or the stage of collection of amounts owed to the Bank.

(v) Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured, it is classified and monitored.

(vi) Write-off policy

The Bank writes off a loan (and any related allowances for impairment losses) when it determines that the loan is uncollectible. This determination is usually made after considering information such as changes in the borrower's financial position, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The write-off of loans must be submitted to the Investment, Finance and Loans Committee for recommendation to the full Board for approval.

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

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The Bank has guidelines that set out the acceptability of different types of collateral. The types of collateral held by the Bank are as follows:

- Loans — Mortgages over properties, liens over motor vehicles and other registered securities, hypothecation of shares, promissory notes, and guarantees.
- Resale agreements — Government of Jamaica securities.

Collateral is generally not held for balances with banks or broker/dealers, except when securities are held under resale agreements. Collateral is generally not held against investment securities, and no such collateral was held at the reporting date (2020 - no collateral held).

Estimates of fair value are based on the value of collateral assessed at the time of lending, and generally are not updated except when a loan is individually assessed as impaired.

4. Financial Risk Management (Continued)

(b) Credit risk (continued)

(viii) The fair values of collateral held against loans to borrowers and other financial assets exposed to credit risk are shown below:

	Loans receivable		Other receivables		Resale agreements	
	2021	2020	2021	2020	2021	2020
	$'000	$'000	$'000	$'000	$'000	$'000
Against neither past nor impaired financial assets:						
Property (land and buildings)	9,939,199	9,277,921	55,730	51,027	-	-
Debt securities	-	-		-	6,295,387	7,081,173
Motor vehicles	-	-	107,289	104,993	-	-
Other	-	-	76,023	76,062	-	-
Against past due and impaired financial assets:						
Property (land and buildings)	920,000	1,158,725	-	-	-	-

4. Financial Risk Management (Continued)

(c) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. 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.

The Bank's approach to managing liquidity is to ensure, as far as possible, that it has sufficient funding to meet its liabilities when due. A report comparing monthly projected disbursements with expected inflows is maintained and monitored to achieve maximum efficiency without incurring unacceptable losses.

The Bank's investment securities are considered readily realisable as they are mainly Government securities. The Bank also has the ability to borrow in the short-term at reasonable interest rates to cover any shortfall that may arise from its operations.

Daily reports covering the liquidity position of the Bank, including any exceptions, and remedial action taken, are submitted regularly to the Managing Director and detailed investment schedules are presented monthly to the Investment, Finance and Loans Committee.

The Bank is not subject to any externally imposed liquidity limit.

The following table presents the undiscounted contractual maturities of financial liabilities, including interest payments, on the basis of their earliest possible contractual maturity.

	2021						
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	No specific maturity	Total cash flows	Carrying amount
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Liabilities							
Loans payable	441,870	1,340,084	9,955,953	5,858,325	4,260,849	21,857,080	21,857,080
Other liabilities	-	-	-	-	791,306	791,306	791,306
	441,870	1,340,084	9,955,953	5,858,325	5,052,155	22,648,386	22,648,386

	2020						
Liabilities							
Loans payable	446,928	1,454,045	11,850,446	3,025,107	3,996,433	20,772,959	20,772,959
Other liabilities	-	-	-	-	737,427	737,427	737,427
	446,928	1,454,045	11,850,446	3,025,107	4,733,860	21,510,386	21,510,386

There was no change in the nature of the Bank's liquidity risk or its approach to managing or measuring the risk.

4. Financial Risk Management (Continued)

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all areas of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirement for appropriate segregation of duties, including the independent authorisation of transactions;
- requirement for the reconciliation and monitoring of transactions;
- compliance with legal requirements;
- documentation of controls and procedures;
- requirement for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirement for the reporting of operational losses and proposed remedial actions;
- development of contingency plans;
- risk mitigation, including insurance where this is effective.

Compliance with the Bank's standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit and Conduct Review Committee, which reports its findings to the Board of Directors.

(e) Capital management

The Bank is not a regulated entity and, therefore, has no externally imposed capital requirements. However, the Bank seeks to maintain a minimum capital to safeguard its ability to continue as a going concern, so that it can continue to provide benefits to its stakeholders and to maintain the capital base necessary to support the development of its business. The Bank defines its capital base as share capital, capital and other reserves and retained earnings. The Board's determination of what constitutes a sound capital position is informed by the mission of the Bank and the fact of its government ownership. The Board's policy is to maintain a balance between a sound capital position, the shareholder's demand for dividends, and the risks associated with borrowing to finance its activities. The policies in respect of capital management are reviewed from time to time by the Board of Directors.

There were no changes in the Bank's approach to capital management during the year.

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4. Financial Risk Management (Continued)

(f) Fair value estimation

(i) Accounting classifications and fair values:

The following table shows the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	2021						
	Carrying amount				Fair value hierarchy		
	Amortised cost	FVOCI	Other Financial liabilities	Total	Level 1	Level 2	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets measured at fair value:							
Quoted equity securities	-	262,570	-	262,570	262,570	-	262,570
Unquoted equity securities	-	264,910	-	264,910*	-	-	-
Government of Jamaica securities	-	3,530,455	-	3,530,455	-	3,530,455	3,530,455
	-	4,057,935	-	4,057,935	262,570	3,530,455	3,793,025
Financial assets not measured at fair value:							
Government of Jamaica securities	193,551	-	-	193,551			
Resale agreements	5,799,782	-	-	5,799,782			
Cash and cash equivalents	1,705,290	-	-	1,705,290			
Other receivables	3,031,965	-	-	3,031,965			
Loans receivables	16,132,232	-	-	16,132,232			
Due from Government of Jamaica	915,387	-	-	915,387			
Due from Credit Enhancement Facility Fund	791,468	-	-	791,468			
	28,569,675	-	-	28,569,675			
Financial liabilities not measured at fair value:							
Loans payable	-	-	21,857,080	21,857,080			
Other	-	-	791,306	791,306			
	-	-	22,648,386	22,648,386			

* These are measured at fair value based on management estimates, as the cost of a professional valuation far outweighs the benefits. They would fall in level 3 in the fair value hierarchy.

The Bank has not disclosed the fair values of certain GOJ securities, cash and cash equivalents, resale agreements, loans receivable, GOJ receivables, other receivables, loans payable and other liabilities because the carrying amounts of these financial instruments are a reasonable approximation of fair value.

Development Bank of Jamaica Limited

Notes to the Financial Statements (Continued)

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4. Financial Risk Management (Continued)

(f) Fair value estimation (continued)

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

	2020						
	Carrying amount				Fair value hierarchy		
	Amortised cost	FVOCI	Other Financial liabilities	Total	Level 1	Level 2	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets measured at fair value:							
Quoted equity securities	-	237,387	-	237,387	237,387	-	237,387
Unquoted equity securities*	-	212,058	-	212,058	-	-	-
Government of Jamaica securities	-	2,578,651	-	2,578,651	-	2,578,651	2,578,651
	-	3,028,096	-	3,028,096	237,387	2,578,651	2,816,038
Financial assets not measured at fair value:							
Government of Jamaica securities	189,872	-	-	189,872			
Resale agreements	7,095,295	-	-	7,095,295			
Cash and cash equivalents	1,222,674	-	-	1,222,674			
Other receivables	1,743,160	-	-	1,743,160			
Loans receivables	15,927,416	-	-	15,927,416			
Due from Government of Jamaica	772,142	-	-	772,142			
Due from Credit Enhancement Facility Fund	595,339	-	-	595,339			
	27,545,898	-	-	27,545,898			
Financial liabilities not measured at fair value:							
Loans payable	-	-	20,772,959	20,772,959			
Other	-	-	737,427	737,427			
	-	-	21,510,386	21,510,386			

*

* These are measured at fair value based on management estimates, as the cost of a professional valuation far outweighs the benefits. They would fall in level 3 in the fair value hierarchy.

The Bank has not disclosed the fair values of certain GOJ securities, cash and cash equivalents, resale agreements, loans receivable, GOJ receivables, other receivables, loans payable and other liabilities because the carrying amounts of these financial instruments are a reasonable approximation of fair value.

4. Financial Risk Management (Continued)

(f) Fair value estimation (continued)

(ii) Measurement of fair values:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Market price is used to determine fair value where an active market exists as it is the best evidence of the fair value of a financial instrument.

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

Level 1

Included in the Level 1 category are financial assets and liabilities that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market 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.

Level 2

Included in the Level 2 category are financial assets and liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions, and for which pricing is obtained via pricing services, but where prices have not been determined in an active market. This includes financial assets with fair values based on broker quotes, investments in funds with fair values obtained via fund managers, and assets that are valued using a model whereby the majority of assumptions are market observable.

Level 3

Included in the Level 3 category are financial assets and liabilities that are measured using non-market observable inputs. This means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data.

The following table shows the valuation methods used to measure Level 2 fair values as well as any significant unobservable inputs used.

Development Bank of Jamaica Limited
Notes to the Financial Statements (Continued)
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4. Financial Risk Management (Continued)

(f) Fair value estimation (continued)

(ii) Measurement of fair values (continued):

Financial assets	Method
Government of Jamaica J$ securities and Bank of Jamaica securities	• Obtain bid yield from yield curve provided by a recognised pricing source (which uses market-supplied indicative bids) • Using this yield, determine price using accepted formula • Apply price to estimate fair value.

There were no financial assets designated at Level 3. No financial assets were transferred from one level in the hierarchy to another.

5. Critical Accounting Estimates and Judgements in Applying Accounting Policies

Use of judgements and estimates:

The preparation of the financial statements in conformity with IFRS requires management to make estimates and judgements that affect the selection of accounting policies and the reported amounts of, and disclosures relating to, assets, liabilities, contingent assets and contingent liabilities at the reporting date and the income, expenses, gains and losses for the period then ended. Actual amounts could differ from those estimates. The estimates and the assumptions underlying them, are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period of the revision and future periods if the revision affects both current and future periods. The critical judgements made in applying accounting policies and the key areas of estimation uncertainty that have the most significant effect on the amounts recognised in the financial statements, and or that have a significant risk of material adjustment in the next financial period, are as follows:

(i) Judgements:

For the purpose of these financial statements, judgement refers to the informed identification and analysis of reasonable alternatives, considering all relevant facts and circumstances, and the well-reasoned, objective and unbiased choice of the alternative that is most consistent with the agreed principles set out in IFRS. The key relevant judgements are as follows:

(1) Classification of financial assets:

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

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

Use of judgements and estimates (continued):

(i) Judgements (continued):

(2) Impairment of financial assets:

Establishing the criteria for determining whether credit risk on a financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of expected credit loss (ECL) and selection and approval of models used to measure ECL requires significant judgement.

(ii) Key assumptions concerning the future and other sources of estimation uncertainty:

Allowance for impairment losses:

In determining amounts recorded for impairment of financial assets in the financial statements, management makes assumptions in determining the inputs to be used in the ECL measurement model, including incorporation of forward-looking information. Management also estimate the likely amount of cash flows recoverable on the financial assets in determining loss given default. The use of assumptions make uncertainly inherent in such estimates.

Fair value of property, plant and equipment and investment property:

In making its judgement, management's best estimate of fair value is based on current prices of properties of similar nature, condition or location adjusted to reflect recent prices of similar properties in less active markets and changes in economic conditions since the dates of the last transaction or valuation.

Fair values of financial instruments

There are no quoted market prices for a significant portion of the Bank's financial instruments. Accordingly, fair values of such financial assets are estimated using prices obtained from a yield curve. That yield curve is, in turn, obtained from a pricing source which estimates the yield curve on the basis of indicative prices submitted by licensed banks and other financial institutions in Jamaica. There is significant uncertainty inherent in this approach which is categorised as a level 2 fair value; consequently, the estimates arrived at may be different from the actual price of the instrument in an actual arm's length transaction [see notes 4(f), and 12].

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

Use of judgements and estimates (continued):

(ii) Key assumptions concerning the future and other sources of estimation uncertainty (continued):

Future obligations for post-employment benefits

The cost of these benefits and the present value of the future obligations depend on a number of factors that are determined by actuaries using a number of assumptions. The assumptions used in determining the net periodic cost or income for retirement benefits include the expected long-term rate of return on the relevant plan assets and the discount rate. Any changes in these assumptions will impact the net periodic cost or income recorded for retirement benefits and may affect planned funding of the pension plan. The expected return on plan assets assumption is determined on a uniform basis, considering long-term historical returns, asset allocation and future estimates of long-term investment returns. An external committee of actuaries and accountants determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligations. In determining the appropriate discount rate, the committee considered interest rate on government bonds that are denominated in the currency in which the benefits will be paid, and have terms to maturity approximating the terms of the related obligations. Other key assumptions for the retirement benefits are based on current market conditions.

6. Net Interest Income

	2021 $'000	2020 $'000
Interest income, calculated using the effective interest method		
Loans and advances	939,915	925,804
Income from sugar loan agreement	-	55,207
Investment securities	221,915	205,273
Resale agreements	224,802	187,958
Deposits and other	4,932	5,773
	1,391,564	1,380,015
Interest expense		
Loans payable	(599,979)	(587,203)
Net interest income	791,585	792,812

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7. Other Income

	2021	2020
	$'000	$'000
Administrative fees	10,730	12,710
Commitment fees	15,472	21,889
Dividend income	20,864	24,985
Other impairment recovery/(loss)	6,727	(135,772)
Gain on disposal of property and equipment and investment property	1,695	2,226
Rental income	103,682	103,198
Foreign exchange gains	362,071	691,517
Public Private Partnership and Privatisation – fees	60,566	48,332
Miscellaneous	41,457	98,418
	623,264	867,503

8. Staff Costs

	2021	2020
	$'000	$'000
Salaries and wages	510,573	480,630
Payroll taxes	31,570	29,727
Pension costs – defined benefit plans (note 19)	12,600	2,318
Performance incentive bonus	62,703	37,557
Other	86,514	106,790
	703,960	657,022

9. Operating Expenses

	2021 $'000	2020 $'000
Amortisation (note 20)	9,009	7,582
Advertising and public relations	38,829	29,571
Assistance to projects	665	6,039
Auditors' remuneration	5,871	5,871
Depreciation (note 21)	37,798	44,176
Directors' fees	2,219	1,530
Legal fees	1,258	189
Professional fees	29,230	43,317
Motor vehicle expenses	4,831	6,410
Occupancy costs – including insurance, utilities and repairs	148,771	149,769
Travelling	1,877	6,942
Discount on additional advances made to Harmonisation	28,630	27,232
Subscription Fees - Reverse Factoring	21,621	-
Other	40,955	29,827
	371,564	358,455

10. Cash and Cash Equivalents

	2021 $'000	2020 $'000
Cash	95	95
Deposits	1,705,195	1,222,579
	1,705,290	1,222,674

Net debt reconciliation

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

	2021 $'000	2020 $'000
Cash and cash equivalents	1,705,290	1,222,674
Borrowings – repayable within one year (excluding overdraft)	(3,293,798)	(3,253,838)
Borrowings – repayable after one year	(18,563,282)	(17,497,256)
Net debt	(20,151,790)	(19,528,420)

10. Cash and Cash Equivalents (continued)

	2021	2020
	$'000	$'000
Cash and liquid investments	1,705,290	1,222,674
Gross debt – fixed interest rates	(21,857,080)	(20,751,094)
Net debt	(20,151,790)	(19,528,420)

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

	Other assets	Liabilities from financing activities		
	Cash/ bank overdraft $'000	Borrowings due within 1 year $'000	Borrowings due after 1 year $'000	Total $'000
Net debt as at 31 March 2019	1,032,307	(3,161,382)	(15,806,693)	(17,935,768)
Cash flows	122,278	(92,456)	(1,919,396)	(1,889,574)
Foreign exchange adjustments	68,089	-	228,833	296,922
Net debt as at 31 March 2020	1,222,674	(3,253,838)	(17,497,256)	(19,528,420)
Cash flows	451,912	(39,960)	(1,415,204)	(1,003,252)
Foreign exchange adjustments	30,704	-	349,178	379,882
Net debt as at 31 March 2021	1,705,290	(3,293,798)	(18,563,282)	(20,151,790)

11. Resale Agreements

The Bank enters into collateralised resale agreements, which may result in credit exposure in the event that the counterparty to the transaction is unable to fulfill its contractual obligations. Included within resale agreements is accrued interest receivable of $27,102,000 (2020: $38,752,000). At the reporting date, all agreements were collaterised by Government of Jamaica securities.

Included in resale agreements are securities with an original maturity of less than 90 days amounting to $5,772,680,000 (2020: $7,056,543,000).

The fair value of the collateral underlying the resale agreements was $6,295,387,000 (2020: $7,081,173,000) at the reporting date.

12. Investment Securities

	Remaining term to maturity 2021					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Carrying value
	$'000	$'000	$'000	$'000	$'000	$'000
Securities measured at amortised cost:						
Government of Jamaica	-	-	44,324	148,770	-	193,094
Securities designated at FVOCI:						
Unquoted equities securities	-	-	-	-	264,910	264,910
Government of Jamaica bonds	-	-	-	3,530,455	-	3,530,455
Quoted equity securities	-	-	-	-	262,570	262,570
	-	-	44,324	3,679,225	572,480	4,251,029
Interest receivable						24,593
						4,275,622

	Remaining term to maturity 2020					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Carrying value
	$'000	$'000	$'000	$'000	$'000	$'000
Securities measured at amortised cost:						
Government of Jamaica (a)	-	-	45,372	144,500	-	189,872
Securities designated at FVOCI:						
Unquoted equities securities	-	-	-	-	212,058	212,058
Government of Jamaica bonds	-	-	-	2,578,651	-	2,578,651
Quoted equity securities	-	-	-	-	237,387	237,387
	-	-	45,372	2,578,651	449,445	3,217,968
Interest receivable						14,067
						3,232,035

(a) National Debt Exchange

Government of Jamaica ("GOJ") bonds include $136,000,000 (2019:136,000,000) of Fixed Rate Accreting Notes ("FRANs"). As part of the National Debt Exchange, GOJ mandated the Bank (and all other state-owned/controlled entities that held GOJ issued notes) ("Old Notes") to exchange those Old Notes for new notes – FRANs - as at February 22, 2013. Old notes with a carrying amount of $170,000,000 at that date were exchanged for FRANs with a fair value of $136,000,000, resulting in a loss of $34,000,000. The terms of the FRANs are as follows:

(i) A holder of Old Notes was issued with J$80 of initial principal value of FRANs for every J$100 of principal value of Old Notes.

(ii) Interest is payable semi-annually on February 15 and August 15 at a fixed rate of 10% p.a. on the accreted principal value with the first payment being made on August 15, 2013.

12. Investment Securities (continued)

(a) National Debt Exchange (continued)

(iii) Accretion for the additional J$20 of principal value will commence in August 2017 as follows:

- 0.5% of $100 every six months from August 15, 2017 until August 15, 2020;
- Thereafter, 1.0% of $100 every six months until August 15, 2026; and
- Thereafter, 1.5% of $100 every six months until August 15, 2027.

(iv) The FRANs may be redeemed by GOJ on any interest payment date after August 15, 2020. (The value at which the FRAN could be redeemed is not included in the offer document).

13. Investment Property

	2021 $'000	2020 $'000
Balance at beginning of year	932,600	699,189
Disposals	-	(16,589)
Fair value gains	10,514	250,000
Balance at end of year	943,114	932,600
Manor Park apartment, Kingston - rented	43,114	32,600
21 Dominica Drive, Kingston, rented	900,000	900,000
	943,114	932,600
Income earned from the properties	66,206	66,206
Expenses incurred by the properties	(10,695)	(10,695)

The properties were revalued by the directors during the year, after consultation with professional valuers. They were last revalued by professional property valuers, Real Property Appraisers and Allison Pitter and Co., Chartered (Valuation) Surveyors and in June 2019 and March 2020 respectively on the basis of an open market valuation.

The fair value measurement for investment property and freehold land and buildings has been categorized as a Level 3 fair value based on the inputs to the valuation technique used as follows:

Valuation techniques	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Market based approach: The approach is based on the principle of substitution whereby the purchaser with perfect knowledge of the property market pays no more for the subject property than the cost of acquiring an existing comparable property, assuming no cost delay in making the substitution. The approach requires comparison of the subject property with others of similar design and utility, inter alia, which were sold in the recent past. However as no two properties are exactly alike, adjustment is made for the difference between the property subject to valuation and comparable properties.	• Details of the sales of comparable properties. • Conditions influencing the sale of the comparable properties. • Comparability adjustment.	The estimated fair value would increase/(decrease) if: • Sale value of comparable properties were higher/(lower). • Comparability adjustment were higher/(lower).

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14. Investment in Associates

	2021	2020
	$'000	$'000
Ordinary shares, at cost	250	250
Advances and related accrued interest receivables (i)		
Original advances	1,547,210	1,519,485
Additional advances	87,520	89,300
Reimbursements	(113)	(61,575)
Gross amount receivables	1,634,617	1,547,210
Unaccreted imputed interest (ii)		
Opening discount	(308,705)	(308,690)
Discount on additional advances	(15)	(15)
Total discounts	(308,720)	(308,705)
Accretion in previous years	86,529	115,145
Unaccreted interest carried forward	(222,191)	(193,560)
Present value of amount receivable	1,412,676	1,353,900
Share of losses		
At beginning of year	(232,492)	(211,955)
Loss recognised during the year	(65,815)	(20,537)
At end of year	(298,307)	(232,492)
	1,114,369	1,121,408

(i) In 2009, the shareholders of Harmonisation Limited entered into a new agreement between themselves to cease charging interest on their advances and to issue preference shares to the existing shareholders in the ratio of their outstanding advances. Advances are unsecured with no fixed repayment date. At the reporting date, the preference shares had not been issued. It is expected that they will be issued when the Joint Venture and Members Agreements come into force.

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14. Investment in Associates (continued)

(ii) As the long-term receivable is non-interest-bearing, interest income has been imputed in accordance with the requirements of IFRS.

Summary financial information on the associated companies:

	2021	2020
	$'000	$'000
Current assets	418,523	358,237
Non-current assets	2,349,852	2,349,344
Current liabilities	34,480	11,999
Non-current liabilities	3,536,316	3,363,703
Revenue	9,496	15,839
Loss from continuing operations	(65,663)	(13,149)

15. Loans Receivable, Net of Provision for Credit Losses

	2021	2020
	$'000	$'000
Direct loans to end users	4,393,863	3,848,090
Financial and agricultural institutions loans	11,738,369	12,079,326
	16,132,232	15,927,416

Direct loans to end users:

	Remaining term to maturity					
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Carrying value	Carrying value
	$'000	$'000	$'000	$'000	$'000	$'000
					2021	2020
Loans receivable	300,578	547,493	1,288,461	2,284,149	4,420,681	4,084,076
Interest receivable					91,553	127,515
					4,512,234	4,211,591
Less allowance for ECL					(118,371)	(363,501)
					4,393,863	3,848,090

The loans bear interest at rates ranging from 4%-13% (2020: 4% - 13%) per annum.

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15. Loans Receivable, Net of Provision for Credit Losses (continued)

Financial and agricultural institutions loans:

	2021 $'000	2020 $'000
Loans to financial institutions	11,891,499	12,041,892
Interest receivable	8,500	3,366
	11,899,999	12,045,258
Loans to National People's Co-operative Banks	260,583	326,575
Interest receivable	1,451	1,143
	262,034	327,718
	12,162,033	12,372,976
Less allowance for ECL	(423,664)	(293,650)
	11,738,369	12,079,326

Allowance for ECL

	2021 $'000	2020 $'000
At the beginning of the year	657,151	781,056
Additional ECL during year	130,014	372,744
Reversed during the year	(245,131)	(496,649)
At end of year	542,034	657,151

16. Due from Government of Jamaica

	2021 $'000	2020 $'000
Government of Jamaica - Privatisations (a)	118,927	72,320
Government of Jamaica - Other (b)	796,460	699,822
	915,387	772,142

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16. Due from Government of Jamaica (continued)

(a) *Due from Government of Jamaica Privatisation*

This balance represents amounts advanced by the Bank in the process of divesting assets on behalf of the Government of Jamaica ("GOJ"), net of the proceeds of the divestments.

	Net recoverable/ (payable) $'000 2020	Amount advanced $'000	Proceeds collected $'000	Net recoverable/ (payable) $'000 2021
Projects in progress	159,339	58,837	(12,230)	205,926
Projects completed	(79,941)	-	-	(79,941)
Others	(7,078)	-	-	(7,078)
	72,320	58,837	(12,250)	118,927

(b) *Due from Government of Jamaica- Other:*

Note receivable:

GOJ signed an agreement dated September 20, 2011 with the Bank under which GOJ assumed certain loans owed to the Bank by three GOJ-owned sugar companies. GOJ issued a non-interest bearing promissory note to the Bank in the amount of J$1,004,168,000 repayable over a ten-year period commencing April 1, 2011 and ending March 31, 2021 in semi-annual instalments. The carrying amount is made up as follows:

	2021 $'000	2020 $'000
Face value of 10- year interest – free note	1,004,168	1,004,168
Imputed interest	(345,056)	(345,056)
Fair value at date of issue [Note 26(g)]	659,112	659,112
Principal portion repaid in instalments received to date	(659,112)	(618,073)
Carrying amount	-	41,039
Exchange losses on loans:		
(i) Caribbean Development Bank loans:		
Unrealised	620,009	492,024
Realised	38,754	38,754
	658,763	530,778
(ii) European Community Bank loans – realised	74,705	68,885
(iii) Other loans - unrealised	62,992	59,120
	796,460	658,783
	796,460	699,822

17. Credit Enhancement Facility Fund

The Credit Enhancement Facility Fund ("the Fund"), which was established with effect from July 2009, is an arrangement between the Approved Financial Institutions ("AFI") and the Bank, which is aimed at providing partial collateral guarantees to AFIs for loans to Small and Medium-sized Enterprises ("SMEs") which do not meet the full collateral requirements, and the Fund was set up as a part of the arrangements. Losses arising from these guaranteed loans are shared between the Bank and the AFIs.

The Bank indemnifies the AFIs for losses incurred on loans made, with the indemnity maximised at (1) the lower of $15 million or 50 per cent of the value of the loan on regular SME loans; (2) the lower of $15 million or 80 per cent of the value of the loan on SME Energy loans; and (3) the lower of $5 million or 80 per cent of the value of the loan on regular SME loans not exceeding $6.25 million.

The Bank has transferred $250 million from its investments and placed it in a Trust, managed by a Board of Trustees with a trust deed in place.

The financial position and performance of the Fund during the year are detailed below:

	2021	2020
	$'000	$'000
Assets -		
Investments	1,558	1,558
GOJ Global Bonds	276,625	153,736
Resale agreements	470,564	359,079
Cash at bank	21,530	71,911
Receivables	21,191	9,055
	791,468	595,339
Fund capital, reserve and liability -		
Fund capital	250,000	250,000
Accumulated profit	509,063	327,088
	759,063	577,088
Payables	32,405	18,251
	791,468	595,339

	2021	2020
	$'000	$'000
Profit for the year	181,975	83,207

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18. Other Receivables

	2021	2020
Amortised cost:	$'000	$'000
Privatization success fee (i)	1,331,979	1,471,949
Other receivables	20,286	39,897
Receivable – BOJ (ii)	1,462,289	-
World Bank receivables	15,029	18,097
Prepayments	15,094	22,061
Staff loan receivables	189,531	193,085
NIBJ recoveries	479,314	479,314
Impairment of NIBJ recoveries	(479,314)	(479,314)
Less ECL on staff loan receivables [note 4(b)(iii)]	(2,243)	(1,929)
	3,031,965	1,743,160

(i) This represents success fee receivable from the privatization transaction of Norman Manley International Airport as follows:

	$'000 2021	$'000 2020
Amount receivable at beginning of year	1,471,949	1,384,641
Amount received during period	(94,318)	(36,278)
Foreign exchange adjustment	217,618	173,000
Amount discounted	(263,270)	(49,414)
Amount receivable as year-end	1,331,979	1,471,949

The amount is receivable over a ten-year period and is therefore being discounted at 6.5%, to arrive at the net present value, being our opportunity cost.

(ii) The Government of Jamaica through the Ministry of Finance and the Public Service provided a loan to the Development Bank of Jamaica which was originally denominated in US dollar. The loan was disbursed in JAD and subsequently converted to a JAD facility. Given that the DBJ required the funds in USD the BOJ facilitated the conversion of these funds after the year end.

19. Employee Benefits Asset

(a) The Bank operated a defined-contribution pension scheme for the former employees of The National Development Bank of Jamaica Limited (NDB); it was administered by an insurance company. Benefits to retired members were based on employee and employer contributions, bonuses and interest credited. The assets of the scheme were held independently of the Bank's assets in separate trustee-administered funds. Approval for the winding up of the scheme was received from the Financial Services Commission in June 2012, and, following an actuarial valuation done as at June 2012, all members entitled to benefits received them in the form of annuities secured through a company.

19. Employee Benefits Asset (Continued)

(b) As a result of the merger of (NIBJ) and the Bank on September 1, 2006, the employees of NIBJ were transferred to the Bank and became members of the Development Bank of Jamaica (DBJ) Pension Scheme. Permission was sought from, and granted by, the FSC for the transfer of the plan assets and benefit obligations of the NIBJ Scheme and the subsequent winding up of that Scheme, effective as of the merger date.

(c) The Bank has a defined-benefit scheme, which is administered by Trustees appointed by the Bank and by an employee-appointed trustee. The scheme, which is open to all full time, permanent employees, is funded by employer and employee contributions of 6.9% and 5% of pensionable salaries, respectively. In addition, the employees may voluntarily contribute a further 8.1% of pensionable salaries. The pensionable amount of annual pension on retirement at normal retirement date shall be that pension equal to 2% of the member's final pensionable salary multiplied by his years of pensionable service, plus such amount as may be determined by the actuary to be the pension equivalent of any voluntary contributions, accumulated with interest computed to the date of retirement, standing to the credit of the member on the date the pension is to commence.

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

	2021 $'000	2020 $'000
Present value of funded obligations	(1,981,140)	(1,803,816)
Fair value of plan assets	2,403,772	2,221,196
Assets in the statement of financial position	422,632	417,380

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

	2021 $'000	2020 $'000
Balance at beginning of year	1,803,816	1,592,802
Current service cost	45,631	38,482
Interest cost	119,458	111,857
Remeasurement - experience losses	35,486	127,337
Members' contributions	17,928	15,677
Benefits paid	(41,179)	(82,339)
Balance at end of year	1,981,140	1,803,816

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19. Employee Benefit Assets (Continued)

The movement in the fair value of assets during the year is as follows:

	2021 $'000	2020 $'000
Balance at beginning of year	2,221,196	2,053,203
Interest income	144,622	142,306
Remeasurement -		
Return on plan assets, excluding amounts included in interest income	30,453	66,209
Contributions	57,716	51,367
Benefits paid	(41,179)	(82,339)
Administrative expenses	(9,036)	(9,550)
Balance at end of year	2,403,772	2,221,196

Plan assets are comprised as follows:

	2021		2020	
	Total $'000	%	Total $'000	%
Unitised investments	74,293	3.1	66,769	3.0
Government of Jamaica bonds	887,016	36.9	944,787	42.5
Corporate bonds	169,938	7.1	229,019	10.3
Resale agreements and CDs	160,710	6.7	111,578	5.0
Real estate	139,663	5.8	134,754	6.1
Quoted equities	968,111	40.3	729,852	32.9
Net current assets	4,041	0.1	4,437	0.2
	2,403,772	100	2,221,196	100

The amounts recognised in profit or loss is as follows:

	2021 $'000	2020 $'000
Current service cost	28,728	23,217
Interest costs	119,458	111,857
Interest income	(144,622)	(142,306)
Administrative expenses	9,036	9,550
Total, included in staff costs (Note 8)	12,600	2,318

19. Employee Benefit Assets (Continued)

Amounts recognised in other comprehensive income:

	2021 $'000	2020 $'000
Remeasurement of funded obligation	(35,486)	(127,337)
Remeasurement on plan assets	30,454	66,209
	(5,032)	(61,128)

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

	2021 $'000	2020 $'000
Assets at beginning of year	417,380	460,401
Amounts recognised in profit or loss in the statement of comprehensive income	(12,600)	(2,318)
Amounts recognised in other comprehensive income	(5,032)	(61,128)
Contributions paid	22,884	20,425
Assets at end of year	422,632	417,380

The significant actuarial assumptions used were as follows:

	2021	2020
Discount rate	8.5%	6.5%
Future salary increases	6.0%	3.5%
Expected pension increase	1.5%	1.5%

The estimated pension contributions expected to be paid into the plan during the next financial year is $57,716,000 (2020 - $51,367,000).

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 60.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Impact on post-employment obligations 2021		2020	
	0.5% Increase in Assumption $'000	0.5% Decrease in Assumption $'000	0.5% Increase in Assumption $'000	0.5% Decrease in Assumption $'000
Discount rate	(1,879,662)	2,096,380	(1,706,212)	1,915,956
Future salary increases	2,008,140	(1,955,588)	1,826,831	(1,782,502)
Expected pension increase	2,065,347	(1,893,075)	1,887,960	(1,728,580)

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19. Employee Benefit Assets (Continued)

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 obligation recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

20. Intangible Assets

	Computer Software $'000
At Cost -	
At 1 April 2019	51,497
Additions	6,099
At 31 March 2020	57,596
Additions	845
At 31 March 2021	58,441
Amortisation -	
At 1 April 2019	34,190
Charge for the year	7,582
At 31 March 2020	41,772
Charge for the year	9,009
At 31 March 2021	50,781
Net Book Value –	
31 March 2021	7,660
31 March 2020	15,824
31 March 2019	17,307

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21. Property, Plant and Equipment

	Freehold Land and Buildings	Furniture, fixtures, plant and equipment	Motor Vehicles	Computer Equipment	Total
	$'000	$'000	$'000	$'000	$'000
Cost/Valuation					
At 31 March 2019	1,038,759	257,975	43,099	90,076	1,429,909
Additions	713	12,632	-	20,103	33,448
Disposals	-	-	(9,667)	(3,350)	(13,017)
Revaluation	446,799	-	-	-	446,799
Effects of movements in exchange rates	931	-	-	-	931
At 31 March 2020	1,487,202	270,607	33,432	106,829	1,898,070
Additions	-	5,876	-	16,024	21,900
Disposals	-	-	(3,005)	(2,196)	(5,201)
Revaluation	137,922	-	-	-	137,922
At 31 March 2021	1,625,124	276,483	30,427	120,657	2,052,691
Accumulated Depreciation -					
At 31 March 2019	145,298	204,157	32,203	62,487	444,145
Charge for the year	15,235	10,229	4,285	14,427	44,176
Disposals	-	-	(8,698)	(3,350)	(12,048)
At 31 March 2020	¤ 160,533	214,386	27,790	73,564	476,273
Charge for the year	11,788	7,842	2,659	15,509	37,798
Disposals	-	-	(3,005)	(1,816)	(4,821)
At 31 March 2021	172,321	222,228	27,444	87,257	509,250
Net Book Value -					
31-Mar-21	1,452,803	54,255	2,983	33,400	1,543,441
31-Mar-20	1,326,669	56,221	5,644	33,265	1,421,797
31-Mar-19	893,461	53,818	10,896	27,589	985,764

The Bank's freehold land and buildings, with a historical cost of $96,116,000 (2020: $96,116,000), were revalued. during the year by the directors based on consultations with professional valuers. In the prior year, the revaluation was done by independent professional property valuers. The excess of valuation over the carrying value of freehold land and buildings of $137,922,000 (2020: $446,799,000) has been credited to other comprehensive income (included in revaluation reserve) [Note 26(e)].

The fair value of freehold land and buildings has been categorised as a Level 3 fair value based on the inputs to the valuation technique used (see note 13 also).

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22. Loans Payable

	Interest Rate	31 March 2020	New Loans/ Adjustments	Transaction Costs/ Repaid	Exchange differences / Interest Capitalised	31 March 2021
	%	$'000	$'000	$'000	$'000	$'000
(a) Government of Jamaica (GOJ)						
(i) Ministry of Mining and Energy	-	120	-	-	-	120
(ii) International Bank for Reconstruction and Development 1994/2001	2.82 %	1,324,279	-	-	115,137	1,439,416
(iii) MOA – Dairy Sector	-	109,928	-	-	-	109,928
(iv) MOF Advance	-	1,945	(1,945)	-	-	-
(v) GOJ – Citrus Growers	-	60,000	(60,000)	-	-	-
(vi) World Bank Energy (1)	2.70%	144,226	-	(27,371)	12,447	129,302
(2) MOF&P – US$1.3M loan	6%	409,729	-	-	-	409,729
(vii) MOF&P (FCGP) – J$ loan	4%	2,459,520	-	(96,231)	-	2,363,289
(viii) MOF&P – US$10B loan	3%	1,345,700	1,462,154	-	116,996	2,924,850
(ix) MOF&P – J$ loan	4%	1,331,077	1,251,246	-	-	2,582,323
(x) IDB Climate Change Adaption		327,855	-	(71,865)	-	255,990
Total GOJ loans		7,514,379	2,651,455	(195,467)	244,580	10,214,947

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22. Loans Payable (Continued)

	Interest Rate	March 31, 2020	New Loans/ Adjustments	Transaction Costs/ Repaid	Exchange differences/ Interest Capitalised	March 31, 2021
	%	$'000	$'000	$'000	$'000	$'000
(b) Direct Borrowing						
(xi) IBRD US$P.I.E.D. Line of Credit	2.82%	83,276	-	-	7,240	90,516
(xii) Caribbean Development Bank 2002/2020:						
26ORJ	4.50%	682,925	-	(245,033)	56,778	494,670
11SFR/ORJ	2.50%	204,104	-	(18,590)	36,336	221,850
20SFR/ORJ	2.50%	1,049,251	-		91,649	1,140,900
(xiii) European Community	1%	63,382	-	(5,697)	9,512	67,197
(xiv) European Investment Bank						
- Loan I	7%	184,968	-	(184,968)	-	-
- Loan II	6.56%	444,467		(298,573)	-	145,894
(xv) GOJ NIF	4%	100,962	-	(77,947)	-	23,015
Balance c/f – Direct borrowing		2,813,335	-	(830,808)	201,515	2,184,042

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22. Loans Payable (Continued)

	Interest Rate	31 March 2020	Net interest payable movement	New Loans/ Adjustments	Transaction Costs/ Repaid	Exchange differences /Interest Capitalised	31 March 2021
	%	$'000	$'000	$'000	$'000	$'000	$'000
(b) Direct Borrowing (continued)							
Balance b/f – Direct borrowing		2,813,335	-		(830,808)	201,515	2,184,042
(xvi) Petro Caribe Loan:							
(i) US$31.0M loan	3%	2,717,196	-		(364,965)	228,353	2,580,583
(2) US$40.0M loan	2.5%	6,657,155	-		(532,197)	(120,123)	5,724,836
Total direct borrowing		12,187,686	-		(2,007,970)	426,741	10,489,461
Total loans payable		19,702,065	-	2,851,456	(2,203,437)	554,325	20,704,409
Interest payable		1,070,894	554,356	971	(633,448)	159,898	1,152,668
		20,772,959	554,356	2,652,427	(2,836,885)	714,223	21,857,077

Analysis between current and non-current portions

	2021 $'000	2020 $'000
Portion due for repayment within a year of the reporting date	1,699,520	2,872,179
Portion payable thereafter	20,157,557	17,900,780
Total loans payable	21,857,077	20,772,959

22. Loans Payable (Continued)

(a) Government of Jamaica

In a letter dated January 31, 1985, the Government of Jamaica ("GOJ") agreed to bear the foreign exchange risk on loans negotiated and on-lent to the Bank by the Ministry of Finance and Planning ("MOF& P"). The loans which are covered by the agreement were on-lent to the Bank (and are repayable to the Government) in Jamaica dollars. The repayment to the GOJ is usually done by an off-set against certain amounts due from the GOJ.

(i) This represents funds received for lending via the People's Co-operative Banks to establish a Biogas Programme.

(ii) This loan represents the GOJ contribution to the Bank in accordance with certain agreements. The International Bank for Reconstruction and Development (IBRD) agreement recommends that the debt/equity ratio does not exceed four times its equity. At March 31, 2021, the financial position of the Bank disclosed a ratio of 1.37:1 (2020 – 1.53:1).

(iii) This is a loan from the Ministry of Agriculture (MOA) which was on-lent to the National Peoples Cooperative Bank (NPCB) for on-lending at 1% to the Dairy Sector. The Bank does not pay interest on the loan, and does not charge interest on the amount on-lent.

(iv) This advance from the GOJ was interest free and was fully repaid during the year.

(v) This loan was obtained from GOJ to be used for working capital purposes by the Jamaica Citrus Growers Association Limited. The principal amount was to be repaid in monthly instalments after a 3-month moratorium. No interest was charged by the Bank on the amount on-lent and the loan was settled during the year.

(vi) (1) This represents the J$ equivalent of US$1,916,650, being the amount drawn down up to the reporting date out of a loan of US$4,600,000 from the Government of Jamaica, which on-lent money borrowed from the World Bank for the Energy Security and Efficiency Enhancement Project being managed by the Bank. Under the terms of the sub-loan:

- Interest is payable at the rate of 6-month LIBOR plus a variable spread computed by MOF&P, after a moratorium of one year from the date of disbursement.

- Principal is repayable in 49 instalments on March 15 and September 15, commencing March 15, 2018 and ending March 15, 2040.

(2) Loan amount of J$409.229 million was drawn down as part of the loan of US$4,600,000. The Government of Jamaica bears the foreign exchange risk on this portion of the loan and this loan bears interest at a rate of 6 per cent per annum.

(vii) The MOF&P has entered into a loan agreement with the International Bank for Reconstruction and Development referred to as the World Bank to fund the Foundation for Competitiveness and Growth (FCGP). The Planning Institute of Jamaica (PIOJ) is the project execution unit; the Bank carries out the credit functions for small medium enterprises (SME's). The GOJ bears the foreign exchange risk on the loan.

(viii) This represents the J$ equivalent of the amount of US$20 million, being fully drawn down as at the reporting period March 2021 from the Government of Jamaica, interest is payable at the rate of 4 percent quarterly. Principal repayment commences two years from the date of disbursement.

- Principal is repayable in 52 instalments quarterly commencing April 3, 2022 and ending January 3, 2035.

22. Loans Payable (Continued)

(a) Government of Jamaica (continued)

(xi) This represents US$10 million line of credit, being fully drawn down as at the reporting period March 2021 from the Government of Jamaica, interest is payable at the rate of 3 percent quarterly. Principal repayment commences two years from the date of disbursement.

- Principal is repayable in 52 instalments quarterly commencing March 23, 2022 and ending December 23, 2034.

(x) This loan from the Inter-American Development Bank (IDB) was on-lent to JN Small Business Limited to enhance their Climate Change Adaption Programme. No interest is charged on the Loan.

(b) Direct borrowings

(xi) This represents funds borrowed by GOJ under the International Bank for Reconstruction & Development (IBRD) US dollar Private Investment and Export Development (PIED) Line of Credit and on-lent to the Bank for on-lending to private enterprises to support the development of export of goods and services. It bears interest at the rate of 2.82% per annum and this amount will be settled as part of the debt off-set by the Bank and the MOF&P.

(xii) These loans, negotiated by the Bank, are denominated in United States dollars and are repayable within the next 5 years. The Government of Jamaica has undertaken to bear the exchange risk associated with the CDB loans except for the 26 ORJ loan, the exchange risk on which is borne by the Bank.

(xiii) This represents the balance of Euro 1,629,099 drawn down under an EEC 1.86 million line of credit granted under a Financing Contract dated April 2, 1986, between the Bank and the European Community. The loan bears interest at the rate of 1% per annum, and is repayable in 60 semi-annual instalments, the first of which was due on October 1, 1995. The loan is guaranteed by the Government of Jamaica

(xiv) This is a line of credit from the European Investment Bank (EIB) equivalent to Euro 10 million. The EIB bears the foreign exchange difference on this line. The first tranche carries an interest rate of 7% and is payable quarterly with eleven instalments ending in January 2021. The second tranche carries an interest rate of 6.56% payable in twelve equal instalments to September 30, 2021. The borrower undertakes that the proceeds of the loan shall exclusively be made available to Microfinance Institutions in order to be on-lent to Final Beneficiaries for the financing of projects.

(xv) This amount represents the balance of amounts drawn down under a loan facility of $450 million received from the National Insurance Fund (NIF) for on-lending to small and medium enterprises (SME). The loan bears interest at a rate of 4% p.a. and is repayable in March 2022.

(xvi) (1) This represents the balance of amounts draw down under a loan from PetroCaribe Development Fund to finance loans to the productive sector. Interest is payable semi-annual at 3% per annum.

(2) This represents the balance of amounts draw down under a loan from PetroCaribe Development Fund, specific to the Information Communication and Technology Sector (ICT) for the construction of ICT/Business Processing Outsourcing (BPO) facilities. It bears interest of 2.5% per annum, paid quarterly over a 15-year period and matures in 2026 with three years moratorium on principal.

23. Other Liabilities

	2021	2020
	$'000	$'000
Due to related entities*	173,603	166,832
Accrued charges	141,562	115,214
Statutory deductions	8,941	7,698
Other	467,200	447,683
	791,306	737,427

*Amounts due to related parties are unsecured, interest-free and have no set repayment terms.

24. Share Capital

	2021	2020
	$'000	$'000
Authorised -		
1,757,539,000 Ordinary shares at no par value		
Issued and fully paid -		
1,757,539,000 Ordinary shares at no par value	1,757,539	1,757,539

In accordance with Section 39(7) of the Jamaican Companies Act, 2004, share premium of $98,856,000 is not included in the Bank's stated capital.

25. Capital Reserves

	2021	2020
	$'000	$'000
Funds for capital (a)	1,179,817	1,179,817
Government subvention (b)	83,180	83,180
Self-Supporting Farmers Development Programme (c)	15,941	15,941
Capital grants (d)	7,106	7,106
Other capital reserves – NIBJ (e)	139,336	139,336
Self-Supporting Jamaica Business Fund (f)	84,748	-
Capital distribution	(212,619)	(212,619)
	1,297,509	1,212,761

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25. Capital Reserves (continued)

(a) Funds for capital

This includes amounts totalling $450 million and $500 million received during the years ended March 31, 1999, and March 31, 2009, respectively, from the Government of Jamaica through the Capital Development Fund, as equity injections to finance the Bank's lending programmes.

(b) Government subvention

This represents the Government of Jamaica contribution to the Bank, of funds received from the Canadian International Development Agency.

(c) Self-Supporting Farmers Development Programme

This represents the balance of amounts recovered by the Bank and capitalised as equity under the terms of the agency agreement.

Under the terms of an Agency Agreement, dated May 27, 1982, between the Bank and the Government of Jamaica in relation to the Self-Supporting Farmers Development Programme (SSFDP), it was agreed that:

(i) All assets be transferred to the Bank.

(ii) The portfolio be analysed and administered by the Bank. Reasonable steps should be taken to recover loans determined at that time to be doubtful.

(iii) All loan recoveries be utilised to assist in the capitalisation of the Bank and such recoveries be employed in carrying out the functions of the Bank including the granting of loans direct to farmers for agricultural purposes only.

The portfolio of SSFDP previously administered by the Bank was transferred to the People's Co-operative Banks (PCB) in 1997 as a contribution to the equity of those banks. This balance represents collections under the SSFDP portfolio prior to the portfolio being transferred to the PCB in 1997.

(d) Capital grants

	2021	2020
	$'000	$'000
At beginning of year	7,106	7,779
Less: Amortised during the year		(673)
At end of year	7,106	7,106

These represent the Euro 200,000 received from the European Investment Bank (EIB) for the provision of Technical Assistance (TA) funding to microfinance sector.

25. Capital Reserves (Continued)

(e) Other capital reserves

This represents gain on the sale of investments and rights issue, as well as capital grants, transferred from NIBJ.

(f) Self-Supporting Jamaica Business Fund

The Jamaica Business Fund is a Supply Chain Grant Fund which supports the improvement in productivity of selected supply chains. The resources are disbursed to the DBJ by the Planning Institute of Jamaica (PIOJ) for distribution over the life of the projects.

26. Other Reserves

	2021	2020
	$'000	$'000
Fair value reserve (a)	581,801	32,500
General reserve – Equalisation Fund (b)	957,597	957,597
Revenue reserve (c)	2,539,391	2,539,391
Special reserve (d)	3,123	3,123
Revaluation (e)	1,474,788	1,340,302
Credit Enhancement Facility Fund reserve (f)	759,063	577,088
Technical assistance reserve (g)	247,758	253,374
Employee benefits reserve (h)	65,335	70,367
	6,628,856	5,773,742

(a) Fair value reserve

This represents unrealised gain in fair value of securities classified at FVOCI made up as follows:

	2021	2020
	$'000	$'000
At beginning of year	32,500	281,045
Gain/(loss) on GOJ Bonds during the year	549,301	(248,545)
At end of year	581,801	32,500

26. Other Reserves (Continued)

(b) General reserve - Equalisation Fund

This reserve was established to absorb exchange losses on loans denominated in foreign currency which were negotiated directly by the Bank. A minimum of 20% of profit for the year (after crediting exchange gains but before crediting profits from other transfers) was transferred to the reserve. No transfer was made during the year as the loan to which the requirement for this transfer applies has been repaid.

(c) Revenue reserve

This represents an accumulation of a minimum of 40% of profits transferred over the years (after other transfers) to this reserve.

The Bank transferred $250 million from this reserve to the Credit Enhancement Facility Fund during 2010, which was used as start up capital for the Fund.

(d) Special reserve

The maintenance of this reserve was a requirement of a lending agreement between the Bank and the European Investment Bank which provided, during the period of the lending agreement, for the annual transfer to the exchange equalisation account of a portion of the interest differential on loans funded from the proceeds of the loan received under the lending agreement. The loan was repaid and no further transfers are being made.

(e) Revaluation reserve

This represents unrealised surplus on the revaluation of land and buildings.

(f) Credit enhancement facility fund reserve

This represents funds transferred from reserve to be used as start up capital for the fund, plus accumulated profit or loss from the fund, and is made up as follows:

	2021 $'000	2020 $'000
Fund capital	250,000	250,000
Accumulated profit transferred - at beginning of year	327,088	243,881
- for the year (Note 17)	181,975	83,207
- at end of year	509,065	327,088
Total of Fund (Note 17)	759,063	577,088

26. Other Reserves (Continued)

(g) Technical assistance reserve

i. This represents the transfer from retained earnings of an amount equivalent to the discounted present value of the non-interest-bearing, 10-year note issued by GOJ consequent on its assumption of the loans due from three GOJ-owned sugar companies and previously written-off by the Bank, as set out in note 16(b). The Board of Directors has decided that, together with certain funds from multilateral agencies, the cash received from GOJ under the note will be used as seed funding to strengthen various institutions. This will be monitored by the Institutional Strengthening and Research Division.

ii. This represents 10% of profit transferred to the Technical Reserves as per Board decision.

	2021	2020
	$'000	$'000
Original amount assumed by the GOJ	1,004,168	1,004,168
Imputed interest	(345,056)	(345,056)
Original amount transferred from retained earnings [note 16(b)]	659,112	659,112
Interest transferred from retained earnings - Previously	719,392	560,944
- During year	108,956	158,448
- To date	839,148	719,392
Gross accumulated resources at end of year	1,487,460	1,378,504
Utilised - Previously	(1,125,130)	(997,953)
- During year	(114,574)	(127,177)
- To date	(1,239,704)	(1,125,130)
Net at end of year	247,756	253,374

(h) Employee benefits asset reserve

This represents the cumulative changes in the employee benefits asset recognised in other comprehensive income.

27. Dividends

		2021	2020
		$'000	$'000
Interim dividends -			
1.70 cents per stock unit –	September 30, 2019	-	30,000
1.98 cents per stock unit –	October 15, 2020	35,000	-
		35,000	30,000

28. Related Party Transactions and Balances

(a) Definition of related party

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 Related Party Disclosure as the "reporting entity" in this case the Bank).

(i) A person or a close member of that person's family is related to the Bank if that person:

(1) has control or joint control over the Bank;

(2) has significant influence over the Bank; or

(3) is a member of the key management personnel of the Bank or of a parent of the Bank.

(ii) An entity is related to the Bank if any of the following conditions applies:

(1) the entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(2) one entity is an associates or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is member);

(3) both entities are joint venture of the same third party;

(4) one entity is a joint venture of a third entity and the other entity or an associate of the third entity;

(5) the entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank;

(6) the entity is controlled or jointly controlled by a person identified in (i)

(7) a person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent entity) and;

(8) The entity, or any member of a group of which it is a part, provides key management personnel services to the Bank or the parent of the Bank.

A government related entity is an entity that is controlled, jointly controlled or significantly influenced by a government. A related party transaction is a transfer of resources, services or obligations between the Bank and a related party, regardless of whether a price is charged.

(b) Related party transactions

The following transactions were carried out with government related entities and associated companies:

	2021 $'000	2020 $'000
Government related entities		
(i) Other income		
Rental	94,147	95,064
Administrative fees	9,300	10,817
(ii) Privatization success fee		
Discount on financial asset	263,270	49,414

28. Related Party Transactions and Balances (Continued)

(c) Key management personnel compensation

Key management personnel comprise those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including the Directors and the members of the senior or executive management of the Bank.

	2021 $'000	2020 $'000
Salaries and other short- term employee benefits	149,865	133,173
Statutory payroll contributions	7,631	7,045
Pension benefits	4,359	4,260
	161,855	144,478
Directors' emoluments:		
Fees	2,219	1,530
Management remuneration (included above)	25,862	21,836

(d) Related party balances

	2021 $'000	2020 $'000
Associated companies:		
(i) Loans	1,314,698	1,227,291
(ii) Interest receivable	319,854	319,918
Key management personnel:		
(i) Staff receivables	34,107	38,174
Government related entities:		
(i) Loans receivable	35,424	68,623
(ii) Other receivable	2,185,999	2,098,613

Investment in related entities

	2021 $'000	2020 $'000
Caribbean Mezzanine Fund	219,405	201,855
CariCRIS	7,313	6,728

29. Commitments and Contingencies

(a) As at 31 March 2021, there were outstanding loan commitments to disburse totalling approximately J$ 120 million and US$10.5 million (2020 - J$120 million and US$19.8 million).

(b) The Bank had capital commitments, in respect of projects being undertaken, totalling approximately $32.6 million (2020 - $11.5 million).

29. Commitments and Contingencies (continued)

The Bank is subject to various claims, disputes and legal proceedings in the ordinary course of business. Provision is made for such matters when, in the opinion of management and its legal advisors, (1) it is probable that a payment will be made by the Bank, and (2) the amount can be reasonably estimated.

The Bank has not provided for those claims against it in respect of which management and legal counsel are of the opinion that they are without merit, can be successfully defended, or will not result in material exposure to its financial position.

30. Impact of COVID-19 on the operations of the Bank

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

In an effort to reduce the impact of COVID 19 on its operations, the Bank implemented several measures, some of which are:

(i) Employees were resourced with technologies enabling them to work from home and where employees had to visit the office, the necessary sanitation and other protocols were put in place.

(ii) The Bank facilitated a two (2) month moratorium on interest and principal to direct loan clients (largely BPO developers) with interest being capitalized and the tenure of the loans extended.

To allow sub-borrowers some relief, the Bank reduced its interest rate charged on existing loans to the Approved Financial Institutions (AFIs) by 0.75% for 2 months (April and May 2020) on the condition that this reduction be passed on to the sub-borrowers.

To make the CEF more attractive to AFIs, in meeting the needs of Micro, Small Medium Enterprises (MSMEs) during this period, several improved adjustments were offered for one year only - the 2020/21 financial year.

The Bank has grant funding available under its Voucher for Technical Assistance programme to update business and marketing plans and acquire software among other services through the approved Business Development Organisations. The Board of Directors is available to provide the necessary business support to the MSME community during this time.

Generally, the pandemic has not otherwise impacted the operations of the Bank significantly.