First Global Bank Limited

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31 December 2022

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Independent auditor's report

To the members of First Global Bank Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of First Global Bank Limited (the Bank) as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2022;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers

Chartered Accountants
Kingston, Jamaica
30 March 2023

First Global Bank Limited

Statement of Financial Position

31 December 2022

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2022 $'000	2021 $'000
ASSETS			
Cash and bank balances	5	12,250,380	14,920,789
Items in the course of collection from other banks		261,798	40,169
Securities purchased under resale agreements	6	1,988,834	4,334,584
Loans and advances, net of provision for credit losses	7	34,778,319	31,609,912
Investment securities	8	20,379,556	13,761,445
Pledged assets	8	28,875	9,361,518
Property, plant, and equipment	9	1,191,094	1,158,937
Intangible assets	10	233,547	290,409
Deferred income tax assets	11	649,054	478,093
Other assets	12	463,671	436,195
Guarantees, letters of credit and letters of undertaking, net of provision for credit losses	3(a)	404,529	326,133
Total Assets		72,629,657	76,718,184

First Global Bank Limited
Statement of Financial Position (Continued)
31 December 2022
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2022 $'000	2021 $'000
LIABILITIES			
Customer deposits	13	59,777,692	55,980,427
Items in the course of payment		218,157	238,958
Due to other banks	14(a)	-	550,000
Securities sold under repurchase agreements		28,469	7,249,565
Other borrowed funds	14(b)	1,079,617	1,108,881
Lease liabilities	15	560,097	660,960
Post-employment benefit obligations	16	322,801	562,290
Other liabilities	17	1,173,745	1,067,236
Guarantees, letters of credit and letters of undertaking		418,103	347,343
Total Liabilities		63,578,681	67,765,660
EQUITY			
Share capital	18	3,564,181	3,564,181
Statutory reserve fund	19	2,326,081	2,026,081
Fair value reserve	20	(84,649)	341,351
Loan loss reserve	21	235,033	235,033
Retained earnings reserve	22	1,894,630	1,894,630
Stock option reserve		33,816	27,740
Retained earnings		1,081,884	863,508
Total Equity		9,050,976	8,952,524
Total Liabilities and Equity		72,629,657	76,718,184

Approved for issue by the Board of Directors on 30 March 2023 and signed on its behalf by:

Joseph Taffe	Director	Peter Moses	Director
Grace Burnett	Director	Kerry-Ann Heavens	Secretary

First Global Bank Limited

Statement of Comprehensive Income

Year ended 31 December 2022

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2022 $'000	2021 $'000
Interest Income –			
Loans		3,093,496	2,920,609
Securities	23	1,319,449	1,141,902
Other		62,034	44,238
		4,474,979	4,106,749
Interest Expense –			
Customer deposits		(919,220)	(581,913)
Securities sold under repurchase agreements		(199,079)	(144,086)
Other	24	(100,275)	(94,723)
		(1,218,574)	(820,722)
Net Interest Income		3,256,405	3,286,027
Credit Impairment Losses, Net	3(a)	(170,634)	(244,237)
		3,085,771	3,041,790
Other Income –			
Fees and commission income	25	1,867,178	1,537,968
Gains on foreign exchange translation and trading		915,218	776,326
Gains on investment activities	26	139,717	92,798
Other		54,897	12,942
		2,977,010	2,420,034
Net Interest and Other Income		6,062,781	5,461,824
Operating Expenses –			
Staff costs	27	(1,906,335)	(1,852,370)
Amortisation and depreciation	9,10	(433,174)	(436,579)
Administration and other expenses	28	(3,137,864)	(2,535,975)
		(5,477,373)	(4,824,924)
Profit before Taxation		585,408	636,900
Taxation	29	(126,373)	(121,154)
Net Profit		459,035	515,746
Other Comprehensive Income –			
Items that may be subsequently reclassified to profit or loss:			
Realised (gains)/losses on investments measured at fair value through other comprehensive income, net of taxes	29	(71,385)	74,365
Unrealised losses on investments measured at fair value through other comprehensive income, net of taxes	29	(354,615)	(379,096)
Item that will not be reclassified to profit or loss:			
Re-measurements of post - employment benefit obligations, net of taxes	29	226,415	(15,384)
Other comprehensive income, net of taxes		(199,585)	(320,115)
TOTAL COMPREHENSIVE INCOME		259,450	195,631

First Global Bank Limited

Statement of Changes in Equity

Year ended 31 December 2022

(expressed in Jamaican dollars unless otherwise indicated)

	Share Capital	Statutory Reserve Fund	Fair Value Reserve	Loan Loss Reserve	Retained Earnings Reserve	Stock Option Reserve	Retained Earnings	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2021	3,564,181	1,726,081	646,082	235,033	1,894,630	21,223	764,207	8,851,437
Total comprehensive income	-	-	(304,731)	-	-	-	500,362	195,631
Total transactions with equity holders - Ordinary and Preference dividends (Note 18)	-	-	-	-	-	-	(101,061)	(101,061)
Employee share option scheme - Value of services received	-	-	-	-	-	6,517	-	6,517
Transfer to statutory reserve fund (Note 19)	-	300,000	-	-	-	-	(300,000)	-
Balance at 31 December 2021	3,564,181	2,026,081	341,351	235,033	1,894,630	27,740	863,508	8,952,524
Total comprehensive income	-	-	(426,000)	-	-	-	685,450	259,450
Total transactions with equity holders - Ordinary and Preference dividends (Note 18)	-	-	-	-	-	-	(167,074)	(167,074)
Employee share option scheme - Value of services received	-	-	-	-	-	6,076	-	6,076
Transfer to statutory reserve fund (Note 19)	-	300,000	-	-	-	-	(300,000)	-
Balance at 31 December 2022	3,564,181	2,326,081	(84,649)	235,033	1,894,630	33,816	1,081,884	9,050,976

First Global Bank Limited

Statement of Cash Flows

Year ended 31 December 2022

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2022 $'000	2021 $'000
Cash Flows from Operating Activities			
Net profit for the year		459,035	515,746
Adjustments for:			
Depreciation	9	297,926	274,136
Amortisation	10	135,248	162,443
Foreign exchange gains		(40,749)	(52,835)
Gain on disposal of property, plant, and equipment		(34,767)	(186)
Gain on investment activities	26	(139,717)	(92,798)
Employee stock option		6,076	6,517
Provision for credit losses, net	3(a)	170,634	244,237
Interest income		(4,474,979)	(4,106,749)
Interest expense		1,218,574	820,722
Taxation	29	126,373	121,154
		(2,276,346)	(2,107,613)
Changes in other operating assets and liabilities –			
Customer deposits		3,732,837	8,272,500
Loans		(3,354,672)	(2,240,262)
Securities sold under repurchase agreements		(7,130,784)	2,264,304
Restricted cash and bank accounts		(449,799)	(879,551)
Post-employment benefits		100,133	109,286
Other assets		(27,476)	(68,973)
Other liabilities		106,510	(153,847)
Cash (used in)/generated from operations		(9,299,597)	5,195,844
Interest received		4,467,588	4,035,496
Interest paid		(1,244,511)	(787,115)
Taxation paid		(197,541)	(154,854)
Net cash (used in)/provided by operating activities (carried forward to page 6)		(6,274,061)	8,289,371

First Global Bank Limited

Statement of Cash Flows (Continued)

Year ended 31 December 2022

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2022 $'000	2021 $'000
Cash Flows from Operating Activities (brought forward from page 5)		(6,274,061)	8,289,371
Cash Flows from Investing Activities			
Purchase of investment securities		(1,820,607)	(4,709,570)
Disposal of investment securities		4,051,293	3,020,729
Proceeds on disposal of property, plant, and equipment		29,694	253
Acquisition of property, plant and equipment, net of right-of-use assets	9	(284,678)	(70,198)
Acquisition of intangible assets	10	(78,386)	(72,784)
Net cash provided by/(used in) investing activities		1,897,316	(1,831,570)
Cash Flows from Financing Activities			
Repayment of other borrowed funds	31	(722,101)	(548,152)
Proceeds from other borrowed funds	31	696,587	415,857
Payment of principal on leases	31	(169,029)	(109,290)
Ordinary and preference dividends paid		(167,074)	(101,061)
Net cash used in financing activities		(361,617)	(342,646)
Net (decrease)/increase in cash and cash equivalents		(4,738,362)	6,115,155
Cash and cash equivalents at 1 January		13,228,756	6,809,653
Effects of exchange rate changes on cash and cash equivalents		141,794	303,948
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		8,632,188	13,228,756
Comprising:			
Cash and bank balances	5	6,599,713	9,642,961
Items in the course of collection from other banks		261,798	40,169
Securities purchased under resale agreements		1,988,834	4,334,584
Items in the course of payment		(218,157)	(238,958)
Due to other banks		-	(550,000)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		8,632,188	13,228,756

1. Identification and Activities

First Global Bank Limited (the Bank) is a limited liability company incorporated and domiciled in Jamaica and is licensed under the Banking Services Act, 2020 (formerly Banking Act, 1992). The Bank is a subsidiary of First Global Holdings Limited and its ultimate parent company is GraceKennedy Limited. Both companies are incorporated and domiciled in Jamaica. The Bank's registered office and principal place of business is located at 28 - 48 Barbados Avenue, Kingston 5.

The Bank's principal activities are the provision of commercial banking and related financial services.

2. Significant Accounting Policies

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

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and IFRS Interpretations Committee (IFRS IC) interpretations applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention except for certain financial assets measured at fair value. The financial statements comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Although these estimates are based on management's best knowledge of current events and actions, actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

Accounting pronouncements effective in 2022 which are relevant to the Bank's operations

Certain new standards, amendments and interpretations to existing standards have been published that became effective on or after 1 January 2022. The Bank has assessed the relevance of all such new standards, interpretations, and amendments, has determined that the following may be relevant to its operations, and has concluded as follows:

Amendment to IAS 16, 'Property, plant and equipment' (effective for annual periods beginning on or after 1 January 2022). This amendment prohibits an entity from deducting from the cost of an item of property, plant, and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. Instead, the entity will recognise such sales proceeds and related cost in profit or loss. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities. There has been no significant impact to the financial statements arising from the adoption of this amendment.

Amendments to IAS 37, 'Provisions, contingent liabilities, and contingent assets' (effective for annual periods beginning on or after 1 January 2022). This amendment specifies which costs that a company includes when assessing whether a contract will be loss making. It clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract. There has been no significant impact to the financial statements arising from the adoption of these amendments.

First Global Bank Limited
Notes to the Financial Statements
31 December 2022
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Accounting pronouncements effective in 2022 which are relevant to the Bank's operations (continued)

Annual Improvements to IFRS Standards 2018–2020 (effective for annual periods beginning on or after 1 January 2022). The following improvements that were finalised in May 2020 were assessed as relevant to the Bank's financial statements:

- IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
- IFRS 16 Leases – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

There has been no significant impact to the financial statements arising from the adoption of these improvements.

Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions extension of the practical expedient (effective for annual periods beginning on or after 1 April 2021). As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. In May 2020, the IASB published an amendment to IFRS 16 that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can select to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs. There has been no significant impact to the financial statements arising from the adoption of this amendment.

Accounting pronouncements that are not yet effective, and have not been early adopted
At the date of authorisation of these financial statements, certain new standards, interpretations, and amendments to existing standards have been issued which are mandatory for the Bank's accounting periods beginning on or after 1 January 2023 or later periods but were not effective at the date of the statement of financial position, and which the Bank has not early adopted. The Bank has assessed the relevance of all such new standards, interpretations, and amendments, and has determined that the following may be relevant to its operations, and has concluded as follows:

Amendment to IAS 12 - **deferred tax related to assets and liabilities arising from a single transaction** (effective for annual periods beginning on or after 1 January 2023). These amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The Bank is currently assessing the impact of this amendment.

Amendments to IAS 1, Practice statement 2 and IAS 8 (effective for annual periods beginning on or after 1 January 2023). The IASB amended IAS 1 to require entities to disclose their material rather than their significant accounting policies. The amendments define what is material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information. To support this amendment, the IASB also amended IFRS Practice Statement 2 Making Materiality Judgements to provide guidance on how to apply the concept of materiality to accounting policy disclosures. The Bank is currently assessing the impact of these amendments.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Accounting pronouncements that are not yet effective, and have not been early adopted (continued)

Amendment to IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' (effective for accounting periods starting not earlier than 1 January 2023). The amendment to IAS 8 clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, whereas changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period. The Bank is currently assessing the impact of this amendment.

Amendments to IAS 1, 'Presentation of financial statements' (effective for accounting periods starting not earlier than 1 January 2024; previously 1 January 2023). These amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date. These amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability.

The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

On 31 October 2022, the IASB has issued a new exposure draft proposing change to this amendment. This was in response to concerns raised on applying previous amendments to the classification of liabilities as current or non-current that would have become effective for reporting periods beginning on or after 2023. The new amendments aim to improve the information an entity provides when its right to defer settlement of a liability is subject to compliance with covenants within twelve months after the reporting period. The new amendments are effective for annual reporting periods beginning on or after 1 January 2024 and override the previous amendments.

The Bank is currently assessing the impact of these amendments.

Amendments to IFRS 16, 'Leases on sale and leaseback' (effective for accounting periods starting not earlier than 1 January 2024). These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted. The Bank is currently assessing the impact of these amendments.

The Bank has concluded that all other standards, interpretations, and amendments to existing standards, which are published but not yet effective are either relevant to its operations but will have no material impact on adoption; or are not relevant to its operations and will therefore have no impact on adoption; or contain inconsequential clarifications that will have no material impact when they come into effect.

2. Significant Accounting Policies (Continued)

(b) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in arriving at net profit or loss. Changes in the fair value of monetary assets denominated in foreign currencies and classified as fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the asset and other changes. Translation differences resulting from the changes in amortised cost are recognised in arriving at net profit or loss and other changes are recognised in other comprehensive income.

(c) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, items in the course of collections/payments, short-term loans, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(d) Derivative financial instruments

Derivatives are financial instruments that derive their value from the price of underlying items such as bonds, equities, interest rates, foreign exchange, or other indices. These contracts are initially recognised at fair value on the date that they are entered into and are subsequently re-measured at their fair value at the date of each statement of financial position. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Assets and liabilities are set off where the contracts are with the same counterparty, a legal right of set off exists and the cash flows are intended to be settled on a net basis.

Derivatives are only used for economic hedging purposes and not as speculative investment. However, where derivatives do not meet the hedge accounting criteria under IFRS 9, Financial Instruments, they are accounted for at fair value through profit or loss.

(e) Securities purchased/sold under resale/repurchase agreements

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

2. Significant Accounting Policies (Continued)

(f) Financial assets

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on the trade date- the date on which the Bank commits to purchase or sell the asset. At initial recognition, the Bank measures a financial asset or liability at its fair value plus or minus transaction costs for all instruments not carried at fair value through profit or loss. All other financial instruments (including instruments designated at fair value through profit or loss) are measured at fair value, and transaction costs are expensed in the statement of comprehensive income. Immediately after initial recognition, an expected credit loss (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at fair value through other comprehensive income (FVOCI), as described in Note 3(a), which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the Bank recognises the differences as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
(b) In all other cases, the difference is deferred, and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instruments, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Classification and subsequent measurement

The Bank classifies its financial assets in the following measurement categories in accordance with the requirements under IFRS 9:

(a) Fair value through profit or loss (FVTPL)
(b) Fair value through other comprehensive income (FVOCI)
(c) Amortised cost

Debt Instruments

Debt instruments include cash and bank balances, items in the course of collection from other banks, loans and advances, investments securities, guarantees and other assets.

Classification and subsequent measurement of debt instruments depend on the Bank's business model for managing the asset and the cash flow characteristics of the asset.

Business model assessment

IFRS 9 requires an assessment of the nature of the Bank's business model at a level that best reflects how it manages portfolios of financial assets. The Bank's business models fall into two categories:

(i) Hold-to-Collect ("HTC"): where the objective of the business model is to solely collect the contractual cash flows from the assets.

(ii) Hold-to-Collect-and-Sell ("HTC&S"): where both collecting contractual cash flows and cash flows arising from the sale of assets are the objective of the business model.

2. Significant Accounting Policies (Continued)

(f) Financial assets (continued)

Solely payments of principal and interest ("SPPI") assessment

Instruments held within HTC or HTC&S business model are assessed to evaluate if their contractual cash flows are SPPI. SPPI payments are those which would typically be expected from basic lending arrangements. Principal amounts include par repayments from lending and financing arrangements, and interest primarily relates to basic lending returns, including compensation for credit risk and the time value of money associated with the principal amount outstanding over a period of time. Interest can also include other basic lending risks and costs (for example, liquidity risk, servicing, or administrative costs) associated with holding the financial asset for a period of time, and a profit margin.

Debt instruments are measured at amortised cost if they are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Interest income from these financial assets is included in interest income using the effective interest rate method. Any gain or loss arising on de-recognition is recognised directly in profit or loss together with foreign exchange gains or losses. Impairment losses are presented as a separate line item in the statement of comprehensive income.

Debt instruments are measured at FVOCI if they are held for collection of contractual cash flows and for selling the financial assets, where the financial assets' cash flows represent payments of principal and interest. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains and losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in net (losses)/gains on investment activities. Interest income from these financial assets is recognised in interest income using the effective interest rate method. Foreign exchange gains or losses are presented in gains in foreign exchange translation and trading and impairment losses are presented as a separate line item in the statement of comprehensive income.

All other debt instruments are measured at FVTPL.

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

Equity Instruments

Equity instruments are measured at FVTPL, unless the asset is not held for trading purposes and the Bank makes an irrevocable election to designate the asset as FVOCI. This election is made on an instrument-by-instrument basis. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established.

The Bank has elected to irrevocably designate at FVOCI its existing non-trading equity portfolio.

2. Significant Accounting Policies (Continued)

(f) Financial assets (continued)

Impairment

Credit loss allowances are measured on each reporting date according to a three-stage expected credit loss impairment model. Changes in the required credit loss allowance are recorded in profit or loss for the period at each reporting date.

Expected credit losses ('ECL') is established for all financial assets, except for financial assets classified or designated as FVTPL and equity securities designated as FVOCI, which are not subject to impairment assessment. Financial assets subject to impairment assessment include loans and advances, debt securities, and other assets. Loans and debt securities carried at amortised cost are presented net of ECL on the statement of financial position. ECL on debt securities measured at FVOCI is presented in other comprehensive income.

The Bank assesses, on a forward-looking basis, the ECL associated with its debt instrument carried at amortised cost and FVOCI and with exposure arising from loan commitments and guarantees.

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

Write-offs are made when all or part of a loan is deemed uncollectible or is forgiven. Write-offs are charged against previously established provisions for credit losses and reduce the principal amount of a loan or directly through the profit or loss (credit cards).

Recoveries in part or in full of amounts previously written-off are credited to provision for credit losses in arriving at net profit or loss.

Statutory and other regulatory loan loss reserve requirements that exceed the amounts required under IFRS are dealt with in a non-distributable loan loss reserve as an appropriation of retained earnings.

De-recognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset have expired, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), 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 other comprehensive income ("OCI") is recognised in profit or loss. Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as FVOCI is not recognised in profit or loss on de-recognition of such securities but transferred from OCI to retained earnings on disposal.

2. Significant Accounting Policies (Continued)

(g) Financial liabilities

Financial liabilities are initially measured at fair value net of any transaction costs directly attributable to the issue of the instrument. Such liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is a constant rate on the balance of the liability carried in the statement of financial position. Trade payables and other short-term monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost.

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled, or expired.

(h) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation.

Depreciation is calculated on the straight-line basis at such rates as will write off the carrying value of the assets over the shorter of their expected useful lives or the lease period. The expected useful lives are as follows:

Leasehold improvements	5 - 10 years
Office equipment, furniture, and fixtures	10 years
Computer equipment	3- 5 years
Motor vehicles	5 years
Right-of-use asset	5- 20 years

Gains or losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

Repairs and maintenance expenses are charged in arriving at net profit or loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the assessed standard of performance of the existing asset will flow to the Bank. Major renovations are depreciated over the remaining useful life of the related asset.

(i) Intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three to eight years.

(j) Impairment of long-lived assets

Property, plant and equipment and intangible assets 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 asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

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2. Significant Accounting Policies (Continued)

(k) Employee benefits

Pension obligations

The Bank participates in a defined benefit plan operated by the ultimate parent. The defined benefit plan is generally funded through payments to a trustee-administered fund as determined by periodic actuarial calculations. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

In the 2014 financial year, the ultimate parent company assumed the defined benefit pension obligations of all companies within the GraceKennedy Group participating in this scheme. As a result, the ultimate parent company recognises the total pension assets and obligations in respect of this plan. Under this arrangement, the obligation of the Bank is limited to the regular monthly pension contributions. Contributions are recognised by the period in which they are incurred.

The Bank also participates in a defined contribution plan operated by the ultimate parent. A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits due.

Other post-employment benefit obligations

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

Equity compensation benefits

The ultimate parent company operates an equity-settled, share-based compensation plan, in which the Bank participates. Stock options in the ultimate parent company are granted to management and key employees of the Bank. The fair value of the employee's services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of non-market vesting conditions. Options are granted at the market price of the shares on the date of the grant and are exercisable at that price. Options are exercisable beginning one year from the date of the grant and have a contractual option term of up to six years. When options are exercised, the proceeds received, net of any transaction costs are passed on to the ultimate parent company and credited to Stock option reserve in equity.

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal post-employment 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 the 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 date of the statement of financial position are discounted to present value.

Incentive plans

The Bank recognises a liability and an expense for bonuses based on a formula that takes into consideration return on equity for the year after certain adjustments. The Bank recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2. Significant Accounting Policies (Continued)

(l) Income taxes

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

Current tax charges are based on taxable profits for the year, which differ from the profit before tax reported because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The Bank’s liability for current tax is calculated at tax rates that have been enacted at the date of the statement of financial position.

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

Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Current and deferred taxes are recognised as income tax expense or benefit in arriving at net profit or loss, except where they relate to items recorded in other comprehensive income.

(m) Leases (As a lessee)

Leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased assets are available for use by the Bank.

The right-of-use assets are presented within property, plant, and equipment. At the commencement date, lease liabilities are measured at an amount equal to the present value of the following lease payments for the underlying right-of-use assets during the lease term:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the Bank under residual value guarantees;
- the exercise price of a purchase option if the Bank is reasonably certain to exercise that option; and,
- payments of penalties for terminating the lease, if the lease term reflects the Bank exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee as a starting point.

Each lease payment is allocated between the liability and finance cost. Lease liabilities are subsequently measured using the effective interest method. The carrying amount of liability is remeasured to reflect any reassessment, lease modification or revised in-substance fixed payments.

The lease term is a non-cancellable period of a lease; periods covered by options to extend and terminate the lease are only included in the lease term if it is reasonably certain that the lease will be extended or not terminated.

2. Significant Accounting Policies (Continued)

(m) Leases (As a lessee) (continued)

Right-of-use assets are measured initially at cost comprising the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and,
- restoration costs.

Subsequently, the right-of-use assets are measured at cost less accumulated depreciation and any accumulated impairment losses and adjusted for remeasurement of the lease liability due to reassessment or lease modifications.

The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The amortisation period for the right-of-use assets is 5 to 20 years for office building.

Payments associated with all short-term leases and certain leases of all low-value assets are recognised on a straight-line basis as an expense in profit or loss. The Bank applies the exemption for low-value assets on a lease-by-lease basis i.e., for the leases where the asset is sub-leased, a right-of-use asset is recognised with corresponding lease liability; for all other leases of low value asset, the lease payments associated with those leases will be recognised as an expense on a straight-line basis over the lease term.

Short-term leases are leases with a lease term of 12 months or less.

Low-value assets comprise computers, tablets, mobile phones, and small items of office furniture.

(n) Guarantees, letters of credit, letters of undertaking and loan commitments

Guarantees, letters of credit and undertaking represent the Bank's potential liability, for which there are equal and offsetting claims against its customers in the event of a call on these commitments. Guarantees, letters of credit and letters of undertaking are measured at fair value.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

The Bank recognises expected credit losses on guarantees, letters of credit and undertaking and loan commitments.

2. Significant Accounting Policies (Continued)

(o) Income and expense recognition

Interest income and expense
Interest income and expense are recognised in arriving at net profit or loss for all interest-bearing instruments on an accrual basis using the effective interest method based on the actual purchase price. Interest income includes coupons earned on fixed income investments and accrued discounts or premiums on treasury bills and other instruments.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expenses over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Bank estimates cash flows considering the contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Fee and commission income
Revenue is recognised as performance obligations are satisfied, that is, over time or at a point in time. Where a customer contract contains multiple performance obligations, the transaction price is allocated to each distinct performance obligation based on the relative stand-alone selling prices of the goods or services being provided to the customer. A contract liability, representing amounts payable to customers, is recognised for advance consideration for which the related performance obligation has not yet been satisfied.

Fee and commission income is generally recognised on an accrual basis when the service has been provided.

Loan origination fees for loans which are likely to be drawn down are deferred, together with related direct costs, and recognised as an adjustment to the effective interest on the loan.

Credit card fee income is recognised as the performance obligations are satisfied. A contract liability is recognised for advance consideration.

Fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction.

Income earned over time
The Bank recognises contract liabilities in respect of contracts with customers for consideration received before the Bank transfers the service to the customer.

2. Significant Accounting Policies (Continued)

(p) Customer loyalty programme

The Bank operates a rewards-based credit card program whereby customers earn reward points for purchases made using their credit card. The points can be redeemed for value at selected merchants who participate in the programme once certain conditions are met.

The consideration received from credit card purchases is allocated to the loyalty points using the relative fair values. In its capacity as an agent, the Bank recognises commission income, being the net of the consideration allocated to the loyalty points and the amounts payable to third parties with primary responsibility for satisfying the performance obligations in respect of awards. A financial liability is recognised in respect of amounts payable to third parties and no breakage is considered. The financial liability is included in 'other liabilities' in the statement of financial position and is recognised until the points are redeemed or expired.

(q) Offsetting financial instruments

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

(r) Share capital

Common shares which are non-redeemable, and for which the declaration of dividends is discretionary, are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax from the proceeds.

(s) Dividend distribution

Dividend distribution to the Bank's shareholders is recognised as a liability in the Bank's financial statements in the period in which the dividends are approved by the Bank's Board of Directors.

3. Financial Risk Management

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

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

The Board of Directors is ultimately responsible for the establishment and oversight of the Bank's risk management framework. The following committees were established for managing and monitoring risks:

Asset and Liability Committee
The Asset and Liability Committee (ALCO) is a management committee responsible for monitoring and formulating investment portfolios and investment strategies for the Bank. ALCO is also responsible for monitoring adherence to trading limits. Other responsibilities of ALCO include:

- Monitoring management's adherence to policies and procedures that are established to ensure that the Bank has adequate liquidity at all times;
- Monitoring and measuring capital adequacy for regulatory and business requirements;
- Establishing asset and liability pricing policies to protect the liquidity structure as well as assess the probability of various liquidity shocks and interest rate scenarios;
- Monitoring the statement of financial position and ensuring business strategies are consistent with liquidity requirements;
- Establishing and monitoring relevant liquidity ratios and statement of financial position targets; and,
- Ensuring full compliance with the Bank's Asset and Liability Manual as it relates to the management of liquidity risk, interest rate risk and foreign exchange risk.

The minutes of the ALCO meetings are submitted to the Board of Directors.

Audit Committee
The Audit Committee oversees how management monitors compliance with the Bank's risk management policies and procedures, reviews the adequacy of the risk management framework in relation to the risks faced by the Bank and monitors regulatory compliance. The Audit Committee is assisted in its oversight role by the Internal Audit department of the ultimate parent company. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit Committee
The Credit Committee manages the Bank's credit portfolio. The Chairman and the members of the committee are charged with the responsibility to approve credit within their designated limits and make recommendations to the Board of Directors.

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

3. Financial Risk Management (Continued)

(a) Credit risk

The Bank takes on exposure to credit risk, which is the risk that its customers, clients or counterparties will cause a financial loss for the Bank by failing to discharge their contractual obligations. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in investment and lending activities.

For its investment activities, the Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty or groups of related counterparties and to geographical and industry segments. For its lending activities, consideration is given to sectoral exposure, as well as to counterparty and group risk. Sectoral exposure as well as counterparty and group exposures are monitored by the Credit Risk team.

Additionally, much emphasis is placed on determining the adequacy of cash flow being generated by the counterparty to meet repayment terms, the availability of tangible security that may be realised as a secondary source of payment in the event that cash flow is impaired, and the timeliness and quality of financial information available on/from the counterparty/customer to assist in predicting its future performance.

Credit-related commitment risks also arise from guarantees/bonds issued by the Bank which may require payment on behalf of customers. Such guarantees/bonds are issued after analysis of the customers making the request to ensure that they have a good record of performance in the activity for which the bond or guarantee is being sought, as well as the taking of security as a secondary source of recovery in case of need. Generally, guarantees/bonds expose the Bank to similar risks as loans, and these are mitigated by the same control policies and processes.

Credit review process

The Bank has established a credit quality review process involving regular analysis of the ability of borrowers and other counterparties to meet interest and principal repayment obligations. The two main areas for the Bank are loans and advances and investment activities.

Loans and advances

The Bank assesses the probability of default of individual counterparties using internal ratings. The Bank's clients are segmented into four rating classes. The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class:

Rating	**Description**	
1	Low risk	– excellent credit history
2	Standard risk	– generally, abides by credit terms
3	Past due but not impaired	– late paying with increased credit risk
4	Credit impaired	– default

Exposure to credit risk is managed in part by obtaining collateral and corporate and personal guarantees. Counterparty limits are established by the use of a credit classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risk to which it is exposed and take corrective action.

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Investments

External rating agency credit grades are used to assess credit quality. These published grades are monitored and updated. Default probabilities and recovery rates are assigned as published by the rating agency.

The Bank limits its exposure to credit risk arising from investments by adhering to the investment counterparty limits as approved by the ALCO. Counterparty limits are reviewed and updated periodically.

Impairment of financial assets

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

	2022 $'000	2021 $'000
Loans and advances	170,634	229,318
Investment securities - at amortised cost	-	14,718
Investment securities - at FVOCI	-	201
	170,634	244,237

The carrying values of and ECL on the Bank's financial assets that are subject to the expected credit loss model for the current period are included in the table below:

	Carrying Value $'000 2022	ECL $'000 2022	Carrying Value $'000 2021	ECL $'000 2021
Loans				
Loans and advances	34,778,319	1,549,017	31,609,912	1,411,061
Loan commitments (off balance sheet)	2,010,869	61,344	1,855,705	47,277
	36,789,188	1,610,361	33,465,617	1,458,338
Guarantees, letters of credit and letters of undertaking (on-balance sheet)	418,103	10,404	326,133	10,598
Guarantees and letters of credit (off-balance sheet)	169,660	3,170	209,379	10,612
	37,376,951	1,623,935	34,001,129	1,479,548
Investment securities, including pledged assets	20,408,431	137,158	23,122,963	137,158
	57,785,382	1,761,093	57,124,092	1,616,706

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Impairment of financial assets (continued)

Cash and bank balances, items in the course of collection from other banks and due from fellow subsidiaries (included in other assets) are subjected to the credit loss model. However, the identified impairment losses are deemed immaterial.

Loans and advances

The Bank applies the 'three stage' model under IFRS 9 in measuring the expected credit losses on loans and advances, and makes estimations about likelihood of defaults occurring, associated loss ratios, changes in market conditions, and expected future cash flows. This is measured using the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) for a portfolio of assets.

- PD represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months (12-month PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD represents the expected balance at default, taking into account the repayment of principal and interest from the statement of financial position date to the default event together with any expected drawdowns of committed facilities.
- LGD represents expected losses on the EAD given the event of default, taking into account the mitigating effect of collateral value at the time it is expected to be realised and also the time value of money.

The 'three stage' model is used to categorise financial assets according to credit quality as follows:

- Stage 1 – financial assets that are not credit impaired on initial recognition or are deemed to have low credit risk. These assets generally abide by the contractual credit terms. The ECL is measured using a 12-month PD, which represents the probability that the financial asset will default within the next 12 months.
- Stage 2 – financial assets with a significant increase in credit risk (SICR) since initial recognition but are not credit impaired. The ECL is measured using a lifetime PD.
- Stage 3 – credit impaired financial assets. The ECL is measured using a lifetime PD.

Transfer between stages

Financial assets can be transferred between the different categories depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition. Financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment. This assessment is done on a case-by-case basis.

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Impairment of financial assets (continued)

Loans and advances (continued)

Significant Increase in Credit Risk (SICR)
The Bank considers a financial asset to have experienced a significant increase in credit risk when one or more of the following qualitative or backstop criteria have been met:

Qualitative Criteria
- Deterioration in the Borrower's Risk Rating (BRR) below established threshold
- Material misrepresentation or inaccurate warranty
- Failure to comply with provisions of any statute under which the borrower conducts business
- Borrower enters into a scheme of arrangement
- Actual or expected restructuring
- Previous arrears within the last six months
- Early signs of cash flow/liquidity problems
- Expected significant adverse change in operating results of the borrower

However, the assessment of significant increase in credit risk and the above criteria will differ for different types of lending arrangements.

Loan commitments are assessed along with the category of loan the Bank is committed to provide.

The assessment of SICR is performed for individual loans, taking into consideration the sector grouping of the individual exposures, and incorporates forward looking information. This assessment is performed on a quarterly basis.

Backstop
Irrespective of the above qualitative assessment, the Bank presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. The Bank has monitoring procedures in place to assess whether the criteria used to identify SICR continues to be appropriate.

The Bank utilised the low credit risk exemption for financial assets at the reporting date.

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Impairment of financial assets (continued)

Loans and advances (continued)

Credit Impaired Assets
The Bank defines a financial instrument as credit impaired, when it meets one or more of the following criteria:

Quantitative criterion
The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria
The borrower meets unlikeliness to pay criteria as outlined below, which indicates the borrower is in significant financial difficulty:
- Cash flow difficulties experienced by the borrower (e.g., equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and,
- Concessions have been made by the lender relating to the borrower's financial difficulty.

The criteria above have been applied to all financial assets held by the Bank and are consistent with the definition of default used for internal credit risk management purposes.

Measuring the ECL – Inputs, Assumptions and Estimation Techniques
The assessment of credit risk and the estimation of ECL are unbiased and probability-weighted and incorporate all available information that is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date.

The ECL is determined by projecting the PD, LGD, and EAD, which are multiplied together and discounted back to the reporting date. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The 12-month PD is calculated by observing the rate of historical default within the first year of a portfolio of loans and adjusted for the expected impact of forward-looking economic information.

The lifetime PD is calculated by observing the rate of historical default over the life of a portfolio of loans and adjusted for the impact of forward-looking economic information.

The EAD for amortising and bullet repayment loans represents the expected balance at default, taking into account the repayment of principal and interest from the statement of position date to the default event together with any expected drawdowns of committed facilities.

The EAD for revolving products, such as credit cards, revolving loans and overdrafts is estimated by taking the current drawn balance and the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Bank's recent default data.

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Impairment of financial assets (continued)

Loans and advances (continued)

Measuring the ECL – Inputs, Assumptions and Estimation Techniques (continued)

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type. For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.

Forward-Looking Information

The assessment of SICR and the calculation of ECL both incorporate forward looking information that is available without undue cost or effort. The Bank uses external information including economic data and forecasts published by governmental bodies and the central bank. The information published however does not cover the Bank's credit risk exposure period and judgement was applied when incorporating these forecasts into our models. The Bank started with historical data of approximately 3 years in which a relationship between macro-economic indicators and default rates was developed. Judgement was applied in cases where a strong relationship between these key economic variables and expected credit losses was not identified based on the historical data used.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial asset. Forecasts of these economic variables are reviewed on a quarterly basis. The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

The Bank used three forward looking economic scenarios for each portfolio of loans (base, upside, downside). The base case is the single most-likely expected outcome. The scenario weightings are determined using judgment.

As with any economic forecast, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Impairment of financial assets (continued)

Loans and advances (continued)

Forward Looking Information (continued)

The most significant year end assumptions used in determining the ECL as at the reporting date are set out below.

		Range	
Economic factor	**Scenarios**	**2022**	**2021**
Gross Domestic Product (GDP)	Base	0.6% to 1.3%	(10%) to 0.6%
	Upside	2.6% to 3.3%	(8%) to 2.6%
	Downside	(1.4%) to (0.7%)	(12%) to (1.4%)
Unemployment Rate	Base	9.0% to 6.6%	14% - 9%
	Upside	7.0% to 4.6%	12% - 7%
	Downside	11% to 8.6%	16% - 11%

The underlying models and their calibration, including how they react to forward looking economic conditions was based on how the relationship of the Bank's existing portfolio responds to these variables and remains subject to review and refinement as the Bank builds data.

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

Sensitivity Analysis
Forward looking indicators having the most significant impact on the ECL are GDP growth and unemployment rate. Set out below are the changes to the ECL as at 31 December 2022 and 2021 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Bank's economic variable assumptions:

		Effect on ECL	
	Change in basis points:	**2022 $'000**	**2021 $'000**
Forward Looking Indicator			
GDP growth	+ 100bp	19,564	9,403
GDP growth	- 100bp	(19,564)	(9,403)
Unemployment rate	+ 100bp	(99)	(72)
Unemployment rate	- 100bp	99	72

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Impairment of financial assets (continued)

Loans and advances (continued)

Portfolio Segmentation
For stages 1 and 2, the ECL provisions are modelled on a collective basis, by grouping exposures on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

Exposures are grouped according to product type (term loans, overdrafts, credit cards, revolvers, guarantees and loan commitments) and industry (for example, manufacturing and distribution, tourism, personal loans).

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

Stage 3 loans are assessed on an individual basis for impairment.

Maximum Exposure to Credit Risk
The Bank measures ECL considering the risk of default over the maximum contractual period (including extension options) over which it is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice. However, for financial assets such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. For such financial assets the Bank measures ECL over the period that it is exposed to the credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial assets do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Bank does not enforce in the normal day-to-day management the contractual right to cancel these financial assets. This is because these financial assets are managed on a collective basis and are canceled only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take to mitigate ECL.

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

The expected credit loss is summarised as follows:

	2022 $'000	2021 $'000
On-balance sheet credit exposures		
Loans and advances	1,549,017	1,411,061
Guarantees, letters of credit and letters of undertaking	10,404	10,598
	1,559,421	1,421,659
Off-balance sheet credit exposures		
Loan commitments	61,344	47,277
Guarantees, letters of credit and letters of undertaking	3,170	10,612
	64,514	57,889
	1,623,935	1,479,548

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Impairment of financial assets (continued)

Loans and advances (continued)

Maximum Exposure to Credit Risk (continued)

The ECL staging of these balances is summarised as follows:

	2022			
	Stage 1 12-month ECL $'000	**Stage 2 Lifetime ECL $'000**	**Stage 3 Lifetime ECL $'000**	**Total $'000**
On-balance sheet credit exposures				
Standard risk	22,615,061	8,587,866	-	31,202,927
Past due	2,127,342	1,775,824	-	3,903,166
Credit impaired	-	-	1,282,587	1,282,587
	24,742,403	10,363,690	1,282,587	36,388,680
Guarantees, letters of credit and letters of undertaking	-	418,103	-	418,103
Gross carrying amount	24,742,403	10,781,793	1,282,587	36,806,783
Loss allowance	(385,490)	(557,127)	(616,804)	(1,559,421)
Carrying amount	24,356,913	10,224,666	665,783	35,247,362
Off-balance sheet credit exposures				
Guarantees, letters of credit and letters of undertaking	-	169,660	-	169,660
Loan commitments	-	2,010,869	-	2,010,869
Gross carrying amount	-	2,180,529	-	2,180,529
Loss allowance	-	(64,514)	-	(64,514)
Carrying amount	-	2,116,015	-	2,116,015

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Impairment of financial assets (continued)

Loans and advances (continued)

Maximum Exposure to Credit Risk (continued)

	2021			
	Stage 1 12-month ECL $'000	**Stage 2 Lifetime ECL $'000**	**Stage 3 Lifetime ECL $'000**	**Total $'000**
On-balance sheet credit exposures				
Standard risk	20,205,468	7,490,600	-	27,696,068
Past due	1,930,062	2,249,292	-	4,179,354
Credit impaired	-	-	1,192,828	1,192,828
	22,135,530	9,739,892	1,192,828	33,068,250
Guarantees, letters of credit and letters of undertaking	-	347,343	-	347,343
Gross carrying amount	22,135,530	10,087,235	1,192,828	33,415,593
Loss allowance	(303,992)	(511,098)	(606,569)	(1,421,659)
Carrying amount	21,831,538	9,576,137	586,259	31,993,934
Off-balance sheet credit exposures				
Guarantees, letters of credit and letters of undertaking	-	209,379	-	209,379
Loan commitments	-	1,855,705	-	1,855,705
Gross carrying amount	-	2,065,084	-	2,065,084
Loss allowance	-	(57,889)	-	(57,889)
Carrying amount	-	2,007,195	-	2,007,195

Gross carrying amount includes interest receivable of $295,727,000 (2021 - $303,722,000). Additional information on the carrying value is included in Note 7.

First Global Bank Limited

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Impairment of financial assets (continued)

Loans and advances (continued)

Concentration of credit risk
The majority of loans are extended to customers in Jamaica. The following table summarises the Bank's credit exposure for loans at their carrying amounts, as categorised by industry sector:

	Number of loan accounts		Credit exposure	
	2022	**2021**	**2022 $'000**	**2021 $'000**
Public sector	4	2	4,690	511
Financial institutions	12	15	360,008	296,382
Agriculture	42	47	1,285,271	1,139,337
Mining and quarrying	8	5	436,565	500,024
Manufacturing	66	56	2,110,377	1,784,972
Construction and land development	42	37	4,208,572	1,925,643
Transportation, storage, and communication	34	27	1,532,047	1,257,598
Electricity, gas, and water	16	18	1,760,282	2,223,898
Distribution	118	117	3,381,198	3,192,607
Tourism	17	17	1,783,762	1,958,854
Entertainment	5	3	3,885	5,791
Professional and other services	366	301	3,498,528	4,020,653
Individuals	13,876	13,308	14,413,134	13,303,642
	14,606	13,953	34,778,319	31,609,912

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

The Bank utilises valuation of the collateral obtained as part of the loan origination process in the ECL model. An assessment of these valuations is done periodically. The principal collateral types for loans and advances are:

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

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of reverse repurchase agreements which are secured by portfolios of debt securities.

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Impairment of financial assets (continued)

Loans and advances (continued)

Collateral and other credit enhancements (continued)

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral held during its annual reviews of individual credit facilities as well as during its review of the adequacy of the provision for credit losses.

Loans and advances that are credit impaired and the related collateral held in order to mitigate potential losses are shown below:

	2022			
	Gross Carrying Amount $'000	Loss Allowance $'000	Net Carrying Amount $'000	Fair Value of Collateral Held $'000
Retail loans and advances -				
Term loans and revolvers	741,304	(394,843)	346,461	663,921
Overdrafts	90,565	(69,124)	21,441	-
Corporate loans and advances -				
Term loans and revolvers	450,718	(152,837)	297,881	912,170
	1,282,587	(616,804)	665,783	1,576,091

	2021			
	Gross Carrying Amount $'000	Loss Allowance $'000	Net Carrying Amount $'000	Fair Value of Collateral Held $'000
Retail loans and advances -				
Term loans and revolvers	758,863	(381,798)	377,065	1,131,223
Overdrafts	86,140	(74,752)	11,388	-
Corporate loans and advances -				
Term loans and revolvers	347,825	(150,019)	197,806	788,500
	1,192,828	(606,569)	586,259	1,919,723

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Impairment of financial assets (continued)

Loans and advances (continued)

Movement in expected credit loss
The loss allowance recognised in the year is impacted by a variety of factors. The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
At 1 January 2022	303,992	568,987	606,569	1,479,548
Movements with profit or loss impact:				
Transfers:				
Transfer from Stage 1 to Stage 2	(6,032)	21,142	-	15,110
Transfer from Stage 1 to Stage 3	(195)	-	18,761	18,566
Transfer from Stage 2 to Stage 1	6,002	(25,224)	-	(19,222)
Transfer from Stage 2 to Stage 3	-	(5,305)	3,580	(1,725)
New financial assets originated	145,597	30,972	-	176,569
Changes in PDs/LGDs/EADs	8,635	85,472	(2,300)	91,807
Financial assets derecognised during the period	(72,509)	(54,404)	(9,805)	(136,718)
Direct write-offs	-	-	61,277	61,277
Recoveries	-	-	(35,030)	(35,030)
Loss allowance recognised in profit or loss	81,498	52,653	36,483	170,634
Other movements:				
Net write-offs against provision	-	-	(26,247)	(26,247)
At 31 December 2022	385,490	621,640	616,805	1,623,935

First Global Bank Limited

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

(a) Credit risk (continued)

Impairment of financial assets (continued)

Loans and advances (continued)

Movement in expected credit loss (continued)

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	$'000	$'000	$'000	$'000
At 1 January 2021	292,331	398,621	574,980	1,265,932
Movements with profit or loss impact:				
Transfers:				
Transfer from Stage 1 to Stage 2	(12,366)	40,918	-	28,552
Transfer from Stage 1 to Stage 3	(20)	-	1,202	1,182
Transfer from Stage 2 to Stage 1	1,539	(3,417)	-	(1,878)
Transfer from Stage 2 to Stage 3	-	(6,490)	34,915	28,425
New financial assets originated	84,667	10,880	-	95,547
Changes in PDs/LGDs/EADs	(2,539)	148,501	14,133	160,095
Financial assets derecognised during the period	(59,620)	(20,026)	(18,661)	(98,307)
Direct write offs	-	-	55,617	55,617
Recoveries	-	-	(39,915)	(39,915)
Loss allowance recognised in profit or loss	11,661	170,366	47,291	229,318
Other movements:				
Write-offs against provision	-	-	(15,702)	(15,702)
At 31 December 2021	303,992	568,987	606,569	1,479,548

Loans and leases are written off, in whole or in part, when the Bank has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include ceasing enforcement activity, and where the Bank's recovery method is foreclosing on collateral, and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Bank may write off account balances that are still subject to enforcement activity, based on a reasonable expectation of amounts recoverable. The outstanding contractual amounts of such assets written off during the year ended 31 December 2022 was $61,277,000 (2021 - $55,617,000).

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Impairment of financial assets (continued)

Debt securities
The Bank uses external credit ratings as published by established rating agencies in its assessment of the probability of default on debt securities. The PDs and LGDs for government and corporate bonds have been developed by the rating agencies based on statistics on the default, loss and rating transition experience of government and corporate bond issuers. The loss allowance on debt securities carried at amortised cost and FVOCI is measured using lifetime PDs.

Credit ratings and associated PDs are updated when external information becomes available or when our internal monitoring processes identify a reasonable basis for an adjustment. Monitoring of these is performed on a quarterly basis.

Based on available credit ratings for sovereign and corporate debts, the debt securities were classified in stage 2 as they were below investment grade as defined by reputable rating agencies.

Concentration of credit risk
The following table summarises the credit exposure for debt securities at their carrying amounts as categorised by issuer:

	2022 $'000	2021 $'000
Government of Jamaica	7,936,603	9,087,430
Bank of Jamaica	4,506,353	5,286,581
Corporates	6,542,613	7,227,411
Other regional governments	1,422,862	1,521,541
	20,408,431	23,122,963

Debt securities at amortised cost
The loss allowance for debt securities at amortised cost reconciles from the opening loss allowance on 1 January to the closing loss allowance as at 31 December as follows:

	2022 $'000	2021 $'000
At 1 January	137,158	122,440
Loss allowance recognised in profit or loss	-	14,718
At 31 December	137,158	137,158

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Impairment of financial assets (continued)

Debt securities (continued)

Debt securities at FVOCI
The loss allowance for debt securities at FVOCI is recognised in profit or loss and reduces the fair value movement otherwise recognised in OCI.

The loss allowance for debt securities at FVOCI reconciles from opening loss allowance on 1 January to the closing loss allowance as at 31 December as follows:

	2022 **$'000**	**2021** **$'000**
At 1 January	92,598	92,397
Loss allowance recognised in profit or loss	-	201
At 31 December	92,598	92,598

Maximum Exposure to Credit Risk – Other Exposures
The table below shows the Bank's maximum exposure to credit risk for other financial assets carried on the statement of financial position, without taking account of any collateral held of credit enhancement:

	2022 **$'000**	**2021** **$'000**
Cash and bank	10,680,328	14,351,443
Items in the course of collection from other banks	261,798	40,169
Securities purchased under agreements to resell	1,988,834	4,334,584
Other assets	143,139	146,011
	13,074,099	18,872,207

3. Financial Risk Management (Continued)

(b) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due.

Liquidity risk management process

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

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

(ii) Maintaining a portfolio of highly marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

(iii) Maintaining committed lines of credit;

(iv) Optimising cash returns on investments;

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

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

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

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

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

The Bank maintained an adequate liquidity position thereby enabling the entity to meet its contractual and regulatory obligations.

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3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Cash flows of financial instruments

The tables below present the undiscounted cash flows (both interest and principal cash flows) of the Bank's financial assets and liabilities based on contractual repayment obligations. The Bank expects that, based on estimates made by management as determined by retention history, many customers will not request repayment on the earliest date the Bank could be required to pay. The Bank is also able to meet unexpected net cash outflows by selling securities and accessing additional funding sources from its ultimate parent company and other financing institutions.

	2022					
	Within 3 Months	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**No specific Maturity**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Total financial assets	17,352,022	6,244,885	25,437,326	30,704,900	6,564,766	86,303,899
Financial liabilities						
Customer deposits	41,081,430	18,949,222	9,720	-	-	60,040,372
Items in the course of payment	253,869	-	-	-	-	253,869
Securities sold under repurchase agreements	30,085	-	-	-	-	30,085
Lease liabilities	62,974	144,782	317,340	175,712		700,808
Other borrowed funds	30,447	24,964	185,188	1,197,374	-	1,437,973
Other liabilities	1,114,455	-	-	-	-	1,114,455
Guarantees, letters of credit and letters of undertaking	202,264	215,839	-	-	-	418,103
Total financial liabilities	42,775,524	19,334,807	512,248	1,373,086	-	63,995,665

	2021					
	Within 3 Months	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**No specific Maturity**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Total financial assets	20,500,624	4,234,423	30,811,285	25,726,924	7,359,733	88,632,989
Financial liabilities						
Customer deposits	47,301,484	8,806,994	30,706	-	-	56,139,184
Items in the course of payment	238,958	-	-	-	-	238,958
Securities sold under repurchase agreements	3,395,751	3,890,313	-	-	-	7,286,064
Lease liabilities	25,053	125,265	440,270	166,253	-	756,841
Due to other banks	550,000	-	-	-	-	550,000
Other borrowed funds	7,384	58,043	573,211	748,321	-	1,386,959
Other liabilities	929,268	-	-	-	-	929,268
Guarantees, letters of credit and letters of undertaking	333,467	1,000	12,876	-	-	347,343
Total financial liabilities	52,781,365	12,881,615	1,057,063	914,574	-	67,634,617

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3. Financial Risk Management (Continued)

(c) Market risk
The Bank takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks mainly arise from changes in foreign currency exchange rates and interest rates. Market risk is monitored by the Risk and Compliance department which carries out extensive research and monitors the price movement of financial assets on the local and international markets. Market risk exposures are measured using sensitivity analysis. There has been no change to the Bank's exposure to market risk or the manner in which it manages and measures the risk.

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

The Bank manages its foreign exchange risk by ensuring that the net exposure in foreign assets and liabilities is kept at an acceptable level by monitoring currency positions. The Bank further manages this risk by maximising foreign currency earnings, holding foreign currency balances and by entering into foreign currency forward contracts. The net currency exposure of financial assets and liabilities at 31 December was as follows:

	2022					
	Jamaican$	**US$**	**GBP**	**CAD**	**Euro**	**Total**
	J$'000	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**
Financial assets						
Cash and bank balances	3,612,927	8,028,701	320,032	92,582	196,138	12,250,380
Items in the course of collection from other banks	82,373	179,425	-	-	-	261,798
Securities purchased under resale agreements	-	1,988,834	-	-	-	1,988,834
Loans and advances, net of provision for credit losses	31,206,034	3,572,285	-	-	-	34,778,319
Investment securities and pledged assets	6,167,501	14,240,930	-	-	-	20,408,431
Other assets	1,680	141,459	-	-	-	143,139
Guarantees, letters of credit and letters of undertaking	398,158	6,371	-	-	-	404,529
Total financial assets	41,468,673	28,158,005	320,032	92,582	196,138	70,235,430
Financial liabilities						
Customer deposits	31,727,418	27,567,923	239,754	157,365	85,232	59,777,692
Items in the course of payment	86,666	120,690	2,682	7,732	387	218,157
Securities sold under repurchase agreements	28,010	459	-	-	-	28,469
Lease liabilities	509,648	50,449	-	-	-	560,097
Other borrowed funds	1,061,476	18,141	-	-	-	1,079,617
Other liabilities	167,595	835,578	6,845	17,640	86,797	1,114,455
Guarantees, letters of credit and letters of undertaking	411,732	6,371	-	-	-	418,103
Total financial liabilities	33,992,545	28,599,611	249,281	182,737	172,416	63,196,590
Net financial position	7,476,128	(441,606)	70,751	(90,155)	23,722	7,038,840

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

Currency risk (continued)

	2021					
	Jamaican$	**US$**	**GBP**	**CAD**	**Euro**	**Total**
	J$'000	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**
Financial assets						
Cash and bank balances	7,809,973	6,681,309	290,171	57,553	81,783	14,920,789
Items in the course of collection from other banks	25,853	14,316	-	-	-	40,169
Securities purchased under resale agreements	1,550,048	2,784,536	-	-	-	4,334,584
Loans and advances, net of provision for credit losses	26,729,127	4,880,785	-	-	-	31,609,912
Investment securities and pledged assets	7,011,006	16,111,957	-	-	-	23,122,963
Other assets	10,431	132,788	-	-	2,792	146,011
Guarantees, letters of credit and letters of undertaking	326,133	-	-	-	-	326,133
Total financial assets	43,462,571	30,605,691	290,171	57,553	84,575	74,500,561
Financial liabilities						
Customer deposits	29,784,322	25,643,213	303,811	130,778	118,303	55,980,427
Items in the course of payment	142,224	91,913	1,096	3,356	369	238,958
Securities sold under repurchase agreements	3,343,312	3,906,253	-	-	-	7,249,565
Lease liabilities	605,297	55,663	-	-	-	660,960
Due to other banks	550,000	-	-	-	-	550,000
Other borrowed funds	736,470	372,411	-	-	-	1,108,881
Other liabilities	335,973	505,059	(804)	2,105	86,936	929,269
Guarantees, letters of credit and letters of undertaking	347,343	-	-	-	-	347,343
Total financial liabilities	35,844,941	30,574,512	304,103	136,239	205,608	67,065,403
Net financial position	7,617,630	31,179	(13,932)	(78,686)	(121,033)	7,435,158

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

Currency risk (continued)

Foreign currency sensitivity
The following table indicates the currencies to which the Bank had significant exposure on its monetary assets and liabilities and its forecast cash flows. The table below represents management's assessment of the possible change in foreign exchange rates and the impact on income. There is no direct impact on other components of equity. The sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation for the possible change in foreign currency rates. The correlation of variables will have a significant effect on determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables had to be on an individual basis.

	2022		2021	
	% Change in Currency Rate	Effect on Income $'000	% Change in Currency Rate	Effect on Income $'000
Currency:				
US$				
Depreciation	4%	(17,664)	8%	2,494
Appreciation	1%	4,416	-2%	(624)
GBP				
Depreciation	4%	2,830	8%	(1,115)
Appreciation	1%	(708)	-2%	279
CAD				
Depreciation	4%	(3,606)	8%	(6,295)
Appreciation	1%	902	-2%	1,574
EURO				
Depreciation	4%	949	8%	(9,683)
Appreciation	1%	(237)	-2%	2,421

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

The Bank takes on exposure to the effects of fluctuations in the prevailing level of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Floating rate instruments expose the Bank to cash flow interest risk, whereas fixed interest rate instruments expose the Bank to fair value interest risk.

The Bank's interest rate risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest-bearing financial assets and liabilities. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken. These limits are monitored by the ALCO.

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

Interest rate risk (continued)

The following tables summarise the Bank's exposure to interest rate risk. They include the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The tables represent those financial instruments whose interest rates change concurrently with a change in the underlying interest rate basis.

	2022				
	Within 3 months $'000	3 to 12 months $'000	Over 12 months $'000	Non-rate sensitive $'000	Total $'000
Financial assets					
Cash and bank balances	5,690,633	-	-	6,559,747	12,250,380
Items in the course of collection from other banks	-	-	-	261,798	261,798
Securities purchased under resale agreements	1,988,834	-	-	-	1,988,834
Loans and advances, net of provision for credit losses	4,308,164	2,131,697	28,042,454	296,004	34,778,319
Investment securities and pledged assets	4,041,276	2,153,606	14,208,529	5,020	20,408,431
Other assets	-	-	-	143,139	143,139
Guarantees, letters of credit and letters of undertaking	-	-	-	404,529	404,529
Total financial assets	16,028,907	4,285,303	42,250,983	7,670,237	70,235,430
Financial liabilities					
Customer deposits	40,859,687	18,729,059	5,601	183,345	59,777,692
Items in the course of payment	-	-	-	218,157	218,157
Securities sold under repurchase agreements	28,469	-	-	-	28,469
Lease liabilities	25,349	55,509	479,239	-	560,097
Other borrowed funds	25,096	9,193	1,045,328	-	1,079,617
Other liabilities	-	-	-	1,114,455	1,114,455
Guarantees, letters of credit and letters of undertaking	-	-	-	418,103	418,103
Total financial liabilities	40,938,601	18,793,761	1,530,168	1,934,060	63,196,590
Total interest repricing gap	(24,909,694)	(14,508,458)	40,720,815	5,736,177	7,038,840
Cumulative gap	(24,909,694)	(39,418,152)	1,302,663	7,038,840	

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

Interest rate risk (continued)

	2021				
	Within 3 months $'000	**3 to 12 months $'000**	**Over 12 months $'000**	**Non-rate sensitive $'000**	**Total $'000**
Financial assets					
Cash and bank balances	7,566,075	-	-	7,354,714	14,920,789
Items in the course of collection from other banks	-	-	-	40,169	40,169
Securities purchased under resale agreements	4,334,584	-	-	-	4,334,584
Loans and advances, net of provision for credit losses	3,738,499	1,602,134	25,965,384	303,895	31,609,912
Investment securities and pledged assets	3,679,808	917,535	18,520,600	5,020	23,122,963
Other assets	-	-	-	146,011	146,011
Guarantees, letters of credit and letters of undertaking	-	-	-	326,133	326,133
Total financial assets	19,318,966	2,519,669	44,485,984	8,175,942	74,500,561
Financial liabilities					
Customer deposits	47,147,213	8,684,167	30,176	118,871	55,980,427
Items in the course of payment	-	-	-	238,958	238,958
Securities sold under repurchase agreements	3,370,264	3,879,301	-	-	7,249,565
Lease liabilities	27,517	88,235	545,208	-	660,960
Due to other banks	550,000	-	-	-	550,000
Other borrowed funds	916	38,707	1,069,258	-	1,108,881
Other liabilities	-	-	-	929,269	929,269
Guarantees, letters of credit and letters of undertaking	-	-	-	347,343	347,343
Total financial liabilities	51,095,910	12,690,410	1,644,642	1,634,441	67,065,403
Total interest repricing gap	(31,776,944)	(10,170,741)	42,841,342	6,541,501	7,435,158
Cumulative gap	(31,774,944)	(41,947,685)	893,657	7,435,158	

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

Interest rate risk (continued)

The tables below summarise the weighted average effective yields of interest rate sensitive financial instruments by currency:

	2022				
	Jamaican$	**US$**	**GBP**	**CAD**	**Euro**
	%	**%**	**%**	**%**	**%**
Cash and bank balances	-	0.30	0.05	-	-
Loans and advances, net of provision for credit losses	9.24	8.24	-	-	-
Investment securities	7.11	5.59	-	-	-
Customer deposits	2.17	0.87	1.01	0.03	0.47
Securities sold under repurchase agreements	6.18	2.47	-	-	-
Lease liabilities	6.25	4.25	-	-	-
Other borrowed funds	4.05	4.67	-	-	-

	2021				
	Jamaican$	**US$**	**GBP**	**CAD**	**Euro**
	%	**%**	**%**	**%**	**%**
Cash and bank balances	-	0.30	0.05	-	-
Loans and advances, net of provision for credit losses	9.66	7.34	-	-	-
Investment securities	4.28	5.61	-	-	-
Customer deposits	1.29	0.75	0.35	0.05	0.54
Securities sold under repurchase agreements	2.64	2.57	-	-	-
Lease liabilities	6.25	4.25	-	-	-
Other borrowed funds	4.46	2.66	-	-	-

First Global Bank Limited
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3. Financial Risk Management (Continued)

(c) Market risk (continued)

Interest rate risk (continued)

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

The sensitivity of income is the effect of the assumed changes in interest rates on net income based on the floating rate non-trading financial assets and financial liabilities. The sensitivity of equity is calculated by revaluing fixed-rate FVOCI assets for the assumed changes in interest rates. The correlations of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables had to be done on an individual basis. It should be noted that movements in these variables are non-linear.

	2022			2021	
Change in basis points	**Net effect on Income $'000**	**Net effect on Equity $'000**	**Change in basis points**	**Net effect on Income $'000**	**Net effect on Equity $'000**
JMD/USD			**JMD/USD**		
-50 / -50	60,665	(74,749)	-100 / -100	162,901	(171,066)
+100 / +100	(121,330)	149,499	+100 / +100	(162,901)	171,066

(d) Capital management
The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the statement of financial position, are:

(i) To comply with the capital requirements set by the regulators of the markets within which the Bank operates;

(ii) To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and,

(iii) To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by management and bi-monthly by the Board. The required information is filed with the Bank of Jamaica on a monthly basis.

The Bank of Jamaica requires the Bank to:

(i) Hold the minimum level of the regulatory capital as a percentage of total assets of 8% (2021 – 8%); and,

(ii) Maintain a ratio of total regulatory capital to the risk-weighted assets at or above 10% (2021 – 10%).

First Global Bank Limited

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3. Financial Risk Management (Continued)

(d) Capital management (continued)

The Bank's regulatory capital is managed by the ALCO and is divided into two tiers:

(i) Tier 1 capital: share capital, statutory reserve fund, retained earnings reserve fund, accumulated losses and net loss positions arising from fair value accounting; and,

(ii) Tier 2 capital: general provisions for loan losses on assets limited to 1.25% of risk-weighted assets.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of, and reflecting an estimate, of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The Bank complied with all of the externally imposed capital requirements to which it is subject.

(e) Fair value estimation

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The Bank's financial instruments are grouped into levels 1 to 3 based on the degree to which the fair value is observable, as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical instruments;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the instrument, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the instrument that are not based on observable market data (unobservable inputs).

The following tables provide an analysis of financial instruments held as at 31 December that, subsequent to initial recognition, are measured at fair value.

	2022 $'000	2021 $'000
Level 2:		
Investment securities at fair value through other comprehensive income –		
Issued by the Government of Jamaica	4,820,526	6,341,838
Issued by other governments	1,390,273	1,521,541
Corporate bonds	1,893,682	1,756,550
	8,104,481	9,619,929

There were no transfers between levels during the year.

3. Financial Risk Management (Continued)

(e) Fair value estimation (continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets is the current bid price. These instruments are included in Level 1. The Bank did not hold any of these instruments at the date of the statement of financial position.

The fair value of financial instruments not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. This category includes certificates of deposit and bonds issued by the Government of Jamaica, indicative prices of which are obtained from regular, publicly available quotes by reputable dealers and brokers.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. There were no material level 3 financial instruments at 31 December 2022 and 2021.

The following methods and assumptions have been used in determining the fair values of financial instruments that are not remeasured at fair value after initial recognition:

- Quoted market prices or dealer quotes for similar instruments. If quoted prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques, such as discounted cash flow analysis.

- The fair value of liquid assets and other assets maturing within one year is assumed to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities.

- The fair value of variable rate financial instruments issued at market terms is assumed to approximate their carrying amounts.

- The carrying values of non-current borrowings from non-related parties approximate their fair values, as these loans are carried at amortised cost reflecting their contractual obligations and the interest rates are reflective of current market rates for similar transactions.

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies

The preparation of the financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Bank's accounting policies. The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. This note provides an overview of the areas that involve a higher degree of judgement or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

Measurement of the expected credit loss allowance
The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires significant assumptions about future economic conditions and credit behavior (e.g., the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring the ECL is further detailed in note 3(a), which also sets out key sensitivities of the ECL to changes in these elements. A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate assumptions for the measurement of ECL;
- Developing a range of unbiased future economic scenarios and relative weightings;
- Establishing groups of similar financial assets for the purposes of measuring ECL; and,
- Determining the relevant period of exposure to credit risk when measuring ECL for credit cards and revolving credit facilities.

Information about the judgments and estimates made by the Bank in the above areas is set out in note 3(a).

Other post-employment benefits
The cost of these benefits and the present value of the other post-employment liabilities depend on a number of factors that are to be determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net periodic cost or income for other post-employment benefits include the discount rate and, in the expected rate of increase in medical costs. Any changes in these assumptions will impact the net periodic cost or income recorded for other post-employment benefits. The Bank 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 other post-employment benefit obligations. In determining the appropriate discount rate, the Bank considered the interest rates of government securities that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. The expected rate of increase of medical costs has been determined by comparing the historical relationship of the actual medical cost increases with the rate of inflation in the respective economy. Other key assumptions for the other post-employment benefits costs and credits are based in part on current market conditions.

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

Critical judgement in determining the lease term
Extension and termination options are included in the property leases (office buildings). The extension and termination options held are exercisable only by the Bank and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (extension option) or not terminated (termination option). The assessment of whether the Bank is reasonably certain to exercise an extension option, or not to exercise a termination option is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and is within the control of the Bank.

The management has applied judgment for office buildings, extension options were included as it was reasonably certain that the Bank will continue the lease beyond the 5-year period.

Income taxes
Significant judgement is required in determining the provision for income taxes. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The Bank also recognises deferred tax assets on tax losses carried forward as it anticipates making future taxable income to offset these losses.

5. Cash and Bank Balances

	2022 $'000	2021 $'000
Notes and coins	1,570,052	569,346
Accounts with other banks	3,782,301	7,158,144
Balances with the Bank of Jamaica, other than statutory reserves	1,247,360	1,915,471
Included in cash and cash equivalents	6,599,713	9,642,961
Statutory reserves with the Bank of Jamaica	5,246,568	4,792,937
Cash held as collateral and other restricted cash accounts	404,099	484,891
	12,250,380	14,920,789

Statutory reserves with the Bank of Jamaica are held in compliance with Section 43 and 44 of The Banking Services Act, 2014, which requires that every licensee maintains a cash reserve with the Bank of Jamaica.

A prescribed minimum of 5% (2021 - 19%) of Jamaican dollar currency deposits liabilities and 13% (2021 - 27%) of foreign currency deposit liabilities is required to be maintained as cash reserves by the Bank in liquid assets, of which 5% (2021 – 5%) must be maintained as cash reserves for Jamaican dollar currency and 13% (2021 – 13%) for foreign currency cash reserves. No portion of the cash reserve is available for investment, lending, or other use by the Bank.

6. Securities Purchased under Resale Agreements

The Bank enters into reverse repurchase agreements collaterised by Government of Jamaica securities and Bank of Jamaica certificates of deposits. These agreements may result in credit exposure in the event that the counterparty to the transaction is unable to fulfil its contractual obligations.

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7. Loans and Advances, Net of Provision for Credit Losses

	2022 $'000	2021 $'000
Gross loans	36,092,953	32,764,528
Less: Provision for credit losses	(1,610,361)	(1,458,338)
	34,482,592	31,306,190
Interest receivable	295,727	303,722
	34,778,319	31,609,912

The current portion of loans amounted to $6,501,134,000 (2021 – $5,340,633,000).

Provision for credit losses include provision on loan commitments of $61,344,000 (2021 - $47,277,000).

The aggregate amount of non-performing loans on which interest was not being accrued amounted to $1,282,587,000 (2021 – $1,192,828,000).

	2022 $'000	2021 $'000
Provision for credit losses on loans and advances - IFRS	1,549,017	1,411,061
Provision for credit losses on loans and advances - Bank of Jamaica		
Specific provisions	1,208,820	1,132,791
General provision	348,500	320,658
	1,557,320	1,453,449
Loan loss reserve	235,033	235,033

The excess of the regulatory provision over the IFRS provision is included in a non-distributable loan loss reserve and treated as an appropriation of retained earnings (Note 21).

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8. Investment Securities and Pledged Assets

	2022 $'000	2021 $'000
At amortised cost:		
Issued by the Government of Jamaica –		
Benchmark investment notes	2,948,295	2,723,871
Bank of Jamaica Certificates of Deposits	4,464,958	5,250,508
Corporate bonds	4,517,903	5,345,207
	11,931,156	13,319,586
At fair value through other comprehensive income:		
Issued by the Government of Jamaica –		
Global bonds	4,820,526	6,183,704
Issued by other governments	1,390,273	1,505,768
Corporate bonds	1,893,682	1,756,496
Unquoted equity	5,020	5,020
	8,109,501	9,450,988
	20,040,657	22,770,574
Interest receivable	367,774	352,389
	20,408,431	23,122,963
Less: Pledged assets	(28,875)	(9,361,518)
	20,379,556	13,761,445

The current portion of investment securities amounted to $6,194,882,000 (2021 – $4,597,343,000).

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9. Property, Plant and Equipment

	Leasehold Improvements $'000	Computer Equipment $'000	Equipment, Furniture and Fixtures $'000	Motor Vehicles $'000	Right-of- use Assets $'000	Work-in-Progress $'000	Total $'000
Cost -							
1 January 2021	541,568	728,843	429,908	24,375	809,734	140,666	2,675,094
Additions	1,166	33,894	4,084	14,556	103,348	16,498	173,546
Transfer	873	24,492	21,571	14	-	(46,950)	-
Disposals	(44)	(389)	(1,519)	-	-	-	(1,952)
31 December 2021	543,563	786,840	454,044	38,945	913,082	110,214	2,846,688
Additions	-	1,601	538	-	75,099	282,539	359,777
Transfers	1,909	109,146	111	-	-	(111,166)	-
Disposals	-	(10,961)	(6,167)	(8,995)	(131,964)	-	(158,087)
31 December 2022	545,472	886,626	448,526	29,950	856,217	281,587	3,048,378
Depreciation -							
1 January 2021	357,756	569,579	274,384	24,375	189,408	-	1,415,502
Charge for the year	38,585	81,255	34,597	255	119,444	-	274,136
Disposals	(44)	(345)	(1,498)	-	-	-	(1,887)
31 December 2021	396,297	650,489	307,483	24,630	308,852	-	1,687,751
Charge for the year	30,752	78,350	29,630	2,911	156,283	-	297,926
Disposals	-	(10,956)	(6,167)	(8,995)	(102,275)	-	(128,393)
31 December 2022	427,049	717,883	330,946	18,546	362,860	-	1,857,284
Net Book Value -							
31 December 2022	118,423	168,743	117,580	11,404	493,357	281,587	1,191,094
31 December 2021	147,266	136,351	146,561	14,315	604,230	110,214	1,158,937

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10. Intangible Assets

	2022 $'000	2021 $'000
Cost -		
1 January	1,600,679	1,527,895
Additions	78,386	72,784
31 December	1,679,065	1,600,679
Amortisation -		
1 January	1,310,270	1,147,827
Amortisation charge for the year	135,248	162,443
31 December	1,445,518	1,310,270
Net Book Value -	233,547	290,409

Included in the balance at 31 December 2022 is software with a carrying value of $53,710,000 (2021 - $3,789,000) which is in development. These projects are estimated to be completed over 1 to 2 years.

11. Deferred Income Taxes

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

	2022 $'000	2021 $'000
At 1 January	478,093	211,777
Deferred tax credited in statement of comprehensive income (Note 29)	71,168	106,257
Deferred tax credited to other comprehensive income (Note 29)	99,793	160,059
At 31 December	649,054	478,093

Deferred tax recognised in the statement of financial position was attributable to the following temporary differences:

	2022 $'000	2021 $'000
Post-employment benefits	107,600	187,430
Differences between IFRS and BOJ specific provisions for loan losses	113,399	92,756
Accelerated tax depreciation	215,712	213,256
Fair value changes of investment securities	88,623	(124,325)
Impairment on investment securities	76,585	76,585
Lease liabilities	22,247	18,902
Other	24,888	13,489
	649,054	478,093

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11. Deferred Income Taxes (Continued)

Deferred tax assets include $925,000 (2021 – $1,065,000) which is expected to be recovered within 12 months.

The deferred tax credited/(charged) to profit or loss is attributable to the following temporary differences:

	2022 $'000	2021 $'000
Tax losses carried forward	-	(37,979)
Post-employment benefits	33,377	36,429
Differences between IFRS and BOJ specific provision for loan losses	20,643	(3,415)
Accelerated tax depreciation	2,456	69,766
Other	14,692	41,456
	71,168	106,257

The deferred tax credited/(charged) to other comprehensive income is attributable to the following temporary differences:

	2022 $'000	2021 $'000
Realised losses/(gains) on FVOCI	35,693	(31,825)
Unrealised losses on FVOCI	177,307	184,192
Re-measurements of post-employment benefits	(113,207)	7,692
	99,793	160,059

12. Other Assets

	2022 $'000	2021 $'000
Withholding tax recoverable	138,056	120,825
Due from fellow subsidiaries (Note 30)	60,955	53,514
Prepayments and deposits	182,476	169,359
Commission receivable	39,533	47,193
Other	42,651	45,304
	463,671	436,195

Total balance falls due within 12 months of the year end.

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13. Customer Deposits

The customer deposit portfolio was comprised as follows:

	Number of deposits		Value of deposits	
	2022	**2021**	**2022**	**2021**
	$'000	**$'000**	**$'000**	**$'000**
Financial institutions	236	277	7,916,864	9,096,441
Commercial and business enterprises	7,251	5,948	24,530,448	22,755,860
Personal	71,061	61,309	22,986,049	19,292,293
Other	82	425	4,160,986	4,716,962
	78,630	67,959	59,594,347	55,861,556
Interest payable			183,345	118,871
			59,777,692	55,980,427

The non-current portion of customer deposits amounted to $5,601,000 (2021 – $30,176,000).

14. Due to Other Banks and Other Borrowed Funds

(a) In December 2021, the Bank obtained a Jamaican dollar short term loan totalling $550,000,000 from Sagicor Bank Jamaica Limited, which was repaid on 3 January 2022.

(b) These loans are provided primarily for the purpose of on-lending to customers who meet certain requirements and are to be used for eligible enterprises and projects.

	2022	**2021**
	$'000	**$'000**
Long term loans	1,078,960	1,108,170
Interest payable	657	711
	1,079,617	1,108,881

The balance at year end was comprised as follows:

	2022	**2021**
	$'000	**$'000**
Development Bank of Jamaica Limited	435,806	727,554
National Housing Trust	643,154	380,616
	1,078,960	1,108,170
Interest payable	657	711
	1,079,617	1,108,881

The current portion of the long-term loans is $34,289,000 (2021 – $39,623,000).

14. Due to Other Banks and Other Borrowed Funds (Continued)

(b) (Continued)

The loans from Development Bank of Jamaica Limited are granted in both Jamaican and United States Dollars and are utilised by the Bank to finance customers with viable projects in the productive sectors of the economy. These loans have maturity dates ranging from January 2023 to December 2030 and attract interest at rates ranging from 4% – 7%.

The loans from National Housing Trust are granted as part of the Joint Financing Mortgage Programme with the borrowers of the Bank. These loans are for terms of up to 25 years at rates ranging from 1% - 4%.

The carrying amounts of the Bank's other borrowed funds are denominated in the following currencies:

	2022 $'000	2021 $'000
US dollar	18,121	372,411
Jamaican dollar	1,061,496	736,470
	1,079,617	1,108,881

The Bank has no undrawn borrowing facilities.

15. Leases

The statement of financial position shows the following amounts relating to leases:

	2022 $'000	2021 $'000
Right-of-use assets (Note 9)		
Buildings	493,357	604,230
Lease liabilities		
Current	89,233	115,752
Non-current	470,864	545,208
	560,097	660,960

Amounts recognised in the statement of comprehensive income relating to leases:

	2022 $'000	2021 $'000
Depreciation charge for right-of-use assets (Note 9)	156,283	119,444
Interest expense on lease liabilities (Note 24)	41,548	43,147
Total expenses related to leases	197,831	162,591

The total cash flow for leases is $169,029,000 (2021 – $109,290,000).

15. Leases (Continued)

The Bank's leasing activities

The Bank leases office buildings to conduct banking and related financial services. Leases are negotiated on an individual basis and contain a wide range of different terms and conditions (including termination and renewal rights). Extension and termination options are used to maximise operational flexibility in terms of managing the assets used in the Bank's operations. The majority of extension and termination options held are exercisable only by the Bank and not by the respective lessor.

Rental contracts are typically made for fixed periods of 1 to 5 years but may have extension options for an additional 5 to 10 years.

The lease payments are fixed and adjusted for inflation. The inflation increases are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

To determine the incremental borrowing rate, the Bank uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Bank and makes adjustments specific to the lease, such as the term, country, currency, and security.

16. Pensions and Post-Employment Benefit Obligations

The Bank participates in a defined contribution pension scheme started by the ultimate parent company. The scheme is open to employees hired on or after 1 April 2010. Employees contribute 5% of pensionable earnings with the option to contribute an additional 5%. The employer's contributions are currently set at 10%. The Bank's contribution for the year was $75,786,000 (2021 - $73,541,000).

The Bank also participates in a defined benefit pension plan operated by the ultimate parent company. The plan, which commenced on 1 January 1975, is funded by employees' contributions at 5% of salary with the option to contribute an additional 5%, and employer's contributions at 0.2%, as recommended by independent actuaries. Pension at normal post-employment age is based on 2% per year of pensionable service of the average of the highest three years' annual salary during the last ten years of service. This scheme was closed to new members as at 31 March 2010.

The Board of Trustees of the pension fund is comprised of representatives from both the employer and members of the plan. The Board of Trustees of the pension fund is required by law to act in the interest of the fund and all relevant stakeholders. The Board of Trustees of the pension fund is responsible for the investment policy with regard to the assets of the fund. The funds are managed by Proven Fund Managers Limited.

The Bank also participates in a number of other post-employment benefit plans, including group-life, insured and self-insured health care, gratuity, and other supplementary plans. These plans are not funded.

The defined benefit plans are valued annually on 31 December by independent actuaries.

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16. Pensions and Post-Employment Benefit Obligations (Continued)

The amounts recognised in the statement of financial position in relation to other post-employment obligations were determined as follows:

	2022 $'000	2021 $'000
Present value of unfunded obligations	322,801	562,290

The movement in the present value of unfunded obligations was as follows:

	2022 $'000	2021 $'000
At January 1	562,290	429,928
Amounts recognised in profit or loss, included in staff costs (Note 27) -		
Current service cost	59,395	52,625
Interest cost	44,864	38,601
Past service cost vested	(4,126)	18,060
	100,133	109,286
Amounts recognised in other comprehensive income -		
Losses from changes in demographic assumptions	18,592	6,927
(Gains)/losses from changes in financial assumptions	(340,498)	23,028
Experience gains	(17,716)	(6,879)
	(339,622)	23,076
At December 31	322,801	562,290

The composition of the liability recognised in relation to the other post-employment benefit obligations in the statement of financial position is as follows:

	2022 $'000	2021 $'000
Gratuity Plan	40,066	49,912
Group Life Plan	103,748	211,872
Insured Group Health	167,504	286,135
Self-Insured Health Plan	11,483	14,371
	322,801	562,290

(expressed in Jamaican dollars unless otherwise indicated)

16. Pensions and Post-Employment Benefit Obligations (Continued)

The principal actuarial assumptions used were as follows:

	2022	2021
Discount rate	13.00%	8.00%
Long term inflation rate	5.50%	5.00%
Future salary increases	7.00%	6.50%
Future pension increases	5.50%	5.00%
Health costs inflation	7.00%	6.00%

The average life expectancy in years of pensioners retiring at age 60 on the statement of financial position date is as follows:

	2022	2021
Male	25.20	25.00
Female	27.50	27.30

Mortality assumptions are based on the American 1994 Group Annuitant Mortality (GAM94) table.

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

	Impact on other employee benefit obligations	
	2022	2021
Discount rate		
+ 1%	(24,893)	(56,634)
- 1%	31,287	75,900
Medical inflation rate		
+ 1%	32,922	76,750
- 1%	(26,352)	(58,046)

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

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

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16. Pensions and Post-Employment Benefit Obligations (Continued)

Risks associated with other post-employment obligations

Through its defined benefit pension plans and post-employment medical plans, the Bank is exposed to a number of risks, the most significant of which are detailed below:

Changes in bond yields
A decrease in Government of Jamaica bond yields will increase plan liabilities.

Inflation risk
Higher inflation will lead to higher liabilities if discretionary pension increases are granted.

Life expectancy
The majority of the plan’s obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan’s liabilities. This is particularly significant, where inflationary increases result in higher sensitivity to changes in life expectancy.

The Board of Trustees is ultimately responsible for the establishment and oversight of the plan’s risk management framework. The Trustees have established an Investment Committee for managing and monitoring the overall risk management process, as well as implementing policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity. The Committee is responsible for the formulating and monitoring of investment portfolios and investment strategies for the plan. The Committee is also responsible for the approval and monitoring of appropriate trading limits, reports, and compliance controls to ensure that the mandate is properly followed.

Funding levels are monitored on an annual basis and the current agreed contribution rate is 5% of pensionable salaries with the option to contribute an additional 5%. The next triennial valuation is due to be completed for the plan’s financial position as at 31 December 2022. The Bank considers that the contribution rates set at the last valuation date to be sufficient to prevent a deficit and that regular contributions, which are based on service costs, will be assessed following the upcoming valuation to determine if any increase is required.

The average duration of the post-employment benefit obligation (in years) is as follows:

	2022	2021
Gratuity Plan	6.5	8.3
Group Life Plan	16.6	23.8
Insured Group Health	17.8	16.3
Self-Insured Health Plan	13.4	23.9

17. Other Liabilities

	2022 $'000	2021 $'000
Due to fellow subsidiaries	94,531	74,925
Credit card loyalty scheme	179,075	221,144
Staff vacation and bonus accruals	165,446	196,046
Trade payables	14,754	13,948
Corporate tax payable	27,154	114,945
Withholding tax payable	32,136	23,022
Settlement payable	286,875	238,242
Other accruals	373,774	184,964
	1,173,745	1,067,236

Total balance, excluding the credit card loyalty scheme balance, falls due within 12 months of the year end.

18. Share Capital and Dividends

	2022 $'000	2021 $'000
Authorised –		
629,482,500 ordinary shares		
102,500 non-redeemable convertible preference shares		
Issued and fully paid –		
628,670,000 (2021 – 628,670,000) ordinary shares of no par value	2,377,685	2,377,685
102,500 (2021 – 102,500) non-redeemable convertible preference shares	1,186,496	1,186,496
	3,564,181	3,564,181

Dividends declared and paid to ordinary shareholders for the year ended 31 December 2022 amounts to $59,530,000 (2021 - $nil).

Convertible preference shares
In April 2009, the Bank issued 100,000 5.5% non-voting, non-redeemable, non-cumulative, convertible preference shares to International Finance Corporation (IFC) for a cash consideration of US$10 million. These shares are each convertible into 1,536.55 ordinary shares. After their third anniversary of ownership by IFC, these preference shares are convertible to ordinary shares at IFC's option under certain conditions. The shares may, however, be converted at any time if they are owned by a member of the GraceKennedy Group. If there is a change in control of the Bank as defined by the agreement, the shares will be immediately converted into ordinary shares.

On 2 July 2014, all the preference shares previously held by the IFC in the Bank were sold to First Global Holdings Limited (FGH) and all beneficial titles to the shares were transferred to FGH, free and clear of any liens or encumbrances.

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18. Share Capital (Continued)

Convertible preference shares (continued)
In November 2015, the Bank issued 2,500 5.5% non-voting, non- redeemable, non- cumulative Preference Shares to GraceKennedy (St. Lucia) Limited for a cash consideration of US$2.5 million. The shares are convertible only into ordinary shares and the conversion of the preference shares held by GraceKennedy (St. Lucia) Limited shall be subject to the mutual agreement in writing of the Bank and holder of the shares.

Declaration of dividends on these preference shares is at the discretion of, and requires approval from, the Bank's Board of Directors. Such declarations are possible only if there are available distributable profits, as defined by the agreement. Dividends on ordinary shares are subordinate to dividends on these preference shares. Additionally, the preference shareholders are not entitled to further distributions.

Preference dividends declared and paid to FGH for the year ended 31 December 2022 amounts to US$550,000 ($86,295,000) (2021 - US$550,000 ($79,682,000)).

Preference dividends declared and paid to GraceKennedy (St. Lucia) Limited for the year ended 31 December 2022 amounts to US$137,500 ($21,249,000) (2021 - US$137,500 ($21,379,000)).

In the event of liquidation, preference shareholders are entitled to the aggregate paid-up share subscription price, as defined by the agreement, plus accrued and unpaid preferred dividends after all debt obligations have been met. These preference shareholders have priority over the ordinary shareholders, subject to the availability of adequate net assets.

19. Statutory Reserve Fund

This fund is maintained in accordance with Section 41 of The Banking Services Act, 2014 which requires that a minimum of 15% of the net profits, as defined by the Act, of the Bank be transferred to the reserve fund until the amount of the fund is equal to 50% of the paid-up capital of the Bank and thereafter 10% of the net profits until the amount of the fund is equal to the paid-up capital of the Bank.

During the year, the Bank transferred $300,000,000 (2021 - $300,000,000) to this reserve.

20. Fair Value Reserve

	2022 $'000	2021 $'000
Unrealised (losses)/gains on the revaluation of investment securities	(173,272)	465,676
Less: Deferred tax effect	88,623	(124,325)
	(84,649)	341,351

21. Loan Loss Reserve

This is a non-distributable reserve representing the excess of the provision for credit losses determined using the Bank of Jamaica's regulatory requirements over the amount determined under IFRS (Note 7).

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22. Retained Earnings Reserve

The Banking Services Act 2020 (formerly Banking Act, 1992) permits the transfer of any portion of the Bank's net profit to a retained earnings reserve. This reserve constitutes a part of the capital base for the purpose of determining the maximum level of deposit liabilities and lending to customers. The deposit liabilities of the Bank and other indebtedness for borrowed money together with all interest accrued should not exceed twenty-five times its capital base.

23. Interest Income on Securities

	2022 $'000	2021 $'000
Interest income was earned on –		
Investments classified as amortised cost	539,354	689,053
Investments classified as fair value through other comprehensive income	715,981	420,772
Securities purchased under resale agreements	64,114	32,077
	1,319,449	1,141,902

24. Other Interest Expense

	2022 $'000	2021 $'000
Interest expense on lease liabilities (Note 15)	41,548	43,147
Other	58,727	51,576
	100,275	94,723

25. Fee and Commission Income

	2022 $'000	2021 $'000
Credit related	1,269,592	923,007
Retail banking	341,584	274,085
Other	256,002	340,876
	1,867,178	1,537,968

26. Gains on Investment Activities

	2022 $'000	2021 $'000
Sale of investments classified as FVOCI	139,717	92,798

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27. Staff Costs

	2022 $'000	2021 $'000
Wages and salaries	1,442,648	1,404,677
Statutory contributions	138,241	124,460
Defined contribution scheme	75,741	73,541
Other post-employment benefit obligations (Note 16)	100,133	109,286
Other	149,572	140,406
	1,906,335	1,852,370

28. Administration and Other Expenses

	2022 $'000	2021 $'000
Advertising and publicity	77,259	56,935
Asset tax	173,443	145,825
Auditors' remuneration	20,944	17,345
Bank charges	84,655	60,978
Computer expenses	373,212	346,658
Credit card and payment services expenses	802,825	531,125
Directors' fees (Note 30)	13,112	9,077
Fees and charges	13,390	13,047
Royalties	149,587	135,820
Group expenses	694,562	611,513
Insurance and licensing	131,561	97,739
Irrecoverable General Consumption Tax	94,569	82,660
Postage and courier	54,381	36,774
Professional fees	43,196	36,271
Rental and maintenance	107,373	64,449
Telephone and data	93,978	83,489
Other property cost, and utilities	114,832	96,132
Stationery	13,426	10,774
Other	81,559	99,364
	3,137,864	2,535,975

Group expenses incurred relate to management and divisional fees paid to its parent and ultimate parent company.

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29. Taxation

Taxation is based on profit for the year adjusted for taxation purposes and comprises:

	2022 $'000	2021 $'000
Current income tax	197,541	227,411
Deferred income tax (Note 11)	(71,168)	(106,257)
	126,373	121,154

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

	2022 $'000	2021 $'000
Profit before taxation	585,408	636,900
Tax calculated at a tax rate of 33⅓%	195,136	212,300
Adjusted for the effects of –		
Tax free income	(140,663)	(116,344)
Asset tax not deductible for tax purposes	57,814	48,608
Other expenses not deductible for tax purposes	13,498	3,086
Prior year adjustment on deferred tax	-	(23,994)
Sundry items	588	(2,502)
	126,373	121,154

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

	2022			2021		
	Before tax $'000	Tax credit/ (charged) (Note 11) $'000	After tax $'000	Before tax $'000	Tax credit/ (charged) (Note 11) $'000	After tax $'000
Items that may be subsequently reclassified to profit or loss:						
Realised (gains)/losses on investments at fair value through other comprehensive income	(107,078)	35,693	(71,385)	106,190	(31,825)	74,365
Unrealised losses on investments at fair value through other comprehensive income	(531,922)	177,307	(354,615)	(563,288)	184,192	(379,096)
Item that will not be reclassified to profit or loss:						
Re-measurements of post-employment benefit obligations (Note 16)	339,622	(113,207)	226,415	(23,076)	7,692	(15,384)
	(299,378)	99,793	(199,585)	(480,174)	160,059	(320,115)

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30. Related Party Transactions and Balances

(a) The statement of financial position includes balances, in the ordinary course of business, with the ultimate parent company, fellow subsidiaries, key management personnel (directors and senior executives) and other related parties as follows:

	2022 $'000	2021 $'000
Loans and leases		
Ultimate parent company	77,446	28,228
Fellow subsidiaries	252,657	622,211
Key management personnel	161,174	109,256
Other related entities	52,162	52,824
	543,439	812,519
Loans to key management personnel and other related entities -		
At 1 January	812,519	515,339
Loans advanced	333,666	616,067
Loan repayments received	(604,319)	(320,668)
Interest charged	36,171	39,784
Interest received	(34,599)	(38,003)
At 31 December	543,438	812,519

The loans to key management personnel attract interest rates ranging between 4% - 18% and are repayable in the years 2023 – 2052. These loans are secured and are made on terms similar to those offered to other employees.

	2022 $'000	2021 $'000
Other assets –		
Fellow subsidiaries	60,955	53,514
Customer deposits –		
Ultimate parent company	1,370,619	1,636,703
Fellow subsidiaries	5,741,178	6,237,196
Key management personnel	71,983	72,783
Other related entities	1,468,342	1,868,731
	8,652,122	9,815,413
Other liabilities –		
Fellow subsidiaries	90,000	69,972

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30. Related Party Transactions and Balances (Continued)

(b) The statement of comprehensive income includes transactions, in the ordinary course of business, with the ultimate parent company, fellow subsidiaries, key management personnel (directors and senior executives) and other related parties as follows:

	2022 $'000	2021 $'000
Interest earned on loans and leases –		
Ultimate parent company	3,592	1,096
Fellow subsidiaries	20,073	28,531
Key management personnel	11,666	7,848
Other related entities	840	2,309
	36,171	39,784
Interest and fees earned on deposits and other accounts –		
Ultimate parent company	5,742	2,683
Fellow subsidiaries	273,588	256,511
Key management personnel	1,323	27
Other related entities	8,674	569
	289,327	259,790
Interest incurred on customer deposits –		
Ultimate parent company	25,453	28,308
Fellow subsidiaries	151,261	62,564
Key management personnel	1,323	1,017
Other related entities	8,674	31,101
	186,711	122,990
Staff costs – key management personnel		
Directors	57,643	62,374
Senior executives	157,625	150,918
	215,268	213,292
Administration and other expenses –		
Ultimate parent company	193,448	194,680
Fellow subsidiaries	690,427	571,280
Directors' fees (Note 28)	13,112	9,077
	896,987	775,037

Other related entities primarily represent entities which are under the control of directors of the Bank.

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31. Reconciliation of Liabilities arising from Financial Activities

The table below details the movement in debt for each of the periods presented. Financing activities represent leases and other loans, excluding bank overdrafts and amounts included as cash and cash equivalents:

	Other Borrowed Funds $'000	Lease Liabilities $'000	Total $'000
At 1 January 2021	1,202,156	660,423	1,862,579
Cash movements from financing activities -			
Loans received	415,857	-	415,857
Lease additions	-	103,385	103,385
Principal repayments	(548,152)	(109,290)	(657,442)
Non-cash movements	38,309	6,442	44,751
At 31 December 2021	1,108,170	660,960	1,769,130
Cash movements from financing activities -			
Loans received	696,587	-	696,587
Lease additions	-	68,166	68,166
Principal repayments	(722,101)	(169,029)	(891,130)
Non-cash movements	(3,039)	-	(3,039)
At 31 December 2022	1,079,617	560,097	1,639,714

32. Commitments and Contingent Liabilities

Loan commitments
Loans approved but not disbursed at year end amounted to $2,010,869,000 (2021 – $1,855,705,000).

Contingent liabilities
Guarantees and letters of credit for which the Bank has an indirect obligation at year end amounted to $169,660,000 (2021 - $209,379,000).

33. Litigation, Claims and Assessments

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

In respect of claims asserted against the Bank, according to the principles outlined above, which have not been provided for, management is of the opinion that such claims are either without merit, can be successfully defended or will result in exposure to the Bank which is immaterial to both its financial position and results of operations.

34. Subsequent Event

Effective 1 April 2023, the Bank of Jamaica (BOJ) has increased the domestic and the foreign currency Cash Reserve Requirements (CRRs) by 1% for deposit-taking institutions (DTIs) like the Bank. Currently, DTIs are required to hold a minimum of 5.0% of their Jamaican dollar denominated prescribed liabilities and 13.0% of their foreign currency denominated prescribed liabilities, as cash reserves at the BOJ.