Financial Statements of

JN CAYMAN

March 31, 2018

JN CAYMAN

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Independent Auditors' Report to the Directors

Opinion

We have audited the financial statements of JN Cayman (the "Society"), which comprise the statement of financial position as at March 31, 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Society as at March 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Society in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Cayman Islands and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Restrictions on distribution and use

This report has been prepared for and only for JN Cayman in accordance with the terms of our engagement letter dated February 20, 2018 and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Report on other legal and regulatory requirements

Our audit was done for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included in Schedule A is presented for the purpose of complying with Section 21 of the Building Societies Law (2014 Revision) of the Cayman Islands and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements, and in our opinion is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

Management is responsible for the preparation of financial statements in accordance with IFRS, 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 Society'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 Society or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

- 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 Society'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 Society's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Society to cease to continue as a going concern.

KPMG

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

- 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.

KPMG

June 29, 2018

JN CAYMAN

Statement of Financial Position

As at March 31, 2018
(stated in Cayman Islands dollars)

	Notes	2018	2017
Assets			
Cash and cash equivalents	4	3,572,780	3,905,815
Loans, net	5,16	32,161,644	32,565,804
Due from related companies	16	9,877	13,997,767
Investments	6,16	3,272,806	4,328,693
Other receivables	7	257,653	234,447
Property and equipment	8	2,785,816	2,887,906
Total assets	CI$	42,060,576	57,920,432
Liabilities and shareholders' equity			
Liabilities			
Savings and investment shares	9,16	33,539,944	49,472,373
Interest payable	10,16	238,084	488,704
Other payables		511,126	535,388
Due to related companies		79,797	0
		34,368,951	50,496,465
Shareholders' equity			
Paid-up proprietary shares	11	3,579,950	3,579,950
Special proprietary shares Series A	11	300,000	300,000
Contributed capital	12	1,361,978	1,361,978
Credit loss reserve	13	1,764,875	2,229,442
Accumulated surplus/(deficit)		684,822	(47,403)
		7,691,625	7,423,967
Total liabilities and shareholders' equity	CI$	42,060,576	57,920,432

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors on June 29, 2018

DAMION HYLTON
______________________________Director

MARCUS SIMMONDS
______________________________Director

JN CAYMAN

Statement of Profit or Loss and Other Comprehensive Income

Year ended March 31, 2018
(stated in Cayman Islands dollars)

	Notes	2018	2017
Interest income			
Interest on loans	16	2,207,794	2,103,490
Interest from investments		343,267	771,809
Other interest income		51,623	283,876
		2,602,684	3,159,175
Interest expense			
Interest on savings and investment shares	16	(830,163)	(1,660,437)
Other interest and bank charges		(6,905)	(10,041)
Net interest income before provisions and other items		1,765,616	1,488,697
(Increase)/decrease in provision for loan losses	5	(55,766)	1,525,212
Bad debts written off		(215,069)	(1,119,617)
Impairment on investment		0	(401,287)
Reversal of impairment on investment		228,592	0
(Loss)/gain on disposal of investment		(137,247)	191,070
Net income after provisions and before other items		1,586,126	1,684,075
Other income	14,16	575,971	745,027
Operating expenses	15,16	(1,894,439)	(1,761,200)
Net profit for the year	CI$	267,658	667,902
Other comprehensive income			
Items that are or may be reclassified to profit or loss:			
Change in fair value of available-for-sale investments		(245,238)	(295,747)
Reclassification to profit and loss		245,238	441,846
Other comprehensive income		0	146,099
Total comprehensive income for the year	CI$	267,658	814,001

See accompanying notes to financial statements.

JN CAYMAN

Statement of Changes in Shareholders' Equity

Year ended March 31, 2018
(stated in Cayman Islands dollars)

	Note	Paid-up proprietary shares	Special proprietary shares	Contributed capital	Fair value reserve	Credit loss reserve	Accumulated (deficit)/surplus	Total Shareholders' equity
Balances at March 31, 2016	CI$	3,579,950	300,000	1,361,978	(146,099)	2,539,490	(1,025,353)	6,609,966
Transfer from credit loss reserve	13	0	0	0	0	(310,048)	310,048	0
Total comprehensive income for the period								
Net profit for the year		0	0	0	0	0	667,902	667,902
Other comprehensive income		0	0	0	146,099	0	0	146,099
Balances at March 31, 2017	CI$	3,579,950	300,000	1,361,978	0	2,229,442	(47,403)	7,423,967
Transfer from credit loss reserve	13	0				(464,567)	464,567	0
Total comprehensive income for the period								
Net profit for the year		0					267,658	267,658
Balances at March 31, 2018	CI$	3,579,950	300,000	1,361,978	0	1,764,875	684,822	7,691,625

See accompanying notes to financial statements.

JN CAYMAN

Statement of Cash Flows

Year ended March 31, 2018
(stated in Cayman Islands dollars)

	Notes	2018	2017
Operating activities			
Net profit for year		267,658	667,902
Adjustments for items not involving the movement of cash:			
Increase/(decrease) in provision for loan losses	5	55,766	(1,525,212)
Depreciation	8	136,323	126,146
Impairment on investments		0	401,287
Reversal of impairment on investments		(228,592)	0
Realised losses/(gains) on sale of investments		137,247	(191,070)
Amortization of investments		(1,216)	66,628
Bad debt written off		215,069	1,119,617
Changes in operating assets and liabilities:			
Loans, net		133,325	3,894,071
Interest receivable		0	16,264
Due from related companies		13,987,890	(12,491,630)
Investments (accrued interest)		82,547	343,346
Other receivables		(23,206)	57,937
Savings and investment shares		(15,932,429)	(1,131,780)
Interest payable		(250,620)	(5,759)
Other payables		(24,261)	31,659
Due to related companies		79,797	0
Net cash used in operating activities		(1,364,703)	(8,620,594)
Investing activities			
Proceeds from sale/maturity of investments		6,377,133	35,154,481
Purchases of investments		(5,311,232)	(15,233,232)
Purchases of property and equipment		(34,233)	(238,107)
Loan repurchased from JN Bank	16	0	(11,056,155)
Net cash from investing activities		1,031,668	8,626,987
Net (decrease)/increase in cash and cash equivalents during year		(333,035)	6,393
Cash and cash equivalents at beginning of year		3,905,815	3,899,422
Cash and cash equivalents at end of year	4	CI$ 3,572,780	3,905,815
Supplemental information on cash flows from operating activities:			
Interest received		CI$ 2,611,708	3,518,785
Interest paid		CI$ 1,089,807	1,676,237

See accompanying notes to financial statements.

1. Incorporation and background information

JN Cayman (the "Society") was incorporated under the Building Societies Law (2014 Revision) of the Cayman Islands on October 5, 1992. On August 11, 2015, National Building Society of Cayman changed its name to JN Cayman.

The Society's principal activities are granting home loans and operating savings share accounts in the Cayman Islands.

On March 29, 2018, the majority share ownership of the Society was transferred from JN Bank Limited ("JN Bank") (formerly Jamaica National Building Society) to JN Financial Group Limited (the "Parent"). JN Financial Group Limited is a wholly owned subsidiary of Jamaica National Group Limited (the "Ultimate Parent"). These three companies are incorporated in Jamaica.

The JN Group was reorganised under three distinct holding companies in accordance with the Scheme of Arrangement (the "Scheme"), which was sanctioned by Order of the Supreme Court in Jamaica on December 22, 2016.

The registered office of the Society is 29 Elgin Avenue, George Town, Grand Cayman, Cayman Islands.

2. Statement of compliance and basis of preparation

(a) Statement of compliance:

These financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards ("IFRS") and interpretations as issued by the International Accounting Standards Board ("IASB"). The accounting policies have been applied consistently by the Society. The significant accounting policies including changes during the year, adopted by the Society are included in notes 23 and 24.

(b) Basis of preparation and measurement

The financial statements have been prepared on a going concern basis, with historical cost accounting basis being applied, except for financial instruments, which are measured at amortised cost using the effective interest rate method, less impairment, if any, and investments classified as available-for-sale, which are carried at fair value through other comprehensive income.

(c) Functional and presentation currency

The functional and presentation currency of the Society is the Cayman Islands dollar, the local currency of the Cayman Islands, reflecting the fact that the Society's operations are primarily conducted using this currency.

The Cayman Islands dollar is pegged to the United States dollar at CI$1 = US$1.20.

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

(d) Use of estimates and judgements

The preparation of these financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date, income and expenses for the year then ended. Actual results could differ from those estimates.

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 3.

3. Critical accounting estimates and judgements in applying accounting policies

Judgements made by management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are discussed below:

(a) Key sources of estimation uncertainty:

(i) Loan loss provision

In determining the amounts recognised for the impairment of loans in the financial statements, management makes judgments regarding indicators of impairment, that is, whether there are indicators that suggest there may be a measurable decrease in the estimated future cash flows from receivables, for example, default and adverse economic conditions. Management further estimates the expected future cash flows of loans that have impairment indicators as well as the timing of such cash flows. Historical loss experience is applied where indicators of impairment are not observable on individual significant loans with similar characteristics, such as credit risks. A loan is considered impaired if there is objective evidence indicating that one or more events have had a negative effect on the estimated future cash flows of that loan.

(ii) Residual value and expected useful life of property and equipment

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

It is probable that outcomes within the next financial year may require material adjustments to the assumptions and carrying amounts reflected in the financial statements.

4. Cash and cash equivalents

	Note		2018	2017
Cash at bank	16		3,347,802	3,582,670
Cash in hand			224,978	323,145
		CI$	3,572,780	3,905,815

Cash at bank includes deposits with the Royal Bank of Canada, which is a large financial institution located in the Cayman Islands. Deposits are also held with JN Bank. In addition, certificates of deposits denominated in United States Dollars are held with JN Bank for the equivalent of CI$1,581,793 (2017: CI$100,100) with annual interest rates of 0.95%, 1.00% and 1.10% (2017: 1.5%). These certificates of deposit have maturity dates of April 3, 2018, April 7, 2018 and April 23, 2018.

5. Loans, net

		2018	2017
Loans, gross		33,951,746	34,300,140
Provision for loan losses		(1,790,102)	(1,734,336)
Loans, net	CI$	32,161,644	32,565,804

Loans are repayable in monthly instalments of principal and interest, and are primarily secured by a first charge on real estate in the Cayman Islands. CI$92,275 (2017: CI$82,995) of loans outstanding at March 31, 2018 are secured by savings and investment shares.

Of the loans outstanding as at March 31, 2018, 12.9% (2017: 14.9%) are repayable in United States dollars with the remaining loans being repayable in Cayman Islands dollars.

As at March 31, 2018, there were 213 loans (2017: 223 loans) outstanding and 22 (2017: 29) that were over one year in arrears.

As at March 31, 2018, the gross outstanding amount of the loans which were in arrears for over one year was CI$3,248,928 (2017: CI$3,557,998). Loans which were in arrears for more than 90 days but less than one year amounted to CI$2,751,389 (2017: CI$2,818,246).

The Directors have determined that the provision for loan losses is adequate as at March 31, 2018. The actual amounts ultimately collected are subject to the impact of future changes in business and economic conditions as well as other factors. The ultimate loan losses incurred by the Society may vary significantly from the estimated amounts included in the financial statements and the differences could be material. The estimates are continuously reviewed and, as adjustments to these provisions become necessary, they are reflected in current operations.

5. Loans, net (continued)

The Society manages certain loans on behalf of JN Bank. These are loans that were originally granted by the Society but have since been sold to JN Bank over the past several years, and as such are no longer included within the loan portfolio of the Society.

Loans of CI$Nil (2017: CI$11,056,155) were repurchased from JN Bank during the year.

(a) Loan portfolio

The Society's loan portfolio, less provision for loan losses, without taking into account any collateral or credit enhancements, is as follows:

		2018	2017
Mortgage loans		32,069,369	32,482,809
Share loans		92,275	82,995
	CI$	32,161,644	32,565,804

The Society's mortgage loan agreements include the right to call mortgages at any time with six months' notice.

(b) Loans, less provision for loan losses, maturity profile

The maturity profile of the loans is as follows:

		2018	2017
Within 3 months		535	91,659
3 months to 1 year		17,568	36,831
1 year to 5 years		988,511	810,845
5 years and over		31,155,030	31,626,469
	CI$	32,161,644	32,565,804

5. Loans, net (continued)

(c) Concentration

The Society's loan portfolio, less provision for losses, is concentrated as follows:

	2018		2017	
	Number of loans	CI$	Number of loans	CI$
Professional and other services	2	5,873	0	0
Individuals	211	32,155,771	223	32,565,804
	213	32,161,644	223	32,565,804

(d) Impaired loans

The Society's loan portfolio, sorted by impairment, is as follows:

		2018	2017
Loans neither past due nor impaired		26,615,182	26,557,053
Past due but not impaired			
30 to 59 days		808,729	720,664
60 to 89 days		527,518	646,179
Individually impaired			
90 to 180 days		1,742,514	1,279,192
181 to 365 days		1,008,875	1,539,054
12 to 18 months		1,189,756	1,322,615
Over 18 months		2,059,172	2,235,383
Less provision for loan losses (note 5(e))		(1,790,102)	(1,734,336)
Loans, net	CI$	32,161,644	32,565,804

Loans on which interest is no longer accrued amounted to CI$6,000,317 (2017: CI$6,376,244) and represents 17.7% (2017: 18.6%) of the gross loans portfolio.

5. Loans, net (continued)

(e) Provision for loan losses

The movement in the provision for loan losses is as follows:

		2018	2017
At beginning of the year		1,734,336	3,259,548
Increase/(decrease) in provision for loan losses		55,766	(1,525,212)
Balance at end of the year	CI$	1,790,102	1,734,336

The total provision for loan losses and credit loss reserve against loans is broken down as follows:

		2018	2017
Provision for loan losses		1,790,102	1,734,336
Credit loss reserve (note 13)		1,764,875	2,229,442
	CI$	3,554,977	3,963,778

6. Investments

	Note	2018	2017
Certificates of deposit with JN Bank	16	2,055,675	2,968,322
Interest receivable on long term investments (US$ bonds)	16	11,469	31,809
Interest receivable on certificate of deposit (reinvested)	16	13,115	75,322
Long term investments (US$ bonds)	16	1,192,547	1,253,240
	CI$	3,272,806	4,328,693

Certificates of deposit with JN Bank comprise a Great Britain Pound Sterling certificate of deposit of CI$2,055,675 (2017: CI$2,968,322). It accrues interest at 0.75% per annum and will mature on September 4, 2018. Long term investments include investments in US$ sovereign bonds issued by the Government of Barbados. Subsequent to March 31, 2018, the Society disposed of the investment.

7. Other receivables

		2018	2017
Miscellaneous receivables		185,885	162,940
Prepayments		71,768	71,507
	CI$	257,653	234,447

Miscellaneous receivables consist primarily of mortgage late fees receivable, loan fees receivable and staff advances.

8. Property and equipment

		Buildings	Motor Vehicles	Leasehold Improvements	Computer Software	Computer Hardware	Furniture and Fittings	Office Equipment	Work in Progress	Total
Cost:										
March 31, 2016		3,045,858	61,800	165,603	85,966	149,592	301,097	92,896	112,890	4,015,702
Transfer		112,890	0	0	0	0	0	0	(112,890)	0
Additions		136,593	47,229	0	35,161	8,852	8,553	1,719	0	238,107
March 31, 2017		3,295,341	109,029	165,603	121,127	158,444	309,650	94,615	0	4,253,809
Transfer		0	0	0	0	0	0	0	0	0
Additions		4,790	-	0	13,859	-	4,515	11,069	0	34,233
March 31, 2018		3,300,131	109,029	165,603	134,986	158,444	314,165	105,684	0	4,288,042
Depreciation:										
March 31, 2016		500,825	50,219	165,603	85,940	147,970	227,308	61,892	0	1,239,757
Charge for year		79,265	14,180	0	8,660	2,480	15,864	5,697	0	126,146
March 31, 2017		580,090	64,399	165,603	94,600	150,450	243,172	67,589	0	1,365,903
Charge for year		82,503	14,180	0	13,387	3,471	16,780	6,002	0	136,323
March 31, 2018		662,593	78,579	165,603	107,987	153,921	259,952	73,591	0	1,502,226
Net book values as at March 31, 2018	CI$	2,637,538	30,450	0	26,999	4,523	54,213	32,093	0	2,785,816
Net book values as at March 31, 2017	CI$	2,715,251	44,630	0	26,527	7,994	64,478	27,026	0	2,887,906

9. Savings and investment shares

(a) Savings and investment shares maturity profile

Savings shares are repayable on demand and have no voting rights. Investment shares are repayable upon maturity and have no voting rights. The maturity distribution of the savings and investment shares is as follows:

	2018	2017
On demand	4,009,442	3,626,418
Within one year	29,504,417	45,813,811
Over one year	26,085	32,144
	CI$33,539,944	49,472,373

As at March 31, 2018, savings shares denominated in United States dollars as a proportion of the total savings and investment shares comprised of 3.9% (2017: 2.2%), while investment shares denominated in United States dollars made up 76.0% (2017: 79.4%) of the total savings and investment shares balance. The British pound savings and investment shares made up 5.2% (2017: 5.7%) of total savings and investment shares. The remaining savings and investment shares are denominated in Cayman Islands dollars.

(b) Concentration

The Society's savings and investment shares portfolio is concentrated as follows:

	2018		2017	
	Number of accounts	CI$	Number of accounts	CI$
Public authorities	3	647,973	2	615,515
Financial institutions	13	7,602,272	22	8,638,930
Commercial and business	18	434,082	22	378,984
Individuals	1,563	24,855,617	1,764	39,838,944
	1,597	33,539,944	1,810	49,472,373

According to Section 19 of the Building Societies Law (2014 Revision), the Society may receive deposits or loans at interest, provided that the total amount so received on deposits or loans and not repaid by the Society shall not at any time exceed seventy-five percent of the amount for the time being secured to the Society by mortgages from its members. In performing the assessment, the Society must disregard any loan accounts that are more than 12 months in arrears, as well as any loans for which the property has been in the possession of the Society for more than 12 months.

9. Savings and investment shares (continued)

As at March 31, 2018, the Society was compliant with Section 19 of the Building Societies Law (2014 Revision) compared with the prior year where it had accepted deposits in excess of the limits prescribed by the Building Societies Law (2014 Revision) by $10,903,063. The Society had been in non-compliance for a period extending beyond 12 months, and management executed a remediation plan and became compliant in February 2018.

Subsequent to March 31, 2018 to the date of these financial statements, the Society continues to be in compliance with Section 19.

10. Interest payable

		2018	2017
Savings shares and investment shares		224,571	484,215
Loans		13,513	4,489
	CI$	238,084	488,704

11. Share capital

Paid-up proprietary shareholders are entitled to vote at any meeting of the Society, with each paid-up proprietary shareholder having one vote. Paid-up proprietary shares are issued in multiples of CI$10 and CI$1 each. Special proprietary shares Series A are entitled to vote at any meeting of the Society, with each share carrying five votes each and giving the holder the right to appoint at least 75% of the Directors of the Society. Special proprietary shares Series A are issued at CI$10 each.

	Paid-up proprietary shares		Special proprietary shares Series A	
	Number	Value (CI$)	Number	Value (CI$)
Balances at March 31, 2017	1,722,950	3,579,950	30,000	300,000
Amendments	15,600	0	0	0
Balances at March 31, 2018	1,738,550	3,579,950	30,000	300,000

12. Contributed capital

During the year ended March 31, 2014, the Society sold its interests in JN Money Services Cayman (JNMS Cayman), a company incorporated in the Cayman Islands, to JN Bank for a surplus of CI$1,361,978, which is included in Contributed Capital within equity as this is a common control transaction between entities with the same ultimate beneficial owner.

13. Credit loss reserve

The other reserves consist of the following:

		2018	2017
Credit loss reserve		1,764,875	2,229,442
Made up of:			
Balance at beginning of year		2,229,442	2,539,490
Transfer to accumulated (deficit)/surplus		(464,567)	(310,048)
	CI$	1,764,875	2,229,442

This reserve represents a general provision for loan losses as described in note 24(d).

14. Other income

	Note		2018	2017
Commissions and service charges	16		268,198	424,872
Late charges			218,872	239,207
Rental income	16		72,000	72,000
Miscellaneous income			16,901	8,948
		CI$	575,971	745,027

15. Operating expenses

	Note		2018	2017
Staff cost excluding pension contributions	16		772,937	505,218
Professional fees			231,059	356,739
Depreciation	8		136,323	126,145
Staff insurance			108,049	64,032
Government licences			105,282	56,049
Audit fees			100,804	100,839
Utilities			63,668	61,450
Repairs and maintenance			53,548	37,877
Other expenses	16		46,803	42,456
Advertising			42,257	35,718
Business insurance			40,926	39,954
Office cleaning			38,435	38,152
Computer maintenance and license fees			37,362	71,868
Pension contributions	16, 17		30,763	17,701
Security			26,500	30,877
Printing and postage			17,651	23,575
Travel and entertainment			15,651	13,291
Rent			14,081	7,661
Foreign exchange loss			8,093	128,205
Donations			3,015	1,130
Office supplies			1,232	2,263
		CI$	1,894,439	1,761,200

16. Related parties

Included in these financial statements are the following balances and transactions with JN Bank, related companies and the Directors of the Society:

		2018	2017
JN Bank			
Statement of financial position			
Cash and cash equivalents	CI$	2,058,825	2,525,525
Purchase of loans from JN Bank		0	11,056,155
Due (to)/from JN Bank (i)		(79,797)	13,976,000
Investments		2,055,675	2,968,322
Savings and investment shares (v)		(444,275)	(231,812)
Interest receivable on certificate of deposits		13,115	75,322
Profit or loss and other comprehensive income			
Other income (vii)		119,845	368,712
Interest income on certificate of deposit (viii)		121,511	471,795
Operating expense – management fees		(100,201)	0
JN Fund Managers			
Statement of financial position			
Investments (vi)	CI$	1,201,963	1,253,240
Interest receivable on debt securities		11,469	31,809
Profit or loss and other comprehensive income			
Interest income on investments (vi)		270,849	642,226
Operating expenses (vi)		242	725
JN Money Services and its subsidiaries			
Statement of financial position			
Due from JNMS and its subsidiaries (i)	CI$	9,877	21,767
Savings and investment shares (v)		(8,789)	(556,087)
Profit or loss and other comprehensive income			
Interest expense on savings and investment shares		(2,757)	(8,469)
Rent received		72,000	72,000
Other income		70,000	0

16. Related parties (continued)

Directors and other related parties

Statement of financial position		
Loans, net (ii)	CI$ 101,385	225,490
Savings and investment shares (iii)	(5,206,748)	(5,997,978)
Interest payable	(46,668)	(53,592)
Profit or loss and other comprehensive income		
Interest income on loans	9,905	13,086
Interest expense on savings and investment shares	(168,352)	(226,445)
Operating expenses (iv)	(170,138)	(300,488)

(i) Due from related companies have no fixed terms of repayment and do not bear interest. However, settlements occur on a frequent basis.

(ii) Loans, net, interest receivable and interest income relate to loans extended to key management personnel of the Society and of the Parent of the Society including any close family members for those individuals. As at March 31, 2018, these loans are accruing interest at rates from U.S. Prime + 1.00% to U.S. Prime + 3.75% (2017: U.S. Prime + 1.25% to U.S. Prime +2.25%).

(iii) As at March 31, 2018, savings and investment shares accounts held by Directors include savings shares accruing interest at rates of 0.25% (2017: 0% to 0.3%) and investment shares accruing interest at rates from 0.75% to 2.50% (2017: 0.8 % to 4.0%).

(iv) Operating expenses include salaries, Director fees and other compensation including pension and other short-term benefits to directors and charges from other related parties of the Society.

(v) Includes JNMS and JN Bank deposit accounts held with the Society.

(vi) A custody arrangement was established is in place with JN Fund Managers (JNFM), a subsidiary of JN Financial Group Limited, to facilitate the Society's investment in other financial instruments.

(vii) As at March 31, 2018, the total value of the loan portfolio owned by JN Bank but managed by the Society was CI$2,744,719 (2017: CI$3,004,390). The Society is paid a management fee by JN Bank for managing these loans. During the year ended March 31, 2018, the Society received a management fee of CI$189,845 (2017: CI$368,732), which is included in other income in the statement of profit or loss and other comprehensive income and in the commission and services charges sub-section of note 14.

(viii) The interest income on certificates of deposits consist of interest income from the United States Dollars certificate of deposit disclosed as part of cash and cash equivalents as well as interest income from the Great Britain Pound Sterling certificate of deposit classified as part of investments.

17. Pension scheme

As required by the Cayman Islands Law, the Society participates in a defined contribution pension scheme, the Cayman National Pension Plan.

The Society is required to match each employee's contribution on a one to one basis up to 5% of the employee's annual salary. During the year ended March 31, 2018, the Society contributed CI$30,763 (2017: CI$17,701) to this scheme on behalf of its employees.

18. Regulatory matters

The Society is subject to regulatory capital requirements established by CIMA. Failure to meet minimum regulatory capital requirements can initiate certain actions by CIMA that if undertaken, could have a direct material effect on the Society's financial statements. Under capital adequacy guidelines used by CIMA, the Society must meet specific capital guidelines that involve quantitative measures of the Society's assets, liabilities, and certain off-statement of financial position items as calculated under regulatory accounting practices. The Society's regulatory capital amounts and classification are also subject to qualitative judgments by CIMA about components and risk weightings.

As at March 31, 2018, the Society's regulatory capital amount and its risk asset ratio, as well as CIMA's minimum requirements, are presented in the following table:

		Actual	2018 minimum for regulatory capital and capital adequacy purposes	Actual	2017 minimum for regulatory capital and capital adequacy purposes
Regulatory capital	CI$	7,692,000	3,441,000	7,424,000	5,513,000
Risk asset ratio		33.5%	15%	19.7%	15%
Liquidity ratio		16.9%	10%	14.1%	10%

19. Financial risk management

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

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

The Society has a risk management framework that seeks to balance strong corporate oversight with well-defined independent risk management functions within the business. The Society also has appropriate documented strategies, policies and processes, and authority delegated throughout the organization.

The Board of Directors has overall responsibility for the establishment and oversight of the Society's risk management framework. It also has responsibility for capital management and to ensure prudential operations and regulatory compliance. The Board of Directors manage and review major risk exposures and concentrations across the organization in accordance with best practices.

The risk management policies and procedures are established by the Ultimate Parent Company's Risk Management Unit to identify, assess and measure the risks faced by the Society, to set appropriate risk limits and controls, and to monitor risks and adherence to limits set. The focus of financial risk management for the Society is ensuring that the Society has adequate economic capital and that the use of and proceeds from its financial assets are sufficient to fund the obligations arising from its contractual liabilities.

A key aspect in the management of the Society's financial risk is through matching the timing of cash flows from assets and liabilities. The Society actively manages its investments using an approach that balances quality, diversification, liquidity and return.

The portfolio is reviewed on a periodic basis, as are investment guidelines and limits with the objective of ensuring that the Society can always meet its obligations without undue cost and in accordance with the Society's internal and regulatory capital requirements.

The Ultimate Parent Company's Audit Committee is responsible for monitoring compliance with the Society's risk management policies and procedures. The Group Audit Committee is assisted by the Group Internal Audit Department which undertakes cyclical reviews of risk management controls and procedures, the results of which are reported to the heads of the Compliance Department, the Risk Management Unit, the Group Audit Committee and the Board of Directors.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Society, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

19. Financial risk management (continued)

(a) Credit risk

Credit risk is the risk of counterparty default which will result in financial loss to the Society if it were to occur. The credit risk arise principally from the loans that the Society grants to its customers. Further financial assets which potentially subject the Society to concentrations of credit risk consist of cash and cash equivalents, other receivables, amounts due from related companies and investments.

The Society manages credit risk associated with loans by evaluating each debtor's ability to repay the loans, ensuring that:

(i) all loans are properly collateralised and the securities are sufficiently insured;

(ii) An appropriate and sufficient first charge is registered over the collateral;

(iii) loan loss provisioning is in keeping with the Society's policy for the provision of loan losses, as discussed in note 5(e);

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

(v) strong underwriting and credit administration services are in place.

The decision for each loan is evaluated by the Credit Committee, prior to funds being advanced.

A significant proportion of the cash and cash equivalents is represented by cash balances held in current and savings accounts with the Royal Bank of Canada and JN Bank, respectively. Investments consist of a certificate of deposit with JN Bank and long term bonds held in Barbados bonds.

The Society limits its exposure to credit risk by only investing in rated instruments or instruments issued by rated counterparties with good credit ratings. Management also monitors and reviews the credit rating of its counterparties. In instances where the credit rating has fallen under a certain level, management will dispose of the holding as soon as practical.

As such, management does not expect any counterparty to fail to meet its obligations. On March 9, 2017, Moody's downgraded the Barbados' government bond and issuer rating. The investment held in the Barbados bonds has been disposed of after March 31, 2018.

Management monitors its amounts due from related companies and its exposure to credit risk and does not anticipate any material losses as a result of the concentration risk. There are no material exposures related to other receivables at reporting date.

19. Financial risk management (continued)

(b) Liquidity risk

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

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

(ii) *Asset/Market Liquidity Risk*– is the Society's inability to liquidate assets in an orderly fashion without incurring loss on liquidation. This usually stems from illiquid markets or market disruptions.

Management of liquidity risk

The Society manages this risk by maintaining an adequate level of liquid funds.

An analysis of the undiscounted cash flows of the Society's financial liabilities on the basis of their earliest possible contractual maturity is presented below. The analysis provided is by estimating timing of the amounts recognised in the statement of financial position. There was no change in the nature of exposure to liquidity risk which the Society is subjected to or its approach to measuring and managing the risk during the year.

March 31, 2018		Less than 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Total
Assets							
Cash and cash equivalents		3,572,780	0	0	0	0	3,572,780
Loans, net		535	245	17,323	988,511	31,155,030	32,161,644
Due from related companies		9,877	0	0	0	0	9,877
Investments		24,584	2,055,675	0	1,192,547	0	3,272,806
Other receivables		257,653	0	0	0	0	257,653
	CI$	3,865,429	2,055,920	17,323	2,181,058	31,155,030	39,274,760
Liabilities							
Savings and investment shares		23,845,656	6,479,471	3,188,732	26,085	0	33,539,944
Interest payable		238,084	0	0	0	0	238,084
Other payables		187,207	323,919	0	0	0	511,126
Due to related company		79,797	0	0	0	0	79,797
	CI$	24,350,744	6,803,390	3,188,732	26,085	0	34,368,951
On-statement of financial position gap, being total maturity gap		(20,485,315)	(4,747,470)	(3,171,409)	2,154,973	31,155,030	4,905,809
Cumulative gap	CI$	(20,485,315)	(25,232,785)	(28,404,194)	(26,249,221)	4,905,809	

19. Financial risk management (continued)

(b) Liquidity risk (continued)

March 31, 2017		Less than 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Total
Assets							
Cash and cash equivalents		3,905,815	0	0	0	0	3,905,815
Loans, net		91,659	0	36,831	810,845	31,626,469	32,565,804
Due from related companies		13,997,767	0	0	0	0	13,997,767
Investments		31,809	3,043,644	0	0	1,253,240	4,328,693
Other receivables		234,447	0	0	0	0	234,447
	CI$	18,261,497	3,043,644	36,831	810,845	32,879,709	55,032,526
Liabilities							
Savings and investment shares		33,146,733	7,472,816	8,820,680	32,144	0	49,472,373
Interest payable		488,704	0	0	0	0	488,704
Other payables		247,067	288,321	0	0	0	535,388
	CI$	33,882,504	7,761,137	8,820,680	32,144	0	50,496,465
On-statement of financial position gap, being total maturity gap		(15,621,007)	(4,717,493)	(8,783,849)	778,701	32,879,709	4,536,061
Cumulative gap	CI$	(15,621,007)	(20,338,500)	(29,122,349)	(28,343,648)	4,536,061	

Consistent with most building societies with similar lending and deposit-taking activities, the management of mismatched maturity positions is ultimately based on management's reasonable expectations of future events. It is reasonably possible that the expectations associated with these amounts could change in the near term (i.e. within one year) and that the effect of such changes could be material to the financial statements. It is management's belief that the Society's cash and cash equivalents together with maturing loans will be sufficient to cover any net withdrawal from savings or investment shares over the next twelve months. The Society does not expect that all its customers will demand payment of funds at the earliest date possible.

(c) Market risk

Market risk is the risk that changes in interest rates and foreign exchange rates will affect the fair value positions held by the Society. Market risk arises in the Society due to fluctuation in the fair value of liabilities and in the fair value of investments held.

Management of market risk

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. For each of the major components of market risk, the Parent Company has policies and procedures in place which detail how each risk should be monitored and managed.

The management of each of these major components of risk and the exposure of the Society at the reporting date are addressed below:

19. Financial risk management (continued)

(c) Market risk (continued)

(i) Currency risk

The Society invests in financial instruments and enters into transactions denominated in currencies other than its functional currency, the Cayman Islands dollar. Consequently, the Society is exposed to the risk that the exchange rate of the Cayman Islands dollar relative to other foreign currencies may change in a manner that has an adverse effect on the value of the portion of the Society's assets or liabilities that are denominated in currencies other than the Cayman Islands dollar. The Society's currency risk is managed in accordance with policies and procedures in place.

The impact of the fluctuation of the exchange rate on the Pound Sterling savings and investment shares are internally hedged through the Great Britain Pound Sterling certificate of deposit issued to the Society by JN Bank. The Society held a small cash balance denominated in British pounds, this does not expose the Society to a significant level of currency risk.

The Cayman Islands dollar is pegged to the United States dollar at CI$1 = US$1.20, and any amounts in United States dollars are reflected in the financial statements at this rate and therefore are not exposed to currency risk. The Society's total exposure to currency risk as at March 31, 2018 and 2017 is considered insignificant, and thus, fluctuations in exchange rates would not have a significant impact on the Society's net profit/(loss) for the year.

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

	2018	2017
United States dollars	(1,955,339)	(1,793,545)
Pound Sterling	282,959	235,515

(ii) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Society's exposure to changes in interest rates relates to the Society's financial assets and liabilities. The Society is primarily exposed to interest rate risk through its principal activity of granting long term loans while obtaining financing through short term liabilities comprising savings and investment shares. Management continuously monitors the Society's exposure to interest rate risk.

The Society is not exposed to interest rate risk on its fixed rate financial assets and liabilities, including financial assets and liabilities that do not accrue interest, as at March 31, 2018:

19. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

Fixed rate		2018	2017
Cash and cash equivalents		3,572,780	3,905,815
Due from related companies		9,877	13,997,767
Investments		2,076,001	3,043,644
Other receivables		257,653	234,447
Savings and investment shares		(29,530,502)	(45,537,979)
Interest payable		(238,084)	(488,704)
Other payables		(511,126)	(535,388)
Due to related companies		(79,797)	0
	CI$	(24,443,198)	(25,380,398)

The Society's net exposure to interest rate risk on its variable rate financial assets and liabilities as at March 31, 2018 and 2017 were as follows:

Variable rate		2018	2017
Loans, net		32,161,644	32,565,804
Investments		1,196,805	1,285,049
Savings and investment shares		(4,009,442)	(3,929,419)
	CI$	29,349,007	29,921,434

As at March 31, 2018, 59.1% (2017: 64.5%) of the Society's fixed rate savings and investment shares have maturities of less than 3 months.

For the year ended March 31, 2018, the range of rates of interest, which approximate the effective yields of these statements of financial position assets and liabilities, were as follows:

Assets	2018	2017
Cash and cash equivalents	0.00% - 1.11%	0.00% - 2.95%
Investments	5.31% - 9.19%	4.45% - 8.56%
Loans, net	4.25% - 8.25%	4.25% - 8.25%
Liabilities		
Savings and investment shares	0.20% - 2.50%	0.25% - 4.25%

19. Financial risk management (continued)

(c) *Market risk (continued)*

(ii) *Interest rate risk (continued)*

The following is a summary of the Society's interest rate gap position:

March 31, 2018	**Carrying Amount**	**Less than 3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
Cash and cash equivalents	3,572,780	3,572,780	-	-	-
Loans	32,161,644	535	17,568	1,117,284	31,026,257
Investments	3,272,806	24,584	2,055,675	1,192,547	-
	39,007,230	3,597,899	2,073,243	2,309,831	31,026,257
Savings and investment shares	(33,539,944)	(23,845,656)	(9,668,203)	(26,085)	-
	5,467,286	(20,247,757)	(7,594,960)	2,283,746	31,026,257
March 31, 2017					
Cash and cash equivalents	3,905,815	3,905,815	-	-	-
Loans	32,565,622	3,083	32,242	874,284	31,655,913
Investments	4,328,693	-	3,043,644	-	1,285,049
	40,800,130	3,908,898	3,075,986	874,284	32,940,962
Savings & Investment shares	(49,472,373)	(32,973,176)	(16,467,053)	(32,144)	-
	(8,672,243)	(29,064,278)	(13,391,067)	842,140	32,940,962

There was no change in the nature of exposure to interest rate risk to which the Society is subjected to or its approach to measuring and managing this risk during the year.

Management closely monitors the average yield on the portfolio to determine any necessity for repricing.

(iii) *Sensitivity to interest rate movements:*

At March 31, 2018 and 2017, a 1% increase in the interest rate, with all other variables held constant, would adjust profit and loss by the following amounts shown below:

		2018	2017
Change in comprehensive income for year	CI$	172,830	(392,900)

A 1% decrease would have resulted in an opposite effect of $172,830 (2017: ($392,900)) on the above financial statement amounts, assuming that all other variables remain constant.

19. Financial risk management (continued)

(d) Operational risk (continued)

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

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

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

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

Compliance with the Society's standards is supported by a programme of periodic reviews undertaken by Group Internal Audit, Group Compliance and Risk Management Unit. The results of internal audit reviews are discussed with management of the business to which they relate and the recommendations and required actions agreed. Summaries of the Group internal audit reviews are submitted to the Group Audit committee and to the Board of Directors. There was no change in the nature of exposure to operational risk to which the Society is subjected to or its approach to measuring and managing this risk during the year.

19. Financial risk management (continued)

(e) Capital management

The Society's Capital Management policy is to maintain a strong capital base so as to sustain future development of the Society. The Board of Directors, together with responsible senior management of the Society, monitor the return on capital.

There was no change in the capital requirement or the Society's approach to managing capital during the year.

20. Corresponding figures

Certain corresponding figures have been reclassified to conform to the financial statement presentation adopted in the current year.

21. Contingent liabilities

There are several claims which have been brought against the Society in respect of damages for alleged breach of contract and other matters. It is the opinion of the Society's legal advisor that, in the unlikely event that these claims should be successful, liability should not be significant. Accordingly, no provision has been recorded against these claims.

22. Financial Instruments

The following methods and assumptions were used to estimate the fair value of significant on-balance sheet financial instruments:

(a) Cash and cash equivalents
The cash and cash equivalents comprise cash resources and deposits with financial institutions with original maturities of three months or less.

(b) *Other receivables, due from/(to) related companies, interest payable and other payables*
The above items are substantially short term in nature, and do not bear interest. As such their carrying amounts approximate their fair values.

22. Financial Instruments (continued)

(a) *Fair value of Financial Instruments*

The following table sets out the fair values of financial instruments of the Society using the valuation methods and assumptions described above. The fair values disclosed do not include non-financial assets, such as property and equipment.

		Fair Value Measurements at Reporting Date Using			
2018		Level 1	Level 2	Level 3	Total
Assets:					
Cash and cash equivalents		3,572,780	0	0	3,572,780
Loans, net		0	32,161,644	0	32,161,644
Investments		0	3,272,806	0	3,272,806
Other assets*		0	267,530	0	267,530
Total assets	US$	3,572,780	35,701,980	0	39,274,760
Liabilities:					
Savings and investment shares		0	33,539,944	0	33,539,944
Other liabilities**		0	829,008	0	829,008
Total liabilities	US$	0	34,368,952	0	34,368,952

		Fair Value Measurements at Reporting Date Using			
2017		Level 1	Level 2	Level 3	Total
Assets:					
Cash and cash equivalents		3,905,815	0	0	3,905,815
Loans, net		0	32,565,804	0	32,565,804
Investments		0	4,328,693	0	4,328,693
Other assets*		0	267,530	0	267,530
Total assets	US$	3,905,815	37,162,027	0	41,067,842
Liabilities:					
Savings and investment shares		0	49,472,373	0	49,472,373
Other liabilities**		0	829,008	0	829,008
Total liabilities	US$	0	50,301,381	0	50,301,381

** Other assets include due from related companies and other receivables*
*** Other liabilities include interest payable, other payables and due to related companies*

23. Changes in accounting policies

Except for the changes below, the Society has consistently applied the accounting policies set out in note 24 to all periods presented in the financial statements.

The details, nature and effects of changes are explained below:

Certain new, revised and amended standards and interpretations came into effect during the current financial year. They did not have any significant effect on the financial statements, and, based on the Society's current operations, none of them have any impact on the amounts and disclosures in the financial statements.

Amendments to IAS 7, *Statement of Cash Flows*, effective for accounting periods beginning on or after January 1, 2017, requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows.

The adoption of this amendment did not result in any change to amounts recognised, presented and disclosed in the financial statements.

24. Significant accounting policies

Except for the changes explained in note 23, the Society has applied the following accounting policies to all periods presented in the financial statements:

(a) Property and equipment

Items of property and equipment are measured at cost, less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item, if it is probable that the future economic benefits embodied within the part will flow to the Society and its cost can be reliably measured. The cost of day-to-day servicing of property and equipment is recognised in statement of profit or loss and other comprehensive income/loss as incurred.

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

Any gain or loss on disposal of an item of property and equipment is recognised in statement of profit or loss and other comprehensive income.

Property and equipment are depreciated on a straight-line basis at annual rates to write down the assets to their estimated residual values over their estimated useful lives and is generally recognised in profit or loss.

24. Significant accounting policies (continued)

(a) Property and equipment (continued)

The depreciation rates are as follows:

Buildings	2.5% per annum
Motor vehicles	20% per annum
Leasehold improvements	33% per annum
Computer software & hardware	33% per annum
Furniture, fittings & office equipment	10% per annum

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

(b) Financial instruments

(i) Classification

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset, exchange financial instruments under conditions that are potentially favourable or an equity instrument of another enterprise. Financial assets comprise cash and cash equivalents, loans, net, due from related companies, investments and other receivables.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable. Financial liabilities comprise savings and investment shares, interest payable, other payables and due to related companies.

Management determines the classification of investments at the time of acquisition and takes account of the purpose for which the investments were acquired. Investments [long term investments (US$ bonds)] are classified as available for sale investments.

(ii) Recognition

The Society recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

(iii) Derecognition

Financial assets

The Society derecognises a financial asset only when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. The difference between the carrying amount of the financial asset derecognised and the consideration received or receivable is recognised in the statement of profit or loss and other comprehensive income.

24. Significant accounting policies (continued)

(b) Financial instruments (continued)

(iii) Derecognition (continued)

Financial liabilities

The Society derecognises financial liabilities when, and only when, the Society's obligations are discharged, cancelled, or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in the statement of profit or loss and other comprehensive income.

(iv)Measurement

Financial instruments are measured initially at cost which is the fair value of the consideration given or received. Subsequent to initial recognition all financial instruments are carried at amortised cost using the effective interest rate method for all financial instruments.

(v) Specific instruments

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash held in current accounts and short-term investments with original maturities of less than 3 months. These are subject to an insignificant risk of changes in value, and are held for the purposes of meeting short-term commitments, rather than for investment purposes.

Loans

Mortgage loans are categorised as loans and are carried at amortised cost net of any provisions for impairment of such loans. When loans cannot be recovered, they are written off and charged against the bad debt expense; however, this may not occur until all the necessary legal proceedings have been completed and the amount of the loss is finally determined. In certain cases, they are written off when the borrower has consistently defaulted on their monthly repayments and management deem the amounts irrecoverable. In assessing each loan, securities held as collateral and other factors such as business and economic conditions are taken into account.

Investments

Management determines the classification of investments at the time of acquisition and takes account of the purpose for which the investments were acquired. Investments [long term investments (US$ bonds)] are classified as available for sale investments. Certificate of deposit, with original maturity of one year, carrying amount approximates its fair value.

24. Significant accounting policies (continued)

(b)Financial instruments (continued)

(vi) Identification and measurement of impairment

The carrying amounts of the Society's financial assets are reviewed at each reporting date to determine whether there is objective evidence that financial instruments not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and the loss event has an impact on the future cash flows of the asset that can be estimated reliably. If any such indication exists, the asset's recoverable amount is estimated at each reporting date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

Objective evidence that financial assets are impaired include default or delinquency by a borrower, restructuring of a loan or advance by the Society on terms that the Society would not otherwise consider, adverse changes in the payment status of the borrowers or issuers, indications that a debtor or issuer will enter into bankruptcy or observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

The Society considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risks.

In assessing collective impairment, the Society uses historical information of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in the statement of profit or loss and other comprehensive income/loss and reflected in bad debt expense. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

24. Significant accounting policies (continued)

(b) Financial instruments (continued)

(vii) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Society has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

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

(viii) Interest income and expense

Interest income is recognised in the profit or loss and other comprehensive loss using the effective interest rate method, unless the collection of income is considered doubtful, in which case interest income is recognised on a cash basis. Interest expense is recognised in the profit or loss and other comprehensive loss on an accrual basis.

c) Provisions and contingencies

(i) Provisions

A provision is recognised when the Society has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

24. Significant accounting policies (continued)

(c) Provisions and contingencies (continued)

(ii) Contingencies

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

(d) Credit loss reserve

The credit loss reserve is maintained at a level considered adequate to create a general provision for probable credit losses and is based on management's evaluation of individual loans in the credit portfolio. The evaluation takes all relevant matters into consideration, including prevailing and anticipated business and economic conditions, the collateral held, the debtor's ability to repay the loan and any loan on which interest payments and principal repayments are ninety or more days in arrears. The credit loss reserve is a reserve apportioned from the retained earnings. This credit loss reserve is in excess of provision for loan losses determined under IFRS in accordance with Group policy.

(e) Taxation

The Cayman Islands levies no taxes on income or gains.

(f) Employee benefits

Employee benefits comprise all forms of consideration given by the Society in exchange for services rendered by employees. These include current or short-term benefits such as salaries, statutory contributions paid, annual vacation leave and sick leave.

Short-term employee benefits are recognised in the statement of profit or loss and other comprehensive income. The expected cost of vacation leave that accumulates is recognised over the period that the employee becomes entitled to the leave. Obligations for contributions to the defined contribution pension scheme are recognised as an expense as incurred.

24. Significant accounting policies (continued)

(g) Related parties

A related party is a person or entity that is related to the Society ("reporting entity").

(A) A person or close member of that person's family is related to a reporting entity if that person:

(i) has control or joint control over the reporting entity;
(ii) has significant influence over the reporting entity; or
(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(B) An entity is related to a reporting entity if any of the following conditions applies:

(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the entity is a member).
(iii) Both entities are joint ventures of the same third party.
(iv) One entity is a joint venture of a third party and the other entity is an associate of the third party.
(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
(vi) The entity is controlled, or jointly controlled by a person identified in (A).
(vii) A person identified in (A) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or a parent of the entity).
(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity (or of a parent of the entity).

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

24. Significant accounting policies (continued)

(h) New accounting standards and interpretations not yet effective

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

- IFRS 15, *Revenue from Contracts with Customers*, effective for accounting periods beginning on or after January 1, 2018, replaces IAS 11-Construction Contracts, IAS 18 - Revenue, IFRIC 13 -Customer Loyalty Programmes, IFRIC 15 -Agreements for the Construction of Real Estate, IFRIC 18- Transfer of Assets from Customers and SIC-31 Revenue – Barter Transactions Involving Advertising Services. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties.

  The Society will apply a five-step model to determine when to recognise revenue, and at what amount. The model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised at a point in time, when control of goods or services is transferred to the customer; or over time, in a manner that best reflects the entity's performance.

  There will be new qualitative and quantitative disclosure requirements to describe the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

  The Society is assessing the impact that the standard will have on its 2019 financial statements.

- IFRS 9, *Financial Instruments*
  The Society is required to adopt IFRS 9 from January 1, 2018. The standard replaces IAS 39 Financial Instruments: Recognition and Measurement and sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. It contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and available for sale. Based on its preliminary assessment, the company does not believe that the new classification requirements will have a material impact on its accounting for accounts receivables, loans, investments in debt securities and securities purchased under resale agreements. However, the Society is still in the process of its assessment and the final impact is not yet known.

24. Significant accounting policies (continued)

(h) New accounting standards and interpretations not yet effective (continued)

- IFRS 9, *Financial Instruments (continued)*

  IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments.

  Under IFRS 9, loss allowances will be measured on either of the following bases:

  - 12-month ECLs: these are ECLs that result from possible default events within the
  - 12 months after the reporting date; and
  - Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

  Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for short-term receivables without a significant financing component.

  The Society believes that impairment losses are likely to increase and become more volatile for assets in the scope of IFRS 9 impairment model. However, the Society is still in the process of determining the likely financial impact on its financial statements.

  IFRS 9 will require extensive disclosures, in particular for credit risk and ECLs. The Society's assessment included an analysis to identify data gaps against current processes and the Society is in the process of implementing the system and control changes that it believes will be necessary to capture the required data.

  Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as follows:

  - The Society will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement as well as impairment changes. Differences in the carrying amounts of financial instruments resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at April 1, 2018.

24. Significant accounting policies (continued)

(h) New accounting standards and interpretations not yet effective (continued)

- IFRS 9, *Financial Instruments (continued)*

  The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application:

  - The determination of the business model within which a financial asset is held
  - The designation and revocation of previous designations of certain financial assets as measured at FVTPL
  - The designation of certain investments in equity investments not held for trading as at FVOCI.

  The Society is assessing the impact that the standard will have on its 2019 financial statements.

  Amendments to IFRS 9, *Financial Instruments*, effective retrospectively for annual periods beginning on or after January 1, 2019 clarifies the treatment of:

  (i) Prepayment features with negative compensation:
  Financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

  (ii) Modifications to financial liabilities:
  If the initial application of IFRS 9 results in a change in accounting policy arising from modified or exchanged fixed rate financial liabilities, retrospective application is required, subject to particular transitional reliefs. There is no change to the accounting for costs and fees when a liability has been modified, but not substantially. These are recognised as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

  The Society is assessing the impact that this amendment will have on its 2020 financial statements.

24. Significant accounting policies (continued)

(h) New accounting standards and interpretations not yet effective (continued)

- IFRS 16, *Leases*, which is effective for annual reporting periods beginning on or after January 1, 2019, eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Companies will be required to bring all major leases on-balance sheet, recognising new assets and liabilities. The on-balance sheet liability will attract interest; the total lease expense will be higher in the early years of a lease even if a lease has fixed regular cash rentals. Optional lessee exemption will apply to short- term leases and for low-value items with value of US$5,000 or less.

  Lessor accounting remains similar to current practice as the lessor will continue to classify leases as finance and operating leases. Finance lease accounting will be based on IAS 17 lease accounting, with recognition of net investment in lease comprising lease receivable and residual asset. Operating lease accounting will be based on IAS 17 operating lease accounting.

  The Society is assessing the impact that this amendment will have on its 2020 financial statements.

- IFRIC 22, *Foreign Currency Transactions and Advance Consideration*, effective for annual reporting periods beginning on or after January 1, 2018, addresses how to determine the transaction date when an entity recognises a non-monetary asset or liability (e.g. non-refundable advance consideration in a foreign currency) before recognising the related asset, expense or income. It is not applicable when an entity measures the related asset, expense or income or initial recognition at fair value or at the fair value of the consideration paid or received at the date of initial recognition of the non-monetary asset or liability.

  The interpretation clarifies that the transaction date is the date on which the Society initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.

  The Society is assessing the impact that this interpretation will have on its 2019 financial statements.

Schedule A – Section 21 Building Societies Law (2014 Revision) Disclosure

The following table is being prepared to comply with Section 21 of the Building Societies Law (2014 Revision):

Section 22(a)

Mortgage balances under $20,000:	**JN Cayman 2018**	**JN Cayman 2018**	**JN Cayman 2017**	**JN Cayman 2017**
Categories, gross	Number of accounts	Value (CI$)	Number of accounts	Value (CI$)
$1 - $2,000	3	2,725	16	4,650
$2,001 - $10,000	9	47,484	10	43,341
$10,001 - $15,000	6	74,132	6	77,479
$15,001 - $20,000	6	99,301	9	155,143
TOTAL	24	223.642	41	280,613

Section 22(b)

Loan values with balances of:	**JN Cayman 2018**	**JN Cayman 2018**	**JN Cayman 2017**	**JN Cayman 2017**
Categories, gross	Number of accounts	Value (CI$)	Number of accounts	Value (CI$)
Greater than $20,000	177	33,709,696	182	34,019,527
TOTAL	177	33,709,696	182	34,019,527

Section 22(b)

	JN Cayman 2018	**JN Cayman 2017**
	Number of Mortgage deeds	Number of Mortgage deeds
Inspected by auditors	37	17

Section 22(1)(b) Form A

Particulars to be set forth in case of a mortgage, where the repayments are not upwards of twelve months in arrears, the property has not been upwards of twelve months in possession of the Society and where the present debt exceeds CI$20,000.

Date of advance	Whether subject to prior mortgage or charge. If so, what amount	Original value of property	Amount advance	Present debt	Amount of payments in advance	Amount of payments in arrears
	$'000	$'000	$'000	$'000	$'000	$'000
2-Mar-11	0	288	238	190	0	8
29-Nov-08	0	260	192	194	0	7
27-Mar-12	0	400	325	304	0	6
Total	0	948	755	688	0	21

Section 22(1)(b) Form B

Particulars to be set forth in case of property of which the Society has been upwards of twelve months in possession.

Date of Advance	Whether subject to prior mortgage or charge. If so, what amount	Original value of property	Amount advanced	Present debt	Amount of payments in advance	Amount of payments in arrears
	$'000	$'000	$'000	$'000	$'000	$'000
13-Aug-10	0	604	404	340	0	0
1-Jun-10	0	140	139	129	0	4
18-Jan-13	0	216	170	156	0	4
20-Oct-09	0	295	166	145	0	28
5-Aug-10	0	850	353	324	0	73
6-Jul-10	0	743	557	312	0	358
27-Jul-10	0	215	150	79	0	92
4-Nov-09	0	440	405	357	0	55
14-Nov-06	0	185	150	132	0	118
24-May-10	0	200	111	103	0	40
10-Jun-09	0	365	261	248	0	50
7-Jan-11	0	385	287	248	0	13
29-Sep-10	0	210	164	156	0	35
30-Jun-10	0	312	245	220	0	20
25-Aug-08	0	265	190	142	0	6
31-May-12	0	250	125	107	0	5
14-Feb-11	0	450	376	287	0	56
25-Jan-09	0	310	383	204	0	57
13-Oct-10	0	301	476	318	0	5
Total	0	6,736	5,112	4,007	0	1,019

Section 22(1)(b) Form C

Particulars to be set forth in case of a mortgage where the repayments are upwards of twelve months in arrears, and the property has not been upwards of twelve months in possession of the Society.

Date of Advance	Whether subject to prior mortgage or charge. If so, what amount	Original value of property	Amount advanced	Present debt	Amount of payments in advance	Amount of payments in arrears
	$'000	$'000	$'000	$'000	$'000	$'000
12-Aug-09	0	585	314	324	0	251
25-May-10	0	-	41	35	0	49
8-Sep-10	0	51	132	124	0	71
Total	0	636	487	483	0	371