Financial Statements of

JN CAYMAN

March 31, 2019

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, 2019, the statements of profit and loss and other comprehensive income, changes in shareholders' 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, 2019, 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 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 JN Cayman in accordance with the terms of our engagement letter dated February 6, 2019 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.

Independent Auditors' Report to the Directors (continued)

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

Management is responsible for the preparation and fair presentation of the 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.
- 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 30, 2019

JN CAYMAN

Statement of Financial Position

As at March 31, 2019
(stated in Cayman Islands dollars)

	Notes	2019	2018
Assets			
Cash and cash equivalents	4	7,029,293	3,572,780
Loans, net	5,13	28,750,797	32,161,644
Due from related companies	13	0	9,877
Investments	6,13	367,505	3,272,806
Other receivables		163,932	257,653
Property and equipment	7	2,653,227	2,785,816
Total assets	CI$	38,964,754	42,060,576
Liabilities and shareholders' equity			
Liabilities			
Savings and investment shares	8,13	30,400,331	33,539,944
Interest payable	13	254,655	238,084
Other payables		502,082	511,126
Due to related companies	13	202,986	79,797
		31,360,054	34,368,951
Shareholders' equity			
Paid-up proprietary shares	9	3,579,950	3,579,950
Special proprietary shares Series A	9	300,000	300,000
Contributed capital	10	1,361,978	1,361,978
Credit loss reserve		2,025,737	1,764,875
Accumulated surplus		337,035	684,822
		7,604,700	7,691,625
Total liabilities and shareholders' equity	CI$	38,964,754	42,060,576

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors on June 30, 2019.

GLADSTONE LLOYD LEWARS
______________________________ Director

MARCUS SAINT JOHN SIMMONDS
______________________________ Director

JN CAYMAN

Statement of Profit or Loss and Other Comprehensive Income

Year ended March 31, 2019
(stated in Cayman Islands dollars)

	Notes	2019	2018
Interest income			
Interest on loans	13	1,985,305	2,207,794
Interest from investments		26,468	343,267
Other interest income		41,003	51,623
		2,052,776	2,602,684
Interest expense			
Interest on savings and investment shares	13	(601,066)	(830,163)
Other interest and bank charges		(9,006)	(6,905)
Net interest income before provisions and other items		1,442,704	1,765,616
Increase in provision for loan losses	5	0	(55,766)
Allowance for expected credit losses movement	5	304,728	0
Bad debts written off		(386,607)	(215,069)
Reversal of impairment on investment		11,426	228,592
Gain/(loss) on disposal of investment		31,568	(137,247)
Net income after provisions and allowances, before other items		1,403,819	1,586,126
Other income	11,13	559,730	575,971
Operating expenses	12,13	(1,829,444)	(1,894,439)
Net profit for the year	CI$	134,105	267,658
Other comprehensive income			
Items that are or may be reclassified to profit or loss:			
Change in fair value of available-for-sale investments		0	(245,238)
Reclassification to profit and loss		0	245,238
Other comprehensive income		0	0
Total comprehensive income for the year	CI$	134,105	267,658

See accompanying notes to financial statements.

JN CAYMAN

Statement of Changes in Shareholders' Equity

Year ended March 31, 2019
(stated in Cayman Islands dollars)

	Note	Paid-up proprietary shares	Special proprietary shares	Contributed capital	Fair value reserve	Credit loss reserve	Accumulated surplus	Total Shareholders' equity
Balances at April 1, 2017	CI$	3,579,950	300,000	1,361,978	0	2,229,442	(47,403)	7,423,967
Transfer from credit loss reserve		0	0	0	0	(464,567)	464,567	0
Total comprehensive income for the period								
Net profit for the year		0	0	0	0	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
IFRS 9 transition adjustment					904	(207,081)	(13,949)	(220,126)
Balances at April 1, 2018		3,579,950	300,000	1,361,978	904	1,557,794	670,873	7,471,499
Transfer from credit loss reserve		0	0	0	(904)	467,943	(467,943)	(904)
Total comprehensive income for the period								
Net profit for the year		0	0	0	0	0	134,105	134,105
Balances at March 31, 2019	CI$	3,579,950	300,000	1,361,978	0	2,025,737	337,035	7,604,700

See accompanying notes to financial statements.

JN CAYMAN

Statement of Cash Flows

Year ended March 31, 2019
(stated in Cayman Islands dollars)

	Notes		2019	2018
Operating activities				
Net profit for year			134,105	267,658
Adjustments for:				
Increase in provision for loan losses	5		0	55,766
Allowance for expected credit losses movement	5		(304,728)	0
Depreciation	7		134,474	136,323
Reversal of impairment on investments			(11,426)	(228,592)
Realised (gains)/losses on sale of investments			(31,568)	137,247
Amortisation of investments			(4,258)	(1,216)
Bad debt written off			386,607	215,069
Changes in operating assets and liabilities:				
Loans, net			3,508,494	133,325
Investments (accrued interest)			(14,237)	82,547
Other receivables			93,721	(23,206)
Savings and investment shares			(3,139,613)	(15,932,429)
Interest payable			16,571	(250,620)
Other payables			(9,044)	(24,261)
Due to/from related companies			133,066	14,067,686
Net cash provided by/(used in) operating activities			892,164	(1,364,703)
Investing activities				
Proceeds from sale/maturity of investments			2,490,130	6,369,040
Purchases of investments			0	(5,311,232)
Purchases of property and equipment			(1,886)	(34,233)
Net cash from investing activities			2,488,244	1,023,575
Effect of exchange rate fluctuations on cash and cash equivalents			76,105	8,093
Net increase/(decrease) in cash and cash equivalents during year			3,456,513	(333,035)
Cash and cash equivalents at beginning of year			3,572,780	3,905,815
Cash and cash equivalents at end of year	4	CI$	7,029,293	3,572,780

Supplemental information on cash flows from operating activities:

Interest received	CI$	2,098,281	2,611,708
Interest paid	CI$	607,821	1,089,807

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 The Jamaica National Group Limited (the "Ultimate Parent"). These three companies are incorporated in Jamaica.

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"). The financial statements were authorised for issue by the Board of Directors on June 30, 2019. The accounting policies have been applied consistently by the Society, except as discussed further below.

This is the first set of the Society's annual financial statements in which IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* have been applied.

Details of the Society's significant accounting policies including changes during the year, are included in Notes 20 and 21.

(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.

(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, assumptions 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. Although these amounts are based on management's best knowledge of current events and actions, actual amounts could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised 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.

(e) Corresponding information
Whenever necessary, corresponding figures are reclassified to conform to the current year's presentation.

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) Allowance for expected credit losses

Applicable from April 1, 2018 - Measurement of the allowance for expected credit losses (ECL)

The measurement of the allowance for expected credit losses for financial assets measured at amortised cost and Fair Value through Other Comprehensive Income (FVOCI) is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 16, which also sets out key sensitivities of the ECL to changes in these elements.

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

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

3. Critical accounting estimates and judgements in applying accounting policies (continued)

(a) Key sources of estimation uncertainty (continued)

(i) Allowance for expected credit losses (continued)

Applicable from April 1, 2018 - Measurement of the allowance for expected credit losses (ECL) (continued)

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 credit-impaired when one or more events that have occurred and have a significant impact on the expected future cash flows of the loan. It includes observable data that has come to the attention of the Society about the following events:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or past-due event;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the restructuring of original credit terms.

(ii) Valuation of financial instruments

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

- Level 1 – Quoted market price (unadjusted) in an active market for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly, (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available.

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

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

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

3. Critical accounting estimates and judgements in applying accounting policies (continued)

(a) Key sources of estimation uncertainty (continued)

(iii)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		2019	2018
Cash at bank	13		6,798,364	3,347,802
Cash in hand			230,929	224,978
		CI$	7,029,293	3,572,780

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$3,426,206 (2019: CI$1,581,793) with annual interest rates of 2.25%, 2.50% and 2.85% (2018: 0.95%, 1.00% and 1.10%). These certificates of deposit have maturity dates of April 9, 2019, April 15, 2019 and April 16, 2019, April 26, 2019, May 20, 2019 and May 27, 2019.

5. Loans, net at amortised cost

		2019	2018
Loans, gross		30,443,252	33,951,746
Allowance for expected credit losses		(1,692,455)	(1,790,102)
Loans, net	CI$	28,750,797	32,161,644

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$75,842 (2018: CI$82,995) of loans outstanding at March 31, 2019 are secured by savings and investment shares.

Of the loans outstanding as at March 31, 2019, 12.9% (2018: 12.9%) are repayable in United States dollars with the remaining loans being repayable in Cayman Islands dollars. As at March 31, 2019, there were 193 loans (2018: 213 loans) outstanding and 16 loans (2018: 22 loans) that were over one year in arrears.

As at March 31, 2019, the gross outstanding amount of the loans which were in arrears for over one year was CI$3,381,033 (2018: CI$3,248,928). Loans which were in arrears for more than 90 days but less than one year amounted to CI$1,986,067 (2018: CI$2,751,389).

5. Loans, net at amortised cost (continued)

The Directors have determined that the allowance for expected credit losses is adequate as at March 31, 2019. 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.

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, neither does the Society carry an allowance for expected credit losses for these loans.

(a) Loan portfolio

The Society's loan portfolio, less provision for loan losses and allowance for expected credit losses is as follows*:*

		2019	2018
Mortgage loans		28,674,955	32,069,369
Share loans		75,842	92,275
	CI$	28,750,797	32,161,644

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

(b) Loans, less provision for loan losses and allowance for expected credit losses, maturity profile

The maturity profile of the loans is as follows:

		2019	2018
Within 3 months		14,482	535
3 months to 1 year		40,638	17,568
1 year to 5 years		839,539	988,511
5 years and over		27,856,138	31,155,030
	CI$	28,750,797	32,161,644

5. Loans, net at amortised cost (continued)

(c) Concentration

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

	2019		2018	
	Number of loans	CI$	Number of loans	CI$
Professional and other services	1	13,090	2	5,873
Individuals	192	28,737,707	211	32,155,771
	193	28,750,797	213	32,161,644

(d) Impaired loans

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

		2019	2018
Loans neither past due nor impaired		24,600,107	26,615,182
Past due but not impaired			
30 to 59 days*		476,045	808,729
60 to 89 days*		0	527,518
Individually impaired			
90 to 180 days*		625,082	1,742,514
181 to 365 days*		1,360,985	1,008,875
12 to 18 months*		742,176	1,189,756
Over 18 months*		2,638,857	2,059,172
Less provision for loan losses (note 5(e))		(1,692,455)	(1,790,102)
Loans, net	CI$	28,750,797	32,161,644

Loans on which interest is no longer accrued amounted to CI$8,203,675 (2018: CI$10,464,235) and represents 27% (2018: 31%) of the gross loans portfolio.

*Some of the loans included above are secured by collateral.

5. Loans, net at amortised cost (continued)

(e) Provision for loan losses and allowance for expected credit losses

The movement in the provision for loan losses and allowance for expected credit losses is as follows:

		2019	2018
At beginning of the year		1,790,102	1,734,336
IFRS 9 Day 1 adjustment for allowance for expected credit losses		207,081	0
Increase in provision for loan losses (IAS 39)		0	55,766
Allowance for expected credit losses movement		(304,728)	0
Balance at end of the year	CI$	1,692,455	1,790,102

6. Investments

	Note	2019	2018
Certificates of deposit with JN Bank	13	368,189	2,055,675
Interest receivable on long term investments (US$ bonds)	13	0	11,469
Interest receivable on certificate of deposit (reinvested)	13	1,839	13,115
Long term investments (US$ bonds)	13	0	1,192,547
Allowance for expected credit losses		(2,523)	0
	CI$	367,505	3,272,806

Certificates of deposit with JN Bank comprise a Great Britain Pound Sterling certificate of deposit of CI$368,189 (2018: CI$2,055,675). It accrues interest at 0.70% per annum and will mature on September 7, 2019. Long term investments of CI$Nil (2018: CI$1,192,547). The US$ sovereign bonds issued by the Government of Barbados and held at March 31, 2018 were disposed of in May 2018.

7. Property and equipment

		Buildings	Motor Vehicles	Leasehold Improvements	Computer Software	Computer Hardware	Furniture and Fittings	Office Equipment	Total
Cost:									
March 31, 2017		3,295,341	109,029	165,603	121,127	158,444	309,650	92,615	4,253,809
Additions		4,790	0	0	13,859	0	4,515	11,069	34,233
March 31, 2018		3,300,131	109,029	165,603	134,986	158,444	314,165	105,684	4,288,042
Additions		0	0	0	0	0	0	1,886	1,886
March 31, 2019		3,300,131	109,029	165,603	134,986	158,444	314,165	107,570	4,289,928
Depreciation:									
March 31, 2017		580,090	64,399	165,603	94,600	150,450	243,172	67,589	1,365,903
Charge for year		82,503	14,180	0	13,387	3,471	16,780	6,002	136,323
March 31, 2018		662,593	78,579	165,603	107,987	153,921	259,952	73,591	1,502,226
Charge for year		82,503	11,451	0	16,177	2,847	15,713	5,784	134,475
March 31, 2019		745,096	90,030	165,603	124,164	156,768	275,665	79,375	1,636,701
Net book values as at March 31, 2019	CI$	2,555,035	18,999	0	10,822	1,676	38,500	28,195	2,653,227
Net book values as at March 31, 2018	CI$	2,637,538	30,450	0	26,999	4,523	54,213	32,093	2,785,816

8. 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:

		2019	2018
On demand		4,592,813	4,009,442
Within one year		25,787,374	29,504,417
Over one year		20,144	26,085
	CI$	30,400,331	33,539,944

As at March 31, 2019, savings shares denominated in United States dollars as a proportion of the total savings and investment shares comprised of 4.9% (2018: 3.9%), while investment shares denominated in United States dollars made up 76.2% (2018: 76.0%) of the total savings and investment shares balance. The British pound savings and investment shares made up 0.2% (2018: 5.2%) 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:

	2019		2018	
	Number of accounts	CI$	Number of accounts	CI$
Public authorities	2	6,883	3	647,973
Financial institutions	13	8,156,634	13	7,602,272
Commercial and business	20	278,751	18	434,082
Individuals	1,501	21,958,063	1,563	24,855,617
	1,536	30,400,331	1,597	33,539,944

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.

As at March 31, 2019, and 2018 the Society was compliant with Section 19 of the Building Societies Law (2014 Revision).

Subsequent to March 31, 2019 up to the date of these financial statements, the Society continues to monitor its compliance with Section 19.

9. 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, 2019 and 2018	1,738,550	3,579,950	30,000	300,000

10. 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.

11. Other income

	Note		2019	2018
Commissions and service charges			254,763	268,198
Late charges			230,467	218,872
Rental income	13		72,000	72,000
Miscellaneous income			2,500	16,901
		CI$	559,730	575,971

A. Disaggregation of fees and commission income

In the following table, fees and commission income from contracts with customers in the scope of IFRS 15 is disaggregated by major type of services.

	Note		2019	2018
Commissions income	13		208,110	189,845
Transactional fees			26,467	50,930
Mortgage loan fees			20,186	27,423
		CI$	254,763	268,198

11. Other income (continued)

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

The following provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers.

At a point in time	Note		2019	2018
Transactional fees			26,467	50,930
Mortgage loan fees			20,186	27,423
Late charges			230,467	218,872
Miscellaneous income			2,500	16,901
		CI$	279,620	311,126
Over time				
Rental income	13		72,000	72,000
Commissions income	13		208,110	189,845
		CI$	280,110	261,845

12. Operating expenses

	Note		2019	2018
Staff cost excluding pension contributions	13		707,698	772,937
Professional fees			175,952	231,059
Depreciation	7		134,475	136,323
Staff insurance			112,002	108,049
Audit fees			110,885	100,804
Government licences			98,758	105,282
Computer maintenance and license fees			86,224	37,362
Foreign exchange loss			76,105	8,093
Utilities			66,736	63,668
Other expenses	13		46,595	46,803
Repairs and maintenance			43,854	53,548
Business insurance			37,147	40,926
Pension contributions	13, 14		26,563	30,763
Security			25,697	26,500
Office cleaning			25,047	38,435
Advertising			21,708	42,257
Travel and entertainment			13,113	15,651
Printing and postage			13,030	17,651
Rent			6,825	14,081
Office supplies			530	1,232
Donations			500	3,015
		CI$	1,829,444	1,894,439

13. Related parties

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

JN Bank		2019	2018
Statement of financial position			
Cash and cash equivalents	CI$	3,953,284	2,058,825
Due (to)/from JN Bank (i)		(201,321)	(79,797)
Investments		368,189	2,055,675
Savings and investment shares (v)		(704,701)	(444,275)
Interest receivable on certificate of deposits		16,076	13,115
Profit or loss and other comprehensive income			
Other income (vii)		88,195	119,845
Interest income (viii)		44,378	121,511
Operating expense – management fees		0	(100,201)
JN Fund Managers			
Statement of financial position			
Investments (vi)	CI$	0	1,201,963
Interest receivable on debt securities		0	11,469
Profit or loss and other comprehensive income			
Interest from investments (vi)		22,794	270,849
Operating expenses (vi)		0	242
JN Money Services and its subsidiaries			
Statement of financial position			
Due (to)/from JNMS and its subsidiaries (i)	CI$	(1,665)	9,877
Savings and investment shares (v)		(8,675)	(8,789)
Profit or loss and other comprehensive income			
Interest on savings and investment shares		(10)	(2,757)
Rental income		72,000	72,000
Other income		120,000	70,000
Directors and other related parties			
Statement of financial position			
Loans, net (ii)	CI$	0	101,385
Savings and investment shares (iii)		(1,391,257)	(5,206,748)
Interest payable		(12,255)	(46,668)
Profit or loss and other comprehensive income			
Interest income on loans		0	9,905
Interest on savings and investment shares		(27,178)	(168,352)
Operating expenses (iv)		(180,879)	(170,138)

13. Related parties (continued)

(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, 2019, there were no loans within this category but loans as at March 31, 2018 accrued interest at rates from U.S. Prime + 1.00% to U.S. Prime +3.75%.

(iii) As at March 31, 2019, savings and investment shares accounts held by Directors include savings shares accruing interest at rates of 0.25% (2018: 0.25%) and investment shares accruing interest at rates from 2.0% to 2.50% (2018: 0.75% to 2.50%).

(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 and is in place with JN Fund Managers (JNFM), a fellow subsidiary of JN Financial Group Limited, to facilitate the Society's investment in other financial instruments.

(vii) As at March 31, 2019, the total value of the loan portfolio owned by JN Bank but managed by the Society was CI$1,883,625.62 (2018: CI$2,744,719). The Society is paid a management fee by JN Bank for managing these loans. During the year ended March 31, 2019, the Society received a management fee of CI$208,110 (2018: CI$189,845), 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 11.

(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.

14. 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, 2019, the Society contributed CI$26,563 (2018: CI$30,763) to this scheme on behalf of its employees.

15. 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.

15. Regulatory matters (continued)

As at March 31, 2019, 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	2019 minimum for regulatory capital and capital adequacy purposes	Actual	2018minimum for regulatory capital and capital adequacy purposes
Regulatory capital	CI$	7,906,700	3,957,900	7,692,000	3,441,000
Risk asset ratio		40.8%	15%	33.5%	15%
Liquidity ratio		24.4%	10%	16.9%	10%

16. 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 organisation.

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 organisation 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.

16. Financial risk management (continued)

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.

(a) Credit risk

Credit risk is the risk of suffering financial loss, should any of the Society's customers, clients or market counterparties fail to fulfil their contractual obligations to the Society. Credit risk arises mainly from interbank, commercial and consumer loans and advances, and loan commitments arising from such lending activities, financial guarantees, letters of credit, endorsements and acceptances. The Society is also exposed to other credit risks arising from investments in debt securities.

Credit risk is the single largest risk for the Society's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised in the credit risk and management teams which reports regularly to the appropriate Board committee.

(a.1) Credit risk measurement

(i) Loans (including loan commitments)

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Society measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9. Refer to Note 21 for more details.

Credit risk grading

The Society uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Society use internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. In addition, the models enable expert judgement from management to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

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

16. Financial risk management (continued)

Treasury

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

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

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

The Group's internal rating scale and mapping of external ratings are set out below:

Company Rating	PD range as percentage	S & P	Moody's	Description of the grade
1	0	AAA	Aaa	
2	0 - 0.02	AAA	Aaa	
3	0.02 - 0.03	AA+	Aa1	
4	0.03 - 0.05	AA, AA-	Aa2, Aa1	
5	0.05 - 0.08	A+, A	A1, A2	
6	0.08 - 0.13	A-	A3	
7	0.13 - 0.21	BBB+	Baa1	Investment grade
8	0.21 - 0.31	BBB	Baa2	
9	0.31 - 0.47	BBB	Baa2	
10	0.47 - 0.68	BBB-	Baa3	
11	0.68 - 0.96	BB+	Bal	
12	0.96 - 1.34	BB	Ba2	
13	1.34 - 1.81	BB	Ba2	
14	1.81 - 2.4	BB-	Ba3	
15	2.4 - 3.1	B+	B1	
16	3.1 - 3.9	B+	B1	
17	3.9 - 4.86	B	B2	
18	4.86 - 6.04	B	B2	
19	6.04 - 7.52	B	B2	
20	7.52 - 9.35	B-	B3	
21	9.35 - 11.64	B-	B3	
22	11.64 - 14.48	CCC+	Caa1	
23	14.48 - 18.01	CCC+	Caa1	Speculative grade
24	18.01 - 22.41	CCC to CC-	Caa2 to Ca	
25	22.41 - 99.99	CCC to CC-	Caa2 to Ca	

16. Financial risk management (continued)

(a.2) Expected credit loss measurement

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Society.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to Note 21 for a description of how the Society determines when a significant increase in credit risk has occurred.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to Note 21 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note 21 includes an explanation of how the Group has incorporated this in its ECL models.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

(a.2) Expected credit loss measurement (continued)

Change in credit quality since initial recognition

←→

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

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

Significant increase in credit risk (SICR)

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

(a.2.1) Quantitative criteria:

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

16. Financial risk management (continued)

(a.2.1)Quantitative criteria (continued):

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

- In short-term forbearance.
- Direct debit cancellation.
- Extension to the terms granted, based on inability to service the debt.
- Previous arrears within the last 12 months.

Qualitative criteria
For the Treasury portfolio, if the instrument meets one or more of the following criteria:
- Significant increase in credit spread.
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates.
- Actual or expected forbearance or restructuring.
- Actual or expected significant adverse change in operating results of the borrower.
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default.
- Early signs of cash flow/liquidity problems such as delay in servicing of trade creditors/loans.

The assessment of SICR incorporates forward-looking information and is performed on a quarterly basis at a portfolio level for all Retail financial instruments held by the Society. In relation to Treasury financial instruments, a credit risk assessment is performed at the counterparty level and on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the Credit Risk team.

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

The Society has used a simplified model to evaluate ECL for Intercompany exposures in the year ended March 31, 2019.

(a.2.2) Definition of default and credit-impaired assets:

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

The borrower is more than 90 days past due on its contractual payments.
The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

16. Financial risk management (continued)

(a.2.2) Definition of default and credit-impaired assets (continued):

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

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

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

(a.2.3) Measuring ECL - Explanation of inputs, assumptions and estimation techniques

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

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

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

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

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

16. Financial risk management (continued)

(a.2.3) Measuring ECL - Explanation of inputs, assumptions and estimation techniques (continued)

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

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

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

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

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

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

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

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

  Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. Refer to note 21 for an explanation of forward-looking information and its inclusion in ECL calculations.

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

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

16. Financial risk management (continued)

(a.2.4) Forward-looking information incorporated in the ECL models

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

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

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

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

The assessment of SICRis performed using the Lifetime PD under each of the base, and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators (see note 3.1.2.1). This determines whether the whole financial instrument is in Stage 1, Stage 2, Stage 3 and hence whether 12-month or lifetime ECL should be recorded. Following this assessment, the Society measures ECL as either a probability weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs). As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

The Society considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Society's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

16. Financial risk management (continued)

(a.2.4) Forward-looking information incorporated in the ECL models (continued)

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at March 31, 2019 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios. The scenarios.

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

	Base	Upside	Downside
Cayman Islands	75%	15%	10%

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

Sensitivity analysis

The changes to the ECL as at March 31, 2019 that would result from a 5% increase or decrease in the LGD from the actual assumptions used in the Society's economic variable assumptions would be result in an increase of CI$84,623 or a decrease of (CI$84,623).

(a.2.5) Grouping of instruments for losses measured on a collective basis

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

The characteristics and any supplementary data used to determine groupings are outlined below:

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

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.

Management of credit risk

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

16. Financial risk management (continued)

(a.2.5) Grouping of instruments for losses measured on a collective basis (continued)

Management of credit risk (continued)

(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.

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.

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.

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

	Loans				
	2019				**2018**
	ECL staging				
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Total**
	CI$	CI$	CI$	CI$	CI$
Standard monitoring	24,600,107	476,045	0	25,076,152	27,951,429
Special monitoring	0	0	0	0	0
Default	0	0	5,367,100	5,367,100	6,000,317
	24,600,107	**476,045**	**5,367,100**	**30,443,252**	**33,951,746**
ECL allowance	337,447	14,064	1,340,944	1,692,455	1,790,102
	24,262,660	**461,981**	**4,026,156**	**28,750,797**	**32,161,644**

16. Financial risk management (continued)

(a.2.5) Grouping of instruments for losses measured on a collective basis (continued)

	Investments				
	2019				**2018**
	ECL staging				
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	
	$'000	$'000	$'000	$'000	
Investment grade	0	0	0	0	0
Standard monitoring	368,189	0	0	368,189	3,248,222
Special monitoring	0	0	0	0	0
Default	0	0	0	0	0
	368,189	**0**	**0**	**368,189**	**3,248,222**
ECL allowance	2,523	0	0	2,523	0
	365,666	**0**	**0**	**365,666**	**3,248,222**

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

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

- Mortgages over residential and commercial properties;
- Charges over deposits

The Society'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 Society since the prior period.

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

16. Financial risk management (continued)

(a.2.5) Grouping of instruments for losses measured on a collective basis (continued)

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Credit-impaired assets	CI$	CI$	CI$	CI$
Loans to individuals:				
- Term loans	0	0	0	0
- Mortgages	5,367,100	1,340,944	4,026,156	6,764,790
Total credit-impaired assets	**5,367,100**	**1,340,944**	**4,026,156**	**6,764,790**

Loss allowance

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

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

- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period (see note 21)

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

16. Financial risk management (continued)

(a.2.5) Grouping of instruments for losses measured on a collective basis (continued)

Loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
	CI$	CI$	CI$	CI$	CI$
Loss allowance as at April 1, 2018	392,752	68,021	1,536,410	0	1,997,183
Movements with P&L impact					
Transfers:					
Transfer from Stage 1 to Stage 2	(7,066)	14,064	0	0	6,998
Transfer from Stage 1 to Stage 3	0	0	0	0	0
Transfer from Stage 2 to Stage 1	12,168	(31,168)	0	0	(19,000)
Transfer from Stage 2 to Stage 3	0	(36,853)	174,748	0	137,895
Transfer from Stage 3 to Stage 1	3,123	0	(86,202)	0	(83,079)
New financial assets originated	17,582	0	0	0	17,582
Derecognition	(37,416)	0	(270,648)	0	(308,064)
FX or other movements	(43,543)	0	(13,517)	0	(57,060)
Total net P&L charge during the period	**(55,152)**	**(53,957)**	**(195,619)**	0	**(304,728)**
Other movements with no P&L impact					
Transfers:					
Transfer from Stage 2 to Stage 3	0	0	0	0	0
Transfer from Stage 3 to Stage 2	0	0	0	0	0
Write-offs	0	0	0	0	0
ECL allowance as at March 31, 2019	**337,600**	**14,064**	**1,340,791**	**0**	**1,692,455**

16. Financial risk management (continued)

(a.2.5) Grouping of instruments for losses measured on a collective basis (continued)

	Stage 1	Stage 2	Stage 3		
Investments	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Purchased credit-impaired**	**Total**
	CI$	**CI$**	**CI$**	**CI$**	**CI$**
Loss allowance as at April 1, 2018	13,046	904	0	0	13,949
Movements with P&L impact					
Transfers:					
Transfer from Stage 1 to Stage 2	0	0	0	0	0
Transfer from Stage 1 to Stage 3	0	0	0	0	0
Transfer from Stage 2 to Stage 1	0	0	0	0	0
New financial assets originated or purchased impaired	0	0	0	0	0
FX or other movements	(10,522)	904	0	0	(11,426)
Total net P&L charge during the period	**(10,522)**	**904**	**0**	**0**	**(11,426)**
Other movements with no P&L impact					
Transfers:					
Transfer from Stage 2 to Stage 3	0	0	0	0	0
Transfer from Stage 3 to Stage 2	0	0	0	0	0
Financial assets derecognised during the period	0	0	0	0	0
Write-offs	0	0	0	0	0
Loss allowance as at March 31, 2019	**2,524**	**0**	**0**	**0**	**2,524**

16. Financial risk management (continued)

(a.2.5) Grouping of instruments for losses measured on a collective basis (continued)

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

Loans	Stage 1 12-month ECL CI$	Stage 2 Lifetime ECL CI$	Stage 3 Lifetime ECL CI$	Purchased credit-impaired CI$	Total CI$
Gross carrying amount as at April 1, 2018	**26,734,282**	**1,217,147**	**6,000,317**	**0**	**33,951,746**
Transfers:					
Transfer from Stage 1 to Stage 2	(493,929)	476,045	0	0	(17,884)
Transfer from Stage 1 to Stage 3	0	0	0	0	0
Transfer from Stage 2 to Stage 3	0	(710,948)	694,586	0	(16,362)
Transfer from Stage 3 to Stage 1	236,323	0	(403,682)	0	(167,359)
Transfer from Stage 2 to Stage 1	517,927	(506,199)	0	0	11,728
New financial assets originated or purchased impaired	1,306,341	0	0	0	1,306,341
Financial assets derecognised during the period other than write-offs	(3,798,219)	0	(826,738)	0	(4,624,957)
Gross carrying amount as at March 31, 2019	**24,502,725**	**476,045**	**5,464,483**	**0**	**30,443,253**

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

16. Financial risk management (continued)

(a.2.5) Grouping of instruments for losses measured on a collective basis (continued)

Investments	Stage 1 12-month ECL CI$	Stage 2 Lifetime ECL CI$	Stage 3 Lifetime ECL CI$	Purchased credit-impaired CI$	Total CI$
Gross carrying amount as at April 1, 2018	**3,248,222**	**0**	**0**	**0**	**3,248,222**
Transfers:					
Transfer from Stage 1 to Stage 2	0	0	0	0	0
Transfer from Stage 1 to Stage 3	0	0	0	0	0
Transfer from Stage 2 to Stage 3	0	0	0	0	0
Transfer from Stage 3 to Stage 2	0	0	0	0	0
Transfer from Stage 2 to Stage 1	0	0	0	0	0
Financial assets derecognised during the period other than write-offs	(2,880,033)	0	0	0	(2,880,033)
Gross carrying amount as at March 31, 2019	368,189	0	0	0	368,189

Write-off policy

The Society writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Society'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 Society may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended March 31, 2019 was CI$386,607. The Society still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

Concentration by class and geographical area

The Society's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties based on their credit ratings and limits set.

16. Financial risk management (continued)

(a.2.5) Grouping of instruments for losses measured on a collective basis (continued)

Concentration by class and geographical area (continued)

The Society's significant concentration of credit exposure, as at the reporting date, by geographic area (based on the entity's country of ownership) were as follows:

		2019	2018
Jamaica		3,953,284	4,134,426
Barbados		0	1,196,805
Cayman Islands		28,914,728	33,933,254
	CI$	32,868,012	39,264,485

Modification of financial assets

The Society sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset (refer to note 3 and 5 above). The Society monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for up to three consecutive months. The gross carrying amount of such assets held as at March 31, 2019 was CI$ Nil.

The Society continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets through the use of specific models for modified assets.

(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.

16. Financial risk management (continued)

(b) Liquidity risk (continued)

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, 2019		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		7,029,293	0	0	0	0	7,029,293
Loans, net		14,482	0	40,638	839,539	27,856,138	28,750,797
Investments		0	367,505	0	0	0	367,505
Other receivables		163,932	0	0	0	0	163,932
	CI$	7,207,707	367,505	40,638	839,539	27,856,138	36,311,527
Liabilities							
Savings and investment shares		22,200,002	3,719,155	4,461,030	20,144	0	30,400,331
Interest payable		254,655	0	0	0	0	254,655
Other payables		210,912	291,170	0	0	0	502,082
Due to related companies		202,986	0	0	0	0	202,986
	CI$	22,868,555	4,010,325	4,461,030	20,144	0	31,360,054
On-statement of financial position gap, being total maturity gap		(15,660,848)	(3,642,820)	(4,420,392)	819,395	27,856,138	4,951,473
Cumulative gap	CI$	(15,660,848)	(19,303,668)	(23,724,060)	(22,904,665)	4,951,473	0

16. Financial risk management (continued)

(b) Liquidity risk (continued)

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 companies		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	0

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.

	2019 Carrying Amount	2019 Fair Value	2018 Carrying Amount	2018 Fair Value
Cash and balances with other banks	6,798,364	6,798,364	3,347,802	3,347,802
Other cash & cash equivalents	230,929	230,929	224,978	224,978
Total liquidity reserve	7,029,293	7,029,293	3,572,780	3,572,780

(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.

16. Financial risk management (continued)

(c) Market risk (continued)

Management of market risk (continued)

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

(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, 2019 and 2018 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:

	2019	2018
United States dollars	(2,255,873)	(1,955,339)
Pound Sterling	295,798	282,959

(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, 2019:

16. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

Fixed rate		2019	2018
Due from related companies		0	9,877
Investments		367,505	2,076,001
Other receivables		163,932	257,653
Savings and investment shares		(25,807,518)	(29,530,502)
Interest payable		(254,655)	(238,084))
Other payables		(502,082)	(511,126)
Due to related companies		(202,986)	(79,797)
	CI$	(26,235,804)	(28,015,978)

The Society's net exposure to interest rate risk on its variable rate financial assets and liabilities as at March 31, 2019 and 2018 were as follows:

Variable rate		2019	2018
Cash and cash equivalents		7,029,293	3,572,780
Loans, net		28,750,797	32,161,644
Investments		0	1,196,805
Savings and investment shares		(4,592,813)	(4,009,442)
	CI$	31,187,277	32,921,787

As at March 31, 2019, 73.0% (2018: 59.1%) of the Society's fixed rate savings and investment shares have maturities of less than 3 months.

For the year ended March 31, 2019, the range of rates of interest, which approximate the effective yields of these statements of financial position assets and liabilities, were as follows:

Assets	2019			2018		
Cash and cash equivalents	0.00%	-	2.85%	0.00%	-	1.11%
Investments	7.00%	-	7.00%	5.31%	-	9.19%
Loans, net	4.25%	-	8.25%	4.25%	-	8.25%
Liabilities						
Savings and investment shares	0.20%	-	2.50%	0.20%	-	2.50%

16. 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, 2019	**Carrying Amount**	**Less than 3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
Cash and cash equivalents	7,029,293	7,029,293	0	0	0
Loans	28,750,797	14,482	40,638	839,539	27,856,138
Investments	367,505	0	367,505	0	0
	36,147,595	7,043,775	408,143	839,539	27,856,138
Savings and investment shares	30,400,331	22,200,002	8,180,185	20,144	0
	5,747,264	(15,156,227)	(7,772,042)	819,395	27,856,138
March 31, 2018					
Cash and cash equivalents	3,572,780	3,572,780	0	0	0
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 & Investment shares	33,539,944	23,845,656	9,668,203	26,085	0
	5,467,286	(20,247,757)	(7,594,960)	2,283,746	31,026,257

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, 2019 and 2018, a 1% increase in the interest rate, with all other variables held constant, would adjust profit and loss by the following amounts shown below:

		2019	2018
Change in comprehensive income for year	CI$	(12,015)	172,830

A 1% decrease would have resulted in an opposite effect of $160,810 (2018: ($172,830) on the above financial statement amounts, assuming that all other variables remain constant.

16. Financial risk management (continued)

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the 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.

(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.

17. 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.

18. 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.

(c) *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. There were no transfers across the fair value hierarchy during the year (2018: nil).

		Fair Value Measurements at Reporting Date Using			
2019		Level 1	Level 2	Level 3	Total
Assets:					
Cash and cash equivalents		7,029,293	0	0	7,029,293
Loans, net		0	28,750,797	0	28,750,797
Investments		0	367,505	0	367,505
Other assets*		0	163,932	0	163,932
Total assets	US$	7,029,293	29,282,234	0	36,311,527
Liabilities:					
Savings and investment shares		0	30,400,331	0	30,400,331
Due to related companies		0	202,986	0	79,797
Other liabilities**		0	502,082	0	502,082
Total liabilities	US$	0	31,105,399	0	31,105,399

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

19. Financial Instruments (continued)

(d) *Fair value of Financial Instruments (continued)*

		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

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

20. Changes in accounting policies

Except for the changes below, the Society has consistently applied the accounting policies set out in Note 21 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.

A. IFRS 9 *Financial Instruments*

The Society has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of April 1, 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Society did not early adopt any of IFRS 9 in previous periods.

Accounting policy before April 1, 2018 under IAS 39

(i) Classification and measurement of financial instruments
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.

20. Changes in accounting policies *(continued)*

A. IFRS 9 *Financial Instruments* (continued)

Accounting policy before April 1, 2018 under IAS 39 (Continued)

(i) Classification and measurement of financial instruments (continued)
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.

(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.

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.

Transition

As permitted by the transitional provisions of IFRS 9, the Society elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Society. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail below:

20. Changes in accounting policies *(continued)*

A. IFRS 9 Financial Instruments (continued)

Accounting policy after April 1, 2018 under IFRS 9

(a) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at April 1, 2018 are compared as follows:

	IAS 39		**IFRS 9**	
	Measurement category	Carrying amount	Measurement category	Carrying amount
Financial assets		CI$		CI$
Cash and balances with central banks	Amortised cost (Loans and receivables)	3,572,780	Amortised cost	3,572,780
Loans	Amortised cost (Loans and receivables)	32,161,644	Amortised cost	31,954,564
Investments	FVOCI (Available for sale)	1,192,547	FVOCI	1,192,547
	Amortised cost (Loans and Receivables)	2,055,675		2,055,675

There were no changes to the classification and measurement of financial liabilities.

The Society performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristic.

Please refer to Note 3 for additional information regarding the new classification requirements of IFRS 9.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on April 1, 2018:

20. Changes in accounting policies *(continued)*

IFRS 9 Financial Instruments (continued)

Accounting policy after April 1, 2018 under IFRS 9

(a) Classification and measurement of financial instruments (continued)

	Ref	IAS 39 carrying amount March 31, 2018	Reclassifications	Remeasurements	IFRS 9 carrying amount April 1, 2018
		CI$	CI$	CI$	CI$
Amortised Cost					
Cash and cash equivalents					
Opening balance under IAS 39 and closing balance under IFRS 9		3,572,780			3,572,780
Loans					
Opening balance under IAS 39		32,161,644			
Remeasurement: EC allowance				(207,081)	
Closing balance under IFRS 9					31,954,564
Investments					
Opening balance under IAS 39		3,248,222	0	0	0
Subtraction: To FVPL (IFRS 9)	(D)	0	0	0	0
Remeasurement: ECL Allowance		0	0	0	0
Addition: From financial assets held to maturity (IAS 39)	(I)	0	0	0	0
Remeasurement: ECL allowance		0	0	(13,949)	(13,949)
Addition: From available for sale (IAS 39)	(B)	0	0	0	0
Remeasurement: from FV to amortised cost		0	0	0	0
Addition: From designated at FVPL (IAS 39)	(G)	0	0	0	0
Remeasurement: from FV to amortised cost		0	0	0	0
Closing balance under IFRS 9		3,248,222	0	(13,949)	3,234,373

The following explains how applying the new classification requirements of IFRS 9 led to changes in classification of certain financial assets held by the Society as shown in the table above:

A. Reclassification from retired categories with no change in measurement

In addition to the above, the following debt instruments have been reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were ‘retired’, with no changes to their measurement basis:

(i) Those previously classified as available for sale and now classified as measured at FVOCI;

20. Changes in accounting policies (continued)

(a) Classification and measurement of financial instruments (continued)

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at April 1, 2018:

Measurement category	**Loan loss allowance under IAS 39/Provision under IAS 37**	**Reclassification**	**Remeasurement**	**Loan loss allowance under IFRS 9**
	CI$	CI$	CI$	CI$
Loans and receivables (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Cash and cash equivalent	0	0	0	0
Loans	1,790,102	0	207,081	1,997,183
Investments	0	0	13,949	13,949
Total	**1,790,102**	**0**	**221,030**	**2,011,132**

A. IFRS 15 *Revenue from Contracts with Customers*

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.

Effective April 1, 2018, the Society adopted IFRS 15 which has not resulted in any adjustments to the amounts recognised in the financial statements, as the accounting policies relating to the fee types remained unchanged.

Revenue is recognised as performance obligations are satisfied and control is passed, either 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.

Fee and commission income is recognised on an accrual basis when the service has been provided. The income arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction.

20. Changes in accounting policies (continued)

B. IFRS 15 *Revenue from Contracts with Customers* (continued)

Rental income is earned on the accrual basis at a predetermined price and on payment terms agreed on and stated in a contract/rental agreement.

IFRS 15 did not have a significantly impact on the Society's accounting policies in respect of the revenue streams. Refer to note 11 for the Revenue note.

21. Significant accounting policies

Except for the changes explained in Note 20, 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.

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

Measurement methods

Amortised cost and effective interest rate

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

21. Significant accounting policies

Except for the changes explained in Note 20, the Society has applied the following accounting policies to all periods presented in the financial statements:

(b) Financial instruments (continued)

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

For purchased or originated credit-impaired ('POCI') financial assets - assets that are credit-impaired (see definition on note 5) at initial recognition - the Society calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

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

Initial recognition and measurement

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

At initial recognition, the Society measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, as described in Note 20, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

21. Significant accounting policies (continued)

(b) Financial instruments (continued)

Classification and subsequent measurement

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

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

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

Debt instruments

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

Classification and subsequent measurement of debt instruments depend on:

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

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

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 20. Interest income from these financial assets is included in 'Interest revenue' using the effective interest rate method.

- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss.

  When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net gains/(losses) on derecognition of financial assets measured at amortised cost'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

21. Significant accounting policies (continued)

(b) Financial instruments (continued)

Debt instruments (continued)

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

Business model: the business model reflects how the Society manages the assets in order to generate cash flows. That is, whether the Society’s objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of ‘other’ business model and measured at FVPL. Factors considered by the Society in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset’s performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the Society’s business model for the mortgage loan book is to hold to collect contractual cash flows, Another example is the liquidity portfolio of assets, which is held by the Society as part of liquidity management and is generally classified within the hold to collect and sell business model.

Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

These securities are classified in the ‘other’ business model and measured at FVPL. SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Society assesses whether the financial instruments’ cash flows represent solely payments of principal and interest (the ‘SPPI test’). In making this assessment, the Society considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement.

Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

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

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

21. Significant accounting policies (continued)

(b) Financial instruments (continued)

Equity instruments

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

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

Gains and losses on equity investments at FVPL are included in the 'Other operating income' line in the statement of profit or loss.

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

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

Note 20 provides more detail of how the allowance for expected credit losses is measured.

Modification of loans

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

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

21. Significant accounting policies (continued)

(b) Financial instruments (continued)

Modification of loans (continued)

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

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Society recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss.

The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

The impact of modifications of financial assets on the expected credit loss calculation is discussed in Note 20.

Derecognition other than on a modification

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

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

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
(ii) Is prohibited from selling or pledging the assets; and has an obligation to remit any cash it collects from the assets without material delay.

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

21. Significant accounting policies (continued)

(b) Financial instruments (continued)

(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 which comprise of long term US$ denominated bonds are classified as financial instruments measured at amortised cost.

(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.

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) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Society has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liabilities simultaneously

(v) 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.

21. Significant accounting policies (continued)

(b) Financial instruments (continued)

(vi) 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 financial instruments measured at amortised cost. Certificate of deposit, with original maturity of one year, carrying amount approximates its fair value.

(vii) 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.

21. Significant accounting policies (continued)

(b) Financial instruments (continued)

(vii) Identification and measurement of impairment (continued)

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.

(viii) 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.

(ix) Interest income and expense (continued)

Policy applicable from April 1, 2018

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

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

21. Significant accounting policies (continued)

(b) Financial instruments (continued)

(ix) Interest income and expense (continued)

Policy applicable before April 1, 2018

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.

(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) 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.

21. Significant accounting policies (continued)

(f) Taxation

The Cayman Islands levies no taxes on income or gains.

(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.

(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:

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

21. Significant accounting policies (continued)

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

(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.

- 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 adoption of the amendment did not result in any change to amounts recognised, presented and disclosed in the financials

21. Significant accounting policies (continued)

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

The following upcoming new or amended standards are not expected to have a significant impact on the Society's financial statements:

- Annual Improvements to IFRS Standards 2015-2017 Cycle – various standards
- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)

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

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

The Society does not expect the amendment to have a significant impact on its 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 $20,000:	**JN Cayman 2019**	**JN Cayman 2019**	**JN Cayman 2018**	**JN Cayman 2018**
Categories, gross	Number of accounts	Value (CI$)	Number of accounts	Value (CI$)
$1 - $2,000	2	2,134	3	2,725
$2,001 - $10,000	3	21,565	9	47,484
$10,001 - $15,000	4	52,835	6	74,132
$15,001 - $20,000	4	69,174	6	99,301
TOTAL	13	145,708	24	223,642

Section 22(b)

Loan values with balances of:	**JN Cayman 2019**	**JN Cayman 2019**	**JN Cayman 2018**	**JN Cayman 2018**
Categories, gross	Number of accounts	Value (CI$)	Number of accounts	Value (CI$)
Greater than $20,000	164	30,129,985	177	33,709,696
TOTAL	164	30,129,985	177	33,709,696

Section 22(b)

	JN Cayman 2019	**JN Cayman 2018**
	Number of Mortgage deeds	Number of Mortgage deeds
Inspected by auditors	15	37

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
27-Mar-12		400	321	301		17
Total		400	321	301		17

JN CAYMAN

Schedule A (continued)

March 31, 2019
(stated in Cayman Islands dollars)

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
2-Mar-11	0	288	238	181		9
13-Aug-10	0	604	372	331		0
1-Jun-10	0	140	139	127		3
5-Aug-10	0	850	342	318		74
27-Jul-10	0	215	150	79		132
4-Nov-09	0	440	405	349		75
10-Jun-09	0	365	261	248		78
29-Sep-10	0	208	162	154		47
30-Jun-10	0	312	245	216		21
25-Aug-08	0	265	190	135		10
31-May-12	0	250	125	105		9
14-Feb-11	0	297	386	278		75
25-Jan-09	0	152	383	204		69
13-Oct-10	0	297	471	139		22
12-Aug-09	0	585	314	324		320
25-May-10	0	0	41	35		62
8-Sep-10	0	51	130	124		93
29-Nov-08	0	260	181	194		9
24-May-10	0	215	183	176		13
Total	0	5,794	4,721	3,718	-	1,122

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
Total	0	0	0	0	0	0