JMMB MERCHANT BANK LIMITED

FINANCIAL STATEMENTS

31 MARCH 2017

KPMG
Chartered Accountants
P.O. Box 76
6 Duke Street
Kingston
Jamaica, W.I.
+1 (876) 922 6640
firmmail@kpmg.com.jm

INDEPENDENT AUDITORS' REPORT

To the Members of
JMMB MERCHANT BANK LIMITED

Report on the Audit of the Financial Statements

We have audited the financial statements of JMMB Merchant Bank Limited, ("the Bank") set out on pages 5 to 58, which comprise the statement of financial position as at 31 March 2017, the profit and loss account, statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 March 2017, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the Jamaican Companies Act.

Basis for Opinion

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

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
JMMB MERCHANT BANK LIMITED

Report on the Audit of the Financial Statements (Continued)

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

To the Members of
JMMB MERCHANT BANK LIMITED

Report on the Audit of the Financial Statements (Continued)

Auditors' Responsibilities for the Audit of the Financial Statements (Cont'd)

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
JMMB MERCHANT BANK LIMITED

Report on additional matters as required by the Jamaican Companies Act

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

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

KPMG

Chartered Accountants
Kingston, Jamaica

May 30, 2017

JMMB Merchant Bank Limited

Profit and Loss Account
Year ended 31 March 2017
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2017 $'000	2016 $'000
Net Interest Income and Other Revenue			
Interest on investments		788,651	792,158
Interest on loans		1,742,988	1,191,669
Total interest income	4(a)	2,531,639	1,983,827
Interest expense	4(a)	(1,091,140)	(1,057,937)
Net interest income	4(a)	**1,440,499**	**925,890**
Fee and commission income	5	138,581	93,358
Foreign exchange trading and translation	4(b)	205,668	134,870
Gains on sale of available-for-sale investments	4(b)	571,703	165,246
Dividends	4(b)	-	3,475
Other income		51,780	47,316
Total other operating revenue		967,732	444,265
Net interest income and other revenue		**2,408,231**	**1,370,155**
Non-interest expenses			
Staff costs	6	778,095	556,449
Loan loss and bad debt expense, less recovery		68,179	16,336
Bank charges		75,655	46,530
Property expenses		68,951	57,871
Depreciation and amortisation	15,16	52,376	24,081
Information technology costs		76,458	70,377
Marketing and corporate affairs		51,380	17,469
Professional fees		77,547	30,083
Regulatory costs		30,520	25,605
Irrecoverable General Consumption Tax		52,523	25,989
Asset tax		60,767	61,605
Other operating expenses		42,234	40,181
Total non-interest expenses		**1,434,685**	**972,576**
Profit before taxation	7	973,546	397,579
Taxation	8	(122,791)	71,998
Profit for year		**850,755**	**469,577**

JMMB Merchant Bank Limited

Statement of Profit or Loss and Other Comprehensive Income
Year ended 31 March 2017
(expressed in Jamaican dollars unless otherwise indicated)

	2017 $'000	2016 $'000
Profit for year	850,755	469,577
Other comprehensive income/(loss)		
Items which are, or may be reclassified to profit or loss:		
Unrealised gains/(losses) arising on revaluation of available-for-sale financial investments	1,313,114	(13,592)
Reclassification of gains realised and reported in profits	(463,466)	(154,468)
	849,648	(168,060)
Income tax relating to components of other comprehensive income [note 17(b)]	(283,216)	56,020
Other comprehensive income/(loss) for the year	566,432	(112,040)
Total comprehensive income for the year	1,417,187	357,537

JMMB Merchant Bank Limited

Statement of Financial Position

31 March 2017

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2017 $'000	2016 $'000
Assets			
Cash and balances with banks	9	4,302,901	2,895,664
Investment in securities	10	2,523,871	2,177,007
Securities purchased under resale agreements	11	1,285,765	700,984
Pledged assets	12	7,646,594	10,717,120
Loans and notes receivable	13	19,336,978	12,380,571
Accounts receivable	14	157,290	139,863
Income tax recoverable		39,526	84,039
Intangible asset	15	159,477	132,837
Property, plant and equipment	16	118,152	97,353
Deferred income tax asset	17	-	124,424
Customers' liabilities under acceptances, guarantees and letters of credit as per contra		198,110	123,622
Total Assets		35,768,664	29,573,484

JMMB Merchant Bank Limited

Statement of Financial Position (Continued)

31 March 2017

(expressed in Jamaican dollars unless otherwise indicated)

Liabilities	**Note**	**2017 $'000**	**2016 $'000**
Securities sold under repurchase agreements	18	5,377,882	5,087,102
Deposits	19	21,292,327	17,233,023
Due to other financial institution	20	418,382	499,250
Accounts payable	21	391,695	194,416
Deferred income tax liability	17	237,010	-
Liabilities under acceptances, guarantees and letters of credit as per contra		198,110	123,622
Total Liabilities		27,915,406	23,137,413
Stockholders' Equity			
Share capital	22	1,732,888	1,732,888
Statutory reserve fund	23	846,026	718,414
Retained earnings reserve	24	3,215,442	2,715,442
Capital redemption reserve	25	85,488	85,488
Fair value reserve	26	672,819	106,387
Loan loss reserve	13(c)	194,019	161,315
Retained earnings		1,106,576	916,137
		7,853,258	6,436,071
Total Liabilities and Stockholders' Equity		35,768,664	29,573,484

Approved for issue by the Board of Directors on 30 May 2017, and signed on its behalf by:

Dennis Harris	Director	Keith P. Duncan	Director

JMMB Merchant Bank Limited

Statement of Changes in Equity

Year ended 31 March 2017

(expressed in Jamaican dollars unless otherwise indicated)

	Share Capital	Statutory Reserve Fund	Retained Earnings Reserve	Capital Redemption Reserve	Fair Value Reserve	Loan Loss Reserve	Retained Earnings	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balances at 31 March 2015	**1,732,888**	**647,977**	**2,215,442**	**85,488**	**218,427**	**126,319**	**1,051,993**	**6,078,534**
Profit for the year	-	-	-	-	-	-	469,577	469,577
Other comprehensive income/(loss) for the year:								
Unrealised losses on available-for-sale investments, net of tax	-	-	-	-	(222,204)	-	-	(222,204)
Reclassification of losses realised and reported in profits, net of tax	-	-	-	-	110,164	-	-	110,164
Other comprehensive loss	-	-	-	-	(112,040)	-	-	(112,040)
Total comprehensive income for the year	-	-	-	-	(112,040)	-	469,577	357,537
Transfer to loan loss reserve	-	-	-	-	-	34,996	(34,996)	-
Transfer to retained earnings reserve	-	-	500,000	-	-	-	(500,000)	-
Transfer to statutory reserve fund	-	70,437	-	-	-	-	(70,437)	-
Balances at 31 March 2016	**1,732,888**	**718,414**	**2,715,442**	**85,488**	**106,387**	**161,315**	**916,137**	**6,436,071**
Profit for the year	-	-	-	-	-	-	850,755	850,755
Other comprehensive income for the year:								
Unrealised gains on available-for-sale investments, net of tax	-	-	-	-	185,296	-	-	185,296
Reclassification of gains realised and reported in profits, net of tax	-	-	-	-	381,136	-	-	381,136
Other comprehensive income	-	-	-		566,432	-	-	566,432
Total comprehensive income for the year	-	-	-	-	566,432	-	850,755	1,417,187
Transfer to loan loss reserve	-	-	-	-	-	32,704	(32,704)	-
Transfer to retained earnings reserve	-	-	500,000	-	-	-	(500,000)	-
Transfer to statutory reserve fund	-	127,612	-	-	-	-	(127,612)	-
Balances at 31 March 2017	**1,732,888**	**846,026**	**3,215,442**	**85,488**	**672,819**	**194,019**	**1,106,576**	**7,853,258**

JMMB Merchant Bank Limited

Statement of Cash Flows

Year ended 31 March 2017

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2017 $'000	2016 $'000
Cash Flows from Operating Activities			
Profit for the year		850,755	469,577
Adjustments for:			
Interest Income	4(a)	(2,531,639)	(1,983,827)
Interest expense	4(a)	1,091,140	1,057,937
Allowance for credit losses (net)		32,203	16,336
Depreciation and amortisation	15,16	52,376	24,081
Taxation	8	122,791	(71,998)
		(382,374)	(487,894)
Changes in operating assets and liabilities -			
Accounts receivable		2,701	(22,733)
Loans receivable		(6,965,847)	(3,355,805)
Accounts payable		197,278	646
		(7,148,242)	(3,865,786)
Interest received		2,515,700	1,984,201
Interest paid		(1,075,899)	(1,048,328)
Taxation paid		(60)	(581)
Cash used in operating activities		(5,708,501)	(2,930,494)
Cash Flows from Investing Activities			
Acquisition of property and equipment, and intangible asset	15,16	(99,815)	(156,417)
Investments (net)		4,996,850	1,083,584
Securities purchased under resale agreements		(2,365,748)	3,000,000
Cash provided by investing activities		2,531,287	3,927,167
Cash Flows from Financing Activities			
Deposits		4,008,575	3,755,742
Securities sold under repurchase agreement		326,254	(4,071,395)
Due to other financial institution		(80,854)	64,132
Cash provided by/(used in) financing activities		4,253,975	(251,521)
Effect of exchange rate changes on cash and cash equivalents		33,348	46,131
Net increase in cash and cash equivalents		1,110,109	791,283
Cash and cash equivalents at beginning of year		1,924,810	1,133,527
CASH AND CASH EQUIVALENTS AT END OF YEAR	9	3,034,919	1,924,810

The notes on pages 11 to 58 are an integral part of these financial statements

1. Identification and Activities

(a) JMMB Merchant Bank Limited ("the Bank") is domiciled and incorporated in Jamaica and is a wholly owned subsidiary of JMMB Group Limited ("parent") which is domiciled and incorporated in Jamaica. The registered office of the Bank is located at 6 – 8 Grenada Way, Kingston 5.

(b) The Bank's main business is that of taking deposits, granting loans and trading in foreign currencies.

(c) The Bank is licensed under the Banking Services Act (2014), which replaced the Financial Institutions Act and the Securities Act. The Bank is regulated by the Bank of Jamaica (the Supervisor) and the Financial Services Commission.

2. Statement of Compliance and Basis of Preparation

(a) Statement of compliance:

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Details of the Bank's accounting policies, including changes during the year, are included in notes 31 and 32.

(b) Basis of preparation:

The financial statements are prepared on the historical cost basis, except for the following:

- financial instruments at fair value through profit or loss, measured at fair value.
- available-for-sale financial assets, which are measured at fair value.

(c) Functional and presentation currency:

The financial statements are presented in Jamaica dollars, which is the functional currency of the Bank, and are expressed in thousands of dollars unless otherwise stated.

(d) Use of estimates and judgements:

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of, and disclosures relating to, assets, liabilities, contingent assets and contingent liabilities at the reporting date and the income and expenses for the year then ended. Actual amounts could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision 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) Comparative information:

Wherever necessary, the comparative figures are reclassified to conform to the current year's presentation.

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies

In the application of the Bank's accounting policies, which are described in note 32, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from the sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

Management is of the opinion that, apart from those involving estimations (see below) there were no critical judgements made in the process of applying the Bank's accounting policies that have a significant effect on the amounts recognised in the financial statements.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities.

(i) Fair value of financial assets

As described in Note 29(g), management uses its judgment in selecting appropriate valuation techniques to determine fair values of financial assets. Valuation techniques commonly used by market practitioners, supported by appropriate assumptions are applied by the Bank. The financial assets of the Bank at the reporting period stated at fair value determined in this manner amounted to $7,665,185,000 (2016: $3,201,516,000).

(ii) Income taxes

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

(iii) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in the Bank, or national or local economic conditions that correlate with defaults on loans in the Bank.

Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when projecting its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to minimise any differences between loss estimates and actual loss experience.

JMMB Merchant Bank Limited
Notes to the Financial Statements
31 March 2017
(expressed in Jamaican dollars unless otherwise indicated)

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

(iii) Impairment losses on loans and advances (continued)

To the extent that the net present value of estimated cash flows changed adversely by 2 percent, the provision as estimated would be increased from $92,618,000 to $96,390,000 (2016: $59,264,000 to $63,057,000).

4. Investment Revenue

(a) Net interest income

	2017 $'000	2016 $'000
Interest income		
Government of Jamaica securities	426,357	114,688
Other securities	361,138	676,389
Loans and other receivables (including cash and cash equivalents)	1,744,144	1,192,750
	2,531,639	1,983,827
Interest expense		
Securities sold under repurchase agreements	309,243	455,164
Deposits	753,682	573,036
Other	28,215	29,737
	1,091,140	1,057,937
Net Interest Income	1,440,499	925,890

(b) Revenue from financial assets

	2017 $'000	2016 $'000
Interest revenue:		
Securities available-for-sale	787,495	791,077
Loans and other receivables/(including cash and cash equivalents)	1,744,144	1,192,750
	2,531,639	1,983,827
Other revenue:		
Foreign exchange trading and translation	205,668	134,870
Gains on sale of available-for-sale investments	571,703	165,246
Dividends	-	3,475
	777,371	303,591

5. Fee and commission income

	2017 $'000	2016 $'000
Loans processing fees	138,581	93,358

6. Staff Costs

	2017 $'000	2016 $'000
Salaries and wages	570,723	395,952
Statutory contributions	58,741	45,157
Pension contributions (note 27)	18,887	15,325
Other staff benefits	129,744	100,015
	778,095	556,449

7. Profit before taxation

The following are among the items charged in arriving at profit before taxation:

	2017 $'000	2016 $'000
Directors' emoluments: fees	17,199	15,509
Auditors' remuneration	8,889	8,456
Depreciation and amortisation	52,376	24,081

8. Taxation

(a) The tax charge/(credit) for the year comprises:

	2017 $'000	2016 $'000
Taxation at 33⅓%	44,513	-
Income tax at 15% of dividend income	-	521
Minimum business tax	60	60
	44,573	581
Deferred tax (note 17):		
Origination and reversal of temporary differences	33,131	(8,627)
Tax benefit of losses carried forward	45,087	(63,952)
	78,218	(72,579)
Taxation recognised for the year	122,791	(71,998)

(b) Subject to agreement with the Commissioner General, Tax Administration Jamaica, tax losses of approximately $320,692,000 (2016: $455,955,000) are available for set off against future taxable profits of the Bank, and can be carried forward indefinitely. The amount that can be utilised in any one year is restricted to 50% of the current year's taxable profits.

JMMB Merchant Bank Limited

Notes to the Financial Statements
31 March 2017
(expressed in Jamaican dollars unless otherwise indicated)

8. Taxation (Continued)

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

	2017 $'000	2016 $'000
Profit before tax	973,546	397,579
Tax at 33⅓%	324,515	132,526
Tax effect of:		
Expenses not deductible in determining taxable profit	41,324	37,565
Non-taxable income	(249,225)	(238,025)
Income not subject to tax	-	521
Tax loss utilised	576	(2,091)
Other adjustments	5,601	(2,494)
Taxation recognised for the year	122,791	(71,998)

9. Cash and Cash Equivalents

	2017 $'000	2016 $'000
Cash and balances with banks including Bank of Jamaica	4,302,901	2,895,664
Securities purchased under resale agreements (note 11)	1,276,814	700,000
Cash deposit at investment brokers (note 14)	30,068	9,633
	5,609,783	3,605,297
Less:		
Statutory reserves with Bank of Jamaica (see below)	(2,574,864)	(1,680,487)
Cash and cash equivalents for statement of cash flows	3,034,919	1,924,810

Statutory reserves with Bank of Jamaica are held in compliance with Section 43 of the Banking Services Act, which requires that every licensee maintains a percentage of its prescribed liabilities as cash reserve with Bank of Jamaica of not less than 5% (2016: 5%) of its prescribed liabilities. The reserve for prescribed liabilities is held on a non-interest-earning basis. No portion of the cash reserve is available for investment, lending or other use by the Bank. The actual required ratio at year end was 12% (2016: 12%) for Jamaican dollar cash reserves and 15% (2016: 9%) for foreign currency cash reserves.

JMMB Merchant Bank Limited

Notes to the Financial Statements
31 March 2017
(expressed in Jamaican dollars unless otherwise indicated)

10. Investment in Securities

	2017 $'000	2016 $'000
Securities available-for-sale:		
Government of Jamaica (GOJ) securities	7,195,830	1,583,483
Bank of Jamaica (BOJ) Certificates of Deposit	100,000	572,770
Equity investments	3,447	67,675
Corporate bonds	365,908	826,617
	7,665,185	3,050,545
Fair value through profit or loss:		
Credit default swap	-	150,971
Securities held-to-maturity:		
Credit linked note	-	9,538,595
	7,665,185	12,740,111
Interest receivable	139,532	154,016
	7,804,717	12,894,127
Pledged assets (see note 12)	(5,280,846)	(10,717,120)
	2,523,871	2,177,007

Investments mature, from the reporting date as follows:

	2017 $'000	2016 $'000
Government of Jamaica securities		
Within 3 months	176,861	-
From 1 year to 5 years	757,009	658,205
Over 5 years	6,261,960	925,278
	7,195,830	1,583,483
Certificates of Deposit and Treasury Bills		
From 3 months to 1 year	100,000	294,268
From 1 year to 5 years	-	278,502
	100,000	572,770
Equity investments - no fixed maturity	3,447	67,675
Corporate and other securities		
From 3 months to 1 year	-	9,689,566
From 1 year to 5 years	365,908	582,608
Over 5 years	-	244,009
	365,908	10,516,183
	7,665,185	12,740,111

JMMB Merchant Bank Limited
Notes to the Financial Statements
31 March 2017
(expressed in Jamaican dollars unless otherwise indicated)

11. Securities Purchased Under Resale Agreements

	2017 $'000	2016 $'000
Denominated in Jamaica dollars	1,575,000	700,000
Denominated in United States dollars	2,067,563	-
Interest receivable	8,950	984
	3,651,513	700,984
Pledged assets (note 12)	(2,365,748)	-
	1,285,765	700,984

Resale agreements include balances with related parties as set out in note 28. All resale agreements mature within twelve months after the reporting date.

For the purpose of the statement of cash flows, an amount of $1,276,814,000 (2016: $700,000,000) is included in cash and cash equivalents [see note 9].

The securities that the Bank obtains as collateral under resale agreements may be used as collateral under repurchase agreements. Certain of these securities and interest accrued thereon are pledged as security for repurchase agreements.

The fair value of collateral held for securities purchased under resale agreements amounted to $4,179,010,000 (2016: $735,371,500) at the reporting date.

12. Pledged Assets

The Bank enters into collateralised repurchase agreements and as at the reporting date, investment securities were pledged as collateral for repurchase agreements (note 18) as follows:

	2017 $'000	2016 $'000
Investment in securities (note 10)	5,280,846	10,717,120
Securities purchased under agreements to resell (note 11)	2,365,748	-
	7,646,594	10,717,120

13. Loans and Notes Receivable

	2017 $'000	2016 $'000
Corporate	8,812,875	6,429,147
Financial institutions	1,759,099	271,196
Individuals	8,753,287	5,657,614
	19,325,261	12,357,957
Less: allowance for impairment	(92,618)	(59,264)
	19,232,643	12,298,693
Interest receivable	104,335	81,878
	19,336,978	12,380,571

JMMB Merchant Bank Limited
Notes to the Financial Statements
31 March 2017
(expressed in Jamaican dollars unless otherwise indicated)

13. Loans and Notes Receivable (Continued)

(a) The loans balance includes an amount of $257,640,000 (2016: $198,957,000) receivable from employees.

(b) The aggregate amount of non-performing loans on which interest is not being accrued is $139,328,000 (2016: $145,330,000).

(c) The movement in the allowance for loan losses are as follows:

	2017 $'000	2016 $'000
Specific Impairment allowance for loan losses		
Balance at beginning of year	59,264	49,662
Write-offs	(19,269)	(7,090)
Recovery of amounts previously written off	1,808	1,456
	41,803	44,028
Charged to profit and loss account	75,724	34,036
Recoveries during the year	(23,101)	(17,344)
Recovery of amounts previously written off	(1,808)	(1,456)
	50,815	15,236
Balance at end of year	92,618	59,264
Regulatory provision (In excess of IFRS Requirements)		
Provision at 1 April	161,315	126,319
Credited to equity	32,704	34,996
Balance at end of year	194,019	161,315
Total provision for loan losses	286,637	220,579
Allowance based on IFRS - (IAS 39 see (i) below)	92,618	59,264
Additional provision based on Bank of Jamaica regulations (see (ii) below)	194,019	161,315
	286,637	220,579

(i) This is the requirement based on IAS 39, *Financial Instruments: Recognition and Measurement*.

(ii) This non-distributable loan loss reserve represents the additional reserve required to meet Bank of Jamaica loan loss provision requirements.

JMMB Merchant Bank Limited

Notes to the Financial Statements
31 March 2017
(expressed in Jamaican dollars unless otherwise indicated)

14. Accounts Receivable

	2017 $'000	2016 $'000
Brokers receivable (note 9)	30,068	9,633
Withholding tax recoverable	61,616	71,639
Owed by fellow subsidiary	-	15,848
Recoverable expenses	144	348
Other receivables	66,361	42,987
	158,189	140,455
Less: Allowance for impairment (including transfer from loan provision)	(899)	(592)
	157,290	139,863
Aging of past due and impaired receivables		
90 – 180 days	22	27
181 – 360 days	111	56
Over 360 days	766	509
	899	592
Movement in allowance for doubtful debts		
Balance at beginning of year	592	467
Charged to profit for the year	307	125
Balance at end of year	899	592

15. Intangible Asset

	Computer Software $'000
Cost	
At 31 March 2015	345,527
Additions	124,928
At 31 March 2016	470,455
Additions	53,610
At 31 March 2017	524,065
Accumulated amortisation	
At 31 March 2015	331,090
Charge for the year	6,528
At 31 March 2016	337,618
Charge for the year	26,970
At 31 March 2017	364,588
Net Book Value	
31 March 2017	159,477
31 March 2016	132,837

JMMB Merchant Bank Limited

Notes to the Financial Statements
31 March 2017
(expressed in Jamaican dollars unless otherwise indicated)

15. Intangible Asset (Continued)

Additions include a deposit on the development of a web-based application. The cost to complete is estimated at $6,500,000 (2016: $1,770,000) [note 30(e)].

16. Property, Plant and Equipment

	Freehold Land and Buildings	Equipment, Furniture and Fittings	Painting and Artwork	Leasehold Improvement	Motor Vehicles	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cost						
At 31 March 2015	23,359	220,784	9,223	80,070	2,973	336,409
Additions	-	31,489	-	-	-	31,489
At 31 March 2016	23,359	252,273	9,223	80,070	2,973	367,898
Additions	-	35,777	-	10,428	-	46,205
At 31 March 2017	23,359	288,050	9,223	90,498	2,973	414,103
Accumulated Depreciation						
At 31 March 2015	5,735	171,557	-	72,727	2,973	252,992
Charge for the year	510	14,547	-	2,496	-	17,553
At 31 March 2016	6,245	186,104	-	75,223	2,973	270,545
Charge for the year	510	19,725	-	5,171	-	25,406
At 31 March 2017	6,755	205,829	-	80,394	2,973	295,951
Net Book Value						
At 31 March 2017	16,604	82,221	9,223	10,104	-	118,152
At 31 March 2016	17,114	66,169	9,223	4,847	-	97,353

17. Deferred Income Taxes

Deferred income tax is calculated using a tax rate of 33⅓%.

The movement for the year in the net deferred tax is as follows:

	2017			
	Balance at Beginning of Year	Recognised in Income	Recognised in Other Comprehensive Income	Balance at End of Year
	$'000	$'000	$'000	$'000
Tax losses carried forward	151,985	(45,088)	-	106,897
Property, plant and equipment	(691)	(344)	-	(1,035)
Interest receivable	(45,944)	(38,318)	-	(84,262)
Interest payable	69,076	5,080	-	74,156
Accounts payable	2,192	453	-	2,645
Tax credit	1,000	-	-	1,000
Unrealised gains	1	(1)	-	-
Investments	(53,195)	-	(283,216)	(336,411)
	124,424	(78,218)	(283,216)	(237,010)

JMMB Merchant Bank Limited

Notes to the Financial Statements

31 March 2017

(expressed in Jamaican dollars unless otherwise indicated)

17. Deferred Income Taxes (Continued)

The movement for the year in the net deferred tax is as follows (continued):

	2016			
	Balance at Beginning of Year	Recognised in Income	Recognised in Other Comprehensive Income	Balance at End of Year
	$'000	$'000	$'000	$'000
Tax losses carried forward	88,033	63,952	-	151,985
Property, plant and equipment	(1,606)	915	-	(691)
Interest receivable	(47,948)	2,004	-	(45,944)
Interest payable	65,873	3,203	-	69,076
Accounts payable	(79)	2,271	-	2,192
Tax credit	1,000	-	-	1,000
Unrealised gains	(233)	234	-	1
Investments	(109,215)	-	56,020	(53,195)
	(4,175)	72,579	56,020	124,424

18. Securities Sold Under Repurchase Agreements

	2017 $'000	2016 $'000
Financial institutions	5,336,777	5,010,522
Interest payable	41,105	76,580
	5,377,882	5,087,102

Securities pledged to collateralise repurchase agreements are disclosed at note 12.

19. Deposits

	2017 $'000	2016 $'000
Personal	5,673,619	4,273,114
Financial institutions	9,516,074	6,929,819
Commercial and business enterprises	5,921,342	5,899,527
	21,111,035	17,102,460
Interest payable	181,292	130,563
	21,292,327	17,233,023

20. Due to Other Financial Institution

	2017 $'000	2016 $'000
Principal	418,312	499,166
Interest payable	70	84
	418,382	499,250

20. Due to Other Financial Institution (Continued)

The above balance consists of US$643,000 and J$335,888,000 (2016: US$771,000 and J$405,286,000) due to Development Bank of Jamaica (DBJ), at interest rates of 4.25% to 7% per annum for periods up to 7 years (2016: 4.5% to 7.0% per annum for periods up to 8 years). Loans are repayable in monthly installments. The loans are for on-lending to customers to finance development and agricultural projects within the terms and conditions specified by the DBJ.

21. Accounts Payable

	2017 $'000	**2016 $'000**
Owed to related parties [note 28(a)]	8,353	14,752
Payroll taxes	14,103	12,413
General consumption tax payable	5,223	2,669
Accrued expenses	116,268	38,795
Customers' loan settlement	186,717	96,428
Other payables	61,031	29,359
	391,695	194,416

22. Share Capital

	2017 $'000	**2016 $'000**
Authorised –		
800,000,000 ordinary shares at no par value	800,000	800,000
100,000,000 convertible preference shares at no par value	100,000	100,000
Issued and fully paid –		
641,159,682 ordinary shares of no par value	1,732,888	1,732,888

23. Statutory Reserve Fund

Under Section 41 of the Banking Services Act (2014), the Bank is required to transfer to a reserve fund a minimum of 15% of the profit each year until the amount to the credit of the reserve fund is equal to 50% of the paid up capital. Thereafter, 10% of the net profit each year is to be transferred to the reserve fund until the amount at the credit of the reserve fund is equal to the paid up capital. The transfer for the year was at the prescribed rate of 15% (2016: 15%).

24. Retained Earnings Reserve

Section 42 of the Banking Services Act (2014), permits the transfer of net profits to a retained earnings reserve. Such transfers are made at the discretion of the Bank's directors and must be notified to Bank of Jamaica.

The amount transferred to retained earnings reserve from unappropriated profits during the year was $500,000,000 (2016: $500,000,000).

JMMB Merchant Bank Limited

Notes to the Financial Statements
31 March 2017
(expressed in Jamaican dollars unless otherwise indicated)

25. Capital Redemption Reserve

Capital redemption reserve is based on the redemption of 42,744,000 cumulative redeemable preference shares at a value of $85,488,000 in 2011. In conformity with the provisions of the Jamaican Companies Act, an amount equal to the value of the preference shares redeemed was transferred from retained earnings to the Capital Redemption Reserve.

26. Fair Value Reserve

Fair value reserve represents the excess or shortfall of the fair value of securities available-for-sale at the year-end over the amortised cost, net of deferred tax.

Movement in fair value reserve is as follows:

	2017 $'000	2016 $'000
Balance at beginning of year	106,387	218,427
Unrealised gains/(losses) on available-for-sale investments	1,313,114	(13,592)
Deferred tax on unrealised (gains)/losses	(437,705)	4,531
Realised gains on sale of available-for-sale of investments transferred to profit and loss account	(463,466)	(154,468)
Deferred tax on realised gains and losses	154,489	51,489
Balance at end of year	672,819	106,387

27. Post-employment Benefits

Pensions are the only post-employment benefits to which the Bank is committed. To better secure the payment of promised benefits, a fellow subsidiary company operates a defined-contribution pension fund for the Group's Jamaican employees who have satisfied certain minimum service requirements. The fund is financed by equal contributions of employer and employees of 5% of pensionable salaries with an option for employees to contribute up to an additional 10% of pensionable salaries.

The fund is administered by trustees and the assets are held separately from those of the Bank. Under the rules of the fund, an actuarial valuation should be carried out by the appointed actuaries every three years. An actuarial valuation of the fund was done as at 31 December 2014 by ACTMAN International Limited, independent actuaries. The valuation report revealed a funding surplus.

The pension benefit is the annuity that can be purchased by the amount standing to the credit of the member's account at the date of retirement.

The contributions for the year amounted to $18,887,000 (2016: $15,325,000) [see note 6].

JMMB Merchant Bank Limited

Notes to the Financial Statements
31 March 2017
(expressed in Jamaican dollars unless otherwise indicated)

28. Related Party Transactions and Balances

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

	2017 $'000	2016 $'000
Securities purchased under resale agreements –		
Fellow subsidiaries	3,651,513	480,957
Loans and notes receivable –		
Other related parties	405,018	426,580
Key management personnel, including directors	101,039	92,993
	506,057	519,573
Accounts receivable –		
Fellow subsidiary	-	15,848
Deposits –		
Parent company	903,373	903,329
Fellow subsidiaries	2,689,386	5,328,878
Other related parties	3,088,964	24,601
Key management personnel including directors	50,218	25,736
	6,731,941	6,282,544
Accounts payable -		
Fellow subsidiary	8,353	14,752
Securities sold under repurchase agreements –		
Fellow subsidiaries	70,009	61,184

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

	2017 $'000	2016 $'000
Interest earned -		
Other related party	1,298	39,375
Fellow subsidiary	107,910	63,402
Key management personnel including directors	6,944	7,730
	116,152	110,507
Other income -		
Fellow subsidiary	148	11
Other related parties	1	2,820
Key management personnel including directors	167	157
	316	2,988

28. Related Party Transactions and Balances (Continued)

(b) The profit and loss account includes transactions, in the ordinary course of business, with the parent company, fellow subsidiaries, key management personnel (directors and senior executives) and other related parties as follows (continued):

	2017 $'000	2016 $'000
Interest expense -		
Parent company	67,692	7,952
Fellow subsidiary	84,022	171,815
Other related parties	95,382	360
Key management personnel including directors	666	625
	247,762	180,752
Other expenses -		
Fellow subsidiaries	35,764	29,409

(c) Key management includes directors and senior executives of the Bank. The compensation paid or payable to key management for employee services is as shown below:

	2017 $'000	2016 $'000
Staff costs – key management personnel	160,332	149,833

29. Financial Risk Management

(a) Introduction and overview

The Bank's activities result in exposure to credit, market, liquidity and operational risks. An enterprise-wide risk management approach is adopted which involves employees on all levels. This framework is supported by sound risk management practices which include the establishment of enterprise-wide policies, procedures and limits, monitoring and measurement of exposure against established limits, ongoing realignment of business strategies and activities and the reporting of significant exposures to senior management and the Board of Directors.

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board's risk management mandate is principally carried out through the following committees.

(i.) Risk Management Committee

The Group's Board Risk Management Committee is a Board Committee responsible for the supervision of the overall risk management functions of the Bank. The committee decides the policies and strategy for integrated risk management of the various risk exposures of the Bank.

(ii.) Board Credit Committee

The Board Credit Committee is responsible for approving all credit requests above a specified threshold and ensuring that all lending facilities conform to standards agreed by the Board and embodied in Credit Risk Policy. The committee is ultimately responsible for determining the composition and management of the credit portfolio and has available a number of measures it can employ in this respect including the making of specific and general provisions against actual or potential bad debts. The committee is supported in its work by the Management Credit Committee.

29. Financial Risk Management (Continued)

(a) Introduction and overview (continued)

(iii.) Audit Committee

The Audit Committee monitors the quality of the Bank's internal controls and compliance with regulatory requirements. The Audit Committee is assisted in its oversight role by the Internal Audit Function and the Risk Function. Internal Audit undertakes both regular and ad hoc reviews of the risk management controls and procedures, the results of which are reported quarterly to the Audit Committee.

The management of certain specific aspects of operational risk, such as fraud, is also within the purview of the Audit Committee.

(iv.) Investment Committee

The Investment Committee is a senior management level committee responsible for the management of market risks. The committee monitors the composition of assets and liabilities, evaluates potential market risk involved in launching new products, reviews and articulates funding policy and decides optimal ways of managing the Bank's liquidity.

(b) Credit risk

The Bank is exposed to credit risk, which is the risk that its customers or counterparties will cause a financial loss for the Bank by failing to discharge their contractual obligations. Credit risk is an important risk for the Bank's business and management carefully manages its exposure to credit risk. Credit exposure of the Bank arises mainly from lending and investment activities. The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty or group of related counterparties and to an industry segment. Credit-related commitment risks arise from guarantees which may require payment on behalf of customers. Such payments are collected from customers based on the terms of the letters of credit, guarantees or undertakings. These expose the Bank to similar risks to loans and these are mitigated by the same control policies and processes.

Credit review process

The Bank's credit risk is managed through a framework which incorporates the following:

Investments

The Bank invests primarily in Government of Jamaica securities, corporate securities, Bank of Jamaica Certificates of Deposit, securities purchased under resale agreements and equity securities. The Bank manages its exposure through the establishment of counterparty and concentration limits and policies which provide guidelines as to the minimum investment grade acceptable for investment in financial instruments. The Investment Committee also provides oversight for the management of the credit risk practices for the Bank.

Loans

(i) The Bank establishes policies and procedures which govern standards for granting credit and the process of continuous monitoring and measurement in relation to credit quality through industry and customer limits, portfolio diversification, delinquency and debt recovery management.

The loan portfolio is separated into two categories: corporate and retail loans, each with specified approval and credit granting criteria. All loans are approved by the Credit Risk Unit, Management Credit Committee and the Board Credit Committee in accordance with an authorisation structure and supported by credit scoring systems and analyses.

JMMB Merchant Bank Limited

Notes to the Financial Statements
31 March 2017
(expressed in Jamaican dollars unless otherwise indicated)

29. Financial Risk Management (Continued)

(b) Credit risk (continued)

Loans (continued)

(ii) All loans are assigned to relationship officers who are responsible for the monitoring and management of the loans assigned.

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

(iii) The Bank assesses the probability of default through a credit review process using an internal risk rating system which classifies loan in accordance with the following:

Risk Rating Scale		Description
Class	1	Excellent
Class	2	Good credit
Class	3	Average credit
Class	4	Acceptable
Class	5	Marginal
Class	6	Substandard
Class	7	Doubtful
Class	8	Loss

Loan and notes receivable that are cash-secured are included in the credit classification as Risk Rated 1, based on the Bank’s rating grades.

Collateral

The taking of collateral (including guarantees) for funds advanced is dependent on the assessment of the credit risk of the counterparty. The Bank has implemented guidelines on the acceptability of specific classes of collateral or credit risk mitigation.

The principal collateral types for loans and advances are:

- Mortgages over commercial and residential properties;
- Charges over business assets such as premises, equipment, motor vehicles, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities;
- Cash and other near cash securities.

The Bank’s policy requires the review of loans and advances at least annually or more regularly when individual circumstances require. In order to minimise the credit loss, the Bank seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

JMMB Merchant Bank Limited

Notes to the Financial Statements
31 March 2017
(expressed in Jamaican dollars unless otherwise indicated)

29. Financial Risk Management (Continued)

(b) Credit risk (continued)

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to make drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct unsecured loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Impairment

The Risk Function - Credit Risk Unit conducts quarterly assessment of the loan portfolio to determine whether there is a requirement for provision due to impairment. To determine whether impairment has occurred, the following circumstances are reviewed:

(i) whether payments of principal or interest on a loan is contractually past due for more than 90 days;
(ii) whether there are known difficulties that may affect a borrower's ability to service the facility going forward; and
(iii) credit rating downgrades or other default events that may impact collectability of the facility or loan.

Loans impacted by any of the conditions highlighted are individually reviewed and the level of impairment or provision determined based on the expected cash flows from the liquidation of collateral or other sources. The expected cash flows are discounted based on the timing of cash inflows and outflows and the average loan rate.

The Bank's loan portfolio is rated as follows:

	2017 $'000	2016 $'000
Standard	18,480,917	11,587,732
Special Mention	715,977	615,797
Substandard	36,266	39,147
Doubtful	22,792	22,660
Loss	69,309	92,621
	19,325,261	12,357,957

JMMB Merchant Bank Limited

Notes to the Financial Statements

31 March 2017

(expressed in Jamaican dollars unless otherwise indicated)

29. Financial Risk Management (Continued)

(b) Credit risk (continued)

Impairment (continued)

Credit quality

	2017 $'000	2016 $'000
Neither past due nor impaired - standard	16,315,825	9,765,074
Past due but not impaired	2,749,810	2,475,540
Past due and impaired	259,626	117,343
Gross	19,325,261	12,357,957
Less: allowance for impairment	(92,618)	(59,264)
Net	19,232,643	12,298,693

The Bank held collateral in respect of loans that are individually impaired, as per the table above, excluding unsecured loans, amounting to $167,024,000 (2016: $58,079,000) at their fair value. There were no other financial assets that were individually impaired.

The aging of the Bank's past due loans at the reporting date was as follows:

	2017 $'000	2016 $'000
Past due 1 - 30 days	2,204,880	1,722,187
Past due 31– 60 days	530,612	507,009
Past due 61 – 90 days	134,616	218,357
More than 90 days	139,328	145,330
	3,009,436	2,592,883

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

Aging of impaired loans

The analysis below is done based on the number of days since impairment:

	2017 $'000	2016 $'000
Current	57,692	3,547
1 - 30 days	31,488	18,096
31 - 60 days	64,391	18,997
61- 90 days	53,477	10,938
91 - 120 days	3,932	600
121 – 360	19,452	26,376
Over 360 days	29,194	38,789
	259,626	117,343

29. Financial Risk Management (Continued)

(b) Credit risk (continued)

Renegotiated loans and leases

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

Repossessed collateral

The Bank can obtain assets by taking possession of collateral held as security.

Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. The Bank does not occupy repossessed properties for business use.

The carrying value of the loans on which the collateral was repossessed during the year is $55,503,000 (2016: $35,710,000).

Loans

The following table summarises the Bank's credit exposure for loans at their carrying amounts, by industry sector:

	2017 $'000	2016 $'000
Construction, land development and real estate acquisition	1,328,329	1,255,176
Distribution	2,542,911	1,951,680
Financial institutions	1,760,559	271,196
Mining, quarrying and processing	176,930	220,501
Manufacturing & utilities	571,794	591,735
Personal	8,896,874	5,367,970
Professional and other services	1,852,087	1,207,469
Tourism and entertainment	1,268,294	1,222,014
Transport, storage and communication	573,353	139,028
Electricity, gas and water	15,926	1,489
Entertainment	37,996	43,529
Agriculture	300,208	86,170
Total	19,325,261	12,357,957
Less: Allowance for impairment	(92,618)	(59,264)
	19,232,643	12,298,693
Interest receivable	104,335	81,878
	19,336,978	12,380,571

JMMB Merchant Bank Limited

Notes to the Financial Statements
31 March 2017
(expressed in Jamaican dollars unless otherwise indicated)

29. Financial Risk Management (Continued)

(b) Credit risk (continued)

Loans (continued)

Collateral and other credit enhancements held against financial assets

The Bank holds collateral against loans and advances to customers and others in the form of mortgage interests over property, registered securities over other assets, and guarantees. Fair value of collateral is assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over balances with banks or broker/dealers, except when securities are held under resale agreements. Collateral is generally not held against investment securities, and no such collateral was held at the reporting date (2016: no collateral held).

An estimate of the fair value of collateral and other security enhancements made at the time of lending, to borrowers and others is shown below:

	Loans and notes receivable		Resale agreements	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Against neither past due nor impaired financial assets:				
Cash secured	1,468,131	500,721	-	-
Property	10,183,295	6,533,248	-	-
Debt securities	3,316,565	2,224,308	4,179,010	735,372
Liens on motor vehicles	4,627,395	3,062,746	-	-
Subtotal	**19,595,386**	**12,321,023**	**4,179,010**	**735,372**
Against past due but not impaired financial assets:				
Cash secured	92,382	239,768	-	-
Property	1,266,175	1,603,683	-	-
Debt securities	817,425	633,636	-	-
Liens on motor vehicles	1,040,691	676,091	-	-
Subtotal	**3,216,673**	**3,153,178**	**-**	**-**
Against past due and impaired financial assets:				
Property	104,520	110,958	-	-
Liens on motor vehicles	38,544	41,682	-	-
Subtotal	**143,064**	**152,640**	**-**	**-**
Total	**22,955,123**	**15,626,841**	**4,179,010**	**735,372**

29. Financial Risk Management (Continued)

(b) Credit risk (continued)

Investments

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

	2017 $'000	2016 $'000
Government of Jamaica	7,195,830	1,583,483
Bank of Jamaica Certificates of Deposit	100,000	572,770
Corporate	365,908	10,516,183
Other	3,447	67,675
	7,665,185	12,740,111
Interest receivable	139,532	154,016
	7,804,717	12,894,127

(c) Liquidity risk

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

The Bank is exposed to calls on its available cash resources from overnight deposits, maturing deposits, loan draw downs and guarantees. The Bank does not maintain cash resources to meet all of these needs as experience shows that a level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board of Directors approves the Bank's liquidity and funding management policies and establishes limits to control risk.

Management of liquidity risk

The Bank's Treasury Department has direct responsibility for the management of the day-to-day liquidity. The Asset and Liability Committee (ALCO) provides senior management oversight of the Bank's liquidity risk exposure, within the policy and limit frameworks established by the Board.

The management of liquidity risk is carried out through various methods which include:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature.
- Establishment of committed lines and mismatch limits.
- Diversification of funding sources.
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow within the local and international markets.
- Monitoring liquidity ratios on the statement of financial position against internal and regulatory requirements.
- Maintenance of liquidity and funding contingency plans.

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

JMMB Merchant Bank Limited

Notes to the Financial Statements

31 March 2017

(expressed in Jamaican dollars unless otherwise indicated)

29. Financial Risk Management (Continued)

(c) Liquidity risk (continued)

Management of liquidity risk (continued)

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities are fundamental to the management of the Bank. It is unusual for financial institutions ever to be completely matched since business transacted is often of uncertain terms and of different types.

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

Sources of liquidity risk are regularly reviewed by the Treasury Department and ALCO to maintain a wide diversification by products and terms.

The following table presents the cash flows payable by the Bank under non-derivative financial instruments by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. The carrying amounts are those reported in the statement of financial position.

	2017						
	Within 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	No Specific Maturity $'000	Total Contractual Cash Flows $'000	Total Carrying Amount $'000
Financial assets							
Cash and balances with banks	4,302,901	-	-	-	-	4,302,901	4,302,901
Investment in securities	306,989	514,589	3,040,669	9,455,608	3,447	13,321,302	7,804,717
Securities purchased under resale agreements	2,892,042	780,280	-	-	-	3,672,322	3,651,513
Loans and notes receivable	1,887,024	4,304,045	13,890,450	7,422,384	-	27,503,903	19,336,978
Other assets	38,428	-	-	-	-	38,428	38,428
Total financial assets	9,427,384	5,598,914	16,931,119	16,877,992	3,447	48,838,856	35,134,537
Financial liabilities							
Securities sold under repurchase agreements	4,643,390	779,929	-	-	-	5,423,319	5,377,882
Deposits	15,985,263	4,942,696	454,085	162,570	-	21,544,614	21,292,327
Due to other financial institutions	301	-	412,799	111,737	-	524,837	418,382
Other liabilities	267,497	-	-	-		267,497	267,497
Total financial liabilities	20,896,451	5,722,625	866,884	274,307	-	27,760,267	27,356,088
Total liquidity gap	(11,469,067)	(123,711)	16,064,235	16,603,685	3,447	21,078,589	
Cumulative gap	(11,469,067)	(11,592,778)	4,471,457	21,075,142	21,078,589		

JMMB Merchant Bank Limited

Notes to the Financial Statements
31 March 2017
(expressed in Jamaican dollars unless otherwise indicated)

29. Financial Risk Management (Continued)

(c) Liquidity risk (continued)

Management of liquidity risk (continued)

	2016						
	Within 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	No Specific Maturity $'000	Total Contractual Cash Flows $'000	Total Carrying Amount $'000
Financial assets							
Cash and balances with banks	2,895,664	-	-	-	-	2,895,664	2,895,664
Investment in securities	58,747	10,396,082	2,116,160	1,680,856	67,675	14,319,520	12,894,127
Securities purchased under resale agreements	701,927	-	-	-	-	701,927	700,984
Loans and notes receivable	1,613,537	3,936,755	7,826,585	3,563,142	-	16,940,019	12,380,571
Other assets	28,300	-	-	-	-	28,300	28,300
Total financial assets	5,298,175	14,332,837	9,942,745	5,243,998	67,675	34,885,430	28,899,646
Financial liabilities							
Securities sold under repurchase agreements	61,207	5,158,979	-	-	-	5,220,186	5,087,102
Deposits	13,137,121	3,877,509	87,308	318,293	-	17,420,231	17,223,023
Due to other financial institutions	-	-	226,480	426,142	-	652,622	499,250
Other liabilities	149,046	-	-	-	-	149,046	149,046
Total financial liabilities	13,347,374	9,036,488	313,788	744,435	-	23,442,085	22,958,421
Total liquidity gap	(8,049,199)	5,296,349	9,628,957	4,499,563	67,675	11,443,345	
Cumulative gap	(8,049,199)	(2,752,850)	6,876,107	11,375,670	11,443,345		

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

	2017			
	No later than 1 Year $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
Loan commitments	2,194,035	-	-	2,194,035
Guarantees, acceptances and other financial liabilities	109,785	1,325	87,000	198,110
	2,303,820	1,325	87,000	2,392,145

	2016			
	No later than 1 Years $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
Loan commitments	2,039,806	-	-	2,039,806
Guarantees, acceptances and other financial liabilities	33,556	2,247	87,820	123,623
	2,073,362	2,247	87,820	2,163,429

JMMB Merchant Bank Limited

Notes to the Financial Statements
31 March 2017
(expressed in Jamaican dollars unless otherwise indicated)

29. Financial Risk Management (Continued)

(d) Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security, its issuer or factors affecting all securities traded in the market. Market risk results primarily from changes in interest rates, foreign exchange rates and equity prices.

Management of market risk

The Asset & Liability Committee has responsibility for the management of on balance sheet risks and employs various methods and financial instruments that provide suitable hedge against specified exposures where required. This Committee monitors and measures market risk exposure through gap analysis, sensitivity analysis and stress testing within the policy and limit frameworks established by the Board.

Sensitivity analysis is a widely used risk measurement tool that allows management to make judgments regarding the potential loss in future earnings, fair values and cash flows on market sensitive instruments resulting from one or more hypothetical changes in interest rate, foreign currency exchange rates and other relevant market rates or prices over a selected period of time.

Market information and additional analysis is also used to manage risk exposure and mitigate the limitation of sensitivity analysis.

The exposure to market risk includes foreign currency and interest rate risks that are managed as follows:

Foreign currency risk

Foreign currency risk is the risk of loss arising from adverse movements in foreign exchange rates.

The Bank is exposed to foreign currency risk as a result of transactions that are denominated in a currency other than the Jamaican dollar. The main currencies giving rise to the exposure are the United States Dollar, Canadian Dollar, the British Pound and the Euro. The Bank manages foreign currency risk through the establishment of limits for net open positions and matching foreign assets and liabilities as far as possible.

The Bank faces exposure to the effect of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets the limits on the exposure by currency and on aggregate, which are monitored daily. This limit may vary from time to time as determined by the Risk and Compliance Department's assessment of volatility in exchange rates and with the approval of the Asset and Liability Committee.

The Bank's net foreign currency balances as at year-end, incurred in the normal course of business, were as follows:

	2017			
	USD	**GBP**	**CAD**	**EUR**
	$'000	**$'000**	**$'000**	**$'000**
Financial assets				
Total assets	110,613	1,587	720	494
Total liabilities	(120,599)	(1,683)	(706)	(549)
Net exposure	(9,986)	(96)	14	(55)

JMMB Merchant Bank Limited

Notes to the Financial Statements
31 March 2017
(expressed in Jamaican dollars unless otherwise indicated)

29. Financial Risk Management (Continued)

(d) Market risk (continued)

Foreign currency risk (continued)

	2016			
	USD	**GBP**	**CAD**	**EUR**
	$'000	**$'000**	**$'000**	**$'000**
Financial assets				
Total assets	124,034	1,563	641	193
Total liabilities	(120,296)	(1,618)	(775)	(102)
Net exposure	3,738	(55)	(134)	91

Foreign currency sensitivity

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

	2017		2016	
	Change in Currency Rate %	**Effect on Profit $'000**	**Change in Currency Rate %**	**Effect on Profit $'000**
Currency:				
USD	6	(76,824)	6	27,296
CAD	6	77	6	(738)
GBP	6	(921)	6	(580)
EURO	6	(446)	6	735
USD	-1	12,804	-1	(4,549)
CAD	-1	(13)	-1	123
GBP	-1	154	-1	97
EURO	-1	74	-1	(122)

JMMB Merchant Bank Limited

Notes to the Financial Statements
31 March 2017
(expressed in Jamaican dollars unless otherwise indicated)

29. Financial Risk Management (Continued)

(d) Market risk (continued)

Interest rate risk

Interest rate risk is the risk of loss due to adverse changes in interest rates. The risk of loss may arise from a decline in the fair value of financial assets due to interest rate increases. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Mismatch of positions between assets and liabilities in periods of rising or declining interest rates may also result in loss of earnings. Management sets limits on the level of mismatch of interest rate repricing that may be undertaken. This is monitored on a periodic basis.

Interest rate risk exposure is measured using gap analysis and sensitivity analysis. Interest rate risk is managed by utilising derivative instruments where necessary and maintaining an appropriate mix of variable and fixed rate instruments.

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

				2017			
	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	No Rate Sensitive $'000	Total $'000
Financial assets							
Cash and balances with banks	4,302,901	-	-	-	-	-	4,302,901
Investment in securities, including pledged assets	-	176,861	100,000	1,122,917	6,261,960	142,979	7,804,717
Securities purchased under resale agreements	1,376,814	1,495,550	770,199	-	-	8,950	3,651,513
Loans and notes receivable	69,356	86,537	1,748,887	5,683,868	11,643,995	104,335	19,336,978
Other assets	-	-	-	-	-	157,290	157,290
Total financial assets	5,749,071	1,758,948	2,619,086	6,806,785	17,905,955	413,554	35,253,399
Financial liabilities							
Securities sold under repurchase agreements	170,000	4,396,607	770,170	-	-	41,105	5,377,882
Deposits	10,666,528	5,161,212	4,758,318	396,118	128,859	181,292	21,292,327
Due to other financial institutions	299	-	-	334,805	83,208	70	418,382
Other liabilities	-	-	-	-	-	391,695	391,695
Total financial liabilities	10,836,827	9,557,819	5,528,488	730,923	212,067	614,162	27,480,286
Total interest rate repricing gap	(5,087,756)	(7,798,871)	(2,909,402)	6,075,862	17,693,888	(200,608)	7,773,113
Cumulative interest rate gap	(5,087,756)	(12,886,627)	(15,796,029)	(9,720,167)	7,973,721	7,773,113	

JMMB Merchant Bank Limited

Notes to the Financial Statements
31 March 2017
(expressed in Jamaican dollars unless otherwise indicated)

29. Financial Risk Management (Continued)

(d) Market risk (continued)

Interest rate risk (continued)

	2016						
	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	No Rate Sensitive $'000	Total $'000
Financial assets							
Cash and balances with banks	2,895,664	-	-	-	-	-	2,895,664
Investment in securities, including pledged assets	-	-	9,983,834	1,519,315	1,169,286	221,692	12,894,127
Securities purchased under resale agreements	600,000	100,000	-	-	-	984	700,984
Loans and notes receivables	323,557	35,832	1,920,992	2,870,681	7,147,631	81,878	12,380,571
Other assets	-	-	-	-	-	139,863	139,863
Total financial assets	3,819,221	135,832	11,904,826	4,389,996	8,316,917	444,417	29,011,209
Financial liabilities							
Securities sold under repurchase agreements	61,138	-	4,949,384	-	-	75,580	5,086,102
Deposits	8,801,698	4,216,260	3,734,432	74,294	275,776	130,563	17,233,023
Due to other financial institutions	-	-	-	182,215	316,951	84	499,250
Other liabilities	-	-	-	-	-	194,416	194,416
Total financial liabilities	8,862,836	4,216,260	8,683,816	256,509	592,727	400,643	23,012,791
Total interest rate repricing gap	(5,043,615)	(4,080,428)	3,221,010	4,133,487	7,724,190	43,774	5,998,418
Cumulative interest rate gap	(5,043,615)	(9,124,043)	(5,903,033)	(1,769,546)	5,954,644	5,998,418	

Average effective yields by the earlier of the contractual repricing or maturity dates:

	2017					
	Immediately Rate Sensitive %	1 to 3 Month %	3 to 12 Months %	1 to 5 Years %	Over 5 Years %	Average %
Financial assets						
Investment in securities	-	7.50	7.00	7.26	8.88	8.54
Securities purchased under resale agreements	2.94	5.30	2.00	-	-	3.71
Loans and notes receivables	12.40	10.92	11.90	12.18	10.16	10.93
Financial liabilities						
Deposits	3.73	4.39	4.33	2.80	2.72	4.00
Securities sold under repurchase agreements	5.68	4.55	1.93	-	-	4.21
Due to other financial institutions	7.00	-	-	5.96	6.49	6.07

JMMB Merchant Bank Limited

Notes to the Financial Statements
31 March 2017
(expressed in Jamaican dollars unless otherwise indicated)

29. Financial Risk Management (Continued)

(d) Market risk (continued)

Interest rate risk (continued)

Average effective yields by the earlier of the contractual repricing or maturity dates (continued):

	2016					
	Immediately Rate Sensitive	1 to 3 Month	3 to 12 Months	1 to 5 Years	Over 5 Years	Average
	%	%	%	%	%	%e
Financial assets						
Investment in securities	-	-	5.42	7.39	9.16	5.97
Securities purchased under resale agreements	4.35	5.60	-	-	-	4.52
Loans and notes receivables	11.02	14.12	10.01	12.87	11.09	11.35
Financial liabilities						
Deposits	3.65	3.76	4.62	4.14	2.60	3.87
Securities sold under repurchase agreements	1.25	-	8.15	-	-	8.06
Due to other financial institutions	-	-	-	6.50	5.90	6.12

(i) Yields are based on book values and contractual interest adjusted for amortisation of premiums and discounts. Yields on tax-exempt investments have not been computed on a taxable equivalent basis.
(ii) Yields are based on book values, net of allowance for credit losses and contractual interest rates.
(iii) Yields are based on contractual interest rates.

Interest rate sensitivity

The following table indicates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Bank’s interest income in the profit and loss account and gains recognised in other comprehensive income.

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

2017			2016		
Change in basis points JMD/USD	Effect on Profit	Effect on Other Comprehensive Income	Change in basis points JMD/USD	Effect on Profit	Effect on Other Comprehensive Income
	$’000	$’000		$’000	$’000
-100 / -50	(172,438)	207,741	-100 / -50	(109,701)	92,708
+100 / +100	179,350	(380,242)	+100 / +100	113,735	(151,360)

29. Financial Risk Management (Continued)

(d) Market risk (continued)

Equity risk
Equity risks arise from price fluctuation in equity prices. The risk arises out of holding positions in either individual stocks (non-systemic risk) or in the market as a whole (systemic risk). The goal is to earn dividend income and realise capital gains sufficient to offset the interest foregone in holding such long-term positions.

The Bank sets limits on the level of exposure, and diversification is a key strategy employed to reduce the impact on the portfolio, which may result from the non-performance of a specific class of assets. Given the potential volatility in the value of equities and the non-interest bearing characteristics of these instruments the Bank limits the amount invested in them.

Equity price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

2017			2016		
% Change in Equity Prices	Effect on Profit $'000	Effect on Other Comprehensive Income $'000	% Change in Equity Prices	Effect on Profit $'000	Effect on Other Comprehensive Income $'000
10%	-	-	10%	-	6,485
-10%	-	-	-10%	-	(6,485)

(e) Capital management

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

(i) To comply with the capital requirements set by the regulators;
(ii) To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for stockholders and benefits for other stakeholders; and
(iii) To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored monthly by the Bank's management employing techniques based on the guidelines developed by the Financial Services Commission (FSC) and the Bank of Jamaica (BOJ). The required information is filed with the respective Regulatory Authorities at stipulated intervals.

The BOJ and the FSC require each regulated entity to:

(i) Hold the minimum level of the regulatory capital; and

(ii) Maintain a minimum ratio of total regulatory capital to the risk-weighted assets.

JMMB Merchant Bank Limited
Notes to the Financial Statements
31 March 2017
(expressed in Jamaican dollars unless otherwise indicated)

29. Financial Risk Management (Continued)

(e) Capital management (continued)

The Bank's regulatory capital consists of Tier 1 and Tier 2 capital, less prescribed deductions as follows:

(i) Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings less any net loss position arising from fair value accounting.

(ii) Tier 2 capital: provisions for losses on loans limited to a maximum of one and one quarter percent (1.25%) of the total risk weighted assets.

(iii) Prescribed deductions: investments in subsidiaries and connected entities.

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

The table below summarises the composition of regulatory capital and the ratios of the Bank as at the reporting date. The Bank complied with all of the externally imposed capital requirements to which it is subject.

	2017	**2016**
	$'000	**$'000**
Tier 1 capital	5,634,880	5,042,706
Tier 2 capital	187,471	116,256
Total regulatory capital	5,822,351	5,158,962
Total required capital	3,527,902	2,727,020
Risk-weighted assets –		
On- statement of financial position	29,929,071	24,542,968
Off-statement of financial position	3,435,211	2,163,428
Foreign exchange exposure	1,914,738	563,802
	35,279,020	27,270,198
Actual capital base to risk weighted assets	17%	19%
Required capital ratio to risk weighted assets	10%	10%

The change in the regulatory capital in 2017 and 2016 is mainly due to the contribution of the current year profit.

29. Financial Risk Management (Continued)

(f) Operational risk

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

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

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

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

Compliance with the Bank's standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to senior management and the Audit Committee.

(g) Fair value of financial instruments

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 unit absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

The following methods and assumptions have been used:

(i) investment in securities classified as available-for-sale are measured at fair value by reference to quoted market prices or broker/dealer price quotations where available. A market is regarded as active if transactions for the assets or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If quoted market prices are not available, fair values are estimated on the basis of pricing models or other recognised valuation techniques;

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

JMMB Merchant Bank Limited

Notes to the Financial Statements
31 March 2017
(expressed in Jamaican dollars unless otherwise indicated)

29. Financial Risk Management (Continued)

(g) Fair value of financial instruments (continued)

Fair value measurement (continued):

The following methods and assumptions have been used (continued):

(iii) the carrying amounts of variable rate financial instruments is assumed to approximate their fair value;

(iv) the fair value of fixed rate loans is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. For match-funded loans the carrying value is assumed to be equal to their fair value, as gains and losses offset each other. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values as the impact of credit risk is recognised separately by deducting the allowance for credit losses from both book and fair values; and

(v) the fair value of demand deposits and other accounts with no specific maturity is assumed to be the amount payable on demand at the reporting date.

(vi) the fair values of deposits and other liabilities having specific maturity after one year, are determined by discounting future cash flows using reporting date yields of similar instruments.

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

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

There were no transfers between levels during the year.

Accounting classification and fair values:

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

JMMB Merchant Bank Limited
Notes to the Financial Statements
31 March 2017
(expressed in Jamaican dollars unless otherwise indicated)

29. Financial Risk Management (Continued)

(g) Fair value of financial instruments (continued)

Accounting classifications and fair values (continued):

	2017	
	Carrying amount	Fair value
	Available-for-Sale $'000	Level 2 $'000
Financial assets measured at fair value		
GOJ securities	7,195,830	7,195,830
BOJ certificates of deposit	100,000	100,000
Unquoted equities	3,447	3,447
Corporate bonds	365,908	365,908
	7,665,185	**7,665,185**

	2016		
	Carrying amount		Fair value
	Available-for-Sale $'000	At Fair Value Through Profit or Loss $'000	Level 2 $'000
Financial assets measured at fair value			
GOJ securities	1,583,483	-	1,583,483
BOJ certificates of deposit	572,770	-	572,770
Quoted equities	64,847	-	-
Unquoted equities	2,828	-	2,828
Corporate bonds	826,617	150,971	977,588
	3,050,545	**150,971**	**3,136,669**

Valuation techniques for investment securities classified as Level 2

The following table shows the valuation techniques used in measuring the fair value of investment securities.

Type of financial instrument	**Method of estimating fair value**
US$ denominated GOJ securities	• Obtain bid price provided by a recognised broker/dealer, namely, Oppenheimer • Apply price to estimate fair value
J$ denominated securities issued or guaranteed by GOJ	• Obtain bid price provided by a recognised pricing source (which uses Jamaica-market-supplied actual and indicative bids) • Apply price to estimate fair value

JMMB Merchant Bank Limited
Notes to the Financial Statements
31 March 2017
(expressed in Jamaican dollars unless otherwise indicated)

29. Financial Risk Management (Continued)

(g) Fair value of financial instruments (continued)

Type of financial instrument	**Method of estimating fair value**
Loans and notes receivable	• The fair value of fixed rate loans is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. For match-funded loans the carrying value is assumed to be equal to their fair value, as gains and losses offset each other. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values as the impact of credit risk is recognised separately by deducting the amount of the provisions for credit losses from both book and fair values.
Credit default swap	• Estimated a discount rate based on observable market information • Applied that rate to the cashflows of the host contract
Demand deposits and other accounts with no specific maturity	• Considered to be the amount payable on demand on the reporting date.

30. Contingencies and Commitments

(a) Litigation

The Bank is subject to claims, disputes and legal proceedings in the normal course of business. Provision is made for such matters when in the opinion of management and together with legal advice, it is probable that a payment will be made and the amount can be reasonably estimated. At 31 March 2017, there was one legal proceeding outstanding against the Bank for which a payment of approximately $700,000 is estimated (31 March 2016: $500,000).

(b) Operating leases

The Bank has entered into lease agreements for rental of office space. The amount charged in the profit and loss account during the year is $33,781,000 (2016: $31,474,000).

The total annual rentals to be paid are as follows:

	$'000
2018	27,451
2019	28,095
2020	10,627

(c) Maintenance contract

The Bank has entered into a maintenance agreement expiring in July 2025 for computer software. The amount charged in profit or loss is $47,670,000 (2016: $41,560,000).

(d) Credit

Commitments to extend credit on terms to maturity of more than one year amounted to $2,194,035,000 (2016: $2,039,806,000).

JMMB Merchant Bank Limited

Notes to the Financial Statements
31 March 2017
(expressed in Jamaican dollars unless otherwise indicated)

30. Contingencies and Commitments (continued)

(e) Capital expenditure

At the reporting date, commitment for capital expenditure amount to approximately $6,500,000 (2016: $1,770,000) in respect of project cost of approximately $27,000,000. Of this amount, $20,500,000 has been disbursed and is included in intangible assets (note 15).

31. Change in Accounting Policies

Except for the changes below, the Bank has consistently applied the accounting policies set out in note 32 to all periods presented in these financial statements.

Certain new and amended standards came into effect during the current financial year. The Bank has assessed them and has adopted those which are relevant to its financial statements.

The detail, nature and effects of the changes are explained below:

- IAS 1, *Presentation of Financial Statements* has been amended to clarify or state the following:
  - Specific single disclosures that are not material do not have to be presented even if they are the minimum requirements of a standard.
  - The order of notes to the financial statements is not prescribed.
  - Line items on the statement of financial position and the statement of profit or loss and other comprehensive income (OCI) should be disaggregated if this provides helpful information to users. Line items can be aggregated if they are not material.
  - Specific criteria are now provided for presenting subtotals on the statement of financial position and in the statement of profit or loss and OCI, with additional reconciliation requirements for the statement of profit or loss and OCI.
  - The presentation in the statement of OCI of items of OCI arising from joint ventures and associates accounted for using the equity method follows the IAS 1 approach of splitting items that may, or that will never be, reclassified to profit or loss.
- IAS 16 and IAS 38, *Clarification of Acceptable Methods of Depreciation and Amortisation*, are amended as follows:
  - The amendment to IAS 16, *Property, Plant and Equipment* explicitly states that revenue-based methods of depreciation cannot be used. This is because such methods reflect factors other than the consumption of economic benefits embodied in the assets.
  - The amendment to IAS 38, *Intangible Assets* introduces a rebuttable presumption that the use of revenue-based amortisation methods is inappropriate for intangible assets.
- Improvements to IFRS 2012-2014 Cycle contain amendments to certain standards and interpretations applicable to the Bank as follows:
  - IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* has been amended to clarify that if an entity changes the method of disposal of an asset or disposal group – i.e. reclassifies an asset or disposal group from held-for-distribution to owners to held-for-sale or vice versa without any time lag, then the change in classification is considered a continuation of the original plan of disposal and the entity continues to apply held-for-distribution or held-for-sale accounting. At the time of the change in method, the entity measures the carrying amount of the asset or disposal group and recognises any write-down (impairment loss) or subsequent increase in the fair value less costs to sell/distribute the asset or disposal group. If an entity determines that an asset or disposal group no longer meets the criteria to be classified as held-for-distribution, then it ceases held-for-distribution accounting in the same way as it would cease held-for-sale accounting.

31. Change in Accounting Policies (continued)

Certain new and amended standards came into effect during the current financial year. The Bank has assessed them and has adopted those which are relevant to its financial statements (continued)

- Improvements to IFRS 2012-2014 Cycle contain amendments to certain standards and interpretations applicable to the Bank as follows (continued):

  - IFRS 7, *Financial Instruments: Disclosures*, has been amended to clarify when servicing arrangements are in the scope of its disclosure requirements on continuing involvement in transferred assets in cases when they are derecognised in their entirety. A servicer is deemed to have continuing involvement if it has an interest in the future performance of the transferred asset -e.g. if the servicing fee is dependent on the amount or timing of the cash flows collected from the transferred financial asset; however, the collection and remittance of cash flows from the transferred asset to the transferee is not, in itself, sufficient to be considered 'continuing involvement'.

The adoption of these amendments did not result in any change to the presentation and disclosures in the financial statements except for the re-ordering of the significant accounting policies notes to note 32 of the financial statement.

32. Significant Accounting Policies

Except for the changes explained in note 31, the Bank has consistently applied the following accounting policies to all periods presented in these financial statements.

(a) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in arriving at profit or loss for the year.

Changes in the fair value of monetary assets denominated in foreign currencies and classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the asset and other changes. Translation differences resulting from the changes in amortised cost are recognised in arriving at profit or loss and other changes are recognised in other comprehensive income.

32. Significant Accounting Policies (Continued)

(b) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. For the purposes of the financial statements, financial assets have been determined to include cash and cash equivalents, investment in securities, securities purchased under resale agreements, loans and notes receivable and accounts receivable. Financial liabilities comprise bank overdraft, securities sold under repurchase agreements, deposits, due to other financial institutions and accounts payable. Information relating to fair values and financial instruments risks is summarised below.

Classification of financial instruments

The Bank classifies non-derivative financial assets into the following categories: *loans and receivables*, *held-to-maturity*, *at fair value through profit or loss* and *available-for-sale*. Management determines the appropriate classification of investments at the time of purchase.

The Bank classifies non-derivative financial liabilities into the other financial liabilities category.

Financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Bank becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Bank's contractual rights to the cash flows from the financial assets expire or if the Bank transfers the financial assets to another party without retaining control or substantially all risks and rewards of ownership of the assets. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date the Bank commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Bank's obligations specified in the contract expire or are discharged or cancelled.

Classification of financial instruments

The Bank classifies non-derivative financial assets into the following categories: *loans and receivables*, *held-to-maturity*, *at fair value through profit or loss* and *available-for-sale*. Management determines the appropriate classification of investments at the time of purchase.

The Bank classifies non-derivative financial liabilities into the other financial liabilities category.

Financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Bank becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Bank's contractual rights to the cash flows from the financial assets expire or if the Bank transfers the financial assets to another party without retaining control or substantially all risks and rewards of ownership of the assets. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date the Bank commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Bank's obligations specified in the contract expire or are discharged or cancelled.

32. Significant Accounting Policies (Continued)

(b) Financial instruments (continued)

(i) **Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including cash and non-restricted balances with Bank of Jamaica, items in the course of collection from other banks, items in the course of payment, and securities purchased under resale agreements.

Bank overdrafts that are repayable on demand and form an integral part of the Bank's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(ii) **Forward currency contracts**

The Bank enters into forward contracts to manage its exposure to foreign exchange risk. These contracts are initially recognised at fair value on the date that they are entered into, and subsequently are remeasured at fair value at each reporting date. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate. Forward contracts are carried as assets when fair value is positive and as liabilities when fair value is negative. Assets and liabilities are set off where the contracts are with the same counterparty, a legal right of set off exists and the cash flows are intended to be settled on a net basis.

Changes in the fair value of forward contracts are recognised in arriving at profit or loss. This includes contracts which, while providing effective economic hedges under the Bank's risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39, *Financial Instruments: Recognition and Measurement*.

(iii) **Resale and repurchase agreements**

Transactions involving purchases of securities under resale agreements ('resale agreements' or reverse repos') or sales of securities under repurchase agreements ('repurchase agreements' or 'repos) are accounted for as short-term collateralised lending and borrowing, respectively.

Accordingly, securities sold under repurchase agreements remain on the statement of financial position and are measured in accordance with their original measurement principles. The proceeds of sale are reported as liabilities and are measured at amortised cost.

Securities purchased under resale agreements are reported not as purchases of the securities, but as receivables and are measured in the statement of financial position at amortised cost. It is the policy of the Bank to obtain possession of collateral with a fair value in excess of the principal amount loaned under resale agreements.

Interest earned on resale agreements and interest incurred on repurchase agreements is recognised as interest income and interest expense, respectively, over the life of each agreement using the effective interest method.

32. Significant Accounting Policies (Continued)

(b) Financial instruments (continued)

(iv) **Investments**

Available-for-sale financial assets

The Bank's investments in equity securities and certain debt securities are classified as available-for-sale and measured at fair value, except for unquoted equity securities whose fair value cannot be reliably measured, which are measured at cost. Changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items are recognised in other comprehensive income and reflected in investment revaluation reserve in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Held-to-maturity securities

Held-to-maturity securities are those with fixed or determinable payment and fixed maturity that the Bank has the positive intent and ability to hold to maturity. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years. These securities are measured at amortised cost using the effective interest method.

Investments at fair value through profit or loss

The Bank carries some investment securities at fair value through profit or loss if they are held for trading or designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Bank manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred.

Derivatives

Derivatives are financial instruments that derive their value from the price of the underlying items such as equities, bond interest rate, foreign exchange or other indices. Derivatives enable users to increase, reduce or alter exposure to credit or market risk. The Bank makes use of derivatives to manage its own exposure to interest rate risk and credit risk.

Derivatives may be embedded in another contractual arrangement (a host contract). The Bank accounts for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss. Separated embedded derivatives are measured at fair value, with changes in fair value recognised in profit or loss. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments, that are not quoted in an active market, and that the Bank does not intend to sell immediately or in the near term.

Loans and receivables are measured at amortised cost using the effective interest method, except when the Bank chooses to designate the loans and receivables at fair value through profit or loss.

32. Significant Accounting Policies (Continued)

(b) Financial instruments (continued)

(v) **Loans and notes receivable and accounts receivable**

Loans and notes receivable and accounts receivable are measured at amortised cost less impairment allowances.

(vi) **Account payable**

Accounts payable are measured at amortised cost.

(vii) **Interest-bearing borrowings**

Interest-bearing borrowings [other than repos, which are described in Note [32(b) (iii)] are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost, with any difference between cost and redemption recognised in the profit or loss over the period of the borrowings.

(viii) **Offsetting**

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

(c) Loans and provision for credit losses

Loans are recognised when cash is advanced to borrowers. They are initially recorded at cost, which is the cash given to originate the loan, including any origination fees and transaction costs, and subsequently measured at amortised cost using the effective interest method.

An allowance for credit losses is established if there is objective evidence that a loan is impaired. A loan is considered impaired when management determines that it is probable that all amounts due according to the original contractual terms will not be collected.

When a loan has been identified as impaired, the carrying amount of the loan is reduced by recording specific allowances for credit losses to its estimated recoverable amount, which is the present value of expected future cash flows including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loan.

For non-performing and impaired loans the accrual of interest income based on the original terms of the loan is discontinued. Jamaican banking regulations require that interest on non-performing loans be taken into account on the cash basis. IFRS require that interest income on non-performing loans be accrued, to the extent collectible, and that the increase in the present value of impaired loans due to the passage of time be reported as interest income. The difference between the Jamaican regulatory basis and IFRS was assessed to be immaterial.

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

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

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

32. Significant Accounting Policies (Continued)

(d) Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognised in profit or loss.

Property, plant and equipment, with the exception of freehold land and paintings, on which no depreciation is provided, are depreciated on the straight-line basis at annual rates estimated to write down the assets to their residual values over their expected useful lives. The expected useful lives are as follows:

Freehold buildings	40 years
Leasehold improvements	The shorter of the estimated useful life and the period of the lease
Motor vehicles	5 years
Computer equipment	5 years
Other equipment, furniture and fixtures	3-5 years

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

(e) Intangible assets

Direct costs that are associated with identifiable software products controlled by the Bank that are expected to generate economic benefits beyond one year, are recognised as assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads. Costs associated with maintaining computer software programmes are recognised as expenses over the expected period of usage (not expected to exceed 12 months).

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the software. Computer software costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of 5 years.

The estimated useful lives, residual values and depreciation method are reviewed each year with the effect of any change in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognised in profit or loss when the asset is derecognised.

(f) Provisions

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

Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value, if the effect is material.

32. Significant Accounting Policies (Continued)

(g) Employee benefits

Employee benefits are all forms of consideration given by the Bank in exchange for service rendered by employees. These include current or short-term benefits such as salaries, bonuses, NIS contributions, vacation leave; non-monetary benefits such as medical care; post-employments benefits such as pensions; and other long-term employee benefits such as termination benefits.

Employee benefits that are earned as a result of past or current service are recognised in the following manner: Short-term employee benefits are recognised as a liability, net of payments made, and charged as expense. The expected cost of vacation leave that accumulates is recognised over the period that the employee becomes entitled to the leave. Post-employment benefits are accounted for as described below. Other long-term benefits are not considered material and are expensed when incurred.

The Bank participates in a defined contribution plan whereby it pays contributions to a fund operated by a fellow subsidiary. Once the contributions have been paid, the Bank has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and are included in staff costs. Pensions are the Bank's only post-employment benefit.

Termination benefits are payable whenever an employee's service is terminated before the normal retirement date. The Bank recognises termination benefits at the earlier of when the Bank can no longer withdraw the offer of those benefits and when the Bank recognises costs for a restructuring. If benefits are not expected to be wholly settled within 12 months of the end of the reporting period, they are discounted

(h) Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

(i) Current income tax

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to income tax payable in respect of previous years.

(ii) Deferred income tax

Deferred income tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(i) Guarantees, letters of credit and undertakings

These represent the Bank's potential liability, for which there are equal and offsetting claims against its customers in the event of a call on these commitments. Where the liabilities are not considered contingent, these amounts are reflected in the statement of financial position.

The Bank's contingent liabilities are disclosed in Note 30.

32. Significant Accounting Policies (Continued)

(j) Impairment

The carrying amounts of the Bank's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value less any impairment loss on that financial asset previously recognised in profit or loss.

(i) Calculation of recoverable amount

The recoverable amount of the Bank's receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of a receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss, but through other comprehensive income. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in the profit or loss.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Income and expense recognition

Interest income and expense

Interest income and expense are recognised in arriving at net profit or loss for all interest-bearing instruments using the effective interest method. Interest income includes coupons earned on fixed income investments and accrued discount on treasury bills and other discounted instruments.

32. Significant Accounting Policies (Continued)

(k) Income and expense recognition (continued)

Interest income and expense (continued)

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

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

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

Fee and commission income

Fee and commission income is generally recognised on the accrual basis when the service has been provided and collection is reasonably certain. Loan origination fees for loans which are likely to be drawn down are deferred, together with related direct costs, and recognised as an adjustment to the effective interest on the loan. Fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction.

Dividend income

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

(l) Leases

Leases where the Bank retains substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant periodic rate of interest on the remaining balance for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Leases where a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in arriving at net profit or loss on the straight-line basis over the period of the lease.

32. Significant Accounting Policies (Continued)

(m) Related parties

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

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

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

(2) has significant influence over the Bank; or

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

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

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

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an entity of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

(6) The entity is controlled, or jointly controlled, by a person identified in (i).

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

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

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

(n) New and amended standards issued but are not yet effective

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

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

32. Significant Accounting Policies (Continued)

(n) New and amended standards issued but are not yet effective (continued)

- Amendments to IAS 12, *Income Taxes*, effective for accounting periods beginning on or after January 1, 2017, clarifies the following:

  - The existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

  - A deferred tax asset can be recognised if the future bottom line of the tax return is expected to be a loss, if certain conditions are met.

- Amendments to IAS 12, *Income Taxes*, effective for accounting periods beginning on or after January 1, 2017, clarifies the following (continued):

  - Future taxable profits used to establish whether a deferred tax can be recognised should be the amount calculated before the effect of reversing temporary differences.

  - An entity can assume that it will recover an asset for more than its carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.

  - Deductible temporary differences related to unrealised losses should be assessed on a combined basis for recognition unless a tax law restricts the use of losses to deductions against income of a specific type.

- IFRS 9, *Financial Instruments*, which is effective for annual reporting periods beginning on or after January 1, 2018, replaces the existing guidance in IAS 39*, Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value though profit or loss (FVTPL) - are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different. IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

- 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 entities in the same line of business exchange non-monetary assets to facilitate sales to other parties.

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

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

32. Significant Accounting Policies (Continued)

(n) New and amended standards issued but are not yet effective (continued)

- IFRS 16, *Leases*, which is effective for annual reporting periods beginning on or after January 1, 2019, eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessees 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.

  Early adoption is permitted if IFRS 15, *Revenue from Contracts with Customers* is also adopted.

- 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.

  An entity is not required to apply this interpretation to income taxes or insurance contracts that it issues or reinsurance contracts held.

  The interpretation clarifies that the transaction date is the date on which the company 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 Bank is assessing the impact, if any, that these, new and amended standards and interpretation will have on its future financial statements when they are adopted.