First Global Bank Limited

Financial Statements
31 December 2017

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Independent auditor's report

To the members of First Global Bank Limited

Report on the audit of the financial statements

Our opinion

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

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Responsibilities of management for the financial statements

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

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

PricewaterhouseCoopers, Scotiabank Centre, Duke Street, Box 372, Kingston, Jamaica
T: (876) 922 6230, F: (876) 922 7581, www.pwc.com/jm

L.A. McKnight P.E. Williams A.K. Jain B.L. Scott, B.J. Denning G.A. Reece P.A. Williams R.S. Nathan C.I. Bell-Wisdom G.K. Moore

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

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

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

PricewaterhouseCoopers

Chartered Accountants
29 March 2018
Kingston, Jamaica

First Global Bank Limited

Statement of Financial Position

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2017 $'000	2016 $'000
ASSETS			
Cash and bank balances	5	7,070,570	7,084,032
Items in the course of collection from other banks		141,661	338,260
Securities purchased under resale agreements	6	264,784	-
Loans and advances, net of provision for credit losses	7	26,480,577	24,776,795
Investment securities	8	12,883,824	7,674,851
Pledged assets	8	4,927,305	15,419,427
Property, plant and equipment	9	756,132	678,238
Intangible assets	10	267,132	414,957
Deferred income tax assets	11	274,262	322,654
Taxation recoverable		72,556	72,556
Other assets	12	831,756	316,844
Guarantees, letters of credit and letters of undertaking		515,569	518,141
Total Assets		54,486,128	57,616,755

First Global Bank Limited

Statement of Financial Position (Continued)
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2017 $'000	2016 $'000
LIABILITIES			
Customer deposits	13	36,715,996	34,369,404
Items in the course of payment		109,382	108,506
Due to other banks		2,251,971	192,273
Securities sold under repurchase agreements		3,792,720	12,343,411
Short term loans	14	1,171,559	306,019
Other borrowed funds	15	1,126,169	1,301,559
Post-employment benefit obligations	16	306,239	249,304
Other liabilities	17	684,980	702,170
Guarantees, letters of credit and letters of undertaking		515,569	518,141
Total Liabilities		46,674,585	50,090,787
EQUITY			
Share capital	18	3,564,181	3,564,181
Statutory reserve fund	19	1,149,481	1,077,579
Fair value reserve	20	128,940	67,105
Loan loss reserve	21	628,271	620,016
Retained earnings reserve	22	1,894,630	1,694,630
Stock option reserve		10,353	7,857
Retained earnings		435,687	494,600
Total Equity		7,811,543	7,525,968
Total Liabilities and Equity		54,486,128	57,616,755

Approved for issue by the Board of Directors on March 27, 2018 and signed on its behalf by:

Joseph Taffe — Director

Peter Moses — Director

Mariame McIntosh Robinson — Director

Minna Israel — Director

First Global Bank Limited

Statement of Comprehensive Income

Year ended 31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2017 $'000	2016 $'000
Interest Income –			
Loans		2,931,697	2,861,959
Securities	23	1,148,361	1,054,045
Other		59,272	51,904
		4,139,330	3,967,908
Interest Expense –			
Customer deposits		(578,112)	(575,003)
Securities sold under repurchase agreements		(386,451)	(388,574)
Other		(82,619)	(99,835)
		(1,047,182)	(1,063,412)
Net Interest Income		3,092,148	2,904,496
Provision for Loan Losses, Net	7	(107,454)	(379,653)
		2,984,694	2,524,843
Other Income –			
Fees and commissions	24	1,066,781	1,070,469
Gains on foreign exchange translation and trading		293,087	204,163
Gains on investing activities, net	25	175,402	46,748
Other		11,895	18,221
		1,547,165	1,339,601
Net Interest and Other Income		4,531,859	3,864,444
Operating Expenses –			
Staff costs	26	(1,835,836)	(1,576,489)
Depreciation and amortisation	9,10	(294,194)	(283,114)
Administration and other expenses	27	(1,868,384)	(1,745,437)
		(3,998,414)	(3,605,040)
Profit before Taxation		533,445	259,404
Taxation	28	(64,959)	65,385
Net Profit		468,486	324,789
Other Comprehensive Income –			
Items that may be subsequently reclassified to profit or loss:			
Realised (gains)/losses on available-for-sale investments, net of taxes		(139,615)	36,005
Unrealised gains on available-for-sale investments, net of taxes		201,450	181,595
Item that will not be reclassified to profit or loss:			
Re-measurements of post- employment benefit obligations, net of taxes		4,912	34,535
Other comprehensive income, net of taxes		66,747	252,135
TOTAL COMPREHENSIVE INCOME		535,233	576,924

First Global Bank Limited

Statement of Changes in Equity

Year ended 31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

	Share Capital $'000	Statutory Reserve Fund $'000	Fair Value Reserve $'000	Loan Loss Reserve $'000	Retained Earnings Reserve $'000	Stock Option Reserve $'000	Retained Earnings $'000	Total $'000
Balance at 31 December 2015	3,564,181	1,002,570	(150,495)	741,794	1,594,630	6,904	444,118	7,203,702
Total comprehensive income	-	-	217,600	-	-	-	359,324	576,924
Total transactions with equity holders-Ordinary and Preference dividends paid	-	-	-	-	-	-	(255,611)	(255,611)
Transfer from loan loss reserve	-	-	-	(121,778)	-	-	121,778	-
Employee share option scheme value of services received	-	-	-	-	-	953	-	953
Transfer to retained earnings reserve	-	-	-	-	100,000	-	(100,000)	-
Transfer to statutory reserve fund	-	75,009	-	-	-	-	(75,009)	-
Balance at 31 December 2016	3,564,181	1,077,579	67,105	620,016	1,694,630	7,857	494,600	7,525,968
Total comprehensive income	-	-	61,835	-	-	-	473,398	535,233
Total transactions with equity holders-Ordinary and Preference dividends paid	-	-	-	-	-	-	(252,154)	(252,154)
Transfer to loan loss reserve	-	-	-	8,255	-	-	(8,255)	-
Employee share option scheme value of services received	-	-	-	-	-	2,496	-	2,496
Transfer to retained earnings reserve	-	-	-	-	200,000	-	(200,000)	-
Transfer to statutory reserve fund	-	71,902	-	-	-	-	(71,902)	-
Balance at 31 December 2017	3,564,181	1,149,481	128,940	628,271	1,894,630	10,353	435,687	7,811,543

First Global Bank Limited

Statement of Cash Flows

Year ended 31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2017 $'000	2016 $'000
Cash Flows from Operating Activities			
Net profit for the year		468,486	324,789
Adjustments to reconcile profit for the year to net cash used in operating activities –			
Depreciation	9	135,752	115,380
Amortisation	10	158,442	168,674
Foreign exchange losses/(gains)		963,336	(496,913)
Loss/(gain) on disposal of property, plant and equipment		21,614	(1,403)
Gain on investment activities, net	25	(175,402)	(46,748)
Employee stock option		2,496	953
Provision for loan losses, net	7	107,454	379,653
Interest income		(4,139,330)	(3,967,908)
Interest expense		1,047,182	1,063,412
Taxation	28	64,959	(65,385)
		(1,345,011)	(2,525,496)
Changes in other operating assets and liabilities –			
Customer deposits		2,326,552	6,727,992
Loans		(1,761,175)	(3,365,326)
Securities sold under repurchase agreements		(8,520,330)	3,708,421
Restricted cash and bank accounts		(1,204,127)	(1,317,880)
Post-employment benefits		64,303	382
Other assets		(514,912)	32,908
Other liabilities		(67,072)	247,574
		(11,021,772)	3,508,575
Interest received		4,136,226	3,948,388
Interest paid		(1,057,615)	(1,053,989)
Taxation paid, net		(59)	(14,975)
Net cash (used in)/provided by operating activities (carried forward to page 6)		(7,943,220)	6,387,999

First Global Bank Limited

Statement of Cash Flows (Continued)

Year ended 31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2017 $'000	2016 $'000
Cash Flows from Operating Activities (brought forward from page 5)		(7,943,220)	6,387,999
Cash Flows from Investing Activities			
Purchases of investment securities		(4,928,247)	(5,336,878)
Disposal of investment securities		9,460,997	1,554,815
Proceeds on disposal of property, plant and equipment		5,151	9,246
Acquisition of property, plant and equipment	9	(220,411)	(281,599)
Acquisition of intangible assets	10	(30,618)	(73,981)
Net cash provided by/(used in) investing activities		4,286,872	(4,128,397)
Cash Flows from Financing Activities			
Repayment of other borrowed funds		(343,717)	(332,152)
Proceeds from other borrowed funds		176,663	260,591
Repayment of short term loans		(255,921)	(200,553)
Ordinary and preference dividends paid		(252,154)	(255,611)
Net cash used in financing activities		(675,129)	(527,725)
Net (decrease) /increase in cash and cash equivalents		(4,331,477)	1,731,877
Effect of foreign exchange rate changes on cash and cash equivalents		59,080	19,737
Cash and Cash Equivalents at Beginning of Year		2,638,415	886,801
CASH AND CASH EQUIVALENTS AT END OF YEAR		(1,633,982)	2,638,415
Comprising:			
Cash and bank balances	5	1,492,485	2,650,949
Items in the course of collection from other banks		141,661	338,260
Securities purchased under resale agreements		264,784	-
Items in the course of payment		(109,382)	(108,506)
Short term loans	14	(1,171,559)	(50,015)
Due to other banks		(2,251,971)	(192,273)
CASH AND CASH EQUIVALENTS AT END OF YEAR		(1,633,982)	2,638,415

First Global Bank Limited

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

1. Identification and Activities

(a) First Global Bank Limited (the Bank) is a limited liability company incorporated and domiciled in Jamaica and is licensed under the Banking Services Act, 2014 (formerly Banking Act, 1992). The Bank is a subsidiary of First Global Holdings Limited and its ultimate parent company is GraceKennedy Limited. Both companies are incorporated and domiciled in Jamaica. The Bank's registered office is located at 28 - 48 Barbados Avenue, Kingston 5.

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

2. Significant Accounting Policies

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

(a) Basis of preparation

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

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

Standards, interpretations and amendments to published standards effective in the current year

Certain new standards, interpretations and amendments to existing standards have been published that became effective during the current financial year as follows:

Amendments to IAS 7, 'Statement of Cash Flows' on disclosure initiatives, (effective for annual periods beginning on or after 1 January 2017). In January 2016, the IASB published amendments to IAS 7 to improve information about an entity's financing activities. These amendments are a part of the IASB initiative to improve presentation and disclosure in financial reports. The amendments require disclosure of information enabling users to evaluate changes in liabilities arising from financing activities including both cash and non-cash changes. The reconciliation of changes in liabilities arising from financing activities is disclosed in Note 30.

Amendments to IAS 12, 'Income Taxes' on Recognition of deferred tax assets for unrealised losses, (effective for annual periods beginning on or after 1 January 2017). In January 2016, the IASB published amendments to IAS 12 clarifying specifically how to account for deferred tax assets related to debt instruments measured at fair value as well as clarifying the guidance for deferred tax assets in general by adding examples and elaborating on some of the requirements in more detail. The amendments do not change the underlying principles for the recognition of deferred tax assets.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standards not yet effective and have not been early adopted by the Bank

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which are mandatory for the Bank's accounting periods beginning after 1 January 2018 or later periods, but were not effective at the date of the statement of financial position, and which the Bank has not early adopted. The Bank has assessed the relevance of all such new standards, interpretations and amendments, has determined that the following may be relevant to its operations, and has concluded as follows:

IFRS 9, 'Financial Instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVPL). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at FVPL with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at FVPL. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.

The Bank is in the process of completing its assessment on the impact of IFRS 9 on its financial statements. A Steering Committee was established by the Bank with representation from a number of functional areas and led by the Finance Unit was created to oversee the implementation project. The project involves three main phases:

- Phase 1: Key decisions; this includes identification of key decisions, deciding on the measurement and classification for all instruments, determining stage migration and cure rate thresholds;
- Phase 2: Scenario Modelling; this includes determination of relevant forward looking scenarios, estimating probabilities of default (PDs) and expected credit losses (ECL); and
- Phase 3: Embedding – This includes integration of the new accounting standard into the existing reporting structure, including modifications to processes and systems as required, staff training, converting and validating data, and drafting disclosures for the financial statements.

The Bank has substantially completed Phase 1 and Phase 2 and key decisions around classification and measurement, forward looking information and PDs are currently being reviewed.

<u>Classification and measurement</u>

Debt instruments
The standard introduces new requirements to determine the measurement basis of financial assets, involving the cash flow characteristics of assets and the business models under which they are managed.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank (continued)

IFRS 9 (continued)

- *Investment securities*
  The Bank currently classifies its investment securities as available for sale. Based on the conditions for classification, the Bank expects that majority of its investments will meet the 'solely payments of principal and interest' (SPPI) criteria. Debt instruments are largely held to collect contractual cash flows or are liquidated to meet liquidity requirements or maintain a specific interest yield profile. These instruments will be measured at either amortised cost or FVOCI. The change to amortised cost will result in the reversal of cumulative fair value gains/ (losses) for related instruments as at 1 January 2018. There is no impact for investments measured at FVOCI.

- *Loans and receivables*
  The Bank currently classifies its loans and receivables at amortised cost. Based on the conditions for classification, the Bank expects that majority of its loans and receivables will meet the SPPI criteria. Loans and receivables are largely held to collect contractual cash flows and will continue to be measured at amortised cost.

Equity instruments
The Bank currently classifies its equity instruments as available for sale. With the adoption of IFRS 9, the Bank has concluded on the following:

- The Bank has elected to irrevocably designate at FVOCI its existing non-trading equity portfolio. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are disposed.

Financial liabilities
There will be no impact on the Bank's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at FVPL and the Bank does not have any such liabilities. The derecognition rules have been transferred from IAS 39 *Financial Instruments: Recognition and Measurement* and have not been changed.

<u>Impairment</u>

The new impairment model requires the recognition of impairment provisions based on ECL rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 *Revenue from Contracts with Customers*, lease receivables, loan commitments and certain financial guarantee contracts.

First Global Bank Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank (continued)

IFRS 9 (continued)

- *Application of the General Model*

  The adoption of IFRS 9 will have a significant impact on the Bank's impairment methodology. The Bank has applied the 'general model' as required under IFRS 9 for debt instruments. Under this model, the Bank is required to assess on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The ECL will be recognised in profit or loss before a loss event has occurred, which could result in earlier recognition of credit losses compared to the current model. The measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. The probability-weighted outcome considers multiple scenarios based on reasonable and supportable forecasts. Under current guidance, the impairment amount represents the single best outcome; the time value of money and reasonable and supportable information that is available at the reporting date without undue cost or effort about past events, current conditions and forecasts of future economic conditions.

  IFRS 9 considers the calculation of ECL by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

IFRS 9 Impairment model uses a three stage approach based on the extent of credit deterioration since origination:

Stage 1 – 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk since origination and are not credit impaired. The ECL will be computed using a 12-month PD that represents the probability of default occurring over the next 12 months. For those assets with a remaining maturity of less than 12 months, a PD is used that corresponds to remaining maturity. This Stage 1 approach is different than the current approach which estimates a collective allowance to recognize losses that have been incurred but not reported on performing loans.

Stage 2 – When a financial asset experiences a significant increase in credit risk subsequent to origination but is not credit impaired, it is considered to be in Stage 2. This requires the computation of ECL based on lifetime PD that represents the probability of default occurring over the remaining estimated life of the financial asset. Provisions are higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

Stage 3 – Financial assets that have an objective evidence of impairment will be included in this stage. Similar to Stage 2, the allowance for credit losses will continue to capture the lifetime ECL.

Some of the key concepts in IFRS 9 that have the most significant impact and require a high level of judgement are:

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank (continued)

IFRS 9 (continued)

Assessment of Significant Increase in Credit Risk

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Bank compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Bank's existing risk management processes. At each reporting date, the assessment of a change in credit risk will be individually assessed for those considered individually significant and at the segment level for retail exposures. This assessment is symmetrical in nature, allowing credit risk of financial assets to move back to Stage 1 if the increase in credit risk since origination has reduced and is no longer deemed to be significant.

Macroeconomic Factors, Forward Looking Information and Multiple Scenarios

IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions.

Macroeconomic factors and forward looking information are required to be incorporated into the measurement of ECL as well as the determination of whether there has been a significant increase in credit risk since origination. Measurement of ECLs at each reporting period should reflect reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions. The Bank will use three scenarios that will be probability weighted to determine ECL.

Expected Life

When measuring ECL, the Bank must consider the maximum contractual period over which the Bank is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Bank is exposed to credit risk and where the credit losses would not be mitigated by management actions.

<u>Presentation and disclosure requirements</u>

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Bank's disclosures about its financial instruments particularly in the year of adoption of the new standard.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank (continued)

IFRS 9 (continued)
Transitional approach

The Bank will apply the modified retrospective approach as allowed under IFRS 9. Under this approach, cumulative retrospective adjustments will be made against opening retained earnings as at 1 January 2018. Comparatives for 2017 will not be restated.

The estimated impact relates primarily to the implementation of the ECL requirements. As part of phases 2 and 3, the Bank will continue to revise, refine and validate the impairment models and related process controls.

An amendment to IFRS 9 was also published during the period and is effective for annual periods beginning on or after 1 January 2019 but can be early adopted on 1 January 2018. The amendment covers two issues: Financial assets with prepayment features with negative compensation and modification of financial liabilities. This amendment will allow companies to measure at amortised cost some prepaid financial assets with negative compensation and may have some impact on our loan portfolio. This assessment is included in our process described above. The amendment to financial liabilities is not expected to have any impact on the Bank based on our existing financial liabilities.

IFRS 15, 'Revenue from Contracts with Customers' (effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The adoption of this standard is not expected to have a significant impact on the Bank's financial statements.

Amendment to IFRS 15, 'Revenue from Contracts with Customers' (effective for accounting periods beginning on or after 1 January 2018). These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). The IASB has also included additional practical expedients related to transition to the new revenue standard.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standards not yet effective and have not been early adopted by the Bank (continued)

IFRS 16, 'Leases' (effective for annual periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15, 'Revenue from Contracts with Customers', is also applied). The International Accounting Standards Board (IASB) published IFRS 16, 'Leases', which replaces the current guidance in IAS 17. This will require changes in accounting by lessees in particular. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Bank is currently assessing the impact of future adoption of the new standard on its financial statements.

Annual improvements 2015-2017 (effective for annual periods beginning on or after 1 January 2017). These amendments include changes to IAS 12 'Income taxes' which was amended to clarify that a company accounts for all income tax consequences of dividend payments in the same way. The Bank does not expect any significant impact on its financial statements arising from the future adoption of these annual improvements.

Amendments to IAS 19, 'Employee benefits' on plan amendment, curtailment or settlement' (effective for annual period beginning on or after 1 January 2019). These amendments require an entity to: use updated assumptions to determine current service cost and net interest for the reminder of the period after a plan amendment, curtailment or settlement; and recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognized because of the impact of the asset ceiling. The Bank is currently assessing the impact of future adoption of this amendment.

IFRIC 22, 'Foreign currency transactions and advance consideration' (effective for annual periods beginning on or after 1 January 2018). The interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration received or paid at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. Also, the interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts. The Bank is currently assessing the impact of future adoption of this IFRIC.

IFRIC 23, 'Uncertainty over income tax treatments' (effective for annual period beginning on or after 1 January 2019). This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. The Bank is currently assessing the impact of future adoption of this IFRIC.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Bank.

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2. Significant Accounting Policies (Continued)

(b) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

(c) Cash and cash equivalents

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

(d) Derivative financial instruments

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

Changes in the fair value of derivatives 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 International Accounting Standard (IAS) 39, Financial Instruments: Recognition and Measurement.

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

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

2. Significant Accounting Policies (Continued)

(f) 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.

A provision 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 provisions 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.

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.

2. Significant Accounting Policies (Continued)

(g) Financial assets

Classification

The Bank classifies its financial assets at fair value through profit or loss, loans and receivables and available-for-sale categories. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled with 12 months, otherwise they are classified as non-current.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables either meet the definition of loans and receivables at the date of acquisition, or at the date of reclassification from another category. The Bank reclassifies certain financial assets to loans and receivables when the markets for these securities are inactive. The Bank has elected to reclassify financial assets reclassified to loans and receivables back to the available-for-sale category once the markets for these securities become active again.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other category.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date – the date on which an asset is delivered to or by the Bank – and are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Changes in the fair value of investments classified as available-for-sale are recognised in other comprehensive income.

When investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in arriving at net profit or loss. Interest on available-for-sale securities calculated using the effective interest method is recognised in arriving at net profit or loss. Dividends on available-for-sale equity instruments are recognised in arriving at net profit or loss when the Bank's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Offsetting financial instruments

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

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2. Significant Accounting Policies (Continued)

(g) Financial assets (continued)

Impairment

The Bank assesses at the date of each statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in arriving at net profit or loss – is removed from other comprehensive income and recognised in arriving at net profit or loss. Impairment losses on equity instruments recognised in arriving at net profit or loss are not reversed.

Debt securities are considered impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event or events has an impact on the estimated future cash flows that can be reliably estimated. The amount of loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate. For debt securities carried at amortised cost, the asset's carrying amount is reduced and the amount of loss is recognised in arriving at net profit or loss. For debt securities classified as available-for-sale, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in arriving at net profit or loss – is removed from equity and recognised in arriving at net profit or loss in the current year. If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in arriving at net profit or loss for the current year.

(h) Property, plant and equipment

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

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

Leasehold improvements	5 – 10 years
Office equipment, furniture and fixtures	10 years
Computer equipment	3 -5 years
Motor vehicles	5 years

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

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

2. Significant Accounting Policies (Continued)

(i) Intangible assets

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

(j) Employee benefits

Pension obligations

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

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

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

Other post-employment benefit obligations

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

2. Significant Accounting Policies (Continued)

(j) Employee benefits (continued)

Equity compensation benefits

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

Termination benefits

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

Incentive plans

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

(k) Income taxes

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

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

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

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

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

2. Significant Accounting Policies (Continued)

(l) Borrowings

Borrowings are recognised initially as the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method. Any differences between proceeds, net of transaction costs, and the redemption value are recognised in arriving at net profit or loss over the period of the borrowings using the effective yield method.

(m) 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.

Where the Bank's liabilities are considered to be contingent, the amounts are disclosed in Note 30.

(n) Income and expense recognition

Interest income and expense

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

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

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

Fee and commission income

Fee and commission income is generally recognised on an accrual basis when the service has been provided. Loan origination fees for loans which are likely to be drawn down are deferred, together with related direct costs, and recognised as an adjustment to the effective interest on the loan. 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.

(o) Loyalty program

Loyalty expense

The Bank operates a rewards-based credit card program whereby customers earn reward points for purchases made using their credit card. The points can be redeemed for value at selected merchants who participate in the programme, once certain conditions are met. The Bank recognises revenue in the period in which the points are earned and a provision for the value of outstanding points expected to be redeemed in the future.

3. Financial Risk Management

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

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

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

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

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

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

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

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

3. Financial Risk Management (Continued)

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

(a) Credit risk

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

For its investment activities, the Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty or groups of related counterparties and to geographical and industry segments. For its lending activities, consideration is given to sectoral exposure, as well as to counterparty and group risk. Additionally, much emphasis is placed on determining the adequacy of cash flow being generated by the counterparty to meet repayment terms, the availability of tangible security that may be realised as a secondary source of payment in the event that cash flow is impaired, and the timeliness and quality of financial information available on/from the counterparty/customer to assist in predicting its future performance.

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

Credit review process

The Bank has established a credit quality review process involving regular analysis of the ability of borrowers and other counterparties to meet interest and principal repayment obligations.

Loans

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

The Bank's internal classification is as follows:

Rating	Description		
1	*Low Risk*	-	excellent credit history
2	*Standard Risk*	-	generally abides by credit terms
3	*Sub Standard Risk*	-	late paying with some level of impairment

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

Investments

The Bank limits its exposure to credit risk by investing mainly in liquid securities, with counterparties that have high credit quality and Government of Jamaica securities. Accordingly, management does not expect any counterparty to fail to meet its obligations.

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Collateral and other credit enhancements

The amount and type of the collateral required depends on the credit risk of the counterparty and the use of professionally derived, estimable realisable values of security, assuming forced sale conditions. Guidelines are implemented regarding the acceptability of different types of collateral, the lending margins against forced sale values which will be used and the quality of work and experience from the professionals from whom these valuations will be accepted.

The main types of collateral obtained are as follows:

- Loans – first demand mortgages over residential and commercial properties, first debenture charges over business assets such as premises, inventory and accounts receivable and charges and hypothecations over deposit balances and financial instruments such as debt securities and equities.
- Securities lending and reverse repurchase transactions – cash or securities.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries and from individual shareholders for loans to their companies.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral held, during its annual review of the individual credit facilities, as well as during its review of the provision for credit losses.

The worst case scenario of credit risk exposure to the Bank, without taking account of any collateral held or credit enhancements, was as follows:

	2017 $'000	2016 $'000
Cash and bank	6,678,081	6,641,499
Items in the course of collection from other banks	141,661	338,260
Securities purchased under resale agreements	264,784	-
Loans	26,480,577	24,776,795
Investment securities and pledged assets	17,811,129	23,089,258
Other assets	717,144	91,983
Guarantees, letters of credit and letters of undertaking	515,569	518,141
	52,608,945	55,455,936
Credit risk exposures relating to items not on the statement of financial position:		
Guarantees and letters of credit	267,678	189,585
Loan commitments	1,443,956	1,090,931
	1,711,634	1,280,516

Impairment

The main considerations for loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades or infringement of the original terms of the contract.

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances are provided for financial assets that are above materiality thresholds, based on a review conducted at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the date of the statement of financial position on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held and the anticipated receipts for that individual account.

Collectively assessed allowances are provided for portfolios of homogenous assets that are individually below materiality thresholds; and losses that have been incurred but have not yet been identified, by taking into consideration historical losses on the portfolio, current economic conditions and expected receipts and recoveries once impaired.

The Bank's internal rating systems focus more on credit quality mapping from the inception of lending activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the date of the statement of financial position, based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements is usually lower than the amount determined from the expected loss model that is used for internal operational management purposes.

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal and interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. Restructuring includes extending payment arrangements, approved external management plans, modification and deferral of payments and the agreement of new loan conditions. The determination of whether a loan would qualify for renegotiation is made based on management's assessment of its historic experience with the borrower, their expected future cash flows and collateral valuation. Once the terms have been renegotiated, a previously overdue customer account is reset to a normal status and managed together with other similar accounts.

Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate. Loans renegotiated during year amounted to $700,112,000 (2016 - $1,235,403,000).

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Impairment (continued)
The impairment provision shown in the statement of financial position at year end is derived from each of the three internal rating grades. However, the impairment provision comes from the 'Sub Standard' rating class. The table below shows the Bank's loans and the associated impairment provision for each internal rating class:

	2017		2016	
	Loans $'000	**Impairment provision $'000**	**Loans $'000**	**Impairment provision $'000**
Low risk	506	-	-	-
Standard risk	25,535,119	-	23,908,131	-
Sub-Standard risk	1,578,300	633,348	1,450,510	581,846
	27,113,925	633,348	25,358,641	581,846

The credit quality of loans is summarised as follows:

	2017 $'000	2016 $'000
Neither past due nor impaired –		
Low risk	506	-
Standard risk	22,456,493	17,615,256
	22,456,999	17,615,256
Past due but not impaired	3,078,626	6,292,875
Impaired	1,578,300	1,450,510
	27,113,925	25,358,641
Less: Provision for impairment	(633,348)	(581,846)
	26,480,577	24,776,795

The ageing analysis of past due but not impaired loans was as follows:

	2017 $'000	2016 $'000
Less than 30 days	2,498,284	4,931,371
31 to 60 days	463,975	661,918
61 to 90 days	116,367	699,586
	3,078,626	6,292,875

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Concentration of credit risk

Loans

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

	Number of loan accounts		Credit exposure	
	2017	2016	2017 $'000	2016 $'000
Public sector	2	-	506	-
Financial institutions	26	50	97,627	539,221
Agriculture	31	24	491,996	545,060
Mining and quarrying	3	2	41,222	18,414
Manufacturing	68	67	1,660,989	1,898,780
Construction and land development	55	74	1,197,843	1,328,948
Transportation, storage and communication	118	103	2,898,110	2,398,292
Electricity, gas and water	16	20	1,580,163	1,165,775
Distribution	125	144	2,693,234	3,248,683
Tourism	16	12	1,554,724	1,217,048
Entertainment	7	6	2,241	6,196
Professional and other services	246	270	4,471,631	4,061,246
Individuals	15,294	18,557	9,790,291	8,349,132
	16,007	19,329	26,480,577	24,776,795

Investment securities and pledged assets

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

	2017 $'000	2016 $'000
Government of Jamaica	7,119,491	11,929,371
Bank of Jamaica	4,538,500	5,760,536
Corporates	5,690,834	4,916,140
Other regional governments	457,284	483,211
Financial institutions	264,784	-
	18,070,893	23,089,258

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3. Financial Risk Management (Continued)

(b) Liquidity risk

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

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

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

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

(iii) Maintaining committed lines of credit;

(iv) Optimising cash returns on investments;

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

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

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

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

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

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3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Cash flows of financial instruments

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

	2017					
	Within 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	No Specific Maturity $'000	Total $'000
Total financial assets	6,620,529	5,342,568	19,167,439	33,556,780	5,811,414	70,498,730
Financial liabilities						
Customer deposits	31,506,331	5,312,722	7,572	-	-	36,826,625
Items in the course of payment	109,382	-	-	-	-	109,382
Due to other banks	2,251,971	-	-	-	-	2,251,971
Securities sold under repurchase agreements	2,762,926	-	1,123,018	-	-	3,885,944
Short term loans	1,171,735	-	-	-	-	1,171,735
Other borrowed funds	76,750	244,879	944,167	22,103	-	1,287,899
Other liabilities	598,011	-	-	-	-	598,011
Guarantees, letters of credit and letters of undertaking	487,569	-	1,000	27,000	-	515,569
Total financial liabilities	38,964,675	5,557,601	2,075,757	49,103	-	46,647,136

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3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Cash flows of financial instruments (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 $'000**
Total financial assets	12,968,034	3,446,719	24,852,310	34,153,685	97,003	75,517,751
Financial liabilities						
Customer deposits	28,073,517	6,417,203	17,677	-	-	34,508,397
Items in the course of payment	108,506	-	-	-	-	108,506
Due to other banks	192,273	-	-	-	-	192,273
Securities sold under repurchase agreements	9,353,969	203,488	3,032,029	-	-	12,589,486
Short term loans	50,038	261,382	-	-	-	311,420
Other borrowed funds	88,126	266,826	1,066,652	78,547	-	1,500,151
Other liabilities	658,462	-	-	-	-	658,462
Guarantees, letters of credit and letters of undertaking	490,141	-	-	28,000	-	518,141
Total financial liabilities	39,015,032	7,148,899	4,116,358	106,547	-	50,386,836

First Global Bank Limited

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3. Financial Risk Management (Continued)

(c) Market risk

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

Currency risk

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

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

	2017					
	Jamaican$	**US$**	**GBP**	**CAN$**	**Euro**	**Total**
	J$'000	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**
Financial assets						
Cash and bank balances	3,107,199	3,572,910	265,900	82,543	42,018	7,070,570
Items in the course of collection from other banks	114,716	26,330	-	615	-	141,661
Loans	20,089,452	6,391,117	-	8	-	26,480,577
Securities purchased under resale agreements	202,508	62,276	-	-	-	264,784
Investment securities and pledged assets	3,922,937	13,888,192	-	-	-	17,811,129
Other assets	578,783	40,087	16,619	4,317	12,521	652,327
Guarantees, letters of credit and letters of undertaking	218,224	297,345	-	-	-	515,569
Total financial assets	28,233,819	24,278,257	282,519	87,483	54,539	52,936,617
Financial liabilities						
Customer deposits	17,895,776	18,400,960	280,362	85,882	53,016	36,715,996
Items in the course of payment	109,382	-	-	-	-	109,382
Due to other banks	-	2,251,971	-	-	-	2,251,971
Securities sold under repurchase agreements	1,746,758	2,045,962	-	-	-	3,792,720
Short term loans	500,144	671,415	-	-	-	1,171,559
Other borrowed funds	842,708	283,461	-	-	-	1,126,169
Other liabilities	460,813	136,771	23	397	7	598,011
Guarantees, letters of credit and letters of undertaking	218,224	297,345	-	-	-	515,569
Total financial liabilities	21,773,805	24,087,885	280,385	86,279	53,023	46,281,377
Net financial position	6,460,014	190,372	2,134	1,204	1,516	6,655,240

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3. Financial Risk Management (Continued)

(c) Market risk (continued)
Currency risk (continued)

	2016					
	Jamaican$	**US$**	**GBP**	**CAN$**	**Euro**	**Total**
	J$'000	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**
Financial assets						
Cash and bank balances	2,174,894	3,155,517	298,847	99,472	1,355,302	7,084,032
Items in the course of collection from other banks	112,633	225,584	43	-	-	338,260
Loans	19,328,353	5,448,402	40	-		24,776,795
Investment securities and pledged assets	4,140,457	18,953,821	-	-	-	23,094,278
Other assets	72,519	4,323	-	-	15,141	91,983
Guarantees, letters of credit and letters of undertaking	273,116	245,025	-	-	-	518,141
Total financial assets	26,101,9272	28,032,672	298,930	99,472	1,370,443	55,903,449
Financial liabilities						
Customer deposits	12,907,522	19,703,526	290,065	98,822	1,369,469	34,369,404
Items in the course of payment	108,506	-	-	-	-	108,506
Due to other banks	-	192,273	-	-	-	192,273
Securities sold under repurchase agreements	5,223,475	7,119,936	-	-	-	12,343,411
Short term loans	50,015	256,004	-	-	-	306,019
Other borrowed funds	860,006	441,553	-	-	-	1,301,559
Other liabilities	347,629	310,815	-	19	20	658,483
Guarantees, letters of credit and letters of undertaking	273,116	245,025	-	-	-	518,141
Total financial liabilities	19,770,269	28,269,132	290,065	98,841	1,369,489	49,797,796
Net financial position	6,331,703	(236,460)	8,865	631	954	6,105,693

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

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

	2017		2016	
	% Change in Currency Rate	Effect on Income $'000	% Change in Currency Rate	Effect on Income $'000
Currency:				
US$	4% Depreciation	7,615	6% Depreciation	(14,188)
GBP	4% Depreciation	85	6% Depreciation	532
CAN$	4% Depreciation	48	6% Depreciation	38
EURO	4% Depreciation	61	6% Depreciation	57
US$	-2% Appreciation	3,807	1% Appreciation	(2,365)
GBP	-2% Appreciation	43	1% Appreciation	89
CAN$	-2% Appreciation	24	1% Appreciation	6
EURO	-2% Appreciation	30	1% Appreciation	10

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

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

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

3. Financial Risk Management (Continued)

(c) Market risk (continued)

Interest rate risk (continued)

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

	2017				
	Within 3 months	**3 to 12 months**	**Over 12 months**	**Non rate sensitive**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets					
Cash and bank balances	1,264,176	-	-	5,806,394	7,070,570
Items in the course of collection from other banks	-	-	-	141,661	141,661
Securities purchased under resale agreements	264,784	-	-	-	264,784
Loans	3,327,938	1,607,362	21,545,277	-	26,480,577
Investment securities and pledged assets	3,295,426	2,885,912	11,624,771	5,020	17,811,129
Other assets	-	-	-	652,327	652,327
Guarantees, letters of credit and letters of undertaking	-	-	-	515,569	515,569
Total financial assets	8,152,324	4,493,274	33,170,048	7,120,971	52,936,617
Financial liabilities					
Customer deposits	31,338,638	5,244,570	7,368	125,420	36,715,996
Items in the course of payment	-	-	-	109,382	109,382
Due to other banks	2,251,971	-	-	-	2,251,971
Securities sold under repurchase agreements	2,758,303	-	1,025,508	8,909	3,792,720
Short term loans	1,171,242	-	-	317	1,171,559
Other borrowed funds	60,112	202,106	863,162	789	1,126,169
Other liabilities	-	-	-	598,011	598,011
Guarantees, letters of credit and letters of undertaking	-	-	-	515,569	515,569
Total financial liabilities	37,580,266	5,446,676	1,896,038	1,358,397	46,281,377
Total interest repricing gap	(29,427,942)	(953,402)	31,274,010	5,762,574	6,655,240
Cumulative gap	(29,427,942)	(30,381,344)	892,666	6,655,240	

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3. Financial Risk Management (Continued)

(c) Market risk (continued)
Interest rate risk (continued)

	2016				
	Within 3 months $'000	**3 to 12 months $'000**	**Over 12 months $'000**	**Non rate sensitive $'000**	**Total $'000**
Financial assets					
Cash and bank balances	758,497	-	-	6,325,535	7,084,032
Items in the course of collection from other banks	-	-	-	338,260	338,260
Loans	4,756,598	966,585	19,053,612	-	24,776,795
Investment securities and pledged assets	3,330,841	2,371,475	17,386,942	5,020	23,094,278
Other assets	-	-	-	91,983	91,983
Guarantees, letters of credit and letters of undertaking	273,116	245,025	-	-	518,141
Total financial assets	9,119,052	3,583,085	36,440,554	6,760,798	55,903,489
Financial liabilities					
Customer deposits	27,933,922	6,313,404	16,699	105,379	34,369,404
Items in the course of payment	-	-	-	108,506	108,506
Due to other banks	192,273	-	-	-	192,273
Securities sold under repurchase agreements	9,299,397	200,073	2,804,672	39,269	12,343,411
Short term loans	50,015	255,906	-	98	306,019
Other borrowed funds	71,033	218,021	1,011,684	821	1,301,559
Other liabilities	-	-	-	658,483	658,483
Guarantees, letters of credit and letters of undertaking	490,141	-	28,000	-	518,141
Total financial liabilities	38,036,781	6,987,404	3,861,055	912,556	49,797,796
Total interest repricing gap	(28,917,729)	(3,404,319)	32,579,499	5,848,242	6,105,693
Cumulative gap	(28,917,729)	(32,322,048)	257,451	6,105,693	

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

Interest rate risk (continued)

The table below summarises the weighted average effective yields of interest rate-sensitive financial instruments by currency:

	2017				
	Jamaican$	**US$**	**GBP**	**CAN$**	**Euro**
	%	**%**	**%**	**%**	**%**
Cash and bank balances	2.00	0.30	-	-	-
Securities purchased under resale agreements	5.65	1.35	-	-	-
Loans	13.71	8.10	-	10.00	-
Investment securities	6.62	7.94			
Customer deposits	2.26	0.74	0.23	0.10	0.11
Securities sold under repurchase agreements	4.10	2.07	-	-	-
Short term loans	3.50	1.25	-	-	-
Other borrowed funds	5.69	4.25	-	-	-

	2016				
	Jamaican$	**US$**	**GBP**	**CAN$**	**Euro**
	%	**%**	**%**	**%**	**%**
Cash and bank balances	2.04	0.52	-	-	-
Loans	14.26	8.56	18.75	18.75	-
Investment securities	6.10	6.38	-	-	-
Customer deposits	1.44	1.50	1.13	0.44	2.08
Securities sold under repurchase agreements	7.59	2.59	-	-	-
Short term loans	5.50	5.81	-	-	-
Other borrowed funds	6.41	4.25	-	-	-

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

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

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

2017			2016		
Change in basis points JMD/USD	Net Effect on Income $'000	Net Effect on Equity $'000	Change in basis points JMD/USD	Net Effect on Income $'000	Net Effect on Equity $'000
-100/-50	25,183	186,831	-100/-50	36,977	229,119
+100/50	(25,183)	(155,317)	+100/100	(109,272)	(463,216)

3. Financial Risk Management (Continued)

(d) Capital management

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

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

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

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

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

The Banking Services Act (BSA) requires the Bank to:

(i) Hold the minimum level of the regulatory capital as a percentage of total assets of 8% (2016 – 8%); and

(ii) Maintain a ratio of total regulatory capital to the risk-weighted assets at or above 10% (2016 – 10%).

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

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

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

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

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

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3. Financial Risk Management (Continued)

(e) Fair value estimation

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

The following tables provide an analysis of financial instruments held as at 31 December 2017 that, subsequent to initial recognition, are measured at fair value. 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).

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
		2017		
Available-for-sale investment securities –				
Issued by the Government of Jamaica	-	7,119,491	-	7,119,491
Issued by other governments	-	457,284	-	457,284
Corporate bonds	-	5,690,834	-	5,690,834
Certificates of deposit issued by Bank of Jamaica	-	4,538,500	-	4,538,500
Securities purchased under resale agreements (Note 6)	-	264,784	-	264,784
	-	18,070,893	-	18,070,893

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
		2016		
Available-for-sale investment securities –				
Issued by the Government of Jamaica	-	11,843,148	-	11,843,148
Issued by other governments	-	483,211	-	483,211
Corporate bonds	-	4,916,140	-	4,916,140
Certificates of deposit issued by Bank of Jamaica	-	5,760,536	-	5,760,536
Put option issued by the Government of Jamaica	-	86,223	-	86,223
	-	23,089,258	-	23,089,258

There were no transfers between levels during the year.

3. Financial Risk Management (Continued)

(e) Fair value estimation (continued)

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

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

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. This category includes certain corporate debt securities, the fair values of which are determined based on the prices of recent redemptions of the bonds.

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

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

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

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

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

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans
The Bank reviews its loan portfolio to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in arriving at net profit or loss, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

Fair value of financial instruments
In the absence of quoted market prices, the fair value of a significant proportion of the Bank's financial instruments was determined using generally accepted alternative methods. The values derived from applying these methods are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates. Considerable judgement is required in interpreting market data to arrive at estimates of fair values. Consequently, the estimates arrived at may be significantly different from the actual price of the instruments in an arm's length transaction.

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

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5. Cash and Bank Balances

	2017 $'000	2016 $'000
Notes and coins	392,489	442,532
Accounts with other banks	444,311	1,931,518
Balances with the Bank of Jamaica, other than statutory reserves	655,685	276,899
Included in cash and cash equivalents	1,492,485	2,650,949
Statutory reserves with the Bank of Jamaica	5,338,710	4,131,173
Cash held as collateral and other restricted cash accounts	239,375	301,910
	7,070,570	7,084,032

Statutory reserves with the Bank of Jamaica are held in compliance with Section 14(1) of the Banking Services Act, 2014 (formerly Banking Act, 1992), which requires that every licensee maintains a cash reserve with the Bank of Jamaica. A prescribed minimum of 26% (2016- 26%) of Jamaica dollar currency deposits liabilities and 29% (2016- 26%) of foreign currency deposit liabilities is required to be maintained as cash reserves by the bank in liquid assets of which 12% (2016 – 12%) must be maintained as cash reserves for Jamaican dollar currency and 15% (2016 – 12%) for foreign currency cash reserves. No portion of the cash reserve is available for investment, lending or other use by the Bank.

6. Securities Purchased under Resale Agreements

The Bank enters into reverse repurchase agreement collaterised by government of Jamaica securities and Bank of Jamaica certificates of deposits. These agreements may result in credit exposure in the event that the counterparty to the transaction is unable to fulfil its contractual obligations. The balance in the statement of financial position includes interest receivable of $2,632,000 (2016- $nil).

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

	2017 $'000	2016 $'000
Gross loans	26,901,463	25,196,240
Less: Provision for credit losses	(633,348)	(581,846)
	26,268,115	24,614,394
Interest receivable	212,462	162,401
	26,480,577	24,776,795

The current portion of loans amounted to $4,935,300,000 (2016 – $5,723,183,000).

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

The movement in the provision for credit losses determined under the requirements of IFRS was as follows:

	2017 $'000	2016 $'000
Balance at beginning of year	581,846	311,606
Provided during the year	174,568	423,556
Recoveries	(67,114)	(43,903)
Net amount charged in arriving at net profit or loss	107,454	379,653
Net loan balances written-off during the year	(55,952)	(109,413)
Balance at end of year	633,348	581,846

The aggregate amount of non-performing loans on which interest was not being accrued amounted to $1,578,297,000 (2016 – $1,450,510,000).

The provision for credit losses determined under Bank of Jamaica regulatory requirements was as follows:

	2017 $'000	2016 $'000
Specific provisions	1,008,050	964,021
General provision	253,569	237,841
	1,261,619	1,201,862

The excess of the regulatory provision over the IFRS provision of $628,271,000 (2016 – $620,016,000) is included in a non-distributable loan loss reserve and treated as an appropriation of retained earnings (Note 21).

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8. Investment Securities and Pledged Assets

	2017 $'000	2016 $'000
Available-for-sale debt securities, at fair value:		
Issued by the Government of Jamaica –		
Global bonds	4,139,984	5,039,978
Benchmark local investment notes	2,845,605	3,289,760
Benchmark USD investment notes	-	3,348,251
	6,985,589	11,677,989
Bank of Jamaica Certificates of Deposits	4,489,048	5,709,932
Issued by other governments	439,104	464,497
Corporate bonds	5,584,937	4,827,544
	17,498,678	22,679,962
Financial assets at fair value through profit or loss:		
Embedded put option issued by Government of Jamaica	-	52,275
Available-for-sale securities, at cost less impairment:		
Unquoted equities	5,020	5,020
	17,503,698	22,737,257
Interest receivable	307,431	357,021
	17,811,129	23,094,278
Less: Pledged assets	(4,927,305)	(15,419,427)
	12,883,824	7,674,851

The current portion of investment securities amounted to $3,978,167,000 (2016 – $2,371,475,000).

Embedded put option

The Bank holds certain Government of Jamaica debt securities which were issued in February 2013 and mature in August 2024. The terms of these securities contain an investor put option exercisable in February 2018 under which the holder may require the Government of Jamaica to redeem the securities at 100% of the principal value plus any accrued interest. Gains and losses on revaluations of the option are reflected in Note 25.

In July 2017, the Bank notified the Government of Jamaica of its intention to exercise the put option on the GOJ FR Investment Note due 2024 for 100% of its principal holdings outstanding; the notice given was irrevocable as of August 22, 2017. The carrying value of the note of $533,433,000 was transferred and included as a receivable in Note 12. This amount was received in February 2018.

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9. Property, Plant and Equipment

	Leasehold Improvements	Computer Equipment	Equipment, Furniture and Fixtures	Motor Vehicles	Work-in-progress	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cost -						
1 January 2016	285,219	241,606	235,993	26,364	248,580	1,037,762
Additions	146,016	-	77,222	16,995	41,366	281,599
Transfers (a)	5,660	212,036	9,219	-	(245,592)	(18,677)
Disposals	-	(2,417)	(213)	(10,984)	-	(13,614)
31 December 2016	436,895	451,225	322,221	32,375	44,354	1,287,070
Additions	47,879	31,293	56,371	-	84,868	220,411
Transfers	10,116	35,737	5,319	-	(51,172)	-
Disposals	-	(306)	(525)	(8,000)	-	(8,831)
31 December 2017	494,890	517,949	383,386	24,375	78,050	1,498,650
Depreciation -						
1 January 2016	157,992	202,666	121,770	15,857	-	498,285
Charge for year	33,798	53,786	23,881	3,915	-	115,380
Disposals	-	(2,113)	(157)	(2,563)	-	(4,833)
31 December 2016	191,790	254,339	145,494	17,209	-	608,832
Charge for year	38,890	65,124	29,506	2,232	-	135,752
Disposals	-	(148)	(451)	(1,467)	-	(2,066)
31 December 2017	230,680	319,315	174,549	17,974	-	742,518
Net Book Value -						
31 December 2017	264,210	198,634	208,837	6,401	78,050	756,132
31 December 2016	245,105	196,886	176,727	15,166	44,354	678,238

(a) This amount, relating to computer software, was transferred to intangible assets (Note 10).

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10. Intangible Assets

	Total $'000
Cost -	
1 January 2016	1050,657
Additions	73,981
Transfer from Property Plant and Equipment (Note 9)	18,677
31 December 2016	1,143,315
Additions	30,618
Write-off	(20,000)
31 December 2017	1,153,933
Amortisation -	
1 January 2016	560,625
Amortisation charge for the year	167,734
31 December 2016	728,359
Amortisation charge for year	158,442
31 December 2017	886,801
Net Book Value -	
31 December 2017	267,132
31 December 2016	414,956

Included in the balance at 31 December 2017 is software with a value of $64,739,000 (2016 - $117,000,000) which is in development. These amounts are not yet available for use and have not been amortised. The write-off of $20,000,000 related to software for point of sale machines which is no longer being used by the Bank.

11. Deferred Income Taxes

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

	2017 $'000	2016 $'000
At beginning of year	322,654	368,301
Deferred tax (charged)/credited in statement of comprehensive income (Note 28)	(15,018)	80,421
Deferred tax charged to other comprehensive income (Note 28)	(33,374)	(126,068)
At end of year	274,262	322,654

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11. Deferred Income Taxes (Continued)

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

	2017 $'000	2016 $'000
Tax losses carried forward	267,954	315,326
Post-employment benefits	102,080	83,102
Differences between IFRS and BOJ specific provisions for loan losses	(124,901)	(127,392)
Accelerated tax depreciation	87,456	69,876
Investment securities	(64,470)	(33,553)
Other temporary differences	6,143	15,295
	274,262	322,654

Deferred tax assets include $59,370,000 (2016 – $45,244,000) which is expected to be recovered within 12 months.

Deferred tax assets have been recognised on tax losses carried forward as the Bank is projected to make sufficient profits to utilise these tax losses. Subject to agreement with Tax Administration of Jamaica, losses available for offset against future profits amount to $803,861,000 (2016 – $953, 877,000).

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

	2017 $'000	2016 $'000
Tax losses carried forward	(47,372)	(19,806)
Post-employment benefits	21,434	17,395
Differences between IFRS and BOJ specific provisions for loan losses	2,491	50,967
Accelerated tax depreciation	17,580	27,855
Other temporary differences	(9,151)	4,010
	(15,018)	80,421

11. Deferred Income Taxes (Continued)

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

	2017 $'000	2016 $'000
Realised gains/(losses) on available-for-sale investments	69,807	(18,002)
Unrealised gains on available-for-sale investments	(100,725)	(90,798)
Re-measurement of post-employment benefits	(2,456)	(17,268)
	(33,374)	(126,068)

12. Other Assets

	2017 $'000	2016 $'000
Withholding tax recoverable	68,600	93,167
Due from fellow subsidiaries	16,808	25,897
Prepayments and security deposits	99,453	121,660
Settlement recoverable	29,391	15,141
Bond redemption proceeds receivable (Note 8)	533,433	-
Commissions receivable	22,524	32,534
Insurance receivable	-	6,804
Other	61,547	21,641
	831,756	316,844

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

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13. Customer Deposits

The customer deposit portfolio was comprised as follows:

	Number of depcsits		Value of deposits	
	2017	2016	2017 $'000	2016 $'000
Financial institutions	272	288	6,232,514	4,377,590
Commercial and business enterprises	4,018	3,936	11,758,518	11,333,127
Personal	29,086	25,519	10,747,486	14,675,552
Other	592	437	7,852,058	3,877,756
	33,968	30,180	36,590,576	34,264,025
Interest payable			125,420	105,379
			36,715,996	34,369,404

The non-current portion of customer deposits amounted to $7,336,000 (2016 – $16,699,000).

14. Short Term Loans

	2017 $'000	2016 $'000
Loans with original maturities of 90 days or less –		
National Commercial Bank Jamaica Limited	360,482	-
Sagicor Bank Jamaica Limited	500,000	-
Citibank N.A.	310,760	50,000
	1,171,242	50,000
Interest payable	317	15
Included in cash and cash equivalents	1,171,559	50,015
Loan with original maturity of less than one year –		
Citibank N.A.	-	255,921
Interest payable	-	83
	-	256,004
	1,171,559	306,019

The short term loan facilities mature in January 2018 and include Jamaican dollar currency facilities at 3.5% and United States currency facilities ranging from 1.1%-7.6%.

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15. Other Borrowed Funds

These loans are provided by the Development Bank of Jamaica Limited, primarily for the purpose of on-lending to customers who meet certain requirements and are to be used for eligible enterprises and projects. The balance at year end was comprised as follows:

	2017 $'000	2016 $'000
Principal	1,125,380	1,300,738
Interest payable	789	821
	1,126,169	1,301,559

The current portion of other borrowed funds was $263,007,000 (2016 – $289,054,000).

The loans are granted in both Jamaican and United States Dollars and are utilised by the Bank to finance customers with viable projects in the productive sectors of the economy. These loans have maturity dates ranging from November 2018 to 2025 and attract interest at rates ranging from 4% – 8%.

The carrying amounts of the Bank's borrowings are denominated in the following currencies:

	2017 $'000	2016 $'000
US dollar	283,462	441,553
Jamaican dollar	842,707	860,006
	1,126,169	1,301,559

The Bank has no undrawn borrowing facilities.

16. Pensions and Post-Employment Benefit Obligations

The Bank participates in a defined contribution pension scheme started by the ultimate parent company. The scheme is open to employees hired on or after 1 April 2010. Employees contribute 5% of pensionable earnings with the option to contribute an additional 5%. The employer's contributions are currently set at 10%. The Bank's contribution for the year was $67,506,000 (2016 - $54,100,000).

The Bank also participates in a defined benefit pension plan operated by the ultimate parent company. The plan, which commenced on 1 January 1975, is funded by employees' contributions at 5% of salary with the option to contribute an additional 5%, and employer's contributions at 0.02%, as recommended by independent actuaries. Pension at normal post-employment age is based on 2% per year of pensionable service of the average of the highest three years' annual salary during the last ten years of service. This scheme was closed to new members as at 31 March 2010.

Prior to 2014, the parent company had a stated policy of charging the net defined benefit cost of the plan as a whole to individual participating subsidiaries. At each valuation date, sufficient plan assets were allocated to each participating subsidiary to at least cover its obligations under the plan. In 2014, the ultimate parent company assumed the defined benefit pension obligations of all companies within the Group participating in this scheme. As a result the ultimate parent company recognises the total pension assets and obligations in respect of this plan. The obligation of the Bank is limited to the regular monthly pension contributions.

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

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

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

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

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

	2017 $'000	2016 $'000
Present value of unfunded obligations	(306,239)	(249,304)

The amounts recognised in arriving at net profit or loss were as follows:

	2017 $'000	2016 $'000
Current service cost	43,299	41,006
Interest cost on obligation	22,371	21,100
Adjustment to plan asset	304	(8,008)
Total, included in staff costs (Note 26)	65,974	54,098

The amounts recognised in other comprehensive income are as follows:

	2017 $'000	2016 $'000
Re-measurements of the post-employment obligations	7,368	(51,803)

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

	Other post-employment benefits	
	2017 $'000	2016 $'000
Balance at start of year	249,304	248,924
Current service cost	43,299	41,006
Interest cost	22,371	21,100
Benefits paid	(1,671)	(1,913)
Past service cost vested	304	(8,008)
Re-measurements:		
Gain from changes in demographic assumptions	(3,196)	-
Losses from changes in financial assumptions	18,433	13,244
Experience gains	(22,605)	(65,049)
Balance at end of year	306,239	249,304

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

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

	2017 $'000	2016 $'000
Gratuity Plan	24,648	25,152
Group Life Plan	93,551	72,993
Insured Group Health	168,843	135,829
Self Insured Health Plan	19,198	15,330
Liability in the statement of financial position	306,240	249,304

The principal actuarial assumptions used were as follows:

	2017	2016
Discount rate	8.00%	9.00%
Long term inflation rate	5.00%	6.00%
Future salary increases	6.00%	6.00%
Future pension increases	5.00%	6.00%
Medical claims growth	6.50%	7.50%

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

	2017	2016
Male	27.31	27.24
Female	28.21	28.17

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

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

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

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

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

	Impact on other employee benefit obligations		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
		$'000	$'000
Discount rate	1%	36,797	(49,098)
Medical inflation rate	1%	(49,323)	37,527

Risks associated with other post-employment obligations

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

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

Inflation risk
Higher inflation will lead to higher liabilities in the event that discretionary pension increases are granted.

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

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

Funding levels are monitored on an annual basis and the current agreed contribution rate is a % of pensionable salaries. The next triennial valuation is due to be completed as at 31 December 2019. The Bank considers that the contribution rates set at the last valuation date to be sufficient to prevent a deficit and that regular contributions, which are based on service costs, will not increase significantly.

The average duration of the post-employment benefit obligation is as follows:

	Years
Gratuity Plan	15.2
Group Life Plan	24.2
Insured Group Health Plan	19
Self-insured Health Plan	20.7
Superannuation Plan	18.2

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17. Other Liabilities

	2017 $'000	2016 $'000
Due to fellow subsidiaries	16,908	267
Settlement payable	29,363	15,437
Deferred revenue - credit card loyalty scheme	87,613	52,653
Staff vacation and bonus accruals	187,929	88,814
Trade payables	77,006	63,433
Corporate tax payable	64,855	14,974
Withholding tax payable	22,114	23,114
Other accruals	199,192	443,478
	684,980	702,170

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

18. Share Capital

	2017 $'000	2016 $'000
Authorised –		
629,482,500 ordinary shares		
102,500 convertible preference shares		
Issued and fully paid –		
628,670,000 (2016 – 628,670,000) ordinary shares of no par value	2,377,685	2,377,685
102,500 (2016 – 102,500) non-redeemable convertible preference shares	1,186,496	1,186,496
	3,564,181	3,564,181

18. Share Capital (Continued)

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

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

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

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

19. Statutory Reserve Fund

This fund is maintained in accordance with Section 8 of the Banking Act which requires that a minimum of 15% of the net profits, as defined by the Act, of the Bank be transferred to the reserve fund until the amount of the fund is equal to 50% of the paid-up capital of the Bank and thereafter 10% of the net profits until the amount of the fund is equal to the paid-up capital of the Bank. During the year the Bank transferred $ 71,902,000 (2016 - $75,009,000) to this reserve.

20. Fair Value Reserve

This represents the net unrealised gains on the revaluation of investment securities amounting to $193,409,000 (2016 – $100,658,000), and is shown net of attributable deferred taxation of $64,470,000 (2016 – $33,553,000).

21. Loan Loss Reserve

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

22. Retained Earnings Reserve

The Banking Services Act 2014 (formerly Banking Act, 1992) permits the transfer of any portion of the Bank's net profit to a retained earnings reserve. This reserve constitutes a part of the capital base for the purpose of determining the maximum level of deposit liabilities and lending to customers. The deposit liabilities of the Bank and other indebtedness for borrowed money together with all interest accrued should not exceed twenty-five times its capital base.

23. Interest Income on Securities

	2017 $'000	2016 $'000
Interest income was earned on –		
Investments classified as available-for-sale	1,142,512	1,051,159
Securities purchased under resale agreements	5,849	2,886
	1,148,361	1,054,045

24. Fee and Commission Income

	2017 $'000	2016 $'000
Credit related	528,534	518,758
Retail banking	215,262	218,329
Other	322,985	333,382
	1,066,781	1,070,469

25. Gain on Investment Activities, Net

	2017 $'000	2016 $'000
Gain on sale of investments classified as available-for-sale	175,402	52,797
Loss on revaluation of put option	-	(6,049)
	175,402	46,748

26. Staff Costs

	2017 $'000	2016 $'000
Wages and salaries	1,424,783	1,215,563
Statutory contributions	117,508	107,777
Defined contribution scheme	66,999	54,100
Other post-employment benefits (Note 16)	65,974	54,098
Other	160,572	144,951
	1,835,836	1,576,489

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27. Administration and Other Expenses

	2017 $'000	2016 $'000
Advertising and publicity	124,819	104,126
Asset tax	127,929	103,431
Auditors' remuneration	9,491	9,076
Bank charges	41,184	44,333
Computer expenses	214,700	169,461
Credit card expenses	110,674	114,555
Directors' emoluments	10,153	9,717
Fees and charges	109,248	77,549
Royalties	130,560	231,734
Group expenses	271,842	273,614
Insurance and licensing	77,793	67,910
Irrecoverable General Consumption Tax	79,019	71,171
Postage and courier	24,335	23,595
Professional fees	61,066	39,296
Rental and maintenance	180,163	163,985
Telephone and data	52,053	39,185
Other property cost, and utilities	84,099	72,314
Stationery	14,530	16,667
Other	144,726	113,718
	1,868,384	1,745,437

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

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28. Taxation

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

	2017 $'000	2016 $'000
Current income tax	49,941	15,035
Deferred income tax (Note 11)	15,018	(80,420)
	64,959	(65,385)

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

	2017 $'000	2016 $'000
Profit before taxation	533,446	259,404
Tax calculated at a tax rate of 33⅓%	177,815	86,468
Adjusted for the effects of –		
Tax free income	(145,734)	(150,756)
Preference dividends	(29,438)	(28,404)
Asset tax	42,643	34,477
Sundry items	19,673	(7,170)
	64,959	(65,385)

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

	2017		
	Before tax	Tax charge/ (credit)	After tax
	$'000	$'000	$'000
Items that may be subsequently reclassified to profit or loss:			
Realised gains on available-for-sale investments	(209,422)	69,807	(139,615)
Unrealised gains on available-for-sale investments	302,175	(100,725)	201,450
Item that will not be reclassified to profit or loss:			
Re-measurements of other post-employment benefit obligations	7,368	(2,456)	4,912
	100,121	(33,374)	66,747

28. Taxation (Continued)

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

	2016		
	Before tax	Tax credit	After tax
	$'000	$'000	$'000
Items that may be subsequently reclassified to profit or loss:			
Realised losses on available-for-sale investments	54,007	(18,002)	36,005
Unrealised gains on available-for-sale investments	272,393	(90,798)	181,595
Item that will not be reclassified to profit or loss:			
Re-measurements of pension and other employment benefit obligations	51,803	(17,268)	34,535
	378,203	(126,068)	252,135

29. Related Party Transactions and Balances

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

	2017	2016
	$'000	$'000
Loans and leases-		
Ultimate parent company	18,052	-
Fellow subsidiaries	42,019	-
Key management personnel	58,206	35,646
Other related entities	39,787	62,122
	158,064	97,768

	2017	2016
Loans to key management personnel and other related entities -		
Balance as at 1 January	97,768	119,930
Loans advanced	190,713	79,355
Loan repayments received	(130,857)	(93,784)
Interest charged	12,993	5,624
Interest received	(12,551)	(13,357)
Balance as at 31 December	158,066	97,768

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29. Related Party Transactions and Balances (Continued)

The loans to key management personnel attract interest rates ranging between 5% - 15.75% and are repayable in the years 2018 – 2033. These loans are secured and are made on terms similar to those offered to other employees. No provisions were required in 2017 and 2016 for the loans made to directors and senior executives.

	2017 $'000	2016 $'000
Other assets –		
Fellow subsidiaries	16,808	25,816
Customer deposits –		
Ultimate parent company	496,155	825,813
Fellow subsidiaries	2,689,318	2,889,651
Key management personnel	152,586	161,464
Other related entities	883,704	667,427
	4,221,763	4,544,355
Other liabilities –		
Fellow subsidiaries	16,908	267

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

	2017 $'000	2016 $'000
Interest earned on loans and leases –		
Ultimate parent company	1,655	-
Fellow subsidiaries	3,940	-
Key management personnel	2,698	2,345
Other related entities	4,700	3,279
	12,993	5,624
Interest earned on deposits and other accounts –		
Ultimate parent company	1,318	2,642
Fellow subsidiaries	19,418	23,495
Key management personnel	187	558
Other related entities	2,626	1,465
	23,549	28,160

29. Related Party Transactions and Balances (Continued)

	2017 $'000	2016 $'000
Interest incurred on customer deposits –		
Ultimate parent company	24,060	27,711
Fellow subsidiaries	38,248	54,057
Key management personnel	6,442	5,178
Other related entities	30,687	20,298
	99,437	107,244
Staff costs for key management personnel –		
Directors	41,804	60,705
Senior executives	160,443	154,191
	202,247	214,896
Administration and other expenses –		
Ultimate parent company	269,411	258,426
Fellow subsidiaries	159,126	263,087
Directors' fees	8,091	7,702
	436,628	529,215

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

30. Reconciliation of Liabilities arising from Financial Activities

The table below details changes in the Bank's liabilities arising from financing activities, including both cash and non-cash. Financing activities represent bank and other loans, excluding bank overdrafts and amounts included as cash and cash equivalents:

	2017 $'000	2016 $'000
At January 1	1,557,563	1,726,591
Loans received	184,881	260,590
Cash movements -		
Repayment- principal	(599,638)	(532,705)
Repayment- interest	(74,701)	(94,760)
Non-cash movements -		
Foreign exchange adjustments	(17,426)	102,183
Other	75,490	95,664
At 31 December	1,126,169	1,557,563

31. Commitments and Contingent Liabilities

Operating lease commitments
Future lease payments relate to the rentals payable of the Bank's head office and its branches. The minimum annual lease payments required under the operating lease through to its expiry are as follows:

	2017 $'000	2016 $'000
2017	-	171,790
2018	186,644	124,510
2019	170,549	403,125
2020 and beyond	369,959	-
	727,152	699,425

Loan commitments
Loans approved but not disbursed at year end amounted to $1,443,956,000 (2016 – $1,090,931,000).

Contingent liabilities
Guarantees and letters of credit for which the Bank has an indirect obligation at year end amounted to $267,678,000 (2016 - $189,585,000).

32. Litigation, Claims and Assessments

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

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