



**National Commercial Bank  
Jamaica Limited**

**Financial Statements  
September 30, 2012**

# National Commercial Bank Jamaica Limited

Index

September 30, 2012

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# National Commercial Bank Jamaica Limited

Directors' Report  
September 30, 2012

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The directors submit herewith the Consolidated Income Statement of National Commercial Bank Jamaica Limited and its subsidiaries for the year ended September 30, 2012, together with the Consolidated Statement of Financial Position as at that date:

## Operating Results

	<b>\$'000</b>
Gross operating revenue	44,425,230
Profit before taxation	13,202,651
Taxation	(3,156,789)
Net profit	<u>10,045,862</u>

## Dividends

The following dividends were paid during the year:

- \$0.34 per ordinary stock unit was paid in December 2011
- \$0.38 per ordinary stock unit was paid in February 2012
- \$0.21 per ordinary stock unit was paid in May 2012
- \$0.17 per ordinary stock unit was paid in August 2012

## Directors

During the financial year, the Board of Directors comprised:

Hon. Michael A. Lee-Chin, OJ - Chairman  
Mr Patrick A.A. Hylton, CD – Group Managing Director  
Mr Dennis G. Cohen – Deputy Group Managing Director  
Mr Robert W. Almeida  
Mr Wayne C. Chen  
Mrs Sandra A.C. Glasgow  
Mrs Sanya M. Goffe (Appointed 1 October 2011)  
Hon. Noel A.A. Hylton, OJ, CD, Hon. LL D  
Mrs Thalia G. Lyn  
Professor Alvin G. Wint

## Company Secretary

The Company Secretary is Mr Dave L. Garcia.

# National Commercial Bank Jamaica Limited

Directors' Report  
September 30, 2012

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Pursuant to Article 97 of the Company's Articles of Association, one third of the Directors (or the number nearest to one third) other than the Managing Director and Deputy Managing Director will retire at the Annual General Meeting and shall then be eligible for re-election. Pursuant to Article 103 of the Company's Articles of Association, any Director appointed by the Board, either to fill a casual vacancy, or as an addition to the existing Board will retire at the Annual General Meeting and shall then be eligible for re-election.

## Auditors

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office and offer themselves for re-appointment.

On behalf of the Board



Dave L. Garcia  
Company Secretary



## ***Independent Auditors' Report***

To the Members of  
National Commercial Bank Jamaica Limited

### **Report on the Consolidated and Bank Stand Alone Financial Statements**

We have audited the accompanying consolidated financial statements of National Commercial Bank Jamaica Limited and its subsidiaries, set out on pages 1 to 123, which comprise the consolidated statement of financial position as at September 30, 2012 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and the accompanying financial statements of National Commercial Bank Jamaica Limited standing alone, which comprise the statement of financial position as at September 30, 2012 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### ***Management's Responsibility for the Consolidated and Bank Stand Alone Financial Statements***

Management is responsible for the preparation of consolidated and Bank stand alone 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 consolidated and Bank stand alone financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated and Bank stand alone financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and Bank stand alone financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and Bank stand alone financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated and Bank stand alone financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated and Bank stand alone financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and Bank stand alone financial statements.

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

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*PricewaterhouseCoopers, Scotiabank Centre, Duke Street, Box 372, Kingston, Jamaica*  
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**Members of National Commercial Bank Jamaica Limited  
Independent Auditors' Report  
Page 2**

***Opinion***

In our opinion, the consolidated financial statements of National Commercial Bank Jamaica Limited and its subsidiaries, and the financial statements of National Commercial Bank Jamaica Limited standing alone give a true and fair view of the financial position of the group and the Bank as at September 30, 2012, and of their financial performance and cash flows for the year then ended, so far as concerns the members of National Commercial Bank Jamaica Limited, in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

**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 proper returns adequate for the purposes of our audit have been received from branches not visited by us, and the accompanying consolidated and Bank stand alone financial statements are in agreement therewith and give the information required by the Jamaican Companies Act, in the manner so required.

*PricewaterhouseCoopers*

Chartered Accountants  
November 19, 2012  
Kingston, Jamaica

# National Commercial Bank Jamaica Limited

## Consolidated Income Statement

Year ended September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	Restated 2011 \$'000
<b>Operating Income</b>			
Interest income		30,475,968	30,191,938
Interest expense		(8,691,878)	(9,041,078)
Net interest income	6	<u>21,784,090</u>	<u>21,150,860</u>
Fee and commission income		8,300,085	7,497,876
Fee and commission expense		(1,186,403)	(1,078,430)
Net fee and commission income	7	<u>7,113,682</u>	<u>6,419,446</u>
Gain on foreign currency and investment activities	8	3,731,492	4,035,443
Dividend income	9	119,634	11,830
Premium income	10	1,687,082	2,921,919
Other operating income		110,969	132,698
		<u>5,649,177</u>	<u>7,101,890</u>
		<u>34,546,949</u>	<u>34,672,196</u>
<b>Operating Expenses</b>			
Staff costs	11	9,755,916	9,240,116
Provision for credit losses	21	2,462,811	768,881
Depreciation and amortization		812,512	580,132
Impairment losses on securities	12	467,778	262,003
Other operating expenses	13	8,780,474	8,333,326
		<u>22,279,491</u>	<u>19,184,458</u>
<b>Operating Profit</b>			
		12,267,458	15,487,738
Gain on acquisition of associates	23	-	1,867,377
Share of profit of associates	23	947,141	234,979
Dilution of share in associates	23	(11,948)	-
<b>Profit before Taxation</b>			
		13,202,651	17,590,094
Taxation	14	(3,156,789)	(3,704,793)
<b>NET PROFIT</b>			
		<u>10,045,862</u>	<u>13,885,301</u>
<b>Earnings per stock unit (expressed in \$ per share)</b>			
Basic and diluted	15	<u>4.08</u>	<u>5.64</u>

# National Commercial Bank Jamaica Limited

Consolidated Statement of Comprehensive Income

Year ended September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

	2012	Restated
	\$'000	2011
		\$'000
<b>Net Profit</b>	10,045,862	13,885,301
<b>Other Comprehensive Income, net of tax –</b>		
Currency translation gains	92,142	2,691
Unrealized (losses)/gains on available-for-sale investments	(837,922)	4,584,760
Realized fair value gains on sale and maturity of available-for-sale investments	(2,226,635)	(2,220,115)
Unrealized losses transferred from equity on impairment of available-for-sale equity securities	-	264,012
	<u>(2,972,415)</u>	<u>2,631,348</u>
<b>TOTAL COMPREHENSIVE INCOME</b>	<u>7,073,447</u>	<u>16,516,649</u>



# National Commercial Bank Jamaica Limited

## Consolidated Statement of Financial Position

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	Restated 2011 \$'000
<b>ASSETS</b>			
Cash in hand and balances at Bank of Jamaica	16	24,102,812	20,725,491
Due from other banks	17	14,927,069	24,812,575
Derivative financial instruments	18	4,978	-
Investment securities at fair value through profit or loss	19	720,406	1,785,352
Reverse repurchase agreements	20	408,294	1,697,472
Loans and advances, net of provision for credit losses	21	111,904,854	91,728,138
Investment securities classified as available-for-sale and loans and receivables	22	209,933,151	202,962,775
Investment in associates	23	7,149,680	6,698,130
Investment property	24	12,500	12,000
Intangible asset – computer software	25	1,135,599	897,862
Property, plant and equipment	26	5,231,798	4,322,866
Deferred income tax assets	27	19,483	26,191
Income tax recoverable		887,577	1,402,777
Customers' liability – letters of credit and undertaking		530,719	361,606
Other assets	28	2,466,599	2,184,878
<b>Total Assets</b>		<b>379,435,519</b>	<b>359,618,113</b>

# National Commercial Bank Jamaica Limited


## Consolidated Statement of Financial Position

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	Restated 2011 \$'000
<b>LIABILITIES</b>			
Due to other banks	29	9,324,897	6,215,824
Customer deposits		162,930,350	155,800,401
Repurchase agreements		101,890,449	84,075,103
Obligations under securitization arrangements	30	2,593,201	14,378,119
Derivative financial instruments	18	5,312	-
Other borrowed funds	31	3,620,012	5,693,957
Income tax payable		11,191	12,591
Deferred income tax liabilities	27	1,398,092	2,387,682
Liabilities under annuity and insurance contracts	32	25,194,324	23,564,275
Provision for litigation	33	17,300	13,000
Post-employment benefit obligations	34	810,276	582,491
Liability – letters of credit and undertaking		530,719	361,606
Other liabilities	35	4,766,075	4,555,800
<b>Total Liabilities</b>		<u>313,092,198</u>	<u>297,640,849</u>
<b>EQUITY</b>			
Share capital	36	6,465,731	6,465,731
Shares held by NCB Employee Share Scheme	36	(3,388)	(3,388)
Fair value and capital reserves	37	2,194,179	5,166,594
Loan loss reserve	38	4,662,842	4,922,610
Banking reserve fund	39	6,512,634	6,039,667
Retained earnings reserve	40	14,013,657	11,375,761
Retained earnings		32,497,666	28,010,289
<b>Total Equity</b>		<u>66,343,321</u>	<u>61,977,264</u>
<b>Total Equity and Liabilities</b>		<u>379,435,519</u>	<u>359,618,113</u>

Approved for issue by the Board of Directors on November 15, 2012 and signed on its behalf by:

  
 Patrick Hylton Group Managing Director

  
 Dennis Cohen Deputy Group Managing Director

  
 Professor Alvin Wint Director

  
 Dave Garela Company Secretary

# National Commercial Bank Jamaica Limited

## Consolidated Statement of Changes in Equity

Year ended September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Share Capital	Shares Held by Share Scheme	Fair Value and Capital Reserves	Loan Loss Reserve	Banking Reserve Fund	Retained Earnings Reserve	Retained Earnings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at September 30, 2010</b>	6,465,731	(3,388)	1,457,864	1,135,012	5,200,206	8,875,761	25,676,747	48,807,933
Total comprehensive income, as restated	-	-	2,631,348	-	-	-	13,885,301	16,516,649
Dividends paid	-	-	-	-	-	-	(3,347,318)	(3,347,318)
Redemption of preference shares	-	-	1,077,382	-	-	-	(1,077,382)	-
Transfer to Loan Loss Reserve	-	-	-	3,787,598	-	-	(3,787,598)	-
Transfer to Banking Reserve Fund	-	-	-	-	839,461	-	(839,461)	-
Transfer to Retained Earnings Reserve	-	-	-	-	-	2,500,000	(2,500,000)	-
<b>Balance at September 30, 2011, as restated</b>	6,465,731	(3,388)	5,166,594	4,922,610	6,039,667	11,375,761	28,010,289	61,977,264
Total comprehensive income	-	-	(2,972,415)	-	-	-	10,045,862	7,073,447
Dividends paid	-	-	-	-	-	-	(2,707,390)	(2,707,390)
Transfer from Loan Loss Reserve	-	-	-	(259,768)	-	-	259,768	-
Transfer to Banking Reserve Fund	-	-	-	-	472,967	-	(472,967)	-
Transfer to Retained Earnings Reserve	-	-	-	-	-	2,637,896	(2,637,896)	-
<b>Balance at September 30, 2012</b>	6,465,731	(3,388)	2,194,179	4,662,842	6,512,634	14,013,657	32,497,666	66,343,321

# National Commercial Bank Jamaica Limited

## Consolidated Statement of Cash Flows

Year ended September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	Restated 2011 \$'000
<b>Cash Flows from Operating Activities</b>			
Net profit		10,045,862	13,885,301
Adjustments to reconcile net profit to net cash provided by operating activities		5,666,044	6,554,155
Net cash provided by operating activities	41	<u>15,711,906</u>	<u>20,439,456</u>
<b>Cash Flows from Investing Activities</b>			
Acquisition of property, plant and equipment	26	(1,415,627)	(672,268)
Acquisition of intangible asset – computer software	25	(546,801)	(688,160)
Investment in associates	23	-	(2,318,753)
Proceeds from disposal of property, plant and equipment		4,274	27,982
Dividends received from associates	23	146,761	41,948
Purchases of investment securities		(240,078,881)	(320,155,347)
Sales/maturities of investment securities		219,525,093	311,783,831
Net cash used in investing activities		<u>(22,365,181)</u>	<u>(11,980,767)</u>
<b>Cash Flows from Financing Activities</b>			
Repayments under securitization arrangements		(11,483,783)	(6,087,083)
Repayments of other borrowed funds		(3,035,243)	(2,759,487)
Proceeds from other borrowed funds		943,027	1,471,420
Dividends paid		(2,707,390)	(3,347,318)
Net cash used in financing activities		<u>(16,283,389)</u>	<u>(10,722,468)</u>
Effect of exchange rate changes on cash and cash equivalents		<u>1,044,342</u>	<u>(38,490)</u>
Net decrease in cash and cash equivalents		(21,892,322)	(2,302,269)
Cash and cash equivalents at beginning of year		38,609,519	40,911,788
<b>Cash and Cash Equivalents at End of Year</b>		<u><u>16,717,197</u></u>	<u><u>38,609,519</u></u>
<b>Comprising:</b>			
Cash in hand and balances at Bank of Jamaica	16	6,374,868	4,656,845
Due from other banks	17	14,927,069	24,812,575
Reverse repurchase agreements	20	394,873	400,000
Investment securities	22	4,345,284	14,955,923
Due to other banks	29	(9,324,897)	(6,215,824)
		<u><u>16,717,197</u></u>	<u><u>38,609,519</u></u>

# National Commercial Bank Jamaica Limited

## Income Statement

Year ended September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000
<b>Operating Revenue</b>			
Interest income		20,515,000	19,778,000
Interest expense		(4,261,224)	(4,324,650)
Net interest income	6	<u>16,253,776</u>	<u>15,453,350</u>
Fee and commission income		7,255,659	6,543,379
Fee and commission expense		(1,186,403)	(1,078,430)
Net fee and commission income	7	<u>6,069,256</u>	<u>5,464,949</u>
Gain on foreign currency and investment activities	8	1,702,851	2,133,892
Dividend income	9	2,290,448	2,152,748
Other operating income		96,485	123,163
		<u>4,089,784</u>	<u>4,409,803</u>
		<u>26,412,816</u>	<u>25,328,102</u>
<b>Operating Expenses</b>			
Staff costs	11	8,607,561	8,262,801
Provision for credit losses	21	2,462,811	768,881
Depreciation and amortization		769,052	518,180
Impairment losses	12	-	264,012
Other operating expenses	13	6,527,580	5,060,739
		<u>18,367,004</u>	<u>14,874,613</u>
<b>Profit before Taxation</b>		8,045,812	10,453,489
Taxation	14	(1,511,656)	(2,058,876)
<b>NET PROFIT</b>		<u><u>6,534,156</u></u>	<u><u>8,394,613</u></u>

# National Commercial Bank Jamaica Limited

## Statement of Comprehensive Income

Year ended September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

	2012 \$'000	2011 \$'000
<b>Net Profit</b>	6,534,156	8,394,613
<b>Other Comprehensive Income, net of taxes –</b>		
Unrealized gains on available-for-sale investments	138,134	1,050,735
Realized fair value gains on sale and maturity of available-for-sale investments	(643,995)	(1,017,587)
Unrealized losses transferred from equity on impairment of available-for-sale equity securities	-	264,012
	(505,861)	297,160
<b>TOTAL COMPREHENSIVE INCOME</b>	<u>6,028,295</u>	<u>8,691,773</u>

# National Commercial Bank Jamaica Limited

## Statement of Financial Position

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000
<b>ASSETS</b>			
Cash in hand and balances at Bank of Jamaica	16	24,097,645	20,721,445
Due from other banks	17	14,438,606	24,329,851
Derivative financial instruments	18	4,978	-
Reverse repurchase agreements	20	565,719	990,011
Loans and advances, net of provision for credit losses	21	111,164,129	91,398,899
Investment securities classified as available-for-sale and loans and receivables	22	86,367,334	83,752,176
Investment in associates	23	2,679,737	471,534
Investment in subsidiaries		1,609,609	1,609,609
Intangible asset – computer software	25	1,092,379	840,319
Property, plant and equipment	26	5,211,299	4,300,513
Income tax recoverable		297,796	525,802
Customers' liability – letters of credit and undertaking		530,719	361,606
Other assets	28	2,261,094	1,457,343
<b>Total Assets</b>		<b>250,321,044</b>	<b>230,759,108</b>

# National Commercial Bank Jamaica Limited


## Statement of Financial Position

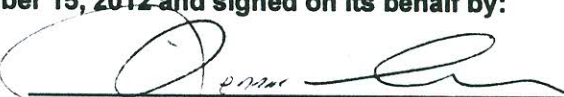
September 30, 2012


(expressed in Jamaican dollars unless otherwise indicated)


	Note	2012 \$'000	2011 \$'000
<b>LIABILITIES</b>			
Due to other banks	29	11,716,825	6,215,824
Customer deposits		160,834,084	156,023,338
Repurchase agreements		27,712,425	8,509,780
Obligations under securitization arrangements	30	2,593,201	14,378,119
Derivative financial instruments	18	5,312	-
Other borrowed funds	31	2,153,512	4,035,316
Deferred tax liabilities	27	1,189,086	1,087,982
Provision for litigation	33	17,300	13,000
Post-employment benefit obligations	34	810,276	582,491
Liability – letters of credit and undertaking		530,719	361,606
Other liabilities	35	3,905,961	4,014,165
<b>Total Liabilities</b>		<u>211,468,701</u>	<u>195,221,621</u>
<b>EQUITY</b>			
Share capital	36	6,465,731	6,465,731
Fair value and capital reserves	37	(398,556)	107,305
Loan loss reserve	38	4,662,842	4,922,610
Banking reserve fund	39	6,512,634	6,039,667
Retained earnings reserve	40	14,013,657	11,375,761
Retained earnings		7,596,035	6,626,413
<b>Total Equity</b>		<u>38,852,343</u>	<u>35,537,487</u>
<b>Total Equity and Liabilities</b>		<u>250,321,044</u>	<u>230,759,108</u>

Approved for issue by the Board of Directors on November 15, 2012 and signed on its behalf by:

  
 Patrick Hylton Group Managing Director

  
 Dennis Cohen Deputy Group Managing Director

  
 Professor Alvin Wint Director

  
 Dave Garcia Company Secretary



# National Commercial Bank Jamaica Limited

## Statement of Changes in Equity

Year ended September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Share Capital	Fair Value and Capital Reserves	Loan Loss Reserve	Banking Reserve Fund	Retained Earnings Reserve	Retained Earnings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at September 30, 2010</b>	6,465,731	(189,855)	1,135,012	5,200,206	8,875,761	8,713,656	30,200,511
Total comprehensive income	-	297,160	-	-	-	8,394,613	8,691,773
Dividends paid	-	-	-	-	-	(3,354,797)	(3,354,797)
Transfer to Loan Loss Reserve	-	-	3,787,598	-	-	(3,787,598)	-
Transfer to Banking Reserve Fund	-	-	-	839,461	-	(839,461)	-
Transfer to Retained Earnings Reserve	-	-	-	-	2,500,000	(2,500,000)	-
<b>Balance at September 30, 2011</b>	6,465,731	107,305	4,922,610	6,039,667	11,375,761	6,626,413	35,537,487
Total comprehensive income	-	(505,861)	-	-	-	6,534,156	6,028,295
Dividends paid	-	-	-	-	-	(2,713,439)	(2,713,439)
Transfer from Loan Loss Reserve	-	-	(259,768)	-	-	259,768	-
Transfer to Banking Reserve Fund	-	-	-	472,967	-	(472,967)	-
Transfer to Retained Earnings Reserve	-	-	-	-	2,637,896	(2,637,896)	-
<b>Balance at September 30, 2012</b>	6,465,731	(398,556)	4,662,842	6,512,634	14,013,657	7,596,035	38,852,343

# National Commercial Bank Jamaica Limited

## Statement of Cash Flows

Year ended September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000
<b>Cash Flows from Operating Activities</b>			
Net profit		6,534,156	8,394,613
Adjustments to reconcile net profit to net cash provided by operating activities		<u>2,005,074</u>	<u>(105,035)</u>
Net cash provided by operating activities	41	<u>8,539,230</u>	<u>8,289,578</u>
<b>Cash Flows from Investing Activities</b>			
Acquisition of property, plant and equipment	26	(1,406,023)	(663,311)
Acquisition of intangible asset – computer software	25	(529,239)	(684,446)
Investment in associate	23	(2,208,203)	-
Proceeds from disposal of property, plant and equipment		4,274	27,982
Purchases of investment securities		(175,264,034)	(253,512,378)
Sales/maturities of investment securities		<u>162,665,687</u>	<u>259,431,343</u>
Net cash (used in)/provided by investing activities		<u>(16,737,538)</u>	<u>4,599,190</u>
<b>Cash Flows from Financing Activities</b>			
Repayments under securitization arrangements		(11,483,783)	(6,087,083)
Repayments of other borrowed funds		(2,798,576)	(2,759,483)
Proceeds from other borrowed funds		896,885	500,792
Dividends paid		<u>(2,713,440)</u>	<u>(3,354,797)</u>
Net cash used in financing activities		<u>(16,098,914)</u>	<u>(11,700,571)</u>
Effect of exchange rate changes on cash and cash equivalents		<u>989,216</u>	<u>(38,490)</u>
Net (decrease)/increase in cash and cash equivalents		(23,308,006)	1,149,707
Cash and cash equivalents at beginning of year		<u>36,566,249</u>	<u>35,416,542</u>
<b>Cash and Cash Equivalents at End of Year</b>		<u><u>13,258,243</u></u>	<u><u>36,566,249</u></u>
<b>Comprising:</b>			
Cash in hand and balances at Bank of Jamaica	16	6,369,701	4,652,799
Due from other banks	17	14,438,606	24,329,851
Reverse repurchase agreements	20	291,339	726,397
Investment securities	22	3,875,422	13,073,026
Due to other banks	29	<u>(11,716,825)</u>	<u>(6,215,824)</u>
		<u><u>13,258,243</u></u>	<u><u>36,566,249</u></u>

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 1. Identification and Principal Activities

National Commercial Bank Jamaica Limited (“the Bank”) is incorporated in Jamaica and licensed under the Banking Act, 1992. The Bank is a 51.71% (2011 – 53.02%) subsidiary of AIC (Barbados) Limited. The ultimate parent company is Portland Holdings Inc., incorporated in Canada. Portland Holdings Inc. is controlled by Hon. Michael A. Lee-Chin, OJ.

The Bank’s registered office is located at 32 Trafalgar Road, Kingston 10, Jamaica.

The Bank is listed on the Jamaica Stock Exchange and the Trinidad and Tobago Stock Exchange.

The Bank’s subsidiaries and other consolidated entities, which together with the Bank are referred to as “the Group”, are as follows:

	Principal Activities	Percentage Ownership by The Group	
		2012	2011
Data-Cap Processing Limited	Security Services	100	100
Mutual Security Insurance Brokers Limited	Insurance Brokerage Services	100	100
NCB Capital Markets Limited	Securities Dealer and Stock Brokerage Services	100	100
NCB Capital Markets (Cayman) Limited *	Securities Dealer	100	100
NCB (Cayman) Limited	Commercial Banking	100	100
NCB Remittance Services (Cayman) Limited	Money Remittance Services	100	100
NCB Capital Markets (Cayman) Limited *	Securities Dealer	100	100
NCB Insurance Company Limited	Life Insurance, Investment and Pension Fund Management Services	100	100
N.C.B. (Investments) Limited	Dormant	100	100
N.C.B. Jamaica (Nominees) Limited	Registrar Services	100	100
NCB Remittance Services (Jamaica) Limited	Money Remittance Services	100	100
NCB Remittance Services (UK) Limited	Money Remittance Services	100	100
West Indies Trust Company Limited	Trust and Estate Management Services	100	100
NCB Employee Share Scheme	Dormant	100	100

\* In June 2012, NCB Capital Markets Limited acquired the entire share capital of NCB Capital Markets (Cayman) Limited from NCB (Cayman) Limited.

All subsidiaries are incorporated in Jamaica with the exception of NCB (Cayman) Limited, NCB Remittance Services (Cayman) Limited and NCB Capital Markets (Cayman) Limited, which are incorporated in the Cayman Islands, and NCB Remittance Services (UK) Limited, which is incorporated in the United Kingdom.

During the year, NCB Capital Markets Limited signed agreements with AIC (Barbados) Limited and ACF Holdings Insurco Limited, the legal and beneficial owners of 96.24% of the issued share capital of Advantage General Insurance Company Limited (AGI), for the purchase of their shareholdings in AGI. Both AIC (Barbados) Limited and ACF Holdings Insurco Limited are controlled by the Chairman of the Bank. The completion of the transaction is contingent on obtaining regulatory approval from the Financial Services Commission (FSC) and non-objection from the Bank of Jamaica (BoJ).

Subsequent to the year end, conditional regulatory approval was obtained from the FSC. However, the Bank is still in dialogue with the BoJ in respect of their non-objection.

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 1. Identification and Principal Activities (Continued)

The Group's associates are as follows:

	Principal Activities	Percentage ownership by The Group	
		2012	2011
Dyoll Group Limited	In Liquidation	44.47	44.47
Jamaica Money Market Brokers Limited	Securities Dealer and Stock Brokerage Services	26.30	29.30
Kingston Properties Limited	Ownership of real estate properties	25.17	25.17
Kingston Wharves Limited	Wharf Operations and Stevedoring	32.59	43.45

All associates are incorporated in Jamaica.

During the year, Jamaica Money Market Brokers Limited (JMMB) acquired the entire share capital of Capital & Credit Financial Group Limited (CCFG) for a consideration of cash and the issuing of new shares to the former shareholders of CCFG. The shares issued to the former shareholders of CCFG resulted in a dilution of the share of the Group's ownership in JMMB from 29.30% to 26.30%.

On March 29, 2012, Kingston Wharves Limited issued additional shares to another shareholder, thereby diluting the Group's interest from 43.45% to 32.59%.

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies

#### (a) Basis of preparation

The financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale investment securities, investment securities at fair value through profit or loss, derivative contracts and investment property.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions or estimates are significant to the financial statements, are disclosed in Note 3.

#### ***Standards, interpretations and amendments effective during the current year***

Certain new standards, interpretations and amendments to existing standards have been published that became effective during the current financial year. The Group has assessed the relevance of all such new standards, interpretations and amendments and has adopted the following which are immediately relevant to its operations:

- **IAS 24 (Revised), 'Related party disclosures'**. The revised standard clarifies and simplifies the definition of a related party and provides certain exemptions for government-related entities. The revised standard did not have a significant impact on the related party disclosures.
- **IFRS 7 (Amendment), 'Financial instruments: Disclosures'**. This amendment clarifies the disclosure requirement by emphasizing the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. Amendments were also made to quantitative and credit risk disclosures. The adoption of this amendment resulted in changes in the presentation of credit risk disclosures.
- **IFRIC 14 (Amendments) 'Prepayments of a minimum funding requirement'**. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments did not have an impact on the financial statements.

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (a) Basis of preparation (continued)

##### ***Standards, interpretations and amendments issued but not yet effective***

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which were not effective at the date of the statement of financial position, and which the Group has not early adopted. The Group 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:

- **IAS 1 (Amendments), 'Financial statement presentation'** (effective for annual periods beginning on or after July 1, 2012). The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The Group will apply the amendments from October 1, 2012.
- **IAS 12 (Amendment), 'Income taxes'** (effective for annual periods beginning on or after July 1, 2013). IAS 12, 'Income taxes', currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC-21, 'Income taxes – recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC-21, which is withdrawn. The Group will apply the amendment from October 1, 2013 but it is not expected to have a significant impact on the financial statements.
- **IAS 19 (Amendment), 'Employee Benefits'** (effective for annual periods beginning on or after January 1, 2013). These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. The significant changes affecting the Group are that actuarial gains and losses are renamed 'remeasurements' and will be recognized immediately in other comprehensive income. Actuarial gains and losses will no longer be deferred using the corridor approach or recognized in profit or loss. Remeasurements recognized in other comprehensive income will not be recycled through profit or loss in subsequent periods. The annual income or expense for funded benefit plans will include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability. This will replace the finance charge and expected return on plan assets. Additional disclosures are required to present the characteristics of benefit plans, the amounts recognized in the financial statements and the risks arising from defined benefit plans and multi-employer plans. The Group is currently assessing the impact on the financial statements and will apply the amendments from October 1, 2013.

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (a) Basis of preparation (continued)

##### *Standards, interpretations and amendments issued but not yet effective (continued)*

- **IAS 27, (Revised) 'Separate financial statements'** (effective for annual periods beginning on or after January 1, 2013). This standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The Group will apply the standard from October 1, 2013 but it will not result in changes to the Bank's separate financial statements.
- **IAS 28, (Revised) 'Associates and joint ventures'** (effective for annual periods beginning on or after January 1, 2013). This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The Group will apply the standard from October 1, 2013 but it is not expected to result in changes to the Group's financial statements.
- **IAS 32, (Amendment) 'Financial instruments: Presentation'** (effective for annual periods beginning on or after January 1, 2014). This amendment updates the application guidance in IAS 32, 'Financial instruments: Presentation', to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The Group will apply the amendment from October 1, 2014 but it is not expected to have a significant impact on the Group's financial statements.
- **IFRS 7, (Amendment) 'Financial instruments: Disclosures'** (effective for annual periods beginning on or after January 1, 2013). This amendment reflects the joint IASB and FASB requirements to enhance current offsetting disclosures. These new disclosures are intended to facilitate comparison between those entities that prepare IFRS financial statements and those that prepare US GAAP financial statements. The Group will apply the amendment from October 1, 2013 but it is not expected to have a significant impact on the Group's financial statements.
- **IFRS 9, 'Financial instruments'** (effective for annual periods beginning on or after January 1, 2015). This standard on classification and measurement of financial assets and financial liabilities will replace IAS 39, 'Financial instruments: Recognition and measurement'. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. For liabilities, the standard retains most of the IAS 39 requirements. These include amortized-cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is still assessing the potential impact of IFRS 9 and whether it should adopt the standard prior to the effective date to take advantage of the transitional arrangements which vary depending on the date of initial adoption.

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (a) Basis of preparation (continued)

##### *Standards, interpretations and amendments issued but not yet effective (continued)*

- **IFRS 10, 'Consolidated financial statements'** (effective for annual periods beginning on or after January 1, 2013). This standard replaces IAS 27, Consolidated and Separate Financial Statements and SIC-12, Consolidation-Special Purpose Entities. This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. The Group will apply the standard from October 1, 2013 but it is not expected to have any impact on the Group's financial statements as there would be no change in the entities that are consolidated under the new standard.
- **IFRS 11, 'Joint arrangements'** (effective for annual periods beginning on or after January 1, 2013). This standard replaces IAS 31, Interests in Joint Ventures and SIC-13, Jointly Controlled Entities-Non-Monetary Contributions by Venturers. This standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group will apply the standard from October 1, 2013. The Group currently has no joint arrangements that fall within the recognition criteria of this standard.
- **IFRS 12, 'Disclosure of interests in other entities'** (effective for annual periods beginning on or after January 1, 2013). This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance-sheet vehicles. The Group will apply the standard from October 1, 2013 and it will result in expanded disclosure in the financial statements.
- **IFRS 13, 'Fair value measurement'** (effective for annual periods beginning on or after January 1, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS or US GAAP. The Group will apply the standard from October 1, 2013 and it will result in expanded disclosure in the financial statements.

The Group has concluded that all other standards, interpretations and amendments to existing standards, which are published but not yet effective are either relevant to its operations but will have no material impact on adoption; or are not relevant to its operations and will therefore have no impact on adoption; or contain inconsequential clarifications that will have no material impact when they come into effect. This includes amendments resulting from the IASB's ongoing Improvements project.



# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (b) Basis of consolidation

##### ***Subsidiaries***

Subsidiaries are those entities in which the Group has power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls an entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

Intercompany transactions, balances and unrealized gains and losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

##### ***Associates***

Associates are all entities over which the Group does not have control but has a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investments in associates include goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognized in the consolidated income statement, and its share of post-acquisition movements in reserves is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (c) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses and whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment. Operating segments are reported in a manner consistent with the internal reporting to the chief operating decision maker. The chief operating decision maker is the Group Managing Director.

#### (d) Foreign currency translation

##### *Functional and presentation currency*

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

##### *Transactions and balances*

Foreign currency transactions are accounted for at the exchange rates prevailing at the dates of the transactions. At the date of the statement of financial position, monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rate.

Exchange differences resulting from the settlement of transactions at rates different from those at the dates of the transactions, and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities are recognized in the income statement.

Exchange differences on non-monetary financial assets are a component of the change in their fair value. Depending on the classification of a non-monetary financial asset, exchange differences are either recognized in the income statement (applicable for trading securities), or within other comprehensive income if non-monetary financial assets are classified as available-for-sale. In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available-for-sale, a distinction is made between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognized in the income statement, and other changes in the carrying amount, except impairment, are recognized in other comprehensive income.

##### *Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognized in other comprehensive income and accumulated as a separate component of equity.

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (e) Revenue recognition

##### ***Interest income and expense***

Interest income and expense are recognized in the income statement 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 discount on treasury bills and other discounted instruments.

The effective interest method is a method of calculating the amortized 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 Group 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.

The Group accounts for interest income on loans in accordance with Jamaican banking regulations. These regulations stipulate that, where collection of interest is considered doubtful or where the loan is in non-performing status (payment of principal or interest is outstanding for 90 days or more), interest should be taken into account on the cash basis and all previously accrued but uncollected interest be reversed in the period that collection is doubtful or the loan becomes non-performing. IFRS require that when loans are impaired, they are written down to their recoverable amounts and interest income is thereafter recognized by applying the original effective interest rate to the recoverable amount. The difference between the regulatory and IFRS bases of interest recognition was assessed to be immaterial.

##### ***Fee and commission income (other than those arising from insurance contracts)***

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

##### ***Insurance and annuity premium income and fees***

The portfolio of insurance contracts consists primarily of single premium contracts and bancassurance contracts (premiums inclusive of investment placements). For these insurance contracts, premium income is accounted for as received. For other insurance contracts which require premiums to be paid monthly or other frequency to remain in force, premium income is recognized on an accrual basis up to a maximum of 60 days outstanding. Thereafter, any premium receivable is written-off and the insurance contract lapses.

Gross premiums for bancassurance contracts (premiums inclusive of investment placements) are credited initially directly to Life Assurance Fund in policyholders' liabilities. The amounts required to settle the cost of insurance and fees associated with the policies are transferred from the Life Assurance Fund to the income statement as premiums and fees, respectively.

Annuity contracts are single premium contracts and premium income is accounted for as received. The premium income must be collected prior to the contract being in force.

When premiums are recognized, the related actuarial liabilities are computed, resulting in benefits and expenses being matched with revenue.

##### ***Dividend income***

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

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (f) Income taxes

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

Current income 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 Group's liability for current tax is calculated at tax rates that have been enacted at the date of the statement of financial position.

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 and substantially enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is charged or credited in the income statement, except where it relates to items charged or credited to other comprehensive income, in which case, deferred tax is also dealt with in other comprehensive income.

#### (g) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including cash and balances at Bank of Jamaica (excluding statutory reserves), due from other banks, investment securities and due to other banks.

#### (h) Derivative financial instruments

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

Derivative instruments are initially recognized at fair value on the date a derivative contract is entered into, and subsequently are re-measured at their fair value at the date of each statement of financial position. Fair values are obtained from quoted market prices and discounted cash flow 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.

Gains and losses from changes in the fair value of derivatives are included in the income statement.

#### (i) Repurchase and reverse repurchase transactions

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

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (j) Loans and advances and provisions for credit losses

Loans and advances are recognized when cash is advanced to borrowers. They are initially recorded at fair value and subsequently measured at amortized cost using the effective interest rate method.

#### *Provision for credit losses determined under the requirements of IFRS*

The Group continuously monitors loans or groups of loans for indicators of impairment. In the event that indicators are present, the loans or groups of loans are tested for impairment. A provision for credit losses is established if there is objective evidence of impairment. A loan or group of loans is 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 loan (a 'loss event') and that loss event has reduced the estimated future cash flows of the loan and the amount of the reduction can be reliably estimated. The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- (i) significant financial difficulty of the obligor;
- (ii) default or delinquency in interest or principal payments;
- (iii) having to grant the borrower a concession that would not otherwise be considered due to the borrower's financial difficulty;
- (iv) the probability that the borrower will enter bankruptcy or other financial reorganization; or
- (v) observable data indicating that there is a measurable decrease in the estimated future cash flows from the loan portfolio since the initial recognition of the loans, although the decrease cannot yet be identified with the individual loan in the portfolio, including:
  - a) adverse changes in the payment status of borrowers in the portfolio; and
  - b) national or local economic conditions that correlate with defaults on the loan portfolio.

The Group first assesses whether objective evidence of impairment exists individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the carrying amount of the loan and the present value of estimated future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loan. For accounting purposes, the carrying amount of the loan is reduced through the use of a provision for credit losses account and the amount of the loss is recognized in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Group's grading process that considers loan type, industry, collateral type and past-due status). Those characteristics are relevant to the estimation of future cash flows for groups of such loans by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the loans being evaluated.

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

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## 2. Significant Accounting Policies (Continued)

### (j) Loans and advances and provisions for credit losses (continued)

#### *Provision for credit losses determined under the requirements of IFRS (continued)*

Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the loans in the group. Losses over the preceding 12 months are used as a baseline to determine historical loss experience for loans with credit risk characteristics similar to those in the group. This historical loss experience is then adjusted, if necessary, to reflect broader economic trends over the most recent 24-month period with a 36-month look back period used on the highest risk portfolios. Finally, applicable adjustments are made on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of loans should reflect and be directionally consistent with changes in related observable data and our assessment of changes in the economy from period to period (for example, changes in unemployment levels, property and motor vehicle prices, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is deemed uncollectible, it is written off against the related provision for credit losses. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the provision for credit losses. The amount of the reversal is recognized in the income statement.

#### *Provision for credit losses determined under the Bank of Jamaica regulatory requirements*

The effect of the provision for credit losses determined under the Bank of Jamaica regulatory requirements is to reserve capital. No amounts are booked to the income statement in respect of regulatory provisions. Provisions calculated based on regulatory requirements that exceed the amounts required under IFRS are transferred from retained earnings to a non-distributable loan loss reserve in stockholders' equity.

The provision for credit losses determined under the Bank of Jamaica regulatory requirements comprises a "specific provision", a "special provision" and a "general provision". The specific and special provisions are determined based on each specific loan for which problems have been identified. The general provision is considered to be prudential in nature and is established to absorb portfolio losses.

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (j) Loans and advances and provisions for credit losses (continued)

##### *Provision for credit losses determined under the Bank of Jamaica regulatory requirements (continued)*

The specific provision is established for the estimated net loss for all non-performing loans and performing loans that meet specified criteria. Loans are considered to be non-performing where a principal or interest payment is contractually 90 days or more in arrears. At the time of classification as non-performing, any interest that is contractually due but in arrears is reversed from the income statement and interest is thereafter recognized in the income statement on the cash basis only. The estimated net loss is defined as the net exposure remaining after deducting the estimated net realizable value of the collateral (as defined by and determined by the regulations) from the outstanding principal balance of the loan. The regulations quantify the specific provision at ranges from 20% to 100% of the estimated net loss of each non-performing loan depending on the length of time the loan has been in arrears. In addition, where a non-performing loan is fully secured but the collateral is unrealized for a period of 12 months, a provision of 50% of the amounts outstanding should be made. Where the collateral is unrealized for a further 6 months (with limited exceptions which allow for up to a further 15 months) a full provision is made. The regulations further require that the specific provision for each loan should not be less than 1% of the amounts outstanding.

In respect of loans that are considered sub-standard for reasons other than being non-performing, a special provision is established for the greater of 1% of the amounts outstanding or 20% of the estimated net loss.

A general provision is established for all loans (other than loans for which specific and special provisions were established) at 1% of the amounts outstanding.

#### (k) Investment securities

Investment securities are classified into the following categories: investment securities at fair value through profit or loss, available-for-sale securities and loans and receivables. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Investment securities at fair value through profit or loss are those which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit-taking exists. They are initially recognized at fair value and transaction costs are expensed in the income statement. They are subsequently carried at fair value. Interest income on investment securities at fair value through profit or loss is recognized in interest income. All other realized and unrealized gains and losses are included in gain on foreign currency and investment activities.

Available-for-sale securities are those intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates or market prices. They are initially recognized at fair value (including transaction costs), and subsequently remeasured at fair value. Unrealized gains and losses arising from changes in fair value of available-for-sale securities are recognized in other comprehensive income. When the securities are disposed of or impaired, the related accumulated unrealized gains or losses included in other comprehensive income are transferred to the income statement.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than; (i) those financial assets that the Group intends to sell immediately or in the short term, which shall be classified as held for trading, and (ii) those financial assets that the entity upon initial recognition, designates as at fair value through profit or loss or that it has designated as available-for-sale.

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

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## 2. Significant Accounting Policies (Continued)

### (k) Investment securities (continued)

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Financial assets are assessed at each date of the statement of financial position for objective evidence of impairment. A financial asset is considered impaired if its carrying amount exceeds its estimated recoverable amount. The amount of the impairment loss for assets carried at amortized cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the original effective interest rate. The recoverable amount of a financial asset carried at fair value is the present value of expected future cash flows discounted at the current market interest rate for a similar financial asset.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value below cost is considered an indicator of impairment. Significant or prolonged are assessed based on market conditions and other indicators. 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 losses previously recognized in the income statement, is removed from other comprehensive income and recognized in the income statement. Impairment losses recognized on the equity instruments are not reversed through the income statement.

All purchases and sales of investment securities are recognized at settlement date.

Investment securities are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Group tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

### (l) Investment property

Investment property is held for long-term rental yields and is, therefore, treated as a long-term investment. The property is not occupied by the Group.

Investment property is measured initially at cost, including transaction costs, and is subsequently carried at fair value, representing open market value determined annually by the directors or by independent valuers. Changes in fair values are recorded in the income statement.



# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

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## 2. Significant Accounting Policies (Continued)

### (m) Intangible assets

#### *Computer software*

Costs that are directly associated with acquiring and developing identifiable and unique software products are recognized as intangible assets. These costs are amortized using the straight-line method over their useful lives, not exceeding a period of five years. Costs associated with maintaining computer software programs are recognized as an expense as incurred.

### (n) Property, plant and equipment

Land and buildings are shown at deemed cost less impairment losses, and less subsequent depreciation for buildings. All other property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to other operating expenses during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated on the straight-line basis at annual rates that will write off the carrying value of each asset over the period of its expected useful life. Annual depreciation rates or period over which depreciation is charged are as follows:

Freehold buildings	2%
Leasehold improvements	Period of lease
Computer equipment	20 - 33 1/3%
Office equipment and furniture	20%
Other equipment	5 - 7%
Motor vehicles	20 - 25%
Leased assets	Shorter of period of lease or useful life of asset

The assets' useful lives are reviewed, and adjusted if appropriate, at each date of the statement of financial position. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains or losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating income in the income statement.

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

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## 2. Significant Accounting Policies (Continued)

### (o) Financial liabilities

The Group's financial liabilities comprise primarily amounts due to other banks, customer deposits, repurchase agreements, obligations under securitization arrangements, other borrowed funds and policyholders' liabilities.

The recognition and measurement of policyholders' liabilities is detailed in Note 2(r); other financial liabilities are measured at amortized cost.

### (p) Borrowings

Borrowings, including those arising under securitization arrangements, are recognized initially at fair value, being their issue proceeds, net of transaction costs incurred. Subsequently, borrowings are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective yield method.

### (q) Leases

#### *As lessee*

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased asset or the present value of minimum lease payments. Each lease payment is allocated between the liability and interest charges so as to produce a constant rate of charge on the lease obligation. The interest element of the lease payments is charged in the income statement over the lease period.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases are charged in the income statement on a straight-line basis over the period of the lease.

#### *As lessor*

When assets are leased out under a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease in a manner which reflects a constant periodic rate of return on the net investment in the lease.

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (r) Insurance and investment contracts – classification, recognition and measurement

The Group issues contracts that transfer insurance risk or financial risk or both, primarily through bancassurance arrangements. Bancassurance is commonly referred to as “the sale of insurance and other similar products through a bank, usually through established distribution channels (such as bank branches)”. The insurance subsidiary uses the branch network of the Bank to house its insurance agents. In Jamaica, only insurance agents are allowed to sell insurance contracts.

##### **Classification**

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline the Group defines significant insurance risk as the possibility of having to pay benefits on occurrence of insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

##### **Recognition and measurement**

###### *Insurance contracts*

These contracts insure human life events (for example death or permanent disability) over a long duration. The accounting treatment differs according to whether the contract bears investment options or not. Under contracts that do not bear investment options, premiums are recognized as income when they become payable by the contract holder and benefits are recorded as an expense, net of reinsurance, when they are incurred.

Under contracts that bear an investment option, insurance premiums received are initially recognized directly as liabilities. These liabilities are increased by credited interest and are decreased by policy administration fees, mortality and surrender charges and any withdrawals; the resulting liability is called the Life Assurance Fund. Income consists of fees deducted for mortality, policy administration and surrenders. Interest credited to the account balances and benefit claims in excess of the account balances incurred in the period are recorded as expenses in the income statement.

Insurance contract liabilities are determined by an independent actuary using the Policy Premium Method of valuation as discussed in Note 4. These liabilities are, on valuation, adjusted through the income statement to reflect the valuation determined under the Policy Premium Method.

The Group enters into contracts with reinsurers under which it is compensated for losses on contracts it issues and which meet the classification requirements for insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts held are recognized as reinsurance assets.

###### *Investment contracts*

Under these contracts, insurance premiums are recognized directly as liabilities. These liabilities are increased by credited interest and are decreased by policy administration fees, mortality and surrenders. These liabilities are called the contract holders' account balances. Income consists of fees deducted for mortality, policy administration and surrenders. Interest credited to the account balances and benefit claims in excess of the account balances incurred in the period are recorded as expenses in the income statement.

Benefits and claims payable represent the gross cost of all claims notified but not settled on the date of the statement of financial position. Any reinsurance recoverable is shown as a receivable from the reinsurer.

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (s) Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

#### (t) Post-employment benefits

##### *Pension benefits*

The Bank and its subsidiaries operate a number of retirement plans, the assets of which are generally held in separate trustee administered funds. The pension plans are funded by payments from employees and by the relevant companies, taking into account the recommendations of independent qualified actuaries. The Group has both defined benefit and defined contribution plans.

##### *Defined benefit pension plans*

A defined benefit pension plan is a plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the date of the statement of financial position less the fair value of plan assets, together with adjustments for unrecognized actuarial gains and losses and past service cost. The defined benefit obligation is calculated annually by independent actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds 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.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to the income statement over the employees' expected average remaining working lives. Past-service costs are recognized immediately in administrative expenses, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period), in this case, the past-service costs are amortized on a straight-line basis over the vesting period.

##### *Defined contribution pension plans*

A defined contribution pension plan is a plan under which the Group pays fixed contributions into a separate fund. The Group has no legal or constructive obligations to pay further contributions. The Group pays contributions to privately administered pension insurance plans on a contractual basis. The Group has no further payment obligations once the contributions have been paid. The contributions are charged to the income statement in the period to which they relate.

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

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## 2. Significant Accounting Policies (Continued)

### (t) Post-employment benefits (continued)

#### ***Other post-employment benefit obligations***

Group companies provide post-employment health care benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation, are charged or credited to income over the expected remaining working lives of the related employees. These obligations are valued annually by independent qualified actuaries.

### (u) Acceptances, guarantees, indemnities, letters of credit and undertakings

Acceptances, guarantees, indemnities and letters of credit and undertakings are various forms of contractual commitments to advance funds to or on behalf of customers and include:

- (i) Obligations on the part of the Group to make payments (directly or indirectly) to a designated third party contingent upon a default by the Group's customer in the performance of an obligation under the terms of that customer's contract with the third party; and
- (ii) Obligations to guarantee or stand as surety for the benefit of a third party.

Where the Bank's obligations under acceptances, guarantees, indemnities and letters of credit and undertakings are not considered to be contingent, the amounts are reported as a liability in the statement of financial position. There are equal and offsetting claims against customers in the event of a call on these commitments, which are reported as an asset.

Where the Bank's obligations are considered to be contingent, the amounts are disclosed in Note 43.

### (v) Share capital

#### ***Share issue costs***

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, for the proceeds.

#### ***Dividends on ordinary shares***

Dividends on ordinary shares are recognized in equity in the period in which they are declared.

#### ***Treasury shares***

Where the Employee Share Scheme purchases the Bank's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of taxes) is deducted from equity attributable to the Bank's stockholders until the shares are cancelled, reissued or disposed of. Where the shares are subsequently sold or reissued, any consideration received, net of directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Bank's stockholders.

### (w) Fiduciary activities

The Group acts as trustee and in other fiduciary capacities that result in holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other third parties. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

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### 3. Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group's financial statements and its financial result are influenced by accounting policies, assumptions, estimates and management judgment, which necessarily have to be made in the course of preparation of the financial statements.

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard.

Estimates and judgments are continuously evaluated and are based on past experience and other factors, including expectations with regard to future events. Accounting policies and management's judgments for certain items are especially critical for the Group's results and financial position due to their materiality.

#### ***Income taxes***

There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for actual and anticipated tax audit issues based on estimates of whether additional taxes will be due. In determining these estimates, management considers the merit of any audit issues raised, based on their interpretation of the taxation laws, and their knowledge of any precedents established by the taxation authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences could materially impact the current tax and deferred tax provisions in the period in which such determination is made.

#### ***Impairment losses on loans and advances***

The Group reviews its loan portfolio to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments 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.

#### ***Estimates of future benefit payments and premiums from long term insurance contracts***

The determination of the liabilities under long-term insurance contracts represents the liability for future benefits payable by the Group based on contracts for the life assurance business in force at the date of the statement of financial position using the Policy Premium Method. These liabilities represent the amount which, together with future premiums and investment returns will, in the opinion of the actuary, be sufficient to pay future benefits relating to contracts of insurance in force, as well as meet the expenses incurred in connection with such contracts. The Policy Premium Method of valuation is based on assumptions of mortality, persistency, investment income, renewal expenses and other assumptions considered appropriate to be included in the basis for the determination of the liabilities of the Group under the terms of its policy contracts in force. A margin for risk or uncertainty (adverse deviations) in these assumptions is added to the liability. The assumptions are examined each year in order to determine their validity in light of current best estimates or to reflect emerging trends in the Group's experience.

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

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

#### *Future obligations for post-employment benefits*

The cost of these benefits and the present value of the future obligations depend on a number of factors that are determined by actuaries using a number of assumptions. The assumptions used in determining the net periodic cost or income for retirement benefits include the expected long-term rate of return on the relevant plan assets, the discount rate and, in the case of health benefits, the expected rate of increase in health costs. Any changes in these assumptions will impact the net periodic cost or income recorded for retirement benefits and may affect planned funding of the pension plan. The expected return on plan assets assumption is determined on a uniform basis, considering long-term historical returns, asset allocation and future estimates of long-term investment returns. The Group 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 retirement benefit obligations. In determining the appropriate discount rate, the Group considered interest rate of government bonds that are denominated in the currency in which the benefits will be paid, and have terms to maturity approximating the terms of the related obligations. The expected rate of increase of health costs has been determined by comparing the historical relationship of the actual health cost increases with the rate of inflation. Other key assumptions for the retirement benefits are based on current market conditions.

#### *Intangible assets arising on acquisition of associates*

The fair market value of the intangible assets arising from the Group's acquisition of associates was determined by an independent valuation consultant.

The intangibles acquired have been deemed to be finite life intangibles. Their estimated useful lives have been determined by management, based on their best estimate of the time period over which the Group will benefit from the assets acquired. Management has estimated that the useful life of the intangibles will be between 6 and 20 years

### 4. Responsibilities of the Appointed Actuary and External Auditors

The Board of Directors of the insurance subsidiary pursuant to the Insurance Act appoints the Actuary. His responsibility is to carry out an annual valuation of the Group's policyholders' liabilities in accordance with accepted actuarial practice and regulatory requirements and report thereon to the policyholders and shareholders. In performing the valuation using the Policy Premium Method, the Actuary makes assumptions as to the future rates of interest, asset defaults, mortality, morbidity, claims experience, policy termination, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Group and the insurance policies in force.

The shareholders pursuant to the Companies Act appoint the external auditors. Their responsibility is to conduct an independent and objective audit of the financial statements in accordance with International Standards on Auditing and report thereon to the shareholders. In carrying out their audit, the auditors also make use of the work of the Appointed Actuary and his report on the policyholders' liabilities.

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

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## 5. Segment Reporting

The Group is organized into the following business segments:

- (a) Retail & SME – This incorporates the provision of banking services to individual and small and medium business clients and money remittance.
- (b) Payment services – This incorporates the provision of card related services
- (c) Corporate banking – This incorporates the provision of banking services to large corporate clients.
- (d) Treasury & correspondent banking – This incorporates the Bank's liquidity and investment management function, management of correspondent bank relationships, and relationships with other financial institutions as well as foreign currency dealing activities.
- (e) Wealth management – This incorporates stock brokerage, securities trading, investment management and other financial services provided by overseas subsidiaries.
- (f) Insurance & pension fund management – This incorporates life insurance, pension and investment management services.
- (g) The Group's insurance brokerage services, trustee services and registrar and transfer agent services are classified as Other for segment reporting.

The Group's operations are located mainly in Jamaica. The operations of subsidiaries located overseas account for less than 10% of the Group's external operating revenue, assets and capital expenditures.

### ***Unallocated assets and liabilities***

Unallocated assets and liabilities comprise current income tax payable and recoverable, deferred income tax assets and liabilities and assets and liabilities of support units of the Bank that are not allocated to the banking segments.

### ***Direct allocated costs and unallocated corporate expenses***

Costs incurred by the support units of the Bank are allocated to the business segments based on certain criteria determined by management. These criteria include staff complement, square footage and time spent providing the service to the business segment. The expenses that are allocated are mainly staff costs, depreciation and amortization and other operating expenses and are treated as direct allocated costs.

Costs allocated to the banking segments are reported directly by those segments to the Group Managing Director and Board of Directors. Costs allocated to the non-banking segments are not included in the individual internal reports presented by those segments and are treated as unallocated corporate expenses.

### ***Eliminations***

Eliminations comprise inter-company and inter-segment transactions.



# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 5. Segment Reporting (Continued)

Year ended September 30, 2012	Consumer and SME		Corporate Banking	Treasury & Correspondent Banking	Wealth Management	Life Insurance & Pension Fund Management	Other	Eliminations	Total
	Retail & SME \$'000	Payment Services \$'000							
External revenue	11,987,814	5,655,151	3,687,430	8,337,897	8,895,950	5,778,306	82,682	-	44,425,230
Revenue from other segments	2,996,958	-	-	1,120,417	600,790	62,099	177,513	(4,957,777)	-
<b>Total revenue</b>	<b>14,984,772</b>	<b>5,655,151</b>	<b>3,687,430</b>	<b>9,458,314</b>	<b>9,496,740</b>	<b>5,840,405</b>	<b>260,195</b>	<b>(4,957,777)</b>	<b>44,425,230</b>
Interest income	11,589,823	2,095,535	3,176,482	7,556,345	7,744,270	2,729,571	36,176	(4,453,218)	30,474,984
Interest expense	(1,547,225)	(572,384)	(1,262,756)	(4,807,544)	(3,939,225)	(1,050,982)	(1,292)	4,453,218	(8,728,190)
<b>Net interest income</b>	<b>10,042,598</b>	<b>1,523,151</b>	<b>1,913,726</b>	<b>2,748,801</b>	<b>3,805,045</b>	<b>1,678,589</b>	<b>34,884</b>	<b>-</b>	<b>21,746,794</b>
Net fee and commission income	3,047,156	2,340,043	479,667	180,073	193,108	859,062	88,947	(198,436)	6,989,620
Gain on foreign currency and investment activities	128,592	8,429	21,859	1,545,365	1,480,682	498,119	(28,662)	28,440	3,682,824
Premium income	-	-	-	-	-	1,716,630	-	(29,548)	1,687,082
Other operating income	64,238	5,332	3,885	172,133	74,351	37,023	48,083	(202,126)	202,919
<b>Total operating income</b>	<b>13,282,584</b>	<b>3,876,955</b>	<b>2,419,137</b>	<b>4,646,372</b>	<b>5,553,186</b>	<b>4,789,423</b>	<b>143,252</b>	<b>(401,670)</b>	<b>34,309,239</b>
Staff costs	4,300,763	186,200	198,686	141,115	511,613	517,097	95,731	(29,138)	5,922,067
Provision for credit losses	692,582	418,647	1,352,698	-	-	-	-	-	2,463,927
Depreciation and amortisation	138,854	65,318	5,314	86,096	5,193	35,648	1,036	-	337,459
Impairment losses on securities	-	-	-	-	467,778	-	-	-	467,778
Other operating expenses	2,259,018	740,233	390,844	535,312	600,637	1,852,349	22,734	(248,161)	6,152,966
<b>Total operating expenses</b>	<b>7,391,217</b>	<b>1,410,398</b>	<b>1,947,542</b>	<b>762,523</b>	<b>1,585,221</b>	<b>2,405,094</b>	<b>119,501</b>	<b>(277,299)</b>	<b>15,344,197</b>
<b>Operating profit before allocated costs</b>	<b>5,891,367</b>	<b>2,466,557</b>	<b>471,595</b>	<b>3,883,849</b>	<b>3,967,965</b>	<b>2,384,329</b>	<b>23,751</b>	<b>(124,371)</b>	<b>18,965,042</b>
Allocated costs	(4,320,718)	(567,410)	(376,865)	(272,816)	-	-	-	-	(5,537,809)
<b>Operating profit c/fwd</b>	<b>1,570,649</b>	<b>1,899,147</b>	<b>94,730</b>	<b>3,611,033</b>	<b>3,967,965</b>	<b>2,384,329</b>	<b>23,751</b>	<b>(124,371)</b>	<b>13,427,233</b>

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 5. Segment Reporting (Continued)

Year ended September 30, 2012	Consumer and SME		Corporate Banking \$'000	Treasury & Correspondent Banking \$'000	Wealth Management \$'000	Insurance & Pension Fund Management \$'000	Other \$'000	Eliminations \$'000	Total \$'000
	Retail & SME \$'000	Payment Services \$'000							
<b>Operating profit b/fwd</b>	1,570,649	1,899,147	94,730	3,611,033	3,967,965	2,384,329	23,751	(124,371)	13,427,233
Unallocated corporate expenses									(1,159,775)
Share of profit of associates									947,141
Dilution of share in associates									(11,948)
<b>Profit before Taxation</b>									13,202,651
Taxation									(3,156,789)
<b>Net Profit</b>									10,045,862
<b>Segment assets</b>	142,309,200	9,435,429	43,741,933	123,726,523	108,561,208	33,847,570	967,581	(94,188,657)	368,400,787
Associates									7,149,680
Unallocated assets									3,885,052
<b>Total assets</b>									379,435,519
<b>Segment liabilities</b>	126,705,217	7,186,881	35,068,827	111,824,614	92,832,713	25,401,036	185,430	(88,041,519)	311,163,199
Unallocated liabilities									1,928,999
<b>Total liabilities</b>									313,092,198
<b>Capital expenditure</b>	1,426,882	191,078	42,025	114,040	82,754	87,642	18,007	-	1,962,428

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

**September 30, 2012**

(expressed in Jamaican dollars unless otherwise indicated)

## 5. Segment Reporting (Continued)

Year ended September 30, 2012	Total per segment report \$'000	Allocated expenses \$'000	Unallocated corporate expenses \$'000	Total per income statement \$'000
<b>Reconciliation to income statement</b>				
Interest income	30,474,984	833	151	30,475,968
Interest expense	8,728,190	20,098	(56,410)	8,691,878
Net fee and commission income	6,989,621	119,143	4,918	7,113,682
Gain on foreign currency and investment activities	3,682,824	41,073	7,595	3,731,492
Other operating income and dividend income	202,919	23,259	4,425	230,603
Staff costs	5,922,067	3,272,756	561,093	9,755,916
Provision for credit losses	2,463,927	(942)	(174)	2,462,811
Depreciation and amortisation	337,459	405,251	69,802	812,512
Other operating expenses	6,152,966	2,024,956	602,552	8,780,474

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 5. Segment Reporting (Continued)

Year ended September 30, 2011 - Restated	Consumer and SME		Corporate Banking \$'000	Treasury & Correspondent Banking \$'000	Wealth Management \$'000	Insurance & Pension Fund Management \$'000	Other \$'000	Eliminations \$'000	Total \$'000
	Retail & SME	Payment Services							
	\$'000	\$'000							
External revenue	10,117,736	5,011,285	4,012,144	9,421,741	9,376,081	6,778,668	74,049	-	44,791,704
Revenue from other segments	3,594,300	2,848	8,651	1,075,116	323,217	56,253	220,511	(5,280,896)	-
<b>Total revenue</b>	<b>13,712,036</b>	<b>5,014,133</b>	<b>4,020,795</b>	<b>10,496,857</b>	<b>9,699,298</b>	<b>6,834,921</b>	<b>294,560</b>	<b>(5,280,896)</b>	<b>44,791,704</b>
Interest income	10,715,657	1,772,325	3,509,423	8,282,077	8,009,898	2,756,725	36,781	(4,892,208)	30,190,678
Interest expense	(1,768,519)	(476,113)	(1,296,408)	(5,249,945)	(3,993,074)	(1,121,144)	(604)	4,892,208	(9,013,599)
<b>Net interest income</b>	<b>8,947,138</b>	<b>1,296,212</b>	<b>2,213,015</b>	<b>3,032,132</b>	<b>4,016,824</b>	<b>1,635,581</b>	<b>36,177</b>	<b>-</b>	<b>21,177,079</b>
Net fee and commission income	2,655,566	2,133,133	480,164	159,588	134,771	745,077	69,160	(80,203)	6,297,256
Gain on foreign currency and investment activities	126,418	7,508	28,139	2,017,800	1,485,117	328,025	52,219	(12,680)	4,032,546
Premium income	-	-	-	-	-	2,953,427	-	(31,508)	2,921,919
Other operating income	68,491	4,814	2,887	35,439	56,517	6,120	34,523	(116,826)	91,965
<b>Total operating income</b>	<b>11,797,613</b>	<b>3,441,667</b>	<b>2,724,205</b>	<b>5,244,959</b>	<b>5,693,229</b>	<b>5,668,230</b>	<b>192,079</b>	<b>(241,217)</b>	<b>34,520,765</b>
Staff costs	4,064,538	236,244	228,425	128,335	427,843	435,115	89,839	(26,617)	5,583,722
Provision for credit losses	385,011	442,908	(65,121)	-	-	-	-	-	762,798
Depreciation and amortisation	136,337	58,995	5,462	5,289	9,073	50,325	600	-	266,081
Impairment losses on securities	-	-	-	264,013	-	-	-	(2,010)	262,003
Other operating expenses	1,998,356	540,002	157,733	245,483	583,213	2,790,416	22,908	(159,971)	6,178,140
<b>Total operating expenses</b>	<b>6,584,242</b>	<b>1,278,149</b>	<b>326,499</b>	<b>643,120</b>	<b>1,020,129</b>	<b>3,275,856</b>	<b>113,347</b>	<b>(188,598)</b>	<b>13,052,744</b>
<b>Operating profit before allocated costs</b>	<b>5,213,371</b>	<b>2,163,518</b>	<b>2,397,706</b>	<b>4,601,839</b>	<b>4,673,100</b>	<b>2,392,374</b>	<b>78,732</b>	<b>(52,619)</b>	<b>21,468,021</b>
Allocated costs	(3,836,857)	(497,289)	(300,611)	(245,045)	-	-	-	-	(4,879,802)
<b>Operating profit c/fwd</b>	<b>1,376,514</b>	<b>1,666,229</b>	<b>2,097,095</b>	<b>4,356,794</b>	<b>4,673,100</b>	<b>2,392,374</b>	<b>78,732</b>	<b>(52,619)</b>	<b>16,588,219</b>

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 5. Segment Reporting (Continued)

Year ended September 30, 2011 - Restated	Consumer and SME		Corporate Banking \$'000	Treasury & Correspondent Banking \$'000	Wealth Management \$'000	Insurance & Pension Fund Management \$'000	Other \$'000	Eliminations \$'000	Total \$'000
	Retail & SME \$'000	Payment Services \$'000							
	<b>Operating profit b/fwd</b>	1,376,514							
Unallocated corporate expenses									(1,100,481)
Gain on acquisition of associates									1,867,377
Share of profit of associate									234,979
<b>Profit before Taxation</b>									17,590,094
Taxation									(3,704,793)
<b>Net Profit</b>									13,885,301
<b>Segment assets</b>	132,354,077	7,094,874	40,148,636	125,621,853	102,831,645	31,904,023	1,109,722	(90,045,349)	351,019,481
Associate									6,698,130
Unallocated assets									1,900,502
<b>Total assets</b>									359,618,113
<b>Segment liabilities</b>	121,545,595	6,831,118	31,420,815	111,574,512	85,027,869	23,699,917	174,100	(85,033,350)	295,240,576
Unallocated liabilities									2,400,273
<b>Total liabilities</b>									297,640,849
<b>Capital expenditure</b>	807,294	93,814	23,585	196,183	49,152	63,256	127,144	-	1,360,428

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

**September 30, 2012**

(expressed in Jamaican dollars unless otherwise indicated)

## 5. Segment Reporting (Continued)

Year ended	Total per segment report	Allocated expenses	Unallocated corporate expenses	Total per income statement
September 30, 2011	\$'000	\$'000	\$'000	\$'000
<b>Reconciliation to income statement</b>				
Interest income	30,190,678	1,109	151	30,191,938
Interest expense	9,013,616	20,599	6,863	9,041,078
Net fee and commission income	6,425,854	(7,106)	698	6,419,446
Gain on foreign currency and investment activities	4,032,546	2,815	82	4,035,443
Other operating income and dividend income	92,645	44,190	7,693	144,528
Staff costs	5,583,722	3,010,637	645,757	9,240,116
Provision for credit losses	762,798	5,404	679	768,881
Depreciation and amortisation	266,081	269,434	44,617	580,132
Other operating expenses	6,178,141	1,743,997	411,188	8,333,326

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 6. Net Interest Income

	The Group		The Bank	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Interest income</b>				
Loans and advances	14,085,952	12,567,210	14,059,331	12,545,732
Investment securities –				
Available-for-sale	12,958,119	13,521,593	4,710,257	4,980,207
Loans and receivables	3,177,011	3,831,018	1,576,049	2,177,183
At fair value through profit or loss	90,445	60,810	-	-
Reverse repurchase agreements	41,626	174,755	35,629	39,437
Deposits and other	122,815	36,552	133,734	35,441
	<u>30,475,968</u>	<u>30,191,938</u>	<u>20,515,000</u>	<u>19,778,000</u>
<b>Interest expense</b>				
Customer deposits	2,344,514	2,473,797	2,316,220	2,454,856
Repurchase agreements	4,164,851	4,350,925	915,861	798,382
Policyholders' benefits	1,050,982	1,115,039	-	-
Securitization arrangements	486,697	633,249	486,697	633,249
Other borrowed funds and amounts due from other banks	641,338	424,285	540,229	398,456
Other	3,496	43,783	2,217	39,707
	<u>8,691,878</u>	<u>9,041,078</u>	<u>4,261,224</u>	<u>4,324,650</u>
<b>Net interest income</b>	<u>21,784,090</u>	<u>21,150,860</u>	<u>16,253,776</u>	<u>15,453,350</u>

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 7. Net Fee and Commission Income

	The Group		The Bank	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
<b>Fee and commission income</b>				
Retail and SME fees	2,951,506	2,523,657	3,048,197	2,677,095
Payment services fees	3,539,946	3,211,152	3,539,946	3,227,576
Corporate banking fees	481,260	478,707	481,260	478,707
Treasury and correspondent banking fees	181,338	159,304	181,338	159,304
Wealth management fees	193,108	135,976	-	-
Insurance and pension management fees	859,062	790,624	-	-
Other	93,865	198,456	4,918	697
	<u>8,300,085</u>	<u>7,497,876</u>	<u>7,255,659</u>	<u>6,543,379</u>
<b>Fee and commission expense</b>				
Payment services fees	1,186,403	1,078,430	1,186,403	1,078,430
	<u>7,113,682</u>	<u>6,419,446</u>	<u>6,069,256</u>	<u>5,464,949</u>

## 8. Gain on Foreign Currency and Investment Activities

	The Group		The Bank	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Net foreign exchange gains	997,489	1,117,355	917,978	1,091,542
Fixed income securities held for trading	52,843	488,048	-	-
Other fixed income securities	2,646,674	2,425,908	784,873	1,042,350
Equity securities held for trading	33,986	3,734	-	-
Other equity securities	-	398	-	-
Investment property (Note 24)	500	-	-	-
	<u>3,731,492</u>	<u>4,035,443</u>	<u>1,702,851</u>	<u>2,133,892</u>

Net foreign exchange gains include gains and losses arising from translation of assets and liabilities denominated in foreign currencies as well as those arising from foreign currency dealing activities.



# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 9. Dividend Income

	The Group		The Bank	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Subsidiaries	-	-	2,113,999	2,113,533
Associates	-	-	142,071	32,473
Other equity securities	119,634	11,830	34,378	6,742
	<u>119,634</u>	<u>11,830</u>	<u>2,290,448</u>	<u>2,152,748</u>

Dividend income from other equity securities represents dividends received on quoted and unquoted stocks held by the Bank and certain subsidiaries, all with a less than 20% ownership interest. These equity securities represent less than 1% of the total investment securities portfolio and include both securities held for trading and available-for sale.

### 10. Premium Income

	The Group	
	2012	2011
	\$'000	\$'000
Annuity contracts	933,047	2,601,618
Insurance contracts	754,035	320,301
	<u>1,687,082</u>	<u>2,921,919</u>

### 11. Staff Costs

	The Group		The Bank	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Wages, salaries, allowances and benefits	7,785,363	7,056,286	6,994,761	6,355,384
Payroll taxes	822,269	715,040	745,176	649,644
Pension costs – defined contribution plans	263,720	236,339	235,609	212,336
Other post-employment benefits (Note 34)	254,362	161,854	254,362	161,854
Staff profit share	630,202	1,070,597	377,653	883,583
	<u>9,755,916</u>	<u>9,240,116</u>	<u>8,607,561</u>	<u>8,262,801</u>

#### *Wages, salaries, allowances and benefits*

Included in wages, salaries, allowances and benefits are base salary for executives, senior managers, managers, clerical and non-clerical employees. Amounts are also included for annual incentive and merit awards based on performance, annual and non-annual lump-sum fringe benefits, redundancy and other termination payments, fringe benefits for executives and senior managers as well as those that have been agreed based on collective bargaining with the trade unions representing managers, clerical and non-clerical staff.

Employees are categorized as permanent pensionable, contract, part-time and temporary.

#### *Pension costs – defined contribution plan*

The Group contributes a fixed 5% of base salary for pensionable staff into a defined contribution plan and there is no legal or constructive obligation to make further contributions.

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 12. Impairment Losses on Securities

The Bank and certain subsidiaries have recognized impairment losses on investment securities as follows:

	The Group		The Bank	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Debt securities classified as available-for-sale and loans and receivables	467,778	-	-	-
Available-for-sale – equity securities	-	262,003	-	264,012
	<u>467,778</u>	<u>262,003</u>	<u>-</u>	<u>264,012</u>

## 13. Other Operating Expenses

	The Group		The Bank	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Auditors' remuneration	40,764	36,443	18,192	17,570
Credit card rebates	350,459	222,049	350,459	222,050
Insurance	368,079	346,988	355,547	334,895
Irrecoverable general consumption and asset tax	1,098,622	494,200	878,505	443,019
License and transaction processing fees	638,541	613,137	584,753	552,935
Marketing, advertising and donations	642,786	518,783	537,042	387,319
Operating lease rentals	113,960	101,590	101,540	88,526
Policyholders' and annuitants' benefits and reserves	1,476,324	2,500,039	-	-
Property, vehicle and ABM maintenance and utilities	1,761,519	1,574,369	1,701,125	1,509,118
Stationery	138,094	148,407	125,946	119,103
Technical, consultancy and professional fees	845,671	714,892	775,379	490,777
Travelling, courier and telecommunication	684,848	620,873	646,512	596,532
Other	620,807	441,556	452,580	298,895
	<u>8,780,474</u>	<u>8,333,326</u>	<u>6,527,580</u>	<u>5,060,739</u>

Insurance claims by policyholders of the insurance subsidiary of \$486,869,000 (2011 – \$408,815,000) are included as part of policyholders' and annuitants' benefits and reserves.

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 14. Taxation

	The Group		The Bank	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Current:				
Income tax at 33 $\frac{1}{3}$ %	2,495,915	2,128,251	1,060,667	1,164,029
Premium tax at 3%	86,762	99,190	-	-
Investment income tax at 15%	300,385	303,534	-	-
Prior year under/(over) provision	89,742	(5,728)	50,763	(4,978)
Deferred income tax (Note 27)	183,985	1,179,546	400,226	899,825
	<u>3,156,789</u>	<u>3,704,793</u>	<u>1,511,656</u>	<u>2,058,876</u>

The prior year under provision in the Group for the year ended September 30, 2012 includes \$38,962,000 being the revised tax liability in respect of the assessment for years of assessment 2003-2007 (Note 48). The revised assessment was communicated by the Notice of Decision from the Taxpayer Administration Jamaica (TAJ) dated October 16, 2012.

The tax on profit differs from the theoretical amount that would arise using the basic statutory rate of 33 $\frac{1}{3}$ % as follows:

	The Group		The Bank	
	2012	Restated 2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Profit before tax	<u>13,202,651</u>	<u>17,590,094</u>	<u>8,045,812</u>	<u>10,453,489</u>
Tax calculated at a tax rate of 33 $\frac{1}{3}$ %	4,400,884	5,863,365	2,681,937	3,484,496
Income not subject to tax or in respect of which tax has been remitted	(633,946)	(1,174,980)	(1,180,831)	(1,454,094)
Expenses not deductible for tax purposes	206,629	217,951	110,188	127,677
Effect of different tax regime applicable to life insurance subsidiary	(505,636)	(489,646)	-	-
Effect of gain on acquisition, share of profit and dilution losses of associates included net of tax	(311,731)	(700,786)	-	-
Prior year under/(over) provision	89,742	(5,728)	50,763	(4,978)
Other	(89,153)	(5,383)	(150,401)	(94,225)
Taxation expense	<u>3,156,789</u>	<u>3,704,793</u>	<u>1,511,656</u>	<u>2,058,876</u>

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 15. Earnings per Stock Unit

Basic earnings per stock unit is calculated by dividing the net profit attributable to stockholders by the weighted average number of ordinary stock units in issue during the year. Diluted earnings per stock unit equals basic earnings per stock unit as there are no potential dilutive ordinary stock units.

	<b>2012</b>	<b>Restated 2011</b>
Net profit attributable to stockholders (\$'000)	10,045,862	13,885,301
Weighted average number of ordinary stock units in issue ('000)	2,461,469	2,461,469
Basic and diluted earnings per stock unit (\$)	<u>4.08</u>	<u>5.64</u>

### 16. Cash in Hand and Balances at Bank of Jamaica

	<u>The Group</u>		<u>The Bank</u>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Cash in hand	2,648,795	2,256,794	2,645,378	2,256,794
Balances with the Bank of Jamaica other than statutory reserves	3,726,073	2,400,051	3,724,323	2,396,005
Included in cash and cash equivalents	6,374,868	4,656,845	6,369,701	4,652,799
Statutory reserves with the Bank of Jamaica – interest-bearing	6,110,134	5,081,865	6,110,134	5,081,865
Statutory reserves with the Bank of Jamaica – non-interest-bearing	<u>11,617,765</u>	<u>10,986,765</u>	<u>11,617,765</u>	<u>10,986,765</u>
	24,102,767	20,725,475	24,097,600	20,721,429
Interest receivable	45	16	45	16
	<u>24,102,812</u>	<u>20,725,491</u>	<u>24,097,645</u>	<u>20,721,445</u>

Statutory reserves with the Bank of Jamaica represent the required ratio of 12% (2011 – 12%) of prescribed liabilities. They are not available for investment, lending or other use by the Group.

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 17. Due from Other Banks

	The Group		The Bank	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Items in course of collection from other banks	897,967	1,208,651	891,597	866,020
Placements with other banks	14,026,055	23,601,277	13,546,773	23,463,102
	14,924,022	24,809,928	14,438,370	24,329,122
Interest receivable	3,047	2,647	236	729
	14,927,069	24,812,575	14,438,606	24,329,851

Placements with other banks include short term fixed deposits and other balances held with correspondent banks. These bank balances are held to facilitate the payment of wire transfers, bank drafts, treasury related activities and to satisfy liquidity requirements.

Placements with other banks for the Group and the Bank include \$1,114,800,000 (2011 - \$1,062,518,000) which have been pledged as collateral for letters of credit.

## 18. Derivative Financial Instruments

Derivatives are carried at fair value in the statement of financial position as separate assets and liabilities. Asset values represent the cost to the Group of replacing all transactions with a fair value in the Group's favour assuming that all relevant counterparties default at the same time, and that transactions can be replaced instantaneously. Liability values represent the cost to the Group's counterparties of replacing all their transactions with the Group with a fair value in their favour if the Group was to default.

The fair value of outstanding foreign exchange currency forward agreements at September 30, 2012 net to negative \$334,000 (US\$3,722) and are shown gross as assets and liabilities in the statement of financial position.

The notional amounts at September 30, 2012 amounted to US\$22,617,000.

There were no outstanding foreign exchange currency forward agreements at September 30, 2011.

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 19. Investment Securities at Fair Value through Profit or Loss

	<b>The Group</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
Government of Jamaica debt securities	111,373	540,783
Government of Jamaica guaranteed corporate bonds	110,060	140,430
	<u>221,433</u>	<u>681,213</u>
Corporate bonds - other	209,714	998,661
Quoted equity securities	282,472	90,880
	<u>713,619</u>	<u>1,770,754</u>
Interest receivable	6,787	14,598
	<u><u>720,406</u></u>	<u><u>1,785,352</u></u>

## 20. Reverse Repurchase Agreements

The Group and the Bank enter into collateralized reverse repurchase agreements which may result in credit exposure in the event that the counterparty to the transaction is unable to fulfill its contractual obligations. Included within reverse repurchase agreements is related accrued interest receivable of \$968,000 (2011 – \$17,491,000) and \$5,218,000 (2011 – \$5,251,000) for the Group and the Bank, respectively.

At September 30, 2012, the Group and the Bank held \$447,393,000 (2011 – \$1,792,330,000) and \$578,573,000 (2011 – \$1,021,077,000), respectively, of securities, mainly representing Government of Jamaica debt securities, as collateral for reverse repurchase agreements.

Included in reverse repurchase agreements for the Group and the Bank are securities with an original maturity of less than 90 days amounting to \$394,873,000 (2011 – \$400,000,000) and \$291,339,000 (2011 – \$726,397,000), respectively, which are regarded as cash equivalents for purposes of the statement of cash flows.

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 21. Loans and Advances

	The Group		The Bank	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Gross loans and advances	115,797,415	94,114,700	115,052,908	93,779,777
Provision for credit losses	(4,766,151)	(2,884,153)	(4,761,413)	(2,879,589)
	111,031,264	91,230,547	110,291,495	90,900,188
Interest receivable	873,590	497,591	872,634	498,711
	111,904,854	91,728,138	111,164,129	91,398,899

The current portion of loans and advances amounted to \$30,916,255,000 (2011 – \$30,165,035,000) for the Group and \$30,825,274,000 (2011 – \$30,016,711,000) for the Bank.

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

	The Group		The Bank	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Balance at beginning of year	2,884,153	2,994,252	2,879,589	2,989,693
Provided during the year	2,732,158	1,300,189	2,732,158	1,300,189
Recoveries	(269,347)	(531,308)	(269,347)	(531,308)
Net charge to the income statement	2,462,811	768,881	2,462,811	768,881
Write-offs	(580,813)	(878,980)	(580,987)	(878,985)
Balance at end of year	4,766,151	2,884,153	4,761,413	2,879,589

The aggregate amount of non-performing loans as at September 30, 2012 for the Group and the Bank on which interest was not being accrued amounted to \$8,271,530,000 (2011 – \$6,735,029,000).

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

	The Group		The Bank	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Specific provision	8,446,310	7,032,775	8,446,310	7,032,775
General provision	982,683	773,988	977,945	769,424
	9,428,993	7,806,763	9,424,255	7,802,199
Excess of regulatory provision over IFRS provision reflected in non-distributable loan loss reserve (Note 38)	4,662,842	4,922,610	4,662,842	4,922,610

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

### 22. Investment Securities classified as Available-for-sale and Loans and Receivables

	The Group		The Bank	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Available-for-sale securities – at fair value				
Debt securities –				
Government of Jamaica and Bank of Jamaica	148,418,357	139,072,782	61,585,090	54,550,211
Government of Jamaica guaranteed corporate bonds	9,264,768	5,971,634	623,858	-
	157,683,125	145,044,416	62,208,948	54,550,211
Other corporate bonds	5,563,909	8,845,819	2,109,938	2,003,480
Foreign governments	1,743,826	1,300,141	941,657	934,223
Equity securities –				
Quoted	1,709,475	492,257	550,978	504,751
Unquoted	77,777	47,498	18,255	18,255
	166,778,112	155,730,131	65,829,776	58,010,920
Loans and receivables – at amortized cost				
Debt securities –				
Government of Jamaica and Bank of Jamaica	22,622,776	27,211,397	11,838,160	16,341,099
Government of Jamaica guaranteed corporate bonds	12,398,193	13,925,247	5,834,887	6,153,841
	35,020,969	41,136,644	17,673,047	22,494,940
Other corporate bonds	5,065,335	3,314,408	1,654,741	2,127,181
	40,086,304	44,451,052	19,327,788	24,622,121
Interest receivable	3,068,735	2,781,592	1,209,770	1,119,135
	209,933,151	202,962,775	86,367,334	83,752,176

The current portion of total investment securities amounted to \$35,182,013,000 (2011 – \$34,196,523,000) for the Group and \$23,715,320,000 (2011 – \$21,335,203,000) for the Bank.

Included in investment securities are the following amounts which are regarded as cash equivalents for purposes of the statement of cash flows:

	The Group		The Bank	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Debt securities with an original maturity of less than 90 days	4,345,284	14,955,923	3,875,422	13,073,026



# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

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## 22. Investment Securities classified as Available-for-sale and Loans and Receivables (Continued)

### *Pledged securities*

	The Group		The Bank	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Pledged as collateral for repurchase agreements	124,863,210	99,381,712	38,614,440	17,214,244
Pledged as collateral for IDB/DBJ Loan (Note 31(b))	-	2,172,566	-	2,172,566
Pledged as collateral for customer long-term accounts (Note 31(f))	524,764	500,243	-	-
Pledged as collateral for custodial services	301,839	189,000	301,839	189,000
Pledged as collateral for uncleared effects facilities	-	36,333	-	-
Held as security in respect of the life insurance subsidiary	103,239	108,999	-	-
	<u>125,793,052</u>	<u>102,388,853</u>	<u>38,916,279</u>	<u>19,575,810</u>

The Financial Services Commission holds investment securities for the life insurance subsidiary in accordance with Section 8(1)(B) of the Insurance Regulations 2001.

### *Reclassification of investment securities*

On October 1, 2008, the Group reclassified Government of Jamaica Global Bonds and guaranteed corporate bonds from the available-for-sale category to the loans and receivables category due to the market for these investments becoming inactive in October 2008.

The market was determined to be active again on December 1, 2010. The Group opted to retain the classification of these securities as loans and receivables.

The fair value of the reclassified securities on the date of reclassification was \$56,885,363,000 and \$27,734,181,000 for the Group and the Bank, respectively.

The carrying value and fair value of these securities at the date of the statement of financial position were as follows:

	The Group		The Bank	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	\$'000	\$'000	\$'000	\$'000
At September 30, 2012	28,627,294	29,294,444	17,673,068	17,781,035
At September 30, 2011	<u>37,744,768</u>	<u>38,562,869</u>	<u>22,556,309</u>	<u>22,830,620</u>

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 22. Investment Securities classified as Available-for-sale and Loans and Receivables (Continued)

### *Reclassification of investment securities (continued)*

- (a) Fair value losses of \$1,224,134,000 (2011 – \$2,009,087,000) for the Group and \$522,830,000 (2011 – \$985,647,000) for the Bank were included in fair value reserves at the end of the year in relation to the above reclassified investments, using the fair values as at October 1, 2008.
- (b) Fair value gains of \$1,253,236,000 (2011 – \$1,452,179,000) for the Group and \$635,675,000 (2011 – \$907,180,000) for the Bank would have been recognized in other comprehensive income during the year had the investments not been reclassified. These amounts were estimated on the basis of the value of the securities as at the date of the statement of financial position.
- (c) The weighted average effective interest rate of the investments at the date of reclassification was 8.30%. The undiscounted cash flows to be recovered from the reclassified investments for the Group and the Bank are \$51,326,864,000 (2011 – \$61,071,979,000) and \$29,453,615,000 (2011 – \$37,788,625,000), respectively.
- (d) Interest income on the reclassified securities for the Group and the Bank amounted to \$2,889,615,000 (2011 – \$3,486,331,000) and \$1,576,049,000 (2011 – \$2,177,183,000), respectively.
- (e) Foreign exchange losses on the reclassified securities for the Group and the Bank amounted to \$1,532,309,000 (2011 – \$31,292,000) and \$989,894,000 (2011 – \$19,059,000), respectively.

Presented below are the estimated amounts of undiscounted cash flows the Group and the Bank expect to recover from the reclassified securities:

	<b>The Group</b>			
	<b>Less than</b>	<b>1 to 2</b>	<b>2 to 5</b>	<b>Over 5</b>
	<b>1 year</b>	<b>years</b>	<b>years</b>	<b>years</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Reclassified debt securities	9,618	235,748	8,160,021	42,921,477

	<b>The Bank</b>			
	<b>Less than</b>	<b>1 to 2</b>	<b>2 to 5</b>	<b>Over 5</b>
	<b>1 year</b>	<b>years</b>	<b>years</b>	<b>years</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Reclassified debt securities	-	-	3,292,403	26,161,212

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 23. Investment in Associates

The movement in investments in associates was as follows:

	The Group		The Bank	
	Restated		2012 \$'000	2011 \$'000
	2012 \$'000	2011 \$'000		
At the beginning of the year	6,698,130	2,320,723	471,534	471,534
Acquisitions	-	2,318,753	2,208,203	-
Gain on acquisitions	-	1,867,377	-	-
Share of profits	947,141	234,979	-	-
Loss on dilution	(11,948)	-	-	-
Dividends received	(146,762)	(41,948)	-	-
Movement in other reserves	(336,881)	(1,754)	-	-
At end of year	7,149,680	6,698,130	2,679,737	471,534

The carrying values and fair values of investment in associates were as follows:

	The Group			
	Carrying Value	Fair Value	Carrying Value	Fair Value
	Restated		2011 \$'000	2011 \$'000
Kingston Wharves Limited	2,559,994	2,363,081		
Jamaica Money Market Brokers Limited	4,456,250	3,172,967	4,061,034	4,030,507
Kingston Properties Limited	133,436	70,137	127,719	64,942
Dyoll Group Limited	-	-	-	-
	7,149,680	5,606,185	6,698,130	6,379,294

	The Bank			
	Carrying Value	Fair Value	Carrying Value	Fair Value
	Restated		2011 \$'000	2011 \$'000
Kingston Wharves Limited	471,534	1,829,292		
Jamaica Money Market Brokers Limited	2,208,203	3,172,967	-	-
Dyoll Group Limited	-	-	-	-
	2,679,737	5,002,259	471,534	1,645,281

The Group has used the financial statements of Kingston Wharves Limited, Jamaica Money Market Brokers Limited and Kingston Properties Limited as at June 30 for the purposes of consolidation. Adjustments are made for significant transactions or events, where identified, that occur between that date and September 30.

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 23. Investment in Associates (Continued)

The assets, liabilities, revenue and net profit of the associates as at and for the years ended, as indicated below, are as follows:

	Assets \$'000	Liabilities \$'000	Revenue \$'000	Net Profit \$'000
<b>2012</b>				
Kingston Wharves Limited (June 30, 2012)	16,016,261	4,526,535	3,355,609	329,501
Jamaica Money Market Brokers Limited (June 30, 2012)	154,145,097	139,721,043	11,270,863	3,330,635
Kingston Properties Limited (June 30, 2012)	854,765	324,649	76,935	16,162
Dyoll Group Limited (December 31, 2007)	172,259	43,021	-	-
	<u>171,188,382</u>	<u>144,615,248</u>	<u>14,703,407</u>	<u>3,676,298</u>
<b>2011</b>				
Kingston Wharves Limited (June 30, 2011)	12,152,057	4,068,402	3,321,601	540,981
Jamaica Money Market Brokers Limited (June 30, 2011)	120,291,565	109,260,117	10,856,283	1,916,712
Kingston Properties Limited (June 30, 2011)	691,876	184,474	54,616	16,826
Dyoll Group Limited (December 31, 2007)	172,259	43,021	-	-
	<u>133,307,757</u>	<u>113,556,014</u>	<u>14,232,500</u>	<u>2,474,519</u>

#### Acquisitions

In August 2011, NCB Capital Markets Limited, a wholly owned subsidiary of the Bank, acquired 29.30% of Jamaica Money Market Brokers Limited (JMMB). During the year, the Bank acquired the shares in JMMB from the subsidiary. The Group also holds 25.17% of the equity of Kingston Properties Limited. JMMB and Kingston Properties Limited are accounted for as associated companies.

The excess of the Group's share of the identifiable net assets of these associated companies over the cost of acquisition was accounted for in the income statement as gain on acquisition of associates.

The gain on acquisition of associates was determined as follows:

	<b>The Group</b>
	<b>Restated</b>
	<b>2011</b>
	<b>\$'000</b>
Share of identifiable net assets acquired	4,186,130
Cost of acquisitions	2,318,753
Gain on acquisitions recognized in the income statement	<u>1,867,377</u>

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

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## 23. Investment in Associates (Continued)

### *Dilution*

During the year, JMMB acquired the entire share capital of Capital & Credit Financial Group Limited (CCFG) for a consideration of cash and the issuing of new shares to the former shareholders of CCFG. The shares issued to the former shareholders of CCFG resulted in a dilution of the share of the Group's ownership in JMMB from 29.30% to 26.30%.

On March 29, 2012, Kingston Wharves Limited issued additional shares to another shareholder, thereby diluting the Group's interest from 43.45% to 32.59%.

### *Impairment*

In prior years, the investment in Dyoll Group Limited was fully provided for after Dyoll Insurance Company Limited, a major subsidiary of the Dyoll Group, suffered extensive losses as a result of claims made by policyholders after a major hurricane caused substantial damage to the Cayman Islands in September 2004. Trading in the company's shares on the Jamaica Stock Exchange (JSE) was suspended during the 2006/2007 financial year for failure to meet the financial reporting requirements of the JSE. The company was subsequently delisted by the JSE. The company is currently in liquidation.

## 24. Investment Property

	<b>The Group</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance at beginning of year	12,000	12,000
Fair value gains (Note 8)	500	-
Balance at end of year	<u>12,500</u>	<u>12,000</u>

The property is stated at fair market value, as appraised by professional, independent valuers, D.C. Tavares and Finson Realty Company Limited, on January 31, 2012.

Rental income net of repairs and maintenance expenditure in relation to investment properties amounted to Nil (2011 – Nil).

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

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## 25. Intangible Assets – Computer Software

	The Group		The Bank	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Net book value at beginning of year	897,862	359,980	840,319	259,524
Additions	546,801	688,160	529,239	684,446
Amortisation charge	(309,064)	(150,278)	(277,179)	(103,651)
Net book value at end of year	<u>1,135,599</u>	<u>897,862</u>	<u>1,092,379</u>	<u>840,319</u>
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Cost	3,538,122	2,990,899	3,203,156	2,673,916
Accumulated amortisation	<u>(2,402,523)</u>	<u>(2,093,037)</u>	<u>(2,110,777)</u>	<u>(1,833,597)</u>
Net book value	<u>1,135,599</u>	<u>897,862</u>	<u>1,092,379</u>	<u>840,319</u>

Intangible assets for the Group and the Bank at year end include software with a cost of \$512,874,000 (2011 - \$548,759,000) on which no amortisation has yet been charged as the software is in the process of implementation.

# National Commercial Bank Jamaica Limited

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## 26. Property, Plant and Equipment

	The Group					
	Freehold Land and Buildings	Leasehold Improvements	Motor Vehicles Furniture & Equipment	Assets Capitalized Under Finance Leases	Work-in- Progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost -						
At October 1, 2010	3,632,410	512,312	4,184,160	1,165,382	161,189	9,655,453
Additions	4,355	537	184,700	94,273	388,403	672,268
Disposals	(23,442)	(5,285)	(51,270)	(65,968)	(6,977)	(152,942)
Transfers	22,888	45,019	276,457	6,982	(351,346)	-
Reclassifications and adjustments	-	-	(6,838)	8,381	(1,561)	(18)
At September 30, 2011	3,636,211	552,583	4,587,209	1,209,050	189,708	10,174,761
Additions	12,182	14,644	570,547	115,932	702,322	1,415,627
Disposals	-	-	(13,215)	(52,984)	-	(66,199)
Transfers	89,450	1,651	47,139	4,395	(142,635)	-
At September 30, 2012	3,737,843	568,878	5,191,680	1,276,393	749,395	11,524,189
Accumulated Depreciation -						
At October 1, 2010	475,107	449,126	3,655,441	961,624	-	5,541,298
Charge for the year	50,659	13,714	269,841	95,640	-	429,854
Disposals	(7,653)	(5,285)	(49,008)	(57,311)	-	(119,257)
Reclassifications & adjustments	-	-	(369)	369	-	-
At September 30, 2011	518,113	457,555	3,875,905	1,000,322	-	5,851,895
Charge for the year	51,766	24,392	321,528	105,762	-	503,448
Disposals	-	-	(13,312)	(49,640)	-	(62,952)
At September 30, 2012	569,879	481,947	4,184,121	1,056,444	-	6,292,391
Net Book Value -						
September 30, 2012	3,167,964	86,931	1,007,559	219,949	749,395	5,231,798
September 30, 2011	3,118,098	95,028	711,304	208,728	189,708	4,322,866

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

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### 26. Property, Plant and Equipment (Continued)

	The Bank					
	Freehold Land and Buildings \$'000	Leasehold Improvements \$'000	Motor Vehicles Furniture & Equipment \$'000	Assets Capitalized Under Finance Leases \$'000	Work-in-Progress \$'000	Total \$'000
Cost -						
At October 1, 2010	3,632,410	429,969	4,077,318	1,167,515	158,060	9,465,272
Additions	4,355	402	181,004	91,940	385,610	663,311
Disposals	(23,442)	-	(33,960)	(65,968)	(6,977)	(130,347)
Transfers	22,888	45,019	276,457	6,982	(351,346)	-
Reclassifications and adjustments	-	-	(8,399)	8,381	-	(18)
At September 30, 2011	3,636,211	475,390	4,492,420	1,208,850	185,347	9,998,218
Additions	12,182	11,062	564,525	115,932	702,322	1,406,023
Disposals	-	-	(5,970)	(52,984)	-	(58,954)
Transfers	89,450	1,651	47,139	4,395	(142,635)	-
At September 30, 2012	3,737,843	488,103	5,098,114	1,276,193	745,034	11,345,287
Accumulated Depreciation -						
At October 1, 2010	475,107	388,513	3,554,566	961,620	-	5,379,806
Charge for the year	50,659	13,198	256,016	94,656	-	414,529
Disposals	(7,653)	-	(31,666)	(57,311)	-	(96,630)
Reclassifications and adjustments	-	-	(369)	369	-	-
At September 30, 2011	518,113	401,711	3,778,547	999,334	-	5,697,705
Charge for the year	51,766	23,567	311,616	104,924	-	491,873
Disposals	-	-	(5,950)	(49,640)	-	(55,590)
At September 30, 2012	569,879	425,278	4,084,213	1,054,618	-	6,133,988
Net Book Value -						
September 30, 2012	3,167,964	62,825	1,013,901	221,575	745,034	5,211,299
September 30, 2011	3,118,098	73,679	713,873	209,516	185,347	4,300,513

The carrying value of assets capitalized under finance leases and computer equipment pledged as collateral amounted to \$496,016,000 (2011 – \$436,327,000).



# National Commercial Bank Jamaica Limited

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### 27. Deferred Income Taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 15% for the insurance subsidiary, 33 $\frac{1}{3}$ % for the Bank and specified regulated entities and 25% for all other subsidiaries except for the subsidiaries incorporated in Cayman Islands and the United Kingdom who operate under a zero tax regime and 21%, respectively, and the NCB Employee Share Scheme which is not a taxable entity.

The net assets recognized in the statement of financial position were as follows:

	The Group		The Bank	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Deferred tax assets	(19,483)	(26,191)	-	-
Deferred tax liabilities	1,398,092	2,387,682	1,189,086	1,087,982
Net liability at end of year	1,378,609	2,361,491	1,189,086	1,087,982

The movement in the net deferred income tax balance was as follows:

	The Group		The Bank	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Net liability/(asset) at beginning of year	2,361,491	(15,462)	1,087,982	(91,028)
Deferred tax charged in the income statement (Note 14)	183,985	1,179,546	400,226	899,825
Deferred tax (credited)/charged to other comprehensive income	(1,166,867)	1,197,407	(299,122)	279,185
Net liability at end of year	1,378,609	2,361,491	1,189,086	1,087,982

The amounts shown in the statement of financial position included the following:

	The Group		The Bank	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Deferred tax assets to be recovered after more than 12 months	(872,659)	(367,434)	(720,644)	(354,653)
Deferred tax liabilities to be settled after more than 12 months	1,185,200	2,245,475	1,180,103	1,375,814

# National Commercial Bank Jamaica Limited

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September 30, 2012

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## 27. Deferred Income Taxes (Continued)

Deferred income tax assets and liabilities, prior to offsetting of balances, were due to the following items:

	The Group		The Bank	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
<b>Deferred income tax assets:</b>				
Property, plant and equipment	9,134	22,586	-	10,398
Investment securities at fair value through profit or loss	1,205	-	-	-
Investment securities classified as available-for-sale and loans and receivables	532,969	74,856	373,978	74,857
Pensions and other post-retirement benefits	270,598	194,164	270,598	194,164
Interest payable	229,186	199,186	-	-
Interest rate swap agreements	1,771	-	1,771	-
Unrealized foreign exchange losses	-	44,200	-	-
Other temporary differences	181,103	148,562	154,754	138,738
	<u>1,225,966</u>	<u>683,554</u>	<u>801,101</u>	<u>418,157</u>
<b>Deferred income tax liabilities:</b>				
Property, plant and equipment	41,757	81	41,030	-
Investment securities at fair value through profit or loss	11,796	225,700	-	-
Investment securities classified as available-for-sale and loans and receivables	100,052	867,485	-	-
Interest receivable	497,439	442,567	-	-
Unrealized foreign exchange gains	923,867	131,303	920,904	130,325
Loan loss provisions	1,026,595	1,375,814	1,026,595	1,375,814
Other temporary differences	3,069	2,095	1,658	-
	<u>2,604,575</u>	<u>3,045,045</u>	<u>1,990,187</u>	<u>1,506,139</u>

# National Commercial Bank Jamaica Limited

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## 27. Deferred Income Taxes (Continued)

The amounts recognized in the income statement were due to the following items:

	The Group		The Bank	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Property, plant and equipment	55,126	148,737	51,428	150,324
Investment securities at fair value through profit or loss	(255,045)	238,210	-	-
Loan loss provisions	(453,128)	1,244,834	(433,623)	1,244,834
Pensions and other post-retirement benefits	(23,681)	(45,540)	(76,434)	(45,540)
Interest receivable	(33,703)	34,742	-	-
Interest payable	33,052	21,173	-	-
Interest rate swap agreements	(825)	4,355	(112)	4,355
Unrealized foreign exchange gains and losses	877,448	(497,224)	874,985	(448,490)
Other temporary differences	(15,259)	30,259	(16,018)	(5,658)
	<u>183,985</u>	<u>1,179,546</u>	<u>400,226</u>	<u>899,825</u>

The amounts recognized in other comprehensive income were due to the following items:

	The Group		The Bank	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Unrealized gains on available-for-sale investments	(53,615)	2,149,493	22,856	787,978
Realized fair value gains on sale and maturity of investments	<u>(1,113,252)</u>	<u>(952,086)</u>	<u>(321,978)</u>	<u>(508,793)</u>
	<u>(1,166,867)</u>	<u>1,197,407</u>	<u>(299,122)</u>	<u>279,185</u>

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

### 28. Other Assets

	The Group		The Bank	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Due from merchants, financial institutions and payment systems providers	731,465	731,880	592,886	603,331
Prepayments	685,337	455,820	621,228	397,722
Recoverable expenses	759,058	203,447	759,058	203,447
Other	290,739	793,731	287,922	252,843
	<u>2,466,599</u>	<u>2,184,878</u>	<u>2,261,094</u>	<u>1,457,343</u>

Due from merchants, financial institutions and payment services providers are generally collected within one month.

Prepayments represent other operating expenses and staff allowances and benefits which are paid in advance.

### 29. Due to Other Banks

	The Group		The Bank	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Items in course of payment	1,708,311	1,844,568	1,707,365	1,844,568
Borrowings from other banks	7,520,874	4,329,308	9,910,381	4,329,308
Deposit from other banks	32,689	22,514	32,689	22,514
	<u>9,261,874</u>	<u>6,196,390</u>	<u>11,650,435</u>	<u>6,196,390</u>
Interest payable	63,023	19,434	66,390	19,434
	<u>9,324,897</u>	<u>6,215,824</u>	<u>11,716,825</u>	<u>6,215,824</u>

Items in the course of payment primarily represent cheques drawn by the Bank which have been accounted for as a deduction from its bank balances but which have not been presented on its bank accounts. These relate to accounts held at the Bank of Jamaica and with banks outside of Jamaica.

### 30. Obligations under Securitization Arrangements

	The Group and The Bank	
	2012	2011
	\$'000	\$'000
Credit card and cash advance		
Principal outstanding - US\$Nil (2011 – US\$110,599,000)	-	9,524,881
Diversified payment rights		
Principal outstanding - US\$28,966,000 (2011 – US\$55,862,000)	2,598,806	4,810,880
	<u>2,598,806</u>	<u>14,335,761</u>
Unamortized transaction fees	(11,045)	(40,308)
	<u>2,587,761</u>	<u>14,295,453</u>
Interest payable	5,440	82,666
Net liability	<u>2,593,201</u>	<u>14,378,119</u>

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

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### 30. Obligations under Securitization Arrangements (Continued)

The current portion of obligations under securitization arrangements amounted to \$1,521,410,000 (2011–\$7,521,685,000).

The fair value of obligations under securitization arrangements amounted to \$2,604,246,000 (2011–\$14,418,427,000).

#### ***Credit Card and Cash Advance***

In 2001, the Bank entered into an arrangement for the sale of Future Accounts Receivable amounting to US\$125,000,000 in respect of credit card and cash advance transactions in Jamaica between Visa International Service Association and Master Card International Incorporated and cardholders holding cards issued by banks outside of Jamaica (primarily in the U.S.A.). This took the form of variable funding certificates issued by Citibank N.A. through Citicorp administered commercial paper conduits. Payments under the arrangement were due quarterly commencing in October 2001 and ending October 2006.

In September 2004, the arrangement was amended to extend the scheduled final payment date from October 2006 to October 2009 and to increase the facility limit to US\$200,000,000.

In September 2006, the arrangement was further amended to extend the scheduled final payment date from October 2009 to October 2013. Additionally the facility limit was increased from US\$200,000,000 to US\$225,000,000. A final drawdown of US\$92,500,000 was made in September 2006.

On March 31, 2011, a Specified Event occurred as the Bank's Past Due Loan Ratio exceeded 6%. As a result of this, the Transaction was amended on June 29, 2011 to: (i) extend the scheduled final payment date from October 2013 to April 2013; (ii) adjust pricing to a tiered structure increasing from one month LIBOR plus 250 basis points in June 2011 to one month LIBOR plus 700 basis points in April 2013; and (iii) amend the amortization schedule.

On April 30, 2012, the Bank repaid all amounts outstanding under the arrangement and closed the facility.

#### ***Diversified Payment Rights***

In March 2006, the Bank raised US\$100,000,000 in structured financing backed by the securitization of Diversified Payment Rights arising under its existing and future US dollar Payment Advice and Payment Order (MT100 Series) and US dollar remittances. Interest is due and payable on a quarterly basis calculated at three month US dollar LIBOR plus 230 basis points beginning June 15, 2006. Principal repayments are due quarterly commencing on June 15, 2008 and ending March 15, 2013.

In July 2007, the Bank raised an additional US\$50,000,000 in financing backed by the securitization of its Diversified Payment Rights. The transaction was structured with an interest only period of one year and thereafter principal amortization on a straight line basis, beginning June 15, 2008 to final maturity on June 15, 2015. Interest is due and payable on a quarterly basis at a fixed rate of 7.435%.

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 31. Other Borrowed Funds

	The Group		The Bank	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
(a) International Finance Corporation	474,992	607,911	474,992	607,911
(b) Inter-American Development Bank	-	1,972,872	-	1,972,872
(c) Development Bank of Jamaica	1,114,172	733,379	1,114,172	733,379
(d) Exim Bank Jamaica	123,964	186,377	123,964	186,377
(e) European Investment Bank	109,777	166,477	109,777	166,477
(f) Customer long-term investments	510,893	471,390	-	-
(g) IBM Global Financing	94,660	128,558	94,660	128,558
(h) Corporate notes	947,462	939,207	-	-
(i) Promissory notes and certificates of participation	-	236,434	-	-
(j) Finance lease obligations	230,347	229,703	228,204	225,712
	3,606,267	5,672,308	2,145,769	4,021,286
Unamortized transaction fees	(4,532)	(7,774)	(4,532)	(7,774)
Interest payable	18,277	29,423	12,275	21,804
	3,620,012	5,693,957	2,153,512	4,035,316

The current portion of other borrowed funds amounted to \$1,059,311,000 (2011 – \$3,372,181,000) for the Group and \$704,476,000 (2011 – \$2,659,325,000) for the Bank.

- (a) In June 2005, the International Finance Corporation, the private sector arm of the World Bank Group, signed an agreement with the Bank for a US\$30 million loan facility, repayable over 10 years in seventeen equal installments ending June 15, 2015. Interest on the facility approximates three month US dollar LIBOR plus 275 basis points. A drawdown of US\$15 million was made in September 2006. This long-term financing facility is being utilized by the Bank for general corporate purposes.
- (b) In January 2009, the Inter-American Development Bank (IDB) through the Government of Jamaica established a revolving line of credit of US\$300 million under their Liquidity Programme for Growth and Sustainability. This facility is accessed through the Development Bank of Jamaica by Approved Financial intermediaries (AFIs) for on-lending to eligible sub-borrowers in the productive sector. Loans under this facility are priced at 6-month USD LIBOR plus 400bps (reset quarterly) with a maximum tenor of 36 months inclusive of a 2 year moratorium on principal repayments. At September 30, 2012 the Bank has US\$Nil (2011 – US\$22,908,000) outstanding under this facility.
- (c) The loans from Development Bank of Jamaica are granted in both Jamaican and US dollars and are utilized by the Bank to finance customers with viable projects in agricultural, agro-industrial, manufacturing, mining and tourism sectors of the economy. These loans are for terms up to 12 years and at rates ranging from 4 – 10%.
- (d) The loans from Exim Bank Jamaica are granted in Jamaican dollars and are utilized by the Bank to finance customers with viable projects in agricultural, agro-industrial, manufacturing, mining and tourism sectors of the economy. The loans are for terms up to 4 years and at rates of 8 – 13%.
- (e) The loans from European Investment Bank are granted in Euros and are utilized by the Bank for on lending. The loans are repayable over 8 – 10 years at a rate of 6.76%.

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 31. Other Borrowed Funds (Continued)

- (f) Customer long-term investments represent investments placed by customers for a minimum period of five (5) years. The investments are at variable interest rates and are not subject to withholding tax if held to maturity. They are repayable between 2011 and 2016 and attract interest at 0.05% - 5.8% (2011: 0.5% - 8.5%) per annum.
- (g) The Bank acquired computer equipment which is financed by IBM Global Financing. The loans are secured by a lien on the equipment and are repayable over 2 years at rates up to 3% per annum.
- (h) Corporate notes are unsecured fixed rate notes issued in a combination of Jamaican dollars and United States dollars. The notes are repayable between 2012 and 2016 and attract interest at 7.15% in USD and 8.5% in JMD.
- (i) Promissory notes and certificates of participation represented amounts held for customers of a subsidiary.
- (j) The finance lease obligations are as follows:

	The Group		The Bank	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Minimum lease payments under finance leases:				
Not later than 1 year	124,864	136,350	123,294	133,968
Later than 1 year and not later than 5 years	151,907	143,234	151,028	140,786
	276,771	279,584	274,322	274,754
Future finance charges	(46,424)	(49,881)	(46,118)	(49,042)
Present value of finance lease obligations	230,347	229,703	228,204	225,712

The present value of finance lease obligations is as follows:

	The Group		The Bank	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Not later than 1 year	97,120	105,474	95,964	103,626
Later than 1 year and not later than 5 years	133,227	124,229	132,240	122,086
	230,347	229,703	228,204	225,712

### 32. Liabilities under Insurance and Annuity Contracts

	The Group	
	2012	2011
	\$'000	\$'000
(a) Composition of liabilities under insurance and annuity contracts:		
Life assurance fund	22,602,863	21,990,358
Risk reserve	2,497,828	1,531,406
Benefits and claims payable	50,279	15,556
Unprocessed premiums	43,354	26,955
	25,194,324	23,564,275

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 32. Liabilities under Insurance and Annuity Contracts (Continued)

	The Group	
	2012 \$'000	2011 \$'000
(b) Change in policyholders' liabilities:		
Life assurance fund:		
At the beginning of the year	21,990,358	20,920,640
Gross premiums	2,977,622	3,097,175
Premium refunds	(3,028)	(28,410)
Mortality charges transferred to the income statement	(39,353)	(35,183)
Fees transferred to the income statement	(222,297)	(201,955)
Claims and benefits	(3,151,421)	(2,876,948)
Interest credited	1,050,982	1,115,039
At the end of the year	<u>22,602,863</u>	<u>21,990,358</u>
Risk reserve:		
At the beginning of the year	1,531,406	(559,818)
Issue of new contracts	541,482	1,910,965
Normal changes	392,044	196,152
Effect of change in assumptions:		
Base renewal expense levels	(106,193)	(205,807)
Investment returns	93,686	371,808
Lapse and surrender rates	79,496	7,371
Mortality rates	(34,093)	(189,265)
At the end of the year	<u>2,497,828</u>	<u>1,531,406</u>
Benefits and claims payable:		
At the beginning of the year	15,556	21,075
Policyholders' claims and benefits	95,520	63,895
Benefits and claims paid	(60,797)	(69,414)
At the end of the year	<u>50,279</u>	<u>15,556</u>
Premiums:		
Unprocessed, at the beginning of the year	26,955	23,727
Premiums received	4,654,899	6,074,947
Premiums applied	(4,638,500)	(6,071,719)
Unprocessed, at the end of the year	<u>43,354</u>	<u>26,955</u>



# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

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## 32. Liabilities under Insurance and Annuity Contracts (Continued)

The movement in the risk reserve per type of contract was as follows:

	2012			
	Annuity	Individual life	Group life	Total
	\$'000	\$'000	\$'000	\$'000
Balance brought forward	2,913,172	(1,579,013)	197,247	1,531,406
Changes in assumptions:				
Investment returns	(9,474)	103,196	(36)	93,686
Base renewal expense levels and inflation	813	(113,042)	6,036	(106,193)
Lapse and surrender rates	-	79,496	-	79,496
Mortality rates	54,064	(84,169)	(3,988)	(34,093)
	45,403	(14,519)	2,012	32,896
Issue of new policies	500,118	(146,633)	187,997	541,482
Normal changes	251,648	228,952	(88,556)	392,044
Net change	797,169	67,800	101,453	966,422
	3,710,341	(1,511,213)	298,700	2,497,828
	2011			
	Annuity	Individual life	Group life	Total
	\$'000	\$'000	\$'000	\$'000
Balance brought forward	771,896	(1,479,249)	147,535	(559,818)
Changes in assumptions:				
Investment returns	178,168	194,711	(1,071)	371,808
Base renewal expense levels and inflation	470	(204,790)	(1,487)	(205,807)
Lapse and surrender rates	-	6,871	500	7,371
Mortality rates	-	(178,253)	(11,012)	(189,265)
	178,638	(181,461)	(13,070)	(15,893)
Issue of new policies	1,891,809	(108,941)	128,097	1,910,965
Normal changes	70,829	190,638	(65,315)	196,152
Net change	2,141,276	(99,764)	49,712	2,091,224
	2,913,172	(1,579,013)	197,247	1,531,406

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

### 32. Liabilities under Insurance and Annuity Contracts (Continued)

The Group's insurance subsidiary holds assets that match insurance liabilities. These assets comprise mainly Investment securities, which are classified as available-for-sale and loans and receivables, and reverse repurchase agreements.

The assets supporting policyholders' and other liabilities were as follows:

	<b>2012</b>			<b>Total</b>
	<b>Annuity</b>	<b>Individual and</b>	<b>Other</b>	
	<b>Contracts</b>	<b>Group Life</b>	<b>Liabilities,</b>	
	<b>Contracts</b>	<b>Insurance</b>	<b>Surplus and</b>	
	<b>\$'000</b>	<b>Contracts</b>	<b>Capital</b>	<b>\$'000</b>
Investment securities	3,980,437	27,626,158	1,466,033	33,072,628
Reverse repurchase agreements	142,294	120,845	479	263,618
Other assets	231,457	547,042	241,590	1,020,089
Property, plant and equipment	-	-	10,633	10,633
Intangible asset – computer software	-	-	26,562	26,562
	<b>4,354,188</b>	<b>28,294,045</b>	<b>1,745,297</b>	<b>34,393,530</b>

	<b>2011</b>			<b>Total</b>
	<b>Annuity</b>	<b>Individual and</b>	<b>Other</b>	
	<b>Contracts</b>	<b>Group Life</b>	<b>Liabilities,</b>	
	<b>Contracts</b>	<b>Insurance</b>	<b>Surplus and</b>	
	<b>\$'000</b>	<b>Contracts</b>	<b>Capital</b>	<b>\$'000</b>
Investment securities	3,364,973	25,659,756	1,712,008	30,736,737
Reverse repurchase agreements	58,790	664,962	111,361	835,113
Other assets	124,798	791,222	(222,212)	693,808
Property, plant and equipment	-	-	10,424	10,424
Intangible asset – computer software	-	-	55,684	55,684
	<b>3,548,561</b>	<b>27,115,940</b>	<b>1,667,265</b>	<b>32,331,766</b>

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 32. Liabilities under Insurance and Annuity Contracts (Continued)

### *Policy assumptions*

For insurance contracts, the assumptions used to determine the liabilities are updated at each reporting date to reflect the latest best estimates. The assumptions used for valuing the insurance contracts disclosed in this note are as follows:

### *Mortality and morbidity*

Mortality estimates are made as to the expected number of deaths for each of the years in which the Group's insurance subsidiary is exposed to risk. These assumptions are based on North American standard industry mortality tables adjusted to reflect recent local historical experience. Assumptions vary by sex, underwriting class and type of insurance contract. The main source of uncertainty is that epidemics such as AIDS and wide ranging lifestyle changes, such as in eating, smoking and exercise habits could result in future mortality being significantly worse than in the past for age groups in which the company has significant exposure to mortality risk. Conversely, improvements in longevity in excess of those allowed for in determining the liabilities could result in a lessening of future liabilities.

Morbidity relates to the frequency of illness, sickness and diseases contracted. The rate of recovery from such afflictions is derived from industry experience studies, adjusted where appropriate from the Group's insurance subsidiary's own experience.

### *Investment yields*

The Group's insurance subsidiary matches assets and liabilities. The projected cash flows from these assets are combined with future reinvestment rates derived from the current economic outlook and the Group's insurance subsidiary's investment policy to determine expected rates of return on these assets for all future years. Investment yields include expected future asset defaults. For the current valuation these are:

	<b>Individual with Investment Options</b>	<b>Individual &amp; Group Life</b>	<b>Annuities</b>
Year 1	7.7%	9.5 – 10.0%	12.9%
Year 2 – 10	Decreasing to 6.8%	Decreasing to 7.6 – 9.4%	-
Year 11 – 32	Decreasing to 5.0%	Decreasing to 5.5 – 8.3%	-
Year 33 onwards	5.0%	5.5-6.0%	-
Year 30 onwards	-	-	7.5%

The main source of uncertainty is the fluctuation in the economy. Lower yields would result in higher reserves and reduced income.

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

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## 32. Liabilities under Insurance and Annuity Contracts (Continued)

### *Policy assumptions (continued)*

#### *Persistency*

Persistency assumptions are made in relation to the time since inception that a policy exists before it lapses or is surrendered. Lapses relate to termination of policies due to non-payment of premiums. Surrenders relate to voluntary termination of policies by the policyholders. Policy terminations are based on the Group's insurance subsidiary's own experience adjusted for expected future conditions. A statistical study of the past two years is performed in order to determine an appropriate persistency rate and best estimates of future rates are determined by examining any trends in the data. The main source of uncertainty derives from changes in policyholder behaviour as these relate to changes in economic conditions.

#### *Renewal expenses and inflation*

Policy maintenance expenses are derived from the Group's insurance subsidiary's own internal cost studies projected into the future with an allowance for inflation as shown below:

Year 1	6.2%
Year 2 – 10	Decreasing to 5.4%
Year 11 – 25	Decreasing to 4.0%
Year 25 onwards	4.0%

#### *Taxation*

It is assumed that current tax legislation and rates continue unaltered.

#### *Provisions for adverse deviations*

The basic assumptions made in establishing policy liabilities are best estimates for a range of possible outcomes. To recognise the uncertainty in establishing these best estimates, to allow for possible deterioration in experience and to provide greater comfort that the reserves are adequate to pay future benefits, the Appointed Actuary is required to include a margin in each assumption.

The impact of these margins is to increase reserves and so decrease the income that would be recognized on inception of the policy. The Appointed Actuary uses assumptions which are considered conservative, taking into account the risk profiles of the policies written.

#### *Sensitivity analysis*

The following table represents the sensitivity of the value of the policyholders' liabilities under insurance contracts disclosed in this note to certain movements in the valuation assumptions used.

	Change in Variable	Increase in Liability	
		2012	2011
	%	\$'000	\$'000
Lowering of investment returns	1	1,130,182	883,268
Worsening of base renewal expense levels	10	210,318	191,252
Worsening of mortality	10	102,763	105,661
Worsening of lapse and surrender rates	10	19,665	18,451

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

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## 33. Provision for Litigation

	<u>The Group and The Bank</u>	
	2012	2011
	\$'000	\$'000
At beginning of year	13,000	13,300
Provided during the year	9,977	-
Utilized/reversed during the year	(5,677)	(300)
At end of year	<u>17,300</u>	<u>13,000</u>

The litigation provision is in relation to claims against the Bank which meet the provisioning criteria defined in Note 48. The provisions are either utilised or reversed upon settlement or a favourable change in the status of the claim.

## 34. Post-employment Benefits

Liabilities recognized in the statement of financial position were as follows:

	<u>The Group and The Bank</u>	
	2012	2011
	\$'000	\$'000
Pension schemes	-	-
Other post-employment benefits	810,276	582,491
	<u>810,276</u>	<u>582,491</u>

The amounts recognized in the income statement were as follows:

	<u>The Group and The Bank</u>	
	2012	2011
	\$'000	\$'000
Pension schemes	-	-
Other post-employment benefits	254,362	161,854
	<u>254,362</u>	<u>161,854</u>

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 34. Post-employment Benefits (Continued)

### (a) Pension schemes

The Bank and its subsidiaries have established a number of pension schemes covering all permanent employees. The assets of funded plans are held independently of the Group's assets in separate trustee administered funds. Defined benefit plans are valued by independent actuaries annually using the projected unit credit method. The latest actuarial valuations were carried out as at June 30, 2012.

The amounts recognized in the statement of financial position were determined as follows:

	The Group		The Bank	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Fair value of plan assets	17,199,883	17,733,728	17,165,748	17,701,775
Present value of funded obligations	(13,625,242)	(12,347,082)	(13,591,107)	(12,315,129)
	3,574,641	5,386,646	3,574,641	5,386,646
Unrecognized actuarial losses	3,948,002	1,657,153	3,933,753	1,642,904
Surplus pension assets	7,522,643	7,043,799	7,508,394	7,029,550
Pension assets recognized in the statement of financial position	-	-	-	-

The funds were closed effective October 1, 1999 and December 31, 2009. On the winding up of the funds, the employer would not benefit from any surplus; as a consequence there is no pension asset recognized in the statement of financial position. No additional current service cost has been incurred since closure of the funds and the employer only makes a nominal contribution to the funds.

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 34. Post-employment Benefits (Continued)

### (a) Pension schemes (continued)

The movement in the defined benefit obligation was as follows:

	The Group		The Bank	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Beginning of year	12,347,082	9,803,363	12,315,129	9,780,228
Current service cost	-	-	-	-
Interest cost	1,256,226	1,085,326	1,256,226	1,085,326
Actuarial losses	724,078	2,143,606	721,896	2,134,788
Benefits paid	(702,144)	(685,213)	(702,144)	(685,213)
End of year	13,625,242	12,347,082	13,591,107	12,315,129

The movement in the fair value of plan assets was as follows:

	The Group		The Bank	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Beginning of year	17,733,728	16,309,872	17,701,775	16,279,564
Expected return on plan assets	1,735,070	1,593,696	1,735,070	1,593,696
Actuarial (losses)/gains	(1,566,771)	515,373	(1,568,953)	513,728
Contributions	-	-	-	-
Benefits paid	(702,144)	(685,213)	(702,144)	(685,213)
End of year	17,199,883	17,733,728	17,165,748	17,701,775

The amounts recognized in the income statement were as follows:

	The Group and The Bank	
	2012 \$'000	2011 \$'000
Current service cost	-	-
Interest cost	1,256,226	1,085,326
Expected return on plan assets	(1,735,070)	(1,593,696)
Net actuarial gains recognized	-	-
Change in limitation on asset	478,844	508,370
Total, included in staff costs	-	-

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 34. Post-employment Benefits (Continued)

### (a) Pension schemes (continued)

Plan assets for the Bank were comprised as follows:

	2012		2011	
	\$'000		\$'000	
Debt securities	8,575,002	49.95%	8,022,781	45.32%
Equity securities	4,861,072	28.32%	5,506,050	31.10%
Other	3,729,674	21.73%	4,172,944	23.58%
	<u>17,165,748</u>	<u>100.00%</u>	<u>17,701,775</u>	<u>100.00%</u>

These plan assets included:

- Ordinary stock units of the Bank with a fair value of \$1,499,143,000 (2011 – \$2,001,017,000).
- Repurchase obligations, promissory notes and lease obligations of the Group aggregating \$114,223,000 (2011 – \$330,482,000).
- Properties occupied by the Group with a fair value of \$482,350,000 (2011 - \$404,950,000).

The plan assets for the NCB Capital Markets Limited pension plan were invested in the Guardian Life Deposit Administration Fund.

The expected return on plan assets was determined by considering the expected return available on the assets underlying the current investment policy. Expected yields on fixed interest investments were based on gross redemption yields as at the date of the statement of financial position. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

The actual return on plan assets was 168,299,000 (2011 – \$2,109,069,000) and \$166,117,000 (2011 – \$2,107,424,000) for the Group and the Bank, respectively.

Expected contributions to post-employment defined benefit pension plans for the year ending September 30, 2013 are Nil.



# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

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### 34. Post-employment Benefits (Continued)

#### (a) Pension schemes (continued)

The principal actuarial assumptions used were as follows:

	The Group and The Bank	
	2012	2011
Discount rate	10.00%	10.50%
Expected return on plan assets	9.50%	10.00%
Future salary increases	7.50%	7.50%
Future pension increases	5.00%	5.00%

Post-employment mortality for active members and mortality for pensioners is based on the 1994 Group Annuity Mortality tables (GAM (94) (U.S. mortality tables) with no age setback.

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

	The Group and The Bank	
	2012	2011
Male	23.00	21.33
Female	25.89	25.09

The five-year trend for the fair value of plan assets, the defined benefit obligations, the surplus in the pension plan, and experience adjustments for plan assets and liabilities were as follows:

	Pension schemes – The Group				
	2012	2011	2010	2009	2008
	\$'000	\$'000	\$'000	\$'000	\$'000
Fair value of plan assets	17,199,883	17,733,728	16,309,872	14,285,671	14,885,186
Defined benefit obligation	13,625,242	12,347,082	9,803,363	5,876,062	6,666,214
Surplus	3,574,641	5,386,646	6,506,509	8,409,609	8,218,972
Experience adjustments –					
Fair value of plan assets	(1,568,953)	513,728	1,038,690	(1,391,528)	2,152,742
Defined benefit obligation	(506,588)	874,486	4,265	423,347	63,958

	Pension schemes – The Bank				
	2012	2011	2010	2009	2008
	\$'000	\$'000	\$'000	\$'000	\$'000
Fair value of plan assets	17,165,748	17,701,775	16,279,564	14,257,355	14,856,910
Defined benefit obligation	13,591,107	12,315,129	9,780,228	5,858,847	6,652,609
Surplus	3,574,641	5,386,646	6,499,336	8,398,508	8,204,301
Experience adjustments –					
Fair value of plan assets	(1,568,953)	513,728	1,038,020	(1,391,401)	2,153,025
Defined benefit obligation	(506,588)	874,486	3,674	420,751	63,797

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

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## 34. Post-employment Benefits (Continued)

### (b) Other post-employment benefits

In addition to pension benefits, the Group offers medical and life insurance benefits that contribute to the health care and life insurance coverage of employees and beneficiaries after retirement. The method of accounting and frequency of valuations are similar to those used for defined benefit pension schemes.

In addition to the assumptions used for pension schemes, the main actuarial assumption is a long-term increase in health costs of 1.5 percentage points above CPI per year (2011 – 1.5 percentage points above CPI).

The amounts recognized in the statement of financial position were determined as follows:

	<b>The Group and The Bank</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
Present value of unfunded obligations	1,481,329	1,463,255
Unrecognized actuarial losses	(671,053)	(880,764)
Liability in the statement of financial position	<u>810,276</u>	<u>582,491</u>

The movement in the defined benefit obligation was as follows:

	<b>The Group and The Bank</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
Beginning of the year	1,463,255	883,257
Current service cost	50,019	34,985
Interest cost	157,498	104,147
Actuarial losses	(162,866)	466,101
Benefits paid	(26,577)	(25,235)
End of year	<u>1,481,329</u>	<u>1,463,255</u>

The amounts recognized in the income statement were as follows:

	<b>The Group and The Bank</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
Current service cost	50,019	34,985
Interest cost	157,498	104,147
Actuarial losses recognized	46,845	22,722
Total, included in staff costs (Note 11)	<u>254,362</u>	<u>161,854</u>

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

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## 34. Post-employment Benefits (Continued)

### (b) Other post-employment benefits (continued)

The effects on other retirement benefits of a 1% movement in the assumed medical cost trend rate were as follows:

	Increase 2012 \$'000	Decrease 2012 \$'000
Effect on the aggregate of the current service cost and interest cost	55,120	41,270
Effect on the defined benefit obligation	329,220	253,910

The five-year trend for the fair value of plan assets, the defined benefit obligations, the surplus in the pension plan, and experience adjustments for plan assets and liabilities were as follows:

	Other retirement benefits – The Group and The Bank				
	2012 \$'000	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000
Defined benefit obligation	1,481,329	1,463,255	883,257	403,707	402,255
Experience adjustments – Defined benefit obligation	(71,425)	(100,017)	78,431	77,796	(51,997)

## 35. Other Liabilities

	The Group		The Bank	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Accrued staff benefits	957,116	1,851,223	844,162	1,666,793
Due to customers, merchants and clients	1,421,937	1,169,512	1,280,615	1,029,370
Accrued other operating expenses	1,923,583	1,104,097	1,390,716	994,775
Due to Government of Jamaica	29,737	38,891	24,938	27,060
Other	433,702	392,077	365,530	296,167
	4,766,075	4,555,800	3,905,961	4,014,165

## 36. Share Capital

	2012 \$'000	2011 \$'000
Authorised – 5,750,000,000 ordinary shares		
Issued and fully paid up –		
2,466,762,828 ordinary stock units of no par value	6,465,731	6,465,731
5,293,916 ordinary stock units held by NCB Employee Share Scheme	(3,388)	(3,388)
Issued and outstanding	6,462,343	6,462,343

The NCB Employee Share Scheme was established in 1986 to acquire certain shares of NCB Group Limited, the then holding company for the Group, for the beneficial interest of eligible employees of NCB Group Limited and its subsidiaries. The scheme holds 5.3 million units of the Bank's ordinary stock that have not been reissued to staff and are accounted for as treasury shares. The scheme, which is included in the consolidated financial statements, is currently dormant.

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

### 37. Fair Value and Capital Reserves

	The Group		The Bank	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Fair value reserve	(305,838)	2,449,795	(773,027)	(241,163)
Capital reserve	2,500,017	2,716,799	374,471	348,468
	<u>2,194,179</u>	<u>5,166,594</u>	<u>(398,556)</u>	<u>107,305</u>
Capital reserve comprises:				
Realized –				
Capital gains from the scheme of arrangement	-	-	300,564	300,564
Surplus on revaluation of property, plant and equipment	92,991	92,991	-	-
Retained earnings capitalized	98,167	98,167	-	-
Share redemption reserve	1,077,382	1,077,382	-	-
Unrealized –				
Translation reserve	557,189	463,093	-	-
Surplus on revaluation of property, plant and equipment	142,963	116,960	73,907	47,904
Share of movement in reserves of associate	76,541	413,422	-	-
Other	454,784	454,784	-	-
	<u>2,500,017</u>	<u>2,716,799</u>	<u>374,471</u>	<u>348,468</u>

### 38. 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 21).

### 39. Banking Reserve Fund

This fund is maintained in accordance with the Banking Act 1992 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 2012 financial year, the amount of the fund surpassed the paid-up capital of the Bank and therefore no further mandatory transfers are required.

### 40. Retained Earnings Reserve

The 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.

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 41. Cash Flows from Operating Activities

	Note	The Group		The Bank	
		2012 \$'000	Restated 2011 \$'000	2012 \$'000	2011 \$'000
Net profit		10,045,862	13,885,301	6,534,156	8,394,613
Adjustments to reconcile net profit to net cash flow provided by operating activities:					
Depreciation	26	503,448	429,854	491,873	414,529
Amortisation of intangible asset	25	309,064	150,278	277,179	103,651
Impairment losses on securities	12	467,778	262,003	-	264,012
Gain on acquisition of associate	23	-	(1,867,377)	-	-
Share of after tax profits of associate	23	(947,141)	(234,979)	-	-
Loss on dilution of associates	23	11,948	-	-	-
Provision for credit losses	21	2,462,811	768,881	2,462,811	768,881
Interest income	6	(30,475,968)	(30,191,938)	(20,515,000)	(19,778,000)
Interest expense	6	8,691,878	9,041,078	4,261,224	4,324,650
Income tax expense	14	3,156,789	3,704,793	1,511,656	2,058,876
Unrealized exchange (gains)/losses on securitization arrangements		(253,416)	91	(253,416)	91
Amortisation of upfront fees on securitization arrangements		29,507	40,484	29,507	40,484
Unrealized exchange gain on other borrowed funds		25,936	(3,770)	25,936	(3,770)
Amortization of upfront fees on other borrowed funds		3,480	4,377	3,480	4,377
Change in post-employment benefit obligation		227,785	136,618	227,785	136,618
Unrealized exchange gain on investments		(997,468)	(1,091,542)	(917,978)	(1,091,542)
(Gains)/losses on disposal of property, plant and equipment and intangible asset		(1,027)	5,753	(910)	5,753
Fair value gains on investment property		(500)	-	-	-
Fair value losses/(gains) on derivative financial instruments		334	(13,066)	334	(13,066)
Changes in operating assets and liabilities:					
Statutory reserves at Bank of Jamaica		(1,659,269)	(984,051)	(1,659,269)	(984,051)
Reverse repurchase agreements		1,267,528	(137,905)	(10,799)	429,812
Loans and advances		(22,263,528)	(7,057,769)	(21,854,118)	(7,080,444)
Customer deposits		7,117,387	11,598,141	4,766,430	12,300,284
Repurchase agreements		17,658,854	(1,661,136)	19,097,900	(7,851,343)
Liabilities under annuity and insurance contracts		1,630,049	3,158,651	-	-
Other		(159,745)	129,542	(955,103)	598,020
Interest received		29,886,141	31,154,275	20,050,938	20,764,235
Interest paid		(8,567,607)	(8,724,541)	(4,151,962)	(4,616,229)
Income tax paid		(2,459,004)	(2,062,590)	(883,424)	(900,863)
		5,666,044	6,554,155	2,005,074	(105,035)
Net cash provided by operating activities		15,711,906	20,439,456	8,539,230	8,289,578

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

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## 42. Related Party Transactions and Balances

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions. The volumes of related party transactions, outstanding balances at the year end and related expenses and income for the year are as follows:

	The Group							
	Parent and companies controlled by major shareholder		Associated companies of the group		Directors and key management personnel (and their families)		Companies controlled by directors and related by virtue of common directorship	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Loans and advances</b>								
Balance at September 30	7,197	4,661	-	-	103,452	106,465	32,244	28,290
Interest income earned	1,346	1,742	-	-	4,266	6,841	17,245	57,603
<b>Investment securities</b>								
Balance at September 30	181,856	180,640	-	-	-	-	-	-
Interest income earned	17,030	20,801	-	-	-	-	-	-
<b>Reverse repurchase agreements</b>								
Balance at September 30	1,828	-	-	799,268	-	-	-	-
Interest income earned	60,882	-	6,528	4,543	-	-	-	-
<b>Other assets</b>								
Balance at September 30	10,801	18,360	-	2,563	-	-	50,369	50,375
<b>Fees and commission income</b>	66,742	25,277	16,976	6,535	182	612	7,320	10,808
<b>Other operating income</b>	-	-	-	-	244	-	239,653	202,008

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 42. Related Party Transactions and Balances (Continued)

	The Group (Continued)							
	Parent and companies controlled by major shareholder		Associated companies of the group		Directors and key management personnel (and their families)		Companies controlled by directors and related by virtue of common directorship	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Customer deposits</b>								
Balance at September 30	331,612	427,747	1,116,145	2,016,832	646,749	353,803	806,267	1,552,675
Interest expense	1,062	1,969	5,188	-	821	1,178	13,322	24,396
<b>Repurchase agreements</b>								
Balance at September 30	73,719	45,957	2,931,342	781,441	575,336	106,846	-	-
Interest expense	-	1,802	21,341	666	-	21,533	-	-
<b>Other liabilities</b>								
Balance at September 30	22,171	12,220	5,173	32	45,139	37,227	-	-
<b>Operating expenses</b>	298,693	314,697	-	-	67,430	72,997	57,901	63,579

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

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## 42. Related Party Transactions and Balances (Continued)

	The Bank							
	Parent and companies controlled by major shareholder		Associated companies of the group		Directors and key management personnel (and their families)		Companies controlled by directors and related by virtue of common directorship	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Loans and advances</b>								
Balance at September 30	7,197	4,772	-	-	103,452	106,465	32,244	28,290
Interest income earned	1,346	2,647	-	-	4,266	6,841	17,245	57,603
<b>Reverse repurchase agreements</b>								
Balance at September 30	560,501	584,760	-	400,000	-	-	-	-
Interest income earned	32,960	57,512	6,528	2,932	-	-	-	-
<b>Other assets</b>								
Balance at September 30	44,270	50,742	-	543	-	-	-	-
<b>Fees and commission income</b>	94,297	3,961	16,976	9,492	63	305	7,320	10,808
<b>Dividend income</b>	2,113,999	2,113,534	142,071	32,473	-	-	-	-
<b>Other operating income</b>	5,194	12,063	-	-	-	-	-	-



# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

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## 42. Related Party Transactions and Balances (Continued)

	The Bank (Continued)							
	Parent and companies controlled by major shareholder		Associated companies of the group		Directors and key management personnel (and their families)		Companies controlled by directors and related by virtue of common directorship	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Customer deposits</b>								
Balance at September 30	2,367,275	3,761,848	1,116,145	2,040,205	61,474	78,984	806,267	1,552,675
Interest expense	239,987	230,148	5,188	239	821	1,178	13,322	24,396
<b>Repurchase agreements</b>								
Balance at September 30	8,584,569	219,641	2,931,342	-	-	-	-	-
Interest expense	220,016	73,771	18,127	-	-	-	-	-
<b>Due to other banks</b>								
Balance at September 30	2,389,452	-	-	-	-	-	-	-
Interest expense	3,367	-	-	-	-	-	-	-
<b>Other liabilities</b>								
Balance at September 30	219,652	112,033	5,173	-	-	-	-	-
<b>Operating Expenses</b>	402,572	208,653	-	-	8,038	10,171	57,901	63,579

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

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## 42. Related Party Transactions and Balances (Continued)

	The Group		The Bank	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Key management compensation:				
Salaries and other short-term benefits	641,867	477,118	569,954	455,701
Post-employment benefits	22,100	19,609	20,698	18,028
	<u>663,967</u>	<u>496,727</u>	<u>590,652</u>	<u>473,729</u>
Directors' emoluments:				
Fees	22,583	14,749	8,437	8,151
Management remuneration	232,094	174,112	232,094	174,112
	<u>254,677</u>	<u>188,861</u>	<u>240,531</u>	<u>182,263</u>

During the year, NCB Capital Markets Limited signed agreements with AIC (Barbados) Limited and ACF Holdings Insurco Limited, the legal and beneficial owners of 96.24% of the issued share capital of Advantage General Insurance Company Limited (AGI), for the purchase of their shareholdings in AGI. Both AIC (Barbados) Limited and ACF Holdings Insurco Limited are controlled by the Chairman of the Bank. The completion of the transaction is contingent on obtaining regulatory approval from the Financial Services Commission (FSC) and non-objection from the Bank of Jamaica (BoJ).

Subsequent to the year end, conditional regulatory approval was obtained from the FSC. However, the Bank is still in dialogue with the BoJ in respect of their non-objection.

## 43. Financial Risk Management

The Group takes an enterprise-wide approach to the identification, measurement, monitoring, reporting and management of all its risks. The principal financial risks faced by the organisation are identified as: credit, market, interest rate and liquidity risks.

The Group's risk management framework guides its risk-taking activities and ensures that it is in conformity with regulatory requirements, applicable laws, the Board's risk appetite, stockholders' expectations and standards of best practice. The framework incorporates a comprehensive risk governance structure and appropriate policies and procedures.

### **Risk Governance Structure**

The Group's risk governance structure seeks to manage risk/reward by ensuring that revenue-generation activities are compliant with the Group's standards and risk tolerance, while driving the maximisation of long term shareholder value. The Group's comprehensive risk governance structure incorporates; (a) administrative controls effected through the Board, relevant committees (The Audit Committee, The Group Capital Management Committee, The Asset and Liability Committee, The Board Risk Management Committee, The Investment Management Committee) and the establishment of policies; and (b) organisational controls effected through segregation of duties. These controls are reviewed on an ongoing basis to ensure that they provide effective governance of the Group's risk-taking activities.

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

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## 43. Financial Risk Management (Continued)

Risk Limits and Benchmarks are integral to the risk management process, as they characterise the Board's risk tolerance and also that of the Regulator. Limits are established for:

- (i) Credit and Counterparty risk - exposures to individuals, group, counterparty, country
- (ii) Market risk - rate gap exposure, currency exposure, market value exposure
- (iii) Liquidity risk - liquidity gaps, funding exposures/liability diversification and liquid assets levels.

Limits and Benchmarks are monitored on an ongoing basis and reported to the relevant governance committees.

### **Policies & Procedures**

Rigorous policies and operational procedures are established throughout the organisation and are approved by the relevant management personnel and/or governance committees.

These policies and procedures incorporate requirements for compliance monitoring, maintenance of contingency plans and the provision of reports to management and the relevant governance committees and/or the Board of Directors.

### **(a) Credit risk**

This is defined as potential for loss to the organization arising from failure of a borrower, guarantor or counterparty to honour their contractual obligations to the Group.

The Group incurs credit and counterparty risk primarily in its loan business, reverse repurchase arrangements, and certain investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. Credit Risk Management is facilitated by a cadre of loans officers and credit risk personnel, who together operate within a control framework which employs a hierarchical level of authorisations for transactions that expose the organisation to credit risk. Operating practices include the establishment of limits, ongoing monitoring of credit risk exposures, a disciplined approach to provisioning and loan loss evaluation in addition to ongoing reporting of portfolio exposures to the relevant governance committees and the regulators.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitment risks arise from guarantees which may require payment on behalf of customers. Such payments are collected from customers based on the terms of the letters of credit. They expose the Group to risks similar to loans and these are mitigated by the same control policies and processes.

### **Credit review process**

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

The Group employs the following classifications in assessing its exposures to its borrowing customers. The classifications are in line with the BOJ regulations and are as follows:

- Standard
- Special Mention
- Sub-Standard
- Doubtful
- Loss

Exposure to credit risk is mitigated by the taking of financial or physical assets.

# National Commercial Bank Jamaica Limited

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## 43. Financial Risk Management (Continued)

### (a) Credit risk (continued)

#### ***Collateral and other credit enhancements***

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of different types of collateral.

The main types of collateral obtained are as follows:

- (i) Loans - mortgages over residential properties, charges over business assets such as premises, inventory and accounts receivable and charges over financial instruments such as debt securities.
- (ii) Securities lending and reverse repurchase transactions – cash or securities.

The Group may also obtain guarantees from parent companies for loans to their subsidiaries.

Collateral values are monitored with a view to requesting additional collateral where market values are compromised or the terms in the loan agreements dictate.

#### ***Impairment loss provision methodology***

Provisions for impairment losses are assessed under three categories as described below:

##### *Sub-standard, Doubtful or Loss rated loans*

The Group identifies substandard, doubtful or loss rated loans as determined by Bank of Jamaica Regulations. The calculated provision is adjusted by the future cash flow from the realisation of the related collateral.

##### *Individually significant Standard and Special Mention loans*

Individual significant loans are reviewed to determine whether the loans show objective evidence of impairment and to determine the extent of provision required. Impairment may be determined through assessment of a number of factors, which includes:

- (i) Any significant financial difficulty being experienced by the borrower.
- (ii) Breach of contract, such as default term, delinquency in principal and interest.
- (iii) High probability of bankruptcy or other financial reorganisation by the borrower.

##### *Collectively assessed provisions*

All loans, excluding those that are impaired, are assessed on a portfolio basis, reflecting the homogenous nature of the loans. The provision is determined by a quantitative review of the respective portfolios.

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

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## 43. Financial Risk Management (Continued)

### (a) Credit risk (continued)

The tables below show the loans and the associated impairment provision for each internal rating class:

	<b>The Group</b>			
	<b>2012</b>		<b>2011</b>	
	<b>Loans \$'000</b>	<b>Impairment provision \$'000</b>	<b>Loans \$'000</b>	<b>Impairment provision \$'000</b>
Standard	90,180,190	933,888	75,005,431	847,287
Special Mention	8,515,221	48,073	2,464,799	171,985
Sub-Standard	9,330,252	240,258	10,131,238	97,297
Doubtful	720,546	365,146	3,901,472	268,803
Loss	7,051,206	3,178,786	2,611,760	1,498,781
	<u>115,797,415</u>	<u>4,766,151</u>	<u>94,114,700</u>	<u>2,884,153</u>

	<b>The Bank</b>			
	<b>2012</b>		<b>2011</b>	
	<b>Loans \$'000</b>	<b>Impairment provision \$'000</b>	<b>Loans \$'000</b>	<b>Impairment provision \$'000</b>
Standard	89,511,300	933,888	74,746,294	847,287
Special Mention	8,474,074	48,073	2,423,978	171,985
Sub-Standard	9,330,252	240,258	10,131,238	97,297
Doubtful	695,882	365,146	3,879,167	268,803
Loss	7,041,400	3,174,048	2,599,100	1,494,217
	<u>115,052,908</u>	<u>4,761,413</u>	<u>93,779,777</u>	<u>2,879,589</u>

# National Commercial Bank Jamaica Limited

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## 43. Financial Risk Management (Continued)

### (a) Credit risk (continued)

The credit quality of loans is summarised as follows:

	The Group		The Bank	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Unimpaired	108,829,832	91,334,913	108,095,132	91,022,123
Impaired	6,967,583	2,779,787	6,957,776	2,757,654
Gross	115,797,415	94,114,700	115,052,908	93,779,777
Less: provision for credit losses	(4,766,151)	(2,884,153)	(4,761,413)	(2,879,589)
Net	111,031,264	91,230,547	110,291,495	90,900,188

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

	The Group		The Bank	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Less than 30 days	20,496,931	15,469,740	20,496,931	15,469,740
31 to 60 days	7,170,895	2,281,451	7,170,895	2,281,451
61 to 90 days	2,142,596	1,402,448	2,142,596	1,361,628
Greater than 90 days	1,645,778	4,108,318	1,621,114	4,108,318
	31,456,200	23,261,957	31,431,536	23,221,137

Of the aggregate amount of gross past due but not impaired loans, \$23,328,408,000 was secured as at September 30, 2012 (2011 – \$19,252,875,000).

#### *Restructured loans*

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

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

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### 43. Financial Risk Management (Continued)

#### (a) Credit risk (continued)

##### *Restructured loans (continued)*

The determination of whether a loan would qualify for renegotiation is made only if all factors indicate that the borrower is able to repay in full (including interest). In making this assessment, the Group take its historic experience with the borrowers, their expected future cash flows, collateral valuations and any guarantees into consideration. Therefore, at the time of modification, all renegotiated loans are interest bearing with interest being calculated using the terms of the modified loan.

All renegotiated loans are individually assessed for impairment as the active renegotiation of a loan as a result of borrower difficulty, as defined in paragraph 59(c) of IAS 39, is considered a trigger for determining whether the loan should be tested for impairment. In carrying out its assessment, the Group uses the same methodology as with any other loan in the portfolio that exhibits other objective evidence of impairment. These loans are, however, actively monitored for at least 12 months from the time of renegotiation to determine whether circumstances have changed that would result in the loan being impaired or whether there should be an increase in the current level of impairment.

##### *Credit risk exposure*

The table below represents a worst case scenario of credit risk exposure of the Group and the Bank at the date of the statement of financial position, without taking account of any collateral held or other credit enhancements. For on-balance-sheet assets, the exposures set out below are based on net carrying amounts as reported in the statement of financial position.

	The Group		The Bank	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
<b><i>Credit risk exposures relating to on-balance sheet assets:</i></b>				
Balances with Bank of Jamaica	21,454,016	18,468,697	21,452,267	18,464,651
Due from other banks	14,927,069	24,812,575	14,438,606	24,329,851
Derivative financial instruments	4,978	-	4,978	-
Investment securities at fair value through profit or loss	437,934	1,694,472	-	-
Reverse repurchase agreements	409,294	1,697,472	565,719	990,011
Loans and advances, net of provision for credit losses	111,904,854	91,728,138	111,164,129	91,398,899
Investment securities classified as available-for-sale and loans and receivables	208,145,899	202,423,020	85,798,101	83,229,170
Customers' liability – letters of credit and undertaking	530,719	361,606	530,719	361,606
	<u>357,814,763</u>	<u>341,185,980</u>	<u>233,954,519</u>	<u>218,774,188</u>
<b><i>Credit risk exposures relating to off-balance sheet items:</i></b>				
Credit commitments	22,793,994	15,299,626	22,793,994	15,299,626
Acceptances, guarantees and indemnities	4,180,315	3,663,570	4,002,766	2,819,515
	<u>26,974,309</u>	<u>18,963,196</u>	<u>26,796,760</u>	<u>18,119,141</u>

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 43. Financial Risk Management (Continued)

#### (a) Credit risk (continued)

##### *Credit exposures*

##### (i) Loans

The majority of loans are made to customers in Jamaica. The following table summarises the credit exposure for loans at their carrying amounts, as categorised by the industry sectors:

	The Group		The Bank	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Agriculture	2,831,323	882,244	2,831,323	882,244
Central Government	2,634,595	3,539,547	2,634,595	3,539,547
Construction and Land Development	13,328,422	8,097,279	13,328,422	8,097,279
Other Financial Institutions	88,234	26,337	88,234	26,337
Distribution	13,497,719	7,950,667	13,497,719	7,950,667
Electricity, Water & Gas	316,074	847,296	316,074	847,296
Entertainment	243,110	233,292	243,110	233,292
Manufacturing	2,195,724	2,170,083	2,195,724	2,170,083
Mining and Processing	215,622	247,450	215,622	247,450
Personal	51,405,221	39,418,253	50,660,714	39,083,330
Professional and Other Services	4,424,581	3,765,936	4,424,581	3,765,936
Tourism	15,714,734	21,034,650	15,714,734	21,034,650
Transportation Storage and Communication	2,269,208	1,182,323	2,269,208	1,182,323
Overseas Residents	6,632,848	4,719,343	6,632,848	4,719,343
Total	115,797,415	94,114,700	115,052,908	93,779,777
Total provision	(4,766,151)	(2,884,153)	(4,761,413)	(2,879,589)
	111,031,264	91,230,547	110,291,495	90,900,188
Interest receivable	873,590	497,591	872,634	498,711
Net	111,904,854	91,728,138	111,164,129	91,398,899

##### (ii) Debt securities

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

	The Group		The Bank	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Government of Jamaica and Bank of Jamaica	171,152,506	166,824,962	73,423,250	70,891,310
Government of Jamaica guaranteed corporate bonds	21,773,021	20,037,311	6,458,745	6,153,841
Other corporate bonds	10,838,959	13,158,888	3,764,679	4,130,661
Foreign government	1,743,826	1,300,141	941,657	934,223
	205,508,312	201,321,302	84,588,331	82,110,035
Interest receivable	3,075,522	2,796,190	1,209,770	1,119,135
	208,583,834	204,117,492	85,798,101	83,229,170



# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

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## 43. Financial Risk Management (Continued)

### (b) Liquidity risk

The Group's liquidity policy is designed to ensure that it can meet cash obligations when they fall due and take advantage of unanticipated earnings enhancement opportunities.

Liquidity management within the Group, which incorporates funding risk management, ensures that there is a sufficient level of liquid assets available in addition to stable funding lines to meet ongoing cash commitments even during periods of stress. The management of liquidity risk is executed within a framework which comprises:

- (i) Oversight by relevant governance committees;
- (ii) Daily management of liquidity by the relevant treasury units within each group company;
- (iii) Use of tools to measure the organisation's exposures;
- (iv) Establishment and monitoring of limits/benchmarks for maturity mismatches and funding concentrations;
- (v) Diversification of funding sources;
- (vi) Maintenance of committed lines of credits and
- (vii) Monitoring of adherence to regulatory ratios.

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 of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. 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 Group and its exposure to changes in interest rates and exchange rates.

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

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### 43. Financial Risk Management (Continued)

#### (b) Liquidity risk (continued)

##### *Cash flows of financial liabilities*

The tables below present the contractual maturities of undiscounted cash flows (both interest and principal cash flows) of the financial assets and liabilities based on the remaining period.

	The Group					Total \$'000
	Within 1 Month \$'000	2 to 3 Months \$'000	4 to 12 Months \$'000	2 to 5 Years \$'000	Over 5 Years \$'000	
<b>As at September 30, 2012:</b>						
Due to other banks	2,652,733	5,014,518	482,476	521,926	1,625,256	10,296,909
Customer deposits	136,972,132	9,366,134	16,798,276	411,369	-	163,547,911
Repurchase agreements	48,002,036	36,311,425	18,368,132	44,269	6,149	102,732,011
Obligations under securitization arrangements	-	641,369	1,008,967	1,306,344	-	2,956,680
Other borrowed funds	153,118	483,247	667,233	2,701,273	387,544	4,392,415
Liabilities under annuity and insurance contracts	362,213	799,721	3,630,389	17,861,694	52,056,672	74,710,689
Other	2,854,698	1,713,865	223,170	150	125,194	4,917,077
<b>Total financial liabilities (contractual maturity dates)</b>	<b>190,996,930</b>	<b>54,330,279</b>	<b>41,178,643</b>	<b>22,847,025</b>	<b>54,200,815</b>	<b>363,553,692</b>
<b>Total financial liabilities (expected maturity dates)</b>	<b>83,631,911</b>	<b>54,330,279</b>	<b>41,795,634</b>	<b>22,853,174</b>	<b>160,942,694</b>	<b>363,553,692</b>
<b>Total financial assets (expected maturity dates)</b>	<b>38,784,270</b>	<b>8,258,414</b>	<b>51,220,815</b>	<b>207,776,339</b>	<b>201,133,860</b>	<b>507,173,698</b>

	The Group					Total \$'000
	Within 1 Month \$'000	2 to 3 Months \$'000	4 to 12 Months \$'000	2 to 5 Years \$'000	Over 5 Years \$'000	
<b>As at September 30, 2011:</b>						
Due to other banks	2,287,964	917,244	1,877,783	499,397	1,685,694	7,268,082
Customer deposits	138,222,092	11,309,067	11,613,536	924,772	-	162,069,467
Repurchase agreements	32,508,405	32,488,689	14,751,256	5,479,483	52	85,227,885
Obligations under securitization arrangements	1,066,182	638,870	5,997,553	7,358,113	-	15,060,718
Other borrowed funds	1,117,489	989,610	1,648,768	2,601,189	107,515	6,464,571
Liabilities under annuity and insurance contracts	343,535	772,606	3,437,374	16,653,694	46,425,516	67,632,725
Other	2,860,437	1,324,813	148,663	2,142	129,744	4,465,799
<b>Total financial liabilities (contractual maturity dates)</b>	<b>178,406,104</b>	<b>48,440,899</b>	<b>39,474,933</b>	<b>33,518,790</b>	<b>48,348,521</b>	<b>348,189,247</b>
<b>Total financial liabilities (expected maturity dates)</b>	<b>82,472,218</b>	<b>48,440,899</b>	<b>40,174,206</b>	<b>33,518,790</b>	<b>143,583,134</b>	<b>348,189,247</b>
<b>Total financial assets (expected maturity dates)</b>	<b>69,315,199</b>	<b>44,413,687</b>	<b>45,296,489</b>	<b>144,468,009</b>	<b>149,062,937</b>	<b>452,556,321</b>

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 43. Financial Risk Management (Continued)

#### (b) Liquidity risk (continued)

##### *Cash flows of financial liabilities (continued)*

	The Bank					
	Within 1	2 to 3	4 to 12	2 to 5	Over	Total
	Month	Months	Months	Years	5 Years	
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
<b>As at September 30, 2012:</b>						
Due to other banks	5,045,607	5,014,518	482,476	521,926	1,625,256	12,689,783
Customer deposits	137,191,287	8,089,605	16,147,680	23,072	-	161,451,644
Repurchase agreements	16,630,388	5,443,245	5,933,959	-	-	28,007,592
Obligations under securitization arrangements	-	641,369	1,008,967	1,306,344	-	2,956,680
Other borrowed funds	35,248	245,837	500,069	1,440,950	387,544	2,609,648
Other	2,343,008	1,484,774	115,965	150	125,193	4,069,090
<b>Total financial liabilities (contractual maturity dates)</b>	<b>161,245,538</b>	<b>20,919,348</b>	<b>24,189,116</b>	<b>3,292,442</b>	<b>2,137,993</b>	<b>211,784,437</b>
<b>Total financial liabilities (expected maturity dates)</b>	<b>53,880,520</b>	<b>20,919,348</b>	<b>24,806,104</b>	<b>3,292,442</b>	<b>108,886,023</b>	<b>211,784,437</b>
<b>Total financial assets (expected maturity dates)</b>	<b>40,087,182</b>	<b>6,887,114</b>	<b>36,273,691</b>	<b>131,517,710</b>	<b>101,979,739</b>	<b>316,745,436</b>
<b>As at September 30, 2011:</b>						
Due to other banks	2,287,964	917,244	1,877,783	499,397	1,685,694	7,268,082
Customer deposits	136,967,884	9,309,343	9,947,003	137,394	-	156,361,624
Repurchase agreements	2,294,074	1,250,517	986,025	4,564,275	-	9,094,891
Obligations under securitization arrangements	1,066,182	638,870	5,997,553	7,358,113	-	15,060,718
Other borrowed funds	1,027,394	280,902	1,493,130	1,562,337	103,500	4,467,263
Other	2,162,316	1,556,088	145,954	-	34,277	3,898,635
<b>Total financial liabilities (contractual maturity dates)</b>	<b>145,805,814</b>	<b>13,952,964</b>	<b>20,447,448</b>	<b>14,121,516</b>	<b>1,823,471</b>	<b>196,151,213</b>
<b>Total financial liabilities (expected maturity dates)</b>	<b>49,871,890</b>	<b>13,952,964</b>	<b>21,146,721</b>	<b>14,121,516</b>	<b>97,058,122</b>	<b>196,151,213</b>
<b>Total financial assets (expected maturity dates)</b>	<b>66,039,531</b>	<b>6,465,547</b>	<b>34,102,815</b>	<b>83,258,925</b>	<b>100,692,771</b>	<b>290,559,589</b>

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, central bank balances, items in the course of collection, investment securities and other eligible bills, loans and advances to banks, and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. In addition, debt securities and treasury and other bills have been pledged to secure liabilities. The Group is also able to meet unexpected net cash outflows by selling securities and accessing additional funding sources from other financing institutions.

# National Commercial Bank Jamaica Limited

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### 43. Financial Risk Management (Continued)

#### (b) Liquidity risk (continued)

##### *Cash flows of financial liabilities (continued)*

##### **Off-balance sheet items**

The tables below show the contractual expiry by maturity of commitments.

	The Group			Total \$'000
	No later than 1 year \$'000	2 to 5 years \$'000	Over 5 years \$'000	
<b>At September 30, 2012</b>				
Credit commitments	22,793,994	-	-	22,793,994
Guarantees, acceptances and other financial facilities	2,972,009	400,715	807,591	4,180,315
Operating lease commitments	89,089	270,554	384,397	744,040
Capital commitments	997,729	-	-	997,729
	<b>26,852,821</b>	<b>671,269</b>	<b>1,191,988</b>	<b>28,716,078</b>
<b>At September 30, 2011</b>				
Credit commitments	15,299,626	-	-	15,299,626
Guarantees, acceptances and other financial facilities	1,169,571	1,768,437	725,562	3,663,570
Operating lease commitments	95,439	177,729	88,434	361,602
Capital commitments	1,120,118	-	-	1,120,118
	<b>17,684,754</b>	<b>1,946,166</b>	<b>813,996</b>	<b>20,444,916</b>
<b>The Bank</b>				
	No later than 1 year \$'000	2 to 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>At September 30, 2012</b>				
Credit commitments	22,793,994	-	-	22,793,994
Guarantees, acceptances and other financial facilities	2,794,461	400,715	807,591	4,002,767
Operating lease commitments	95,439	177,729	382,094	655,262
Capital commitments	997,729	-	-	997,729
	<b>26,681,623</b>	<b>578,444</b>	<b>1,189,685</b>	<b>28,449,752</b>
<b>At September 30, 2011</b>				
Credit commitments	15,299,626	-	-	15,299,626
Guarantees, acceptances and other financial facilities	508,471	1,638,708	672,336	2,819,515
Operating lease commitments	95,439	177,729	88,434	361,602
Capital commitments	1,120,118	-	-	1,120,118
	<b>17,023,654</b>	<b>1,816,437</b>	<b>760,770</b>	<b>19,600,861</b>

Capital commitments are in relation to approved expenditures for property, plant, equipment and computer software that were unused as at the end of the respective financial years either because they relate to work in progress or are awaiting the start of the project. Of the total capital commitments, planned expenditure valuing \$997,729,000 (2011 – \$706,710,000) has already been contracted for.

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

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## 43. Financial Risk Management (Continued)

### (c) Market risk

The Group takes on exposure to market risk, which is defined as the potential for loss arising from changes in the market value of the organisation's financial instruments due to changes in certain market variables, such as interest rates, foreign exchange rates, equity prices, market liquidity and credit spreads.

The Group incurs market risk primarily in treasury, trading and structural banking activities. The Group takes a comprehensive governance approach in accordance with the enterprise-wide risk management framework. This includes:

- Oversight provided by the relevant governance committees.
- An independent market risk oversight function.
- The utilisation of tools and models to measure market risk exposure.
- Limit setting mechanisms and a monitoring process.
- The utilisation of scenario analysis and of stress testing for worst case events.

There has been no change to the manner in which the Group manages and measures this risk.

### (i) Currency risk

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

Foreign exchange risk occurs when the Group takes on open position in a currency. To control this exchange risk the Group has approved limits for net open positions in each currency for both intra-day and overnight. The recently formed Board Risk Management Committee (BRMC) has assumed responsibility for approving such limits. This limit may vary from time to time as determined by the BRMC.

The Group also has transactional currency exposure. Such exposure arises from having financial assets in currencies other than those in which financial liabilities are expected to be settled. The Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign assets to address short term imbalances.

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

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### 43. Financial Risk Management (Continued)

#### (c) Market risk (continued)

##### (i) Currency risk (continued)

*Concentrations of currency risk – on- and off-balance sheet financial instruments*

The tables below summarise the Group's and the Bank's exposure to foreign currency exchange rate risk as at the date of the statement of financial position.

	The Group					Total
	\$	US\$	GBP	CAN\$	Other	
September 30, 2012	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>						
Cash in hand and balances at Bank of Jamaica	16,991,874	6,048,725	869,244	175,549	17,420	24,102,812
Due from other banks	316,056	7,145,498	5,839,013	1,064,566	561,936	14,927,069
Investment securities at fair value through profit or loss	449,650	270,756	-	-	-	720,406
Reverse repurchase agreements	248,265	75,218	-	-	84,811	408,294
Loans and advances net of provision for credit losses	70,633,423	41,271,452	-	(21)	-	111,904,854
Investment securities classified as available-for-sale and loans and receivables	132,026,537	75,470,903	968,634	251,856	1,215,221	209,933,151
Other	1,099,470	709,369	6,285	196	795	1,816,115
<b>Total assets</b>	<b>221,765,275</b>	<b>130,991,921</b>	<b>7,683,176</b>	<b>1,492,146</b>	<b>1,880,183</b>	<b>363,812,701</b>
<b>Liabilities</b>						
Due to other banks	1,078,271	8,110,697	65,572	44,744	25,613	9,324,897
Customer deposits	100,203,361	54,701,283	6,401,934	928,040	695,732	162,930,350
Repurchase agreements	43,555,359	56,346,956	1,086,502	304,053	597,579	101,890,449
Obligations under securitization arrangements	-	2,604,246	-	-	-	2,604,246
Other borrowed funds	2,088,360	1,536,184	-	-	-	3,624,544
Liabilities under annuity and insurance contracts	25,138,935	55,389	-	-	-	25,194,324
Other	3,754,482	1,045,499	9,318	6,114	101,663	4,917,076
<b>Total liabilities</b>	<b>175,818,768</b>	<b>124,400,254</b>	<b>7,563,326</b>	<b>1,282,951</b>	<b>1,420,587</b>	<b>310,485,886</b>
<b>Net on-balance sheet position</b>	<b>45,946,507</b>	<b>6,591,667</b>	<b>119,850</b>	<b>209,195</b>	<b>459,596</b>	<b>53,326,815</b>
Guarantees, acceptances and other financial facilities	1,883,884	2,290,259	-	-	6,172	4,180,315
Credit commitments	18,695,703	4,098,291	-	-	-	22,793,994

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 43. Financial Risk Management (Continued)

#### (c) Market risk (continued)

##### (i) Currency risk (continued)

Concentrations of currency risk – on- and off-balance sheet financial instruments (continued)

	The Group					
	\$	US\$	GBP	CAN\$	Other	Total
September 30, 2011	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>						
Cash in hand and balances at Bank of Jamaica	15,057,683	4,748,867	765,213	130,713	23,015	20,725,491
Due from other banks	1,399,922	16,340,719	5,906,537	821,943	343,454	24,812,575
Investment securities at fair value through profit or loss	764,827	1,020,525	-	-	-	1,785,352
Reverse repurchase agreements	1,238,813	458,659	-	-	-	1,697,472
Loans and advances net of provision for credit losses	58,048,699	33,679,459	-	(20)	-	91,728,138
Investment securities classified as available-for-sale and loans and receivables	132,033,777	69,289,257	959,474	-	680,267	202,962,775
Other	1,374,571	580,310	4,267	166	-	1,959,314
<b>Total assets</b>	<b>209,918,292</b>	<b>126,117,796</b>	<b>7,635,491</b>	<b>952,802</b>	<b>1,046,736</b>	<b>345,671,117</b>
<b>Liabilities</b>						
Due to other banks	1,155,318	4,956,525	52,891	35,014	16,076	6,215,824
Customer deposits	88,197,077	58,801,288	7,474,421	914,798	412,817	155,800,401
Repurchase agreements	38,162,777	44,255,871	1,162,966	94,647	398,842	84,075,103
Obligations under securitization arrangements	-	14,418,427	-	-	-	14,418,427
Other borrowed funds	2,274,024	3,427,707	-	-	-	5,701,731
Liabilities under annuity and insurance contracts	23,533,050	31,225	-	-	-	23,564,275
Other	3,738,778	719,814	1,808	5,364	35	4,465,799
<b>Total liabilities</b>	<b>157,061,024</b>	<b>126,610,857</b>	<b>8,692,086</b>	<b>1,049,823</b>	<b>827,770</b>	<b>294,241,560</b>
<b>Net on-balance sheet position</b>	<b>52,857,268</b>	<b>(493,061)</b>	<b>(1,056,595)</b>	<b>(97,021)</b>	<b>218,966</b>	<b>51,429,557</b>
Guarantees, acceptances and other financial facilities	2,496,712	1,160,563	47	-	6,248	3,663,570
Credit commitments	11,191,065	4,108,561	-	-	-	15,299,626

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 43. Financial Risk Management (Continued)

#### (c) Market risk (continued)

##### (i) Currency risk (continued)

Concentrations of currency risk – on- and off-balance sheet financial instruments (continued)

	The Bank					Total
	\$	US\$	GBP	CAN\$	Other	
September 30, 2012	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>						
Cash in hand and balances at Bank of Jamaica	16,990,107	6,048,623	865,946	175,549	17,420	24,097,645
Due from other banks	383,715	6,772,013	5,702,643	1,109,657	470,578	14,438,606
Reverse repurchase agreements	-	534,555	-	-	31,164	565,719
Loans and advances net of provision for credit losses	70,633,371	40,530,779	-	(21)	-	111,164,129
Investment securities classified as available-for-sale and loans and receivables	51,119,791	33,230,636	968,634	43	1,048,230	86,367,334
Other	943,348	706,185	6,285	195	85	1,656,098
<b>Total assets</b>	<b>140,070,332</b>	<b>87,822,791</b>	<b>7,543,508</b>	<b>1,285,423</b>	<b>1,567,477</b>	<b>238,289,531</b>
<b>Liabilities</b>						
Due to other banks	1,078,326	10,502,570	65,572	44,744	25,613	11,716,825
Customer deposits	100,946,963	50,958,002	7,271,609	995,861	661,649	160,834,084
Repurchase agreements	7,172,275	19,860,785	231,973	84,796	362,596	27,712,425
Obligations under securitization arrangements	-	2,604,246	-	-	-	2,604,246
Other borrowed funds	849,195	1,308,849	-	-	-	2,158,044
Other	3,020,463	1,031,529	9,318	6,114	1,666	4,069,090
<b>Total liabilities</b>	<b>113,067,222</b>	<b>86,265,981</b>	<b>7,578,472</b>	<b>1,131,515</b>	<b>1,051,524</b>	<b>209,094,714</b>
<b>Net on-balance sheet position</b>	<b>27,003,110</b>	<b>1,556,810</b>	<b>(34,964)</b>	<b>153,908</b>	<b>515,953</b>	<b>29,194,817</b>
Guarantees, acceptances and other financial facilities	1,706,336	2,290,259	-	-	6,172	4,002,767
Credit commitments	18,695,703	4,098,291	-	-	-	22,793,994



# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 43. Financial Risk Management (Continued)

#### (c) Market risk (continued)

##### (i) Currency risk (continued)

Concentrations of currency risk – on- and off-balance sheet financial instruments (continued)

	The Bank					Total
	\$	US\$	GBP	CAN\$	Other	
September 30, 2011	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>						
Cash in hand and balances at Bank of Jamaica	15,053,637	4,748,867	765,213	130,713	23,015	20,721,445
Due from other banks	1,330,027	16,041,326	5,803,372	821,943	333,183	24,329,851
Reverse repurchase agreements	400,543	589,468	-	-	-	990,011
Loans and advances net of provision for credit losses	58,048,699	33,350,220	-	(20)	-	91,398,899
Investment securities classified as available-for-sale and loans and receivables	50,900,807	31,472,128	959,474	-	419,767	83,752,176
Other	881,664	377,174	4,266	166	1	1,263,271
<b>Total assets</b>	<b>126,615,377</b>	<b>86,579,183</b>	<b>7,532,325</b>	<b>952,802</b>	<b>775,966</b>	<b>222,455,653</b>
<b>Liabilities</b>						
Due to other banks	1,155,318	4,956,525	52,891	35,014	16,076	6,215,824
Customer deposits	91,289,980	55,931,323	7,474,421	914,798	412,816	156,023,338
Repurchase agreements	219,793	8,114,635	-	-	175,352	8,509,780
Obligations under securitization arrangements	-	14,418,427	-	-	-	14,418,427
Other borrowed funds	1,069,456	2,973,634	-	-	-	4,043,090
Other	3,204,842	697,314	1,808	(5,364)	35	3,898,635
<b>Total liabilities</b>	<b>96,939,389</b>	<b>87,091,858</b>	<b>7,529,120</b>	<b>944,448</b>	<b>604,279</b>	<b>193,109,094</b>
<b>Net on-balance sheet position</b>	<b>29,675,988</b>	<b>(512,675)</b>	<b>3,205</b>	<b>8,354</b>	<b>171,687</b>	<b>29,346,559</b>
Guarantees, acceptances and other financial facilities	1,652,657	1,160,563	47	-	6,248	2,819,515
Credit commitments	11,191,065	4,108,561	-	-	-	15,299,626

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 43. Financial Risk Management (Continued)

### (c) Market risk (continued)

#### (i) Currency risk (continued)

##### **Foreign currency sensitivity**

The following table indicates the currencies to which the Group and the Bank have significant exposures on its monetary assets and liabilities and its forecast cash flows. The change in currency rates below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents the outstanding foreign currency denominated monetary items and adjusts their translation at the year end for changes in foreign currency rates. The sensitivity analysis includes loans and advances to customers, investment securities and deposits. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in each variable, variables had to be considered on an individual basis. It should be noted that movements in these variables are non-linear.

There was no effect on other comprehensive income.

	2012			2011		
	% Change in Currency Rate	Effect on Net Profit		% Change in Currency Rate	Effect on Net Profit	
		The Group \$'000	The Bank \$'000		The Group \$'000	The Bank \$'000
<b>Currency:</b>						
USD	4% Appreciation	(214,387)	(4,687)	4% Appreciation	8,794	757
	10% Devaluation	535,966	11,717	10% Devaluation	49,943	(1,893)
GBP	4% Appreciation	(206)	822	4% Appreciation	(779)	(182)
	10% Devaluation	515	(2,056)	10% Devaluation	1,948	456
CAN	4% Appreciation	(6,077)	(4,135)	4% Appreciation	1,010	(208)
	10% Devaluation	15,192	10,337	10% Devaluation	(2,523)	521

#### (ii) **Interest rate risk**

Interest rate risk arises when the Group's principal and interest cash flows from on and off balance sheet items have mismatched repricing dates. The short term impact is experienced on the Group's net interest income and long term impact is felt on its equity.

The Group incurs interest rate mismatches from its interest bearing assets and liabilities with the size of such exposure being heavily dependent on the direction and degree of interest rate movements in addition to the size and maturity structure of the mismatched position. The Group's policy requires that such mismatches are managed. Accordingly, the Board requires that a comprehensive system of limits, gap analysis and stress testing be used to manage the Group's exposure.

Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 43. Financial Risk Management (Continued)

#### (c) Market risk (continued)

##### (ii) Interest rate risk (continued)

The Group'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 interest bearing financial liabilities. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken. These limits are monitored by the Asset and Liability Committee.

The following tables summarise the exposure to interest rate risk. It includes the financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	The Group						Total
	Within 1 Month	2 to 3 Months	4 to 12 Months	2 to 5 Years	Over 5 Years	Non-Interest Bearing	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>September 30, 2012</b>							
<b>Assets</b>							
Cash in hand and balances at Bank of Jamaica	9,528,145	-	-	-	-	14,574,667	24,102,812
Due from other banks	11,678,897	1,069,558	160,096	-	-	2,018,518	14,927,069
Investment securities at fair value through profit or loss	2,032	3,439	18,679	31,988	375,009	289,259	720,406
Reverse repurchase agreements	184,745	222,580	2	-	-	967	408,294
Loans and advances net of provision for credit losses	54,822,878	28,638,163	1,402,116	19,765,218	3,180,872	4,095,607	111,904,854
Investment securities classified as available-for-sale and loans and receivables	12,393,684	60,453,502	25,569,392	62,283,047	44,574,291	4,659,235	209,933,151
Other	4,978	-	-	-	-	1,811,137	1,816,115
<b>Total assets</b>	<b>88,615,359</b>	<b>90,387,242</b>	<b>27,150,285</b>	<b>82,080,253</b>	<b>48,130,172</b>	<b>27,449,390</b>	<b>363,812,701</b>
<b>Liabilities</b>							
Due to other banks	879,299	4,916,572	376,827	-	1,345,811	1,806,388	9,324,897
Customer deposits	98,977,150	9,217,713	16,096,306	399,506	-	38,239,675	162,930,350
Repurchase agreements	38,892,450	42,851,892	16,972,153	2,392,726	4,938	776,290	101,890,449
Obligations under securitization arrangements	-	1,051,898	773,454	773,454	-	5,440	2,604,246
Other borrowed funds	144,252	776,333	1,380,189	915,893	294,938	112,939	3,624,544
Liabilities under annuity and insurance contracts	21,647,059	150,316	805,488	-	-	2,591,461	25,194,324
Other	5,312	206,674	-	-	-	4,705,090	4,917,076
<b>Total liabilities</b>	<b>160,545,522</b>	<b>59,171,398</b>	<b>36,404,417</b>	<b>4,481,579</b>	<b>1,645,687</b>	<b>48,237,283</b>	<b>310,485,886</b>
<b>On balance sheet interest sensitivity gap</b>	<b>(71,930,163)</b>	<b>31,215,844</b>	<b>(9,254,132)</b>	<b>77,598,674</b>	<b>46,484,485</b>	<b>(20,787,893)</b>	<b>53,326,815</b>
<b>Cumulative interest sensitivity gap</b>	<b>(71,930,163)</b>	<b>(40,714,319)</b>	<b>(49,968,451)</b>	<b>27,630,223</b>	<b>74,114,708</b>	<b>53,326,815</b>	

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 43. Financial Risk Management (Continued)

#### (c) Market risk (continued)

##### (ii) Interest rate risk (continued)

	The Group						Total
	Within 1 Month	2 to 3 Months	4 to 12 Months	2 to 5 Years	Over 5 Years	Non-Interest Bearing	
September 30, 2011	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>							
Cash in hand and balances at Bank of Jamaica	7,480,911	-	-	-	-	13,244,580	20,725,491
Due from other banks	22,855,803	638,218	-	-	-	1,318,554	24,812,575
Investment securities at fair value through profit or loss	3,411	3,035	23,042	735,488	273,233	747,143	1,785,352
Reverse repurchase agreements	626,144	390,800	669,604	-	-	10,924	1,697,472
Loans and advances net of provision for credit losses	57,073,898	16,587,638	1,255,435	10,313,264	2,379,965	4,117,938	91,728,138
Investment securities classified as available-for-sale and loans and receivables	22,461,620	62,949,393	15,560,985	59,434,467	34,789,026	7,767,284	202,962,775
Other	-	-	-	-	-	1,959,314	1,959,314
<b>Total assets</b>	<b>110,501,787</b>	<b>80,569,084</b>	<b>17,509,066</b>	<b>70,483,219</b>	<b>37,442,224</b>	<b>29,165,737</b>	<b>345,671,117</b>
<b>Liabilities</b>							
Due to other banks	412,661	878,431	1,768,918	-	1,291,810	1,864,004	6,215,824
Customer deposits	97,936,280	11,272,883	11,295,524	916,900	-	34,378,814	155,800,401
Repurchase agreements	33,236,213	31,354,923	13,747,125	5,144,447	48	592,347	84,075,103
Obligations under securitization arrangements	9,524,881	2,732,105	742,420	1,336,355	-	82,666	14,418,427
Other borrowed funds	121,538	1,150,555	2,419,213	1,781,758	62,910	165,757	5,701,731
Liabilities under annuity and insurance contracts	20,940,634	201,949	847,775	-	-	1,573,917	23,564,275
Other	-	4,073	-	-	-	4,461,726	4,465,799
<b>Total liabilities</b>	<b>162,172,207</b>	<b>47,594,919</b>	<b>30,820,975</b>	<b>9,179,460</b>	<b>1,354,768</b>	<b>43,119,231</b>	<b>294,241,560</b>
<b>On balance sheet interest sensitivity gap</b>	<b>(51,670,420)</b>	<b>32,974,165</b>	<b>(13,311,909)</b>	<b>61,303,759</b>	<b>36,087,456</b>	<b>(13,953,494)</b>	<b>51,429,557</b>
<b>Cumulative interest sensitivity gap</b>	<b>(51,670,420)</b>	<b>(18,696,255)</b>	<b>(32,008,164)</b>	<b>29,295,595</b>	<b>65,383,051</b>	<b>51,429,557</b>	

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 43. Financial Risk Management (Continued)

### (c) Market risk (continued)

#### (ii) Interest rate risk (continued)

	The Bank						Total
	Within 1 Month	2 to 3 Months	4 to 12 Months	2 to 5 Years	Over 5 Years	Non-Interest Bearing	
September 30, 2012	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>							
Cash in hand and balances at Bank of Jamaica	9,528,134	-	-	-	-	14,569,511	24,097,645
Due from other banks	11,932,973	641,335	-	-	-	1,864,298	14,438,606
Reverse repurchase agreements	291,339	-	269,162	-	-	5,218	565,719
Loans and advances net of provision for credit losses	54,796,047	28,609,901	1,366,228	19,272,687	3,024,666	4,094,600	111,164,129
Investment securities classified as available-for-sale and loans and receivables	5,306,686	20,979,826	14,686,842	23,830,288	19,784,688	1,779,004	86,367,334
Other	4,978	-	-	-	-	1,651,120	1,656,098
<b>Total assets</b>	<b>81,860,157</b>	<b>50,231,062</b>	<b>16,322,232</b>	<b>43,102,975</b>	<b>22,809,354</b>	<b>23,963,751</b>	<b>238,289,531</b>
<b>Liabilities</b>							
Due to other banks	3,271,172	4,916,572	376,827	-	1,345,811	1,806,443	11,716,825
Customer deposits	99,169,178	7,970,918	15,490,355	21,178	-	38,182,455	160,834,084
Repurchase agreements	7,824,200	12,432,703	4,904,690	2,350,879	-	199,953	27,712,425
Obligations under securitization arrangements	-	1,051,898	773,454	773,454	-	5,440	2,604,246
Other borrowed funds	28,570	543,421	269,940	914,239	294,938	106,936	2,158,044
Other	5,312	-	-	-	-	4,063,778	4,069,090
<b>Total liabilities</b>	<b>110,298,432</b>	<b>26,915,512</b>	<b>21,815,266</b>	<b>4,059,750</b>	<b>1,640,749</b>	<b>44,365,005</b>	<b>209,094,714</b>
<b>On balance sheet interest sensitivity gap</b>	<b>(28,438,275)</b>	<b>23,315,550</b>	<b>(5,493,034)</b>	<b>39,043,225</b>	<b>21,168,605</b>	<b>(20,401,254)</b>	<b>29,194,817</b>
<b>Cumulative interest sensitivity gap</b>	<b>(28,438,275)</b>	<b>(5,122,725)</b>	<b>(10,615,759)</b>	<b>28,427,466</b>	<b>49,596,071</b>	<b>29,194,817</b>	

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 43. Financial Risk Management (Continued)

#### (c) Market risk (continued)

##### (ii) Interest rate risk (continued)

	The Bank						Total
	Within 1 Month	2 to 3 Months	4 to 12 Months	2 to 5 Years	Over 5 Years	Non-Interest Bearing	
September 30, 2011	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>							
Cash in hand and balances at Bank of Jamaica	7,476,865	-	-	-	-	13,244,580	20,721,445
Due from other banks	22,373,079	638,218	-	-	-	1,318,554	24,329,851
Reverse repurchase agreements	726,398	-	258,362	-	-	5,251	990,011
Loans and advances net of provision for credit losses	57,048,749	16,587,638	1,133,423	10,292,425	2,218,727	4,117,937	91,398,899
Investment securities classified as available-for-sale and loans and receivables	15,036,697	22,088,560	5,318,796	18,187,153	21,478,828	1,642,142	83,752,176
Other	-	-	-	-	-	1,263,271	1,263,271
<b>Total assets</b>	<b>102,661,788</b>	<b>39,314,416</b>	<b>6,710,581</b>	<b>28,479,578</b>	<b>23,697,555</b>	<b>21,591,735</b>	<b>222,455,653</b>
<b>Liabilities</b>							
Due to other banks	412,661	878,431	1,768,918	-	1,291,810	1,864,004	6,215,824
Customer deposits	102,705,691	9,180,320	9,628,992	129,521	-	34,378,814	156,023,338
Repurchase agreements	2,203,329	1,232,907	672,300	4,306,038	-	95,206	8,509,780
Obligations under securitization arrangements	9,524,881	2,732,105	742,420	1,336,355	-	82,666	14,418,427
Other borrowed funds	33,109	686,798	2,267,647	842,262	62,910	150,364	4,043,090
Other	-	-	-	-	-	3,898,635	3,898,635
<b>Total liabilities</b>	<b>114,879,671</b>	<b>14,710,561</b>	<b>15,080,277</b>	<b>6,614,176</b>	<b>1,354,720</b>	<b>40,469,689</b>	<b>193,109,094</b>
<b>On balance sheet interest sensitivity gap</b>	<b>(12,217,883)</b>	<b>24,603,855</b>	<b>(8,369,696)</b>	<b>21,865,402</b>	<b>22,342,835</b>	<b>(18,877,954)</b>	<b>29,346,559</b>
<b>Cumulative interest sensitivity gap</b>	<b>(12,217,883)</b>	<b>12,385,972</b>	<b>4,016,276</b>	<b>25,881,678</b>	<b>48,224,513</b>	<b>29,346,559</b>	

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 43. Financial Risk Management (Continued)

#### (c) Market risk (continued)

##### (ii) Interest rate risk (continued)

The tables below summarise the effective interest rates for financial instruments by major currencies.

	The Group				The Bank			
	\$	US\$	CAN\$	GBP	\$	US\$	CAN\$	GBP
	%	%	%	%	%	%	%	%
<b>September 30, 2012</b>								
<b>Assets</b>								
Balances at Bank of Jamaica	0.3	0.1	0.4	0.1	0.3	0.1	0.4	0.1
Due from other banks	3.2	0.1	0.7	0.4	3.2	0.1	0.7	0.4
Investment securities at fair value through profit or loss	9.9	8.3	-	-	-	-	-	-
Reverse repurchase agreements	5.5	3.4	1.5	1.8	5.0	4.0	-	-
Loans and advances	18.4	8.3	-	-	18.4	8.3	-	-
Investment securities classified as available-for-sale and loans and receivables	9.0	8.0	-	13.4	8.5	8.7	-	13.4
<b>Liabilities</b>								
Due to other banks	6.2	4.8	-	-	6.2	4.8	-	-
Customer deposits	1.4	1.9	0.6	0.9	1.4	1.9	0.6	0.9
Repurchase agreements	5.6	4.3	1.3	1.6	6.1	5.7	1.2	1.7
Obligations under securitization arrangements	-	5.5	-	-	-	5.5	-	-
Other borrowed funds	8.8	3.8	-	-	11.1	4.5	-	-
<b>September 30, 2011</b>								
<b>Assets</b>								
Balances at Bank of Jamaica	0.3	0.1	0.3	0.1	0.3	0.1	0.3	0.1
Due from other banks	3.2	0.1	0.8	0.3	3.2	0.1	0.8	0.3
Investment securities at fair value through profit or loss	12.4	7.7	-	-	-	-	-	-
Reverse repurchase agreements	6.2	4.4	-	-	4.4	4.8	-	-
Loans and advances	20.2	7.8	1.4	-	20.2	7.8	1.4	-
Investment securities classified as available-for-sale and loans and receivables	10.1	8.4	-	10.5	9.0	9.3	-	10.5
<b>Liabilities</b>								
Due to other banks	7.1	3.1	-	-	7.1	3.1	-	-
Customer deposits	1.7	1.9	0.6	1.0	1.7	1.9	0.6	1.0
Repurchase agreements	5.7	4.0	1.5	2.3	6.8	5.4	-	5.1
Obligations under securitization arrangements	-	3.4	-	-	-	3.4	-	-
Other borrowed funds	10.7	5.2	-	-	11.3	4.9	-	-

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 43. Financial Risk Management (Continued)

### (c) Market risk (continued)

#### (ii) Interest rate risk (continued)

##### *Interest rate sensitivity*

The following table indicates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on the income statement and stockholders' equity.

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

	<b>The Group</b>			
	<b>Effect on Net Profit</b>	<b>Effect on Equity</b>	<b>Effect on Net Profit</b>	<b>Effect on Equity</b>
	<b>2012</b>	<b>2012</b>	<b>2011</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Change in basis points:</b>				
-200	(1,472,201)	1,187,373	(1,103,613)	2,603,311
+200	1,472,201	(1,187,373)	1,103,613	(2,603,311)
	<b>The Bank</b>			
	<b>Effect on Net Profit</b>	<b>Effect on Equity</b>	<b>Effect on Net Profit</b>	<b>Effect on Equity</b>
	<b>2012</b>	<b>2012</b>	<b>2011</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Change in basis points:</b>				
-200	(582,712)	221,832	(393,244)	166,284
+200	582,712	(221,832)	393,244	(166,284)



# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 43. Financial Risk Management (Continued)

### (c) Market risk (continued)

#### (iii) Other price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified either as available-for-sale or at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

The Group's investments in quoted equity securities are of other entities that are publicly traded on the Jamaica Stock Exchange.

#### **Sensitivity to changes in price of equity securities**

The following table indicates the sensitivity to a reasonable possible change in prices of equity securities, with all other variables held constant, on the income statement and stockholders' equity.

The sensitivity of the profit or loss is the effect of the assumed fair value changes of investment securities classified at fair value through profit or loss. The sensitivity of other comprehensive income is the effect of the assumed fair value changes of investment securities classified as available-for-sale. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variable, variables had to be on an individual basis. It should be noted that movements in these variables are non-linear.

	<b>The Group</b>			
	<b>Effect on</b>	<b>Effect on</b>	<b>Effect on</b>	<b>Effect on</b>
	<b>Net Profit</b>	<b>Equity</b>	<b>Net Profit</b>	<b>Equity</b>
	<b>2012</b>	<b>2012</b>	<b>2011</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Percentage change in share price</b>				
10% decrease	(28,247)	(216,290)	(8,540)	(59,435)
10% increase	28,247	216,290	8,540	61,079
<b>The Bank</b>				
	<b>Effect on</b>	<b>Effect on</b>	<b>Effect on</b>	<b>Effect on</b>
	<b>Net Profit</b>	<b>Equity</b>	<b>Net Profit</b>	<b>Equity</b>
	<b>2012</b>	<b>2012</b>	<b>2011</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Percentage change in share price</b>				
10% decrease	-	(13,661)	-	(50,658)
10% increase	-	13,661	-	52,301

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

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### 43. Financial Risk Management (Continued)

#### (d) Derivative financial instruments

The Group's derivative transactions are primarily directed at hedging its risk exposures which arise during the normal course of its treasury and investment activities. When entering into derivative transactions, the Group employs the same credit risk management procedures to assess and approve potential credit exposures that are used for traditional lending.

#### (e) Insurance risk

The Group issues contracts that transfer insurance risk or financial risk or both.

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract this risk is random and therefore unpredictable. Experience shows that the larger the portfolio of similar insurance contracts, the smaller will be the relative variability about the expected outcome. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency of or severity of claims and benefits will vary from year to year from the estimate established using statistical techniques. The Group issues contracts that have a maximum period determined by the remaining life of the insured. In addition to the estimated benefits which may be payable under the contract, the Group has to assess the cash flows which may be attributable to the contract. The process of underwriting may also be undertaken and may include specific medical tests and other enquiries which affect the Group's assessment of the risk.

#### *Frequency and severity of claims*

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency and severity of claims are epidemics (such as AIDS) and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, resulting in earlier or more claims than expected.

The Group charges for mortality risks on a monthly basis for insurance contracts with investment options and has the right to alter these charges based on mortality experience and hence to minimise its exposure to mortality risk on these contracts. Delays in implementing increases in mortality charges, and contractual, market or regulatory restraints over the extent of any increases, may reduce this mitigating effect.

The Group also manages mortality risks on its contracts through its underwriting strategy and reinsurance arrangements. The underwriting strategy is intended to minimise the risk of anti-selection. The Group's underwriting strategy has a two fold approach:

- a) products that are subject to traditional methods of application and assessment are controlled by traditional underwriting methods including medical and financial selection with benefits being limited to reflect the health and/or financial condition of applicants and by the application of retention limits on any single life insured.
- b) products which are not subject to traditional methods of application and assessment contain pre-existing conditions and exclusionary clauses for certain types of high-risk medical and financial events, with claims on these types of policies examined for breaches to those clauses and denied or settled accordingly.

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 43. Financial Risk Management (Continued)

#### (e) Insurance risk (continued)

The tables below indicate the concentration of insured benefits across bands of insured benefits per individual life assured. The Group uses catastrophe re-insurance cover against its Individual contracts as the main risks faced by these contracts are interest rate and liquidity:

	Total Benefits Assured - Individual			
	2012		2011	
	\$'000	\$'000	\$'000	\$'000
	Contracts with Investment Options	Contracts without Investment Options	Contracts with Investment Options	Contracts without Investment Options
<b>Benefits assured per life assured (\$'000)</b>				
0 – 1,000	12,592,482	1,767,817	11,924,594	1,505,372
1,000 – 2,000	3,774,765	6,268,619	3,639,903	5,790,269
2,000 – 5,000	4,595,536	3,931,131	4,495,366	3,393,381
5,000 – 10,000	2,981,311	-	2,943,390	-
Over 10,000	3,916,088	-	3,890,154	-
	<u>27,860,182</u>	<u>11,967,567</u>	<u>26,893,407</u>	<u>10,689,022</u>

	Total Benefits Assured - Group			
	2012		2011	
	\$'000	\$'000	\$'000	\$'000
	Before Re-insurance	After Re-insurance	Before Re-insurance	After Re-insurance
<b>Benefits assured per life assured (\$'000)</b>				
0 – 1,000	10,273,081	10,272,301	8,285,709	8,285,667
1,000 – 2,000	7,656,975	7,654,706	5,470,709	5,470,162
2,000 – 5,000	12,408,493	12,109,983	9,541,090	9,212,097
5,000 – 10,000	11,538,176	7,077,084	9,368,303	5,662,839
Over 10,000	7,223,180	1,962,428	5,698,043	1,532,870
	<u>49,099,905</u>	<u>39,076,502</u>	<u>38,363,854</u>	<u>30,163,635</u>

The Group uses re-insurance cover against its Ordinary Life, Group Life and Creditor Life contracts above certain limits.

- The premium ceded during the year in respect of catastrophe re-insurance cover amounted to \$22,006,000 (2011 – \$24,345,000). Premium income recognized in the income statement is shown net of these amounts.
- Policyholders' benefits recovered from reinsurers during the year under these contracts amounted to \$11,474,000 (2011 – \$8,567,000).
- At September 30, 2012, premiums payable under re-insurance contracts amounted to Nil (2011 – 1,557,000).
- At September 30, 2012, there were no amounts receivable from reinsurers in respect of policyholders' benefits (2011 – Nil).

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 43. Financial Risk Management (Continued)

### (e) Insurance risk (continued)

The following table for annuity contracts illustrates the concentration of risk in relation to the amount payable as if the annuity were in payment at the year end:

	<b>Total Annuities Payable</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Annuity payable per annum per annuitant (\$'000)</b>		
0 -100	26,518	6,571
100 - 300	67,552	32,943
300 – 500	60,713	43,700
500 – 1,000	121,294	108,608
Over 1,000	<u>548,438</u>	<u>534,312</u>
	<u>824,515</u>	<u>726,134</u>

The Group does not hold any re-insurance against the liabilities in these contracts.

Insurance risk for contracts disclosed in this note is also affected by the contract holders' right to pay reduced or no future premiums, or to terminate the contract completely. As a result, the amount of insurance risk is also subject to contract holders' behaviour. The Group has factored the impact of contract holders' behaviour into the assumptions used to measure these liabilities.

#### *Sources of uncertainty in the estimation of future benefit payments and premium payments*

Uncertainty in the estimation of future benefit payments and premium receipts for long term insurance contracts arises from the unpredictability of long term changes in overall levels of mortality and morbidity and the variability in policyholder behaviour.

The Group uses appropriate base tables of standard mortality and morbidity according to the type of contract being written. An investigation as to the actual experience of the Group is carried out by the Appointed Actuary, and a comparison of the actual rates with expected rates is performed. Where data are insufficient to be statistically credible, the best estimates of future mortality and morbidity are based on standard industry tables adjusted for the Group's overall experience. For contracts that insure survival, an adjustment is made for future mortality and morbidity improvements based on trends identified in the continuous mortality and morbidity investigations performed by independent actuarial bodies. The Group maintains voluntary termination statistics to investigate the deviation of actual termination experience against assumptions. Statistical methods are used to determine appropriate termination rates to be used for the best estimate assumption.

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

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### 43. Financial Risk Management (Continued)

#### (e) Insurance risk (continued)

##### *Process used in deriving assumptions*

The assumptions for insurance contracts and the process used in deriving these assumptions have remained substantially unchanged since the previous year.

Estimates are made in two stages:

- (i) At inception of the contract, the Group determines assumptions in relation to future deaths, voluntary terminations, investment returns and administration expenses. These assumptions are used as the base assumptions for calculating the liabilities; and
- (ii) Subsequently, new estimates are developed at each reporting date and the assumptions are altered to reflect the latest current estimates or experience.

Assumptions are considered to be 'best estimate' if, on average, the results are expected to be worse than the assumptions in 50% of possible scenarios and better in the other 50%. See Note 32 for details on policy assumptions.

##### *Reinsurance risk*

Reinsurance risk is the risk that a reinsurer will default and not honour obligations arising from claims. The Group limits the probable loss in the event of individual deaths and any single catastrophic accident occurrence by reinsuring its insurance risk above certain limits with other insurers. Reinsurance ceded does not discharge the Group's liability as the primary insurer. The Group manages reinsurance risk by selecting reinsurers with high credit ratings and monitoring these on an ongoing basis. The current reinsurer is Swiss Re (registered in Canada) whose financial strength rating from Standard & Poor's is AA- (at October 28, 2011) and from AM Best A+ (at December 20, 2011).

Retention limits represent the level of risk retained by the insurer. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit, the limits of coverage accepted by the Group under these contracts falls into two main categories with limits of \$2,000,000 and \$5,000,000 per life, coverage in excess of these limits is ceded to reinsurers.

#### (f) Capital management

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

- To comply with the capital requirements set by the regulators of the financial markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for stockholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

#### (i) The Banking segment

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Bank of Jamaica (BOJ), the Credit and Risk Management Division, the Asset and Liability Committee (ALCO) and Basel II as implemented by the BOJ for supervisory purposes. The required information is filed with the respective Authority at the stipulated intervals.

The BOJ requires the Bank to:

- Hold a specified level of the regulatory capital, and
- Maintain a ratio of total regulatory capital to the risk-weighted assets.

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 43. Financial Risk Management (Continued)

### (f) Capital management

#### (i) The Banking segment (continued)

The Bank's regulatory capital is divided into two tiers:

Tier 1 capital: ordinary share capital, non-redeemable non-cumulative preference shares, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill and net unrealized loss positions arising from fair value accounting are deducted in arriving at Tier 1 capital; and

Tier 2 capital: non-redeemable cumulative preference shares, qualifying subordinated loan capital, collective impairment allowances and unrealized gains arising on fair valuation of instruments held as available-for-sale.

Investments and share of accumulated losses in associates are deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

The risk-weighted assets are measured by means of a hierarchy of four 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 table below summarises the composition of regulatory capital and the ratios of the Bank as at the dates of the statement of financial position. During those two years, the Bank complied with all of the externally imposed capital requirements to which it is subject.

	<b>The Bank</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
Tier 1 capital	25,126,615	22,799,678
Tier 2 capital	977,944	769,424
Prescribed deduction – associated companies	(4,295,661)	(2,152,770)
Total regulatory capital	<u>21,808,898</u>	<u>21,416,332</u>
<b>Risk-weighted assets:</b>		
On-balance sheet	154,502,563	118,133,589
Off-balance sheet	13,782,288	23,394,025
Total risk-weighted assets	<u>168,284,851</u>	<u>141,527,614</u>
Tier one capital ratio	15%	16%
Total capital ratio	13%	15%
Required ratio	<u>10%</u>	<u>10%</u>

The increase of the regulatory capital in 2012 is mainly due to the transfer of realized profits to the banking and retained earnings reserves from current year profit.

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

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## 43. Financial Risk Management (Continued)

### (f) Capital management (continued)

#### (ii) NCB Insurance Company Limited

The company maintains a capital structure consisting mainly of shareholders' funds consistent with the company's profile and the regulatory and market requirements. The company is subject to a number of regulatory capital tests and also employs scenario testing on an annual basis to assess the adequacy of capital. The company has met all of these requirements during the year. Capital adequacy is managed at the operational level.

In reporting financial strength, capital and solvency is measured using the regulations prescribed by the Financial Services Commission (FSC). These regulatory capital tests are based upon required levels of solvency capital and a series of prudent assumptions in respect of the type of business written by the company.

The relevant capital requirement is the Minimum Continuing Capital Surplus Ratio (MCCSR) determined in accordance with the FSC regulations. This ratio is calculated by the Appointed Actuary and reviewed by executive management, the Audit Committee and the Board of Directors. This measure is a risk-based formula that compares available capital and surplus to a minimum requirement set by the FSC in regard to the asset and liability profile of the company. The FSC currently requires a minimum ratio of 150%. The company has set an internal target minimum of 200%. As at December 31, 2011, the MCCSR was measured at 1,169% (December 31, 2010 – 1,083%).

The company's capital position is sensitive to changes in market conditions, due to both changes in the value of assets and the effect that changes in investment conditions may have on the value of the liabilities. The most significant sensitivities arise from changes in interest rates and expenses. The company's capital position is also sensitive to assumptions and experience relating to mortality and persistency.

#### *Dynamic capital adequacy testing (DCAT)*

DCAT is a technique used to assess the adequacy of an insurer's financial position and financial condition in different future economic and policy experience scenarios. DCAT assesses the impact over the next 5 years on the insurer's financial position and financial condition under specific scenarios.

The financial position of an insurer is reflected by the amounts of assets, liabilities and equity in the statement of financial position at a given date.

The financial condition of an insurer at a particular date is its prospective ability at that date to meet its future obligations, especially obligations to policyholders, those to whom it owes benefits and to its shareholders.

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 43. Financial Risk Management (Continued)

### (f) Capital management (continued)

#### (ii) NCB Insurance Company Limited (continued)

*Dynamic capital adequacy testing (DCAT)*

The results of the latest DCAT are as follows.

The DCAT conducted has not tested any correlation that may exist between assumptions. The following table represents the sensitivity of the MCCSR and the Insurance Risk Reserve in each of the above scenarios. The 2012 information relates to the DCAT report for December 2011. The 2011 information relates to the DCAT report for December 2010.

	2012		2011	
	MCCSR	Change in Liability \$'000	MCCSR	Change in Liability \$'000
Worsening rate of lapses	1765%	(1,024,461)	1348%	231,383
High interest rates	2267%	(8,616,168)	1341%	(7,248,781)
Low interest rates	382%	10,032,276	387%	10,364,772
Worsening of mortality	1139%	821,691	1060%	713,015
Higher expenses	391%	6,808,277	918%	3,440,845
No sales growth	1657%	(827,044)	1310%	1,797,845
High sales growth	1070%	779,023	1024%	(344,654)
Extreme lapse and termination rates	2327%	(562,219)	1509%	1,768,165
Fall in interest rates to 5%	674%	8,268,022	632%	7,403,573



# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 43. Financial Risk Management (Continued)

### (f) Capital management (continued)

#### (iii) NCB Capital Markets Limited

The company is regulated by the Financial Services Commission (FSC) and is subjected to regulatory capital tests employed by the regulator. Under the FSC regulations, the level of capital adequacy determines the maximum amount of liabilities including repurchase agreements the company is able to offer to clients. In addition to the requirements of the FSC, the company also engages in periodic internal testing which is reviewed by the Risk and Compliance Unit. Capital adequacy is managed at the operational level of the company.

The regulatory capital of the company is divided into two tiers:

- (i) Tier 1 capital: share capital, retained earnings and reserves created from appropriations of retained earnings.
- (ii) Tier 2 capital: qualifying subordinated debt or loan capital, qualifying capital reserves and unrealized gains derived from the fair valuation of equity instruments classified as available for sale.

The FSC requires that the company maintains a capital base comprising at least 50% of Tier 1 capital.

In addition, the FSC employs certain ratios to test capital adequacy and solvency. The results of these ratios are included in a mandatory quarterly report submitted to the FSC. Two of the critical early warning ratios relating to the test for capital adequacy are 'Capital over Total Assets' and the 'Capital Base over Risk Weighted Assets (RWA)'.

The results of these ratios at the date of the statement of financial position are highlighted in the table below:

	<b>FSC Benchmark</b>	<b>2012</b>	<b>2011</b>
Capital / Total Assets	Greater than 6%	14%	15%
Capital Base / RWA	Minimum 10%	26%	35%
Tier 1 Capital / Capital Base	Greater than 50%	93%	100%

The capital position is sensitive to changes in market conditions. This sensitivity is due primarily to changes in the value of assets and liabilities resulting from changes in interest rates.

There was no change in relation to how the company manages its capital during the financial year. During the year the company met all the requirements of the FSC relating to capital adequacy.

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

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### 44. Fair Values of Financial Instruments

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 values derived from applying fair value techniques are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates. The following methods and assumptions have been used:

- (a) Investment securities at fair value through profit or loss, derivatives and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models, or discounted cash flows. Fair value is equal to the carrying amount for these items;
- (b) Investment securities classified as available-for-sale are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognized valuation techniques;
- (c) The fair value of liquid assets and other assets maturing within one year (Cash and Balances at Bank of Jamaica, Due from other banks) 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;
- (d) The fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the date of the statement of financial position;
- (e) The fair value of variable rate financial instruments is assumed to approximate their carrying amounts;
- (f) The fair value of fixed rate loans is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. For match-funded loans the fair value is assumed to be equal to their carrying value, as gains and losses offset each other. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values as the impact of credit risk is recognized separately by deducting the amount of the provisions for credit losses from both book and fair values; and

The fair values of investment securities classified as loans and receivables are disclosed in Note 22. The fair values of the obligations under securitization arrangements are disclosed in Note 30. The fair values for all other financial instruments approximate their carrying values.

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 44. Fair Values of Financial Instruments (Continued)

The following tables provide an analysis of financial instruments held as at the date of the statement of financial position 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).

	The Group			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>At September 30, 2012</b>				
<b>Financial assets</b>				
<i>Investment securities classified as available-for-sale</i>				
Government of Jamaica debt securities	-	148,418,357	-	148,418,357
Government of Jamaica guaranteed corporate bonds	-	9,264,768	-	9,264,768
Foreign government debt securities	-	1,592,111	151,715	1,743,826
Corporate debt securities	-	4,629,752	934,157	5,563,909
Quoted equity securities	1,709,475	-	-	1,709,475
Unquoted equity securities	-	-	77,777	77,777
	1,709,475	163,904,988	1,163,649	166,778,112
<i>Investment securities at fair value through profit or loss</i>				
Government of Jamaica debt securities	-	111,373	-	111,373
Government of Jamaica guaranteed corporate bonds	-	110,060	-	110,060
Corporate debt securities	-	48,233	161,481	209,714
Quoted equity securities	282,472	-	-	282,472
	282,472	269,666	161,481	713,619
Derivative financial instruments	-	4,978	-	4,978
	1,991,947	164,179,632	1,325,130	167,496,709
<b>Financial liabilities</b>				
Derivative financial instruments	-	5,312	-	5,312
Liabilities under annuity and insurance contracts	-	-	25,194,324	25,194,324
	-	5,312	25,194,324	25,199,636
<b>Net financial assets/(liabilities)</b>	1,991,947	164,174,320	(23,869,194)	142,297,073

# National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 44. Fair Values of Financial Instruments (Continued)

	The Group			Total \$'000
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
<b>At September 30, 2011</b>				
<b>Financial assets</b>				
<i>Investment securities classified as available-for-sale</i>				
Government of Jamaica debt securities	-	139,072,782	-	139,072,782
Government of Jamaica guaranteed corporate bonds		5,971,634	-	5,971,634
Foreign government debt securities	-	1,300,141	-	1,300,141
Corporate debt securities	-	6,046,574	2,799,245	8,845,819
Quoted equity securities	492,257		-	492,257
Unquoted equity securities	-	-	47,498	47,498
	492,257	152,391,131	2,846,743	155,730,131
<i>Investment securities at fair value through profit or loss</i>				
Government of Jamaica debt securities	-	540,783	-	540,783
Government of Jamaica guaranteed corporate bonds		140,430		140,430
Corporate debt securities	-	-	998,661	998,661
Quoted equity securities	90,880	-	-	90,880
	90,880	681,213	998,661	1,770,754
	583,137	153,072,344	3,845,404	157,500,885
<b>Financial liabilities</b>				
Liabilities under annuity and insurance contracts	-	-	23,564,275	23,564,275
<b>Net financial assets/(liabilities)</b>	583,137	153,072,344	(19,718,871)	133,936,610

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 44. Fair Values of Financial Instruments (Continued)

	The Bank			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>At September 30, 2012</b>				
<b>Financial assets</b>				
<i>Investment securities classified as available-for-sale</i>				
Government of Jamaica debt securities	-	61,585,090	-	61,585,090
Government of Jamaica guaranteed corporate bonds		623,858	-	623,858
Foreign government debt securities	-	941,657	-	941,657
Corporate debt securities	-	1,794,415	315,523	2,109,938
Quoted equity securities	550,978	-	-	550,978
Unquoted equity securities	-	-	18,255	18,255
	550,978	64,945,020	333,778	65,829,776
Derivative financial instruments	-	4,978	-	4,978
	550,978	64,949,998	333,778	65,834,754
<b>Financial liabilities</b>				
Derivative financial instruments	-	5,312	-	5,312
<b>Net financial assets</b>	550,978	64,944,686	333,778	65,829,442
<b>September 30, 2011</b>				
<b>Financial assets</b>				
<i>Investment securities classified as available-for-sale</i>				
Government of Jamaica debt securities	-	54,550,211	-	54,550,211
Foreign government debt securities	-	934,223	-	934,223
Corporate debt securities	-	1,687,957	315,523	2,003,480
Quoted equity securities	504,751	-	-	504,751
Unquoted equity securities	-	-	18,255	18,255
<b>Total financial assets</b>	504,751	57,172,391	333,778	58,010,920

The movement in financial assets classified as Level 3 during the year was as follows:

	The Group		The Bank	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
At start of year	3,845,404	1,990,426	333,778	333,778
Acquisitions	1,539,579	3,044,058	-	-
Fair value (losses)/gains recognized in other comprehensive income	(921,498)	616,931	-	-
Disposals	(3,138,355)	(1,806,011)	-	-
At end of year	1,325,130	3,845,404	333,778	333,778

The movement in liabilities under annuity and insurance contracts is disclosed in Note 32.

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 44. Fair Values of Financial Instruments (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 grouped in Level 1 and comprise equity securities that are quoted on the Jamaica Stock Exchange.

The fair value of financial instruments not traded in an active market is determined by using valuation techniques. These valuation techniques maximize 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 government bonds, certificates of deposit, commercial paper and most investment grade and liquid corporate bonds. Indicative prices of these instruments are obtained from regular, publicly available quotes by reputable dealers and brokers, such as Bloomberg and Oppenheimer.

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 and unlisted equity securities.

- The fair values of these corporate debt securities are determined based on recent issues or sales of similar bonds, by applying a spread to recent issues or sales of bonds that are not entirely similar, or by applying a spread to indicative quotes in less liquid markets. The Bank does not have a material holding of, or engages in significant transactions in, corporate debt securities classified as Level 3 and would, therefore, not be significantly affected by valuation adjustments resulting from these instruments. Sensitivity analysis of valuations of the Group's corporate debt securities using unobservable inputs, by valuation basis, was as follows:

	Fair values \$'000	Change in yield	Favorable changes		Unfavorable changes	
			Effect on Net Profit \$'000	Effect on Equity \$'000	Effect on Net Profit \$'000	Effect on Equity \$'000
<b>As at September 30, 2012:</b>						
<i>Investment securities classified as available-for-sale</i>						
Valued at par	1,085,872	2%	21,718	17,593	(21,718)	(17,593)
<i>Investment securities at fair value through profit or loss</i>						
Valued at par	161,481	2%	3,230	2,153	(3,230)	(2,153)
	<u>1,247,353</u>		<u>24,948</u>	<u>19,746</u>	<u>(24,948)</u>	<u>(19,746)</u>
<b>As at September 30, 2011:</b>						
<i>Investment securities classified as available-for-sale</i>						
Government of Jamaica yield curve	2,106,940	2%	36,999	97,282	(36,999)	(97,282)
Valued at par	692,305	2%	13,846	13,846	(13,846)	(13,846)
<i>Investment securities at fair value through profit or loss</i>						
Government of Jamaica yield curve	356,996	2%	16,746	16,746	(16,746)	(16,746)
	<u>3,156,241</u>		<u>67,591</u>	<u>127,874</u>	<u>(67,591)</u>	<u>(127,874)</u>

- The valuation of unquoted equity instruments is subjective by nature. The determination of the fair values of unquoted equity securities requires the use of a number of individual pricing benchmarks which would involve unobservable inputs, such as earnings estimates, multiples of comparative companies, marketability discounts and discount rates. The Group does not have a material holding of, or engages in significant transactions in, unquoted equity instruments and would, therefore, not be significantly affected by valuation adjustments resulting from these instruments.

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

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### 45. Financial Sector Legislation

#### **Banking Act**

- (i) At September 30, 2011, the Bank was in breach of Section 13(1)(b)(i) of the Banking Act which prohibits the acquisition of property for purposes other than banking business or staff housing. These properties were formerly utilized in banking operations. The breach at September 30, 2011 relates to one property for which, during the year, a decision was taken to recommence its use for banking operations.
- (ii) At September 30, 2012 and September 30, 2011, the Bank was in breach of Section 13(1)(d)(i) of the Banking Act. This section deals with unsecured lending to connected persons and represented approximately 0.0168813% (2011 – 0.00000052%) of the Bank's loans and advances.

### 46. Fiduciary Activities

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. At September 30, 2012, the Group had financial assets under administration of approximately \$50,879,847,000 (2011 – \$53,657,460,000).

### 47. Dividends

The following dividends were paid during the year:

- \$0.34 per ordinary stock unit was paid in December 2011
- \$0.38 per ordinary stock unit was paid in February 2012
- \$0.21 per ordinary stock unit was paid in May 2012
- \$0.17 per ordinary stock unit was paid in August 2012

On November 15, 2012, the Board declared a final interim dividend in respect of 2012 of \$0.64 per ordinary stock unit. The dividend is payable on December 13, 2012 for stockholders on record as at November 30, 2012. The financial statements for the year ended September 30, 2012 do not reflect this resolution, which will be accounted for in stockholders' equity as an appropriation of retained profits in the year ending September 30, 2013.

# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

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### 48. Litigation and Contingent Liabilities

#### *Litigation*

The Bank and its subsidiaries are 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 Group, and the amount can be reasonably estimated.

In respect of claims asserted against the Group which, according to the principles outlined above, 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 Group which is immaterial to both its financial position and results of operations.

Significant matters are as follows:

- (a) Suit has been filed by the Bank's Staff Association against the Bank seeking various declarations regarding the Bank's profit sharing scheme. The Association has not quantified the claim. No provision has been made in the financial statements as the Bank's attorneys are of the opinion that the suit against the Bank is unlikely to succeed.
- (b) Suit has been filed by a customer against the Bank for breach of contract, breach of trust and negligence and damages. The claim for damages includes a sum equivalent to the profit of the business foregone as a result of an inability to access a loan approved by the Bank and the cost of interim financing. No provision has been made in these financial statements for this claim as the Bank's attorneys are of the view that the suit against the Bank is unlikely to succeed.
- (c) Suit has been filed by a customer against the Bank for damages suffered as a result of the Bank's alleged negligence in relation to the sale of property. The proper value of the property, which had been owned by the customer, is in issue, along with the amount properly to be applied to the customer's loan balance. Based on the advice of the Bank's attorneys, a provision has been made in the financial statements in respect of this claim.
- (d) Suit has been filed by a customer against the Bank for unlawful, wrongful and/or improper use of power in the appointment of a Receiver and manager of the customer's business property and assets. Damages, interest and costs have been claimed against the Bank. The Bank's attorneys are unable to determine the outcome of the suit and no provision has been made in the financial statements.
- (e) Suit has been filed by a customer seeking specific performance, damages for breach of contract, interest and costs. The claim against the Bank is now approximately \$22,444,840,000. No provision has been made in these financial statements for this claim as the Bank's attorneys are of the view that the suit against the Bank is unlikely to succeed.
- (f) Suit has been filed against the Bank by Claimants seeking damages for loss and an account of trust property as it relates to the Bank's predecessor acting as executor of an estate. The claim against the Bank is approximately \$504,680,000. No provision has been made in the financial statements for this claim as the Bank's attorneys are of the opinion that the suit against the Bank is unlikely to succeed.

A number of other suits claiming damages in excess of \$5 million each have been filed by customers of the Bank. In some instances counter claims have been filed by the Bank. Provision has been made in the financial statements for certain of these claims. No provision has been made where the Bank's attorneys are of the view that the Bank has a good defense against these claims.



# National Commercial Bank Jamaica Limited

## Notes to the Financial Statements

September 30, 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 48. Litigation and Contingent Liabilities (Continued)

#### **Contingent Liability**

In 2009, one of the Bank's subsidiaries received income tax assessments in respect of the years 2003 to 2007 from the Commissioner, Tax Administration Jamaica (TAJ), for additional income taxes totaling \$2.7 billion.

On October 16, 2012, the subsidiary received a Notice of Decision from the TAJ reducing the assessments to \$38,962,000. The subsidiary does not intend to appeal the Notice of Decision and, accordingly, has provided for this amount in its financial statements (Note 14).

### 49. Restatement

The Group acquired 29.30% of Jamaica Money Market Brokers Limited (JMMB) close to the end of the prior year. The acquisition was not complete by the year end and, in accordance with the 'measurement period' provisions in IFRS 3, the Group's share of the identifiable net assets acquired was determined provisionally from the published interim financial statements of JMMB as at June 30, 2011.

On that basis, \$1,016,505,000 was recognized as gain on acquisition of associates (including JMMB) in the income statement for the year ended September 30, 2011. This amount was subsequently revised to \$1,867,377,000 upon the finalization of the determination of the fair value of the share of net assets, including intangible assets, acquired.

The effect on this restatement on the income statement for the year ended September 30, 2011 was as follows:

	As previously stated	Effect of restatement	As restated
	\$'000	\$'000	\$'000
<b>Operating Profit</b>	15,487,738	-	15,487,738
Gain on acquisition of associates	1,016,505	850,872	1,867,377
Share of profit of associates	234,979	-	234,979
<b>Profit before Taxation</b>	16,739,222	850,872	17,590,094
Taxation	(3,704,793)	-	(3,704,793)
<b>Net Profit</b>	13,034,429	850,872	13,885,301
<b>Earnings per stock unit</b> (expressed in \$ per share)			
Basic and diluted	5.30		5.64

The carrying value of investment in associates in the statement of financial position as at September 30, 2011 was also increased by \$850,872,000 with a corresponding increase in retained earnings.

### 50. Subsequent Event

During the year, NCB Capital Markets Limited signed agreements with AIC (Barbados) Limited and ACF Holdings Insurco Limited, the legal and beneficial owners of 96.24% of the issued share capital of Advantage General Insurance Company Limited (AGI), for the purchase of their shareholdings in AGI. Both AIC (Barbados) Limited and ACF Holdings Insurco Limited are controlled by the Chairman of the Bank. The completion of the transaction is contingent on obtaining regulatory approval from the Financial Services Commission (FSC) and non-objection from the Bank of Jamaica (BoJ). Subsequent to the year end, conditional regulatory approval was obtained from the FSC. However, the Bank is still in dialogue with the BoJ in respect of their non-objection.