



**Sagicor Investments Jamaica Limited  
(Formerly Pan Caribbean Financial Services  
Limited)**

**Financial Statements  
31 December 2012**

# **Sagicor Investments Jamaica Limited**

(Formerly Pan Caribbean Financial Services Limited)

Index

**31 December 2012**

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

To the Members of  
Sagicor Investments Jamaica Limited  
(Formerly Pan Caribbean Financial Services Limited)

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Sagicor Investments Jamaica Limited set out on pages 1 to 110, which comprise the consolidated and company statement of financial position as at 31 December 2012 and the consolidated and company 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 Financial Statements***

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

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

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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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**Members of Sagicor Investments Jamaica Limited  
(Formerly Pan Caribbean Financial Services Limited)  
Independent Auditors' Report  
Page 2**

***Opinion***

In our opinion, the financial statements give a true and fair view of the financial position of Sagicor Investments Jamaica Limited as at 31 December 2012, and of its financial performance and cash flows for the year then ended 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 the accompanying financial statements are in agreement therewith and give the information required by the Jamaican Companies Act, in the manner so required.

A handwritten signature in black ink, appearing to read 'P. Newman', is written over the printed name of the Chartered Accountants.

Chartered Accountants  
1 March 2013  
Kingston, Jamaica

**Sagicor Investments Jamaica Limited**  
**(Formerly Pan Caribbean Financial Services Limited)**  
**Consolidated Income Statement**  
**Year ended 31 December 2012**  
**(Expressed in Jamaican dollars unless otherwise indicated)**

|  | Note | 2012<br>\$'000   | 2011<br>\$'000   |
|--|------|------------------|------------------|
| <b>Net interest Income and Other Revenue</b> |      |                  |                  |
| Interest income from securities              |      | 5,401,488        | 5,136,317        |
| Interest income from loans and leases        |      | 895,901          | 992,666          |
| Other interest income                        |      | 4,067            | 1,097            |
| <b>Total interest income</b>                 |      | <b>6,301,456</b> | <b>6,130,080</b> |
| Interest expense                             | 6    | (3,284,422)      | (3,189,990)      |
| <b>Net interest income</b>                   |      | <b>3,017,034</b> | <b>2,940,090</b> |
| Fees and commission income                   | 7    | 332,830          | 392,434          |
| Net trading income                           | 8    | 715,615          | 656,285          |
| Other revenue                                | 9    | 50,905           | 32,475           |
|  |      | <b>1,099,350</b> | <b>1,081,194</b> |
|  |      | <b>4,116,384</b> | <b>4,021,284</b> |
| <b>Operating Expenses</b>                    |      |                  |                  |
| Team member costs                            | 10   | 1,121,711        | 1,003,253        |
| Impairment charges/(reversals)               | 11   | 16,658           | (28,773)         |
| Occupancy costs                              |      | 151,234          | 126,522          |
| Other expenses                               | 12   | 791,648          | 610,980          |
|  |      | <b>2,081,251</b> | <b>1,711,982</b> |
| <b>Profit before Taxation</b>                |      | <b>2,035,133</b> | <b>2,309,302</b> |
| Taxation                                     | 13   | (582,457)        | (588,646)        |
| <b>Net Profit</b>                            | 14   | <b>1,452,676</b> | <b>1,720,656</b> |
| <b>EARNINGS PER STOCK UNIT</b>               |      |                  |                  |
| Basic  | 16   | <b>\$2.63</b>    | <b>\$3.12</b>    |
| Diluted                                      | 16   | <b>\$2.61</b>    | <b>\$3.09</b>    |

**Sagicor Investments Jamaica Limited**  
**(Formerly Pan Caribbean Financial Services Limited)**  
 Consolidated Statement of Comprehensive Income  
 Year ended 31 December 2012  
 (Expressed in Jamaican dollars unless otherwise indicated)

|   | 2012<br>\$'000        | 2011<br>\$'000          |
|---|-----------------------|-------------------------|
| <b>Net Profit</b>   | <u>1,452,676</u>      | <u>1,720,656</u>        |
| <b>Other comprehensive income -</b>                         |                       |                         |
| <b>Available-for-sale investments -</b>                     |                       |                         |
| Unrealised (losses)/gains on available-for-sale investments | (362,835)             | 649,908                 |
| Gains reclassified and reported in profit                   | <u>(277,503)</u>      | <u>(390,990)</u>        |
|   | <u>(640,338)</u>      | <u>258,918</u>          |
| <b>Cash flow hedge -</b>                                    |                       |                         |
| Gains reclassified and reported in profit                   | <u>(39,897)</u>       | <u>(7,762)</u>          |
| <b>Total other comprehensive income, net of taxes</b>       | <u>(680,235)</u>      | <u>251,156</u>          |
| <b>Total Comprehensive Income</b>                           | <u><u>772,441</u></u> | <u><u>1,971,812</u></u> |

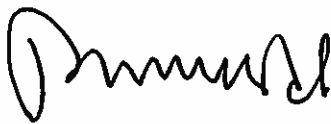
**Sagicor Investments Jamaica Limited**  
**(Formerly Pan Caribbean Financial Services Limited)**  
**Consolidated Statement of Financial Position**  
**31 December 2012**  
**(Expressed in Jamaican dollars unless otherwise indicated)**

|   | Note | 2012<br>\$'000    | 2011<br>\$'000    |
|---|------|-------------------|-------------------|
| <b>ASSETS</b>   |      |                   |                   |
| Cash and balances due from other financial institutions | 17   | 4,085,785         | 2,227,484         |
| Cash reserve at Bank of Jamaica                         | 18   | 735,494           | 519,732           |
| Trading securities                                      | 19   | 4,495,432         | 610,940           |
| Securities purchased under agreements to resell         | 20   | 1,783,514         | 991,904           |
| Investment securities                                   | 21   | 56,464,666        | 55,377,164        |
| Derivative financial instruments                        | 22   | 4,253,104         | 839,420           |
| Loans, net of provision for credit losses               | 24   | 9,330,364         | 9,242,365         |
| Lease receivables                                       | 25   | 59,159            | 15,515            |
| Pledged assets  | 26   | 3,943,434         | 7,831,016         |
| Due from related companies                              |      | 48,496            | 8,527             |
| Income tax recoverable                                  |      | 5,478             | 5,478             |
| Intangible assets                                       | 28   | 807,576           | 781,300           |
| Property, plant and equipment                           | 29   | 309,739           | 168,691           |
| Post-employment benefit assets                          | 30   | 35,729            | 28,473            |
| Other assets  | 31   | 1,876,214         | 1,555,927         |
|   |      | <u>88,234,184</u> | <u>80,203,936</u> |

**Sagicor Investments Jamaica Limited**  
**(Formerly Pan Caribbean Financial Services Limited)**  
**Consolidated Statement of Financial Position (Continued)**  
**31 December 2012**  
**(Expressed in Jamaican dollars unless otherwise indicated)**

|  | Note | 2012<br>\$'000    | 2011<br>\$'000    |
|--|------|-------------------|-------------------|
| <b>LIABILITIES</b>                             |      |                   |                   |
| Securities sold under agreements to repurchase |      | 57,595,878        | 54,612,131        |
| Customer deposits and other accounts           |      | 11,215,194        | 10,599,897        |
| Structured products                            | 32   | 854,100           | 274,913           |
| Due to banks and other financial institutions  | 33   | 468,746           | 764,018           |
| Derivative financial instruments               | 22   | 4,310,566         | 700,600           |
| Due to related companies                       |      | 105,512           | 52,351            |
| Income tax payable                             |      | 108,418           | 139,590           |
| Deferred income tax liabilities                | 34   | 176,379           | 525,326           |
| Post-employment benefit obligations            | 30   | 58,035            | 52,602            |
| Other liabilities                              | 35   | 1,317,871         | 523,149           |
|  |      | <u>76,210,699</u> | <u>68,244,577</u> |
| <b>STOCKHOLDERS' EQUITY</b>                    |      |                   |                   |
| Share capital                                  | 36   | 3,195,565         | 3,195,565         |
| Stock options reserve                          | 37   | 58,089            | 51,793            |
| Retained earnings reserve                      | 38   | 2,036,596         | 1,536,596         |
| Reserve fund                                   | 39   | 299,613           | 301,043           |
| Loan loss reserve                              | 40   | 251,733           | 249,479           |
| Capital redemption reserve                     | 41   | 1,264,324         | 1,264,324         |
| Fair value reserve                             | 42   | 253,365           | 933,600           |
| Retained earnings                              | 15   | 4,664,200         | 4,426,959         |
|  |      | <u>12,023,485</u> | <u>11,959,359</u> |
|  |      | <u>88,234,184</u> | <u>80,203,936</u> |

Approved for Issue by the Board of Directors on 27 February 2013 and signed on its behalf by:



Richard O. Byles

Director



Donovan H. Perkins

Director



**Sagcor Investments Jamaica Limited**  
**(Formerly Pan Caribbean Financial Services Limited)**  
**Consolidated Statement of Changes in Stockholders' Equity**  
**Year ended 31 December 2012**  
**(Expressed in Jamaican dollars unless otherwise indicated)**

| Note   | Share Capital<br>\$'000 | Share Options Reserve<br>\$'000 | Retained Earnings Reserve<br>\$'000 | Reserve Fund<br>\$'000 | Loan Loss Reserve<br>\$'000 | Capital Redemption Reserve<br>\$'000 | Fair Value Reserve<br>\$'000 | Retained Earnings<br>\$'000 | Total<br>\$'000 |
|--|-------------------------|---------------------------------|-------------------------------------|------------------------|-----------------------------|--------------------------------------|------------------------------|-----------------------------|-----------------|
| Balance at 1 January 2011                                | 3,126,867               | 53,767                          | 1,536,596                           | 269,016                | 141,433                     | 651,472                              | 682,444                      | 4,162,831                   | 10,624,426      |
| Net profit   | -                       | -                               | -                                   | -                      | -                           | -                                    | -                            | 1,720,656                   | 1,720,656       |
| Other comprehensive income                               | -                       | -                               | -                                   | -                      | -                           | -                                    | 251,156                      | -                           | 251,156         |
| Total comprehensive income for 2011                      | -                       | -                               | -                                   | -                      | -                           | -                                    | 251,156                      | 1,720,656                   | 1,971,812       |
| Issue of ordinary stock units                            | 46,236                  | -                               | -                                   | -                      | -                           | -                                    | -                            | -                           | 46,236          |
| Transfer of exercised options                            | 22,462                  | (22,462)                        | -                                   | -                      | -                           | -                                    | -                            | -                           | -               |
| Employee stock option scheme                             | -                       | 20,488                          | -                                   | -                      | -                           | -                                    | -                            | -                           | 20,488          |
| Transfers to/(from) reserves                             | -                       | -                               | -                                   | 32,027                 | -                           | 612,852                              | -                            | (644,879)                   | -               |
| Currency revaluation and other adjustments               | -                       | -                               | -                                   | -                      | 1,281                       | -                                    | -                            | -                           | 1,281           |
| Adjustment between regulatory loan provisioning and IFRS | -                       | -                               | -                                   | -                      | 106,765                     | -                                    | -                            | (106,765)                   | -               |
| Dividends  | -                       | -                               | -                                   | -                      | -                           | -                                    | -                            | (704,884)                   | (704,884)       |
| Balance at 31 December 2011                              | 3,195,565               | 51,793                          | 1,536,596                           | 301,043                | 249,479                     | 1,264,324                            | 933,600                      | 4,426,959                   | 11,959,359      |
| Net profit   | -                       | -                               | -                                   | -                      | -                           | -                                    | -                            | 1,452,676                   | 1,452,676       |
| Other comprehensive income                               | -                       | -                               | -                                   | -                      | -                           | -                                    | (680,235)                    | -                           | (680,235)       |
| Total comprehensive income for 2012                      | -                       | -                               | -                                   | -                      | -                           | -                                    | (680,235)                    | 1,452,676                   | 772,441         |
| Employee stock option scheme                             | -                       | 6,296                           | -                                   | -                      | -                           | -                                    | -                            | -                           | 6,296           |
| Transfers to/(from) reserves                             | -                       | -                               | 500,000                             | (1,430)                | -                           | -                                    | -                            | (498,570)                   | -               |
| Currency revaluation and other adjustments               | -                       | -                               | -                                   | -                      | 10,356                      | -                                    | -                            | -                           | 10,356          |
| Adjustment between regulatory loan provisioning and IFRS | -                       | -                               | -                                   | -                      | (8,102)                     | -                                    | -                            | 8,102                       | -               |
| Dividends  | -                       | -                               | -                                   | -                      | -                           | -                                    | -                            | (724,967)                   | (724,967)       |
| Balance at 31 December 2012                              | 3,195,565               | 58,089                          | 2,036,596                           | 299,613                | 251,733                     | 1,264,324                            | 253,365                      | 4,664,200                   | 12,023,485      |

**Sagicor Investments Jamaica Limited**  
**(Formerly Pan Caribbean Financial Services Limited)**  
**Consolidated Statement of Cash Flows**  
**Year ended 31 December 2012**  
**(Expressed in Jamaican dollars unless otherwise indicated)**

|  | Note | 2012<br>\$'000     | 2011<br>\$'000     |
|--|------|--------------------|--------------------|
| <b>Cash Flows from Operating Activities</b>              |      |                    |                    |
| Net profit   |      | 1,452,676          | 1,720,656          |
| Adjustments for:   |      |                    |                    |
| Interest income  |      | (6,301,456)        | (6,130,080)        |
| Interest expense   | 6    | 3,284,422          | 3,189,990          |
| Income tax charge  | 13   | 582,457            | 588,646            |
| Fair value (gains)/loss on trading securities            |      | (208,192)          | 603                |
| Impairment charges                                       | 11   | 16,658             | (4,098)            |
| Amortisation of premiums/discounts                       |      | (5,953)            | (144,635)          |
| Amortisation of intangible assets                        | 28   | 27,133             | 40,373             |
| Depreciation of property, plant and equipment            | 29   | 50,410             | 44,586             |
| Gain on sale of property, plant and equipment            |      | (149)              | (141)              |
| Amortisation of hedging reserve                          |      | (59,846)           | (11,643)           |
| Changes in post-employment benefits and pension recharge |      | (1,823)            | (13,739)           |
| Stock options and grants expense                         |      | 6,295              | 64,242             |
| Foreign exchange gains on foreign assets and liabilities |      | (415,431)          | (10,792)           |
|  |      | <u>(1,572,799)</u> | <u>(666,032)</u>   |
| Changes in operating assets and liabilities -            |      |                    |                    |
| Statutory reserves at Bank of Jamaica                    |      | (207,119)          | (59,087)           |
| Trading securities                                       |      | (3,536,483)        | (561,918)          |
| Securities purchased under agreements to resell          |      | (301,853)          | 72,410             |
| Investment securities                                    |      | 3,014,111          | (7,540,449)        |
| Derivative financial instruments                         |      | 173,056            | (6,403)            |
| Loans  |      | 518,959            | 292,028            |
| Lease receivables  |      | (46,532)           | 3,501              |
| Securities sold under agreements to repurchase           |      | (749,354)          | 4,593,071          |
| Structured products                                      |      | 611,125            | (212,692)          |
| Customer deposits and other accounts                     |      | 95,031             | 1,532,397          |
| Other assets   |      | (550,014)          | (808,286)          |
| Other liabilities  |      | 823,939            | 125,426            |
|  |      | <u>(1,727,933)</u> | <u>(3,236,034)</u> |
| Interest received  |      | 6,310,770          | 6,207,840          |
| Interest paid  |      | (3,184,400)        | (3,175,499)        |
| Taxation   |      | (385,917)          | (165,538)          |
| Net cash provided by/(used in) operating activities      |      | <u>1,012,520</u>   | <u>(369,231)</u>   |

**Sagicor Investments Jamaica Limited**  
**(Formerly Pan Caribbean Financial Services Limited)**  
**Consolidated Statement of Cash Flows (Continued)**  
**Year ended 31 December 2012**  
**(Expressed in Jamaican dollars unless otherwise indicated)**

|  | Note | 2012<br>\$'000          | 2011<br>\$'000          |
|--|------|-------------------------|-------------------------|
| <b>Cash Flows from Operating Activities</b>                                    |      | <u>1,012,520</u>        | <u>(369,231)</u>        |
| <b>Cash Flows from Investing Activities</b>                                    |      |                         |                         |
| Purchase of intangible assets  | 28   | (53,409)                | (36,215)                |
| Purchase of property, plant and equipment                                      |      | (191,521)               | (51,000)                |
| Proceeds from disposal of property, plant and equipment                        |      | 212                     | 141                     |
| Net cash used in investing activities  |      | <u>(244,718)</u>        | <u>(87,074)</u>         |
| <b>Cash Flows from Financing Activities</b>                                    |      |                         |                         |
| Proceeds from issue of ordinary stock units                                    | 37   | -                       | 18,483                  |
| Redemption of redeemable preference shares                                     |      | -                       | (612,852)               |
| Borrowings from banks and other financial institutions – long term             |      | 93,108                  | 183,147                 |
| Repayment of amounts due to banks and other financial institutions – long term |      | (360,498)               | (258,389)               |
| Due from related parties   |      | 13,193                  | 56,420                  |
| Dividends paid   | 43   | (724,967)               | (704,884)               |
| Net cash used in financing activities  |      | <u>(979,164)</u>        | <u>(1,318,075)</u>      |
| Effect of exchange rate changes on cash and cash equivalents                   |      | <u>249,366</u>          | <u>(10,637)</u>         |
| Net increase/(decrease) in cash and cash equivalents                           |      | 38,004                  | (1,785,017)             |
| Cash and cash equivalents at beginning of year                                 |      | <u>2,085,495</u>        | <u>3,870,512</u>        |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>                                | 23   | <u><u>2,123,499</u></u> | <u><u>2,085,495</u></u> |

**Sagicor Investments Jamaica Limited**  
**(Formerly Pan Caribbean Financial Services Limited)**  
**Company Income Statement**  
**Year ended 31 December 2012**  
**(Expressed in Jamaican dollars unless otherwise indicated)**

|  | Note | 2012<br>\$'000     | 2011<br>\$'000     |
|--|------|--------------------|--------------------|
| <b>Net Interest Income and Other Revenue</b> |      |                    |                    |
| Interest income from securities              |      | 4,772,272          | 4,673,480          |
| Interest income from loans                   |      | 193,052            | 222,887            |
| Other interest income                        |      | 2,211              | 624                |
| Total interest income                        |      | <u>4,967,535</u>   | <u>4,896,991</u>   |
| Interest expense                             | 6    | <u>(2,891,586)</u> | <u>(2,815,661)</u> |
| Net interest income                          |      | <u>2,075,949</u>   | <u>2,081,330</u>   |
| Fees and commission income                   | 7    | 278,664            | 341,102            |
| Net trading income                           | 8    | 469,639            | 489,781            |
| Other revenue                                | 9    | 20,119             | 8,627              |
|  |      | <u>768,422</u>     | <u>839,510</u>     |
|  |      | <u>2,844,371</u>   | <u>2,920,840</u>   |
| <b>Operating Expenses</b>                    |      |                    |                    |
| Team member costs                            | 10   | 746,053            | 674,881            |
| Impairment (reversal), net                   | 11   | (10,277)           | (54,041)           |
| Occupancy costs                              |      | 55,977             | 45,513             |
| Other expenses                               | 12   | 478,023            | 346,487            |
|  |      | <u>1,269,776</u>   | <u>1,012,840</u>   |
| <b>Profit before Taxation</b>                |      | <u>1,574,595</u>   | <u>1,908,000</u>   |
| Taxation                                     | 13   | <u>(429,257)</u>   | <u>(499,782)</u>   |
| <b>Net Profit</b>                            | 14   | <u>1,145,338</u>   | <u>1,408,218</u>   |


**Sagicor Investments Jamaica Limited**  
**(Formerly Pan Caribbean Financial Services Limited)**  
 Company Statement of Comprehensive Income  
 Year ended 31 December 2012  
 (Expressed in Jamaican dollars unless otherwise indicated)

|   | 2012<br>\$'000        | 2011<br>\$'000          |
|---|-----------------------|-------------------------|
| <b>Net Profit</b>   | <u>1,145,338</u>      | <u>1,408,218</u>        |
| <b>Other comprehensive income -</b>                         |                       |                         |
| Available-for-sale investments -                            |                       |                         |
| Unrealised (losses)/gains on available-for-sale investments | (303,862)             | 537,049                 |
| Gains reclassified and reported in profit                   | <u>(276,315)</u>      | <u>(319,634)</u>        |
|   | <u>(580,177)</u>      | <u>217,415</u>          |
| Cash flow hedge -   |                       |                         |
| Gains reclassified and reported in profit                   | <u>(39,897)</u>       | <u>(7,762)</u>          |
| <b>Total other comprehensive income, net of taxes</b>       | <u>(620,074)</u>      | <u>209,653</u>          |
| <b>Total Comprehensive Income</b>                           | <u><u>525,264</u></u> | <u><u>1,617,871</u></u> |

**Sagicor Investments Jamaica Limited**  
**(Formerly Pan Caribbean Financial Services Limited)**  
**Company Statement of Financial Position**  
**31 December 2012**  
**(Expressed in Jamaican dollars unless otherwise indicated)**

|   | Note | 2012<br>\$'000    | 2011<br>\$'000    |
|---|------|-------------------|-------------------|
| <b>ASSETS</b>   |      |                   |                   |
| Cash and balances due from other financial institutions | 17   | 2,967,036         | 1,717,979         |
| Trading securities                                      | 19   | 4,495,432         | 610,940           |
| Securities purchased under agreements to resell         | 20   | 2,357,012         | 308,074           |
| Investment securities                                   | 21   | 48,442,927        | 48,834,393        |
| Derivative financial instruments                        | 22   | 4,253,104         | 839,420           |
| Investment in subsidiaries                              |      | 2,512,900         | 2,512,900         |
| Loans, net of provision for credit losses               | 24   | 2,217,601         | 2,289,038         |
| Pledged assets  | 26   | 3,657,204         | 7,831,016         |
| Due from related companies                              |      | 47,888            | 8,527             |
| Intangible assets                                       | 28   | 206,936           | 169,810           |
| Property, plant and equipment                           | 29   | 99,815            | 121,831           |
| Other assets  | 31   | 1,573,631         | 1,324,931         |
|   |      | <u>72,831,486</u> | <u>66,568,859</u> |
| <b>LIABILITIES</b>                                      |      |                   |                   |
| Securities sold under agreements to repurchase          |      | 56,839,727        | 54,630,650        |
| Customer accounts                                       |      | 171,152           | 250,241           |
| Structured products                                     | 32   | 854,100           | 274,913           |
| Due to banks and other financial institutions           | 33   | 241,464           | 464,329           |
| Derivative financial instruments                        | 22   | 4,310,566         | 700,600           |
| Due to related companies                                |      | 150,122           | 99,409            |
| Income tax payable                                      |      | 30,568            | 128,398           |
| Deferred income tax liabilities                         | 34   | 100,570           | 442,650           |
| Other liabilities                                       | 35   | 989,124           | 248,627           |
|   |      | <u>63,687,393</u> | <u>57,239,817</u> |
| <b>STOCKHOLDERS' EQUITY</b>                             |      |                   |                   |
| Share capital   | 36   | 3,195,565         | 3,195,565         |
| Stock options reserve                                   | 37   | 58,089            | 51,793            |
| Loan loss reserve                                       | 40   | 89,870            | 90,739            |
| Capital redemption reserve                              | 41   | 1,264,324         | 1,264,324         |
| Fair value reserve                                      | 42   | 117,266           | 737,340           |
| Retained earnings                                       |      | 4,418,979         | 3,989,281         |
|   |      | <u>9,144,093</u>  | <u>9,329,042</u>  |
|   |      | <u>72,831,486</u> | <u>66,568,859</u> |

Approved for issue by the Board of Directors on 27 February 2013 and signed on its behalf by:



Richard O. Byles

Director



Donovan H. Perkins

Director

**Sagicor Investments Jamaica Limited**  
**(Formerly Pan Caribbean Financial Services Limited)**  
**Company Statement of Changes in Stockholders' Equity**  
**Year ended 31 December 2012**  
**(Expressed in Jamaican dollars unless otherwise indicated)**

|  | Note | Share<br>Capital<br>\$'000 | Share<br>Options<br>Reserve<br>\$'000 | Loan<br>Loss<br>Reserve<br>\$'000 | Capital<br>Redemption<br>Reserve<br>\$'000 | Fair Value<br>Reserve<br>\$'000 | Retained<br>Earnings<br>\$'000 | Total<br>\$'000 |
|--|------|----------------------------|---------------------------------------|-----------------------------------|--|---------------------------------|--------------------------------|-----------------|
| <b>Balance at 1 January 2011</b>                         |      | 3,126,867                  | 53,767                                | 20,295                            | 651,472                                    | 527,687                         | 3,968,195                      | 8,348,283       |
| Net profit   |      | -                          | -                                     | -                                 | -  | -                               | 1,408,218                      | 1,408,218       |
| Other comprehensive income                               |      | -                          | -                                     | -                                 | -  | 209,653                         | -                              | 209,653         |
| <b>Total comprehensive income for 2011</b>               |      | -                          | -                                     | -                                 | -  | 209,653                         | 1,408,218                      | 1,617,871       |
| Issue of ordinary stock units                            | 36   | 46,236                     | -                                     | -                                 | -  | -                               | -                              | 46,236          |
| Transfer of exercised options                            |      | 22,462                     | (22,462)                              | -                                 | -  | -                               | -                              | -               |
| Employee stock option scheme                             | 37   | -                          | 20,488                                | -                                 | -  | -                               | -                              | 20,488          |
| Transfer to capital redemption reserve                   | 41   | -                          | -                                     | -                                 | 612,852                                    | -                               | (612,852)                      | -               |
| Currency revaluation and other adjustments               |      | -                          | -                                     | 1,048                             | -  | -                               | -                              | 1,048           |
| Adjustment between regulatory loan provisioning and IFRS | 40   | -                          | -                                     | 69,396                            | -  | -                               | (69,396)                       | -               |
| Dividends  | 43   | -                          | -                                     | -                                 | -  | -                               | (704,884)                      | (704,884)       |
| <b>Balance at 31 December 2011</b>                       |      | 3,195,565                  | 51,793                                | 90,739                            | 1,264,324                                  | 737,340                         | 3,989,281                      | 9,329,042       |
| Net profit   |      | -                          | -                                     | -                                 | -  | -                               | 1,145,338                      | 1,145,338       |
| Other comprehensive income                               |      | -                          | -                                     | -                                 | -  | (620,074)                       | -                              | (620,074)       |
| <b>Total comprehensive income for 2012</b>               |      | -                          | -                                     | -                                 | -  | (620,074)                       | 1,145,338                      | 525,264         |
| Employee stock option scheme                             | 37   | -                          | 6,296                                 | -                                 | -  | -                               | -                              | 6,296           |
| Currency revaluation and other adjustments               |      | -                          | -                                     | 8,458                             | -  | -                               | -                              | 8,458           |
| Adjustment between regulatory loan provisioning and IFRS | 40   | -                          | -                                     | (9,327)                           | -  | -                               | 9,327                          | -               |
| Dividends  | 44   | -                          | -                                     | -                                 | -  | -                               | (724,967)                      | (724,967)       |
| <b>Balance at 31 December 2012</b>                       |      | 3,195,565                  | 58,089                                | 89,870                            | 1,264,324                                  | 117,266                         | 4,418,979                      | 9,144,093       |

**Sagicor Investments Jamaica Limited**  
**(Formerly Pan Caribbean Financial Services Limited)**  
**Company Statement of Cash Flows**  
**Year ended 31 December 2012**  
**(Expressed in Jamaican dollars unless otherwise indicated)**

|  | Note | 2012<br>\$'000   | 2011<br>\$'000     |
|--|------|------------------|--------------------|
| <b>Cash Flows from Operating Activities</b>                        |      |                  |                    |
| Net profit   |      | 1,145,338        | 1,408,218          |
| Adjustments for:   |      |                  |                    |
| Interest income  |      | (4,967,535)      | (4,896,991)        |
| Interest expense   | 6    | 2,891,586        | 2,815,661          |
| Income tax charge  | 13   | 429,257          | 499,782            |
| Fair value (gains)/losses on trading securities                    |      | (208,192)        | 603                |
| Impairment charges   | 11   | (10,277)         | (29,366)           |
| Amortisation of premiums/discounts                                 |      | 33,395           | (126,224)          |
| Amortisation of intangible assets                                  | 28   | 16,282           | 8,455              |
| Depreciation of property, plant and equipment                      | 29   | 35,206           | 30,455             |
| Loss/(gain) on sale of property, plant and equipment               |      | 26               | (77)               |
| Amortisation of hedging reserve                                    |      | (59,846)         | (11,643)           |
| Stock options and grants expense                                   |      | 6,296            | 64,242             |
| Foreign exchange (gains)/ losses on foreign assets and liabilities |      | (245,033)        | 140                |
|  |      | <u>(933,497)</u> | <u>(236,745)</u>   |
| Changes in operating assets and liabilities -                      |      |                  |                    |
| Trading securities   |      | (3,536,483)      | (561,918)          |
| Securities purchased under agreements to resell                    |      | (313,477)        | 91,661             |
| Investment securities  |      | 4,681,560        | (5,063,355)        |
| Derivative financial instruments                                   |      | 173,056          | (12,453)           |
| Loans  |      | 321,910          | 477,261            |
| Securities sold under agreements to repurchase                     |      | (1,003,468)      | 4,593,629          |
| Structured products  |      | 611,125          | (212,692)          |
| Customer accounts  |      | (77,272)         | (148,156)          |
| Other assets   |      | (474,280)        | (720,103)          |
| Other liabilities  |      | 740,481          | 72,604             |
|  |      | <u>189,655</u>   | <u>(1,720,267)</u> |
| Interest received  |      | 4,942,892        | 5,023,487          |
| Interest paid  |      | (2,770,618)      | (2,803,626)        |
| Taxation paid  |      | (322,587)        | (124,324)          |
| Net cash provided by operating activities                          |      | <u>2,039,342</u> | <u>375,270</u>     |



**Sagicor Investments Jamaica Limited**  
**(Formerly Pan Caribbean Financial Services Limited)**  
**Company Statement of Cash Flows (Continued)**  
**Year ended 31 December 2012**  
**(Expressed in Jamaican dollars unless otherwise indicated)**

|   | Note | 2012<br>\$'000          | 2011<br>\$'000        |
|---|------|-------------------------|-----------------------|
| <b>Cash Flows from Operating Activities</b>                                       |      | <u>2,039,342</u>        | <u>375,270</u>        |
| <b>Cash Flows from Investing Activities</b>                                       |      |                         |                       |
| Purchase of intangible assets   | 28   | (53,408)                | (20,963)              |
| Purchase of property, plant and equipment   |      | (13,253)                | (41,308)              |
| Proceeds from disposal of property, plant and equipment                           |      | <u>37</u>               | <u>77</u>             |
| Net cash used in investing activities   |      | <u>(66,624)</u>         | <u>(62,194)</u>       |
| <b>Cash Flows from Financing Activities</b>                                       |      |                         |                       |
| Proceeds from issue of ordinary stock units                                       |      | -                       | 18,483                |
| Redemption of redeemable preference shares  |      | -                       | (612,852)             |
| Due to parent company and fellow subsidiaries                                     |      | 11,352                  | 38,328                |
| Borrowings from banks and other financial institutions –<br>long term             |      | 73,108                  | 50,500                |
| Repayment of amounts due to banks and other financial institutions –<br>long term |      | (273,370)               | (156,032)             |
| Dividends paid  | 43   | <u>(724,967)</u>        | <u>(704,884)</u>      |
| Net cash used in financing activities   |      | <u>(913,877)</u>        | <u>(1,366,457)</u>    |
| Effect of exchange rate changes on cash and cash equivalents                      |      | <u>202,948</u>          | <u>(6,703)</u>        |
| Net increase/(decrease) in cash and cash equivalents                              |      | 1,261,789               | (1,060,084)           |
| Cash and cash equivalents at beginning of year                                    |      | <u>929,274</u>          | <u>1,989,358</u>      |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>                                   | 23   | <u><u>2,191,063</u></u> | <u><u>929,274</u></u> |

**Sagicor Investments Jamaica Limited**  
**(Formerly Pan Caribbean Financial Services Limited)**  
 Notes to the Financial Statements  
**31 December 2012**  
 (Expressed in Jamaican dollars unless otherwise indicated)

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**1. Identification, Regulation and Licence**

Sagicor Investments Jamaica Limited (the company) is incorporated and domiciled in Jamaica. The company is listed on the Jamaica Stock Exchange (JSE). The principal activities of the company are the provision of investment, fund and unit trust management services and development banking. The company is a licensed securities dealer and has primary dealer status from the Bank of Jamaica (BOJ) and is also a member of the Jamaica Stock Exchange. The registered office of the company is located at 60 Knutsford Boulevard, Kingston 5.

The company changed its name on 19 November 2012 and has obtained the necessary approval from stockholders and regulators to re-name the company from Pan Caribbean Financial Services Limited to Sagicor Investments Jamaica Limited.

The company's subsidiaries, which are all incorporated and domiciled in Jamaica, are as follows:

| <b>Subsidiaries</b>  | <b>Principal Activities</b> | <b>Holding</b> | <b>Financial Year End</b> |
|--|-----------------------------|----------------|---------------------------|
| Sagicor Bank Jamaica Limited (formerly PanCaribbeanBank Limited) | Commercial banking          | 100%           | 31 December               |
| Pan Caribbean Asset Management Limited                           | Inactive                    | 100%           | 31 December               |
| Manufacturers Investments Limited                                | Inactive                    | 100%           | 31 December               |
| Pan Caribbean Investments Limited                                | Inactive                    | 100%           | 31 December               |
| Pan Caribbean Securities Limited                                 | Inactive                    | 100%           | 31 December               |

The parent company, Sagicor Life Jamaica Limited is incorporated in Jamaica.

The ultimate parent company, Sagicor Financial Corporation (Sagicor) is incorporated in Barbados.

**2 Summary of Significant Accounting Policies**

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

**(a) Basis of preparation**

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities (including derivatives) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

***Amendment to published standard effective in current year that is relevant to the Group's operations***

- Amendments to IFRS 7, 'Financial instruments: Disclosures' on transfers of assets (effective 1 July 2011). These amendments arise from the IASB's review of off-balance-sheet activities. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. There was no impact in the current year from adoption of this amendment.

**Sagicor Investments Jamaica Limited**  
**(Formerly Pan Caribbean Financial Services Limited)**  
Notes to the Financial Statements  
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(Expressed in Jamaican dollars unless otherwise indicated)

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**2. Summary of Significant Accounting Policies (Continued)**

**(a) Basis of preparation (continued)**

***Standards, amendments and interpretations issued but not yet effective and have not been early adopted by the Group***

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2013, but the Group has not early adopted them.

- IFRS 9, Financial instruments: Classification and measurement (effective for annual periods beginning on or after 1 January 2015) was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

**Financial liabilities.** Entities with financial liabilities designated FVTPL recognise changes in the fair value due to changes in the liability's credit risk directly in other comprehensive income (OCI). There is no subsequent recycling of the amounts in OCI to profit or loss, but accumulated gains or losses may be transferred within equity.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted for financial assets without adopting the requirements for financial liabilities. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

**Sagicor Investments Jamaica Limited**  
**(Formerly Pan Caribbean Financial Services Limited)**  
Notes to the Financial Statements  
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2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

***Standards, amendments and interpretations issued but not yet effective and have not been early adopted by the Group (continued)***

- Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. 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. This amendment is effective for annual periods beginning on or after 1 July 2012. The Group will apply this amendment from 1 January 2013, however, all the items in OCI are currently reclassifiable to profit or loss.
- IAS 19, 'Employee benefits' was amended in June 2011. The impact on the Group will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in OCI as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). This amendment is effective for annual periods beginning on or after 1 July 2012. The Group is yet to assess the full impact of the amendments.
- IFRS 10, 'Consolidated Financial Statements', (effective for annual periods beginning on or after 1 January 2013). IFRS 10 replaces all of the guidance on control and consolidation in IAS 27, 'Consolidated and Separate Financial Statements', and SIC-12, 'Consolidation – Special Purpose Entities'. IAS 27 (Revised) now renamed 'Separate Financial Statements'. IFRS 10 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. This new standard might impact the entities that a group consolidates as its subsidiaries. The Group is assessing the impact of future adoption of the standard on its financial statements.
- IFRS 12, 'Disclosure of Interests in Other Entities', (effective for annual periods beginning on or after 1 January 2013). IFRS 12 requires entities to disclose information that helps financial statement users to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The Group is assessing the impact of future adoption of the standard on its financial statements.
- IFRS 13, 'Fair Value Measurement', (effective for annual periods beginning on or after 1 January 2013). IFRS 13 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 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. The requirements are similar to those in IFRS 7, 'Financial instruments: Disclosures', but apply to all assets and liabilities measured at fair value, not just financial assets and liabilities. The Group is assessing the impact of future adoption of the standard on its financial statements.

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

**Sagicor Investments Jamaica Limited**  
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Notes to the Financial Statements  
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(Expressed in Jamaican dollars unless otherwise indicated)

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**2. Summary of Significant Accounting Policies (Continued)**

**(b) Consolidation**

**Subsidiaries**

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The accounting policies of subsidiaries are consistent with the policies adopted by the Group.

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.

**(c) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the Board of Directors.

**Sagicor Investments Jamaica Limited**  
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(Expressed in Jamaican dollars unless otherwise indicated)

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**2. Summary of Significant Accounting Policies (Continued)**

**(d) Foreign currency translation**

**(i) 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 Group's presentation currency.

**(ii) Transactions and balances**

Foreign currency transactions or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined. These rates represent the weighted average rates at which the company trades in foreign currency.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as gains or losses from qualifying cash flow hedging instruments.

All foreign exchange gains and losses recognised in the income statement are presented net in the income statement within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in the income statement, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in other comprehensive income.

**Sagicor Investments Jamaica Limited**  
**(Formerly Pan Caribbean Financial Services Limited)**  
Notes to the Financial Statements  
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(Expressed in Jamaican dollars unless otherwise indicated)

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**2. Summary of Significant Accounting Policies (Continued)**

**(e) Interest income and expenses**

Interest income and expense are recognised in the income statement for all interest-bearing instruments using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts 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 all 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.

Once a financial asset or a group of similar financial assets have been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

**(f) Fee and commission income**

Fees and commission income are recognised 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 recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. Performance linked fees or fee components are recognised when the performance criteria are fulfilled.

**(g) Net trading income**

Net trading income includes all gains and losses from changes in fair value and related income or expense and dividends for financial assets and liabilities for instruments (including derivatives) held for trading. Net trading income also includes foreign exchange on translated assets and liabilities and net gains and loss on investment securities.

**Sagicor Investments Jamaica Limited**  
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**Notes to the Financial Statements**  
**31 December 2012**  
**(Expressed in Jamaican dollars unless otherwise indicated)**

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**2. Summary of Significant Accounting Policies (Continued)**

**(h) Current and deferred income tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

**(i) Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including cash and non-restricted balances with BOJ, balances due from other banks, investment securities, reverse repurchase agreements, repurchase agreements with financial institutions and short term amounts due to banks and other financial institutions.



**Sagicor Investments Jamaica Limited**  
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**2. Summary of Significant Accounting Policies (Continued)**

**(j) Sale and repurchase agreements**

Securities purchased under agreements to resell (reverse repurchase agreements) and securities sold under agreements to repurchase (repurchase agreements) are treated as collateralised financing transactions and are recorded at the amount at which the securities were acquired or sold plus accrued interest.

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

**(k) Financial assets**

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets, and available-for-sale financial assets. Management determines the classification of its financial assets at initial recognition.

**(i) Financial asset at fair value through profit or loss**

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

**(ii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are initially recognised at fair value, which is the cash consideration to originate or purchase the loan including any transaction costs.

**(iii) Held-to-maturity**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be re-classified as available-for-sale. Held-to-maturity investments are initially recognised at fair value, which is the cash consideration including any transaction costs.

**(iv) Available-for-sale**

Available-for-sale investments are non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Available-for-sale investments are initially recognised at fair value, which is the cash consideration including any transaction costs.

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**2. Summary of Significant Accounting Policies (Continued)**

**(k) Financial assets (continued)**

Purchases and sales of available-for-sale financial assets are recognised at the trade date – the date on which the Group commits the purchase or sell the asset. Loans and receivables are recognised when cash is advanced to the borrowers.

Subsequent to initial recognition at cost, financial assets at fair value through profit or loss and available-for-sale financial assets are carried at fair value. Loans and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in consolidated statement of comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in the consolidated statement of comprehensive income is recognised in profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. Unquoted securities are recorded initially at cost. They are subsequently measured at fair value. Where fair value cannot be measured reliably they are measured at cost less impairment.

Financial assets are derecognised when the right to received cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished, that is, when the obligation is discharged, cancelled or expires.

The Group may choose to reclassify a non-derivative financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification. Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

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**2. Summary of Significant Accounting Policies (Continued)**

**(i) Derivative financial instruments and hedging accounting**

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 for three primary purposes: to create risk management solutions for customers, for proprietary trading purposes, and to manage its own exposure to credit and market risk.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into, and subsequently are re-measured at their fair value at each statement of financial position. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates its interest rate swap as a cash flow hedge. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

For cash flow hedges, the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in stockholders' equity are recycled to the income statement in the periods when the hedged item affects profit or loss. They are recorded in the revenue or expense lines in which associated with the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in stockholders' equity at that time remains in stockholders' equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in stockholders' equity is immediately transferred to the income statement within net trading income.

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**2. Summary of Significant Accounting Policies (Continued)**

**(m) Impairment of financial assets**

**(i) Assets carried at amortised cost**

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets 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 asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised 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 determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted 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.

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**2. Summary of Significant Accounting Policies (Continued)**

**(m) Impairment of financial assets (continued)**

**(i) Assets carried at amortised cost (continued)**

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, 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.

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

When a loan is uncollectible, it is written off against the related provision for loan impairment. 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 recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement in impairment charge for credit losses.

Statutory and other regulatory loan loss reserve requirements that are different from these amounts are dealt with in a non-distributable loan loss reserve as an adjustment to retained earnings.

**(ii) Assets classified as available-for-sale**

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from stockholders' equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

**(iii) Renegotiated loans**

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

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**2. Summary of Significant Accounting Policies (Continued)**

**(n) Leases**

**(i) As Lessee**

The leases entered into by the Group are all operating leases. The total payments made under operating leases are charged to occupancy costs in the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

**(ii) As Lessor**

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

**(o) Intangible assets**

**(i) Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

**(ii) Computer software**

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Group and that will probable generate economic benefits exceeding the cost beyond one year, are recognised as intangible assets.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as capital improvement and added to the original cost of the software. Computer software costs are amortised using the straight-line method over their useful lives.

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**2. Summary of Significant Accounting Policies (Continued)**

**(p) Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised 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 are charged to other operating expenses during the financial period in which they are incurred.

Depreciation 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. Estimated useful lives are as follows:

|                         |            |
|-------------------------|------------|
| Leasehold improvements  | 10 years   |
| Furniture and equipment | 3-10 years |
| Motor vehicles          | 5 years    |
| Computer equipment      | 3 years    |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. Assets that are subject to amortisation 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 disposal of property, plant and equipment are determined by reference to their carrying amount. These are included in other expenses in the income statement.

Repairs and renewals are charged to the income statement when the expenditure is incurred.

**(q) Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

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**2. Summary of Significant Accounting Policies (Continued)**

**(r) Employee benefits**

**(i) Pension obligations**

The Group participates in two post-employment 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 Group, taking into account the recommendations of qualified actuaries. The Group has both defined benefit and defined contribution plans.

A defined benefit plan is a pension 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 asset or liability recognised in the statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets, together with adjustments for past service costs. 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 income over the employees' expected average remaining working lives.

Past-service costs are recognised immediately in staff costs, 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 amortised on a straight-line basis over the vesting period.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate fund. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods.

For the defined contribution plan, the Group pays contributions to a privately administered pension insurance plan 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.



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**2. Summary of Significant Accounting Policies (Continued)**

**(r) Employee benefits (continued)**

**(ii) Other post-retirement obligations**

The Group provides post-retirement 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 average remaining working lives of the related employees. These obligations are valued annually by independent qualified actuaries.

**(iii) Annual leave**

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the year end date.

**(iv) Productivity bonus plan**

The Group recognises a liability and an expense for productivity bonuses as profit-sharing, paid to employees based on a formula that takes into consideration the profit attributable to the company's stockholders. The Group recognises a provision where contractually obliged or where past practice has created a constructive obligation.

**(v) Share-based payments**

The Group operates an equity-settled, share-based compensation plan.

**Share options**

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each statement of financial position date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to over the remaining vesting period. The proceeds received net of any directly attributable transaction costs, plus the fair value of the options are credited to share capital when the options are exercised.

**Share grants**

The market value of the shares issued at grant date is recognised as an expense when granted.

**Share purchase plan**

Employees of the company are also eligible to purchase shares in the company under a share purchase plan.

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**2. Summary of Significant Accounting Policies (Continued)**

**(r) Employee benefits (continued)**

**(vi) Termination benefits**

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

**(s) Grants**

Grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Grants relating to intangible assets are deducted in arriving at the carrying amount of the asset, and are credited to the income statement on a straight-line basis by way of a reduced amortisation charge.

**(t) Provisions**

Provisions are recognised 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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

**(u) Borrowings**

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

**(v) Deposits**

Deposits are recognised initially at the nominal amount when funds are received. Deposits are subsequently stated at amortised cost using the effective interest method.

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**2. Summary of Significant Accounting Policies (Continued)**

**(w) Structured products**

Structured products are recognised initially at the nominal amount when funds are received. Derivatives are separately accounted for at fair value through the income statement (Note 2(l)). The non-derivative elements are stated at amortised cost using the effective interest method.

**(x) Share capital**

**(i) Share issuance cost**

Incremental costs directly attributable to the issue of new shares or options are shown in stockholders' equity as a deduction from the proceeds.

**(ii) Mandatorily redeemable preference shares are classified as liabilities (Note 2(u)).**

**(iii) Dividends on ordinary shares are recognised in stockholders' equity in the period in which they are approved by the company's stockholders.**

Dividends for the year that are declared after the statement of financial position date are dealt with in the subsequent events note.

**(y) Financial instruments**

Financial instruments carried on the statement of financial position include cash resources, trading securities, securities purchased under agreements to resell, investment securities, loans, lease receivables, other assets excluding property, plant and equipment, deposits by customers and all other liabilities.

The fair values of the Group and company's financial instruments are discussed in Note 44.

**(z) Fiduciary activities**

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

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### 3. Financial Risk Management

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

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

The Board of Directors is ultimately responsible for the establishment and oversight of the Group's risk management framework. The Board has established working groups for managing and monitoring risks, as follows:

- (i) **Asset, Liability, Credit and Investment Committee**  
The Asset, Liability, Credit and Investment Committee is responsible for the development of credit and investment policies and standards that conform to applicable law, regulations and corporate policies; approving credit proposal requests; reviewing and approving exceptions to core credit and investment policies that may represent unusual risk; and ensuring that aggregate credit risk exposure are within the Group's risk taking capacity. All credit facilities require the approval of at least 2 members of this Committee. This Committee is also responsible for formulating and monitoring investment portfolios and investment strategies for the Group. In addition, this Committee is responsible for approval and monitoring of appropriate trading limits, reports and compliance controls to ensure that the mandate is properly followed. The Committee's decisions receive final ratification at Board Meetings.
- (ii) **Audit and Compliance Committee**  
The Audit and Compliance Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit and Compliance Committee is assisted in its oversight role by the Internal Audit Department and the Risk Management and Compliance Unit. Internal Audit Department undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Compliance Committee. The Risk Management and Compliance Unit ensures adherence to internal policies and procedures, and regulatory rules and guidelines.
- (iii) **The Treasury Division**  
The Treasury Division is responsible for managing the Group's financial assets and liabilities and the overall financial structure. It is also primarily responsible for managing and maintaining appropriate funding and liquidity of the Group.
- (iv) **Risk Management Committee**  
The Risk Management Committee is responsible to monitor macroeconomic conditions in directing and overseeing credit and market-related risk management activities of the Group.

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**3. Financial Risk Management (Continued)**

The disclosures provided are based on the Group's and company's investment portfolio at 31 December 2012. As described in Note 48, the Group and the company participated in the National Debt Exchange (NDX) which resulted in significant changes in the Group's and company's investment portfolio in February 2013.

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

**(a) Credit risk**

The Group takes on exposure to credit risk, which is the risk that its customers or counterparties will cause a financial loss for the Group by failing to discharge their contractual obligations. Credit risk is an important risk for the Group's business; management therefore carefully monitors its exposure to credit risk. Credit exposures arise principally in lending and investment activities. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty or groups of related counterparties and to geographical and industry segments.

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 and letters of credit that may require payment on behalf of customers. Such payments are collected from customers based on the terms of the letters of credit, guarantees or undertakings. They expose the Group to similar risks to loans and the same control policies and processes mitigate these.

***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.

**(i) Loans and leases**

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

Group's internal rating scale:

| <b>Rating grades</b> | <b>Description of the grade</b> |
|----------------------|---------------------------------|
| 1                    | Standard                        |
| 2                    | Potential problem credit        |
| 3                    | Sub-standard                    |
| 4                    | Doubtful                        |
| 5                    | Loss                            |

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**3. Financial Risk Management (Continued)**

**(a) Credit risk (continued)**

**(i) Loans and leases (continued)**

The Group's loan portfolio is managed by focusing efforts on good quality loan that is achieved through a thorough screening and credit analysis process; these loans are appropriately priced to reflect the risk associated with the expected cash flows and the collateral provided. Credit risk is managed primarily by reviewing and monitoring the financial status of counterparties and the underlying collateral. The levels of credit risk undertaken is structured by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments; these are monitored on a periodic basis and subject to annual or more frequent reviews. Counterparty limits are established by the use of a credit classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risk to which it is exposed and take corrective action.

**(ii) Investments**

The Group limits its exposure to credit risk by investing in marketable securities, with counterparties that have acceptable credit quality and Government of Jamaica securities. As a result of the Central Securities Depository (CSD), all domestic Government of Jamaica securities have been dematerialised which has significantly reduced the settlement risk. The credit exposure is managed by establishing exposure limits after an internal analysis and approval. Actual exposures against limits are monitored frequently. It is also the Group's policy to obtain control or take possession of securities purchased under agreements to resell. Management assesses the market value of the underlying securities that collateralise the transactions and takes the appropriate margins required. Management actively seeks to transact with counterparties that demonstrate an ability to meet its obligations.

***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 established regarding the acceptability of specific types of collateral.

The main types of collateral obtained are as follows:

Loans and leases – Cash and other near cash securities, mortgages over commercial and residential properties, charges over general business assets such as premises, equipment, inventory, accounts receivable, stocks and other securities and motor vehicles. Fair value of properties held as collateral is mainly based on obtained valuations from third parties.

Securities lending and reverse repurchase transactions – cash or Government of Jamaica securities.

The Group also seeks to obtain guarantees from parent companies for loans to their subsidiaries and personal guarantees for loans to private companies.

Management monitors the market value of collateral held and may request additional collateral in accordance with the underlying agreement.

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**3. Financial Risk Management (Continued)**

**(a) Credit risk (continued)**

***Impairment***

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

The Group addresses impairment assessment by reviewing all loans and leases with risk ratings of 3 and above.

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

***Commitments and guarantees***

To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group.

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

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

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The impairment provision shown in the statement of financial position at year-end is derived from the internal rating grades of 3 and above. However, the majority of the impairment provision comes from the last rating class (loss).

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**3. Financial Risk Management (Continued)**

**(a) Credit risk (continued)**

**Group's and company's rating (continued)**

The tables below show the Group's and company's gross loans and leases (excluding interest receivable) and the associated impairment provision for each internal rating class:

**Group's and company's rating**

|                          | <b>The Group</b>                       |  |  |  |
|--------------------------|--|--|--|--|
|                          | <b>2012</b>                            |  | <b>2011</b>                            |  |
|                          | <b>Loans and<br/>leases<br/>\$'000</b> | <b>Impairment<br/>provision<br/>\$'000</b> | <b>Loans and<br/>leases<br/>\$'000</b> | <b>Impairment<br/>provision<br/>\$'000</b> |
| Standard                 | 8,663,076                              | -  | 8,580,987                              | -  |
| Potential problem credit | 273,082                                | -  | 83,480                                 | -  |
| Sub-standard             | 140,004                                | 43,699                                     | 303,314                                | 46,162                                     |
| Doubtful                 | 65,259                                 | 13,837                                     | 135,110                                | 34,673                                     |
| Loss                     | 391,284                                | 182,390                                    | 313,093                                | 170,144                                    |
|                          | <u>9,532,705</u>                       | <u>239,926</u>                             | <u>9,415,984</u>                       | <u>250,979</u>                             |

|                          | <b>The Company</b>                     |  |  |  |
|--------------------------|--|--|--|--|
|                          | <b>2012</b>                            |  | <b>2011</b>                            |  |
|                          | <b>Loans and<br/>leases<br/>\$'000</b> | <b>Impairment<br/>provision<br/>\$'000</b> | <b>Loans and<br/>leases<br/>\$'000</b> | <b>Impairment<br/>provision<br/>\$'000</b> |
| Standard                 | 1,922,312                              | -  | 1,904,010                              | -  |
| Potential problem credit | 108,956                                | -  | 64,814                                 | -  |
| Sub-standard             | 4,915                                  | 1,532                                      | 165,451                                | 13,614                                     |
| Doubtful                 | -                                      | -  | 80,728                                 | 13,929                                     |
| Loss                     | 259,833                                | 102,386                                    | 165,055                                | 80,576                                     |
|                          | <u>2,296,016</u>                       | <u>103,918</u>                             | <u>2,380,058</u>                       | <u>108,119</u>                             |



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**3. Financial Risk Management (Continued)**

**(a) Credit risk (continued)**

**Maximum exposure to credit risk before collateral held or other credit enhancements**

|  | Maximum exposure  |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | The Group         |                   | The Company       |                   |
|  | 2012<br>\$'000    | 2011<br>\$'000    | 2012<br>\$'000    | 2011<br>\$'000    |
| Credit risk exposures relating to assets on the statement of financial position are as follows:    |                   |                   |                   |                   |
| Cash and bank balances due from other financial institutions (excluding cash on hand)              | 3,861,148         | 2,064,285         | 2,967,036         | 1,717,979         |
| Cash reserve at Bank of Jamaica  | 735,494           | 519,732           | -                 | -                 |
| Trading securities   | 4,445,410         | 610,940           | 4,445,410         | 610,940           |
| Securities purchased under agreements to resell  | 1,783,514         | 991,904           | 2,357,012         | 308,074           |
| Investment securities  | 56,390,042        | 55,303,470        | 48,383,657        | 48,775,124        |
| Derivative financial instruments   | 4,253,104         | 839,420           | 4,253,104         | 839,420           |
| Loans, net of provision for credit losses  | 9,330,364         | 9,242,365         | 2,217,601         | 2,289,038         |
| Lease receivables  | 59,159            | 15,515            | -                 | -                 |
| Pledged assets   | 3,943,434         | 7,831,016         | 3,657,204         | 7,831,016         |
| Due to related parties   | 48,496            | 8,527             | 47,888            | 8,527             |
| Other assets   | 59,387            | 206,019           | 50,770            | 164,236           |
|  | <u>84,909,552</u> | <u>77,633,193</u> | <u>68,379,682</u> | <u>62,544,354</u> |
| Credit risk exposures relating to items not on the statement of financial position are as follows: |                   |                   |                   |                   |
| Loan commitments   | 1,520,549         | 696,338           | 922,852           | 266,998           |
| Guarantees and letters of credit   | 833,447           | 1,078,739         | 344,390           | 613,374           |
|  | <u>2,353,996</u>  | <u>1,775,077</u>  | <u>1,267,242</u>  | <u>880,372</u>    |

The above table represents a worst-case scenario of credit risk exposure to the Group and company at 31 December 2012 and 2011, without taking account of any collateral held or other credit enhancements. The exposures set out above are based on net carrying amounts as reported in the statement of financial position.

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**3. Financial Risk Management (Continued)**

**(a) Credit risk (continued)**

**Loans and leases**

(i) Credit quality of loans and leases are summarised as follows:

|                                   | <u>The Group</u>        |                         | <u>The Company</u>      |                         |
|-----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|                                   | <u>2012</u>             | <u>2011</u>             | <u>2012</u>             | <u>2011</u>             |
|                                   | <u>\$'000</u>           | <u>\$'000</u>           | <u>\$'000</u>           | <u>\$'000</u>           |
| Neither past due nor impaired -   |                         |                         |                         |                         |
| Standard                          | 6,195,705               | 6,961,847               | 1,227,665               | 1,657,957               |
| Past due but not impaired         | 2,740,453               | 1,702,620               | 803,603                 | 310,867                 |
| Impaired                          | <u>596,547</u>          | <u>751,517</u>          | <u>264,748</u>          | <u>411,234</u>          |
| <b>Gross</b>                      | <b>9,532,705</b>        | <b>9,415,984</b>        | <b>2,296,016</b>        | <b>2,380,058</b>        |
| Less: Provision for credit losses | <u>(239,926)</u>        | <u>(250,979)</u>        | <u>(103,918)</u>        | <u>(108,119)</u>        |
| <b>Net</b>                        | <b><u>9,292,779</u></b> | <b><u>9,165,005</u></b> | <b><u>2,192,098</u></b> | <b><u>2,271,939</u></b> |

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

(ii) Aging analysis of past due but not impaired loans and leases:

|                   | <u>The Group</u>        |                         | <u>The Company</u>    |                       |
|-------------------|-------------------------|-------------------------|-----------------------|-----------------------|
|                   | <u>2012</u>             | <u>2011</u>             | <u>2012</u>           | <u>2011</u>           |
|                   | <u>\$'000</u>           | <u>\$'000</u>           | <u>\$'000</u>         | <u>\$'000</u>         |
| Less than 30 days | 628,366                 | 1,225,853               | 167,804               | 308,094               |
| 31 to 60 days     | 1,675,961               | 395,040                 | 532,391               | 984                   |
| 61 to 90 days     | <u>436,126</u>          | <u>81,727</u>           | <u>103,408</u>        | <u>1,789</u>          |
|                   | <b><u>2,740,453</u></b> | <b><u>1,702,620</u></b> | <b><u>803,603</u></b> | <b><u>310,867</u></b> |

The Group and the company hold adequate collateral for past due but not impaired loans and leases.

There are no significant financial assets other than loans and leases that are past due.

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**3. Financial Risk Management (Continued)**

**(a) Credit risk (continued)**

**Loans and leases (continued)**

**(iii) Financial assets – individually impaired**

Financial assets that are individually impaired before taking into consideration the cash flows from collateral held are as follows:

|                  | <u>The Group</u> |                | <u>The Company</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>  |
| Loans and leases | <u>596,547</u>   | <u>751,517</u> | <u>264,748</u>     | <u>411,234</u> |

There are no financial assets other than loans and leases that were individually impaired.

**(iv) Renegotiated loans and leases**

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.

**(v) Repossessed collateral**

The Group and the company can obtain assets by taking possession of collateral held as security. Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness.

The Group is in the process of repossessing collateral totalling \$13,300,000 (2011 – \$8,800,000).

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**3. Financial Risk Management (Continued)**

**(a) Credit risk (continued)**

**Credit exposure**

**(i) Loans and leases**

The following table summarises the Group's and company's credit exposure for loans and leases at their carrying amounts, as categorised by the industry sectors:

|   | <b>The Group</b>        |                         | <b>The Company</b>      |                         |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
|   | <b>2012</b>             | <b>2011</b>             | <b>2012</b>             | <b>2011</b>             |
|   | <b>\$'000</b>           | <b>\$'000</b>           | <b>\$'000</b>           | <b>\$'000</b>           |
| Agriculture, fishing and mining           | 1,415,453               | 1,229,995               | 101,211                 | 127,552                 |
| Construction and real estate              | 1,506,634               | 1,503,362               | 313,581                 | 398,071                 |
| Distribution                              | 2,438,196               | 1,691,766               | 983,768                 | 441,532                 |
| Manufacturing                             | 86,772                  | 179,515                 | 25,912                  | 37,325                  |
| Personal                                  | 771,127                 | 653,923                 | 180,277                 | 209,242                 |
| Professional and other services           | 1,523,018               | 2,351,894               | 463,977                 | 846,633                 |
| Tourism and entertainment                 | 1,507,238               | 1,764,268               | 206,212                 | 307,641                 |
| Transportation, storage and communication | 284,268                 | 41,261                  | 21,078                  | 12,062                  |
|   | <u>9,532,706</u>        | <u>9,415,984</u>        | <u>2,296,016</u>        | <u>2,380,058</u>        |
| Less: Provision for credit losses         | <u>(239,926)</u>        | <u>(250,979)</u>        | <u>(103,918)</u>        | <u>(108,119)</u>        |
|   | <u>9,292,780</u>        | <u>9,165,005</u>        | <u>2,192,098</u>        | <u>2,271,939</u>        |
| Interest receivable                       | <u>96,743</u>           | <u>92,875</u>           | <u>25,503</u>           | <u>17,099</u>           |
|   | <u><u>9,389,523</u></u> | <u><u>9,257,880</u></u> | <u><u>2,217,601</u></u> | <u><u>2,289,038</u></u> |

The majority of loans and leases are extended to customers in Jamaica.

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**3. Financial Risk Management (Continued)**

**(a) Credit risk (continued)**

**Credit exposure (continued)**

**(ii) Investments**

The following table summarises the Group's and company's credit exposure for investments at their carrying amounts, as categorised by issuer:

|                        | The Group         |                   | The Company       |                   |
|------------------------|-------------------|-------------------|-------------------|-------------------|
|                        | 2012<br>\$'000    | 2011<br>\$'000    | 2012<br>\$'000    | 2011<br>\$'000    |
| Government of Jamaica  | 51,805,317        | 51,015,793        | 46,614,615        | 45,574,495        |
| Bank of Jamaica        | 116,413           | 605,388           | 35,427            | 505,045           |
| Corporate              | 7,754,916         | 8,142,887         | 4,922,329         | 7,155,890         |
| Financial institutions | 5,921,307         | 4,816,082         | 6,494,443         | 4,132,546         |
| Other sovereign debt   | 964,445           | 157,178           | 776,470           | 157,178           |
|                        | <u>66,562,398</u> | <u>64,737,328</u> | <u>58,843,284</u> | <u>57,525,154</u> |

**(b) Liquidity risk**

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

The Group is exposed to daily calls on their available cash resources from overnight placement of funds, maturing placement of funds, loan draw-downs and guarantees. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of investment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

**Liquidity risk management process**

The Group's liquidity management process, as carried out within the Group and monitored by the Treasury Division, includes:

- (i) Monitoring future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of collateral which could be used to secure funding if required;
- (ii) Maintaining assets than can readily be liquidated (T-Bills, BoJ CDs and secured secondary market repos) as protection against any unforeseen interruption to cash flow;
- (iii) Maintaining stand-by credit lines;

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**3. Financial Risk Management (Continued)**

**(b) Liquidity risk**

**Liquidity risk management process (continued)**

- (iv) Optimising cash returns on investment;
- (v) Short-term liabilities are segmented and analysed to monitor and reduce concentrations.
- (vi) Monitoring statement of financial position liquidity ratios against internal and regulatory requirements. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities; and
- (vii) Managing the concentration and profile of debt maturities.

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

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities 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.

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**3. Financial Risk Management (Continued)**

**(b) Liquidity risk (continued)**

**Financial assets and liabilities cash flows**

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

|   | The Group           |                     |                     |                   |                   | Total              |
|---|---------------------|---------------------|---------------------|-------------------|-------------------|--------------------|
|   | Within 1<br>Month   | 2 to 3<br>Months    | 4 to 12<br>Months   | 2 to 5<br>Years   | Over 5<br>Years   |                    |
|   | \$'000              | \$'000              | \$'000              | \$'000            | \$'000            | \$'000             |
| <b>As at 31 December 2012:</b>                            |                     |                     |                     |                   |                   |                    |
| <b>Financial Assets</b>                                   |                     |                     |                     |                   |                   |                    |
| Cash and balances due from other financial institutions   | 4,085,815           | -                   | -                   | -                 | -                 | 4,085,815          |
| Cash reserves at Bank of Jamaica                          | 735,494             | -                   | -                   | -                 | -                 | 735,494            |
| Trading securities  | 1,027               | 511,595             | 1,499,550           | 2,391,647         | 8,146             | 4,411,965          |
| Securities purchased under agreements to resell           | 1,027,651           | 236,670             | 529,120             | -                 | -                 | 1,793,441          |
| Investment securities and pledged assets                  | 250,329             | 6,932,230           | 4,597,288           | 44,937,080        | 27,955,729        | 84,672,656         |
| Derivative financial instruments                          | 1,521               | 501,708             | 1,474,367           | 2,360,525         | -                 | 4,338,121          |
| Loans, net provision for credit losses                    | 2,742,299           | 1,227,702           | 2,142,667           | 3,922,731         | 762,195           | 10,797,594         |
| Lease receivables   | 3,251               | 6,503               | 29,262              | 20,119            | -                 | 59,135             |
| Other   | 55,007              | -                   | 32,426              | -                 | -                 | 87,433             |
| <b>Financial assets (contractual maturity dates)</b>      | <b>8,902,394</b>    | <b>9,416,408</b>    | <b>10,304,680</b>   | <b>53,632,102</b> | <b>28,726,070</b> | <b>110,981,654</b> |
| <b>Financial Liabilities</b>                              |                     |                     |                     |                   |                   |                    |
| Securities sold under agreements to repurchase            | 28,726,438          | 19,894,652          | 9,371,943           | 31,716            | -                 | 58,024,749         |
| Customer deposits and other accounts                      | 6,401,673           | 1,715,491           | 1,993,314           | 481,446           | 1,378,264         | 11,970,188         |
| Due to banks and other financial institutions             | 5,298               | 38,747              | 186,112             | 309,606           | 1,601             | 541,364            |
| Structured products                                       | 1,521               | 511,596             | 1,498,532           | 2,383,501         | -                 | 4,395,150          |
| Derivative financial instruments                          | 97,641              | 27,346              | 61,997              | 790,042           | -                 | 977,026            |
| Other   | 1,054,483           | 114,709             | 16,000              | -                 | -                 | 1,185,192          |
| <b>Financial liabilities (contractual maturity dates)</b> | <b>36,287,054</b>   | <b>22,302,541</b>   | <b>13,127,898</b>   | <b>3,996,311</b>  | <b>1,379,865</b>  | <b>77,093,669</b>  |
| <b>Net Liquidity Gap</b>                                  | <b>(27,384,660)</b> | <b>(12,886,133)</b> | <b>(2,823,218)</b>  | <b>49,635,791</b> | <b>27,346,205</b> | <b>33,887,985</b>  |
| <b>Cumulative Liquidity Gap</b>                           | <b>(27,384,660)</b> | <b>(40,270,793)</b> | <b>(43,094,011)</b> | <b>6,541,780</b>  | <b>33,887,985</b> |                    |

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**3. Financial Risk Management (Continued)**

**(b) Liquidity risk (continued)**

Financial assets and liabilities cash flows (continued)

|   | The Group                   |                            |                             |                           |                           | Total<br>\$'000    |
|---|-----------------------------|----------------------------|-----------------------------|---------------------------|---------------------------|--------------------|
|   | Within 1<br>Month<br>\$'000 | 2 to 3<br>Months<br>\$'000 | 4 to 12<br>Months<br>\$'000 | 2 to 5<br>Years<br>\$'000 | Over 5<br>Years<br>\$'000 |                    |
| <b>As at 31 December 2011:</b>                            |                             |                            |                             |                           |                           |                    |
| <b>Financial Assets</b>                                   |                             |                            |                             |                           |                           |                    |
| Cash and balances due from other financial institutions   | 2,228,462                   | -                          | -                           | -                         | -                         | 2,228,462          |
| Cash reserves at Bank of Jamaica                          | 519,732                     | -                          | -                           | -                         | -                         | 519,732            |
| Trading securities  | -                           | -                          | 17,036                      | 476,334                   | 283,049                   | 776,419            |
| Securities purchased under agreements to resell           | 753,079                     | 6,860                      | 249,235                     | -                         | -                         | 1,009,174          |
| Investment securities and pledged assets                  | 802,656                     | 2,437,016                  | 3,888,365                   | 47,697,192                | 38,967,964                | 93,793,193         |
| Derivative financial instruments                          | 20,575                      | -                          | 399,794                     | 430,400                   | 25,521                    | 876,290            |
| Loans, net provision for credit losses                    | 2,366,726                   | 1,288,092                  | 2,905,190                   | 2,920,741                 | 930,679                   | 10,411,428         |
| Lease receivables   | 702                         | 1,350                      | 12,186                      | 6,576                     | -                         | 20,814             |
| Other   | 214,328                     | -                          | -                           | -                         | -                         | 214,328            |
| <b>Financial assets (contractual maturity dates)</b>      | <b>6,906,260</b>            | <b>3,733,318</b>           | <b>7,471,806</b>            | <b>51,531,243</b>         | <b>40,207,213</b>         | <b>109,849,840</b> |
| <b>Financial Liabilities</b>                              |                             |                            |                             |                           |                           |                    |
| Securities sold under agreements to repurchase            | 33,930,905                  | 14,854,499                 | 6,262,376                   | 11,058                    | -                         | 55,058,838         |
| Customer deposits and other accounts                      | 4,814,676                   | 1,065,877                  | 3,450,887                   | 717,880                   | 1,285,874                 | 11,335,194         |
| Due to banks and other financial institutions             | 75,138                      | 20,814                     | 231,910                     | 488,333                   | 42,409                    | 858,604            |
| Structured products                                       | -                           | -                          | -                           | 91,105                    | 273,009                   | 364,114            |
| Derivative financial instruments                          | 111,499                     | -                          | 338,396                     | 225,184                   | 25,521                    | 700,600            |
| Other   | 575,500                     | -                          | -                           | -                         | -                         | 575,500            |
| <b>Financial liabilities (contractual maturity dates)</b> | <b>39,507,718</b>           | <b>15,941,190</b>          | <b>10,283,569</b>           | <b>1,533,560</b>          | <b>1,626,813</b>          | <b>68,892,850</b>  |
| <b>Net Liquidity Gap</b>                                  | <b>(32,601,458)</b>         | <b>(12,207,872)</b>        | <b>(2,811,763)</b>          | <b>49,997,683</b>         | <b>38,580,400</b>         | <b>40,956,990</b>  |
| <b>Cumulative Liquidity Gap</b>                           | <b>(32,601,458)</b>         | <b>(44,809,330)</b>        | <b>(47,621,093)</b>         | <b>2,376,590</b>          | <b>40,956,990</b>         |                    |



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**3. Financial Risk Management (Continued)**

**(b) Liquidity risk (continued)**

Financial assets and liabilities cash flows (continued)

|   | The Company                 |                            |                             |                           |                           | Total<br>\$'000   |
|---|-----------------------------|----------------------------|-----------------------------|---------------------------|---------------------------|-------------------|
|   | Within 1<br>Month<br>\$'000 | 2 to 3<br>Months<br>\$'000 | 4 to 12<br>Months<br>\$'000 | 2 to 5<br>Years<br>\$'000 | Over 5<br>Years<br>\$'000 |                   |
| <b>As at 31 December 2012:</b>                            |                             |                            |                             |                           |                           |                   |
| <b>Financial Assets</b>                                   |                             |                            |                             |                           |                           |                   |
| Cash and balances due from other financial institutions   | 2,967,040                   | -                          | -                           | -                         | -                         | 2,967,040         |
| Trading securities  | 1,027                       | 511,595                    | 1,499,550                   | 2,391,647                 | 8,146                     | 4,411,965         |
| Securities purchased under agreements to resell           | 1,617,247                   | 226,536                    | 533,853                     | -                         | -                         | 2,377,636         |
| Investment securities and pledged assets                  | 122,178                     | 5,552,765                  | 3,408,759                   | 38,561,438                | 23,919,444                | 71,564,584        |
| Derivative financial instruments                          | 1,521                       | 501,708                    | 1,474,367                   | 2,360,525                 | -                         | 4,338,121         |
| Loans, net provision for credit losses                    | 872,756                     | 271,440                    | 626,736                     | 589,978                   | 217,282                   | 2,578,192         |
| Other   | 66,231                      | -                          | 32,426                      | -                         | -                         | 98,657            |
| <b>Financial assets (contractual maturity dates)</b>      | <b>5,648,000</b>            | <b>7,064,044</b>           | <b>7,575,691</b>            | <b>43,903,588</b>         | <b>24,144,872</b>         | <b>88,336,195</b> |
| <b>Financial Liabilities</b>                              |                             |                            |                             |                           |                           |                   |
| Securities sold under agreements to repurchase            | 27,950,683                  | 19,894,652                 | 9,353,461                   | 31,716                    | -                         | 57,230,512        |
| Customer accounts   | 7,252                       | 13,641                     | 50,425                      | 109,781                   | -                         | 181,099           |
| Due to banks and other financial institutions             | 125                         | 26,295                     | 128,504                     | 107,306                   | 185                       | 262,415           |
| Derivative financial instruments                          | 1,521                       | 511,596                    | 1,498,532                   | 2,383,501                 | -                         | 4,395,150         |
| Structured products                                       | 97,641                      | 27,346                     | 61,997                      | 790,042                   | -                         | 977,026           |
| Other   | 899,298                     | 73,629                     | 16,000                      | -                         | -                         | 988,927           |
| <b>Financial liabilities (contractual maturity dates)</b> | <b>28,956,520</b>           | <b>20,547,159</b>          | <b>11,108,919</b>           | <b>3,422,346</b>          | <b>185</b>                | <b>64,035,129</b> |
| <b>Net Liquidity Gap</b>                                  | <b>(23,308,520)</b>         | <b>(13,483,115)</b>        | <b>(3,533,228)</b>          | <b>40,481,242</b>         | <b>24,144,687</b>         | <b>24,301,066</b> |
| <b>Cumulative Liquidity Gap</b>                           | <b>(23,308,520)</b>         | <b>(36,791,635)</b>        | <b>(40,324,863)</b>         | <b>156,379</b>            | <b>24,301,066</b>         | <b>-</b>          |

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**3. Financial Risk Management (Continued)**

**(b) Liquidity risk (continued)**

Financial assets and liabilities cash flows (continued)

|   | The Company                    |                            |                             |                           |                           | Total<br>\$'000   |
|---|--------------------------------|----------------------------|-----------------------------|---------------------------|---------------------------|-------------------|
|   | Within 1<br>Month<br>\$'000    | 2 to 3<br>Months<br>\$'000 | 4 to 12<br>Months<br>\$'000 | 2 to 5<br>Years<br>\$'000 | Over 5<br>Years<br>\$'000 |                   |
|   | <b>As at 31 December 2011:</b> |                            |                             |                           |                           |                   |
| <b>Financial Assets</b>                                   |                                |                            |                             |                           |                           |                   |
| Cash and balances due from other financial institutions   | 1,717,979                      | -                          | -                           | -                         | -                         | 1,717,979         |
| Trading securities  | -                              | -                          | 17,036                      | 476,334                   | 283,049                   | 776,419           |
| Securities purchased under agreements to resell           | 77,364                         | -                          | 249,235                     | -                         | -                         | 326,599           |
| Investment securities and pledged assets                  | 685,441                        | 1,943,427                  | 3,442,924                   | 43,027,955                | 34,595,467                | 83,695,214        |
| Derivative financial instruments                          | 20,575                         | -                          | 399,794                     | 430,400                   | 25,521                    | 876,290           |
| Loans, net provision for credit losses                    | 496,836                        | 349,811                    | 1,047,834                   | 408,993                   | 267,192                   | 2,570,666         |
| Other   | 172,763                        | -                          | -                           | -                         | -                         | 172,763           |
| <b>Financial assets (contractual maturity dates)</b>      | <b>3,170,958</b>               | <b>2,293,238</b>           | <b>5,156,823</b>            | <b>44,343,682</b>         | <b>35,171,229</b>         | <b>90,135,930</b> |
| <b>Financial Liabilities</b>                              |                                |                            |                             |                           |                           |                   |
| Securities sold under agreements to repurchase            | 33,946,180                     | 14,854,499                 | 6,265,621                   | 11,058                    | -                         | 55,077,358        |
| Customer accounts   | 13,054                         | 15,454                     | 61,060                      | 177,182                   | -                         | 266,750           |
| Due to banks and other financial institutions             | 68,525                         | 5,559                      | 166,438                     | 244,177                   | 4,720                     | 489,419           |
| Derivative financial instruments                          | 111,499                        | -                          | 338,396                     | 225,184                   | 25,521                    | 700,600           |
| Structured products                                       | -                              | -                          | -                           | 91,105                    | 273,009                   | 364,114           |
| Other   | 348,036                        | -                          | -                           | -                         | -                         | 348,036           |
| <b>Financial liabilities (contractual maturity dates)</b> | <b>34,487,294</b>              | <b>14,875,512</b>          | <b>6,831,515</b>            | <b>748,706</b>            | <b>303,250</b>            | <b>57,246,277</b> |
| <b>Net Liquidity Gap</b>                                  | <b>(31,316,336)</b>            | <b>(12,582,274)</b>        | <b>(1,674,692)</b>          | <b>43,594,976</b>         | <b>34,867,979</b>         | <b>32,889,653</b> |
| <b>Cumulative Liquidity Gap</b>                           | <b>(31,316,336)</b>            | <b>(43,898,610)</b>        | <b>(45,573,302)</b>         | <b>(1,978,326)</b>        | <b>32,889,653</b>         |                   |

Source of funding available to meet all of the liabilities and to cover outstanding loan commitments include cash, central bank balances, items in the course of collection, investments, loans and advances to banks and loans and advances to customers. In the normal course of business, a proportion of customer loans will be extended beyond their due dates. The Group is also able to meet unexpected net cash outflows by selling securities and accessing additional funding sources from local and overseas financial institutions.

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**3. Financial Risk Management (Continued)**

**(c) Market risk**

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rate, credit spreads, foreign exchange rates and equity prices. Market risk is monitored and reviewed by the Risk Management and periodically by the Risk Management Committee. The company monitors economic reports, local and international market conditions. Key market risk strategies include active monitoring of the market, portfolio sensitivity analysis, trading and position limits and liability management.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

**(i) Currency risk**

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

Foreign exchange risk occurs when the Group takes on open position in a currency. To control this exchange risk the Risk Management Committee has approved limits for net open position in each currency for both intra-day and overnight position. This limit may vary from time to time as determined by Risk Management Unit assessment of the volatility in exchange rates and with the approval of the Risk Management Committee.

The Group also has transactional currency exposure. This exposure arises from having financial assets in currencies other than those in which financial liabilities are expected to settle. The Group ensures that its net exposure is kept at approved levels.

In addition, the Group has utilise derivatives to mitigate currency risk exposure as specified in Note 22.

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**3. Financial Risk Management (Continued)**

**(c) Market risk (continued)**  
**(i) Currency risk (continued)**

**Concentrations of currency risk**

The tables below summarise the Group's and company's exposure to foreign currency exchange rate risk at 31 December.

|   | The Group             |                   |                 |                  |                  | Total<br>J\$'000  |
|---|-----------------------|-------------------|-----------------|------------------|------------------|-------------------|
|   | Jamaican\$<br>J\$'000 | US\$<br>J\$'000   | GBP<br>J\$'000  | CAN\$<br>J\$'000 | EURO<br>J\$'000  |                   |
| <b>At 31 December 2012:</b>                                 |                       |                   |                 |                  |                  |                   |
| <b>Assets</b>   |                       |                   |                 |                  |                  |                   |
| Cash and balances due from other financial institutions and | 390,622               | 3,225,497         | 230,033         | 96,824           | 142,809          | 4,085,785         |
| Cash reserves at Bank of Jamaica                            | 280,883               | 419,776           | 22,594          | 12,241           | -                | 735,494           |
| Trading securities  | 424,212               | 20,874            | -               | -                | 4,050,346        | 4,495,432         |
| Securities purchased under agreements to resell             | 1,042,201             | 556,174           | 160,214         | -                | 24,925           | 1,783,514         |
| Investment securities and pledged assets                    | 32,303,289            | 27,361,398        | 464,653         | -                | 278,760          | 60,408,100        |
| Derivative financial instruments                            | -                     | 4,253,104         | -               | -                | -                | 4,253,104         |
| Loans, net of provision for credit losses                   | 2,109,802             | 7,220,562         | -               | -                | -                | 9,330,364         |
| Lease receivables   | 59,154                | 5                 | -               | -                | -                | 59,159            |
| Other   | 3,055,261             | 27,924            | 6               | 7                | 34               | 3,083,232         |
| <b>Total assets</b>   | <b>39,665,424</b>     | <b>43,085,314</b> | <b>877,500</b>  | <b>109,072</b>   | <b>4,496,874</b> | <b>88,234,184</b> |
| <b>Liabilities and Stockholders' Equity</b>                 |                       |                   |                 |                  |                  |                   |
| Securities sold under agreements to repurchase              | 26,225,012            | 30,378,355        | 922,337         | -                | 70,174           | 57,595,878        |
| Customer deposits and other accounts                        | 2,104,692             | 8,919,558         | 41,422          | 142,685          | 6,837            | 11,215,194        |
| Structured products   | -                     | 854,100           | -               | -                | -                | 854,100           |
| Derivative financial instruments                            | -                     | 43,915            | -               | -                | 4,266,651        | 4,310,566         |
| Due to banks and other financial institutions               | 426,997               | 41,749            | -               | -                | -                | 468,746           |
| Other liabilities   | 934,570               | 819,358           | 6,056           | 4,232            | 1,999            | 1,766,215         |
| Stockholders' equity  | 12,023,485            | -                 | -               | -                | -                | 12,023,485        |
| <b>Total liabilities and stockholders' equity</b>           | <b>41,714,756</b>     | <b>41,057,035</b> | <b>969,815</b>  | <b>146,917</b>   | <b>4,345,661</b> | <b>88,234,184</b> |
| <b>Net statement of financial position</b>                  | <b>(2,049,332)</b>    | <b>2,028,279</b>  | <b>(92,315)</b> | <b>(37,845)</b>  | <b>151,213</b>   | <b>-</b>          |
| <b>Credit commitments</b>                                   | <b>1,345,201</b>      | <b>1,008,794</b>  | <b>-</b>        | <b>-</b>         | <b>-</b>         | <b>2,353,995</b>  |

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

*Concentrations of currency risk (continued)*

|   | The Group             |                   |                 |                  |                 | Total<br>J\$'000  |
|---|-----------------------|-------------------|-----------------|------------------|-----------------|-------------------|
|   | Jamaican\$<br>J\$'000 | US\$<br>J\$'000   | GBP<br>J\$'000  | CAN\$<br>J\$'000 | EURO<br>J\$'000 |                   |
| <b>At 31 December 2011:</b>                                 |                       |                   |                 |                  |                 |                   |
| <b>Assets</b>   |                       |                   |                 |                  |                 |                   |
| Cash and balances due from other financial institutions and | 324,452               | 1,400,578         | 298,000         | 83,228           | 121,226         | 2,227,484         |
| Cash reserves at Bank of Jamaica                            | 266,768               | 231,437           | 9,795           | 11,732           | -               | 519,732           |
| Trading securities  | 460,033               | 150,907           | -               | -                | -               | 610,940           |
| Securities purchased under agreements to resell             | 55,578                | 912,496           | 6,886           | -                | 16,944          | 991,904           |
| Investment securities and pledged assets                    | 36,251,383            | 25,807,844        | 413,352         | -                | 735,601         | 63,208,180        |
| Derivative financial instruments                            | -                     | 839,420           | -               | -                | -               | 839,420           |
| Loans, net of provision for credit losses                   | 2,501,584             | 6,740,781         | -               | -                | -               | 9,242,365         |
| Lease receivables   | 15,510                | 5                 | -               | -                | -               | 15,515            |
| Other   | 2,406,415             | 141,979           | -               | 2                | -               | 2,548,396         |
| <b>Total assets</b>   | <b>42,281,723</b>     | <b>36,225,447</b> | <b>728,033</b>  | <b>94,962</b>    | <b>873,771</b>  | <b>80,203,936</b> |
| <b>Liabilities and Stockholders' Equity</b>                 |                       |                   |                 |                  |                 |                   |
| Securities sold under agreements to repurchase              | 29,132,140            | 24,676,595        | 763,507         | -                | 39,889          | 54,612,131        |
| Customer deposits and other accounts                        | 2,841,699             | 7,563,549         | 61,672          | 130,396          | 2,581           | 10,599,897        |
| Structured products   | -                     | 274,913           | -               | -                | -               | 274,913           |
| Derivative financial instruments                            | -                     | 27,710            | -               | -                | 672,890         | 700,600           |
| Due to banks and other financial institutions               | 703,630               | 60,326            | -               | -                | 62              | 764,018           |
| Other liabilities   | 1,193,443             | 95,950            | 2,742           | 514              | 369             | 1,293,018         |
| Stockholders' equity  | 11,959,359            | -                 | -               | -                | -               | 11,959,359        |
| <b>Total liabilities and stockholders' equity</b>           | <b>45,830,271</b>     | <b>32,699,043</b> | <b>827,921</b>  | <b>130,910</b>   | <b>715,791</b>  | <b>80,203,936</b> |
| <b>Net statement of financial position</b>                  | <b>(3,548,548)</b>    | <b>3,526,404</b>  | <b>(99,888)</b> | <b>(35,948)</b>  | <b>157,980</b>  | <b>-</b>          |
| <b>Credit commitments</b>                                   | <b>883,332</b>        | <b>891,745</b>    | <b>-</b>        | <b>-</b>         | <b>-</b>        | <b>1,775,077</b>  |

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**3. Financial Risk Management (Continued)**

- (c) **Market risk (continued)**  
(i) **Currency risk (continued)**

**Concentrations of currency risk (continued)**

|   | The Company           |                   |                  |                 |                  |                   |
|---|-----------------------|-------------------|------------------|-----------------|------------------|-------------------|
|   | Jamaican\$<br>J\$'000 | US\$<br>J\$'000   | GBP<br>J\$'000   | CA\$<br>J\$'000 | EURO<br>J\$'000  | Total<br>J\$'000  |
| <b>At 31 December 2012:</b>                             |                       |                   |                  |                 |                  |                   |
| <b>Assets</b>   |                       |                   |                  |                 |                  |                   |
| Cash and balances due from other financial institutions | 98,592                | 2,579,191         | 166,668          | 49              | 122,536          | 2,967,036         |
| Trading securities                                      | 424,213               | 20,874            | -                | -               | 4,050,345        | 4,495,432         |
| Securities purchased under agreements to resell         | 1,251,878             | 927,912           | 152,297          | -               | 24,925           | 2,357,012         |
| Investment securities and pledged assets                | 29,195,270            | 22,161,448        | 464,654          | -               | 278,759          | 52,100,131        |
| Derivative financial instruments                        | -                     | 4,253,104         | -                | -               | -                | 4,253,104         |
| Loans, net of provision for credit losses               | 652,408               | 1,565,193         | -                | -               | -                | 2,217,601         |
| Other   | 4,413,412             | 27,724            | -                | -               | 34               | 4,441,170         |
| <b>Total assets</b>                                     | <b>36,035,773</b>     | <b>31,535,446</b> | <b>783,619</b>   | <b>49</b>       | <b>4,476,599</b> | <b>72,831,486</b> |
| <b>Liabilities and Stockholders' Equity</b>             |                       |                   |                  |                 |                  |                   |
| Securities sold under agreements to repurchase          | 26,243,378            | 29,603,838        | 922,337          | -               | 70,174           | 56,839,727        |
| Customer accounts                                       | 171,152               | -                 | -                | -               | -                | 171,152           |
| Structured products                                     | -                     | 854,100           | -                | -               | -                | 854,100           |
| Due to banks and other financial institutions           | 199,715               | 41,749            | -                | -               | -                | 241,464           |
| Derivative financial instruments                        | -                     | 43,915            | -                | -               | 4,266,651        | 4,310,566         |
| Other   | 545,688               | 723,104           | -                | -               | 1,592            | 1,270,384         |
| Stockholders' equity                                    | 9,144,093             | -                 | -                | -               | -                | 9,144,093         |
| <b>Total liabilities and stockholders' equity</b>       | <b>36,304,026</b>     | <b>31,266,706</b> | <b>922,337</b>   | <b>-</b>        | <b>4,338,417</b> | <b>72,831,486</b> |
| <b>Net statement of financial position</b>              | <b>(268,253)</b>      | <b>268,740</b>    | <b>(138,718)</b> | <b>49</b>       | <b>138,182</b>   | <b>-</b>          |
| <b>Credit commitments</b>                               | <b>999,118</b>        | <b>268,124</b>    | <b>-</b>         | <b>-</b>        | <b>-</b>         | <b>1,267,242</b>  |

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

*Concentrations of currency risk (continued)*

|   | The Company           |                   |                  |                 |                   |
|---|-----------------------|-------------------|------------------|-----------------|-------------------|
|   | Jamaican\$<br>J\$'000 | US\$<br>J\$'000   | GBP<br>J\$'000   | EURO<br>J\$'000 | Total<br>J\$'000  |
| <b>At 31 December 2011:</b>                             |                       |                   |                  |                 |                   |
| <b>Assets</b>   |                       |                   |                  |                 |                   |
| Cash and balances due from other financial institutions | 507,834               | 879,487           | 212,118          | 118,540         | 1,717,979         |
| Trading securities                                      | 460,032               | 150,907           | -                | -               | 610,939           |
| Securities purchased under agreements to resell         | 55,283                | 252,791           | -                | -               | 308,074           |
| Investment securities and pledged assets                | 32,453,792            | 23,062,664        | 413,352          | 735,601         | 56,665,409        |
| Derivative financial instruments                        | -                     | 839,420           | -                | -               | 839,420           |
| Loans, net of provision for credit losses               | 1,015,558             | 1,273,480         | -                | -               | 2,289,038         |
| Other   | 4,029,827             | 108,173           | -                | -               | 4,138,000         |
| <b>Total assets</b>                                     | <b>38,522,326</b>     | <b>26,566,922</b> | <b>625,470</b>   | <b>854,141</b>  | <b>66,568,859</b> |
| <b>Liabilities and Stockholders' Equity</b>             |                       |                   |                  |                 |                   |
| Securities sold under agreements to repurchase          | 29,150,576            | 24,676,678        | 763,507          | 39,889          | 54,630,650        |
| Customer accounts                                       | 250,241               | -                 | -                | -               | 250,241           |
| Structured products                                     | -                     | 274,913           | -                | -               | 274,913           |
| Due to banks and other financial institutions           | 403,941               | 60,326            | -                | 62              | 464,329           |
| Derivative financial instruments                        | -                     | 27,710            | -                | 672,890         | 700,600           |
| Other liabilities                                       | 884,293               | 34,621            | 170              | -               | 919,084           |
| Stockholders' equity                                    | 9,329,042             | -                 | -                | -               | 9,329,042         |
| <b>Total liabilities and stockholders' equity</b>       | <b>40,018,093</b>     | <b>25,074,248</b> | <b>763,677</b>   | <b>712,841</b>  | <b>66,568,859</b> |
| <b>Net statement of financial position</b>              | <b>(1,495,767)</b>    | <b>1,492,674</b>  | <b>(138,207)</b> | <b>141,300</b>  | <b>-</b>          |
| <b>Credit commitments</b>                               | <b>497,231</b>        | <b>383,141</b>    | <b>-</b>         | <b>-</b>        | <b>880,372</b>    |

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

*Foreign currency sensitivity*

The following tables indicate the currencies to which the Group and company had significant exposure on its monetary assets and liabilities and its forecast cash flows. The change in currency rate below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation at the year end based on a change in foreign currency rates as noted below. The sensitivity analysis on pre-tax profit is based on foreign currency denominated monetary items at the year end. 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.

| <b>The Group</b>   |                            |                              |                            |                             |
|--------------------|----------------------------|------------------------------|----------------------------|-----------------------------|
|                    | Change in<br>Currency Rate | Effect on Pre-<br>tax Profit | Change in<br>Currency Rate | Effect on Pre-tax<br>Profit |
|                    | 2012<br>%                  | 2012<br>\$'000               | 2011<br>%                  | 2011<br>\$'000              |
| Currency:          |                            |                              |                            |                             |
| USD                | +1                         | 20,389                       | +1                         | 35,156                      |
| EUR                | +1                         | 1,528                        | +1                         | 1,580                       |
| GBP                | +1                         | (925)                        | +1                         | (979)                       |
| USD                | -10                        | (203,886)                    | -1                         | (35,156)                    |
| EUR                | -10                        | (15,277)                     | -1                         | (1,580)                     |
| GBP                | -10                        | 9,245                        | -1                         | 979                         |
| <b>The Company</b> |                            |                              |                            |                             |
|                    | Change in<br>Currency Rate | Effect on Pre-<br>tax Profit | Change in<br>Currency Rate | Effect on Pre-tax<br>Profit |
|                    | 2012<br>%                  | 2012<br>\$'000               | 2011<br>%                  | 2011<br>\$'000              |
| Currency:          |                            |                              |                            |                             |
| USD                | +1                         | 2,062                        | +1                         | 14,948                      |
| EUR                | +1                         | 1,381                        | +1                         | 1,413                       |
| GBP                | +1                         | (1,387)                      | +1                         | (1,382)                     |
| USD                | -10                        | (20,621)                     | -1                         | (14,948)                    |
| EUR                | -10                        | (13,818)                     | -1                         | (1,413)                     |
| GBP                | -10                        | 13,872                       | -1                         | 1,382                       |



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**3. Financial Risk Management (Continued)**

**(c) Market risk (continued)**

**(ii) Interest rate risk**

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

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

The Group's interest rate risk resides primarily in its Jamaican dollar liability portfolio. Accordingly, the Group manages interest rate risk by holding a high proportion of variable rate Jamaican dollar securities linked to Treasury bill yields. There is a growing proportion of the Group's portfolio tied to their prime lending rate which is reviewed periodically based on market conditions. The interest rate risk policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities. Macaulay and Effective Duration analysis is also conducted on the financial assets of the Group to determine the impact of changes in interest rates. Macaulay duration is the weighted average term to maturity of a bond's cash flows, while Effective duration is the change in the value of the portfolio in response to a change in interest rates. The Duration Gap is also assessed. This is the difference between the Macaulay duration of assets and the duration of liabilities. It measures how well the average timings of cash inflows are matched to cash outflows.

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

In addition, the Group and company has an interest rate swap on which interest rate risk arises as set out in Note 22.

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**3. Financial Risk Management (Continued)**

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

|   | The Group                   |                            |                             |                           |                           |                                       | Total<br>\$'000   |
|---|-----------------------------|----------------------------|-----------------------------|---------------------------|---------------------------|---------------------------------------|-------------------|
|   | Within 1<br>Month<br>\$'000 | 2 to 3<br>Months<br>\$'000 | 4 to 12<br>Months<br>\$'000 | 2 to 5<br>Years<br>\$'000 | Over 5<br>Years<br>\$'000 | Non-<br>Interest<br>Bearing<br>\$'000 |                   |
|   | <b>At 31 December 2012:</b> |                            |                             |                           |                           |                                       |                   |
| <b>Assets</b>   |                             |                            |                             |                           |                           |                                       |                   |
| Cash and balances due from other financial institutions | 3,861,147                   | -                          | -                           | -                         | -                         | 224,638                               | 4,085,785         |
| Cash reserve at Bank of Jamaica                         | 735,494                     | -                          | -                           | -                         | -                         | -                                     | 735,494           |
| Trading securities                                      | -                           | -                          | -                           | 4,026,553                 | 19,624                    | 449,255                               | 4,495,432         |
| Securities purchased under agreements to resell         | 1,024,638                   | 232,802                    | 520,704                     | -                         | -                         | 5,370                                 | 1,783,514         |
| Investment securities and pledged assets                | 3,293,395                   | 25,735,067                 | 2,383,269                   | 21,078,226                | 6,540,959                 | 1,377,184                             | 60,408,100        |
| Derivative financial instruments                        | -                           | -                          | -                           | 3,933,704                 | -                         | 319,400                               | 4,253,104         |
| Loans, net of provision for credit losses               | 1,746,790                   | 763,024                    | 1,724,819                   | 3,128,512                 | 1,871,199                 | 96,020                                | 9,330,364         |
| Leases receivables                                      | -                           | -                          | -                           | 58,434                    | -                         | 725                                   | 59,159            |
| Other   | -                           | -                          | -                           | -                         | -                         | 3,083,232                             | 3,083,232         |
| <b>Total assets</b>                                     | <b>10,661,464</b>           | <b>26,730,893</b>          | <b>4,628,792</b>            | <b>32,225,429</b>         | <b>8,431,782</b>          | <b>5,555,824</b>                      | <b>88,234,184</b> |
| <b>Liabilities</b>                                      |                             |                            |                             |                           |                           |                                       |                   |
| Securities sold under agreements to repurchase          | 28,486,179                  | 19,583,818                 | 9,043,450                   | 29,460                    | -                         | 452,971                               | 57,595,878        |
| Customer deposits and other accounts                    | 6,398,394                   | 1,689,104                  | 1,907,618                   | 420,575                   | 737,732                   | 61,771                                | 11,215,194        |
| Structured products                                     | -                           | -                          | -                           | 528,953                   | -                         | 325,147                               | 854,100           |
| Derivative financial instruments                        | -                           | -                          | -                           | 3,998,369                 | -                         | 312,197                               | 4,310,566         |
| Due to banks and other financial institutions           | -                           | 32                         | 32,000                      | 384,216                   | 51,077                    | 1,421                                 | 468,746           |
| Other   | -                           | -                          | -                           | -                         | -                         | 1,766,215                             | 1,766,215         |
| <b>Total liabilities</b>                                | <b>34,884,573</b>           | <b>21,272,954</b>          | <b>10,983,068</b>           | <b>5,361,573</b>          | <b>788,809</b>            | <b>2,919,722</b>                      | <b>76,210,699</b> |
| <b>Total interest repricing gap</b>                     | <b>(24,223,109)</b>         | <b>5,457,939</b>           | <b>(6,354,276)</b>          | <b>26,863,856</b>         | <b>7,642,973</b>          | <b>2,636,102</b>                      | <b>12,023,485</b> |
| <b>Cumulative repricing gap</b>                         | <b>(24,223,109)</b>         | <b>(18,765,170)</b>        | <b>(25,119,446)</b>         | <b>1,744,410</b>          | <b>9,387,383</b>          | <b>12,023,485</b>                     |                   |

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**3. Financial Risk Management (Continued)**

**(c) Market risk (continued)**

**(ii) Interest rate risk (continued)**

|   | The Group                   |                            |                             |                        |                        |                                   | Total<br>\$'000   |
|---|-----------------------------|----------------------------|-----------------------------|------------------------|------------------------|-----------------------------------|-------------------|
|   | Within 1<br>Month<br>\$'000 | 2 to 3<br>Months<br>\$'000 | 4 to 12<br>Months<br>\$'000 | 2 to 5 Years<br>\$'000 | Over 5 Years<br>\$'000 | Non-Interest<br>Bearing<br>\$'000 |                   |
| <b>At 31 December 2011:</b>                             |                             |                            |                             |                        |                        |                                   |                   |
| <b>Assets</b>   |                             |                            |                             |                        |                        |                                   |                   |
| Cash and balances due from other financial institutions | 2,139,652                   | -                          | -                           | -                      | -                      | 87,832                            | 2,227,484         |
| Cash reserve at Bank of Jamaica                         | 519,732                     | -                          | -                           | -                      | -                      | -                                 | 519,732           |
| Trading securities                                      | -                           | -                          | -                           | -                      | 200,876                | 410,064                           | 610,940           |
| Securities purchased under agreements to resell         | 752,807                     | 6,859                      | 226,980                     | -                      | -                      | 5,258                             | 991,904           |
| Investment securities and pledged assets                | 748,453                     | 22,713,598                 | 421,239                     | 25,009,555             | 12,917,059             | 1,398,276                         | 63,208,180        |
| Derivative financial instruments                        | 244,228                     | -                          | -                           | -                      | -                      | 595,192                           | 839,420           |
| Loans, net of provision for credit losses               | 1,710,764                   | 471,978                    | 2,675,624                   | 2,747,059              | 1,544,319              | 92,621                            | 9,242,365         |
| Leases receivables                                      | -                           | -                          | -                           | 15,261                 | -                      | 254                               | 15,515            |
| Other   | -                           | -                          | -                           | -                      | -                      | 2,548,396                         | 2,548,396         |
| <b>Total assets</b>                                     | <b>6,115,636</b>            | <b>23,192,435</b>          | <b>3,323,843</b>            | <b>27,771,875</b>      | <b>14,662,254</b>      | <b>5,137,893</b>                  | <b>80,203,936</b> |
| <b>Liabilities</b>                                      |                             |                            |                             |                        |                        |                                   |                   |
| Securities sold under agreements to repurchase          | 33,609,653                  | 14,607,593                 | 6,056,655                   | 9,955                  | -                      | 328,275                           | 54,612,131        |
| Customer deposits and other accounts                    | 4,812,665                   | 1,044,156                  | 3,369,539                   | 611,857                | 688,353                | 73,327                            | 10,599,897        |
| Structured products                                     | -                           | -                          | -                           | -                      | -                      | 274,913                           | 274,913           |
| Derivative financial instruments                        | -                           | -                          | -                           | -                      | -                      | 700,600                           | 700,600           |
| Due to banks and other financial institutions           | 5,270                       | 3,244                      | 48,256                      | 485,295                | 125,848                | 96,305                            | 764,018           |
| Other   | -                           | -                          | -                           | -                      | -                      | 1,293,018                         | 1,293,018         |
| <b>Total liabilities</b>                                | <b>38,427,588</b>           | <b>15,654,993</b>          | <b>9,474,450</b>            | <b>1,107,107</b>       | <b>814,001</b>         | <b>2,766,438</b>                  | <b>68,244,577</b> |
| <b>Total interest repricing gap</b>                     | <b>(32,311,952)</b>         | <b>7,537,442</b>           | <b>(6,150,607)</b>          | <b>26,664,768</b>      | <b>13,848,253</b>      | <b>2,371,455</b>                  | <b>11,959,359</b> |
| <b>Cumulative repricing gap</b>                         | <b>(32,311,952)</b>         | <b>(24,774,510)</b>        | <b>(30,925,117)</b>         | <b>(4,260,349)</b>     | <b>9,587,904</b>       | <b>11,950,359</b>                 |                   |

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**3. Financial Risk Management (Continued)**

**(c) Market risk (continued)**

**(ii) Interest rate risk (continued)**

|   | The Company         |                     |                     |                   |                  | Non-Interest Bearing | Total             |
|---|---------------------|---------------------|---------------------|-------------------|------------------|----------------------|-------------------|
|   | Within 1 Month      | 2 to 3 Months       | 4 to 12 Months      | 2 to 5 Years      | Over 5 Years     |                      |                   |
|   | \$'000              | \$'000              | \$'000              | \$'000            | \$'000           | \$'000               | \$'000            |
| <b>At 31 December 2012:</b>                             |                     |                     |                     |                   |                  |                      |                   |
| <b>Assets</b>   |                     |                     |                     |                   |                  |                      |                   |
| Cash and balances due from other financial institutions | 2,967,036           | -                   | -                   | -                 | -                | -                    | 2,967,036         |
| Trading securities                                      | -                   | -                   | -                   | 4,026,553         | 19,624           | 449,255              | 4,495,432         |
| Securities purchased under agreements to resell         | 1,606,021           | 224,917             | 520,705             | -                 | -                | 5,369                | 2,357,012         |
| Investment securities and pledged assets                | 3,239,396           | 23,290,944          | 2,383,269           | 16,715,712        | 5,261,334        | 1,209,476            | 52,100,131        |
| Derivative financial instruments                        | -                   | -                   | -                   | 3,933,704         | -                | 314,400              | 4,248,104         |
| Loans, net of provision for credit losses               | 584,045             | 50,600              | 713,108             | 601,176           | 243,169          | 25,503               | 2,217,601         |
| Other   | -                   | -                   | -                   | -                 | -                | 4,441,170            | 4,441,170         |
| <b>Total assets</b>                                     | <b>8,396,498</b>    | <b>23,566,461</b>   | <b>3,617,082</b>    | <b>25,277,145</b> | <b>5,524,127</b> | <b>6,445,173</b>     | <b>72,826,486</b> |
| <b>Liabilities</b>                                      |                     |                     |                     |                   |                  |                      |                   |
| Securities sold under agreements to repurchase          | 27,736,004          | 19,583,818          | 9,043,450           | 29,460            | -                | 446,995              | 56,839,727        |
| Customer accounts                                       | 4,265               | 13,563              | 49,382              | 100,966           | -                | 2,976                | 171,152           |
| Structured products                                     | -                   | -                   | -                   | 528,953           | -                | 325,147              | 854,100           |
| Due to banks and other financial institutions           | 5,842               | -                   | 32,000              | 201,183           | 1,077            | 1,362                | 241,464           |
| Derivative financial instruments                        | -                   | -                   | -                   | 3,998,369         | -                | 312,197              | 4,310,566         |
| Other   | -                   | -                   | -                   | -                 | -                | 1,270,384            | 1,270,384         |
| <b>Total liabilities</b>                                | <b>27,746,111</b>   | <b>19,597,381</b>   | <b>9,124,832</b>    | <b>4,858,931</b>  | <b>1,077</b>     | <b>2,359,061</b>     | <b>63,687,393</b> |
| <b>Total interest repricing gap</b>                     | <b>(19,349,613)</b> | <b>3,969,080</b>    | <b>(5,507,750)</b>  | <b>20,418,214</b> | <b>5,523,050</b> | <b>4,086,112</b>     | <b>9,139,093</b>  |
| <b>Cumulative repricing gap</b>                         | <b>(19,349,613)</b> | <b>(15,380,533)</b> | <b>(20,888,283)</b> | <b>(470,069)</b>  | <b>5,052,981</b> | <b>9,139,093</b>     |                   |

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**3. Financial Risk Management (Continued)**

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

|   | The Company                 |                            |                             |                           |                        |                                   | Total<br>\$'000   |
|---|-----------------------------|----------------------------|-----------------------------|---------------------------|------------------------|-----------------------------------|-------------------|
|   | Within 1<br>Month<br>\$'000 | 2 to 3<br>Months<br>\$'000 | 4 to 12<br>Months<br>\$'000 | 2 to 5<br>Years<br>\$'000 | Over 5 Years<br>\$'000 | Non-Interest<br>Bearing<br>\$'000 |                   |
| <b>At 31 December 2011:</b>                             |                             |                            |                             |                           |                        |                                   |                   |
| <b>Assets</b>   |                             |                            |                             |                           |                        |                                   |                   |
| Cash and balances due from other financial institutions | 1,717,979                   | -                          | -                           | -                         | -                      | -                                 | 1,717,979         |
| Trading securities                                      | -                           | -                          | -                           | -                         | 200,876                | 410,064                           | 610,940           |
| Securities purchased under agreements to resell         | 76,817                      | -                          | 226,980                     | -                         | -                      | 4,276                             | 308,073           |
| Investment securities and pledged assets                | 522,454                     | 21,511,630                 | 421,239                     | 22,291,338                | 10,677,513             | 1,241,235                         | 56,665,409        |
| Derivative financial instruments                        | 244,228                     | -                          | -                           | -                         | -                      | 595,192                           | 839,420           |
| Loans, net of provision for credit losses               | 353,958                     | 86,214                     | 974,961                     | 640,445                   | 216,362                | 17,099                            | 2,289,039         |
| Other   | -                           | -                          | -                           | -                         | -                      | 4,137,999                         | 4,137,999         |
| <b>Total assets</b>                                     | <b>2,915,436</b>            | <b>21,597,844</b>          | <b>1,623,180</b>            | <b>22,931,783</b>         | <b>11,094,751</b>      | <b>6,405,865</b>                  | <b>66,568,859</b> |
| <b>Liabilities</b>                                      |                             |                            |                             |                           |                        |                                   |                   |
| Securities sold under agreements to repurchase          | 33,628,173                  | 14,607,593                 | 6,056,655                   | 9,955                     | -                      | 328,274                           | 54,630,650        |
| Customer accounts                                       | 12,219                      | 14,131                     | 54,790                      | 164,310                   | -                      | 4,791                             | 250,241           |
| Structured products                                     | -                           | -                          | -                           | -                         | -                      | 274,913                           | 274,913           |
| Due to banks and other financial institutions           | 5,775                       | 192                        | 48,000                      | 300,986                   | 13,148                 | 96,228                            | 464,329           |
| Derivative financial instruments                        | -                           | -                          | -                           | -                         | -                      | 700,600                           | 700,600           |
| Other   | -                           | -                          | -                           | -                         | -                      | 919,085                           | 919,085           |
| <b>Total liabilities</b>                                | <b>33,646,167</b>           | <b>14,621,916</b>          | <b>6,159,445</b>            | <b>475,251</b>            | <b>13,148</b>          | <b>2,323,891</b>                  | <b>57,239,818</b> |
| <b>Total interest repricing gap</b>                     | <b>(30,730,731)</b>         | <b>6,975,928</b>           | <b>(4,536,265)</b>          | <b>22,456,532</b>         | <b>11,081,603</b>      | <b>4,081,974</b>                  | <b>9,329,041</b>  |
| <b>Cumulative repricing gap</b>                         | <b>(30,730,731)</b>         | <b>(23,754,803)</b>        | <b>(28,291,068)</b>         | <b>(5,834,536)</b>        | <b>5,247,067</b>       | <b>9,329,041</b>                  |                   |

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**3. Financial Risk Management (Continued)**

**(c) Market risk (continued)**

**(ii) Interest rate risk (continued)**

The tables below summarise the effective interest rate by major currencies for financial instruments of the Group and the company.

|   | The Group   |       |      |      |       | The Company |       |     |      |       |
|---|-------------|-------|------|------|-------|-------------|-------|-----|------|-------|
|   | J           | US    | CAN  | GBP  | EURO  | J           | US    | CAN | GBP  | EURO  |
|   | \$          | \$    | \$   | £    | €     | \$          | \$    | \$  | £    | €     |
|   | %           | %     | %    | %    | %     | %           | %     | %   | %    | %     |
|   | <b>2012</b> |       |      |      |       |             |       |     |      |       |
| <b>Assets</b>   |             |       |      |      |       |             |       |     |      |       |
| Cash and balances due from other financial institutions | 0.11        | 0.01  | -    | 0.12 | 0.05  | 0.01        | 0.01  | -   | 0.12 | 0.05  |
| Cash reserves at Bank of Jamaica                        | -           | 0.01  | 0.35 | 0.05 | -     | -           | -     | -   | -    | -     |
| Trading securities                                      | -           | 11.00 | -    | -    | 5.00  | -           | 11.00 | -   | -    | 5.00  |
| Securities purchased under agreements to resell         | 4.86        | 4.02  | -    | 2.70 | 3.00  | 4.71        | 4.02  | -   | 2.70 | 3.00  |
| Investment securities – debt securities                 | 9.14        | 7.15  | -    | 7.50 | 10.5  | 9.05        | 7.46  | -   | 7.50 | 10.50 |
| Loans, net of provision for credit losses               | 13.01       | 8.73  | -    | -    | -     | 12.67       | 8.82  | -   | -    | -     |
| Lease receivables                                       | 16.00       | -     | -    | -    | -     | -           | -     | -   | -    | -     |
| <b>Liabilities</b>                                      |             |       |      |      |       |             |       |     |      |       |
| Securities sold under agreements to repurchase          | 6.13        | 3.76  | -    | 2.64 | 2.20  | 6.13        | 3.76  | -   | 2.64 | 2.20  |
| Customer deposits and other accounts                    | 1.50        | 1.36  | 1.17 | 0.76 | 0.24  | 3.31        | -     | -   | -    | -     |
| Structured products                                     | -           | 6.8%  | -    | -    | -     | -           | 6.8%  | -   | -    | -     |
| Due to banks and other financial institutions           | 9.21        | 4.94  | -    | -    | -     | 9.41        | 6.00  | -   | -    | -     |
|   | <b>2011</b> |       |      |      |       |             |       |     |      |       |
| <b>Assets</b>   |             |       |      |      |       |             |       |     |      |       |
| Cash and balances due from other financial institutions | 0.22        | 0.13  | -    | 0.01 | 0.05  | 0.22        | 0.13  | -   | 0.01 | 0.05  |
| Cash reserves at Bank of Jamaica                        | -           | 0.01  | 0.35 | 0.05 | -     | -           | -     | -   | -    | -     |
| Trading securities                                      | 8.75        | 8.14  | -    | -    | -     | 8.75        | 8.14  | -   | -    | -     |
| Securities purchased under agreements to resell         | -           | 4.40  | -    | 3.00 | 3.28  | 4.02        | 4.83  | -   | -    | -     |
| Investment securities – debt securities                 | 9.39        | 7.79  | -    | 7.50 | 10.27 | 9.65        | 7.57  | -   | 7.50 | 10.32 |
| Loans, net of provision for credit losses               | 16.09       | 10.04 | -    | -    | -     | 13.87       | 9.07  | -   | -    | -     |
| Lease receivables                                       | 18.31       | -     | -    | -    | -     | -           | -     | -   | -    | -     |
| <b>Liabilities</b>                                      |             |       |      |      |       |             |       |     |      |       |
| Securities sold under agreements to repurchase          | 5.92        | 3.66  | -    | 2.85 | 1.92  | 5.92        | 3.66  | -   | 2.85 | 1.92  |
| Customer deposits and other accounts                    | 3.64        | 2.96  | 1.20 | 1.79 | 0.05  | 3.83        | -     | -   | -    | -     |
| Due to banks and other financial institutions           | 9.41        | 7.32  | -    | -    | -     | 9.82        | 7.32  | -   | -    | -     |

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3. Financial Risk Management (Continued)

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

*Interest rate sensitivity*

The following tables indicate the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on the Group's and company's income statement and stockholders' equity.

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

|   | The Group                                |   |  |   |
|---|--|---|--|---|
|   | 2012                                     |   | 2011                                     |   |
|   | Effect on<br>Pre-tax<br>Profit<br>\$'000 | Effect on<br>Other<br>components<br>of Equity<br>\$'000 | Effect on<br>Pre-tax<br>Profit<br>\$'000 | Effect on<br>Other<br>components of<br>Equity<br>\$'000 |
| <b>Change in basis points</b>                   |  |   |  |   |
| J\$ -100, US\$ - 50 (2011 J\$ -100, US\$ -50)   | (271,477)                                | 529,347   | (218,789)                                | 753,395   |
| J\$ +400, US\$ +250 (2011 - J\$ +100, US\$ +50) | 1,149,154                                | (1,470,312)   | 218,789                                  | (783,088)   |

|   | The Company                              |   |  |   |
|---|--|---|--|---|
|   | 2012                                     |   | 2011                                     |   |
|   | Effect on<br>Pre-tax<br>Profit<br>\$'000 | Effect on<br>Other<br>components<br>of Equity<br>\$'000 | Effect on<br>Pre-tax<br>Profit<br>\$'000 | Effect on<br>Other<br>components of<br>Equity<br>\$'000 |
| <b>Change in basis points</b>                   |  |   |  |   |
| J\$ -100, US\$ - 50 (2011 J\$ -100, US\$ -50)   | (258,738)                                | 481,302   | (208,329)                                | 653,932   |
| J\$ +400, US\$ +250 (2011 - J\$ +100, US\$ +50) | 1,098,194                                | (1,302,921)   | 208,329                                  | (644,399)   |

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**3. Financial Risk Management (Continued)**

**(d) Capital management**

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

- (i) To comply with the capital requirements set by the regulators of the financial markets where the entities within the Group operate;
- (ii) 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
- (iii) To maintain a strong capital base to support the development of its business.

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

The BOJ and the FSC require each regulated entity to:

- (i) Hold the minimum level of the regulatory capital; and
- (ii) Maintain a minimum ratio of total regulatory capital to the risk-weighted assets.

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

- (i) Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and
- (ii) Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and revaluation on property, plant and equipment.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-statement of financial position 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 regulated companies within the Group for the years ended 31 December 2012 and 2011. During those two years, the individual entities within the Group complied with all of the externally imposed capital requirements to which they are subject.

The regulated companies that are operating within the Group are Sagicor Investments Jamaica Limited and Sagicor Bank Jamaica Limited.



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**3. Financial Risk Management (Continued)**

**(d) Capital management (continued)**

|                                     | Sagicor Investments<br>Jamaica Limited |                   | Sagicor Bank Jamaica<br>Limited |                   |
|-------------------------------------|--|-------------------|---------------------------------|-------------------|
|                                     | 2012<br>\$'000                         | 2011<br>\$'000    | 2012<br>\$'000                  | 2011<br>\$'000    |
| Tier 1 capital                      | 7,463,231                              | 7,041,585         | 3,077,292                       | 2,567,871         |
| Tier 2 capital                      | 1,389,657                              | 1,380,884         | 73,929                          | 71,610            |
| Total regulatory capital            | <u>8,852,888</u>                       | <u>8,422,469</u>  | <u>3,151,221</u>                | <u>2,639,481</u>  |
| Total required capital              | 5,157,277                              | 4,014,271         | 1,486,036                       | 1,034,021         |
| Risk-weighted assets:               |  |                   |                                 |                   |
| On-statement of financial position  | 15,232,982                             | 10,542,524        | 11,018,083                      | 7,725,499         |
| Off-statement of financial position | -                                      | -                 | 1,219,130                       | 894,705           |
| Foreign exchange exposure           | 421,074                                | 1,292,447         | 2,623,142                       | 1,720,001         |
| Total risk-weighted assets          | <u>15,654,056</u>                      | <u>11,834,971</u> | <u>14,860,355</u>               | <u>10,340,205</u> |
| Market Risk                         | <u>35,918,713</u>                      | <u>28,307,740</u> | -                               | -                 |
| Total Risk                          | <u>51,572,769</u>                      | <u>40,142,711</u> | <u>14,860,355</u>               | <u>10,340,205</u> |
| Actual capital base to risk         | <u>17%</u>                             | <u>21%</u>        | <u>21%</u>                      | <u>26%</u>        |
| Required capital base to risk       | <u>10%</u>                             | <u>10%</u>        | <u>10%</u>                      | <u>10%</u>        |

**(e) Derivative products**

The Group's derivative activities give rise to open positions in portfolios of derivatives. These positions are managed constantly to ensure that they remain within acceptable risk levels, with matching deals being utilised to achieve this where necessary. 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.

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**4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**(a) Critical judgements in applying the Group's accounting policies**

In the process of applying the Group's accounting policies, management has made the following significant judgements regarding the amounts recognised in the financial statements:

***Held to maturity investments***

The Group follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

If the Group fails to keep these investments to maturity other than specific circumstances explained in IAS 39, it will be required to reclassify the whole class as available-for-sale. The investments would therefore be measured at fair value not amortised cost. The fair value would increase by \$169,631,000 (2011 – \$249,348,000) with a corresponding entry in the fair value reserve in stockholders' equity.

**(b) Key sources of estimation uncertainty**

The Group makes estimates and assumptions that affect the reported assets and liabilities within the next financial year. The resulting accounting estimates will, by definition, seldom equal the related actual results. Areas of key sources of estimation uncertainty include the following:

**(i) *Income taxes***

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

**(ii) *Impairment losses on loans and leases***

Loans and leases are evaluated for impairment on a basis described in Note 2(m)(i).

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. Were the net present value of estimated cash flows to differ by +/-5%, the impairment loss is to be estimated \$135,613,000 and \$64,954,000 for the Group and company (2011 - \$72,794,000 and \$58,829,000) higher or lower.

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**4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)**

**(b) Key sources of estimation uncertainty (continued)**

**(iii) Fair value of securities not quoted in an active market**

The fair value of such securities not quoted in an active market may be determined using reputable pricing sources (such as pricing agencies) or indicative prices from bond/debt market makers. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. The Group exercises judgement and estimates on the quantity and quality of pricing sources used. Where no market data is available, the Group may value positions using its own models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. The inputs into these models are primarily discounted cash flows. The models used to determine fair values are periodically reviewed by experienced personnel. The models used for debt securities are based on net present value of estimated future cash flows, adjusted as appropriate for liquidity, and credit and market risk factors.

**5. Segment Reporting**

Management has determined the operating segment based on the reports reviewed by the Board of Directors that are used to make strategic decisions. The Group is organised and managed in five main reportable operating segments based on its business activities. The designated segments are as follows:

- (a) Treasury Management– this incorporates the Primary Dealer Unit, Cash Management Services and currency exposure.
- (b) Corporate and Retail Credit – this incorporates the Group's loan and leasing activities.
- (c) Asset Management – this incorporates the administration of the unit trust and other fund management activities.
- (d) Trading – this incorporates foreign currency trading, bond trading, equity trading and stock brokerage.
- (e) Corporate Trust – this incorporates corporate trust, share register and paying agency services.

The Group measures the performance of its operating segments through a measure of segment profit or loss which is profit before taxation.

A measure of segment assets is only required to be disclosed if the measure is regularly provided to the chief operating decision-maker. Segment assets include interest-bearing assets. No other information is reported to or used by the CODM in order to assess performance and allocate resources.

Segment liabilities that are reviewed by the CODM include interest-bearing liabilities.

Transactions between the operating segments are on normal commercial terms and conditions. There has been no change in the basis of the pricing of transactions over the prior year.

Net interest income is reported as the CODM relies primarily on the net interest income in assessing segment performance.

The Group's operations are located in Jamaica.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2012 or 2011

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**5. Segment Reporting (Continued)**

|                                       | <b>The Group</b>                   |  |                             |                  |                            |                     |                   |
|---------------------------------------|------------------------------------|--|-----------------------------|------------------|----------------------------|---------------------|-------------------|
|                                       | <b>Year ended 31 December 2012</b> |  |                             |                  |                            |                     |                   |
|                                       | <b>Treasury<br/>Management</b>     | <b>Corporate<br/>&amp; Retail<br/>Credit</b> | <b>Asset<br/>Management</b> | <b>Trading</b>   | <b>Corporate<br/>Trust</b> | <b>Eliminations</b> | <b>Group</b>      |
|                                       | <b>\$'000</b>                      | <b>\$'000</b>                                | <b>\$'000</b>               | <b>\$'000</b>    | <b>\$'000</b>              | <b>\$'000</b>       | <b>\$'000</b>     |
| Gross external revenues               | 5,601,542                          | 934,214                                      | 160,641                     | 646,088          | 58,321                     | -                   | 7,400,806         |
| Revenues/expenses from other segments | 29,040                             | -  | -                           | -                | -                          | (29,040)            | -                 |
| <b>Total gross revenues</b>           | <b>5,630,582</b>                   | <b>934,214</b>                               | <b>160,641</b>              | <b>646,088</b>   | <b>58,321</b>              | <b>(29,040)</b>     | <b>7,400,806</b>  |
| Total expenses                        | (4,041,169)                        | (855,844)                                    | (155,052)                   | (271,327)        | (71,321)                   | 29,040              | (5,365,673)       |
| Profit before tax                     | 1,589,413                          | 78,370                                       | 5,589                       | 374,761          | (13,000)                   | -                   | 2,035,133         |
| Tax expense                           |                                    |  |                             |                  |                            |                     | (582,457)         |
| Net profit                            |                                    |  |                             |                  |                            |                     | <b>1,452,676</b>  |
| <b>Segment assets</b>                 | <b>66,444,718</b>                  | <b>9,389,523</b>                             | <b>-</b>                    | <b>4,495,432</b> | <b>-</b>                   | <b>-</b>            | <b>80,329,673</b> |
| Unallocated assets                    |                                    |  |                             |                  |                            |                     | 7,904,511         |
| <b>Total Assets</b>                   |                                    |  |                             |                  |                            |                     | <b>88,234,184</b> |
| <b>Segment liabilities</b>            | <b>73,975,738</b>                  | <b>468,746</b>                               | <b>-</b>                    | <b>-</b>         | <b>-</b>                   | <b>-</b>            | <b>74,444,484</b> |
| Unallocated liabilities               |                                    |  |                             |                  |                            |                     | 1,766,215         |
| <b>Total Liabilities</b>              |                                    |  |                             |                  |                            |                     | <b>76,210,699</b> |
| Other segment items -                 |                                    |  |                             |                  |                            |                     |                   |
| Net interest income                   | 2,510,470                          | 506,564                                      | -                           | -                | -                          | -                   | 3,017,034         |
| Impairment charges                    | -                                  | 16,658                                       | -                           | -                | -                          | -                   | 16,658            |
| Capital expenditure                   | 66,662                             | 178,268                                      | -                           | -                | -                          | -                   | 244,930           |
| Depreciation                          | 35,206                             | 15,204                                       | -                           | -                | -                          | -                   | 50,410            |
| Amortisation charges                  | 16,282                             | 10,851                                       | -                           | -                | -                          | -                   | 27,133            |

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**5. Segment Reporting (Continued)**

|                                       | <b>The Group</b>                          |   |  |                           |                                       |                                |                         |
|---------------------------------------|---|---|--|---------------------------|---------------------------------------|--------------------------------|-------------------------|
|                                       | <b>Year ended 31 December 2011</b>        |   |  |                           |                                       |                                |                         |
|                                       | <b>Treasury<br/>Management<br/>\$'000</b> | <b>Corporate<br/>&amp; Retail<br/>&amp; Credit<br/>\$'000</b> | <b>Asset<br/>Management<br/>\$'000</b> | <b>Trading<br/>\$'000</b> | <b>Corporate<br/>Trust<br/>\$'000</b> | <b>Eliminations<br/>\$'000</b> | <b>Group<br/>\$'000</b> |
| Gross external revenues               | 5,186,932                                 | 1,034,869   | 252,006                                | 686,716                   | 50,751                                | -                              | 7,211,274               |
| Revenues/expenses from other segments | 19,419                                    | -   | -                                      | -                         | -                                     | (19,419)                       | -                       |
| Total gross revenues                  | 5,206,351                                 | 1,034,869   | 252,006                                | 686,716                   | 50,751                                | (19,419)                       | 7,211,274               |
| Total expenses                        | (3,848,663)                               | (791,796)   | (56,111)                               | (135,353)                 | (89,468)                              | 19,419                         | (4,901,972)             |
| Profit before tax                     | 1,357,688                                 | 243,073   | 195,895                                | 551,363                   | (38,717)                              | -                              | 2,309,302               |
| Tax expense                           |   |   |  |                           |                                       |                                | (588,646)               |
| Net profit                            |   |   |  |                           |                                       |                                | 1,720,656               |
| Segment assets                        | 65,039,506                                | 9,257,881   | -                                      | 610,940                   | -                                     | -                              | 74,908,327              |
| Unallocated assets                    |   |   |  |                           |                                       |                                | 5,295,609               |
| <b>Total Assets</b>                   |   |   |  |                           |                                       |                                | <b>80,203,936</b>       |
| Segment liabilities                   | 66,187,540                                | 764,019   | -                                      | -                         | -                                     | -                              | 66,951,559              |
| Unallocated liabilities               |   |   |  |                           |                                       |                                | 1,293,018               |
| <b>Total Liabilities</b>              |   |   |  |                           |                                       |                                | <b>68,244,577</b>       |
| Other segment items -                 |   |   |  |                           |                                       |                                |                         |
| Net Interest income                   | 2,477,085                                 | 463,005   | -                                      | -                         | -                                     | -                              | 2,940,090               |
| Impairment charges                    | -   | 23,278  | -                                      | -                         | -                                     | -                              | 23,278                  |
| Impairment reversal                   | (52,051)                                  | -   | -                                      | -                         | -                                     | -                              | (52,051)                |
| Capital expenditure                   | 11,132                                    | 76,083  | -                                      | -                         | -                                     | -                              | 87,215                  |
| Depreciation                          | 30,455                                    | 14,131  | -                                      | -                         | -                                     | -                              | 44,586                  |
| Amortisation charges                  | 8,455                                     | 31,918  | -                                      | -                         | -                                     | -                              | 40,373                  |

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**6. Interest Expense**

|  | The Group        |                  | The Company      |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2012<br>\$'000   | 2011<br>\$'000   | 2012<br>\$'000   | 2011<br>\$'000   |
| Customer deposits, repurchase liabilities and other accounts | 3,037,736        | 3,028,114        | 2,678,857        | 2,688,421        |
| Due to banks and other financial institutions                | 65,320           | 84,976           | 31,363           | 50,340           |
| Cross currency swap (Note 22)                                | 181,366          | -                | 181,366          | -                |
| Redeemable preference shares                                 | -                | 76,900           | -                | 76,900           |
|  | <u>3,284,422</u> | <u>3,189,990</u> | <u>2,891,586</u> | <u>2,815,661</u> |

**7. Fees and Commission Income**

|                        | The Group      |                | The Company    |                |
|------------------------|----------------|----------------|----------------|----------------|
|                        | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| Asset management fees  | 134,240        | 250,507        | 134,240        | 250,507        |
| Credit related fees    | 32,933         | 36,155         | 19,072         | 16,668         |
| Stock brokerage fees   | 40,118         | 30,438         | 40,117         | 30,438         |
| Trust fees             | 50,321         | 47,751         | 22,585         | 24,388         |
| Corporate finance fees | 44,314         | -              | 44,314         | -              |
| Wholesale banking fees | 5,380          | 6,048          | 5,380          | 6,048          |
| Treasury fees          | 19,388         | 20,190         | 6,820          | 11,708         |
| Other                  | 6,136          | 1,345          | 6,136          | 1,345          |
|                        | <u>332,830</u> | <u>392,434</u> | <u>278,664</u> | <u>341,102</u> |

**8. Net Trading Income**

|  | The Group      |                | The Company    |                |
|--|----------------|----------------|----------------|----------------|
|  | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| Foreign exchange trading and translation gains                               | 246,879        | 144,140        | 18,391         | 25,406         |
| Equities trading gains and dividends   | 6,350          | 18,951         | 561            | 18,951         |
| Securities trading gains/(losses) - Available-for-sale investment securities | 289,951        | 495,528        | 278,252        | 447,754        |
| Trading securities   | 216,821        | (13,916)       | 216,821        | (13,916)       |
| Derivative financial instruments   | (44,386)       | 11,582         | (44,386)       | 11,586         |
|  | <u>715,615</u> | <u>656,285</u> | <u>469,639</u> | <u>489,781</u> |

Gains or losses on currency derivatives are included in foreign exchange trading and translation gains.

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**9. Other Revenue**

|                     | The Group      |                | The Company    |                |
|---------------------|----------------|----------------|----------------|----------------|
|                     | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| Structured products | 15,863         | 5,499          | 15,863         | 5,499          |
| Service fees        | 32,838         | 23,599         | -              | -              |
| Other               | 2,204          | 3,377          | 4,256          | 3,128          |
|                     | <u>50,905</u>  | <u>32,475</u>  | <u>20,119</u>  | <u>8,627</u>   |

**10. Team Member Costs**

|   | The Group        |                  | The Company    |                |
|---|------------------|------------------|----------------|----------------|
|   | 2012<br>\$'000   | 2011<br>\$'000   | 2012<br>\$'000 | 2011<br>\$'000 |
| Wages and salaries                                    | 869,998          | 777,405          | 560,829        | 497,097        |
| Statutory contributions                               | 81,603           | 73,811           | 52,491         | 48,189         |
| Pension costs – Defined contribution scheme (Note 30) | 10,316           | -                | 5,180          | -              |
| Pension costs - Defined benefit scheme (Note 30)      | 23,828           | 2,814            | -              | -              |
| Other post-employment benefits (Note 30)              | 5,433            | 14,734           | -              | -              |
| Other team member benefits                            | 99,500           | 70,247           | 96,521         | 65,353         |
| Stock options expense (Note 37)                       | 6,296            | 20,488           | 6,295          | 20,488         |
| Share grant expense                                   | 24,737           | 43,754           | 24,737         | 43,754         |
|   | <u>1,121,711</u> | <u>1,003,253</u> | <u>746,053</u> | <u>674,881</u> |

The number of persons employed at the end of the year :

|           | The Group   |             | The Company |             |
|-----------|-------------|-------------|-------------|-------------|
|           | 2012<br>No. | 2011<br>No. | 2012<br>No. | 2011<br>No. |
| Full-time | 272         | 268         | 135         | 129         |
| Part-time | 25          | 24          | 20          | 20          |
|           | <u>297</u>  | <u>292</u>  | <u>155</u>  | <u>149</u>  |

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**11. Impairment Charges/(Reversals)**

|                       | The Group      |                 | The Company     |                 |
|-----------------------|----------------|-----------------|-----------------|-----------------|
|                       | 2012<br>\$'000 | 2011<br>\$'000  | 2012<br>\$'000  | 2011<br>\$'000  |
| Investment securities | -              | (52,051)        | -               | (52,051)        |
| Loans                 | 8,255          | 34,378          | (11,174)        | 13,515          |
| Lease receivables     | 3,360          | 1,754           | -               | -               |
| Other                 | 5,043          | (12,854)        | 897             | (15,505)        |
|                       | <u>16,658</u>  | <u>(28,773)</u> | <u>(10,277)</u> | <u>(54,041)</u> |

**12. Other Expenses**

|                                       | The Group      |                | The Company    |                |
|---------------------------------------|----------------|----------------|----------------|----------------|
|                                       | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| Amortisation (Note 28)                | 27,133         | 40,373         | 16,282         | 8,455          |
| Asset tax expense                     | 110,271        | 126            | 84,301         | 35             |
| Audit fees -                          |                |                |                |                |
| Current                               | 12,360         | 11,212         | 6,530          | 5,935          |
| Prior                                 | 635            | 1,400          | 761            | 1,335          |
| Automated banking fees                | 9,614          | 7,129          | -              | -              |
| Bank charges                          | 32,194         | 26,070         | 12,640         | 9,512          |
| Commissions and fees                  | 28,217         | 28,388         | 17,015         | 18,321         |
| Consultancy fees                      | 7,807          | 3,734          | -              | -              |
| Depreciation (Note 29)                | 50,410         | 44,586         | 35,206         | 30,455         |
| Donations                             | 1,618          | 915            | 1,206          | 775            |
| Insurance                             | 30,801         | 31,908         | 6,159          | 7,927          |
| Investment management expense         | 2,213          | 45,000         | 2,212          | 45,000         |
| Irrecoverable General Consumption Tax | 69,796         | 52,396         | 33,007         | 21,172         |
| Legal and professional fees           | 24,533         | 13,044         | 17,188         | 9,938          |
| Licensing fees                        | 32,048         | 29,093         | 10,180         | 9,919          |
| Miscellaneous                         | 10,545         | 5,079          | 5,349          | 1,825          |
| Motor vehicle expense                 | 7,642          | 8,588          | 2,781          | 3,947          |
| Office expenses                       | 7,000          | 9,302          | 1,875          | 3,682          |
| Printing and stationery               | 11,418         | 7,153          | 2,655          | 2,145          |
| Promotion and advertising             | 136,118        | 85,195         | 80,346         | 43,183         |
| Repairs and maintenance               | 11,680         | 9,659          | 5,103          | 1,639          |
| Security                              | 14,006         | 9,989          | 787            | 244            |
| Stamp duty                            | 263            | 983            | 258            | 978            |
| Technology project expense            | 119,470        | 103,714        | 119,470        | 103,714        |
| Telephone and postage                 | 24,515         | 21,520         | 12,608         | 9,169          |
| Travelling and entertainment          | 9,341          | 14,424         | 4,104          | 7,182          |
|                                       | <u>791,648</u> | <u>610,980</u> | <u>478,023</u> | <u>346,487</u> |

During the year the asset tax regime was substantially amended for specified regulated entities with the tax being calculated provisionally at a rate of 0.14% of adjusted asset values at year end.



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**13. Taxation**

- (a) Income tax is computed on the profit for the years adjusted for tax purposes. The charge for taxation comprises income tax at 33½%:

|                                   | The Group      |                | The Company    |                |
|-----------------------------------|----------------|----------------|----------------|----------------|
|                                   | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| Current tax                       | 566,044        | 564,298        | 439,650        | 470,639        |
| Prior year under/(over) provision | 13,383         | (127)          | 9,790          | 14,378         |
| Deferred tax (Note 34)            | 3,030          | 24,475         | (20,183)       | 14,765         |
|                                   | <u>582,457</u> | <u>588,646</u> | <u>429,257</u> | <u>499,782</u> |

- (b) The tax on profit differs from the theoretical amount that would arise using the statutory rate of 33½% as follows:

|  | The Group        |                  | The Company      |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2012<br>\$'000   | 2011<br>\$'000   | 2012<br>\$'000   | 2011<br>\$'000   |
| Profit before taxation                         | <u>2,035,133</u> | <u>2,309,302</u> | <u>1,574,595</u> | <u>1,908,000</u> |
| Tax calculated at 33½%                         | 678,378          | 769,767          | 524,865          | 636,000          |
| Adjusted for the effects of:                   |                  |                  |                  |                  |
| Income not subject to tax                      | (154,381)        | (175,163)        | (123,046)        | (144,933)        |
| Asset tax not deductible for taxation purposes | 36,757           |                  | 28,100           | -                |
| Prior year under/(over)provision               | 13,383           | (127)            | 9,790            | 14,378           |
| Net effect of other charges and allowances     | 8,320            | (5,831)          | (10,542)         | (5,663)          |
|  | <u>582,457</u>   | <u>588,646</u>   | <u>429,257</u>   | <u>499,782</u>   |

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**13. Taxation (Continued)**

(c) The deferred tax credit/(charge), relating to components of other comprehensive income, are as follows:

|   | The Group      |                | The Company    |                |
|---|----------------|----------------|----------------|----------------|
|   | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| Arising on losses/(gains) recognised in other comprehensive income -    |                |                |                |                |
| Available-for-sale investments  | 193,276        | (308,633)      | 163,791        | (254,101)      |
| Reclassifications from other comprehensive income to income statement - |                |                |                |                |
| Available-for-sale investments  | 138,752        | 193,598        | 138,157        | 159,817        |
| Cash flow hedge (Note 22)   | 19,949         | 3,881          | 19,949         | 3,881          |
|   | 158,701        | 197,479        | 158,106        | 163,698        |
|   | 351,977        | (111,154)      | 321,897        | (90,403)       |

**14. Net Profit**

|  | 2012<br>\$'000 | 2011<br>\$'000 |
|--|----------------|----------------|
| Dealt with in the financial statements of: |                |                |
| The company                                | 1,145,338      | 1,408,218      |
| The subsidiaries                           | 307,338        | 312,438        |
|  | 1,452,676      | 1,720,656      |

**15. Retained Earnings**

|   | 2012<br>\$'000 | 2011<br>\$'000 |
|---|----------------|----------------|
| Reflected in the financial statements of: |                |                |
| The company                               | 4,418,979      | 3,989,281      |
| The subsidiaries                          | 245,221        | 437,678        |
|   | 4,664,200      | 4,426,959      |

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**16. Earnings per Stock Unit**

- (i) Basic earnings per stock unit is calculated by dividing the net profit attributable to stockholders of the company by the weighted average number of ordinary stock units in issue during the year.

|   | 2012        | 2011        |
|---|-------------|-------------|
| Net profit attributable to stockholders (\$'000)                | 1,452,676   | 1,720,656   |
| Weighted average number of ordinary stock units in issue ('000) | 552,146     | 550,737     |
| Basic earnings per stock unit (\$)                              | <u>2.63</u> | <u>3.12</u> |

- (ii) Diluted earnings per stock unit is calculated by dividing the net profit attributable to stockholders by the weighted average number of ordinary stock units, as adjusted for the effects of potential dilutive effect of the stock options.

|   | 2012        | 2011        |
|---|-------------|-------------|
| Net profit attributable to stockholders (\$'000)                | 1,452,676   | 1,720,656   |
| Weighted average number of ordinary stock units in issue ('000) | 555,556     | 554,418     |
| Diluted earnings per stock unit (\$)                            | <u>2.61</u> | <u>3.09</u> |

- (iii) The weighted average number of ordinary stock units used in the basic and diluted earnings per stock unit computations may be reconciled as follows:

|  | 2012           | 2011           |
|--|----------------|----------------|
|  | '000           | '000           |
| Weighted average number of ordinary stock units for the purposes of the computation of basic earnings per stock unit   | 552,146        | 550,737        |
| Effect of dilutive potential ordinary stock units – stock options  | <u>3,410</u>   | <u>3,681</u>   |
| Weighted average number of ordinary stock units for the purposes of the computation of diluted earnings per stock unit | <u>555,556</u> | <u>554,418</u> |

**17. Cash and Balances Due from Other Financial Institutions**

|  | <u>The Group</u> |                  | <u>The Company</u> |                  |
|--|------------------|------------------|--------------------|------------------|
|  | 2012             | 2011             | 2012               | 2011             |
|  | \$'000           | \$'000           | \$'000             | \$'000           |
| Placements with other financial institutions | 355,970          | 145,373          | 230,989            | 145,373          |
| Items in the course of collection            | 154,475          | 98,292           | -                  | -                |
| Cash in hand and at bank                     | <u>3,575,340</u> | <u>1,983,819</u> | <u>2,736,047</u>   | <u>1,572,606</u> |
|  | <u>4,085,785</u> | <u>2,227,484</u> | <u>2,967,036</u>   | <u>1,717,979</u> |

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### 17. Cash and Balances Due from Other Financial Institutions (Continued)

Included in cash and balances due from other financial institutions are the following amounts, which are regarded as cash equivalents for purposes of the statement of cash flows:

|  | The Group      |                | The Company    |                |
|--|----------------|----------------|----------------|----------------|
|  | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| Cash and balances due from other financial institutions<br>(Note 23) | 3,854,796      | 2,082,111      | 2,736,047      | 1,572,606      |

### 18. Cash Reserve at Bank of Jamaica

A prescribed minimum of 26% (2011 - 26%) of deposit liabilities are required to be maintained by the banking subsidiary in liquid assets, of which 12% (2011 - 12%) must be maintained as cash reserve with the Bank of Jamaica for Jamaican dollar currency and 9% (2011 - 9%) for the relevant foreign currency. The cash reserve is not available for investment, lending or other use by the Group.

### 19. Trading Securities

|                            | The Group and Company |                |
|----------------------------|-----------------------|----------------|
|                            | 2012<br>\$'000        | 2011<br>\$'000 |
| Debt securities -          |                       |                |
| Government of Jamaica      | 4,026,553             | 137,103        |
| Corporate bonds            | 19,623                | 63,774         |
| Unquoted preference shares | 374,413               | 408,188        |
| Quoted equity security     | 50,022                | -              |
| Interest receivable        | 4,470,611             | 609,065        |
|                            | 24,821                | 1,875          |
|                            | 4,495,432             | 610,940        |

Included in Government of Jamaica debt securities is a Euro dollar promissory note which has been designated as financial asset at fair value through profit or loss. The company has also entered into a cross currency swap to mitigate the currency risk associated with this security (Note 22).

Preference shares consist of Equity Linked (ELP) and Dividend linked (DLP) preference shares. The ELP will provide returns based on the capital gains/loss from movement in the price of a listed stock and the DLP will provide returns based on the dividend income of the same stock. The terms of the preference shares provide for ELPs to receive twice the capital gain or loss from movement in the price of the underlying listed stock while the DLPs receive none of the capital gains or loss.

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**20. Securities Purchased Under Agreements to Resell**

|                     | <u>The Group</u> |                | <u>The Company</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>  |
| Principal           | 1,778,058        | 986,684        | 2,351,642          | 303,798        |
| Interest receivable | 5,456            | 5,220          | 5,370              | 4,276          |
|                     | <u>1,783,514</u> | <u>991,904</u> | <u>2,357,012</u>   | <u>308,074</u> |

The Group and the company entered into reverse repurchase agreements collateralised by Government of Jamaica securities. These agreements may result in credit exposure in the event that the counterparty to the transaction is unable to fulfil its contractual obligation.

As at 31 December 2012, the Group held \$2,078,780,000 (2011 - \$987,272,000) of securities, mainly representing Government of Jamaica debt securities, as collateral for reverse repurchase agreements.

|   | <u>The Group</u> |                | <u>The Company</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> |
| Securities purchased under agreement to resell with an original maturity of less than 90 days (Note 23) | <u>1,227,608</u> | <u>742,384</u> | <u>1,809,291</u>   | <u>77,028</u> |

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**21. Investment Securities**

|   | The Group          |                    | The Company        |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | 2012<br>\$'000     | 2011<br>\$'000     | 2012<br>\$'000     | 2011<br>\$'000     |
| Available-for-sale securities -         |                    |                    |                    |                    |
| Debt securities -                       |                    |                    |                    |                    |
| Government of Jamaica                   | 46,840,407         | 49,913,831         | 41,756,094         | 44,591,905         |
| Corporate bonds                         | 7,267,996          | 7,570,523          | 4,477,407          | 6,606,717          |
| Credit linked notes                     | 2,100,136          | 1,925,171          | 2,100,136          | 1,925,171          |
| Bank of Jamaica Certificates of Deposit | 115,000            | 602,500            | 35,000             | 502,500            |
| Other sovereign debt                    | 930,066            | 153,564            | 744,707            | 153,564            |
|   | <u>57,253,605</u>  | <u>60,165,589</u>  | <u>49,113,344</u>  | <u>53,779,857</u>  |
| Unit Trust -                            |                    |                    |                    |                    |
| Quoted – at fair value                  | 178,680            | 169,740            | 178,680            | 169,740            |
|   | <u>178,680</u>     | <u>169,740</u>     | <u>178,680</u>     | <u>169,740</u>     |
| Equity securities -                     |                    |                    |                    |                    |
| Unquoted – at cost                      | 115,817            | 114,888            | 100,461            | 100,461            |
|   | <u>115,817</u>     | <u>114,888</u>     | <u>100,461</u>     | <u>100,461</u>     |
|   | <u>57,548,102</u>  | <u>60,450,217</u>  | <u>49,392,485</u>  | <u>54,050,058</u>  |
| Held-to-maturity investments -          |                    |                    |                    |                    |
| Credit linked notes                     | 1,777,293          | 1,644,317          | 1,777,293          | 1,644,317          |
|   | <u>59,325,395</u>  | <u>62,094,534</u>  | <u>51,169,778</u>  | <u>55,694,375</u>  |
| Less: Pledged assets (Note 26)          | <u>(3,943,434)</u> | <u>(7,831,016)</u> | <u>(3,657,204)</u> | <u>(7,831,016)</u> |
|   | <u>55,381,961</u>  | <u>54,263,518</u>  | <u>47,512,574</u>  | <u>47,863,359</u>  |
| Less: Impairment charges                | <u>(41,192)</u>    | <u>(41,192)</u>    | <u>(41,192)</u>    | <u>(41,192)</u>    |
|   | <u>55,340,769</u>  | <u>54,222,326</u>  | <u>47,471,382</u>  | <u>47,822,167</u>  |
| Interest receivable                     | 1,123,897          | 1,154,838          | 971,545            | 1,012,226          |
|   | <u>56,464,666</u>  | <u>55,377,164</u>  | <u>48,442,927</u>  | <u>48,834,393</u>  |

During 2011, an impairment charge previously recognised on a debt security was reversed due to payments received (Note 11).

Credit linked notes are structured securities with embedded credit swaps allowing the issuer to transfer specific credit risks to the holder. The coupon or price of these note are linked to the performance of a specific Government of Jamaica security. Investors in these instruments are given higher yields for accepting exposure to specified credit events.

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**21. Investment Securities (Continued)**

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

|  | <u>The Group</u> |               | <u>The Company</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> |
| Debt securities with an original maturity of less than 90 days (Note 23) | -                | 605,079       | -                  | 505,045       |

During 2008, the Group and the Company reclassified certain financial assets out of available-for-sale category into the held-to-maturity category. The Group and the company have the intention and ability to hold these reclassified investments for the foreseeable future or until maturity. As at 31 December 2012, the fair values and carrying values of financial assets reclassified is \$2,023,535,000 (2011 - \$1,879,981,000) and \$1,853,904,000 (2011 - \$1,715,800,000). The effective interest rate on these instruments ranges from 12.7% to 12.9%.

The fair value gain that would have been recognised in other comprehensive income for the Group and Company if these investment securities had not been reclassified is \$169,631,000 (2011 - \$249,348,000).

There was no reclassification of financial assets during the year.

The following are included in the income statement for investment securities reclassified in 2008:

|                       | <u>The Group and The Company</u> |                |
|-----------------------|----------------------------------|----------------|
|                       | <b>2012</b>                      | <b>2011</b>    |
|                       | <b>\$'000</b>                    | <b>\$'000</b>  |
| Interest income       | 202,281                          | 186,065        |
| Foreign exchange gain | 146,660                          | 14,769         |
|                       | <u>348,941</u>                   | <u>200,834</u> |

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**22. Derivative Financial Instruments and Hedging Activity**

Derivatives are at fair value and carried 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 counterparties of replacing all their transactions with the Group with a fair value in their favour if the Group were to default. Derivative assets and liabilities on different transactions are only set off if the transactions 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.

The fair values are set out below –

|  | <b>The Group and Company</b> |                |                    |                |
|--|------------------------------|----------------|--------------------|----------------|
|  | <b>Assets</b>                |                | <b>Liabilities</b> |                |
|  | <b>2012</b>                  | <b>2011</b>    | <b>2012</b>        | <b>2011</b>    |
|  | <b>\$'000</b>                | <b>\$'000</b>  | <b>\$'000</b>      | <b>\$'000</b>  |
| (i) Currency forwards                    | 257,187                      | 567,482        | 245,055            | 561,392        |
| (ii) Cross currency swap                 | 3,952,001                    | -              | 4,021,595          | -              |
| (iii) Exchange traded funds – short sale | -                            | -              | -                  | 111,498        |
| (iv) Equity indexed options              | 43,916                       | 27,710         | 43,916             | 27,710         |
| (v) Interest rate swap                   | -                            | 244,228        | -                  | -              |
|  | <b>4,253,104</b>             | <b>839,420</b> | <b>4,310,566</b>   | <b>700,600</b> |



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**22. Derivative Financial Instruments and Hedging Activity (Continued)**

(i) **Currency forwards**

The company has entered into currency forwards to buy US dollars and sell Euro dollars totalling €2,000,000 (2011 - €5,035,000) to be settled on a gross basis at a future date at a specified price. The credit risk is evaluated for each contract and is collateralised where deemed necessary. The currency forward contracts are settled on a gross basis. The contract expires in November 2014.

(ii) **Cross currency swap**

The company entered into a currency swap with an initial notional principal amount of €45 million maturing in February 2015. Under the terms of this swap, the company pays euro at a rate of 5% and receives 4.26% in US dollars on the notional principal amount.

The company obtains principal and interest receipts in euros on a promissory note included in Note 19.

(iii) **Exchange traded funds – short sale**

During 2009, the company entered into transactions to sell euro currencies that were borrowed from a broker. The company benefits if there is a decline in the asset price between the sale and repurchase date. The contract was closed in August 2012.

(iv) **Equity indexed options**

These derivative instruments give the holder the ability to participate in the upward movement of an equity index while protecting from downward risk and form part of certain structured product contracts with customers (Note 32). The Group is exposed to credit risk on purchased options only, and only to the extent of the carrying amount, which is their fair value.

(v) **Interest rate swap and hedging activity – cash flow hedge**

In 2010, hedge accounting was discontinued as the hedge relationship was no longer effective.

The notional principal amount of the interest rate swap contract was US\$20M. The fixed interest rate was 10.201% and the floating rate was based on USD-LIBOR-BBA.

The contract was closed in February 2012. Accordingly, the remaining unamortised gains included in the fair value reserve were reclassified to the net trading income. The amount reclassified, net of deferred taxation, was \$39,897,000 (2011 - \$7,762,000).

(vi) **OTC currency put options**

Foreign currency put options are contractual agreements under which the seller grants the purchaser the right but not the obligation to sell at a set date, a specified amount of a foreign currency at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange risk.

The company has entered into a currency option with its parent company (Sagicor Life Jamaica Limited) to purchase a set amount of United States dollars at an agreed price if the closing Bank of Jamaica weighted average selling rate for the United States Dollar is less than the stated amount. The expiration date of this contract is 2039. The fair value of this option was \$Nil at the year end.

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**23. Cash and Cash Equivalents**

|   | <u>The Group</u> |                  | <u>The Company</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 and balances due from other financial institutions (Note 17) | 3,854,797        | 2,082,111        | 2,736,047          | 1,572,606      |
| Securities purchased under agreements to resell (Note 20)         | 1,227,608        | 742,384          | 1,809,291          | 77,028         |
| Investment securities (Note 21)                                   | -                | 605,079          | -                  | 505,045        |
| Repurchase agreements with financial institutions                 | (2,868,944)      | (1,221,303)      | (2,348,433)        | (1,221,303)    |
| Items in the course of payment (Note 35)                          | (89,962)         | (119,179)        | -                  | -              |
| Short term loan (Note 33)   | -                | (3,597)          | (5,842)            | (4,102)        |
|   | <u>2,123,499</u> | <u>2,085,495</u> | <u>2,191,063</u>   | <u>929,274</u> |

**24. Loans, Net of Provision for Credit Losses**

|                                   | <u>The Group</u> |                  | <u>The Company</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>    |
| Gross loans and advances          | 9,450,247        | 9,380,059        | 2,296,016          | 2,380,058        |
| Less: Provision for credit losses | (215,902)        | (230,315)        | (103,918)          | (108,119)        |
|                                   | <u>9,234,345</u> | <u>9,149,744</u> | <u>2,192,098</u>   | <u>2,271,939</u> |
| Loan interest receivable          | 96,019           | 92,621           | 25,503             | 17,099           |
|                                   | <u>9,330,364</u> | <u>9,242,365</u> | <u>2,217,601</u>   | <u>2,289,038</u> |

The aggregate amount of non-performing loans on which interest was not being accrued is as follows:

|                            | <u>The Group</u> |                | <u>The Company</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>  |
| Total non-performing loans | <u>517,556</u>   | <u>417,188</u> | <u>264,748</u>     | <u>247,521</u> |

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**24. Loans, Net of Provision for Credit Losses (Continued)**

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

|   | The Group      |                | The Company    |                |
|---|----------------|----------------|----------------|----------------|
|   | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| Balance at beginning of year                    | 230,315        | 194,897        | 108,119        | 93,781         |
| Provided during the year                        | 75,882         | 38,910         | 12,958         | 18,047         |
| Recoveries                                      | (67,627)       | (4,532)        | (24,132)       | (4,532)        |
| Net charge to the income statement<br>(Note 11) | 8,255          | 34,378         | (11,174)       | 13,515         |
| Write-offs                                      | (31,244)       | -              | -              | -              |
| Currency revaluation adjustment                 | 8,576          | 1,040          | 6,973          | 823            |
| Balance at end of year                          | 215,902        | 230,315        | 103,918        | 108,119        |

**25. Lease Receivables**

|  | The Group      |                |
|--|----------------|----------------|
|  | 2012<br>\$'000 | 2011<br>\$'000 |
| Gross investment in finance leases -                 |                |                |
| Not later than one year                              | 81,790         | 25,907         |
| Later than one year and not later than<br>five years | 21,890         | 17,404         |
|  | 103,680        | 43,311         |
| Unearned finance income                              | (21,222)       | (7,386)        |
| Net investment in finance leases                     | 82,458         | 35,925         |
| Net investment in finance leases -                   |                |                |
| Not later than one year                              | 67,289         | 20,434         |
| Later than one year and not later than<br>five years | 15,169         | 15,491         |
|  | 82,458         | 35,925         |
| Less Provision for credit losses                     | (24,024)       | (20,664)       |
|  | 58,434         | 15,261         |
| Interest receivable                                  | 725            | 254            |
|  | 59,159         | 15,515         |

The aggregate amount of non-performing lease receivables on which interest was not being accrued is \$30,244,000 (2011 - \$27,744,000).

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**26. Pledged Assets**

Assets are pledged as collateral under repurchase agreements with customers and other financial institutions and for security relating to overdraft and other facilities with other financial institutions and with the Bank of Jamaica.

|  | <b>The Group</b>  |                   |                          |                   |
|--|-------------------|-------------------|--------------------------|-------------------|
|  | <b>Asset</b>      |                   | <b>Related liability</b> |                   |
|  | <b>2012</b>       | <b>2011</b>       | <b>2012</b>              | <b>2011</b>       |
|  | <b>\$'000</b>     | <b>\$'000</b>     | <b>\$'000</b>            | <b>\$'000</b>     |
| Investment securities and securities purchased under resale agreements | <u>59,007,906</u> | <u>55,928,848</u> | <u>58,295,132</u>        | <u>54,630,650</u> |

|  | <b>The Company</b> |                   |                          |                   |
|--|--------------------|-------------------|--------------------------|-------------------|
|  | <b>Asset</b>       |                   | <b>Related liability</b> |                   |
|  | <b>2012</b>        | <b>2011</b>       | <b>2012</b>              | <b>2011</b>       |
|  | <b>\$'000</b>      | <b>\$'000</b>     | <b>\$'000</b>            | <b>\$'000</b>     |
| Investment securities and securities purchased under resale agreements | <u>57,891,569</u>  | <u>55,928,848</u> | <u>56,839,727</u>        | <u>54,630,650</u> |

Of the assets pledged as security, the following represents the total for those assets pledged for which the transferee has the right by contract or custom to sell or repledge the collateral.

|                                 | <b>The Group</b> |                  | <b>The Company</b> |                  |
|---------------------------------|------------------|------------------|--------------------|------------------|
|                                 | <b>2012</b>      | <b>2011</b>      | <b>2012</b>        | <b>2011</b>      |
|                                 | <b>\$'000</b>    | <b>\$'000</b>    | <b>\$'000</b>      | <b>\$'000</b>    |
| Investment securities (Note 21) | <u>3,943,434</u> | <u>7,831,016</u> | <u>3,657,204</u>   | <u>7,831,016</u> |

**27. 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. There were no related party transactions with the ultimate parent company.

Related companies include ultimate parent company, parent company, fellow subsidiaries and associated company. Related parties include directors, key management and companies for which the Group and its parent company provide management services.

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**27. Related Party Transactions and Balances (Continued)**

(i) The following transactions were carried out with related parties and companies:

|   | The Group      |                | The Company    |                |
|---|----------------|----------------|----------------|----------------|
|   | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| With parent company -                               |                |                |                |                |
| Management fees earned                              | 152            | 141,950        | 152            | 141,950        |
| Interest and other income earned                    | 52,985         | 4,856          | 45,438         | 4,856          |
| Interest and other expenses paid                    | (210,924)      | (91,697)       | (192,482)      | (91,697)       |
| Investment management fees paid                     | -              | (45,000)       | -              | (45,000)       |
| Rent and net lease recoveries paid to related party | (5,743)        | (6,805)        | (1,869)        | (1,729)        |
| With fellow subsidiaries -                          |                |                |                |                |
| Interest income earned                              | 18,343         | -              | 18,343         | 3,129          |
| Interest expense paid                               | (18,943)       | (14,329)       | (18,863)       | (30,446)       |
| Commission earned                                   | -              | 4,856          | -              | 4,856          |
| Pension expense recharge                            | -              | -              | -              | 9,145          |
| With directors and key management -                 |                |                |                |                |
| Interest expense paid                               | (6,940)        | (5,909)        | (6,565)        | (5,613)        |
| Interest income earned                              | 2,728          | 2,390          | 517            | 176            |
| Post-employment benefits                            | 2,265          | -              | -              | -              |
| Share based payments                                | 36,165         | 55,182         | 36,165         | 55,182         |
| Salaries and other short-term benefits              | 224,254        | 203,389        | 135,548        | 124,726        |
| Party with significant influence over party company |                |                |                |                |
| Fee income earned                                   | 32,500         | -              | 32,500         | -              |
| Rent and net lease                                  | (117,894)      | (103,956)      | (46,424)       | (43,324)       |
| Interest expense paid                               | (9,092)        | (3,496)        | (9,092)        | (3,496)        |
| Interest income earned                              | 3,157          | 801            | -              | -              |
| With managed funds -                                |                |                |                |                |
| Management fees earned                              | 109,817        | 86,958         | 109,817        | 86,958         |
| Interest expense paid                               | (42,697)       | (40,671)       | (42,697)       | (40,671)       |
| Directors' emoluments -                             |                |                |                |                |
| Fees  | 18,057         | 16,731         | 12,995         | 12,631         |
| Other   | 77,782         | 79,564         | 77,782         | 53,777         |
|   | 95,839         | 96,295         | 90,777         | 66,408         |

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**27. Related Party Transactions and Balances (Continued)**

(ii) Year-end balances with related companies and parties are as follows:

|  | The Group      |                | The Company    |                |
|--|----------------|----------------|----------------|----------------|
|  | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| With ultimate parent company -                                 |                |                |                |                |
| Balances due from ultimate parent company                      | 609            | -              | -              | -              |
| With parent company -  |                |                |                |                |
| Customer deposits  | (144,566)      | (164,607)      | -              | -              |
| Customer deposits – managed funds                              | (124,247)      |                | -              | -              |
| Securities sold under agreements to repurchase                 | (1,431,568)    | (405,626)      | (1,431,568)    | (405,626)      |
| Securities sold under agreements to repurchase - managed funds | (3,349,004)    | (2,624,007)    | (3,349,004)    | (2,624,007)    |
| Balances due to parent company                                 | (36,533)       | (45,097)       | (36,533)       | (45,097)       |
| With fellow subsidiaries -                                     |                |                |                |                |
| Cash and bank balances   | 333,389        | -              | 330,080        | 787,763        |
| Securities purchased under agreement to resell                 | 700,245        | -              | -              | -              |
| Customer deposits  | (196,225)      | (140,580)      | -              | -              |
| Securities sold under agreements to repurchase                 | (260,826)      | (665,390)      | (260,844)      | (683,910)      |
| Securities sold under agreements to repurchase - managed funds | (185,864)      | (93,123)       | (185,864)      | (93,123)       |
| Due to banks and other financial institutions                  | -              | -              | (5,482)        | (505)          |
| Balances due to fellow subsidiaries                            | (9,028)        | (7,254)        | (53,638)       | (54,312)       |
| Party with significant influence over party company            |                |                |                |                |
| Securities sold under agreements to repurchase                 | 514,559        | 270,631        | 514,559        | 270,631        |
| Customer deposits  | (80,230)       | (57,609)       | -              | -              |
| Loans  | 23,471         | 17,855         | -              | -              |

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**27. Related Party Transactions and Balances (Continued)**

(ii) Year-end balances with related companies and parties are as follows (continued):

|   | The Group      |                | The Company    |                |
|---|----------------|----------------|----------------|----------------|
|   | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| With directors and key management personnel -       |                |                |                |                |
| Loans   | 20,494         | 20,234         | 2,058          | 753            |
| Customer deposits and other accounts                | (28,578)       | (37,414)       | -              | -              |
| Securities sold under agreements to repurchase      | (86,949)       | (127,814)      | (86,949)       | (127,814)      |
| With managed funds -                                |                |                |                |                |
| Loans   | 6,361          | 7,741          | -              | -              |
| Customers deposits                                  | (12,130)       | (372,731)      | -              | -              |
| Securities sold under agreements to repurchase      | (742,346)      | (2,929,155)    | (742,346)      | (2,929,155)    |
| Balances due from other related parties             | 47,887         | 8,527          | 47,887         | 8,527          |
| Party with significant influence over party company |                |                |                |                |
| Due to related party                                | (59,896)       | -              | (59,896)       | -              |

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**28. Intangible Assets**

|                          | The Group      |                | The Company    |                |
|--------------------------|----------------|----------------|----------------|----------------|
|                          | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| Computer software        | 73,826         | 47,550         | 63,673         | 26,547         |
| Goodwill                 | 733,750        | 733,750        | 143,263        | 143,263        |
|                          | <u>807,576</u> | <u>781,300</u> | <u>206,936</u> | <u>169,810</u> |
| <b>Computer software</b> |                |                |                |                |
|                          | The Group      |                | The Company    |                |
|                          | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| Opening net book value   | 47,550         | 51,708         | 26,547         | 14,039         |
| Additions                | 53,409         | 36,215         | 53,408         | 20,963         |
| Amortisation             | (27,133)       | (40,373)       | (16,282)       | (8,455)        |
|                          | <u>73,826</u>  | <u>47,550</u>  | <u>63,673</u>  | <u>26,547</u>  |
| Cost, net of grant       | 409,859        | 356,450        | 199,115        | 145,707        |
| Accumulated amortisation | (336,033)      | (308,900)      | (135,442)      | (119,160)      |
|                          | <u>73,826</u>  | <u>47,550</u>  | <u>63,673</u>  | <u>26,547</u>  |

The intangible assets have finite useful lives and are amortised over three years. The amortisation of computer software is included in other expenses in the income statement.

**Goodwill**

**Impairment test for goodwill**

Goodwill is allocated to the Group's cash generating units (CGUs) identified according to the lines of business.

The impairment test is carried out by comparing the recoverable amount of the Group's cash generating units (CGUs) to which goodwill has been allocated to the carrying amount of those CGUs plus goodwill. For the purposes of the impairment assessment, goodwill has been allocated to the Group's cash generating units as follows:

|                                     | 2012<br>\$'000 | 2011<br>\$'000 |
|-------------------------------------|----------------|----------------|
| Asset Management                    | 54,604         | 54,604         |
| Credit                              | 75,417         | 75,417         |
| Treasury, PDU & Investment Services | 443,992        | 443,992        |
| Trading & Brokerage                 | 152,437        | 152,437        |
| Trust Services                      | 7,300          | 7,300          |
|                                     | <u>733,750</u> | <u>733,750</u> |

The recoverable amount is based on its fair value less costs to sell, as estimated on the basis of the price/earnings ratios of similar businesses. Observable market prices are used.

There was no impairment of any of the Group's CGUs.



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**29. Property, Plant and Equipment**

|                                 | Leasehold<br>Improvement<br>\$'000 | Furniture<br>and<br>Equipment<br>\$'000 | Motor<br>Vehicles<br>\$'000 | Computer<br>Equipment<br>\$'000 | Total<br>\$'000 |
|---------------------------------|------------------------------------|---|-----------------------------|---------------------------------|-----------------|
| <b>The Group</b>                |                                    |   |                             |                                 |                 |
| <b>Cost</b>                     |                                    |   |                             |                                 |                 |
| At 1 January 2011               | 150,718                            | 136,011                                 | 11,057                      | 168,657                         | 466,443         |
| Additions                       | 12,576                             | 26,420                                  | 2,159                       | 11,195                          | 52,350          |
| Disposals                       | -                                  | (133)                                   | (1,062)                     | (194)                           | (1,389)         |
| At 31 December 2011             | 163,294                            | 162,298                                 | 12,154                      | 179,658                         | 517,404         |
| Additions                       | 137,535                            | 37,567                                  | 9,402                       | 7,017                           | 191,521         |
| Disposals                       | -                                  | (1,111)                                 | (315)                       | (92)                            | (1,518)         |
| At 31 December 2012             | 300,829                            | 198,754                                 | 21,241                      | 186,583                         | 707,407         |
| <b>Accumulated Depreciation</b> |                                    |   |                             |                                 |                 |
| At 1 January 2011               | 57,251                             | 112,661                                 | 2,660                       | 132,944                         | 305,516         |
| Charge for the year             | 15,348                             | 14,762                                  | 2,129                       | 12,347                          | 44,586          |
| Disposals                       | -                                  | (133)                                   | (1,062)                     | (194)                           | (1,389)         |
| At 31 December 2011             | 72,599                             | 127,290                                 | 3,727                       | 145,097                         | 348,713         |
| Charge for the year             | 18,436                             | 17,414                                  | 3,371                       | 11,189                          | 50,410          |
| Disposals                       | -                                  | (1,111)                                 | (315)                       | (29)                            | (1,455)         |
| At 31 December 2012             | 91,035                             | 143,593                                 | 6,783                       | 156,257                         | 397,668         |
| <b>Net Book Value</b>           |                                    |   |                             |                                 |                 |
| At 31 December 2012             | 209,794                            | 55,161                                  | 14,458                      | 30,326                          | 309,739         |
| At 31 December 2011             | 90,695                             | 35,008                                  | 8,427                       | 34,561                          | 168,691         |
| <b>The Company</b>              |                                    |   |                             |                                 |                 |
| <b>Cost</b>                     |                                    |   |                             |                                 |                 |
| At 1 January 2011               | 99,670                             | 55,151                                  | 9,289                       | 95,567                          | 259,677         |
| Additions                       | 12,345                             | 20,214                                  | 1,350                       | 8,749                           | 42,658          |
| Disposals                       | -                                  | -                                       | (175)                       | (194)                           | (369)           |
| At 31 December 2011             | 112,015                            | 75,365                                  | 10,464                      | 104,122                         | 301,966         |
| Additions                       | 255                                | 7,352                                   | 1,404                       | 4,242                           | 13,253          |
| Disposals                       | -                                  | -                                       | -                           | (92)                            | (92)            |
| At 31 December 2012             | 112,270                            | 82,717                                  | 11,868                      | 108,272                         | 315,127         |
| <b>Accumulated Depreciation</b> |                                    |   |                             |                                 |                 |
| At 1 January 2011               | 35,324                             | 34,140                                  | 1,294                       | 79,291                          | 150,049         |
| Charge for the year             | 10,816                             | 8,705                                   | 1,935                       | 8,999                           | 30,455          |
| Disposals                       | -                                  | -                                       | (175)                       | (194)                           | (369)           |
| At 31 December 2011             | 46,140                             | 42,845                                  | 3,054                       | 88,096                          | 180,135         |
| Charge for the year             | 11,214                             | 12,866                                  | 2,297                       | 8,829                           | 35,206          |
| Disposals                       | -                                  | -                                       | -                           | (29)                            | (29)            |
| At 31 December 2012             | 57,354                             | 55,711                                  | 5,351                       | 96,896                          | 215,312         |
| <b>Net Book Value</b>           |                                    |   |                             |                                 |                 |
| At 31 December 2012             | 54,916                             | 27,006                                  | 6,517                       | 11,376                          | 99,815          |
| At 31 December 2011             | 65,875                             | 32,520                                  | 7,410                       | 16,026                          | 121,831         |

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**30. Post-employment Benefits**

(a) Pension schemes

The Group has established two pension schemes covering all permanent employees, a defined benefit plan and a defined contribution plan. The assets of the funded plans are held independently of the Group's assets in separate trustee administered funds.

**Defined contribution plan**

The Defined contribution plan received regulatory approval during 2012. All new employees will be included in this plan.

**Defined benefit plan**

The Defined benefit plan is valued by independent actuaries annually using the Projected Unit Credit Method. The latest actuarial valuation was carried out as at 31 December 2012. The plan provides benefits to members based on the average earnings over the 5 years immediately prior to exit.

The rate of contribution of the company for the defined benefit plan is 8.6% of pensionable salary. Any plan surplus or funding deficiency is absorbed by a subsidiary company, Sagicor Bank Jamaica Limited (formerly PanCaribbeanBank Limited). Accordingly, no pension assets or obligations were recorded for the company in these financial statements.

The amounts recognised in the statement of financial position are determined as follows:

|   | <b>The Group</b>       |                        |
|---|------------------------|------------------------|
|   | <b>2012</b>            | <b>2011</b>            |
|   | <b>\$'000</b>          | <b>\$'000</b>          |
| Present value of funded obligations                                   | 441,435                | 387,321                |
| Fair value of plan assets   | <u>(477,164)</u>       | <u>(415,794)</u>       |
|   | (35,729)               | (28,473)               |
| Unrecognised actuarial loss   | (56,930)               | (56,941)               |
| Limitation of asset due to uncertainty of obtaining economic benefits | <u>56,930</u>          | <u>56,941</u>          |
| Asset in the statement of financial position                          | <u><u>(35,729)</u></u> | <u><u>(28,473)</u></u> |

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**30. Post-employment Benefits (Continued)**

(a) Pension scheme (continued)

The movement in the present value of defined obligations over the year is as follows:

|                              | <b>The Group</b> |                |
|------------------------------|------------------|----------------|
|                              | <b>2012</b>      | <b>2011</b>    |
|                              | <b>\$'000</b>    | <b>\$'000</b>  |
| Balance at beginning of year | 387,321          | 366,972        |
| Current service cost         | 16,961           | 27,174         |
| Interest cost                | 34,025           | 35,567         |
| Members' contributions       | 22,315           | 22,169         |
| Benefits paid                | (20,796)         | (23,155)       |
| Purchased annuities          | 1,854            | 7,582          |
| Actuarial gain on obligation | (245)            | (48,988)       |
| Balance at end of year       | <u>441,435</u>   | <u>387,321</u> |

The movement in the fair value of plan assets during the year is as follows:

|                                | <b>The Group</b> |                |
|--------------------------------|------------------|----------------|
|                                | <b>2012</b>      | <b>2011</b>    |
|                                | <b>\$'000</b>    | <b>\$'000</b>  |
| Balance at beginning of year   | 415,794          | 337,276        |
| Members' contributions         | 22,315           | 22,169         |
| Employer's contribution        | 31,084           | 31,287         |
| Expected return on plan assets | 28,329           | 28,171         |
| Benefits paid                  | (20,796)         | (23,155)       |
| Purchased annuities            | 1,854            | 7,582          |
| Actuarial (loss)/gain          | (1,416)          | 12,464         |
| Balance at end of year         | <u>477,164</u>   | <u>415,794</u> |

Plan assets are comprised as follows:

|                   | <b>The Group</b> |            |                |            |
|-------------------|------------------|------------|----------------|------------|
|                   | <b>2012</b>      |            | <b>2011</b>    |            |
|                   | <b>\$'000</b>    | <b>%</b>   | <b>\$'000</b>  | <b>%</b>   |
| Debt securities   | 400,458          | 84         | 355,795        | 85         |
| Real estate       | 28,405           | 6          | 23,469         | 6          |
| Equity securities | 15,491           | 3          | 15,425         | 4          |
| Other             | 32,810           | 7          | 21,105         | 5          |
|                   | <u>477,164</u>   | <u>100</u> | <u>415,794</u> | <u>100</u> |

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**30. Post-employment Benefits (Continued)**

(a) Pension schemes (continued)

The amounts recognised in the income statement are as follows:

|   | <b>The Group</b> |               |
|---|------------------|---------------|
|   | <b>2012</b>      | <b>2011</b>   |
|   | <b>\$'000</b>    | <b>\$'000</b> |
| Current service cost                                  | 16,961           | 27,174        |
| Interest cost   | 34,025           | 35,567        |
| Expected return on plan assets                        | (28,329)         | (28,171)      |
| Recognised actuarial loss                             | 1,182            | 6,808         |
| Change in unrecognised assets                         | (11)             | (38,564)      |
| <b>Total, included in team member costs (Note 10)</b> | <b>23,828</b>    | <b>2,814</b>  |

The actual return on plan assets was \$34,397,000 (2011 – \$48,030,000). The expected rate of return is derived from investing the plan assets net of administration expenses and taxes.

Expected contributions to post-employment plan for the year ending 31 December 2013 are \$31,938,000.

Movements in the amounts recognised in the statement of financial position:

|   | <b>The Group</b> |                 |
|---|------------------|-----------------|
|   | <b>2012</b>      | <b>2011</b>     |
|   | <b>\$'000</b>    | <b>\$'000</b>   |
| Asset at beginning of year                              | (28,473)         | -               |
| Amounts recognised in the income statement<br>(Note 10) | 23,828           | 2,814           |
| Contributions paid                                      | (31,084)         | (31,287)        |
| <b>Asset at end of year</b>                             | <b>(35,729)</b>  | <b>(28,473)</b> |

The expected return on plan assets is based on market expectation of inflation plus a margin for real returns on a balanced portfolio.

|   | <b>The Group</b> |               |               |               |               |
|---|------------------|---------------|---------------|---------------|---------------|
|   | <b>2012</b>      | <b>2011</b>   | <b>2010</b>   | <b>2009</b>   | <b>2008</b>   |
|   | <b>\$'000</b>    | <b>\$'000</b> | <b>\$'000</b> | <b>\$'000</b> | <b>\$'000</b> |
| <b>As at 31 December</b>                    |                  |               |               |               |               |
| Present value of defined benefit obligation | 441,435          | 387,321       | 366,972       | 203,413       | 160,949       |
| Fair value of plan assets                   | (477,164)        | (415,794)     | (337,276)     | (261,288)     | (182,657)     |
| (Surplus)/deficit                           | (35,729)         | (28,473)      | 29,696        | (57,875)      | (21,708)      |
| Experience adjustments on plan liabilities  | (245)            | (48,988)      | 109,868       | (9,422)       | 4,904         |
| Experience adjustments on plan assets       | 1,416            | (12,464)      | (4,310)       | (3,900)       | 39,965        |

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**30. Post-employment Benefits (Continued)**

The principal actuarial assumptions used were as follows:

|  | <u>The Group</u> |             |
|--|------------------|-------------|
|  | <b>2012</b>      | <b>2011</b> |
| Discount rate                                    | 10.5%            | 10%         |
| Expected return of plan assets                   | 9.5%             | 6.5%        |
| Future salary increases                          | 8%               | 7.5%        |
| Expected pension increase                        | 0%               | 0%          |
| Average expected remaining working lives (years) | 13               | 13          |

(b) Other post-retirement benefits

In addition to pension benefits, the Group offers retirees 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 cost of 9% (2011 – 8%) per annum.

The amounts recognised in the statement of financial position are determined as follows:

|  | <u>The Group</u> |               |
|--|------------------|---------------|
|  | <b>2012</b>      | <b>2011</b>   |
|  | <b>\$'000</b>    | <b>\$'000</b> |
| Present value of unfunded obligations            | 39,936           | 34,147        |
| Unrecognised actuarial gain                      | 18,099           | 18,455        |
| Liability in the statement of financial position | <u>58,035</u>    | <u>52,602</u> |

The movement in the present value of unfunded obligations defined benefit obligation over the year is as follows:

|                              | <u>The Group</u> |               |
|------------------------------|------------------|---------------|
|                              | <b>2012</b>      | <b>2011</b>   |
|                              | <b>\$'000</b>    | <b>\$'000</b> |
| Balance at beginning of year | 34,147           | 58,235        |
| Current service cost         | 3,371            | 7,331         |
| Interest cost                | 3,406            | 6,400         |
| Benefits paid                | (187)            | (116)         |
| Actuarial gain on obligation | (801)            | (37,703)      |
| Balance at end of year       | <u>39,936</u>    | <u>34,147</u> |

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**30. Post-employment Benefits (Continued)**

(b) Other post-retirement benefits (continued)

The amounts recognised in the income statement are as follows:

|   | <b>The Group</b>    |                      |
|---|---------------------|----------------------|
|   | <b>2012</b>         | <b>2011</b>          |
|   | <b>\$'000</b>       | <b>\$'000</b>        |
| Current service cost                              | 3,371               | 7,331                |
| Interest cost                                     | 3,406               | 6,400                |
| Benefits paid                                     | (187)               | (116)                |
| Recognised (gain)/loss                            | <u>(1,157)</u>      | <u>1,119</u>         |
| Total, included in team member costs<br>(Note 10) | <u><u>5,433</u></u> | <u><u>14,734</u></u> |

Movement in the amounts recognised in the statement of financial position:

|  | <b>The Group</b>     |                      |
|--|----------------------|----------------------|
|  | <b>2012</b>          | <b>2011</b>          |
|  | <b>\$'000</b>        | <b>\$'000</b>        |
| Liability at beginning of year                       | 52,602               | 37,868               |
| Amounts recognised in the income statement (Note 10) | <u>5,433</u>         | <u>14,734</u>        |
| Liability at end of year                             | <u><u>58,035</u></u> | <u><u>52,602</u></u> |

The effects of a 1 percentage point movement in the assumed medical cost trend rate were as follows:

|   | <b>The Group</b> |                 |
|---|------------------|-----------------|
|   | <b>2012</b>      |                 |
|   | <b>\$'000</b>    |                 |
|   | <b>Decrease</b>  | <b>Increase</b> |
| Effect on the aggregate of current service cost | 2,664            | 4,311           |
| Effect on the aggregate of interest cost        | 2,777            | 4,227           |
| Effect on the defined benefit obligation        | <u>32,333</u>    | <u>49,886</u>   |

|   | <b>The Group</b> |                 |
|---|------------------|-----------------|
|   | <b>2011</b>      |                 |
|   | <b>\$'000</b>    |                 |
|   | <b>Decrease</b>  | <b>Increase</b> |
| Effect on the aggregate of current service cost | 5,663            | 9,590           |
| Effect on the aggregate of interest cost        | 5,049            | 8,201           |
| Effect on the defined benefit obligation        | <u>27,857</u>    | <u>42,364</u>   |

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**31. Other Assets**

|   | The Group        |                  | The Company      |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2012<br>\$'000   | 2011<br>\$'000   | 2012<br>\$'000   | 2011<br>\$'000   |
| Withholding tax recoverable from<br>Government of Jamaica | 1,705,512        | 1,341,653        | 1,433,846        | 1,153,448        |
| Customer settlement accounts                              | 18,585           | 149,758          | 18,343           | 120,333          |
| Prepayments   | 23,794           | 5,961            | 23,794           | 5,961            |
| Staff receivables   | 58,396           | 29,627           | 58,396           | 29,627           |
| Property, plant and equipment deposits                    | 15,574           | 2,426            | 7,461            | 1,419            |
| Other   | 54,353           | 26,502           | 31,791           | 14,143           |
|   | <u>1,876,214</u> | <u>1,555,927</u> | <u>1,573,631</u> | <u>1,324,931</u> |

**32. Structured Products**

|                                    | The Group and The<br>Company |                |
|------------------------------------|------------------------------|----------------|
|                                    | 2012<br>\$'000               | 2011<br>\$'000 |
| Principal protected notes -        |                              |                |
| With no interest guaranteed        | 315,566                      | 274,913        |
| With interest guaranteed           | 386,051                      | -              |
| 7.15% U.S. Dollar amortising notes | 142,902                      | -              |
|                                    | <u>844,519</u>               | <u>274,913</u> |
| Interest payable                   | 9,581                        | -              |
|                                    | <u>854,100</u>               | <u>274,913</u> |

**Principal protected notes**

Principal protected notes comprise a fixed income element with or without an interest guarantee (included above) and an equity indexed option element disclosed in Note 22. These notes entitle the holders to participate in any positive returns on the equity indexed options and they also include a principal protection feature. If the return on the index is negative, the holder will obtain the principal invested for notes with no interest guarantee and principal invested plus 5% interest for notes with an interest guarantee. The maturity of these notes ranges from 2013 and 2017.

**U.S. Dollar Amortising Notes**

The 7.15% US dollar amortising notes are structured securities whereby the principal is amortising quarterly with final repayment by February 2015.

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**33. Due to Banks and Other Financial Institutions**

|  | Currency | Rate<br>%  | The Group      |                | The Company    |                |
|--|----------|------------|----------------|----------------|----------------|----------------|
|  |          |            | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| <b>Long Term Loans -</b>   |          |            |                |                |                |                |
| The National Export Import Bank of Jamaica   |          |            |                |                |                |                |
| Repayable in 2 installments in March 2013 and April 2013                               | J\$      | 8.00       | 32,000         | 48,000         | 32,000         | 48,000         |
| Development Bank of Jamaica Limited -  |          |            |                |                |                |                |
| Repayable over varying periods from 24 to 96 months                                    | J\$      | various    | 28,265         | 57,315         | 28,265         | 57,315         |
| Repayable over varying periods from 48 to 96 months                                    | US\$     | various    | -              | 1,865          | -              | 1,865          |
| European Investment Bank -   |          |            |                |                |                |                |
| Repayable in 7 equal annual installments commencing on 5 December 2008 and ending 2014 | J\$      | various    | 132,430        | 264,860        | 132,430        | 264,860        |
| Repayable in 7 equal annual installments commencing on 5 December 2008 and ending 2014 | US\$     | various    | 41,565         | 58,174         | 41,565         | 58,174         |
| Development Bank of Jamaica Limited (DBJ)  |          |            |                |                |                |                |
| Repayable over varying periods from 6 months to 92 months                              | J\$      | 7 & 10.00  | 187,475        | 234,867        | -              | -              |
| The National Export-Import Bank of Jamaica Limited -                                   |          |            |                |                |                |                |
| Repayable over varying periods from 6 months to 108 months                             | J\$      | 13.00/9.00 | 45,591         | 65,249         | -              | -              |
|  |          |            | <u>467,326</u> | <u>730,330</u> | <u>234,260</u> | <u>430,214</u> |
| <b>Bank overdrafts-</b>  |          |            |                |                |                |                |
| Bank of Jamaica  | J\$      |            | -              | 3,597          | -              | 3,597          |
| Sagicor Bank Jamaica Limited   | J\$      |            | -              | -              | 5,842          | 505            |
|  |          |            | -              | 3,597          | 5,842          | 4,102          |
|  |          |            | <u>467,326</u> | <u>733,927</u> | <u>240,102</u> | <u>434,316</u> |
| <b>Interest payable</b>  |          |            |                |                |                |                |
|  |          |            | 1,420          | 30,091         | 1,362          | 30,013         |
|  |          |            | <u>468,746</u> | <u>764,018</u> | <u>241,464</u> | <u>464,329</u> |



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**33. Due to Banks and Other Financial Institutions (Continued)**

**(a) Development Bank of Jamaica Limited (DBJ)**

The agreement with the Development Bank of Jamaica Limited allows DBJ, at its absolute discretion, to approve financing to the company for on-lending to customers for development projects which meet the criteria of DBJ and on such terms and conditions as DBJ may stipulate.

Funds disbursed to the company bear interest at DBJ's lending rate prevailing at the date of approval of each disbursement unless otherwise varied by DBJ and are extended to the clients at a maximum spread as stipulated by DBJ.

**(b) European Investment Bank (EIB)**

A facility was established in the amount of €4,000,000 on 20 December 2002 for the provision of financing to small and medium sized projects in the productive and related service sectors in Jamaica. The loan is disbursed to the company in tranches. The draw downs may be done in US\$ or J\$. The loan is repayable in the Euro equivalent of the outstanding loan balance by 7 equal instalments commencing 5 December 2008.

**(c) The National Export-Import Bank of Jamaica Limited (EXIM)**

The company and its subsidiary Sagicor Bank Jamaica Limited (SBJ) are approved financial institutions of the National Export-Import Bank of Jamaica (EXIM). Through this partnership financing is provided, which is utilised to finance customers with viable projects within EXIM's guidelines.

Trade credit, short and medium term loans are offered to customers engaged in manufacturing, agriculture, tourism and export trading. The loans to customers are for varying terms and at a maximum spread as stipulated by EXIM.

**(d) Bank Overdrafts**

The bank overdraft balances represented book overdrafts. The actual balance at the bank was positive at year end.

The Group has not had any defaults of principal, interest or other breaches with respect to its liabilities during the year.

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**34. Deferred Income Taxes**

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 33½% for the company and the subsidiaries. Deferred tax assets and liabilities recognised on the statement of financial position are as follows:

|                                   | <u>The Group</u> |                  | <u>The Company</u> |                  |
|-----------------------------------|------------------|------------------|--------------------|------------------|
|                                   | 2012             | 2011             | 2012               | 2011             |
|                                   | \$'000           | \$'000           | \$'000             | \$'000           |
| Deferred income tax assets        | 50,176           | 19,335           | 28,025             | 6,534            |
| Deferred income tax liabilities   | (226,555)        | (544,661)        | (128,595)          | (449,184)        |
| Net deferred income tax liability | <u>(176,379)</u> | <u>(525,326)</u> | <u>(100,570)</u>   | <u>(442,650)</u> |

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

|  | <u>The Group</u> |                  | <u>The Company</u> |                  |
|--|------------------|------------------|--------------------|------------------|
|  | 2012             | 2011             | 2012               | 2011             |
|  | \$'000           | \$'000           | \$'000             | \$'000           |
| Balance at beginning of year   | (525,326)        | (389,697)        | (442,650)          | (337,482)        |
| (Charged)/credited to the income statement<br>(Note 13)                                  | (3,030)          | (24,475)         | 20,183             | (14,765)         |
| Tax credited/(charged) relating to components<br>in other comprehensive income (Note 13) | <u>351,977</u>   | <u>(111,154)</u> | <u>321,897</u>     | <u>(90,403)</u>  |
| Balance at end of year   | <u>(176,379)</u> | <u>(525,326)</u> | <u>(100,570)</u>   | <u>(442,650)</u> |

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**34. Deferred Income Taxes (Continued)**

Deferred income tax assets and liabilities are due to the following items:

|                                     | The Group      |                | The Company    |                |
|-------------------------------------|----------------|----------------|----------------|----------------|
|                                     | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| Deferred income tax assets -        |                |                |                |                |
| Property, plant and equipment       | 1,470          | 3,788          | 1,470          | 1,519          |
| Trading securities                  | -              | 201            | -              | 201            |
| Cross currency swap                 | 21,555         | -              | 21,555         | -              |
| Post-employment benefit obligations | 19,345         | 8,043          | -              | -              |
| Other                               | 11,595         | 7,303          | 5,000          | 4,814          |
|                                     | 53,965         | 19,335         | 28,025         | 6,534          |
| Deferred income tax liabilities -   |                |                |                |                |
| Property, plant and equipment       | 21,385         | -              | -              | -              |
| Investment securities               | 76,437         | 415,363        | 37,291         | 346,136        |
| Trading securities                  | 69,393         | -              | 69,393         | -              |
| Interest rate swap                  | -              | 81,409         | -              | 81,409         |
| Loan loss provision                 | 51,219         | 47,889         | 21,911         | 21,639         |
| Post-employment benefit assets      | 11,910         | -              | -              | -              |
|                                     | 230,344        | 544,661        | 128,595        | 449,184        |
| Net deferred tax liability          | (176,379)      | (525,326)      | (100,570)      | (442,650)      |

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**34. Deferred Income Taxes (Continued)**

The movement in deferred tax assets and liabilities is as follows:

|  | <b>The Group</b>                           |                                 |                                |  |               |               |
|--|--|---------------------------------|--------------------------------|--|---------------|---------------|
|  | <b>Accelerated<br/>tax<br/>depreciated</b> | <b>Fair<br/>value<br/>gains</b> | <b>Loan loss<br/>provision</b> | <b>Post-<br/>employment<br/>benefits</b> | <b>Other</b>  | <b>Total</b>  |
|  | <b>\$'000</b>                              | <b>\$'000</b>                   | <b>\$'000</b>                  | <b>\$'000</b>                            | <b>\$'000</b> | <b>\$'000</b> |
| At 1 January 2011                      | 334  | (396,171)                       | (13,075)                       | 12,623                                   | 6,592         | (389,697)     |
| Credited/(charged) to income statement | 3,454                                      | 9,994                           | (37,607)                       | (4,580)                                  | 4,264         | (24,475)      |
| Charged to other comprehensive income  | -  | (111,154)                       | -                              | -  | -             | (111,154)     |
| At 31 December 2011                    | 3,788                                      | (497,331)                       | (50,682)                       | 8,043                                    | 10,856        | (525,326)     |
| Charged/(credited) to income statement | (23,700)                                   | 20,069                          | 3,250                          | (608)                                    | (2,041)       | (3,030)       |
| Credited to other comprehensive income | -  | 351,977                         | -                              | -  | -             | 351,977       |
| At 31 December 2012                    | (19,912)                                   | (125,285)                       | (47,432)                       | 7,435                                    | 8,815         | (176,379)     |

|  | <b>The Company</b>                         |                             |                                |               |               |
|--|--|-----------------------------|--------------------------------|---------------|---------------|
|  | <b>Accelerated<br/>tax<br/>depreciated</b> | <b>Fair value<br/>gains</b> | <b>Loan loss<br/>provision</b> | <b>Other</b>  | <b>Total</b>  |
|  | <b>\$'000</b>                              | <b>\$'000</b>               | <b>\$'000</b>                  | <b>\$'000</b> | <b>\$'000</b> |
| At 1 January 2011                      | 1,200                                      | (346,935)                   | 4,012                          | 4,241         | (337,482)     |
| Credited/(charged) to income statement | 319  | 9,994                       | (25,651)                       | 573           | (14,765)      |
| Charged to other comprehensive income  | -  | (90,403)                    | -                              | -             | (90,403)      |
| At 31 December 2011                    | 1,519                                      | (427,344)                   | (21,639)                       | 4,814         | (442,650)     |
| Charged/(credited) to income statement | (49)                                       | 20,070                      | (272)                          | 434           | 20,183        |
| Credited to other comprehensive income | -  | 321,897                     | -                              | -             | 321,897       |
| At 31 December 2012                    | 1,470                                      | (85,377)                    | (21,911)                       | 5,248         | (100,570)     |

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**35. Other Liabilities**

|                                | The Group        |                | The Company    |                |
|--------------------------------|------------------|----------------|----------------|----------------|
|                                | 2012<br>\$'000   | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| Accruals                       | 81,345           | 98,480         | 46,466         | 71,830         |
| Asset tax                      | 110,271          | -              | 84,301         | -              |
| Customer settlement accounts   | 752,796          | 91,425         | 704,735        | 32,644         |
| Items in the course of payment | 89,962           | 119,179        | -              | -              |
| Staff related payables         | 161,284          | 128,123        | 111,037        | 87,280         |
| Stale dated cheques            | 90,794           | 50,625         | 29,631         | 25,966         |
| Other                          | 31,419           | 35,317         | 12,954         | 30,907         |
|                                | <u>1,317,871</u> | <u>523,149</u> | <u>989,124</u> | <u>248,627</u> |

**36. Share Capital**

The total authorised number of ordinary stock units is 675,613,376 (2011 - 675,613,376), of which 552,145,844 (2011 - 552,145,844) was issued and fully paid.

The movement on share capital is as follows:

|  | 2012<br>\$'000   | 2011<br>\$'000   |
|--|------------------|------------------|
| Issued and Fully Paid -  |                  |                  |
| Share capital at the beginning of the year -<br>552,145,844 (2011 - 549,536,153) ordinary<br>stock units | 3,195,565        | 3,126,867        |
| Stocks units issued during the year -<br>Nil (2011 - 2,609,691) ordinary stock units                     | -                | 46,236           |
| Transfer from stock options reserve (Note 38)  | -                | 22,462           |
|  | <u>3,195,565</u> | <u>3,195,565</u> |

The stock units in 2012 and 2011 are stated in these financial statements without a nominal or par value.

Stock units issued during the year comprise Nil (2011 - 1,255,860) ordinary stock units issued under the company's stock options scheme at prices varying from \$12.20 to \$20.50 per stock unit and Nil (2011 - 1,353,831) ordinary stock unit grants at \$20.50.

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**37. Stock Options Reserve**

The company offers stock options to employees who have completed the minimum eligibility period of employment. Options are conditional on the employee completing a minimum service period of one year (the eligibility period). Options are forfeited if the employee leaves the Group before the options vest. Options were granted as follows:

- (i) 4,074,246 stock options on 1 April 2007. These options expire on 31 March 2014. The exercise price for the options is \$18.00. These options vest over four years – 25% each anniversary date of the grant. 174,242 stock units have been taken up during the year (485,791 to date). Contracts for 927,116 of these stocks units were forfeited to date.
- (ii) 3,100,273 stock options on 1 April 2008. These options expire on 31 March 2015. The exercise price for the options is \$20.50. These options vest over four years – 25% each anniversary date of the grant. 347,356 stock units have been taken up during the year (470,347 to date). Contracts for 335,358 of these stock units were forfeited to date.
- (iii) 5,785,288 stock options on 1 April 2009. These options expire on 31 March 2016. The exercise price for the options is \$12.20. These options vest over four years – 25% each anniversary date of the grant. 810,335 stock units have been taken up during the year (1,785,676 to date). Contracts for 578,137 of these stock units were forfeited to date.
- (iv) 3,137,791 stock option on 1 April 2010. These options expire on 31 March 2017. The exercise price for the option is \$18.00. These options vest over four years – 25% each anniversary date of the grant. 186,606 stock units have been taken up during the year (244,044 to date). Contracts for 184,222 of these stock units were forfeited to date.
- (v) 2,635,606 stock option on 1 April 2011. These options expire on 31 March 2018. The exercise price for the option is \$19.20. These options vest over four years – 25% each anniversary date of the grant. 86,528 stock units have been taken up during the year and to date. Contracts for 259,586 of these stock units were forfeited to date.
- (vi) 1,172,441 stock option on 1 April 2012. These options expire on 31 March 2019. The exercise price for the option is \$26.48. These options vest over four years – 25% each anniversary date of the grant. Contracts for 70,617 of these stock units were forfeited to date.

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**37. Stock Options Reserve (Continued)**

Details of the stock options outstanding are as follows:

|                                    | Number of<br>stock<br>options | Weighted<br>average<br>exercise<br>price | Number of<br>stock<br>options | Weighted<br>average<br>exercise<br>price |
|------------------------------------|-------------------------------|--|-------------------------------|--|
|                                    | 2012                          | 2012                                     | 2011                          | 2011                                     |
|                                    | '000                          | \$                                       | '000                          | \$                                       |
| Balance at beginning of year       | 12,956                        | 16.54                                    | 11,393                        | 16.01                                    |
| Granted                            | 3,808                         | 21.44                                    | 3,138                         | 18.00                                    |
| Exercised                          | (1,605)                       | 15.68                                    | (1,275)                       | 14.68                                    |
| Lapsed/forfeited                   | (680)                         | 17.92                                    | (300)                         | 21.75                                    |
|                                    | <u>14,479</u>                 | 17.76                                    | <u>12,956</u>                 | 16.54                                    |
| Exercisable at the end of the year | <u>8,384</u>                  | 17.36                                    | <u>6,935</u>                  | 17.41                                    |

Stock options outstanding at the end of the year for the company have the following expiry date and exercise price:

| Expiry date   | Exercise price | No. of stock options |                   |
|---------------|----------------|----------------------|-------------------|
|               |                | 2012                 | 2011              |
| 31 March 2014 | \$18.00        | 2,661,339            | 2,835,581         |
| 31 March 2015 | \$20.50        | 2,294,568            | 2,641,924         |
| 31 March 2016 | \$12.20        | 3,421,475            | 4,397,815         |
| 31 March 2017 | \$18.00        | 2,709,525            | 3,080,353         |
| 31 March 2018 | \$19.20        | 2,289,492            | -                 |
| 31 March 2019 | \$26.48        | 1,101,824            | -                 |
|               |                | <u>14,478,223</u>    | <u>12,955,673</u> |

For options outstanding at the end of the year, the exercise price ranges from \$12.20 to \$26.48 (2011 - \$12.20 to \$20.50). The weighted average remaining contractual term to expiry is 3 years (2011 - 3 years).

Options for 1,605,067 stock units were exercised during the current year (2011 - 1,274,942). The weighted average stock unit price at the date of exercise for options exercised during the year was \$21.65 (2011 - \$14.72).

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**37. Stock Options Reserve (Continued)**

The stock options reserve balance at the year end represents the accumulated fair value of services provided by employees in consideration for shares, as measured by reference to the fair value of the shares for outstanding options. The fair value of the options at the year end is measured at the grant date using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the instruments were granted. The services received and a liability to pay for those services is recognised over the expected vesting period. The significant inputs into the model were weighted average stock unit prices at the grant date, exercise price shown above; standard deviation of expected share price returns, option life disclosed above, and annual average risk free interest rate. The expected volatility is based on statistical analysis of daily stock unit prices over one year.

The company recognised cumulative expenses of \$80,551,000 (2011 - \$74,255,000) as stock options expense of which \$6,296,000 (2011 - \$20,488,000) was recognised in the income statement during the year.

During 2011, the company transferred \$22,462,000 of the share option reserve balance to share capital. This transfer related to the fair value of the options exercised up to 2011. No transfers were done in 2012.

The company provides share grants to executives based on the performance of the Group. Shares granted during the year were 427,756 and were provided at an average fair value of \$26.48 (2011 - 1,353,831, average fair value of \$27). The prices are based on the trading price on the Jamaica Stock Exchange.

**38. Retained Earnings Reserve**

Section 2 of the Banking Act of 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. Transfers to the retained earnings reserve are made at the discretion of the Board; such transfers must be notified to the Bank of Jamaica.

Transfers to the retained earnings reserve are made at the discretion of the subsidiary's Board of Directors; such transfers must be notified to the Bank of Jamaica.

**39. Reserve Fund**

This fund is maintained in accordance with the Banking Act 1992 which requires that a minimum of 15% of the net profit of the banking subsidiary as defined by the Act be transferred annually to the reserve fund until the amount of the fund is 50% of the paid-up share capital of the subsidiary, and thereafter 10% of the net profit until the amount of the fund is equal to the paid-up capital of the subsidiary.

The deposit liabilities of the company and other indebtedness for borrowed money together with all interest accrued should not exceed twenty times its capital base.



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**40. 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.

The loss loan reserve is determined as follows:

|   | <b>The Group</b> |                | <b>The Company</b> |                |
|---|------------------|----------------|--------------------|----------------|
|   | <b>2012</b>      | <b>2011</b>    | <b>2012</b>        | <b>2011</b>    |
|   | <b>\$'000</b>    | <b>\$'000</b>  | <b>\$'000</b>      | <b>\$'000</b>  |
| Provision for credit losses determined under IFRS -   |                  |                |                    |                |
| Loans (Note 24)   | 215,902          | 230,315        | 103,918            | 108,119        |
| Lease receivables (Note 25)   | 24,024           | 20,664         | -                  | -              |
|   | <u>239,926</u>   | <u>250,979</u> | <u>103,918</u>     | <u>108,119</u> |
| The provision for credit losses determined under regulatory requirements -                            |                  |                |                    |                |
| Specific provision  | 393,593          | 403,025        | 169,650            | 173,034        |
| General provision   | 98,066           | 97,433         | 24,138             | 25,824         |
|   | <u>491,659</u>   | <u>500,458</u> | <u>193,788</u>     | <u>198,858</u> |
| Excess of regulatory provision over IFRS provision reflected in a non distributable loan loss reserve | <u>251,733</u>   | <u>249,479</u> | <u>89,870</u>      | <u>90,739</u>  |

**41. Capital Redemption Reserve**

The capital redemption reserve was created on the redemption of preference shares in conformity with the provisions of the Jamaican Companies Act. The preference shares were fully redeemed in 2011.

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**42. Fair Value Reserve**

This represents the unrealised surplus or deficit on the revaluation of available-for-sale investments and the unamortised gain relating to securities reclassified to held-to-maturity in current year. The interest rate swap was closed during the year and the related hedging reserve was transferred to the income statement.

|  | <u>The Group</u> |                | <u>The Company</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>  |
| Available-for-sale investments                           | 184,012          | 814,978        | 47,913             | 618,718        |
| Unamortised gain - hedging reserve<br>(Note 22)          | -                | 39,897         | -                  | 39,897         |
| Unamortised gain - reclassified investments<br>(Note 21) | 69,353           | 78,725         | 69,353             | 78,725         |
|  | <u>253,365</u>   | <u>933,600</u> | <u>117,266</u>     | <u>737,340</u> |

**43. Dividends**

|   | <u>The Group and The Company</u> |                |
|---|----------------------------------|----------------|
|   | <b>2012</b>                      | <b>2011</b>    |
|   | <b>\$'000</b>                    | <b>\$'000</b>  |
| First interim dividend – 74.3 cents (2011 – 62 cents) | 410,244                          | 340,713        |
| Second interim dividend – 57 cents (2011 - 66 cents)  | 314,723                          | 364,171        |
|   | <u>724,967</u>                   | <u>704,884</u> |

The dividends declared for 2012 and 2011 represented a dividend per stock unit of \$1.313 and \$1.28, respectively.

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**44. Fair Value 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. Market price is used to determine fair value where an active market (such as a recognised stock exchange) exists as it is the best evidence of the fair value of a financial instrument. However, market prices are not available for a significant number of the financial assets and liabilities held and issued by the Group. Therefore, for financial instruments where no market price is available, the fair values presented have been estimated using present value or other estimation and valuation techniques based on market conditions existing at the statement of financial position dates.

The values derived from applying these 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:

- (i) Investment securities at fair value through profit or loss are measured at fair value by reference to quoted 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 of these items;
- (ii) Investment securities classified as available-for-sale are measured at fair value by reference to quoted market prices or dealer quotes when available. If quoted market prices are not available, then fair values are based on pricing models or other recognised valuation techniques. Investments in unit trusts are based on prices quoted by the fund managers.
- (iii) The fair value of the interest rate swap is calculated as the present value of the estimated future cash flows. The fair value of currency forward contracts is determined using quoted forward exchange rates. The fair value of the equity indexed options and the exchange traded funds that are shorted are based on quoted prices. The fair value of the cross currency swap is based on the present value of the net future cash payments and receipts, which fluctuate based on changes in market interest rates and the euro/U.S. dollar exchange rate.
- (iv) The fair value of demand deposits and customer accounts with no specific maturity is assumed to be the amount payable on demand at the statement of financial position date. The estimated fair value of fixed interest bearing deposits, disclosed below, is based on discounted cash flows using interest rates for new deposits.
- (v) The fair value of variable rate financial instruments is assumed to approximate their carrying amounts;
- (vi) Loans are net of provision for impairment. The estimated fair value of loans, disclosed below, represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value; and
- (vii) Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment.

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**44. Fair Value of Financial Instruments (Continued)**

The table below summaries the carrying amount and fair value of financial assets and financial liabilities not presented on the Group and company's statement of financial position at their fair value:

|  | The Group         |               |                   |               |
|--|-------------------|---------------|-------------------|---------------|
|  | Carrying<br>Value | Fair<br>Value | Carrying<br>Value | Fair<br>Value |
|  | 2012              | 2012          | 2011              | 2011          |
|  | \$'000            | \$'000        | \$'000            | \$'000        |
| <b>Financial Assets</b>                        |                   |               |                   |               |
| Investment securities – held-to-maturity       | 1,853,904         | 2,023,535     | 1,715,800         | 1,879,981     |
| Loans, net of provision for credit losses      | 9,330,364         | 10,123,910    | 9,242,365         | 9,424,309     |
| <b>Financial Liabilities</b>                   |                   |               |                   |               |
| Securities sold under agreements to repurchase | 57,595,878        | 57,650,536    | 54,612,131        | 55,064,909    |
| Customer deposits and other accounts           | 11,215,194        | 12,347,688    | 10,599,897        | 10,061,772    |
| Due to banks and other financial institutions  | 468,746           | 480,614       | 764,018           | 789,400       |
|  | The Company       |               |                   |               |
|  | Carrying<br>Value | Fair<br>Value | Carrying<br>Value | Fair<br>Value |
|  | 2012              | 2012          | 2011              | 2011          |
|  | \$'000            | \$'000        | \$'000            | \$'000        |
| <b>Financial Assets</b>                        |                   |               |                   |               |
| Investment securities – held-to-maturity       | 1,853,904         | 2,023,535     | 1,715,800         | 1,879,981     |
| Loans, net of provision for credit losses      | 2,217,601         | 2,322,354     | 2,289,038         | 2,382,115     |
| <b>Financial Liabilities</b>                   |                   |               |                   |               |
| Securities sold under agreements to repurchase | 56,839,727        | 56,834,221    | 54,630,650        | 55,083,471    |
| Customer accounts                              | 171,152           | 178,611       | 250,241           | 295,740       |
| Due to banks and other financial institutions  | 241,464           | 236,345       | 464,329           | 450,425       |

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**44. Fair Value of Financial Instruments (Continued)**

The following table provides an analysis of financial instruments that are measured in the statement of financial position at fair value at 31 December 2012, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

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

|                                  | <b>The Group</b> |                   |                  |                   |
|----------------------------------|------------------|-------------------|------------------|-------------------|
|                                  | <b>2012</b>      |                   |                  |                   |
|                                  | <b>Level 1</b>   | <b>Level 2</b>    | <b>Level 3</b>   | <b>Total</b>      |
|                                  | <b>\$'000</b>    | <b>\$'000</b>     | <b>\$'000</b>    | <b>\$'000</b>     |
| <b>Financial Assets</b>          |                  |                   |                  |                   |
| Trading securities               | 50,022           | 4,070,997         | 374,413          | 4,495,432         |
| Investment securities            | -                | 50,724,835        | 2,606,904        | 53,331,739        |
| Derivative financial instruments | -                | 4,253,104         | -                | 4,253,104         |
| Pledged assets                   | -                | 3,943,434         | -                | 3,943,434         |
|                                  | <u>50,022</u>    | <u>62,992,370</u> | <u>2,981,317</u> | <u>66,023,709</u> |
| <b>Financial Liabilities</b>     |                  |                   |                  |                   |
| Derivative financial instruments | -                | 4,310,566         | -                | 4,310,566         |
|                                  | <u>-</u>         | <u>4,310,566</u>  | <u>-</u>         | <u>4,310,566</u>  |
| <b>The Group</b>                 |                  |                   |                  |                   |
| <b>2011</b>                      |                  |                   |                  |                   |
|                                  | <b>Level 1</b>   | <b>Level 2</b>    | <b>Level 3</b>   | <b>Total</b>      |
|                                  | <b>\$'000</b>    | <b>\$'000</b>     | <b>\$'000</b>    | <b>\$'000</b>     |
| <b>Financial Assets</b>          |                  |                   |                  |                   |
| Trading securities               | -                | 202,752           | 408,188          | 610,940           |
| Investment securities            | -                | 50,559,331        | 2,423,257        | 52,982,588        |
| Derivative financial instruments | -                | 595,192           | 244,228          | 839,420           |
| Pledged assets                   | -                | 7,831,016         | -                | 7,831,016         |
|                                  | <u>-</u>         | <u>59,188,291</u> | <u>3,075,673</u> | <u>62,263,964</u> |
| <b>Financial Liabilities</b>     |                  |                   |                  |                   |
| Derivative financial instruments | 111,498          | 589,102           | -                | 700,600           |
|                                  | <u>111,498</u>   | <u>589,102</u>    | <u>-</u>         | <u>700,600</u>    |

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**44. Fair Value of Financial Instruments (Continued)**

|                                  | The Company       |                   |                   |                   |
|----------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                  | 2012              |                   |                   |                   |
|                                  | Level 1<br>\$'000 | Level 2<br>\$'000 | Level 3<br>\$'000 | Total<br>\$'000   |
| <b>Financial Assets</b>          |                   |                   |                   |                   |
| Trading securities               | 50,002            | 4,070,997         | 374,413           | 4,495,412         |
| Investment securities            | -                 | 43,887,424        | 2,606,904         | 46,494,328        |
| Derivative financial instruments | -                 | 4,253,104         | -                 | 4,253,104         |
| Pledged assets                   | -                 | 3,657,204         | -                 | 3,657,204         |
|                                  | <u>50,002</u>     | <u>55,868,729</u> | <u>2,981,317</u>  | <u>58,900,048</u> |
| <b>Financial Liabilities</b>     |                   |                   |                   |                   |
| Derivative financial instruments | -                 | 4,310,566         | -                 | 4,310,566         |

|                                  | The Company       |                   |                   |                   |
|----------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                  | 2011              |                   |                   |                   |
|                                  | Level 1<br>\$'000 | Level 2<br>\$'000 | Level 3<br>\$'000 | Total<br>\$'000   |
| <b>Financial Assets</b>          |                   |                   |                   |                   |
| Trading securities               | -                 | 202,752           | 408,188           | 610,940           |
| Investment securities            | -                 | 44,633,519        | 2,423,257         | 47,056,776        |
| Derivative financial instruments | -                 | 595,192           | 244,228           | 839,420           |
| Pledged assets                   | -                 | 7,831,016         | -                 | 7,831,016         |
|                                  | <u>-</u>          | <u>53,262,479</u> | <u>3,075,673</u>  | <u>56,338,152</u> |
| <b>Financial Liabilities</b>     |                   |                   |                   |                   |
| Derivative financial instruments | 111,498           | 589,102           | -                 | 700,600           |

There were no transfers between Level 1 and 2 in the year.

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**44. Fair Value of Financial Instruments (Continued)**

Reconciliation of level 3 items -

|   | The Group        |                  | The Company      |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2012             | 2011             | 2012             | 2011             |
|   | \$'000           | \$'000           | \$'000           | \$'000           |
| Balance at beginning of year            | 3,075,673        | 2,782,072        | 3,075,673        | 2,782,072        |
| Total gain - other comprehensive income | 2,452            | 57,138           | 2,452            | 57,138           |
| Total gain – income statement           | 221,935          | 110,971          | 221,935          | 110,971          |
| Acquisitions                            | -                | 473,801          | -                | 473,801          |
| Disposals                               | (318,743)        | (348,309)        | (318,743)        | (348,309)        |
| Balance at end of year                  | <u>2,981,317</u> | <u>3,075,673</u> | <u>2,981,317</u> | <u>3,075,673</u> |

The gains or losses recorded in the profit or loss are included in Note 8.

**45. Assets under Administration**

The Group and the company provide custody, trustee, corporate administration, investment management or advisory services to third parties which involve these subsidiaries making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets are not included in these financial statements. As at 31 December 2012, the Group and the company had financial assets under administration of approximately \$40,683,377,000 (2011 - \$22,303,873,000) and \$40,317,544,000 (2011 - \$21,925,817,000) respectively.

**46. Contingent Liabilities and Commitments**

(a) Legal proceedings

The company and its subsidiaries are subject to various claims, disputes and legal proceedings, in the normal course of business. Provision is made for such matters when, in the opinion of management and its legal counsel, 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 have not been provided for, management is of the opinion that such claims are either without merit and can be successfully defended; the total of these claims is US\$9,500,000.

(b) Commitments

The tables below show the contractual expiry by maturity of the Group's and company's contingent liabilities and commitments.

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**46. Contingent Liabilities and Commitments (Continued)**

(b) Commitments (continued)

|   | The Group                            |                           |                           |                  |
|---|--------------------------------------|---------------------------|---------------------------|------------------|
|   | No later than<br>1 year<br>\$'000    | 1 to 5<br>years<br>\$'000 | Over 5<br>years<br>\$'000 | Total<br>\$'000  |
| <b>At 31 December 2012</b>                                |                                      |                           |                           |                  |
| Loan commitments  | 160,938                              | 1,282,141                 | 77,470                    | 1,520,549        |
| Guarantees, acceptances and other<br>financial facilities | 382,971                              | 417,594                   | 32,882                    | 833,447          |
| Operating lease commitments                               | 120,935                              | 403,373                   | 60,955                    | 585,263          |
|   | <u>664,844</u>                       | <u>2,103,108</u>          | <u>171,307</u>            | <u>2,939,259</u> |
| <b>At 31 December 2011</b>                                |                                      |                           |                           |                  |
| Loan commitments  | 312,961                              | 284,572                   | 98,805                    | 696,338          |
| Guarantees, acceptances and other<br>financial facilities | 628,241                              | 417,099                   | 33,399                    | 1,078,739        |
| Operating lease commitments                               | 110,415                              | 348,232                   | 39,967                    | 498,614          |
|   | <u>1,051,617</u>                     | <u>1,049,903</u>          | <u>172,171</u>            | <u>2,273,691</u> |
|   | The Company                          |                           |                           |                  |
|   | No later<br>than<br>1 year<br>\$'000 | 1 to 5<br>years<br>\$'000 | Over 5<br>years<br>\$'000 | Total<br>\$'000  |
| <b>At 31 December 2012</b>                                |                                      |                           |                           |                  |
| Loan commitments  | 40,001                               | 882,851                   | -                         | 922,852          |
| Guarantees, acceptances and other<br>financial facilities | 293,317                              | 29,758                    | 21,315                    | 344,390          |
| Operating lease commitment                                | 49,755                               | 177,044                   | -                         | 226,799          |
|   | <u>383,073</u>                       | <u>1,089,653</u>          | <u>21,315</u>             | <u>1,494,041</u> |
| <b>At 31 December 2011</b>                                |                                      |                           |                           |                  |
| Loan commitments  | 27,821                               | 231,145                   | 8,032                     | 266,998          |
| Guarantees, acceptances and other<br>financial facilities | 545,276                              | 43,946                    | 24,152                    | 613,374          |
| Operating lease commitment                                | 47,082                               | 165,858                   | -                         | 212,940          |
|   | <u>620,179</u>                       | <u>440,949</u>            | <u>32,184</u>             | <u>1,093,312</u> |

Lease payments, including maintenance, for Group during the year were \$112,975,000 (2011 - \$97,978,000).



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### 47. Maturity Analysis of Assets and Liabilities

The tables below show an analysis of assets and liabilities according to when they are expected to be recovered or settled. The financial statement areas shown below only reflect assets and liabilities that combine current and non-current balances.

|  | 2012              |                       |                 |                   |                       |                 |
|--|-------------------|-----------------------|-----------------|-------------------|-----------------------|-----------------|
|  | The Group         |                       |                 | The Company       |                       |                 |
|  | Current<br>\$'000 | Non-Current<br>\$'000 | Total<br>\$'000 | Current<br>\$'000 | Non-Current<br>\$'000 | Total<br>\$'000 |
| <b>ASSETS</b>                                  |                   |                       |                 |                   |                       |                 |
| Trading securities                             | 2,238,835         | 2,256,597             | 4,495,432       | 2,238,834         | 2,256,598             | 4,495,432       |
| Investment securities and pledged assets       | 8,937,924         | 51,470,176            | 60,408,100      | 6,862,452         | 45,237,679            | 52,100,131      |
| Derivative financial instruments               | 1,913,200         | 2,339,904             | 4,253,104       | 1,913,200         | 2,339,904             | 4,253,104       |
| Loans, net of provision for credit losses      | 5,531,947         | 3,798,417             | 9,330,364       | 1,634,098         | 583,503               | 2,217,601       |
| Lease receivables                              | 34,923            | 24,236                | 59,159          | -                 | -                     | -               |
| Deferred income tax assets                     | 11,595            | 42,370                | 53,965          | 5,000             | 23,025                | 28,025          |
|  |                   |                       |                 |                   |                       |                 |
|  | The Group         |                       |                 | The Company       |                       |                 |
|  | Current<br>\$'000 | Non-Current<br>\$'000 | Total<br>\$'000 | Current<br>\$'000 | Non-Current<br>\$'000 | Total<br>\$'000 |
| <b>LIABILITIES</b>                             |                   |                       |                 |                   |                       |                 |
| Securities sold under agreements to repurchase | 57,566,418        | 29,460                | 57,595,878      | 56,810,267        | 29,460                | 56,839,727      |
| Customer deposits and other accounts           | 10,424,324        | 790,870               | 11,215,194      | 70,186            | 100,966               | 171,152         |
| Structured products                            | 106,775           | 747,325               | 854,100         | 106,775           | 747,325               | 854,100         |
| Due to banks and other financial institutions  | 199,775           | 268,971               | 468,746         | 142,096           | 99,368                | 241,464         |
| Derivative financial instruments               | 2,376,749         | 1,933,817             | 4,310,566       | 2,376,749         | 1,933,817             | 4,310,566       |
| Deferred income tax liabilities                | -                 | 230,344               | 230,344         | -                 | 128,595               | 128,595         |

**Sagicor Investments Jamaica Limited**  
**(Formerly Pan Caribbean Financial Services Limited)**  
**Notes to the Financial Statements**  
**31 December 2012**  
 (Expressed in Jamaican dollars unless otherwise indicated)

**47. Maturity Analysis of Assets and Liabilities (Continued)**

| ASSETS                                    | 2011              |                       |                 |                   |                       |                 |
|---|-------------------|-----------------------|-----------------|-------------------|-----------------------|-----------------|
|   | The Group         |                       |                 | The Company       |                       |                 |
|   | Current<br>\$'000 | Non-Current<br>\$'000 | Total<br>\$'000 | Current<br>\$'000 | Non-Current<br>\$'000 | Total<br>\$'000 |
| Trading securities                        | -                 | 610,940               | 610,940         | -                 | 610,940               | 610,940         |
| Investment securities and pledged assets  | 3,143,800         | 60,064,380            | 63,208,180      | 2,634,674         | 54,030,734            | 56,665,408      |
| Derivative financial instruments          | 340,791           | 498,629               | 839,420         | 340,791           | 498,629               | 839,420         |
| Loans, net of provision for credit losses | 4,950,987         | 4,291,378             | 9,242,365       | 1,432,231         | 856,807               | 2,289,038       |
| Lease receivables                         | 254               | 15,261                | 15,515          | -                 | -                     | -               |
| Deferred income tax assets                | 7,504             | 11,831                | 19,335          | 5,015             | 1,519                 | 6,534           |

| LIABILITIES                                    | 2011              |                       |                 |                   |                       |                 |
|--|-------------------|-----------------------|-----------------|-------------------|-----------------------|-----------------|
|  | The Group         |                       |                 | The Company       |                       |                 |
|  | Current<br>\$'000 | Non-Current<br>\$'000 | Total<br>\$'000 | Current<br>\$'000 | Non-Current<br>\$'000 | Total<br>\$'000 |
| Securities sold under agreements to repurchase | 54,602,176        | 9,955                 | 54,612,131      | 54,620,696        | 9,955                 | 54,630,651      |
| Customer deposits and other accounts           | 9,299,024         | 1,300,873             | 10,599,897      | 85,932            | 164,310               | 250,242         |
| Structured products                            | -                 | 274,913               | 274,913         | -                 | 274,913               | 274,913         |
| Due to banks and other financial institutions  | 153,581           | 610,437               | 764,018         | 150,195           | 314,134               | 464,329         |
| Derivative financial instruments               | 449,895           | 250,705               | 700,600         | 449,895           | 250,705               | 700,600         |
| Deferred income tax liabilities                | -                 | 544,661               | 544,661         | -                 | 449,184               | 449,184         |

**48. Subsequent Event**

On 12 February 2013 the Government of Jamaica (GOJ) announced a public invitation to participate in its National Debt Exchange (NDX) programme in respect of specific domestic debt instruments. The NDX involves the voluntary exchange of the majority of the GOJ's existing domestic debt instruments for new debt instruments having longer maturities and lower coupon interest rates. The Group has agreed to participate in the programme.

The par value of Jamaican dollar securities exchanged was \$29,881,206,000. The par value of United States dollar securities exchanged was US\$77,463,000. The average coupon interest rate is expected to decrease by 0.7% on the J\$ portfolio and by 1.8% on the US\$ portfolio. The duration is expected to increase by 0.8 years on the J\$ portfolio and by 4.3 years on the US\$ portfolio. The duration is determined using the maturity date for fixed rate instruments and the repricing date for variable rate instruments.

The financial impact of the exchange on stockholders' equity is dependent on how the market prices the new notes. Assuming the fair value of the new notes is at par, the impact on stockholders' equity would be a 4.9% reduction.