National Commercial Bank Jamaica Limited

Financial Statements
September 30, 2013

National Commercial Bank Jamaica Limited
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September 30, 2013

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Independent Auditors' Report

To the Members of
National Commercial Bank Jamaica Limited

Report on the Consolidated and Company Stand Alone Financial Statements
We have audited the accompanying consolidated financial statements of National Commercial Bank Jamaica Limited and its subsidiaries, set out on pages 1 to 133, which comprise the consolidated statement of financial position as at 30 September 2013 and the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the accompanying financial statements of National Commercial Bank Jamaica Limited standing alone, which comprise the statement of financial position as at 30 September 2013 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and company stand alone financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated and company stand alone financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated and company stand alone financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and company stand alone financial statements.

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

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

Opinion

In our opinion, the consolidated financial statements of National Commercial Bank Jamaica Limited and its subsidiaries, and the financial statements of National Commercial Bank Jamaica Limited standing alone give a true and fair view of the financial position of National Commercial Bank Jamaica Limited and its subsidiaries and of National Commercial Bank Jamaica Limited standing alone as at 30 September 2013, and of their financial performance and cash flows for the year then ended, so far as concerns the members of National Commercial Bank Jamaica Limited, in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

Report on Other Legal and Regulatory Requirements

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

In our opinion, proper accounting records have been kept, so far as appears from our examination of those records, and proper returns adequate for the purposes of our audit have been received from branches not visited by us, and the accompanying consolidated financial statements are in agreement therewith and give the information required by the Jamaican Companies Act, in the manner so required.

PricewaterhouseCoopers.

Chartered Accountants
18 November 2013
Kingston, Jamaica

National Commercial Bank Jamaica Limited

Consolidated Income Statement

Year ended September 30, 2013

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2013 $'000	Restated 2012 $'000
Operating Income			
Interest income		32,810,385	30,475,968
Interest expense		(9,251,399)	(8,691,878)
Net interest income	6	23,558,986	21,784,090
Fee and commission income		9,730,000	8,300,085
Fee and commission expense		(1,724,820)	(1,186,403)
Net fee and commission income	7	8,005,180	7,113,682
Gain on foreign currency and investment activities	8	1,028,030	3,731,492
Dividend income	9	228,506	119,634
Premium income	10	5,003,097	1,687,082
Other operating income		141,784	110,969
		6,401,417	5,649,177
		37,965,583	34,546,949
Operating Expenses			
Staff costs	11	11,270,133	9,755,916
Provision for credit losses	22	2,066,260	2,462,811
Depreciation and amortization		1,209,971	812,512
Impairment losses on securities	12	87,136	467,778
Policyholders and annuitants benefits and reserves	13	3,812,918	1,476,324
Other operating expenses	14	9,372,775	7,390,912
		27,819,193	22,366,253
Operating Profit		10,146,390	12,180,696
Share of profit of associates	25	861,178	947,141
Dilution of share in associates	25	-	(11,948)
Profit before Taxation		11,007,568	13,115,889
Taxation	15	(2,457,737)	(3,070,027)
NET PROFIT		8,549,831	10,045,862
Earnings per stock unit (expressed in $ per share)			
Basic and diluted	16	3.47	4.08

National Commercial Bank Jamaica Limited

Consolidated Statement of Comprehensive Income

Year ended September 30, 2013

(expressed in Jamaican dollars unless otherwise indicated)

	2013 $'000	2012 $'000
Net Profit	8,549,831	10,045,862
Other Comprehensive Income, net of tax –		
Items that may be reclassified subsequently to profit or loss		
Currency translation gains	368,431	92,142
Unrealized gains/(losses) on available-for-sale investments	436,092	(837,922)
Realized fair value gains on sale and maturity of available-for-sale investments	(508,142)	(2,226,635)
Total other comprehensive income	296,381	(2,972,415)
TOTAL COMPREHENSIVE INCOME	8,846,212	7,073,447

National Commercial Bank Jamaica Limited

Consolidated Statement of Financial Position

September 30, 2013

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2013	Restated 2012	Restated 2011
		$'000	$'000	$'000
ASSETS				
Cash in hand and balances at Bank of Jamaica	17	24,388,683	24,102,812	20,725,491
Due from other banks	18	19,328,412	13,812,269	23,750,057
Derivative financial instruments	19	387,304	4,978	-
Investment securities at fair value through profit or loss	20	380,755	720,406	1,785,352
Reverse repurchase agreements	21	328,105	408,294	1,697,472
Loans and advances, net of provision for credit losses	22	141,150,312	111,904,854	91,728,138
Investment securities classified as available-for-sale and loans and receivables	23	100,856,119	90,641,280	97,379,975
Pledged assets	24	134,530,695	120,406,671	106,645,318
Investment in associates	25	8,512,251	7,149,680	6,698,130
Investment property	26	462,500	12,500	12,000
Intangible assets	27	1,837,974	1,135,599	897,862
Property, plant and equipment	28	6,438,707	5,231,798	4,322,866
Deferred income tax assets	29	31,710	19,483	26,191
Income tax recoverable		2,173,835	887,577	1,402,777
Customers' liability – letters of credit and undertaking		1,479,108	530,719	361,606
Other assets	30	4,288,585	2,466,599	2,184,878
Total Assets		446,575,055	379,435,519	359,618,113

National Commercial Bank Jamaica Limited

Consolidated Statement of Financial Position

September 30, 2013

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2013 $'000	Restated 2012 $'000	Restated 2011 $'000
LIABILITIES				
Due to other banks	31	17,410,200	9,324,897	6,215,824
Customer deposits		178,411,021	162,930,350	155,800,401
Repurchase agreements		117,377,395	101,890,449	84,075,103
Obligations under securitization arrangements	32	10,101,032	2,593,201	14,378,119
Derivative financial instruments	19	1,437	5,312	-
Other borrowed funds	33	4,900,592	3,620,012	5,693,957
Income tax payable		14,299	11,191	12,591
Deferred income tax liabilities	29	2,610,379	1,398,092	2,387,682
Liabilities under annuity and insurance contracts	34	33,914,506	25,194,324	23,564,275
Provision for litigation	35	11,500	17,300	13,000
Post-employment benefit obligations	36	1,108,993	810,276	582,491
Liability – letters of credit and undertaking		1,479,108	530,719	361,606
Other liabilities	37	6,778,092	4,766,075	4,555,800
Total Liabilities		374,118,554	313,092,198	297,640,849
EQUITY				
Share capital	38	6,465,731	6,465,731	6,465,731
Shares held by NCB Employee Share Scheme	38	(3,388)	(3,388)	(3,388)
Fair value and capital reserves	39	2,490,560	2,194,179	5,166,594
Loan loss reserve	40	5,141,357	4,662,842	4,922,610
Banking reserve fund	41	6,512,634	6,512,634	6,039,667
Retained earnings reserve	42	18,050,657	14,013,657	11,375,761
Retained earnings		33,798,950	32,497,666	28,010,289
Total Equity		72,456,501	66,343,321	61,977,264
Total Equity and Liabilities		446,575,055	379,435,519	359,618,113

Approved for issue by the Board of Directors on November 14, 2013 and signed on its behalf by:

Patrick Hylton — Group Managing Director

Dennis Cohen — Group Finance and Deputy Managing Director

Professor Alvin Wint — Director

Dave Garcia — Company Secretary

National Commercial Bank Jamaica Limited

Consolidated Statement of Changes in Equity

Year ended September 30, 2013

(expressed in Jamaican dollars unless otherwise indicated)

	Share Capital	Shares Held by Share Scheme	Fair Value and Capital Reserves	Loan Loss Reserve	Banking Reserve Fund	Retained Earnings Reserve	Retained Earnings	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at September 30, 2011	6,465,731	(3,388)	5,166,594	4,922,610	6,039,667	11,375,761	28,010,289	61,977,264
Total comprehensive income	-	-	(2,972,415)	-	-	-	10,045,862	7,073,447
Dividends paid	-	-	-	-	-	-	(2,707,390)	(2,707,390)
Transfer from Loan Loss Reserve	-	-	-	(259,768)	-	-	259,768	-
Transfer to Banking Reserve Fund	-	-	-	-	472,967	-	(472,967)	-
Transfer to Retained Earnings Reserve	-	-	-	-	-	2,637,896	(2,637,896)	-
Balance at September 30, 2012	6,465,731	(3,388)	2,194,179	4,662,842	6,512,634	14,013,657	32,497,666	66,343,321
Total comprehensive income	-	-	296,381	-	-	-	8,549,831	8,846,212
Dividends paid	-	-	-	-	-	-	(2,733,032)	(2,733,032)
Transfer to Loan Loss Reserve	-	-	-	478,515	-	-	(478,515)	-
Transfer to Retained Earnings Reserve	-	-	-	-	-	4,037,000	(4,037,000)	-
Balance at September 30, 2013	6,465,731	(3,388)	2,490,560	5,141,357	6,512,634	18,050,657	33,798,950	72,456,501

National Commercial Bank Jamaica Limited

Consolidated Statement of Cash Flows

Year ended September 30, 2013

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2013 $'000	Restated 2012 $'000
Cash Flows from Operating Activities			
Net profit		8,549,831	10,045,862
Adjustments to reconcile net profit to net cash provided by operating activities		1,241,892	6,078,542
Net cash provided by operating activities	43	9,791,723	16,124,404
Cash Flows from Investing Activities			
Acquisition of subsidiary, net of cash acquired	47	(2,883,959)	-
Acquisition of property, plant and equipment	28	(1,048,233)	(1,415,627)
Acquisition of intangible asset – computer software	27	(679,403)	(546,801)
Proceeds from disposal of property, plant and equipment		44,297	4,274
Dividends received from associates	25	194,355	146,761
Purchases of investment securities		(189,087,914)	(240,078,881)
Sales/maturities of investment securities		176,595,236	219,525,093
Net cash used in investing activities		(16,865,621)	(22,365,181)
Cash Flows from Financing Activities			
Proceeds from securitization arrangements		9,640,592	-
Repayments under securitization arrangements		(2,813,066)	(11,951,916)
Repayments of other borrowed funds		(1,122,126)	(3,035,243)
Proceeds from other borrowed funds		2,226,314	943,027
Due to other banks		5,313,864	2,513,162
Dividends paid		(2,733,032)	(2,707,390)
Net cash provided by/(used in) financing activities		10,512,546	(14,238,360)
Effect of exchange rate changes on cash and cash equivalents		3,856,575	1,044,342
Net increase/(decrease) in cash and cash equivalents		7,295,223	(19,434,795)
Cash and cash equivalents at beginning of year		21,266,744	40,701,539
Cash and Cash Equivalents at End of Year		28,561,967	21,266,744
Comprising:			
Cash in hand and balances at Bank of Jamaica	17	3,996,482	6,374,868
Due from other banks	18	19,145,629	13,170,698
Reverse repurchase agreements	21	322,809	394,873
Investment securities	23	10,887,465	4,345,284
Due to other banks	31	(5,790,418)	(3,018,979)
		28,561,967	21,266,744

National Commercial Bank Jamaica Limited

Income Statement

Year ended September 30, 2013

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2013 $'000	2012 $'000
Operating Income			
Interest income		22,911,521	20,515,000
Interest expense		(5,086,566)	(4,261,224)
Net interest income	6	17,824,955	16,253,776
Fee and commission income		8,460,844	7,255,659
Fee and commission expense		(1,724,820)	(1,186,403)
Net fee and commission income	7	6,736,024	6,069,256
(Loss)/gain on foreign currency and investment activities	8	(433,142)	1,702,851
Dividend income	9	2,234,210	2,290,448
Other operating income		128,387	96,485
		1,929,455	4,089,784
		26,490,434	26,412,816
Operating Expenses			
Staff costs	11	9,828,429	8,607,561
Provision for credit losses	22	2,066,260	2,462,811
Depreciation and amortization		1,095,061	769,052
Other operating expenses	14	7,907,111	6,527,580
		20,896,861	18,367,004
Profit before Taxation		5,593,573	8,045,812
Taxation	15	(982,378)	(1,511,656)
NET PROFIT		4,611,195	6,534,156

National Commercial Bank Jamaica Limited

Statement of Comprehensive Income

Year ended September 30, 2013

(expressed in Jamaican dollars unless otherwise indicated)

	2013 $'000	2012 $'000
Net Profit	4,611,195	6,534,156
Other Comprehensive Income, net of taxes:		
Items that may be reclassified subsequently to profit or loss		
Unrealized (losses)/gains on available-for-sale investments	(160,761)	138,134
Realized fair value losses/(gains) on sale and maturity of available-for-sale investments	471,949	(643,995)
Total other comprehensive income	311,188	(505,861)
TOTAL COMPREHENSIVE INCOME	4,922,383	6,028,295

National Commercial Bank Jamaica Limited

Statement of Financial Position

September 30, 2013

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2013 $'000	Restated 2012 $'000	Restated 2011 $'000
ASSETS				
Cash in hand and balances at Bank of Jamaica	17	24,377,531	24,097,645	20,721,445
Due from other banks	18	18,787,758	13,323,806	23,267,333
Derivative financial instruments	19	387,304	4,978	-
Reverse repurchase agreements	21	760,724	565,719	990,011
Loans and advances, net of provision for credit losses	22	140,443,240	111,164,129	91,398,899
Investment securities classified as available-for-sale and loans and receivables	23	36,537,858	44,629,556	61,970,425
Pledged assets	24	57,556,696	42,852,578	22,844,269
Investment in associates	25	2,679,737	2,679,737	471,534
Investment in subsidiaries		1,609,609	1,609,609	1,609,609
Intangible assets	27	1,207,893	1,092,379	840,319
Property, plant and equipment	28	5,564,391	5,211,299	4,300,513
Income tax recoverable		1,157,263	297,796	525,802
Customers' liability – letters of credit and undertaking		1,479,108	530,719	361,606
Other assets	30	2,789,447	2,261,094	1,457,343
Total Assets		295,338,559	250,321,044	230,759,108

National Commercial Bank Jamaica Limited

Statement of Financial Position

September 30, 2013

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2013 $'000	Restated 2012 $'000	Restated 2011 $'000
LIABILITIES				
Due to other banks	31	21,430,317	11,716,825	6,215,824
Customer deposits		179,099,655	160,834,084	156,023,338
Repurchase agreements		30,271,641	27,712,425	8,509,780
Obligations under securitization arrangements	32	10,101,032	2,593,201	14,378,119
Derivative financial instruments	19	1,437	5,312	-
Other borrowed funds	33	2,985,250	2,153,512	4,035,316
Deferred tax liabilities	29	2,404,938	1,189,086	1,087,982
Provision for litigation	35	11,500	17,300	13,000
Post-employment benefit obligations	36	1,016,453	810,276	582,491
Liability – letters of credit and undertaking		1,479,108	530,719	361,606
Other liabilities	37	5,500,609	3,905,961	4,014,165
Total Liabilities		254,301,940	211,468,701	195,221,621
EQUITY				
Share capital	38	6,465,731	6,465,731	6,465,731
Fair value and capital reserves	39	(87,368)	(398,556)	107,305
Loan loss reserve	40	5,141,357	4,662,842	4,922,610
Banking reserve fund	41	6,512,634	6,512,634	6,039,667
Retained earnings reserve	42	18,050,657	14,013,657	11,375,761
Retained earnings		4,953,608	7,596,035	6,626,413
Total Equity		41,036,619	38,852,343	35,537,487
Total Equity and Liabilities		295,338,559	250,321,044	230,759,108

Approved for issue by the Board of Directors on November 14, 2013 and signed on its behalf by:

Patrick Hylton — Group Managing Director

Dennis Cohen — Group Finance and Deputy Managing Director

Professor Alvin Wint — Director

Dave Garcia — Company Secretary

National Commercial Bank Jamaica Limited

Statement of Changes in Equity

Year ended September 30, 2013

(expressed in Jamaican dollars unless otherwise indicated)

	Share Capital	Fair Value and Capital Reserves	Loan Loss Reserve	Banking Reserve Fund	Retained Earnings Reserve	Retained Earnings	Total
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Balance at September 30, 2011	6,465,731	107,305	4,922,610	6,039,667	11,375,761	6,626,413	35,537,487
Total comprehensive income	-	(505,861)	-	-	-	6,534,156	6,028,295
Dividends paid	-	-	-	-	-	(2,713,439)	(2,713,439)
Transfer from Loan Loss Reserve	-	-	(259,768)	-	-	259,768	-
Transfer to Banking Reserve Fund	-	-	-	472,967	-	(472,967)	-
Transfer to Retained Earnings Reserve	-	-	-	-	2,637,896	(2,637,896)	-
Balance at September 30, 2012	6,465,731	(398,556)	4,662,842	6,512,634	14,013,657	7,596,035	38,852,343
Total comprehensive income	-	311,188	-	-	-	4,611,195	4,922,383
Dividends paid	-	-	-	-	-	(2,738,107)	(2,738,107)
Transfer to Loan Loss Reserve	-	-	478,515	-	-	(478,515)	-
Transfer to Retained Earnings Reserve	-	-	-	-	4,037,000	(4,037,000)	-
Balance at September 30, 2013	6,465,731	(87,368)	5,141,357	6,512,634	18,050,657	4,953,608	41,036,619

National Commercial Bank Jamaica Limited

Statement of Cash Flows

Year ended September 30, 2013

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2013 $'000	Restated 2012 $'000
Cash Flows from Operating Activities			
Net profit		4,611,195	6,534,156
Adjustments to reconcile net profit to net cash provided by operating activities		(8,708,936)	2,417,572
Net cash (used in)/provided by operating activities	43	(4,097,741)	8,951,728
Cash Flows from Investing Activities			
Acquisition of property, plant and equipment	28	(987,114)	(1,406,023)
Acquisition of intangible asset – computer software	27	(622,388)	(529,239)
Investment in associate	25	-	(2,208,203)
Proceeds from disposal of property, plant and equipment		44,657	4,274
Purchases of investment securities		(76,079,052)	(175,264,034)
Sales/maturities of investment securities		68,441,112	162,665,687
Net cash used in investing activities		(9,202,785)	(16,737,538)
Cash Flows from Financing Activities			
Proceeds from securitization arrangements		9,640,592	-
Repayments under securitization arrangements		(2,813,066)	(11,951,916)
Repayments of other borrowed funds		(815,209)	(2,798,576)
Proceeds from other borrowed funds		1,520,738	896,885
Due to other banks		9,465,556	2,656,770
Dividends paid		(2,738,107)	(2,713,439)
Net cash provided by/(used in) financing activities		14,260,504	(13,910,276)
Effect of exchange rate changes on cash and cash equivalents		3,720,123	989,215
Net decrease in cash and cash equivalents		4,680,101	(20,706,871)
Cash and cash equivalents at beginning of year		17,951,398	38,658,269
Cash and Cash Equivalents at End of Year		22,631,499	17,951,398
Comprising:			
Cash in hand and balances at Bank of Jamaica	17	3,985,330	6,369,701
Due from other banks	18	18,604,975	12,682,235
Reverse repurchase agreements	21	145,890	291,339
Investment securities	23	5,410,539	3,875,422
Due to other banks	31	(5,515,235)	(5,267,299)
		22,631,499	17,951,398

National Commercial Bank Jamaica Limited

Notes to the Financial Statements
September 30, 2013
(expressed in Jamaican dollars unless otherwise indicated)

1. Identification and Principal Activities

National Commercial Bank Jamaica Limited ("the Bank") is incorporated in Jamaica and licensed under the Banking Act, 1992. The Bank is a 50.48% (2012 – 51.71%) subsidiary of AIC (Barbados) Limited. The ultimate parent company is Portland Holdings Inc., incorporated in Canada. Portland Holdings Inc. is controlled by Hon. Michael A. Lee-Chin, OJ, Chairman of the Bank.

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

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

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

	Principal Activities	Percentage Ownership by The Group	
		2013	2012
Data-Cap Processing Limited	Security Services	100	100
Mutual Security Insurance Brokers Limited	Insurance Brokerage Services	100	100
NCB Capital Markets Limited	Securities Dealer and Stock Brokerage Services	100	100
Advantage General Insurance Company Limited	General Insurance	100	-
NCB Capital Markets (Cayman) Limited	Securities Dealer	100	100
NCB (Cayman) Limited	Commercial Banking	100	100
NCB Remittance Services (Cayman) Limited	Money Remittance Services	100	100
NCB Insurance Company Limited	Life Insurance, Investment and Pension Fund Management Services	100	100
N.C.B. (Investments) Limited	Dormant	100	100
N.C.B. Jamaica (Nominees) Limited	Registrar Services	100	100
NCB Remittance Services (Jamaica) Limited	Money Remittance Services	100	100
NCB Remittance Services (UK) Limited	Money Remittance Services	100	100
West Indies Trust Company Limited	Trust and Estate Management Services	100	100
NCB Employee Share Scheme	Dormant	100	100

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

Acquisition of Advantage General Insurance Company Limited
NCB Capital Markets Limited acquired the entire issued share capital of Advantage General Insurance Company Limited (AGI) in February 2013 (Note 47).

National Commercial Bank Jamaica Limited

Notes to the Financial Statements
September 30, 2013
(expressed in Jamaican dollars unless otherwise indicated)

1. Identification and Principal Activities (Continued)

The Group's associates, which are all incorporated in Jamaica, are as follows:

	Principal Activities	Percentage ownership by The Group	
		2013	2012
Dyoll Group Limited	In Liquidation	44.47	44.47
Jamaica Money Market Brokers Limited	Securities Dealer and Stock Brokerage Services	26.30	26.30
Kingston Properties Limited	Ownership of real estate properties	25.17	25.17
Kingston Wharves Limited	Wharf Operations and Stevedoring	32.59	32.59

2. Significant Accounting Policies

(a) Basis of preparation

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

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

Changes in classification or presentation

The following reclassifications or changes in presentation were made in the financial statements for the year ended September 30, 2013. An additional comparative statement of financial position as at September 30, 2011 has been presented to show the effects of these changes in presentation. However, the changes had no effect on the net profit for the year ended September 30, 2012 or stockholders equity at September 30, 2012 and 2011.

(i) Securities pledged as collateral which were previously included in "Due from Other Banks" and "Investment Securities classified as Available-for-sale and Loans and Receivables" in the statement of financial position were reclassified to "Pledged Assets" which is now shown as a separate item on the face of the statement of financial position in accordance with IAS 39, Financial Instruments: Recognition and Measurement. The effects of this reclassification are set out in Notes 18 and 23, respectively.

(ii) Taxes incurred on premium income earned by the life insurance subsidiary which were previously included in "Taxation" in the income statement are now included in "Other Operating Expenses" in accordance with IAS 12, Income Taxes as they represent taxes on revenues rather than on profits. The effects of this reclassification are set out in Notes 14 and 15.

(iii) Certain pledged and restricted securities included in "Due from Other Banks" (Note 18) as well as short-term amounts with original maturities longer than 90 days included in "Due to Other Banks" (Note 31) were previously included in cash and cash equivalents for the purposes of the statement of cash flows. The effect of the items in "Due from Other Banks" are now reflected as operating cash flows and the effect of the items in "Due to Other Banks" are now reflected as financing cash flows.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Changes in classification or presentation (continued)
The effect on cash and cash equivalents previously reported were as follows:

	The Group		The Bank	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Cash and cash equivalents, as previously reported	16,717,197	38,609,519	13,258,243	36,566,249
Pledged securities included in Due from other banks	(1,114,800)	(1,062,518)	(1,114,800)	(1,062,518)
Restricted securities included in Due from other banks	(641,571)	(638,218)	(641,571)	(638,218)
Amounts included in Due to other banks with original maturities longer than 90 days	6,305,918	3,792,756	6,449,526	3,792,756
Cash and cash equivalents, as restated	21,266,744	40,701,539	17,951,398	38,658,269

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

Amendment to IAS 1, 'Financial Statement Presentation', (effective for annual periods beginning on or after July 1, 2012). The main change resulting from these amendments is the requirement that the items listed under other comprehensive income be split into two categories, according to whether or not they could potentially be recycled to profit or loss in future periods. The Group has applied the amendments in its statement of comprehensive income.

Amendment to IAS 12, 'Income Taxes', (effective for annual periods beginning on or after January 1, 2012). IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult or subjective to estimate how much of the carrying amount will be recovered through rental income and how much will be recovered through sale. This amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, ''Income taxes – recovery of revalued non-depreciable assets'', will no longer apply to investment properties carried at fair value. The amendment has added a rebuttable presumption that the carrying amount of an investment property measured at fair value is entirely recovered through sale. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. There was no significant impact arising from adoption of this amendment during the year.

National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2013

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which are not effective at the date of the statement of financial position, and which the Group has not early adopted. The Group has assessed the relevance of all such new standards, interpretations and amendments, has determined that the following may be relevant to its operations, and has concluded as follows:

IAS 19 (Revised), 'Employee Benefits', (effective for annual periods beginning on or after January 1, 2013). IAS 19 (revised) amends the accounting for employment benefits to require the immediate recognition of all past service costs which were previously deferred over the period of vesting. It also eliminates the 'corridor approach' and requires that all actuarial gains and losses are recognized immediately in other comprehensive income. The revised standard also replaces the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability and the discount rate, measured at the beginning of the year. The Group will apply the new standard effective October 1, 2013.

The adoption of the new standard will require retrospective application. The effect of this on the financial position and results of operations for the year ended September 30, 2013 will be as follows:

The Bank's defined benefit pension scheme is closed. No pension asset is recognized in respect of this scheme as the Bank would not benefit from any surplus arising on the winding up. As a result, the Bank incurs no current service or interest cost in respect of this scheme. The new standard is, therefore, not expected to have any impact on the recognition of the Bank's defined benefit pension scheme.

In respect of the AGI defined benefit pension scheme, the effect of adopting the new standard is not expected to be material to the Group.

In respect of the other post-employment benefits, the new standard will result in an increase of $686,267,000 in the liability recognized in the statement of financial position as at September 30, 2013, with a pre-tax credit of $48,295,000 in the income statement and a pre-tax charge of $63,510,000 in other comprehensive income for the year ended September 30, 2013.

Annual Improvements 2011, (effective for annual periods beginning on or after January 1, 2013). The IASB issued its Annual Improvements to IFRSs 2009 – 2011 Cycle in May 2012, which amended five standards. The amendment to IAS 1, 'Presentation of Financial Statements' clarifies that when additional comparative information is provided in the financial statements on a voluntary basis, this information must also be presented in the related notes for that additional information. As a consequence of the amendment to IAS 16, 'Property, Plant and Equipment,' servicing equipment is recognized as property, plant and equipment or as inventory depending on its expected useful life. The amendment to IAS 32, 'Financial Instruments: Presentation' clarifies that the tax effect of distributions to holders of an equity instrument and the transaction costs of an equity transaction must be accounted for in accordance with IAS 12. Pursuant to the amendment to IAS 34, 'Interim Financial Reporting,' information on segment assets and liabilities is only required to be disclosed if such information is regularly provided to the chief operating decision maker and if there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment. The amendments to IFRS 1 "First-time Adoption of IFRS" do not have an impact on the Group. The new requirements will be applied effective 1 October 2013. The Group does not expect any major changes arising from their adoption.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

IFRS 9, 'Financial Instruments', (effective for annual periods beginning on or after January 1, 2015). This standard will replace IAS 39, 'Financial Instruments: Recognition and Measurement'. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortized cost and fair value. Classification of debt instruments under IFRS 9 is driven by the entity's business model for managing the financial assets and the contractual characteristics of the financial assets. All equity instruments are measured at fair value under IFRS 9. IFRS 9 also removes the requirement to separate embedded derivatives from financial asset hosts. It requires a hybrid contract to be classified in its entirety at either amortized cost or fair value.

For financial liabilities, IFRS 9 retains most of the IAS 39 requirements, including amortized cost accounting for most financial liabilities and the requirement to separate embedded derivatives. The main change is where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

Certain aspects of IFRS 9 are still under development and have not been finalized. As a result, the Group is still assessing the potential impact of adoption and whether it should consider early adoption.

IFRS 10, 'Consolidated Financial Statements', (effective for annual periods beginning on or after January 1, 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) is now renamed 'Separate Financial Statements'. The standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. The Group will apply the new standard effective October 1, 2013 and does not expect any significant impact from its adoption.

IFRS 11, 'Joint Arrangements', (effective for annual periods beginning on or after January 1, 2013). IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group will apply this standard effective October 1, 2013 and does not expect any significant impact from its adoption as it does not currently have any joint arrangements that fall within the recognition criteria of this standard.

IFRS 12, 'Disclosure of Interests in Other Entities', (effective for annual periods beginning on or after January 1, 2013). 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, unconsolidated structured entities and off-balance sheet vehicles. The Group will apply the standard effective October 1, 2013 and it will result in expanded disclosures in the financial statements.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

IFRS 13, 'Fair Value Measurement', (effective for annual periods beginning on or after January 1, 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 IFRSs. 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 will apply the standard effective October 1, 2013 and it will result in expanded disclosures in the financial statements.

IAS 28 (Revised), 'Investments in Associates and Joint Ventures', (effective for annual periods beginning on or after January 1, 2013). IAS 28 (Revised) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The Group will apply the standard effective October 1, 2013 but does not expect any significant impact from its adoption.

IFRS 7 (Amendment), 'Financial Instruments: Disclosures, (effective for annual periods beginning on or after January 1, 2013). This amendment requires disclosures about the effects or potential effects of offsetting financial assets and financial liabilities and related arrangements on an entity's financial position. The Group will apply the standard effective October 1, 2013 but does not expect any significant impact from its adoption.

IAS 32 (Amendment), 'Financial Instruments: Presentation, (effective for annual periods beginning on or after January 1, 2014). This amendment clarifies the requirements for offsetting financial instruments and address inconsistencies in current practice when applying the offsetting criteria in IAS 32, 'Financial Instruments: Presentation'. The Group will apply the standard effective October 1, 2014 but does not expect any significant impact from its adoption.

IFRIC 21, 'Levies', (effective for annual periods beginning on or after January 1, 2014). IFRIC 21 addresses the accounting for a liability to pay a levy recognized in accordance with IAS 37, 'Provisions', and the liability to pay a levy whose timing and amount is certain. It excludes income taxes within the scope of IAS 12, 'Income Taxes'. IFRIC 21 indicates that the obligating event that gives rise to a liability to pay a levy is the event identified by the legislation that triggers the obligation to pay the levy. It concludes that the fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern principle, does not create an obligation to pay a levy that will arise from operating in the future. Accordingly, a liability to pay a levy is recognized when the obligating event occurs. This might arise at a point in time or progressively over time. The interpretation also requires that an obligation to pay a levy triggered by a minimum threshold is recognized when the threshold is reached. The Group is currently assessing the impact from future adoption of the interpretation on its financial statements.

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36), (effective for annual periods beginning on or after January 1, 2014). The amendments to IAS 36 require disclosure of the recoverable amount of an individual asset (including goodwill) or a cash-generating unit and additional information about the fair value less costs of disposal for which an impairment loss has been recognized or reversed during the reporting period. The requirement to disclose the recoverable amount of each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite life intangible assets allocated to that unit is significant when compared to the total carrying amount of goodwill or indefinite life intangible assets has been removed. The future adoption of these amendments may result in additional disclosure relating to impairments or reversals of impairments.

2. Significant Accounting Policies (Continued)

(b) Basis of consolidation

Subsidiaries

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

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

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

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

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

Associates

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

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

2. Significant Accounting Policies (Continued)

(c) Segment reporting

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

(d) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

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

Group companies

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

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

2. Significant Accounting Policies (Continued)

(e) Revenue recognition

Interest income and expense

Interest income and expense are recognized in the income statement for all interest-bearing instruments on an accrual basis using the effective interest method based on the actual purchase price. Interest income includes coupons earned on fixed income investments and accrued discount on treasury bills and other discounted instruments.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expenses over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering the contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

Fee and commission income

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

Premium income

Premium income is recognised on the accrual basis in accordance with the terms of the underlying contracts as outlined in Note 2(r).

Dividend income

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

2. Significant Accounting Policies (Continued)

(f) Income taxes

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

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

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

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

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

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

(g) Cash and cash equivalents

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

(h) Derivative financial instruments

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

Derivative instruments are initially recognized at fair value on the date a derivative contract is entered into, and subsequently are re-measured at their fair value at the date of each statement of financial position. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Assets and liabilities are set off where the contracts are with the same counterparty, a legal right of set off exists and the cash flows are intended to be settled on a net basis.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at fair value through profit or loss.

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

2. Significant Accounting Policies (Continued)

(i) Repurchase and reverse repurchase transactions

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

(j) Loans and advances and provisions for credit losses

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

Provision for credit losses determined under the requirements of IFRS

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

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

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

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

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

2. Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

2. Significant Accounting Policies (Continued)

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

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

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

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

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

(k) Investment securities

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

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

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

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

National Commercial Bank Jamaica Limited

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2. Significant Accounting Policies (Continued)

(k) Investment securities (continued)

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

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

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value below cost is considered an indicator of impairment. Significant or prolonged are assessed based on market conditions and other indicators. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment losses previously recognized in the income statement, is removed from other comprehensive income and recognized in the income statement. Impairment losses recognized on the equity instruments are not reversed through the income statement.

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

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

(l) Investment property

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

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

2. Significant Accounting Policies (Continued)

(m) Intangible assets

Computer software

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

Customer relationships and trade name

These assets are associated with the acquisition of a subsidiary and are measured at fair value as at the date of acquisition. These assets are amortized using the straight line method over their useful lives, not exceeding a period of twenty years.

(n) Property, plant and equipment

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

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

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

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

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

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

2. Significant Accounting Policies (Continued)

(o) Financial liabilities

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

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

(p) Borrowings

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

(q) Leases

As lessee

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

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

As lessor

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

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2. Significant Accounting Policies (Continued)

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

Classification

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

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

Recognition and measurement

Insurance contracts are classified into four main categories, depending on the duration of risk and whether or not the terms and conditions are fixed.

Short duration insurance contracts

These contracts are principally property, motor, casualty (employers' liability, public liability), and group life insurance contracts.

Property insurance contracts indemnify the Group's customers in the event of a loss from a specified insured peril such as fire, windstorm or earthquake (not limited to these perils) up to the insured amount and within the terms of the policy conditions. These contracts are issued for both private and commercial risks. Customers who undertake commercial activities on their premises could also receive compensation for consequential loss/business interruption caused by the insured perils.

Motor insurance contracts indemnify the Group's customers for their legal requirement under the Road Traffic Act. These contracts may be extended for additional coverage such as physical damage, theft and personal accident.

Casualty insurance contracts provide coverage for liability exposures that indemnify the Group's customers against actions from third parties which are subject to the policy limits and conditions. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers' liability) and employers who become liable to pay compensation to third parties for bodily harm or property damage (public liability).

Group life contracts protect the Group's customers from the consequences of events (such as death or critical illness) that would affect on the ability of the customer or his/her dependants to maintain their current level of income.

For all these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premiums received on inforce contracts that relate to unexpired risks at the date of the statement of financial position is reported as an unearned premium liability. Premiums are shown before deduction of commissions payable to agents and brokers and exclude any taxes or duties levied on such premiums. Premium income includes premiums collected by agents and brokers not yet received by the Group.

Unearned premiums represent the portion of premiums written in the current year which relate to periods of insurance subsequent to the date of the statement of financial position calculated principally using the twenty-fourths method. Unearned premiums relating to group life are calculated based on 25% of net premiums written.

2. Significant Accounting Policies (Continued)

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

Recognition and measurement (continued)

Short duration insurance contracts (continued)

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders. They arise from events that have occurred up to the date of the statement of financial position even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims other than for disability claims. Liabilities for unpaid claims are estimated using techniques such as the input of assessments for individual cases reported to the Group and statistical analyses for the claims incurred but not reported (IBNR), and to estimate the expected ultimate cost of more complex claims that may be affected by external factors such as court decisions. Estimates are continually revised as more information becomes available and for the effects of anticipated inflation. Adjustments arising from these revisions are recognised within claims expense in the current year.

Long duration insurance contracts

The accounting treatment of long duration contracts differs according to whether the contract bears investment options or not.

For long duration contracts that do not bear investment options, premiums are recognised as revenue when they become payable by the policyholder. Premiums are shown before deduction of commission. Benefits are recorded as an expense when incurred.

A liability for policyholders' benefits that are expected to be incurred in the future is recorded when the premiums are recognised. Typically, the liability is determined as the sum of the expected discounted value of the benefit payments less the expected discounted value of the theoretical premiums that would be required to meet the benefits based on the valuation assumptions used (the valuation premiums). In particular, the liability is based on assumptions as to mortality and investment income. A margin for adverse deviations is included in the assumptions.

For long duration contracts that bear investment options, insurance premiums are recognised directly as liabilities. These liabilities are increased by credited interest and are decreased by policy administration fees, mortality and surrender charges and any withdrawals. Revenue consists of fees deducted for policy administration, mortality and surrenders and interest credited is treated as an expense.

Long duration insurance contract liabilities are recalculated by independent actuaries at each statement of financial position date using the Policyholder Premium Method and the change in the liability is recognised in the income statement.

Outstanding claims

Provision for outstanding claims and the related costs of settlement are based on incidents reported before the end of the financial year and include appropriate provisions for claims incurred but not yet reported. Estimates are continually revised as more information becomes available and for the effects of anticipated inflation. Adjustments arising on these revisions are included with claims expense in the current year. Benefits and claims payable represent the gross cost of all claims notified but not settled on the date of the statement of financial position. Any reinsurance recoverable is shown separately as a receivable.

Policyholders' benefits

Maturities and annuities are accounted for when due. Death and disability claims and surrenders are recognised in the financial statements in the year in which they have been notified. Differences between the estimated claims and subsequent settlements are recognised in the income statement in year of settlement.

2. Significant Accounting Policies (Continued)

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

Liability adequacy test

At the date of the statement of financial position, the Group assesses whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate, the deficiency is recognised in the income statement and the amount of the relevant insurance liabilities is increased.

Reinsurance contracts held

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Group periodically assesses its reinsurance assets for impairment. If there is objective evidence that a reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement.

Receivables and payables related to insurance contracts and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement.

(s) Provisions

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

2. Significant Accounting Policies (Continued)

(t) Post-employment benefits

Pension benefits

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

Defined benefit pension plans

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

The asset or liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the date of the statement of financial position less the fair value of plan assets, together with adjustments for unrecognized actuarial gains and losses and past service costs. In instances where an asset arises, the amount recognized is limited to the total of any cumulative unrecognized net actuarial losses and past service costs and the present value of an economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. 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 government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

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

Defined contribution pension plans

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

Other post-employment benefit obligations

The Bank provides post-employment health care benefits to its 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 10% of the defined benefit obligation, are charged or credited to income over the expected remaining working lives of the related employees. These obligations are valued annually by independent qualified actuaries.

2. Significant Accounting Policies (Continued)

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

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

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

(ii) Obligations to guarantee or stand as surety for the benefit of a third party.

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

Where the Bank's obligations are considered to be contingent, the amounts are disclosed in Note 45.

(v) Share capital

Share issue costs

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

Dividends on ordinary shares

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

Treasury shares

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

(w) Fiduciary activities

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

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

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

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

Income taxes

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

Impairment losses on loans and advances

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

Estimates of future benefit payments and premiums arising from long duration insurance contracts

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

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

The ultimate liability arising from claims made under insurance contracts

For the property and casualty insurance business, outstanding claims comprise estimates of the amount of reported losses and loss expenses and a provision for losses incurred but not reported (IBNR) based on the historical experience of the Group and industry data. These claims are analyzed separately between those arising from damage to insured property and consequential losses. Claims arising from damage to insured property can be estimated with greater reliability, and the Group's estimation processes reflect all the factors that influence the amount and timing of cash flows from these contracts. The shorter settlement period for these claims allows the Group to achieve a higher degree of certainty about the estimated cost of claims, and relatively little IBNR is held at year-end. However, the longer time needed to assess the emergence of claims arising from consequential losses makes the estimation process more uncertain for these claims. Significant delays may occur in the notification of claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as at the reporting date. The reserve for claims outstanding is determined on the basis of information currently available; however, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

Future obligations for post-employment benefits

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

Purchase price allocation of a business combination

In a business combination, the acquirer must allocate the cost of the business combination at the acquisition date by recognizing the acquiree's identifiable assets, liabilities and contingent liabilities at fair value at that date. The allocation is based upon certain valuations and other studies performed with the assistance of external valuation specialists. Due to the underlying assumptions made in the valuation process, the determination of those fair values requires estimations of the effects of uncertain future events at the acquisition date and the carrying amounts of some assets, such as intangible assets, acquired through a business combination could therefore differ significantly in the future.

As prescribed by IFRS 3 (revised), if the initial accounting for a business combination can be determined only provisionally by the end of the reporting period in which the combination is effected, the acquirer must account for the business combination using those provisional values and has a twelve month period from the acquisition date to complete the purchase price allocation. Any adjustment of the carrying amount of an identifiable asset or liability made as a result of completing the initial accounting is accounted for as if its fair value at the acquisition date had been recognized from that date. The purchase price allocation for the acquisition of AGI has been provisionally determined as described in Note 47.

4. Responsibilities of the Appointed Actuary and External Auditors

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

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

5. Segment Reporting

The Group is organized into the following business segments:

(a) Retail & SME – This incorporates the provision of banking services to individual and small and medium business clients and money remittance services.

(b) Payment services – This incorporates the provision of card related services

(c) Corporate banking – This incorporates the provision of banking services to large corporate clients.

(d) Treasury & correspondent banking – This incorporates the Bank's liquidity and investment management function, management of correspondent bank relationships, and relationships with other financial institutions as well as foreign currency dealing activities.

(e) Wealth management – This incorporates stock brokerage, securities trading, investment management and other financial services provided by overseas subsidiaries.

(f) Insurance & pension fund management – This incorporates life insurance, pension and investment management services.

(g) General insurance – This incorporates property and casualty insurance services.

(h) The Group's insurance brokerage services, trustee services and registrar and transfer agent services are classified as Other for segment reporting.

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

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

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

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

Eliminations
Eliminations comprise inter-company and inter-segment transactions.

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5. Segment Reporting (Continued)

Year ended September 30, 2013	Consumer and SME									
	Retail & SME	Payment Services	Corporate Banking	Treasury & Correspondent Banking	Wealth Management	Life Insurance & Pension Fund Management	General Insurance	Other	Eliminations	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
External revenue	13,724,403	7,206,123	4,099,787	6,120,409	8,294,769	5,473,071	3,941,207	82,033	-	48,941,802
Revenue from other segments	2,275,890	-	1,632	2,019,757	835,031	63,326	8,880	66,341	(5,270,857)	-
Total revenue	16,000,293	7,206,123	4,101,419	8,140,166	9,129,800	5,536,397	3,950,087	148,374	(5,270,857)	48,941,802
Interest income	12,354,290	2,660,109	3,591,925	8,308,455	7,786,785	2,686,633	318,296	32,732	(4,929,673)	32,809,552
Interest expense	(1,344,116)	(707,045)	(1,982,649)	(5,189,693)	(4,111,737)	(996,880)	-	(411)	4,929,673	(9,402,858)
Net interest income	11,010,174	1,953,064	1,609,276	3,118,762	3,675,048	1,689,753	318,296	32,321	-	23,406,694
Net fee and commission income	3,303,019	2,774,684	459,881	190,524	114,803	948,269	99,395	88,146	(92,727)	7,885,994
Gain on foreign currency and investment activities	178,981	13,196	35,895	(583,362)	1,078,030	220,661	87,519	(17,913)	12,045	1,025,052
Premium income	-	-	-	-	-	1,619,543	3,415,536	-	(31,982)	5,003,097
Other operating income	63,406	17,026	4,047	218,936	147,162	61,291	29,341	45,407	(260,382)	326,234
Total operating income	14,555,580	4,757,970	2,109,099	2,944,860	5,015,043	4,539,517	3,950,087	147,961	(373,046)	37,647,071
Staff costs	5,237,342	312,626	245,565	129,016	428,858	481,876	448,740	73,459	(34,315)	7,323,167
Provision for credit losses	1,384,905	659,960	63,969	-	-	-	-	-	-	2,108,834
Depreciation and amortization	150,578	90,463	5,496	104,425	7,613	32,888	23,444	2,158	47,762	464,827
Impairment losses on securities	-	-	-	-	87,136	-	-	-	-	87,136
Policyholders and annuitants benefits and reserves	-	-	-	-	-	1,396,113	2,416,805	-	-	3,812,918
Other operating expenses	2,402,485	934,143	564,808	622,648	610,588	455,530	499,059	25,147	(150,876)	5,963,532
Total operating expenses	9,175,310	1,997,192	879,838	856,089	1,134,195	2,366,407	3,388,048	100,764	(137,429)	19,760,414
Operating profit before allocated costs	5,380,270	2,760,778	1,229,261	2,088,771	3,880,848	2,173,110	562,039	47,197	(235,617)	17,886,657
Allocated costs	(4,587,226)	(662,561)	(379,115)	(214,376)	-	-	-	-	-	(5,843,278)
Operating profit c/fwd	793,044	2,098,217	850,146	1,874,395	3,880,848	2,173,110	562,039	47,197	(235,617)	12,043,379

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5. Segment Reporting (Continued)

Year ended September 30, 2013	Consumer and SME									
	Retail & SME	Payment Services	Corporate Banking	Treasury & Correspondent Banking	Wealth Management	Life Insurance & Pension Fund Management	General Insurance	Other	Eliminations	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Operating profit b/fwd	793,044	2,098,217	850,146	1,874,395	3,880,848	2,173,110	562,039	47,197	(235,617)	12,043,379
Unallocated corporate expenses										(1,896,989)
Share of profit of associates										861,178
Profit before Taxation										11,007,568
Taxation										(2,457,737)
Net Profit										8,549,831
Segment assets	151,550,642	11,839,178	58,753,003	139,238,839	127,197,750	35,864,968	10,419,681	1,000,275	(101,119,596)	434,744,740
Associates										8,512,251
Unallocated assets										3,318,064
Total assets										446,575,055
Segment liabilities	138,952,273	7,606,865	45,753,252	127,610,695	110,512,372	26,689,951	7,433,581	199,798	(93,502,909)	371,255,878
Unallocated liabilities										2,862,676
Total liabilities										374,118,554
Capital expenditure	1,084,465	292,440	40,732	36,745	58,873	118,469	57,077	38,835	-	1,727,636

National Commercial Bank Jamaica Limited

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5. Segment Reporting (Continued)

Year ended September 30, 2013	**Total per segment report $'000**	**Allocated expenses $'000**	**Unallocated corporate expenses $'000**	**Total per income statement $'000**
Reconciliation to income statement				
Interest income	32,809,552	659	174	32,810,385
Interest expense	(9,402,858)	(16,783)	168,242	(9,251,399)
Net fee and commission income	7,885,994	94,299	24,887	8,005,180
Gain on foreign currency and investment activities	1,025,052	2,356	622	1,028,030
Premium income	5,003,097	-	-	5,003,097
Other operating income and dividend income	326,234	34,857	9,199	370,290
Staff costs	(7,323,167)	(3,122,840)	(824,126)	(11,270,133)
Provision for credit losses	(2,108,834)	33,689	8,885	(2,066,260)
Depreciation and amortisation	(464,827)	(589,558)	(155,586)	(1,209,971)
Impairment losses on securities	(87,136)	-	-	(87,136)
Policyholders and annuitants benefits and reserves	(3,812,918)	-	-	(3,812,918)
Other operating expenses	(5,963,532)	(2,279,957)	(1,129,286)	(9,372,775)
Share of profit of associates	861,178	-	-	861,178
	18,747,835	(5,843,278)	(1,896,989)	11,007,568

National Commercial Bank Jamaica Limited
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5. Segment Reporting (Continued)

Year ended September 30, 2012	Consumer and SME								
	Retail & SME	Payment Services	Corporate Banking	Treasury & Correspondent Banking	Wealth Management	Life Insurance & Pension Fund Management	Other	Eliminations	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
External revenue	11,987,814	5,655,151	3,687,430	8,337,897	8,895,950	5,778,306	82,682	-	44,425,230
Revenue from other segments	2,996,958	-	-	1,120,417	600,790	62,099	177,513	(4,957,777)	-
Total revenue	14,984,772	5,655,151	3,687,430	9,458,314	9,496,740	5,840,405	260,195	(4,957,777)	44,425,230
Interest income	11,589,823	2,095,535	3,176,482	7,556,345	7,744,270	2,729,571	36,176	(4,453,218)	30,474,984
Interest expense	(1,547,225)	(572,384)	(1,262,756)	(4,807,544)	(3,939,225)	(1,050,982)	(1,292)	4,453,218	(8,728,190)
Net interest income	10,042,598	1,523,151	1,913,726	2,748,801	3,805,045	1,678,589	34,884	-	21,746,794
Net fee and commission income	3,047,156	2,340,043	479,667	180,073	193,108	859,062	88,947	(198,436)	6,989,620
Gain on foreign currency and investment activities	128,592	8,429	21,859	1,545,365	1,480,682	498,119	(28,662)	28,440	3,682,824
Premium income	-	-	-	-	-	1,716,630	-	(29,548)	1,687,082
Other operating income	64,238	5,332	3,885	172,133	74,351	37,023	48,083	(202,126)	202,919
Total operating income	13,282,584	3,876,955	2,419,137	4,646,372	5,553,186	4,789,423	143,252	(401,670)	34,309,239
Staff costs	4,300,763	186,200	198,686	141,115	511,613	517,097	95,731	(29,138)	5,922,067
Provision for credit losses	692,582	418,647	1,352,698	-	-	-	-	-	2,463,927
Depreciation and amortization	138,854	65,318	5,314	86,096	5,193	35,648	1,036	-	337,459
Impairment losses on securities	-	-	-	-	467,778	-	-	-	467,778
Policyholders and annuitants benefits and reserves	-	-	-	-	-	1,476,324	-	-	1,476,324
Other operating expenses	2,259,018	740,233	390,844	535,312	600,637	462,787	22,734	(248,161)	4,763,404
Total operating expenses	7,391,217	1,410,398	1,947,542	762,523	1,585,221	2,491,856	119,501	(277,299)	15,430,959
Operating profit before allocated costs	5,891,367	2,466,557	471,595	3,883,849	3,967,965	2,297,567	23,751	(124,371)	18,878,280
Allocated costs	(4,320,718)	(567,410)	(376,865)	(272,816)	-	-	-	-	(5,537,809)
Operating profit c/fwd	1,570,649	1,899,147	94,730	3,611,033	3,967,965	2,297,567	23,751	(124,371)	13,340,471

National Commercial Bank Jamaica Limited

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5. Segment Reporting (Continued)

Year ended September 30, 2012	Consumer and SME								
	Retail & SME	Payment Services	Corporate Banking	Treasury & Correspondent Banking	Wealth Management	Life Insurance & Pension Fund Management	Other	Eliminations	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Operating profit b/fwd	1,570,649	1,899,147	94,730	3,611,033	3,967,965	2,297,567	23,751	(124,371)	13,340,471
Unallocated corporate expenses									(1,159,775)
Share of profit of associates									947,141
Dilution of share in associates									(11,948)
Profit before Taxation									13,115,889
Taxation									(3,070,027)
Net Profit									10,045,862
Segment assets	142,309,200	9,435,429	43,741,933	123,726,523	108,561,208	33,847,570	967,581	(94,188,657)	368,400,787
Associates									7,149,680
Unallocated assets									3,885,052
Total assets									379,435,519
Segment liabilities	126,705,217	7,186,881	35,068,827	111,824,614	92,832,713	25,401,036	185,430	(88,041,519)	311,163,199
Unallocated liabilities									1,928,999
Total liabilities									313,092,198
Capital expenditure	1,426,882	191,078	42,025	114,040	82,754	87,642	18,007	-	1,962,428

National Commercial Bank Jamaica Limited

Notes to the Financial Statements
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5. Segment Reporting (Continued)

Year ended September 30, 2012	**Total per segment report $'000**	**Allocated expenses $'000**	**Unallocated corporate expenses $'000**	**Total per income statement $'000**
Reconciliation to income statement				
Interest income	30,474,984	833	151	30,475,968
Interest expense	(8,728,190)	(20,098)	56,410	(8,691,878)
Net fee and commission income	6,989,620	119,143	4,919	7,113,682
Gain on foreign currency and investment activities	3,682,824	41,073	7,595	3,731,492
Premium income	1,687,082	-	-	1,687,082
Other operating income and dividend income	202,919	23,259	4,425	230,603
Staff costs	(5,922,067)	(3,272,756)	(561,093)	(9,755,916)
Provision for credit losses	(2,463,927)	942	174	(2,462,811)
Depreciation and amortisation	(337,459)	(405,251)	(69,802)	(812,512)
Impairment losses on securities	(467,778)	-	-	(467,778)
Policyholders and annuitants benefits and reserves	(1,476,324)	-	-	(1,476,324)
Other operating expenses	(4,763,404)	(2,024,954)	(602,554)	(7,390,912)
Share of profit of associates	947,141	-	-	947,141
Dilution of share in associates	(11,948)	-	-	(11,948)
	19,813,473	(5,537,809)	(1,159,775)	13,115,889

National Commercial Bank Jamaica Limited

Notes to the Financial Statements

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6. Net Interest Income

	The Group		The Bank	
	2013	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
Interest income				
Loans and advances	16,601,288	14,085,952	16,552,658	14,059,331
Investment securities –				
Available-for-sale and loans and receivables	16,031,835	16,135,130	6,232,341	6,286,306
At fair value through profit or loss	87,041	90,445	-	-
Reverse repurchase agreements	15,877	41,626	42,789	35,629
Deposits and other	74,344	122,815	83,733	133,734
	32,810,385	30,475,968	22,911,521	20,515,000
Interest expense				
Customer deposits	1,934,619	2,344,514	2,049,009	2,316,220
Repurchase agreements	4,676,677	4,164,851	1,540,530	915,861
Policyholders' benefits	996,880	1,050,982	-	-
Securitization arrangements	579,468	486,697	579,468	486,697
Other borrowed funds and amounts due from other banks	1,063,755	644,834	917,559	542,446
	9,251,399	8,691,878	5,086,566	4,261,224
Net interest income	23,558,986	21,784,090	17,824,955	16,253,776

National Commercial Bank Jamaica Limited

Notes to the Financial Statements

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7. Net Fee and Commission Income

	The Group		The Bank	
	2013	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
Fee and commission income				
Retail and SME fees	3,346,859	2,951,506	3,263,523	3,048,197
Payment services fees	4,511,125	3,539,946	4,511,125	3,539,946
Corporate banking fees	466,781	481,260	466,781	481,260
Treasury and correspondent banking fees	194,529	181,338	194,529	181,338
Wealth management fees	114,803	193,108	-	-
Life Insurance and pension management fees	916,287	859,062	-	-
General insurance	99,395	-	-	-
Other	80,221	93,865	24,886	4,918
	9,730,000	8,300,085	8,460,844	7,255,659
Fee and commission expense				
Payment services fees	1,724,820	1,186,403	1,724,820	1,186,403
	8,005,180	7,113,682	6,736,024	6,069,256

8. Gain/(Loss) on Foreign Currency and Investment Activities

	The Group		The Bank	
	2013	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
Net foreign exchange gains	1,447,474	997,489	905,887	917,978
Debt securities held for trading	3,316	52,843	-	-
Loss on debt exchange transactions	(1,526,560)	-	(1,338,734)	-
Gains on other debt securities	1,150,488	2,646,674	57,499	784,873
Loss on embedded put option	(57,794)	-	(57,794)	-
Equity securities held for trading	11,106	33,986	-	-
Investment property (Note 26)	-	500	-	-
	1,028,030	3,731,492	(433,142)	1,702,851

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

Loss on debt exchange transactions

In February and March 2013, the Group and the Bank participated in the National Debt Exchange (NDX) and a Private Debt Exchange (PDX) conducted by the Government of Jamaica. These involved the non-cash exchange of existing notes with a face value of $123,333,216,000 for the Group and $51,248,101,000 for the Bank for new, longer-dated debt instruments with lower coupon rates (new notes) of equivalent face value. Certain new notes issued under the PDX included instruments with embedded put options (Note 19).

The loss arising on the exchanges represents the difference between the carrying value of the existing notes and the fair value of the new notes (including the value of the embedded put option) at the date of exchange.

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9. Dividend Income

	The Group		The Bank	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Subsidiaries	-	-	2,015,277	2,113,999
Associates	-	-	179,949	142,071
Other equity securities	228,506	119,634	38,984	34,378
	228,506	119,634	2,234,210	2,290,448

10. Premium Income

	The Group	
	2013	2012
	$'000	$'000
Annuity contracts	738,340	933,047
Life insurance contracts	849,222	754,035
General insurance contracts	3,415,535	-
	5,003,097	1,687,082

11. Staff Costs

	The Group		The Bank	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Wages, salaries, allowances and benefits	9,868,034	8,415,565	8,630,386	7,372,414
Payroll taxes	817,893	822,269	694,452	745,176
Pension costs – defined contribution plans	317,583	263,720	268,211	235,609
Pension costs – defined benefit plans (Note 36)	31,243	-	-	-
Other post-employment benefits (Note 36)	235,380	254,362	235,380	254,362
	11,270,133	9,755,916	9,828,429	8,607,561

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

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

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

National Commercial Bank Jamaica Limited

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12. Impairment Losses on Securities

This represents impairment losses recognized by certain subsidiaries of the Bank on investment securities classified as available-for-sale and loans and receivables. The losses relate entirely to debt securities.

13. Policyholders' and Annuitants' Benefits and Reserves

	The Group	
	2013	**2012**
	$'000	**$'000**
Annuity contracts	1,290,686	1,188,517
Life insurance contracts	104,527	287,807
General insurance contracts	2,417,705	-
	3,812,918	1,476,324

The above amounts include insurance claims by policyholders amounting to $667,877,000 (2012 – $486,869,000) in respect of life insurance and annuity contracts and $2,358,137,000 (2012 – $Nil) in respect of general insurance contracts.

14. Other Operating Expenses

	The Group		The Bank	
		Restated		
	2013	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
Auditors' remuneration	54,780	40,764	21,830	18,192
Credit card rebates	407,940	350,459	407,940	350,459
Costs relating to Initial Public Offering	679,907	-	679,907	-
Insurance	403,629	368,079	367,542	355,547
Irrecoverable general consumption tax and asset tax	1,184,275	1,098,622	976,324	878,505
License and transaction processing fees	706,844	638,541	604,595	584,753
Marketing, advertising and donations	485,039	642,786	365,345	537,042
Operating lease rentals	150,919	113,960	131,360	101,540
Premium tax on life insurance contracts	100,111	86,762	-	-
Property, vehicle and ABM maintenance and utilities	1,954,763	1,761,519	1,805,967	1,701,125
Receivership expenses	280,840	171,975	280,840	171,975
Stationery	171,169	138,094	147,517	125,946
Technical, consultancy and professional fees	1,092,740	845,671	812,893	775,379
Travelling, courier and telecommunication	783,036	684,848	717,707	646,512
Other	916,783	448,832	587,344	280,605
	9,372,775	7,390,912	7,907,111	6,527,580

National Commercial Bank Jamaica Limited
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14. Other Operating Expenses (Continued)

In the prior year financial statements, taxes on premium income earned by the life insurance subsidiary amounting to $86,762,000 were included in Taxation (Note 15) in the income statement. These amounts were reclassified to Other Operating Expenses.

Costs relating to the Initial Public Offering (IPO) have been written off as the IPO has been postponed for a period longer than 90 days.

15. Taxation

	The Group		The Bank	
		Restated		
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Current:				
Income tax	1,158,790	2,495,915	55,246	1,060,667
Investment income tax at 15%	229,632	300,385	-	-
Prior year (over)/under provision	(249,046)	89,742	(206,931)	50,763
Deferred income tax (Note 29)	1,318,361	183,985	1,134,063	400,226
	2,457,737	3,070,027	982,378	1,511,656

The tax on profit differs from the theoretical amount that would arise using the basic statutory rate of 15% for the life insurance subsidiary, 33⅓% for the Bank and other "regulated companies", 21% for the subsidiary incorporated in the United Kingdom and 25% (2012 – 33⅓%) for all other subsidiaries (with the exception of the subsidiaries incorporated in Cayman Islands and the NCB Employee Share Scheme which are not subject to income tax), as follows:

	The Group		The Bank	
		Restated		
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Profit before tax	11,007,568	13,115,889	5,593,573	8,045,812
Tax calculated at actual tax rates	3,175,854	3,808,486	1,864,524	2,681,937
Income not subject to tax or in respect of which tax has been remitted	(541,335)	(633,946)	(918,742)	(1,180,831)
Expenses not deductible for tax purposes	373,178	206,629	354,144	110,188
Effect of share of profit and dilution losses of associates included net of tax	(222,274)	(311,731)	-	-
Effect of different tax rates applicable to dividend income	(332,492)	-	(304,612)	-
Other	4,806	589	(12,936)	(99,638)
Taxation expense	2,457,737	3,070,027	982,378	1,511,656

In the prior year financial statements, taxes incurred on premium income earned by the life insurance subsidiary amounting to $86,762,000 were included in Taxation in the income statement. These amounts were reclassified to Other Operating Expenses (Note 14).

16. Earnings per Stock Unit

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

	2013	2012
Net profit attributable to stockholders ($'000)	8,549,831	10,045,862
Weighted average number of ordinary stock units in issue ('000)	2,461,469	2,461,469
Basic and diluted earnings per stock unit ($)	3.47	4.08

17. Cash in Hand and Balances at Bank of Jamaica

	The Group		The Bank	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Cash in hand	3,049,827	2,648,795	3,044,815	2,645,378
Balances with the Bank of Jamaica other than statutory reserves	946,655	3,726,073	940,515	3,724,323
Included in cash and cash equivalents	3,996,482	6,374,868	3,985,330	6,369,701
Statutory reserves with the Bank of Jamaica – interest-bearing	6,822,408	6,110,134	6,822,408	6,110,134
Statutory reserves with the Bank of Jamaica – non-interest-bearing	13,569,745	11,617,765	13,569,745	11,617,765
	24,388,635	24,102,767	24,377,483	24,097,600
Interest receivable	48	45	48	45
	24,388,683	24,102,812	24,377,531	24,097,645

Statutory reserves with the Bank of Jamaica represent the required ratio of 12% and 9% (2012 – 12% and 9%) of prescribed Jamaican dollar and foreign currency liabilities respectively. They are not available for investment, lending or other use by the Group.

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18. Due from Other Banks

	The Group			The Bank		
		Restated	Restated		Restated	Restated
	2013	2012	2011	2013	2012	2011
	$'000	$'000	$'000	$'000	$'000	$'000
Items in course of collection from other banks	813,446	897,967	1,208,651	813,325	891,597	866,020
Placements with other banks	19,826,803	14,026,055	23,601,277	19,257,432	13,546,773	23,463,102
	20,640,249	14,924,022	24,809,928	20,070,757	14,438,370	24,329,122
Interest receivable	18,279	3,047	2,647	42	236	729
	20,658,528	14,927,069	24,812,575	20,070,799	14,438,606	24,329,851
Less: Placements pledged as collateral for letters of credit (Note 24)	(1,330,116)	(1,114,800)	(1,062,518)	(1,283,041)	(1,114,800)	(1,062,518)
	19,328,412	13,812,269	23,750,057	18,787,758	13,323,806	23,267,333

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

In the prior year financial statements, placements pledged as collateral for letters of credit were included in Due from Other Banks in the statement of financial position. These amounts were reclassified to Pledged Assets (Note 24), which are now shown as a separate item on the face of the statement of financial position.

The amounts included as cash equivalents in the statement of cash flows is as follows:

	The Group			The Bank		
		Restated	Restated		Restated	Restated
	2013	2012	2011	2013	2012	2011
	$'000	$'000	$'000	$'000	$'000	$'000
Due from other banks	19,328,412	13,812,269	23,750,057	18,787,758	13,323,806	23,267,333
Less: amounts restricted to the settlement of obligations under securitization arrangements	(182,783)	(641,571)	(638,218)	(182,783)	(641,571)	(638,218)
	19,145,629	13,170,698	23,111,839	18,604,975	12,682,235	22,629,115

19. Derivative Financial Instruments

The carrying values of derivatives for the Group and the Bank were as follows:

	2013		2012	
	Assets	Liabilities	Assets	Liabilities
	$'000	$'000	$'000	$'000
Embedded put option	387,304	-	-	-
Foreign currency forward contracts	-	1,437	4,978	5,312

19. Derivative Financial Instruments (Continued)

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

Embedded put option

The Bank holds certain Government of Jamaica debt securities which were issued in February 2013 and mature in February 2024. The terms of these securities contain an investor put option exercisable in February 2018 under which the holder may require the Government of Jamaica to redeem the securities at 100% of the principal value plus any accrued interest. This embedded put option has been separated and recognized as a financial asset in the statement of financial position. The initial recognition of the option is included in the determination of the "Loss on debt exchange transactions" and gains and losses on subsequent revaluations of the option are reflected in "Gain/(loss) on foreign currency and investment activities" (Note 8).

Foreign currency forward contracts

The fair values of outstanding foreign currency forward contracts at September 30, 2013 net to a liability of $1,437,000 (US$14,000) (2012 – $334,000 (US$4,000)). The notional amounts at September 30, 2013 amounted to US$4,044,000 (2012 – US$22,617,000).

20. Investment Securities at Fair Value through Profit or Loss

	The Group	
	2013	**2012**
	$'000	**$'000**
Government of Jamaica debt securities	187,435	111,373
Government of Jamaica guaranteed corporate bonds	15,917	110,060
	203,352	221,433
Other corporate bonds	12,225	209,714
Foreign government	18,326	-
Quoted equity securities	143,442	282,472
	377,345	713,619
Interest receivable	3,410	6,787
	380,755	720,406

21. Reverse Repurchase Agreements

The Group and the Bank enter into collateralized reverse repurchase agreements which may result in credit exposure in the event that the counterparty to the transaction is unable to fulfill its contractual obligations. Included within reverse repurchase agreements is related accrued interest receivable of $1,243,000 (2012 – $968,000) and $5,836,000 (2012 – $5,218,000) for the Group and the Bank, respectively.

At September 30, 2013, the Group and the Bank held $378,419,000 (2012 – $447,393,000) and $810,571,000 (2012 – $578,573,000), respectively, of securities, mainly representing Government of Jamaica debt securities, as collateral for reverse repurchase agreements.

Included in reverse repurchase agreements for the Group and the Bank are securities with an original maturity of less than 90 days amounting to $322,809,000 (2012 – $394,873,000) and $145,890,000 (2012 – $291,339,000), respectively, which are regarded as cash equivalents for purposes of the statement of cash flows.

National Commercial Bank Jamaica Limited

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22. Loans and Advances

	The Group		The Bank	
	2013	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
Gross loans and advances	143,682,768	115,797,415	142,974,280	115,052,908
Provision for credit losses	(3,226,544)	(4,766,151)	(3,221,092)	(4,761,413)
	140,456,224	111,031,264	139,753,188	110,291,495
Interest receivable	694,088	873,590	690,052	872,634
	141,150,312	111,904,854	140,443,240	111,164,129

The current portion of loans and advances amounted to $21,471,310,000 (2012 – $30,916,255,000) for the Group and $20,844,847,000 (2012 – $30,825,274,000) for the Bank.

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

	The Group		The Bank	
	2013	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
Balance at beginning of year	4,766,151	2,884,153	4,761,413	2,879,589
Provided during the year	2,312,112	2,732,158	2,312,112	2,732,158
Recoveries	(245,852)	(269,347)	(245,852)	(269,347)
Net charge to the income statement	2,066,260	2,462,811	2,066,260	2,462,811
Write-offs	(3,605,867)	(580,813)	(3,606,581)	(580,987)
Balance at end of year	3,226,544	4,766,151	3,221,092	4,761,413

The aggregate amount of non-performing loans as at September 30, 2013 for the Group and the Bank on which interest was not being accrued amounted to $6,961,388,000 (2012 – $8,271,530,000).

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

	The Group and The Bank	
	2013	**2012**
	$'000	**$'000**
Specific provision	7,019,639	8,446,310
General provision	1,342,810	977,945
	8,362,449	9,424,255
Excess of regulatory provision over IFRS provision recognized in the Bank reflected in non-distributable loan loss reserve (Note 40)	5,141,357	4,662,842

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

	The Group		
	2013	2012	2011
	$'000	$'000	$'000
Available-for-sale securities – at fair value			
Debt securities –			
Government of Jamaica and Bank of Jamaica	168,143,494	148,418,357	139,072,782
Government of Jamaica guaranteed corporate bonds	9,599,145	9,264,768	5,971,634
	177,742,639	157,683,125	145,044,416
Other corporate bonds	5,959,972	5,563,909	8,845,819
Foreign governments	3,126,279	1,743,826	1,300,141
Equity securities –			
Quoted	851,179	1,739,754	492,257
Unquoted	47,498	47,498	47,498
	187,727,567	166,778,112	155,730,131
Loans and receivables – at amortized cost			
Debt securities –			
Government of Jamaica and Bank of Jamaica	27,901,967	22,622,776	27,211,397
Government of Jamaica guaranteed corporate bonds	8,447,329	12,398,193	13,925,247
	36,349,296	35,020,969	41,136,644
Other debt instruments	6,266,687	5,065,335	3,314,408
	42,615,983	40,086,304	44,451,052
Interest receivable	3,713,148	3,068,735	2,781,592
Total investment securities	234,056,698	209,933,151	202,962,775

	The Group		
		Restated	Restated
	2013	2012	2011
	$'000	$'000	$'000
Total investment securities, as above	234,056,698	209,933,151	202,962,775
Less: Pledged securities (Note 24)	(133,200,579)	(119,291,871)	(105,582,800)
Amount reported on the statement of financial position	100,856,119	90,641,280	97,379,975

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

	The Bank		
	2013	**2012**	**2011**
	$'000	**$'000**	**$'000**
Available-for-sale securities – at fair value			
Debt securities –			
Government of Jamaica and Bank of Jamaica	68,271,252	61,585,090	54,550,211
Government of Jamaica guaranteed corporate bonds	295,902	623,858	-
	68,567,154	62,208,948	54,550,211
Other corporate bonds	1,548,454	2,109,938	2,003,480
Foreign governments	1,408,140	941,657	934,223
Equity securities –			
Quoted	583,942	550,978	504,751
Unquoted	18,255	18,255	18,255
	72,125,945	65,829,776	58,010,920
Loans and receivables – at amortized cost			
Debt securities –			
Government of Jamaica and Bank of Jamaica	15,754,543	11,838,160	16,341,099
Government of Jamaica guaranteed corporate bonds	1,706,751	5,834,887	6,153,841
	17,461,294	17,673,047	22,494,940
Other corporate bonds	1,877,025	1,654,741	2,127,181
	19,338,319	19,327,788	24,622,121
Interest receivable	1,347,249	1,209,770	1,119,135
Total investment securities	92,811,513	86,367,334	83,752,176

	The Bank		
		Restated	**Restated**
	2013	**2012**	**2011**
	$'000	**$'000**	**$'000**
Total investment securities, as above	92,811,513	86,367,334	83,752,176
Less: Pledged securities (Note 24)	(56,273,655)	(41,737,778)	(21,781,751)
Amount reported on the statement of financial position	36,537,858	44,629,556	61,970,425

In the prior year financial statements, securities pledged as collateral were included in Investment Securities classified as Available-for-sale and Loans and Receivables in the statement of financial position. These amounts were reclassified to Pledged Assets (Note 24), which are now shown as a separate item on the face of the statement of financial position.

The current portion of total investment securities amounted to $32,227,438,000 (2012 – $35,182,013,000) for the Group and $11,741,825,000 (2012 – $23,715,320,000) for the Bank.

Included in investment securities are debt securities with an original maturity of less than 90 days amounting to $10,887,465,000 (2012 – $4,345,284,000) for the Group and $5,410,539,000 (2012 – $3,875,422,000) for the Bank which are regarded as cash equivalents for purposes of the statement of cash flows.

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

Disclosure in respect of securities reclassified on October 1, 2008 from the available-for-sale category to the loans and receivables category

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

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

The fair value of these securities at the date of reclassification became their new amortised cost. The accumulated fair value losses included in fair value reserve as at that date are being amortized to profit or loss over the remaining life of the securities.

Fair value reserve (Note 39) includes fair value losses in relation to the reclassified securities not yet derecognized as at the date of the statement of financial position amounting to $1,217,255,000 (2012 – $1,224,134,000) for the Group and $566,536,000 (2012 – $522,830,000) for the Bank.

The carrying value (excluding accrued interest) and fair value of these securities as at the date of the statement of financial position were as follows:

	The Group		The Bank	
	Carrying Value $'000	Fair Value $'000	Carrying Value $'000	Fair Value $'000
At September 30, 2013	26,185,747	26,462,650	9,971,168	9,958,917
At September 30, 2012	32,861,882	33,586,200	17,673,068	17,781,035

The amounts recognized in the income statement in respect of these securities were as follows:

	The Group		The Bank	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Interest income	2,258,512	2,889,615	852,598	1,576,049
Foreign exchange gains	3,391,766	1,532,309	1,322,712	989,894

Fair value gains of $1,942,499,000 (2012 – $497,935,000) for the Group and $961,890,000 (2012 – $425,019,000) for the Bank would have been recognized in other comprehensive income during the year had these securities not been reclassified.

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24. Pledged Assets

	The Group			The Bank		
		Restated	Restated		Restated	Restated
	2013	2012	2011	2013	2012	2011
	$'000	$'000	$'000	$'000	$'000	$'000
Investment securities pledged as collateral for:						
Repurchase agreements	132,373,529	118,883,204	103,003,375	55,540,335	41,433,559	19,385,603
IDB/DBJ Loan	-	-	2,205,148	-	-	2,205,148
Custodial services	733,321	304,219	191,000	733,320	304,219	191,000
Uncleared effects	-	-	36,333	-	-	-
Investment securities held as security in respect of life insurance subsidiary	93,729	104,448	146,944	-	-	-
	133,200,579	119,291,871	105,582,800	56,273,655	41,737,778	21,781,751
Placements with other banks pledged as collateral for letters of credit	1,330,116	1,114,800	1,062,518	1,283,041	1,114,800	1,062,518
	134,530,695	120,406,671	106,645,318	57,556,696	42,852,578	22,844,269

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

In the prior year financial statements, securities pledged as collateral were included in Due from Other Banks (Note 18) and Investment Securities classified as Available-for-sale and Loans and Receivables (Note 23) in the statement of financial position. These amounts were reclassified to Pledged Assets, which are now shown as a separate item on the face of the statement of financial position.

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25. Investment in Associates

The movement in investments in associates was as follows:

	The Group		The Bank	
	2013	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
At the beginning of the year	7,149,680	6,698,130	2,679,737	471,534
Acquisitions	-	-	-	2,208,203
Share of profits	861,178	947,141	-	-
Loss on dilution	-	(11,948)	-	-
Dividends received	(194,355)	(146,761)	-	-
Movement in other reserves	695,748	(336,882)	-	-
At end of year	8,512,251	7,149,680	2,679,737	2,679,737

The Group has used the financial statements of its associates as at June 30 for the purposes of consolidation. Adjustments are made for significant transactions or events, where identified, that occur between that date and September 30.

The carrying values of investment in associates and the values indicated by prices quoted on the Jamaica Stock Exchange ("JSE Indicative Value") as at September 30 were as follows:

	The Group			
	Carrying Value	**JSE Indicative Value**	**Carrying Value**	**JSE Indicative Value**
	2013	**2013**	**2012**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
Kingston Wharves Limited	2,705,495	3,216,027	2,559,994	2,363,081
Jamaica Money Market Brokers Limited	5,621,621	3,323,040	4,456,250	3,172,967
Kingston Properties Limited	185,135	77,930	133,436	70,137
Dyoll Group Limited	-	-	-	-
	8,512,251	6,616,997	7,149,680	5,606,185

	The Bank			
	Carrying Value	**JSE Indicative Value**	**Carrying Value**	**JSE Indicative Value**
	2013	**2013**	**2012**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
Kingston Wharves Limited	471,534	2,489,569	471,534	1,829,292
Jamaica Money Market Brokers Limited	2,208,203	3,323,040	2,208,203	3,172,967
Dyoll Group Limited	-	-	-	-
	2,679,737	5,812,609	2,679,737	5,002,259

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25. Investment in Associates (Continued)

Management has conducted an impairment assessment in respect of these investments involving a review of the performance of the entities as well as the values of the underlying assets and determined that no impairment in the carrying values has occurred.

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

	Assets	Liabilities	Revenue	Net Profit
	$'000	$'000	$'000	$'000
2013				
Kingston Wharves Limited (June 30, 2013)	16,359,398	3,977,135	4,538,868	736,188
Jamaica Money Market Brokers Limited (June 30, 2013)	175,515,455	155,960,685	13,921,508	2,648,244
Kingston Properties Limited (June 30, 2013)	1,089,867	354,361	265,415	164,062
Dyoll Group Limited (December 31, 2007)	172,259	43,021	-	-
	193,136,979	160,335,202	18,725,791	3,548,494
2012				
Kingston Wharves Limited (June 30, 2012)	16,016,261	4,526,535	3,355,609	329,501
Jamaica Money Market Brokers Limited (June 30, 2012)	154,145,097	139,721,043	11,270,863	3,330,635
Kingston Properties Limited (June 30, 2012)	854,765	324,649	76,935	16,162
Dyoll Group Limited (December 31, 2007)	172,259	43,021	-	-
	171,188,382	144,615,248	14,703,407	3,676,298

Dilution

During the year ended September 30, 2012, Jamaica Money Market Brokers Limited (JMMB) acquired the entire share capital of Capital & Credit Financial Group Limited (CCFG) for a consideration of cash and the issuing of new shares to the former shareholders of CCFG. The shares issued to the former shareholders of CCFG resulted in a dilution of the share of the Group's ownership in JMMB from 29.30% to 26.30%.

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

Impairment

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

26. Investment Property

	The Group	
	2013	2012
	$'000	$'000
Balance at beginning of year	12,500	12,000
Arising on acquisition of subsidiary	450,000	-
Fair value gains (Note 8)	-	500
Balance at end of year	462,500	12,500
Income earned from the properties	20,511	-
Expenses incurred by the properties	(60,176)	-

The properties held are stated at fair market value, as appraised by professional, independent valuators. The last valuations were done in January 2012 for the life insurance subsidiary and in December 2012 for the general insurance subsidiary which was acquired during the year.

27. Intangible Assets

	The Group			
	Trade name	Customer relationships	Computer Software	Total
	$'000	$'000	$'000	$'000
		2013		
Opening net book value, October 1, 2012	-	-	1,135,599	1,135,599
On acquisition of subsidiary	238,974	366,894	7,654	613,522
Additions	-	-	679,403	679,403
Write offs	-	-	(35,073)	(35,073)
Reclassifications and adjustments	-	-	(34,898)	(34,898)
Amortisation charge	(8,596)	(39,165)	(472,818)	(520,579)
Closing net book value, September 30, 2013	230,378	327,729	1,279,867	1,837,974
Cost	238,974	366,894	4,221,422	4,827,290
Accumulated amortisation and impairment	(8,596)	(39,165)	(2,941,555)	(2,989,316)
Closing net book value	230,378	327,729	1,279,867	1,837,974
		2012		
Opening net book value, October 1, 2011	-	-	897,862	897,862
Additions	-	-	546,801	546,801
Amortisation charge	-	-	(309,064)	(309,064)
Closing net book value, September 30, 2012	-	-	1,135,599	1,135,599
Cost	-	-	3,538,122	3,538,122
Accumulated amortisation and impairment	-	-	(2,402,523)	(2,402,523)
Closing net book value	-	-	1,135,599	1,135,599

27. Intangible Assets (Continued)

	The Bank	
	Computer Software	
	2013	2012
	$'000	$'000
Net book value at beginning of year	1,092,379	840,319
Additions	622,388	529,239
Write-offs	(35,073)	-
Reclassifications and adjustments	(34,898)	-
Amortisation charge	(436,903)	(277,179)
Net book value at end of year	1,207,893	1,092,379

	2013	2012
	$'000	$'000
Cost	3,749,303	3,203,156
Accumulated amortisation	(2,541,410)	(2,110,777)
Net book value	1,207,893	1,092,379

Computer software for the Group and the Bank at year end include items with a cost of $504,556,000 (2012 – $512,874,000) on which no amortisation has yet been charged as these items are in the process of implementation.

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28. Property, Plant and Equipment

	The Group					
	Freehold Land and Buildings	Leasehold Improvements	Motor Vehicles Furniture & Equipment	Assets Capitalized Under Finance Leases	Work-in-Progress	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cost -						
At October 1, 2011	3,636,211	552,583	4,581,524	1,214,735	189,708	10,174,761
Additions	12,182	14,644	570,547	115,932	702,322	1,415,627
Disposals	-	-	(13,215)	(52,984)	-	(66,199)
Transfers	89,450	1,651	47,139	4,395	(142,635)	-
At September 30, 2012	3,737,843	568,878	5,185,995	1,282,078	749,395	11,524,189
Additions	52,721	612	455,099	204,071	335,730	1,048,233
On acquisition of subsidiary	482,900	-	340,434	-	-	823,334
Disposals	-	-	(10,171)	(283,877)	-	(294,048)
Transfers	495,109	2,309	212,514	-	(709,932)	-
Reclassifications and adjustments	-	-	584,839	(584,839)	34,898	34,898
At September 30, 2013	4,768,573	571,799	6,768,710	617,433	410,091	13,136,606
Accumulated Depreciation -						
At October 1, 2011	518,113	457,555	3,873,943	1,002,284	-	5,851,895
Charge for the year	51,766	24,392	321,528	105,762	-	503,448
Disposals	-	-	(13,312)	(49,640)	-	(62,952)
At September 30, 2012	569,879	481,947	4,182,159	1,058,406	-	6,292,391
Charge for the year	69,933	24,790	468,339	126,330	-	689,392
Disposals	-	-	(10,726)	(273,158)	-	(283,884)
Reclassifications and adjustments	-	-	584,839	(584,839)	-	-
At September 30, 2013	639,812	506,737	5,224,611	326,739	-	6,697,899
Net Book Value -						
September 30, 2013	4,128,761	65,062	1,544,099	290,694	410,091	6,438,707
September 30, 2012	3,167,964	86,931	1,003,836	223,672	749,395	5,231,798

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28. Property, Plant and Equipment (Continued)

	The Bank					
	Freehold Land and Buildings	**Leasehold Improvements**	**Motor Vehicles Furniture & Equipment**	**Assets Capitalized Under Finance Leases**	**Work-in-Progress**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cost -						
At October 1, 2011	3,636,211	475,390	4,492,420	1,208,850	185,347	9,998,218
Additions	12,182	11,062	564,525	115,932	702,322	1,406,023
Disposals	-	-	(5,970)	(52,984)	-	(58,954)
Transfers	89,450	1,651	47,139	4,395	(142,635)	-
At September 30, 2012	3,737,843	488,103	5,098,114	1,276,193	745,034	11,345,287
Additions	52,721	-	421,997	204,071	308,325	987,114
Disposals	-	-	(7,077)	(280,525)	-	(287,602)
Transfers	495,109	2,309	212,514	-	(709,932)	-
Reclassifications and adjustments	-	-	584,839	(584,839)	34,898	34,898
At September 30, 2013	4,285,673	490,412	6,310,387	614,900	378,325	12,079,697
Accumulated Depreciation -						
At October 1, 2011	518,113	401,711	3,778,547	999,334	-	5,697,705
Charge for the year	51,766	23,567	311,616	104,924	-	491,873
Disposals	-	-	(5,950)	(49,640)	-	(55,590)
At September 30, 2012	569,879	425,278	4,084,213	1,054,618	-	6,133,988
Charge for the year	66,469	22,625	443,432	125,632	-	658,158
Disposals	-	-	(7,034)	(269,806)	-	(276,840)
Reclassifications and adjustments	-	-	584,839	(584,839)	-	-
At September 30, 2013	636,348	447,903	5,105,450	325,605	-	6,515,306
Net Book Value -						
September 30, 2013	3,649,325	42,509	1,204,937	289,295	378,325	5,564,391
September 30, 2012	3,167,964	62,825	1,013,901	221,575	745,034	5,211,299

The carrying value of assets capitalized under finance leases and computer equipment pledged as collateral amounted to $289,295,000 (2012 – $496,016,000)

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29. Deferred Income Taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 15% for the life insurance subsidiary, 33⅓% for the Bank and other "regulated companies", 21% for the subsidiary incorporated in the United Kingdom and 25% for all other subsidiaries; with the exception of the subsidiaries incorporated in Cayman Islands and the NCB Employee Share Scheme which are not subject to income tax.

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

	The Group		The Bank	
	2013	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
Deferred tax assets	(31,710)	(19,483)	-	-
Deferred tax liabilities	2,610,379	1,398,092	2,404,938	1,189,086
Net liability at end of year	2,578,669	1,378,609	2,404,938	1,189,086

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

	The Group		The Bank	
	2013	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
Net liability at beginning of year	1,378,609	2,361,491	1,189,086	1,087,982
Acquisition of subsidiary	(131,939)	-	-	-
Deferred tax charged in the income statement (Note 15)	1,318,361	183,985	1,134,063	400,226
Deferred tax charged/(credited) to other comprehensive income	13,638	(1,166,867)	81,789	(299,122)
Net liability at end of year	2,578,669	1,378,609	2,404,938	1,189,086

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

	The Group		The Bank	
	2013	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
Deferred tax assets to be recovered after more than 12 months	(848,482)	(872,659)	(732,287)	(720,644)
Deferred tax liabilities to be settled after more than 12 months	1,406,747	1,185,200	1,355,753	1,180,103

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29. Deferred Income Taxes (Continued)

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

	The Group		The Bank	
	2013	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
Deferred income tax assets:				
Property, plant and equipment	8,180	9,134	-	-
Investment securities at fair value through profit or loss	10,033	1,205	-	-
Investment securities classified as available-for-sale and loans and receivables	598,537	532,969	292,189	373,978
Pensions and other post-retirement benefits	407,716	270,598	338,818	270,598
Interest payable	211,540	229,186	-	-
Interest rate swap agreements	16,205	1,771	479	1,771
Other temporary differences	289,743	181,103	281,814	154,755
	1,541,954	1,225,966	913,300	801,102
Deferred income tax liabilities:				
Property, plant and equipment	239,363	41,757	96,948	41,030
Investment securities at fair value through profit or loss	-	11,796	-	-
Investment securities classified as available-for-sale and loans and receivables	5,642	100,052	-	-
Interest receivable	611,484	497,439	-	-
Unrealized foreign exchange gains	1,965,879	923,867	1,962,485	920,904
Loan loss provisions	1,258,805	1,026,595	1,258,805	1,026,595
Other temporary differences	39,450	3,069	-	1,659
	4,120,623	2,604,575	3,318,238	1,990,188
Net deferred tax liability	2,578,669	1,378,609	2,404,938	1,189,086

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29. Deferred Income Taxes (Continued)

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

	The Group		The Bank	
	2013	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
Property, plant and equipment	167,068	55,126	55,918	51,428
Investment securities at fair value through profit or loss	(20,623)	(255,045)	-	-
Loan loss provisions	211,931	(453,128)	232,210	(433,623)
Pensions and other post-retirement benefits	(68,220)	(23,681)	(68,220)	(76,434)
Interest receivable	93,031	(33,703)	-	-
Interest payable	17,646	33,052	-	-
Interest rate swap agreements	873	(825)	1,292	(112)
Unrealized foreign exchange gains and losses	1,041,744	877,448	1,041,581	874,985
Other temporary differences	(125,089)	(15,259)	(128,718)	(16,018)
	1,318,361	183,985	1,134,063	400,226

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

	The Group		The Bank	
	2013	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
Unrealized (losses)/gains on available-for-sale investments	(193,336)	(53,615)	(75,512)	22,856
Realized fair value losses/(gains) on sale and maturity of investments	206,974	(1,113,252)	157,301	(321,978)
	13,638	(1,166,867)	81,789	(299,122)

30. Other Assets

	The Group		The Bank	
	2013	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
Due from merchants, financial institutions and payment systems providers	2,144,619	731,465	1,271,972	592,886
Prepayments	782,959	685,337	668,769	621,228
Recoverable expenses	355,970	759,058	355,970	759,058
Receivable in respect of called bond	701,997	-	-	-
Other	303,040	290,739	492,736	287,922
	4,288,585	2,466,599	2,789,447	2,261,094

31. Due to Other Banks

	The Group		The Bank	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Items in course of payment	2,105,026	1,708,311	2,077,671	1,707,365
Borrowings from other banks	15,192,957	7,520,874	19,189,773	9,910,381
Deposit from other banks	36,700	32,689	36,700	32,689
	17,334,683	9,261,874	21,304,144	11,650,435
Interest payable	75,517	63,023	126,173	66,390
	17,410,200	9,324,897	21,430,317	11,716,825

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

The amounts included as cash equivalents in the statement of cash flows was as follows:

	The Group		The Bank	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Total due to other banks	17,410,200	9,324,897	21,430,317	11,716,825
Less: amounts with original maturities of greater than 90 days	(11,619,782)	(6,305,918)	(15,915,082)	(6,449,526)
	5,790,418	3,018,979	5,515,235	5,267,299

32. Obligations under Securitization Arrangements

	The Group and The Bank	
	2013	**2012**
	$'000	**$'000**
Diversified payment rights		
Principal outstanding - US$100,000,000 (2012 – US$28,966,000)	10,323,490	2,598,806
Unamortized transaction fees	(250,659)	(11,045)
	10,072,831	2,587,761
Interest payable	28,201	5,440
	10,101,032	2,593,201

The current portion of obligations under securitization arrangements amounted to $716,434,000 (2012 – $1,521,410,000).

In March 2006, the Bank raised US$100 million in structured financing backed by the securitization of Diversified Payment Rights (DPR) arising under its existing and future US dollar Payment Advice and Payment Order (MT100 Series) and US dollar remittances. The Series 2006-1 Notes matured on March 15, 2013.

In July 2007, the Bank raised an additional US$50 million in financing backed by the securitization of its DPR with the issue of the Series 2007-1 Notes. The transaction was structured with an interest only period of one year and thereafter principal amortization on a straight line basis, beginning June 15, 2008 to final maturity on June 15, 2015. Interest is due and payable on a quarterly basis at a fixed rate of 7.435%.

On May 30, 2013, the Bank executed an Early Redemption of the Series 2007-1 Notes and subsequently issued of US$100 million Series 2013-1 Notes. The transaction was structured with an interest only period of eighteen months and thereafter quarterly principal amortization on a straight line basis, beginning September 15, 2014 to final maturity on March 15, 2018. Interest is due and payable on a quarterly basis calculated at three month US dollar LIBOR plus 675 basis points beginning September 15, 2013.

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33. Other Borrowed Funds

		The Group		The Bank	
		2013	**2012**	**2013**	**2012**
		$'000	**$'000**	**$'000**	**$'000**
(a)	International Finance Corporation	364,358	474,992	364,358	474,992
(b)	Development Bank of Jamaica	2,174,636	1,114,172	2,174,636	1,114,172
(c)	Exim Bank Jamaica	57,870	123,964	57,870	123,964
(d)	European Investment Bank	78,345	109,777	78,345	109,777
(e)	Customer long-term investments	495,686	510,893	-	-
(f)	IBM Global Financing	-	94,660	-	94,660
(g)	Corporate notes	1,395,017	947,462	-	-
(h)	Finance lease obligations	303,838	230,347	303,838	228,204
		4,869,750	3,606,267	2,979,047	2,145,769
Unamortized transaction fees		(2,289)	(4,532)	(2,289)	(4,532)
Interest payable		33,131	18,277	8,492	12,275
		4,900,592	3,620,012	2,985,250	2,153,512

The current portion of other borrowed funds amounted to $1,567,844,000 (2012 – $1,059,311,000) for the Group and $368,755,000 (2012 – $704,476,000) for the Bank.

(a) In June 2005, the International Finance Corporation, the private sector arm of the World Bank Group, signed an agreement with the Bank for a US$30 million loan facility, repayable over 10 years in seventeen equal installments ending June 15, 2015. Interest on the facility approximates three month US dollar LIBOR plus 275 basis points. A drawdown of US$15 million was made in September 2006. This long-term financing facility is being utilized by the Bank for general corporate purposes.

During the year, the Bank breached certain financial covenants in respect of this loan. While no formal waiver of the breach has been obtained, the lender has not indicated any intention to demand accelerated repayment of the loan.

(b) The loans from Development Bank of Jamaica are granted in both Jamaican and US dollars and are utilized by the Bank to finance customers with viable projects in agricultural, agro-industrial, manufacturing, mining and tourism sectors of the economy. These loans are for terms up to 12 years and at rates ranging from 4 – 10%.

(c) The loans from Exim Bank Jamaica are granted in Jamaican dollars and are utilized by the Bank to finance customers with viable projects in agricultural, agro-industrial, manufacturing, mining and tourism sectors of the economy. The loans are for terms up to 4 years and at rates of 8 – 13%.

(d) The loans from European Investment Bank are disbursed in EUR and USD and are utilized by the Bank for on-lending to customers. The loans are repayable in equal annual installments commencing on December 5, 2008 and ending on December 5, 2014. The average interest rate on the loans disbursed is approximately 7.99%.

(e) Customer long-term investments represent investments placed by customers for a minimum period of five (5) years. The investments are at variable interest rates and are not subject to withholding tax if held to maturity. They are repayable between 2011 and 2016 and attract interest at 0.05% - 5.8% (2012: 0.5% - 5.8%) per annum.

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33. Other Borrowed Funds (continued)

(f) The Bank acquired computer equipment which was financed by IBM Global Financing. The loans were secured by a lien on the equipment and were repayable over 2 years at rates up to 3% per annum.

(g) Corporate notes are unsecured fixed rate notes issued in a combination of Jamaican dollars and United States dollars. The notes are repayable between 2012 and 2016 and attract interest at 7.15% in USD and 8.5% in JMD.

(h) The finance lease obligations are as follows:

	The Group		The Bank	
	2013	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
Minimum lease payments under finance leases:				
Not later than 1 year	146,572	124,864	146,572	123,294
Later than 1 year and not later than 5 years	214,440	151,907	214,440	151,028
	361,012	276,771	361,012	274,322
Future finance charges	(57,174)	(46,424)	(57,174)	(46,118)
Present value of finance lease obligations	303,838	230,347	303,838	228,204

The present value of finance lease obligations is as follows:

	The Group		The Bank	
	2013	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
Not later than 1 year	113,533	97,120	113,533	95,964
Later than 1 year and not later than 5 years	190,305	133,227	190,305	132,240
	303,838	230,347	303,838	228,204

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34. Liabilities under Annuity and Insurance Contracts

The Group's liabilities under annuity and insurance contracts arise from the operations of its life insurance subsidiary and its general insurance subsidiary.

The life insurance subsidiary issues life annuity and insurance contracts. These contracts insure human life events (for example, death or survival) over a long duration. Insurance premiums are recognized directly as liabilities and these liabilities are increased by credited interest.

The general insurance subsidiary issues property and casualty insurance contracts. Casualty insurance contracts protect the Group's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers' liability) and for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability). Property insurance contracts mainly compensate the Group's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

Liabilities under Annuity and Insurance Contracts comprise the following:

	The Group	
	2013	**2012**
	$'000	**$'000**
Liabilities under life insurance and annuity contracts	26,458,098	25,194,324
Liabilities under general insurance contracts	7,456,408	-
	33,914,506	25,194,324

Liabilities under Life Insurance and Annuity Contracts

	The Group	
	2013	**2012**
	$'000	**$'000**
(a) Composition of liabilities under life insurance and annuity contracts:		
Life assurance fund	23,173,469	22,602,863
Risk reserve	3,200,039	2,497,828
Benefits and claims payable	38,769	50,279
Unprocessed premiums	45,821	43,354
	26,458,098	25,194,324

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34. Liabilities under Annuity and Insurance Contracts

Liabilities under Life Insurance and Annuity Contracts (Continued)

	The Group	
	2013 **$'000**	**2012** **$'000**
(b) Change in policyholders' liabilities:		
Life assurance fund:		
At the beginning of the year	22,602,863	21,990,358
Gross premiums	3,247,817	2,977,622
Premium refunds	(804)	(3,028)
Mortality charges transferred to the income statement	(41,802)	(39,353)
Fees transferred to the income statement	(236,415)	(222,297)
Claims and benefits	(3,395,071)	(3,151,421)
Interest credited	996,881	1,050,982
At the end of the year	23,173,469	22,602,863
Risk reserve:		
At the beginning of the year	2,497,828	1,531,406
Issue of new contracts	369,854	541,482
Normal changes	398,445	392,044
Effect of change in assumptions:		
Base renewal expense levels	(338,559)	(106,193)
Investment returns	229,934	93,686
Lapse and surrender rates	21,733	79,496
Mortality rates	20,804	(34,093)
At the end of the year	3,200,039	2,497,828
Benefits and claims payable:		
At the beginning of the year	50,279	15,556
Policyholders' claims and benefits	112,776	95,520
Benefits and claims paid	(124,286)	(60,797)
At the end of the year	38,769	50,279
Premiums:		
Unprocessed, at the beginning of the year	43,354	26,955
Premiums received	4,825,558	4,654,899
Premiums applied	(4,823,091)	(4,638,500)
Unprocessed, at the end of the year	45,821	43,354

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34. Liabilities under Annuity and Insurance Contracts (Continued)

Liabilities under Life Insurance and Annuity Contracts (Continued)
The movement in the risk reserve per type of contract was as follows:

	2013			
	Annuity	**Individual life**	**Group life**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Balance brought forward	3,710,341	(1,511,213)	298,700	2,497,828
Changes in assumptions:				
Investment returns	168,538	52,300	9,096	229,934
Base renewal expense levels and inflation	(72)	(338,264)	(223)	(338,559)
Lapse and surrender rates	-	21,733	-	21,733
Mortality rates	-	33,511	(12,707)	20,804
	168,466	(230,720)	(3,834)	(66,088)
Issue of new policies	321,555	(182,430)	230,729	369,854
Normal changes	266,352	254,725	(122,632)	398,445
Net change	756,373	(158,425)	104,263	702,211
	4,466,714	(1,669,638)	402,963	3,200,039

	2012			
	Annuity	**Individual life**	**Group life**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Balance brought forward	2,913,172	(1,579,013)	197,247	1,531,406
Changes in assumptions:				
Investment returns	(9,474)	103,196	(36)	93,686
Base renewal expense levels and inflation	813	(113,042)	6,036	(106,193)
Lapse and surrender rates	-	79,496	-	79,496
Mortality rates	54,064	(84,169)	(3,988)	(34,093)
	45,503	(14,519)	2,012	32,896
Issue of new policies	500,118	(146,633)	187,997	541,482
Normal changes	251,648	228,952	(88,556)	392,044
Net change	797,169	67,800	101,453	966,422
	3,710,341	(1,511,213)	298,700	2,497,828

34. Liabilities under Annuity and Insurance Contracts (Continued)

Liabilities under Life Insurance and Annuity Contracts (Continued)

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

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

	2013			
	Annuity Contracts	**Individual and Group Life Insurance Contracts**	**Other Liabilities, Surplus and Capital**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Investment securities	4,069,008	29,026,498	1,038,074	34,133,580
Reverse repurchase agreements	132,566	572,971	479	706,016
Other assets	261,179	1,081,253	161,446	1,503,878
Property, plant and equipment	-	-	11,551	11,551
Intangible asset – computer software	-	-	55,416	55,416
	4,462,753	30,680,722	1,266,966	36,410,441

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

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34. Liabilities under Annuity and Insurance Contracts (Continued)

Liabilities under Life Insurance and Annuity Contracts (Continued)

Policy assumptions

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

Mortality and morbidity

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

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

Investment yields

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

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

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

34. Liabilities under Annuity and Insurance Contracts (Continued)

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

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

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

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

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

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

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

	Change in Variable	Increase in Liability	
		2013	2012
	%	$'000	$'000
Lowering of investment returns	1	1,350,023	1,130,182
Worsening of base renewal expense levels	10	221,820	210,318
Worsening of mortality	10	111,964	102,763
Worsening of lapse and surrender rates	10	29,375	19,665

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34. Liabilities under Annuity and Insurance Contracts (Continued)

Liabilities under General Insurance Contracts

	The Group	
	2013 $'000	**2012 $'000**
Gross:		
Claims outstanding	4,998,393	-
Unearned premiums	2,458,015	-
	7,456,408	-
Reinsurance ceded		
Claims outstanding	(134,019)	-
Unearned premiums	(156,734)	-
	(290,753)	-
Net:		
Claims outstanding	4,864,374	-
Unearned premiums	2,301,281	-
	7,165,655	-

The movement in and composition of claims outstanding was as follows:

	2013			2012		
	Gross $'000	**Reinsurance $'000**	**Net $'000**	**Gross $'000**	**Reinsurance $'000**	**Net $'000**
Notified claims	3,475,465	(137,859)	3,337,606	-	-	-
Claims incurred but not reported	901,980	(27,902)	874,078	-	-	-
Balance at acquisition	4,377,445	(165,761)	4,211,684	-	-	-
Claims incurred	2,424,988	(7,283)	2,417,705	-	-	-
Claims paid during the year	(1,804,840)	39,025	(1,765,015)	-	-	-
Balance at end of year	4,998,393	(134,019)	4,864,374	-	-	-
Comprising:						
Notified claims	3,983,510	(129,676)	3,853,834	-	-	-
Claims incurred but not reported	1,014,883	(4,343)	1,010,540	-	-	-
	4,998,393	(134,019)	4,864,374	-	-	-

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34. Liabilities under Insurance and Annuity Contracts (Continued)

Liabilities under General Insurance Contracts (Continued)

The policy and claims liabilities were determined in accordance with accepted actuarial principles and as directed by the Financial Services Commission..

In determining the valuation, the actuary employed the Paid Loss Development method, the Incurred Loss Development method, the Bornhuetter-Ferguson Paid Loss method, the Bornhuetter-Ferguson Incurred Loss method and the Frequency-Severity method. In using the Paid/Incurred Loss Development methods, ultimate losses are estimated by calculating past paid/incurred loss development factors and applying them to exposure periods with further expected paid/incurred loss development. The Bornhuetter-Ferguson Paid/Incurred Loss methods is a combination of the Paid/Incurred Loss Development methods and a loss ratio method; however, these expected losses are modified to the extent paid/incurred losses to date differ from what would have been expected based on the selected paid/incurred loss development pattern. Finally, the Frequency-Severity method is calculated by multiplying an estimate of ultimate claims with an estimate of the ultimate severity per reported claim.

The movement in and composition of unearned premiums was as follows:

	2013			2012		
	Gross	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Balance at acquisition	2,434,075	(98,709)	2,335,366	-	-	-
Premiums written during the year	3,669,788	(288,338)	3,381,450	-	-	-
Premiums earned during the year	(3,645,848)	230,313	(3,415,535)	-	-	-
Balance at end of year	2,458,015	(156,734)	2,301,281	-	-	-
Comprising, by type of business:						
Liability insurance contracts	9,655	(566)	9,089	-	-	-
Motor insurance contracts	2,273,251	(16)	2,273,235	-	-	-
Pecuniary loss insurance contracts	-	-	-	-	-	-
Property insurance contracts	175,109	(156,152)	18,957	-	-	-
	2,458,015	(156,734)	2,301,281	-	-	-

35. Provision for Litigation

	The Group and The Bank	
	2013	2012
	$'000	$'000
At beginning of year	17,300	13,000
Provided during the year	1,000	9,977
Utilized/reversed during the year	(6,800)	(5,677)
At end of year	11,500	17,300

The litigation provision is in relation to claims against the Group which meet the provisioning criteria defined in Note 51. The provisions are either utilised or reversed upon settlement or a favourable change in the status of the claim.

36. Post-employment Benefits

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

	The Group		The Bank	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Pension schemes	92,540	-	-	-
Other post-employment benefits	1,016,453	810,276	1,016,453	810,276
	1,108,993	810,276	1,016,453	810,276

The amounts recognized in the income statement were as follows:

	The Group		The Bank	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Pension schemes	31,243	-	-	-
Other post-employment benefits	235,380	254,362	235,380	254,362
	266,623	254,362	235,380	254,362

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36. Post-employment Benefits (Continued)

(a) Pension schemes

The Bank and its subsidiaries have established pension schemes covering all permanent employees. The assets of funded plans are held independently of the Group's assets in separate trustee administered funds.

The amounts recognized in the statement of financial position in respect of defined benefit pension schemes were determined as follows:

	2013		2012	
	The Bank	Other	The Bank	Other
	$'000	$'000	$'000	$'000
Present value of funded obligations	13,242,453	613,540	13,591,107	34,135
Fair value of plan assets	(18,093,862)	(522,644)	(17,165,748)	(34,135)
	(4,851,409)	90,896	(3,574,641)	-
Unrecognized actuarial (losses)/gains	(2,654,698)	1,644	(3,933,753)	(14,249)
Net pension (assets)/liabilities	(7,506,107)	92,540	(7,508,394)	(14,249)
Limitation on pension assets	7,506,107	-	7,508,394	14,249
	-	92,540	-	-

The Bank's defined benefit pension scheme

This scheme was closed to new members effective October 1, 1999. On the winding up of the scheme, the employer would not benefit from any surplus; as a consequence there is no pension asset recognized in the statement of financial position since the closure. No additional current service cost has been incurred since closure of the scheme and the employer only makes a nominal contribution. The scheme is valued by independent actuaries annually using the projected unit credit method; the latest such valuation being carried out as at June 30, 2013.

Other defined benefit pension schemes

The amounts as at September 30, 2012 are in respect of the NCB Capital Markets Limited (NCBCM) defined benefit pension scheme. This scheme was closed to new members effective December 31, 2009 and was wound up during the year. No pension asset had been recognized in the statement of financial position since the closure as, on the winding up of the scheme, the employer would not benefit from any surplus. No additional current service cost had been incurred since closure of the scheme and the employer only made a nominal contribution.

The amounts as at September 30, 2013 are in respect of the Advantage General Insurance Company Limited (AGI) defined benefit pension scheme. AGI was acquired during the year (Note 47). The scheme is valued by independent actuaries annually using the projected unit credit method; the latest such valuation being carried out as at August 31, 2013.

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36. Post-employment Benefits (Continued)

(a) Pension schemes (continued)

The movement in the defined benefit obligation was as follows:

	2013		2012	
	The Bank	**Other**	**The Bank**	**Other**
	$'000	**$'000**	**$'000**	**$'000**
Beginning of year	13,591,107	34,135	12,315,129	31,953
Settlement	-	(34,135)	-	-
On acquisition of subsidiary	-	566,560	-	-
Current service cost	-	40,728	-	-
Interest cost	1,321,008	44,633	1,256,226	-
Actuarial losses	(907,611)	(17,871)	721,896	2,182
Benefits paid	(762,051)	(20,510)	(702,144)	-
End of year	13,242,453	613,540	13,591,107	34,135

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

	2013		2012	
	The Bank	**Other**	**The Bank**	**Other**
	$'000	**$'000**	**$'000**	**$'000**
Beginning of year	17,165,748	34,135	17,701,775	31,953
Settlement	-	(34,135)	-	-
On acquisition of subsidiary	-	474,021	-	-
Expected return on plan assets	1,594,549	31,601	1,735,070	-
Actuarial gains/(losses)	95,616	(5,878)	(1,568,953)	2,182
Contributions	-	43,410	-	-
Benefits paid	(762,051)	(20,510)	(702,144)	-
End of year	18,093,862	522,644	17,165,748	34,135

The amounts recognized in the income statement were as follows:

	2013		2012	
	The Bank	**Other**	**The Bank**	**Other**
	$'000	**$'000**	**$'000**	**$'000**
Current service cost	-	18,211	-	-
Interest cost	1,321,008	44,633	1,256,226	-
Expected return on plan assets	(1,594,549)	(31,601)	(1,735,070)	-
Net actuarial losses recognized	275,828	-	-	-
Change in limitation on asset	(2,287)	-	478,844	-
Total, included in staff costs	-	31,243	-	-

36. Post-employment Benefits (Continued)

(a) Pension schemes (continued)

Plan assets for the Bank's defined benefit pension scheme were comprised as follows:

	2013		2012	
	$'000		$'000	
Debt securities	10,177,407	56.25%	8,575,002	49.95%
Equity securities	4,504,160	24.89%	4,861,072	28.32%
Other	3,412,295	18.86%	3,729,674	21.73%
	18,093,862	100.00%	17,165,748	100.00%

These plan assets included:

- Ordinary stock units of the Bank with a fair value of $1,196,794,000 (2012 – $1,499,143,000).
- Repurchase obligations, promissory notes and lease obligations of the Group aggregating $927,829,000 (2012 – $114,223,000).
- Properties occupied by the Group with a fair value of $621,000,000 (2012 - $482,350,000).

The plan assets for NCBCM's defined benefit pension scheme were invested in the Guardian Life Deposit Administration Fund.

Plan assets for AGI's defined benefit pension scheme were comprised as follows:

	2013	
	$'000	
Debt securities	412,526	78.93%
Equity securities	65,906	12.61%
Other	44,212	8.46%
	522,644	100.00%

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

The actual return on plan assets for the year ended September 30, 2013 was $1,690,165,000 (2012 – $166,117,000) for the Bank's defined benefit pension scheme, $Nil (2012 – $2,182,000) for NCBCM's defined benefit pension scheme and $25,723,000 for AGI's defined benefit pension scheme.

Expected contributions to the Bank's and AGI's defined benefit pension schemes for the year ending September 30, 2014 are $Nil and $26,480,000, respectively.

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36. Post-employment Benefits (Continued)

(a) Pension schemes (continued)

The principal actuarial assumptions used were as follows:

	2013		2012	
	The Bank	**Other**	**The Bank**	**Other**
Discount rate	9.50%	9.50%	10.00%	10.00%
Expected return on plan assets	8.50%	8.50%	9.50%	9.50%
Future salary increases	6.00%	7.00%	7.50%	7.50%
Future pension increases	4.00%	2.50%	5.00%	5.00%
Future remaining working life (years)	8	23	9	

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

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

	The Bank's defined benefit pension scheme				
	2013	**2012**	**2011**	**2010**	**2009**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Fair value of plan assets	18,093,862	17,165,748	17,701,775	16,279,564	14,257,355
Defined benefit obligation	13,242,453	13,591,107	12,315,129	9,780,228	5,858,847
Surplus	4,851,409	3,574,641	5,386,646	6,499,336	8,398,508
Experience adjustments –					
Fair value of plan assets	(23,004)	(1,568,953)	513,728	1,038,020	(1,391,401)
Defined benefit obligation	(97,633)	(506,588)	874,486	3,674	420,751

	AGI's defined benefit pension scheme				
	2013	**2012**	**2011**	**2010**	**2009**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Fair value of plan assets	522,644	474,021	445,741	356,489	262,969
Defined benefit obligation	613,540	566,560	482,198	344,190	207,891
(Deficit)/surplus	(90,896)	(92,539)	(36,457)	12,299	55,078
Experience adjustments –					
Fair value of plan assets	(5,878)	(43,684)	25,012	31,395	2,178
Defined benefit obligation	(20,240)	(4,785)	52,581	(32,540)	(22,409)

36. Post-employment Benefits (Continued)

(b) Other post-employment benefits

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

In addition to the assumptions used for pension schemes, the main actuarial assumption is a long-term increase in health costs of 1.5 percentage points above CPI per year (2012 – 1.5 percentage points above CPI).

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

	The Group and The Bank	
	2013	**2012**
	$'000	**$'000**
Present value of unfunded obligations	1,702,720	1,481,329
Unrecognized actuarial losses	(686,267)	(671,053)
Liability in the statement of financial position	1,016,453	810,276

The movement in the defined benefit obligation was as follows:

	The Group and The Bank	
	2013	**2012**
	$'000	**$'000**
Beginning of the year	1,481,329	1,463,255
Current service cost	36,738	50,019
Interest cost	150,347	157,498
Actuarial losses/(gains)	63,510	(162,866)
Benefits paid	(29,204)	(26,577)
End of year	1,702,720	1,481,329

The amounts recognized in the income statement were as follows:

	The Group and The Bank	
	2013	**2012**
	$'000	**$'000**
Current service cost	36,738	50,019
Interest cost	150,347	157,498
Actuarial losses recognized	48,295	46,845
Total, included in staff costs (Note 11)	235,380	254,362

36. Post-employment Benefits (Continued)

(b) Other post-employment benefits (continued)

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

	Increase 2013 $000	Decrease 2013 $000
Effect on the aggregate of the current service cost and interest cost	37,890	29,800
Effect on the defined benefit obligation	273,780	217,770

The five-year trend for the defined benefit obligation and experience adjustments were as follows:

	Other retirement benefits – The Group and The Bank				
	2013	2012	2011	2010	2009
	$'000	$'000	$'000	$'000	$'000
Defined benefit obligation	1,702,720	1,481,329	1,463,255	883,257	403,707
Experience adjustments –					
Defined benefit obligation	212,233	(71,425)	(100,017)	78,431	77,796

37. Other Liabilities

	The Group		The Bank	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Accrued staff benefits	1,714,276	957,116	1,633,288	844,162
Due to customers, merchants and clients	1,943,738	1,421,937	1,594,144	1,280,615
Accrued other operating expenses	2,724,330	1,923,583	1,730,149	1,390,716
Due to Government of Jamaica	75,169	29,737	27,484	24,938
Other	320,579	433,702	515,544	365,530
	6,778,092	4,766,075	5,500,609	3,905,961

38. Share Capital

	2013	2012
	$'000	$'000
Authorised – 5,750,000,000 ordinary shares		
Issued and fully paid up –		
2,466,762,828 ordinary stock units of no par value	6,465,731	6,465,731
5,293,916 ordinary stock units held by NCB Employee Share Scheme	(3,388)	(3,388)
Issued and outstanding	6,462,343	6,462,343

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

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39. Fair Value and Capital Reserves

	The Group		The Bank	
	2013	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**
Fair value reserve	(759,431)	(700,821)	(461,839)	(773,027)
Capital reserve	3,249,991	2,895,000	374,471	374,471
	2,490,560	2,194,179	(87,368)	(398,556)
Capital reserve comprises:				
Realized –				
Capital gains from the scheme of arrangement	-	-	300,564	300,564
Surplus on revaluation of property, plant and equipment	92,991	92,991	-	-
Retained earnings capitalized	98,167	98,167	-	-
Share redemption reserve	1,077,382	1,077,382	-	
Unrealized –			-	
Translation reserve	1,048,769	680,338	-	-
Surplus on revaluation of property, plant and equipment	142,963	142,963	73,907	73,907
Share of movement in reserves of associate	334,935	348,375	-	-
Other	454,784	454,784	-	-
	3,249,991	2,895,000	374,471	374,471

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 (Note 22).

41. Banking Reserve Fund

This fund is maintained in accordance with the Banking Act 1992 which requires that a minimum of 15% of the net profits, as defined by the Act, of the Bank be transferred to the reserve fund until the amount of the fund is equal to 50% of the paid-up capital of the Bank and thereafter 10% of the net profits until the amount of the fund is equal to the paid-up capital of the Bank. During the 2012 financial year, the amount of the fund surpassed the paid-up capital of the Bank and therefore no further mandatory transfers are required.

42. Retained Earnings Reserve

The Banking Act 1992 permits the transfer of any portion of the Bank's net profit to a retained earnings reserve. This reserve constitutes a part of the capital base for the purpose of determining the maximum level of deposit liabilities and lending to customers.

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

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43. Cash Flows from Operating Activities

	Note	The Group		The Bank	
			Restated		Restated
		2013	2012	2013	2012
		$'000	$'000	$'000	$'000
Net profit		8,549,831	10,045,862	4,611,195	6,534,156
Adjustments to reconcile net profit to net cash flow provided by operating activities:					
Depreciation	28	689,392	503,448	658,158	491,873
Amortisation of intangible asset	27	520,579	309,064	436,903	277,179
Impairment losses on securities	12	87,136	467,778	-	-
Share of after tax profits of associate	25	(861,178)	(947,141)	-	-
Loss on dilution of associates	25	-	11,948	-	-
Provision for credit losses	22	2,066,260	2,462,811	2,066,260	2,462,811
Interest income	6	(32,810,385)	(30,475,968)	(22,911,521)	(20,515,000)
Interest expense	6	9,251,399	8,691,878	5,086,566	4,261,224
Income tax expense	15	2,457,737	3,156,789	982,378	1,511,656
Unrealized exchange losses on securitization arrangements		639,654	214,717	639,654	214,717
Amortisation of upfront fees on securitization arrangements		17,890	29,507	17,890	29,507
Unrealized exchange losses on other borrowed funds		164,892	25,936	133,346	25,936
Amortization of upfront fees on other borrowed funds		(3,354)	3,480	(3,354)	3,480
Change in post-employment benefit obligation		206,177	227,785	206,177	227,785
Unrealized exchange gain on investments		(1,447,471)	(997,468)	(905,887)	(917,978)
Loss/(gains) on disposal of property, plant and equipment and intangible asset		940	(1,027)	1,178	(910)
Fair value gains on investment property		-	(500)	-	-
Fair value losses on derivative financial instruments		58,897	334	58,897	334
Changes in operating assets and liabilities:					
Statutory reserves at Bank of Jamaica		(2,664,254)	(1,659,269)	(2,664,254)	(1,659,269)
Pledged assets included in due from other banks		(215,316)	(52,282)	(168,241)	(52,282)
Restricted cash included in due from other banks		458,788	(3,353)	458,788	(3,353)
Reverse repurchase agreements		8,400	1,267,528	(339,836)	(10,799)
Loans and advances		(31,491,220)	(22,263,528)	(31,527,953)	(21,854,118)
Customer deposits		15,675,263	7,117,387	18,546,685	4,766,430
Repurchase agreements		15,514,478	17,658,854	2,510,254	19,097,900
Liabilities under annuity and insurance contracts		1,944,662	1,630,049	-	-
Other		398,346	(159,745)	1,000,518	(955,103)
		(19,332,288)	(12,780,988)	(25,717,394)	(12,597,980)
Interest received		32,343,998	29,886,141	22,956,197	20,050,938
Interest paid		(9,423,414)	(8,567,607)	(5,239,957)	(4,151,962)
Income tax paid		(2,346,404)	(2,459,004)	(707,782)	(883,424)
		1,241,892	6,078,542	(8,708,936)	2,417,572
Net cash provided by/(used in) operating activities		9,791,723	16,124,404	(4,097,741)	8,951,728

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44. Related Party Transactions and Balances

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

	The Group							
	Parent and companies controlled by major shareholder		**Associated companies of the group**		**Directors and key management personnel (and their families)**		**Companies controlled by directors and related by virtue of common directorship**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Loans and advances								
Balance at September 30	15,918	7,197	-	-	124,327	103,452	1,819,540	32,244
Interest income earned	673	1,346	-	-	5,461	4,266	84,771	17,245
Investment securities								
Balance at September 30	-	181,856	-	-	-	-	-	-
Interest income earned	-	17,030	-	-	-	-	-	-
Reverse repurchase agreements								
Balance at September 30	-	1,828	6,371	-		-	-	-
Interest income earned	-	60,882	104,994	6,528	-	-	-	-
Other assets								
Balance at September 30	9,343	10,801	-	-		-	-	50,369
Fees and commission income	3,988	66,742	20,740	16,976	921	182	12,968	7,320
Other operating income	5,921	8,494	-	-	241	244	306,251	239,653

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44. Related Party Transactions and Balances (Continued)

	The Group (Continued)							
	Parent and companies controlled by major shareholder		Associated companies of the group		Directors and key management personnel (and their families)		Companies controlled by directors and related by virtue of common directorship	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Customer deposits								
Balance at September 30	43,304	331,612	1,172,629	1,116,145	224,573	646,749	937,225	806,267
Interest expense	1,222	1,062	4,374	5,188	1,038	821	11,321	13,322
Repurchase agreements								
Balance at September 30	-	73,719	1,016,795	2,931,342	708,890	575,336	-	-
Interest expense	-	-	89,690	21,341	15,288	-	-	-
Other liabilities								
Balance at September 30	9,052	22,171	-	5,173	20,609	45,139	22,884	-
Operating expenses	88,985	298,693	-	-	45,099	67,430	82,046	57,901

44. Related Party Transactions and Balances (Continued)

	The Bank							
	Parent, subsidiaries and companies controlled by major shareholder		Associated companies of the group		Directors and key management personnel (and their families)		Companies controlled by directors and related by virtue of common directorship	
	2013	2012	2013	2012	2013	2012	2013	2012
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Loans and advances								
Balance at September 30	16,060	7,197	-	-	124,327	103,452	1,819,540	32,244
Interest income earned	673	1,346	-	-	5,461	4,266	84,771	17,245
Reverse repurchase agreements								
Balance at September 30	646,834	560,501	-	-	-	-	-	-
Interest income earned	55,452	32,960	1,757	6,528	-	-	-	-
Other assets								
Balance at September 30	76,017	44,270	-	-	-	-		-
Fees and commission income	73,042	94,297	20,740	16,976	680	63	9,230	7,320
Dividend income	2,015,277	2,113,999	179,949	142,071	-	-	-	-
Other operating income	26,521	5,194	-	-	-	-	-	-

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44. Related Party Transactions and Balances (Continued)

	The Bank (Continued)							
	Parent, subsidiaries and companies controlled by major shareholder		Associated companies of the group		Directors and key management personnel (and their families)		Companies controlled by directors and related by virtue of common directorship	
	2013	2012	2013	2012	2013	2012	2013	2012
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Customer deposits								
Balance at September 30	1,094,675	2,367,275	1,172,629	1,116,145	131,645	61,474	936,325	806,267
Interest expense	6,451	239,987	4,374	5,188	1,038	821	11,321	13,322
Repurchase agreements								
Balance at September 30	11,477,528	8,584,569	155,048	2,931,342	-	-	-	-
Interest expense	428,266	220,016	67,240	18,127	-	-	-	-
Due to other banks								
Balance at September 30	10,378,787	2,389,452	-	-	-	-	-	-
Interest expense	119,357	3,367	-	-	-	-	-	-
Other liabilities								
Balance at September 30	22,254	219,652	-	5,173	-	-	-	-
Operating Expenses	400,848	402,572	-	-	8,158	8,038	82,046	57,901

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44. Related Party Transactions and Balances (Continued)

	The Group		The Bank	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Key management compensation:				
Salaries and other short-term benefits	518,179	641,867	471,212	569,954
Post-employment benefits	26,805	22,100	25,405	20,698
	544,984	663,967	496,617	590,652
Directors' emoluments:				
Fees	22,347	22,583	7,872	8,437
Management remuneration	210,129	232,094	210,129	232,094

In February 2013, NCB Capital Markets Limited acquired 96.24% of the issued share capital of Advantage General Insurance Company Limited from AIC (Barbados) Limited and ACF Holdings Insurco Limited. Both AIC (Barbados) Limited and ACF Holdings Insurco Limited are ultimately controlled by the Chairman of the Bank.

45. Financial Risk Management

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

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

Risk Governance Structure

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

45. Financial Risk Management (Continued)

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

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

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

Policies & Procedures

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

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

(a) Credit risk

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

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

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

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

Credit review process

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

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

Standard
Special Mention
Sub-Standard
Doubtful
Loss

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

45. Financial Risk Management (Continued)

(a) Credit risk (continued)

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

(i) Loans - mortgages over residential properties, charges over business assets such as premises, inventory and accounts receivable and charges over financial instruments such as debt securities.

(ii) Securities lending and reverse repurchase transactions – cash or securities.

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

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

Impairment loss provision methodology

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

Sub-standard, Doubtful or Loss rated loans

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

Individually Significant, Standard and Special Mention loans

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

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

Collectively assessed provisions

All loans, excluding those that are impaired, are assessed on a portfolio basis where possible, in order to reflect the homogenous nature of the loans. The provision is determined by a quantitative review of the respective portfolios.

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45. Financial Risk Management (Continued)

(b) Credit risk (continued)

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

The Group

	2013		2012	
	Loans $'000	Impairment provision $'000	Loans $'000	Impairment provision $'000
Standard	126,500,176	1,109,601	90,180,190	933,888
Special Mention	8,517,638	43,082	8,515,221	48,073
Sub-Standard	2,339,732	281,213	9,330,252	240,258
Doubtful	1,033,170	651,141	720,546	365,146
Loss	5,292,052	1,141,507	7,051,206	3,178,786
	143,682,768	3,226,544	115,797,415	4,766,151

The Bank

	2013		2012	
	Loans $'000	Impairment provision $'000	Loans $'000	Impairment provision $'000
Standard	125,951,909	1,109,601	89,511,300	933,888
Special Mention	8,403,254	43,082	8,474,074	48,073
Sub-Standard	2,334,157	281,213	9,330,252	240,258
Doubtful	1,028,215	645,689	695,883	365,146
Loss	5,256,745	1,141,507	7,041,399	3,174,048
	142,974,280	3,221,092	115,052,908	4,761,413

45. Financial Risk Management (Continued)

(a) Credit risk (continued)

The credit quality of loans is summarised as follows:

	The Group		The Bank	
	2013 $'000	**2012 $'000**	**2013 $'000**	**2012 $'000**
Unimpaired	137,988,143	108,829,832	137,314,961	108,095,132
Impaired	5,694,625	6,967,583	5,659,319	6,957,776
Gross	143,682,768	115,797,415	142,974,280	115,052,908
Less: provision for credit losses	(3,226,544)	(4,766,151)	(3,221,092)	(4,761,413)
Net	140,456,224	111,031,264	139,753,188	110,291,495

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

	The Group		The Bank	
	2013 $'000	**2012 $'000**	**2013 $'000**	**2012 $'000**
Less than 30 days	22,780,822	20,496,931	22,780,822	20,496,931
31 to 60 days	6,930,687	7,170,895	6,930,687	7,170,895
61 to 90 days	2,711,520	2,142,596	2,711,520	2,142,596
Greater than 90 days	2,248,809	1,645,778	2,248,809	1,621,114
	34,671,838	31,456,200	34,671,838	31,431,536

Of the aggregate amount of gross past due but not impaired loans, $25,541,157,000 was secured as at September 30, 2013 (2012 – $23,328,408,000).

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

45. Financial Risk Management (Continued)

(a) Credit risk (continued)

Restructured loans (continued)

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

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

Credit risk exposure

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

	The Group		The Bank	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Credit risk exposures relating to on-balance sheet assets:				
Balances with Bank of Jamaica	21,338,856	21,454,016	21,332,716	21,452,267
Due from other banks	20,658,528	14,927,069	20,070,799	14,438,606
Derivative financial instruments	387,304	4,978	387,304	4,978
Investment securities at fair value through profit or loss	237,313	437,934	-	-
Reverse repurchase agreements	328,105	408,294	760,724	565,719
Loans and advances, net of provision for credit losses	141,150,312	111,904,854	140,443,240	111,164,129
Investment securities classified as available-for-sale and loans and receivables	233,158,021	208,145,899	92,209,316	85,798,101
Customers' liability – letters of credit and undertaking	1,479,108	530,719	1,479,108	530,719
	418,737,547	357,813,763	276,683,207	233,954,519
Credit risk exposures relating to off-balance sheet items:				
Credit commitments	24,656,601	22,793,994	24,656,601	22,793,994
Acceptances, guarantees and indemnities	4,828,252	4,180,315	3,314,860	4,002,766
	29,484,853	26,974,309	27,971,461	26,796,760

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45. Financial Risk Management (Continued)

(a) Credit risk (continued)

Credit exposures

(i) Loans

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

	The Group		The Bank	
	2013 $'000	**2012 $'000**	**2013 $'000**	**2012 $'000**
Agriculture	2,113,374	2,831,323	2,113,374	2,831,323
Central Government	5,270,831	2,634,595	5,270,831	2,634,595
Construction and Land Development	13,872,394	13,328,422	13,872,394	13,328,422
Other Financial Institutions	1,448,332	88,234	1,448,332	88,234
Distribution	15,507,511	13,497,719	15,507,511	13,497,719
Electricity, Water & Gas	3,559,186	316,074	3,559,186	316,074
Entertainment	1,401,039	243,110	1,401,039	243,110
Manufacturing	4,048,451	2,195,724	4,048,451	2,195,724
Mining and Processing	345,693	215,622	345,693	215,622
Personal	65,254,160	51,405,221	64,545,726	50,660,714
Professional and Other Services	6,447,623	4,424,581	6,447,623	4,424,581
Tourism	15,398,266	15,714,734	15,398,266	15,714,734
Transportation Storage and Communication	2,687,317	2,269,208	2,687,317	2,269,208
Overseas Residents	6,328,591	6,632,848	6,328,537	6,632,848
Total	143,682,768	115,797,415	142,974,280	115,052,908
Total provision	(3,226,544)	(4,766,151)	(3,221,092)	(4,761,413)
	140,456,224	111,031,264	139,753,188	110,291,495
Interest receivable	694,088	873,590	690,052	872,634
Net	141,150,312	111,904,854	140,443,240	111,164,129

(ii) Debt securities

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

	The Group		The Bank	
	2013 $'000	**2012 $'000**	**2013 $'000**	**2012 $'000**
Government of Jamaica and Bank of Jamaica	196,232,896	171,152,506	84,025,795	73,423,250
Government of Jamaica guaranteed corporate bonds	18,062,391	21,773,021	2,002,653	6,458,745
Other corporate bonds	12,238,884	10,838,958	3,425,479	3,764,679
Foreign governments	3,144,605	1,743,826	1,408,140	941,657
	229,678,776	205,508,311	90,862,067	84,588,331
Interest receivable	3,716,558	3,075,522	1,347,249	1,209,770
	233,395,334	208,583,833	92,209,316	85,798,101

45. Financial Risk Management (Continued)

(b) Liquidity risk

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

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

(i) Oversight by relevant governance committees;

(ii) Daily management of liquidity by the relevant treasury/investment units within each group company;

(iii) Use of tools to measure the organization's exposures;

(iv) Establishment and monitoring of limits/benchmarks for maturity mismatches and funding concentrations;

(v) Diversification of funding sources;

(vi) Maintenance of committed lines of credits; and

(vii) Monitoring of adherence to regulatory ratios.

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

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

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

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45. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Cash flows of financial liabilities

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

	The Group					
	Within 1 Month $'000	**2 to 3 Months $'000**	**4 to 12 Months $'000**	**1 to 5 Years $'000**	**Over 5 Years $'000**	**Total $'000**
As at September 30, 2013:						
Due to other banks	4,018,890	7,740,808	4,318,641	763,560	1,698,120	18,540,019
Customer deposits	150,648,471	12,451,410	11,928,354	3,765,224	-	178,793,459
Repurchase agreements	48,116,702	41,305,324	23,708,344	5,711,213	8,405	118,849,988
Obligations under securitization arrangements	-	183,312	549,935	12,889,853	-	13,623,100
Other borrowed funds	125,691	1,042,061	624,274	3,442,705	1,212,677	6,447,408
Liabilities under annuity and insurance contracts	4,370,009	964,867	7,020,034	18,485,791	57,041,802	87,882,503
Other	5,202,756	1,306,134	292,234	17,100	98,097	6,916,321
Total financial liabilities (contractual maturity dates)	212,482,519	64,993,916	48,441,816	45,075,446	60,059,101	431,052,798
Total financial liabilities (expected maturity dates)	48,631,983	26,782,184	25,454,370	149,855,919	180,328,342	431,052,798
Total financial assets (expected maturity dates)	42,751,571	14,118,434	51,089,966	207,965,777	283,527,211	599,452,959

	The Group					
	Within 1 Month $'000	**2 to 3 Months $'000**	**4 to 12 Months $'000**	**1 to 5 Years $'000**	**Over 5 Years $'000**	**Total $'000**
As at September 30, 2012:						
Due to other banks	2,652,733	5,014,518	482,476	521,926	1,625,256	10,296,909
Customer deposits	136,972,132	9,366,134	16,798,276	411,368	-	163,547,910
Repurchase agreements	48,002,036	36,311,425	18,368,132	44,270	6,149	102,732,012
Obligations under securitization arrangements	-	641,369	1,008,967	1,306,344	-	2,956,680
Other borrowed funds	153,118	483,247	667,233	2,701,273	387,544	4,392,415
Liabilities under annuity and insurance contracts	362,213	799,721	3,630,389	17,861,694	52,056,672	74,710,689
Other	2,854,698	1,713,865	223,170	149	125,194	4,917,076
Total financial liabilities (contractual maturity dates)	190,996,930	54,330,279	41,178,643	22,847,024	54,200,815	363,553,691
Total financial liabilities (expected maturity dates)	42,286,432	21,706,007	22,820,941	115,797,616	160,942,695	363,553,691
Total financial assets (expected maturity dates)	38,784,270	8,258,414	51,220,815	207,776,339	201,133,860	507,173,698

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45. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Cash flows of financial liabilities (continued)

	The Bank					
	Within 1 Month $'000	**2 to 3 Months $'000**	**4 to 12 Months $'000**	**1 to 5 Years $'000**	**Over 5 Years $'000**	**Total $'000**
As at September 30, 2013:						
Due to other banks	6,060,044	9,288,919	4,721,847	763,560	1,698,120	22,532,490
Customer deposits	157,104,452	12,172,097	10,082,924	12,170	-	179,371,643
Repurchase agreements	11,491,779	7,256,082	6,898,152	5,513,646	-	31,159,659
Obligations under securitization arrangements	-	183,312	549,935	12,889,853	-	13,623,100
Other borrowed funds	35,193	127,003	412,211	2,185,136	1,212,677	3,972,220
Other	4,102,485	1,131,295	292,234	17,100	98,097	5,641,211
Total financial liabilities (contractual maturity dates)	178,793,953	30,158,708	22,957,303	21,381,465	3,008,894	256,300,323
Total financial liabilities (expected maturity dates)	48,110,750	21,745,660	17,139,563	46,017,810	123,286,540	256,300,323
Total financial assets (expected maturity dates)	40,429,581	8,979,892	29,330,081	131,221,321	157,737,853	367,698,728

	The Bank					
	Within 1 Month $'000	**2 to 3 Months $'000**	**4 to 12 Months $'000**	**1 to 5 Years $'000**	**Over 5 Years $'000**	**Total $'000**
As at September 30, 2012:						
Due to other banks	5,045,607	5,014,518	482,476	521,926	1,625,256	12,689,783
Customer deposits	137,191,287	8,089,605	16,147,680	23,072	-	161,451,644
Repurchase agreements	16,630,388	5,443,245	5,933,959	-	-	28,007,592
Obligations under securitization arrangements	-	641,369	1,008,967	1,306,344	-	2,956,680
Other borrowed funds	35,248	245,838	500,069	1,440,950	387,544	2,609,649
Other	2,343,008	1,484,774	115,965	150	125,193	4,069,090
Total financial liabilities (contractual maturity dates)	161,245,538	20,919,349	24,189,116	3,292,442	2,137,993	211,784,438
Total financial liabilities (expected maturity dates)	45,131,596	16,656,181	17,073,135	24,037,504	108,886,022	211,784,438
Total financial assets (expected maturity dates)	40,087,182	6,887,114	36,273,691	131,517,710	101,979,739	316,745,436

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

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45. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Cash flows of financial liabilities (continued)

Off-balance sheet items

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

	The Group			
	No later than 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
At September 30, 2013				
Credit commitments	24,656,601	-	-	24,656,601
Guarantees, acceptances and other financial facilities	3,151,275	589,746	1,087,231	4,828,252
Operating lease commitments	133,640	297,072	158,386	589,098
Capital commitments	1,900,461	-	-	1,900,461
	29,841,977	886,818	1,245,617	31,974,412
At September 30, 2012				
Credit commitments	22,793,994	-	-	22,793,994
Guarantees, acceptances and other financial facilities	2,972,009	400,715	807,591	4,180,315
Operating lease commitments	89,089	270,554	384,397	744,040
Capital commitments	997,729	-	-	997,729
	26,852,821	671,269	1,191,988	28,716,078

	The Bank			
	No later than 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
At September 30, 2013				
Credit commitments	24,656,601	-	-	24,656,601
Guarantees, acceptances and other financial facilities	1,637,883	589,746	1,087,231	3,314,860
Operating lease commitments	133,640	297,072	158,386	589,098
Capital commitments	1,030,437	-	-	1,030,437
	27,458,461	886,818	1,245,617	29,590,996
At September 30, 2012				
Credit commitments	22,793,994	-	-	22,793,994
Guarantees, acceptances and other financial facilities	2,794,460	400,715	807,591	4,002,766
Operating lease commitments	95,439	177,729	382,094	655,262
Capital commitments	997,729	-	-	997,729
	26,681,622	578,444	1,189,685	28,449,751

Capital commitments are in relation to approved expenditures for property, plant, equipment and computer software that were unused as at the end of the respective financial years either because they relate to work in progress or are awaiting the start of the project. Of the total capital commitments, planned expenditure valuing $1,137,846,000 (2012 – $997,729,000) for the Group has already been contracted for.

45. Financial Risk Management (Continued)

(c) Market risk

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

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

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

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

(i) Currency risk

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

Foreign exchange risk occurs when the Group takes on open position in a currency. To control this exchange risk, the Group has approved limits for net open positions in each currency for both intra-day and overnight.

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

National Commercial Bank Jamaica Limited

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45. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

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

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

	The Group					
	\$	**US\$**	**GBP**	**CAN\$**	**Other**	**Total**
September 30, 2013	**\$'000**	**\$'000**	**\$'000**	**\$'000**	**\$'000**	**\$'000**
Assets						
Cash in hand and balances at Bank of Jamaica	15,729,159	7,295,701	1,007,201	236,651	19,971	24,388,683
Due from other banks	376,035	12,194,886	6,286,377	1,265,654	535,576	20,658,528
Investment securities at fair value through profit or loss	148,682	232,073	-	-	-	380,755
Reverse repurchase agreements	774	327,331	-	-	-	328,105
Loans and advances net of provision for credit losses	93,389,173	47,761,139	-	-	-	141,150,312
Investment securities classified as available-for-sale and loans and receivables	143,682,775	87,117,725	1,213,006	-	2,043,192	234,056,698
Other	3,970,347	1,893,825	10,620	220	87	5,875,099
Total assets	257,296,945	156,822,680	8,517,204	1,502,525	2,598,826	426,838,180
Liabilities						
Due to other banks	3,291,886	13,971,466	77,278	47,874	21,696	17,410,200
Customer deposits	106,574,328	62,035,279	7,710,329	1,217,423	873,662	178,411,021
Repurchase agreements	44,344,418	70,316,758	1,244,844	315,425	1,155,950	117,377,395
Obligations under securitization arrangements	-	10,351,691	-	-	-	10,351,691
Other borrowed funds	3,079,094	1,823,787	-	-	-	4,902,881
Liabilities under annuity and insurance contracts	33,784,403	130,103	-	-	-	33,914,506
Other	4,551,434	2,261,028	66,771	9,082	28,006	6,916,321
Total liabilities	195,625,563	160,890,112	9,099,222	1,589,804	2,079,314	369,284,015
Net on-balance sheet position	61,671,382	(4,067,432)	(582,018)	(87,279)	519,512	57,454,165
Guarantees, acceptances and other financial facilities	2,319,015	2,501,565	201	-	7,471	4,828,252
Credit commitments	20,677,582	3,979,019	-	-	-	24,656,601

National Commercial Bank Jamaica Limited

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45. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

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

	The Group					
	$	US$	GBP	CAN$	Other	Total
September 30, 2012	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets						
Cash in hand and balances at Bank of Jamaica	16,991,874	6,048,725	869,244	175,549	17,420	24,102,812
Due from other banks	316,056	7,145,498	5,839,013	1,064,566	561,936	14,927,069
Investment securities at fair value through profit or loss	449,650	270,756	-	-	-	720,406
Reverse repurchase agreements	248,264	75,219	-	-	84,811	408,294
Loans and advances net of provision for credit losses	70,633,423	41,271,431	-	-	-	111,904,854
Investment securities classified as available-for-sale and loans and receivables	132,026,537	75,470,903	968,634	251,856	1,215,221	209,933,151
Other	1,099,470	709,368	6,286	196	795	1,816,115
Total assets	221,765,274	130,991,900	7,683,177	1,492,167	1,880,183	363,812,701
Liabilities						
Due to other banks	1,078,271	8,110,697	65,572	44,744	25,613	9,324,897
Customer deposits	100,203,360	54,701,283	6,401,935	928,040	695,732	162,930,350
Repurchase agreements	43,555,359	56,346,956	1,086,503	304,052	597,579	101,890,449
Obligations under securitization arrangements	-	2,604,246	-	-	-	2,604,246
Other borrowed funds	2,088,360	1,536,184	-	-	-	3,624,544
Liabilities under annuity and insurance contracts	25,138,935	55,389	-	-	-	25,194,324
Other	3,754,482	1,045,499	9,318	6,114	101,663	4,917,076
Total liabilities	175,818,767	124,400,254	7,563,328	1,282,950	1,420,587	310,485,886
Net on-balance sheet position	45,946,507	6,591,646	119,849	209,217	459,596	53,326,815
Guarantees, acceptances and other financial facilities	1,883,884	2,290,259	-	-	6,172	4,180,315
Credit commitments	18,695,703	4,098,291	-	-	-	22,793,994

National Commercial Bank Jamaica Limited

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45. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

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

	The Bank					
	$	US$	GBP	CAN$	Other	Total
September 30, 2013	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets						
Cash in hand and balances at Bank of Jamaica	15,722,765	7,395,689	1,002,455	236,651	19,971	24,377,531
Due from other banks	471,252	11,444,382	6,417,064	1,265,829	472,272	20,070,799
Reverse repurchase agreements	32,000	728,724	-	-	-	760,724
Loans and advances net of provision for credit losses	93,389,122	47,054,118	-	-	-	140,443,240
Investment securities classified as available-for-sale and loans and receivables	53,441,327	36,843,271	962,314	-	1,564,601	92,811,513
Other	2,848,985	1,107,394	10,620	220	86	3,967,305
Total assets	165,905,451	104,573,578	8,392,453	1,502,700	2,056,930	282,431,112
Liabilities						
Due to other banks	3,270,126	16,263,194	1,308,968	347,871	240,158	21,430,317
Customer deposits	107,105,940	62,239,128	7,857,358	1,227,947	669,282	179,099,655
Repurchase agreements	8,956,332	20,668,985	-	-	646,324	30,271,641
Obligations under securitization arrangements	-	10,351,691	-	-	-	10,351,691
Other borrowed funds	1,358,817	1,628,722	-	-	-	2,987,539
Other	3,959,648	1,580,709	65,973	6,875	28,006	5,641,211
Total liabilities	124,650,863	112,732,429	9,232,299	1,582,693	1,583,770	249,782,054
Net on-balance sheet position	41,254,588	(8,158,851)	(839,846)	(79,993)	473,160	32,649,058
Guarantees, acceptances and other financial facilities	2,168,298	1,138,891	201	-	7,470	3,314,860
Credit commitments	20,677,582	3,979,019	-	-	-	24,656,601

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45. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

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

	The Bank					
	$	**US$**	**GBP**	**CAN$**	**Other**	**Total**
September 30, 2012	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets						
Cash in hand and balances at Bank of Jamaica	16,990,108	6,048,623	865,946	175,549	17,419	24,097,645
Due from other banks	383,715	6,772,013	5,702,643	1,109,657	470,578	14,438,606
Reverse repurchase agreements	-	534,555	-	-	31,164	565,719
Loans and advances net of provision for credit losses	70,633,371	40,530,758	-	-	-	111,164,129
Investment securities classified as available-for-sale and loans and receivables	51,119,791	33,230,636	968,634	43	1,048,230	86,367,334
Other	943,348	706,185	6,285	196	84	1,656,098
Total assets	140,070,333	87,822,770	7,543,508	1,285,445	1,567,475	238,289,531
Liabilities						
Due to other banks	1,078,326	10,502,570	65,572	44,744	25,613	11,716,825
Customer deposits	100,946,963	50,958,002	7,271,609	995,861	661,649	160,834,084
Repurchase agreements	7,172,275	19,860,785	231,973	84,796	362,596	27,712,425
Obligations under securitization arrangements	-	2,604,246	-	-	-	2,604,246
Other borrowed funds	849,195	1,308,849	-	-	-	2,158,044
Other	3,020,463	1,031,529	9,318	6,114	1,666	4,069,090
Total liabilities	113,067,222	86,265,981	7,578,472	1,131,515	1,051,524	209,094,714
Net on-balance sheet position	27,003,111	1,556,789	(34,964)	153,930	515,951	29,194,817
Guarantees, acceptances and other financial facilities	1,706,336	2,290,259	-	-	6,171	4,002,766
Credit commitments	18,695,703	4,098,291	-	-	-	22,793,994

45. Financial Risk Management (Continued)

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

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

There was no effect on other comprehensive income.

	2013			2012		
	% Change in Currency Rate	Effect on Net Profit		% Change in Currency Rate	Effect on Net Profit	
		The Group	The Bank		The Group	The Bank
		$'000	$'000		$'000	$'000
Currency:						
USD	4% Appreciation	250,315	212,878	4%	(214,387)	(4,687)
	10% Depreciation	(625,786)	(532,195)	(10%)	535,966	11,717
GBP	4% Appreciation	22,301	22,512	4%	(206)	822
	10% Depreciation	(55,752)	(56,279)	(10%)	515	(2,056)
CAN	4% Appreciation	(1,090)	2,152	4%	(6,077)	(4,135)
	10% Depreciation	2,725	(5,379)	(10%)	15,192	10,337

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

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

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

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45. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

The Group's interest rate risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities. Limits are established and monitored with respect to the level of mismatch of interest rate repricing that may be undertaken.

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

	The Group						
	Within 1 Month	**2 to 3 Months**	**4 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Non-Interest Bearing**	**Total**
September 30, 2013	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets							
Cash in hand and balances at Bank of Jamaica	7,708,579	-	-	-	-	16,680,104	24,388,683
Due from other banks	15,753,503	1,097,451	1,032,354	-	-	2,775,220	20,658,528
Investment securities at fair value through profit or loss	4,789	275	9,925	101,477	117,437	146,852	380,755
Reverse repurchase agreements	176,933	73,056	76,873	-	-	1,243	328,105
Loans and advances net of provision for credit losses	57,656,259	36,521,197	4,952,543	27,183,363	10,578,959	4,257,991	141,150,312
Investment securities classified as available-for-sale and loans and receivables	53,187,443	27,083,479	24,120,390	61,334,694	63,247,277	5,083,415	234,056,698
Other	-	-	-	-	-	5,875,099	5,875,099
Total assets	134,487,506	64,775,458	30,192,085	88,619,534	73,943,673	34,819,924	426,838,180
Liabilities							
Due to other banks	4,825,711	6,683,703	2,167,938	309,704	1,238,819	2,184,325	17,410,200
Customer deposits	116,120,909	13,343,960	12,505,133	480,696	-	35,960,323	178,411,021
Repurchase agreements	47,775,871	40,869,979	22,614,509	5,349,577	1,989	765,470	117,377,395
Obligations under securitization arrangements	-	10,323,490	-	-	-	28,201	10,351,691
Other borrowed funds	118,943	960,682	482,507	2,477,982	829,636	33,131	4,902,881
Liabilities under annuity and insurance contracts	29,510,434	274,534	844,908	-	-	3,284,630	33,914,506
Other	-	-	-	-	-	6,916,321	6,916,321
Total liabilities	198,351,868	72,456,348	38,614,995	8,617,959	2,070,444	49,172,401	369,284,015
On balance sheet interest sensitivity gap	(63,864,362)	(7,680,890)	(8,422,910)	80,001,575	71,873,229	(14,352,477)	57,554,165
Cumulative interest sensitivity gap	(63,864,362)	(71,545,252)	(79,968,162)	33,413	71,906,642	57,554,165	

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45. Financial Risk Management (Continued)

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

	The Group						
	Within 1 Month	**2 to 3 Months**	**4 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Non-Interest Bearing**	**Total**
September 30, 2012	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets							
Cash in hand and balances at Bank of Jamaica	9,528,145	-	-	-	-	14,574,667	24,102,812
Due from other banks	11,678,897	1,069,558	160,096	-	-	2,018,518	14,927,069
Investment securities at fair value through profit or loss	2,032	3,439	18,679	31,988	375,009	289,259	720,406
Reverse repurchase agreements	184,745	222,580	1	-	-	968	408,294
Loans and advances net of provision for credit losses	54,822,878	28,638,163	1,402,116	19,765,218	3,180,872	4,095,607	111,904,854
Investment securities classified as available-for-sale and loans and receivables	12,393,684	60,453,502	25,569,392	62,283,048	44,574,291	4,659,234	209,933,151
Other	4,978	-	-	-	-	1,811,137	1,816,115
Total assets	88,615,359	90,387,242	27,150,284	82,080,254	48,130,172	27,449,390	363,812,701
Liabilities							
Due to other banks	879,299	4,916,572	376,827	-	1,345,811	1,806,388	9,324,897
Customer deposits	98,977,150	9,217,713	16,096,306	399,506	-	38,239,675	162,930,350
Repurchase agreements	38,892,450	42,851,892	16,972,153	2,392,726	4,938	776,290	101,890,449
Obligations under securitization arrangements	-	1,051,898	773,454	773,454	-	5,440	2,604,246
Other borrowed funds	144,252	776,333	1,380,189	915,893	294,938	112,939	3,624,544
Liabilities under annuity and insurance contracts	21,647,059	150,316	805,488	-	-	2,591,461	25,194,324
Other	5,312	206,674	-	-	-	4,705,090	4,917,076
Total liabilities	160,545,522	59,171,398	36,404,417	4,481,579	1,645,687	48,237,283	310,485,886
On balance sheet interest sensitivity gap	(71,930,163)	31,215,844	(9,254,133)	77,598,675	46,484,485	(20,787,893)	53,326,815
Cumulative interest sensitivity gap	(71,930,163)	(40,714,319)	(49,968,452)	27,630,223	74,114,708	53,326,815	

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45. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	The Bank						
	Within 1 Month	2 to 3 Months	4 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
September 30, 2013	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets							
Cash in hand and balances at Bank of Jamaica	7,703,822	-	-	-	-	16,673,709	24,377,531
Due from other banks	15,335,646	1,097,456	1,032,349	-	-	2,605,348	20,070,799
Reverse repurchase agreements	145,802	299,381	309,705	-	-	5,836	760,724
Loans and advances net of provision for credit losses	57,620,955	36,443,790	4,438,792	27,106,844	10,578,959	4,253,900	140,443,240
Investment securities classified as available-for-sale and loans and receivables	20,168,670	3,353,468	6,108,864	26,234,900	34,996,164	1,949,447	92,811,513
Other	-	-	-	-	-	3,967,305	3,967,305
Total assets	100,974,895	41,194,095	11,889,710	53,341,744	45,575,123	29,455,545	282,431,112
Liabilities							
Due to other banks	3,872,443	9,158,725	4,596,493	-	1,548,524	2,254,132	21,430,317
Customer deposits	121,389,356	12,012,402	9,858,357	11,231	-	35,828,309	179,099,655
Repurchase agreements	11,341,838	7,104,587	6,414,557	5,161,745	-	248,914	30,271,641
Obligations under securitization arrangements	-	10,323,490	-	-	-	28,201	10,351,691
Other borrowed funds	29,869	81,598	292,979	1,744,965	829,636	8,492	2,987,539
Other	-	-	-	-	-	5,641,211	5,641,211
Total liabilities	136,633,506	38,680,802	21,162,386	6,917,941	2,378,160	44,009,259	249,782,054
On balance sheet interest sensitivity gap	(35,658,611)	2,513,293	(9,272,676)	46,423,803	43,196,963	(14,553,714)	32,649,058
Cumulative interest sensitivity gap	(35,658,611)	(33,145,318)	(42,417,994)	4,005,809	47,202,772	32,649,058	

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45. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	The Bank						
	Within 1 Month	**2 to 3 Months**	**4 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Non-Interest Bearing**	**Total**
September 30, 2012	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets							
Cash in hand and balances at Bank of Jamaica	9,528,134	-	-	-	-	14,569,511	24,097,645
Due from other banks	11,932,973	641,335	-	-	-	1,864,298	14,438,606
Reverse repurchase agreements	291,339	-	269,162	-		5,218	565,719
Loans and advances net of provision for credit losses	54,796,047	28,609,901	1,366,228	19,272,687	3,024,666	4,094,600	111,164,129
Investment securities classified as available-for-sale and loans and receivables	5,306,686	20,979,826	14,686,842	23,830,288	19,784,688	1,779,004	86,367,334
Other	4,978	-	-	-	-	1,651,120	1,656,098
Total assets	81,860,157	50,231,062	16,322,232	43,102,975	22,809,354	23,963,751	238,289,531
Liabilities							
Due to other banks	3,271,172	4,916,572	376,827	-	1,345,811	1,806,443	11,716,825
Customer deposits	99,169,178	7,970,918	15,490,355	21,178	-	38,182,455	160,834,084
Repurchase agreements	7,824,200	12,432,704	4,904,691	2,350,877	-	199,953	27,712,425
Obligations under securitization arrangements	-	1,051,898	773,454	773,454	-	5,440	2,604,246
Other borrowed funds	28,570	543,421	269,940	914,239	294,938	106,936	2,158,044
Other	5,312	-	-	-	-	4,063,778	4,069,090
Total liabilities	110,298,432	26,915,513	21,815,267	4,059,748	1,640,749	44,365,005	209,094,714
On balance sheet interest sensitivity gap	(28,438,275)	23,315,549	(5,493,035)	39,043,227	21,168,605	(20,401,254)	29,194,817
Cumulative interest sensitivity gap	(28,438,275)	(5,122,726)	(10,615,761)	28,427,466	49,596,071	29,194,817	

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45. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

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

	The Group				The Bank			
	$	**US$**	**CAN$**	**GBP**	**$**	**US$**	**CAN$**	**GBP**
	%	**%**	**%**	**%**	**%**	**%**	**%**	**%**
September 30, 2013								
Assets								
Balances at Bank of Jamaica	0.3	0.1	0.3	0.1	0.3	0.1	0.3	0.1
Due from other banks	4.9	0.2	0.6	0.4	4.9	0.2	0.6	0.4
Investment securities at fair value through profit or loss	7.2	7.0	-	-	-	-	-	-
Reverse repurchase agreements	8.0	4.2	-	1.5	6.0	4.0	-	1.5
Loans and advances	16.5	7.3	-	-	16.5	7.3	-	-
Investment securities classified as available-for-sale and loans and receivables	7.8	8.9	-	13.5	8.2	8.2	-	13.5
Liabilities								
Due to other banks	4.9	4.6	-	-	4.9	4.6	-	-
Customer deposits	1.3	1.2	0.4	0.6	1.3	1.2	0.4	0.6
Repurchase agreements	5.6	3.5	-	1.5	6.5	4.7	1.5	1.8
Obligations under securitization arrangements	-	6.8	-	-	-	6.8	-	-
Other borrowed funds	8.5	4.3	-	-	10.2	4.0	-	-
September 30, 2012								
Assets								
Balances at Bank of Jamaica	0.3	0.1	0.4	0.1	0.3	0.1	0.4	0.1
Due from other banks	3.2	0.1	0.7	0.4	3.2	0.1	0.7	0.4
Investment securities at fair value through profit or loss	9.9	8.3	-	-	-	-	-	-
Reverse repurchase agreements	5.5	3.4	1.5	1.8	5.0	4.0	-	-
Loans and advances	18.4	8.3	-	-	18.4	8.3	-	-
Investment securities classified as available-for-sale and loans and receivables	9.0	8.0	-	13.4	8.5	8.7	-	13.4
Liabilities								
Due to other banks	6.2	4.8	-	-	6.2	4.8	-	-
Customer deposits	1.4	1.9	0.6	0.9	1.4	1.9	0.6	0.9
Repurchase agreements	5.6	4.3	1.3	1.6	6.1	5.7	1.2	1.7
Obligations under securitization arrangements	-	5.5	-	-	-	5.5	-	-
Other borrowed funds	8.8	3.8	-	-	11.1	4.5	-	-

National Commercial Bank Jamaica Limited

45. Financial Risk Management (Continued)

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

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

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

	The Group			
	Effect on Net Profit	Effect on Equity	Effect on Net Profit	Effect on Equity
	2013 $'000	2013 $'000	2012 $'000	2012 $'000
Change in basis points:				
-200	(973,298)	3,497,635	(1,472,201)	1,187,373
+200	973,298	(3,497,635)	1,472,201	(1,187,373)

	The Bank			
	Effect on Net Profit	Effect on Equity	Effect on Net Profit	Effect on Equity
	2013 $'000	2013 $'000	2012 $'000	2012 $'000
Change in basis points:				
-200	(256,305)	1,996,354	(582,712)	221,832
+200	256,305	(1,996,354)	582,712	(221,832)

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45. Financial Risk Management (Continued)

(c) Market risk (continued)

(iii) Other price risk

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

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

Sensitivity to changes in price of equity securities

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

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

	The Group			
	Effect on Net Profit 2013 $'000	Effect on Equity 2013 $'000	Effect on Net Profit 2012 $'000	Effect on Equity 2012 $'000
Percentage change in share price				
10% decrease	(14,344)	(213,714)	(28,247)	(216,290)
10% increase	14,344	213,714	28,247	216,290

	The Bank			
	Effect on Net Profit 2013 $'000	Effect on Equity 2013 $'000	Effect on Net Profit 2012 $'000	Effect on Equity 2012 $'000
Percentage change in share price				
10% decrease	-	(58,394)	-	(13,661)
10% increase	-	58,394	-	13,661

45. Financial Risk Management (Continued)

(d) Derivative financial instruments

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

(e) Insurance risk

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

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

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency of or severity of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Life insurance risk

The Group issues contracts that have a maximum period determined by the remaining life of the insured. In addition to the estimated benefits which may be payable under the contract, the Group has to assess the cash flows which may be attributable to the contract. The process of underwriting may also be undertaken and may include specific medical tests and other enquiries which affect the Group's assessment of the risk.

Frequency and severity of claims

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

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

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

a) products that are subject to traditional methods of application and assessment are controlled by traditional underwriting methods including medical and financial selection with benefits being limited to reflect the health and/or financial condition of applicants and by the application of retention limits on any single life insured.

b) products which are not subject to traditional methods of application and assessment contain pre-existing conditions and exclusionary clauses for certain types of high-risk medical and financial events, with claims on these types of policies examined for breaches to those clauses and denied or settled accordingly.

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45. Financial Risk Management (Continued)

(e) Insurance risk (continued)
Life insurance risk (continued)

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

	Total Benefits Assured - Individual			
	2013		2012	
Benefits assured per life assured ($'000)	$'000 Contracts with Investment Options	$'000 Contracts without Investment Options	$'000 Contracts with Investment Options	$'000 Contracts without Investment Options
0 – 1,000	13,050,222	2,268,387	12,592,482	1,767,817
1,000 – 2,000	3,735,884	7,762,263	3,774,765	6,268,619
2,000 – 5,000	4,813,412	4,752,931	4,595,536	3,931,131
5,000 – 10,000	3,059,864	-	2,981,311	-
Over 10,000	3,968,070	-	3,916,088	-
	28,627,452	14,783,581	27,860,182	11,967,567

	Total Benefits Assured - Group			
	2013		2012	
Benefits assured per life assured ($'000)	$'000 Before Re-insurance	$'000 After Re-insurance	$'000 Before Re-insurance	$'000 After Re-insurance
0 – 1,000	13,174,370	13,174,058	10,273,081	10,272,301
1,000 – 2,000	10,468,224	10,467,684	7,656,975	7,654,706
2,000 – 5,000	12,528,477	12,197,857	12,408,493	12,109,983
5,000 – 10,000	12,993,333	7,830,093	11,538,176	7,077,084
Over 10,000	8,571,683	2,340,799	7,223,180	1,962,428
	57,736,087	46,010,491	49,099,905	39,076,502

The Group uses catastrophe re-insurance cover against its Ordinary Life, Group Life and Creditor Life contracts as the main risks faced by these contracts are interest rate and liquidity.

- The premium ceded during the year in respect of catastrophe re-insurance cover amounted to $24,649,000 (2012 – $22,006,000). Premium income recognized in the income statement is shown net of these amounts.
- Policyholders' benefits recovered from reinsurers during the year under these contracts amounted to $Nil (2012 – $11,474,000).
- At September 30, 2013, premiums payable under re-insurance contracts amounted to $2,107,000 (2012 – $1,557,000).
- At September 30, 2013, there were no amounts receivable from reinsurers in respect of policyholders' benefits (2012 – $Nil).

45. Financial Risk Management (Continued)

(e) Insurance risk (continued)

Life insurance risk (continued)

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

	Total Annuities Payable	
	2013	**2012**
	$'000	**$'000**
Annuity payable per annum per annuitant ($'000)		
0 -100	30,169	26,518
100 - 300	64,928	67,552
300 – 500	70,914	60,713
500 – 1,000	130,877	121,294
Over 1,000	598,928	548,438
	895,816	824,515

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

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

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

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

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

45. Financial Risk Management (Continued)

(e) Insurance risk (continued)

Life insurance risk (continued)

Process used in deriving assumptions

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

Estimates are made in two stages:

(i) At inception of the contract, the Group determines assumptions in relation to future deaths, voluntary terminations, investment returns and administration expenses. These assumptions are used as the base assumptions for calculating the liabilities; and

(ii) Subsequently, new estimates are developed at each reporting date and the assumptions are altered to reflect the latest current estimates or experience.

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

Reinsurance risk

Reinsurance risk is the risk that a reinsurer will default and not honour obligations arising from claims. The Group limits the probable loss in the event of individual deaths and any single catastrophic accident occurrence by reinsuring its insurance risk above certain limits with other insurers. Reinsurance ceded does not discharge the Group’s liability as the primary insurer. The Group manages reinsurance risk by selecting reinsurers with high credit ratings and monitoring these on an ongoing basis. The current reinsurer is Swiss Re (registered in Canada) whose financial strength rating from Standard & Poor’s is AA- (at June 2013) and from AM Best A+ (at January 2013).

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

45. Financial Risk Management (Continued)

(e) Insurance risk (continued)

Property and casualty insurance risk

The Group manages its property and casualty insurance risk through its underwriting policy that includes *inter alia*, authority limits, approval procedures for transactions that exceed set limits, pricing guidelines and the centralized management of reinsurance. The Group actively monitors insurance risk exposures both for individual and portfolio types of risks. These methods include internal risk measurement, portfolio modeling and scenario analyses.

Underwriting strategy

The Group manages the risks arising from its underwriting of property and casualty insurance contracts through its Underwriting Risk Management Policy to determine the insurability of risks and exposure to large claims. The Group follows detailed, uniform underwriting practices and procedures designed to properly assess and quantify risks before issuing coverage. The Group's underwriting guidelines also outline acceptance limits and the appropriate levels of authority for acceptance of risks.

Reinsurance strategy

A detailed analysis of the Group's exposures, reinsurance needs and quality of reinsurance securities is conducted by the Board and Senior Management. The Group's exposures are continually evaluated by Management to ensure that its reinsurances remain adequate and mechanisms are in place to continually monitor the reinsurance counterparties to ensure that they maintain "A" rating, in keeping with the company's Board approved Reinsurance Risk Management Policy.

45. Financial Risk Management (Continued)

(e) Insurance risk (continued)

Property and casualty insurance risk (continued)

Motor insurance

Motor insurance contracts provide cover in respect of policyholders' motor vehicles and their liability to third parties in respect of damage to property and injury. The exposure on motor insurance contracts is normally limited to the replacement value of the vehicle and a policy limit in respect of third party damage. In general, claims reporting lags are minor and claims complexity is relatively low.

The risks relating to motor contracts are managed primarily through the pricing and selection process. The Group monitors and reacts to changes in trends of injury awards, litigation and the frequency of claims appeals.

Property insurance

Property insurance indemnifies, subject to any limits or excesses, the policyholder against the loss or damage to their own material property and business interruption arising from this damage. The risk on any policy varies according to many factors such as location, safety measures in place and the age of the property. The event giving rise to a claim for damage to buildings or contents usually occurs suddenly (as for fire and burglary) and the cause is easily determinable. Therefore, claims are generally notified promptly and can be settled without delay. Property business is therefore classified as "short-tailed" and expense deterioration and investment return is of less importance in estimating provisions. The cost of repairing or rebuilding assets, of replacement or indemnity for contents and the time taken to restart or resume operations to original levels for business interruption losses are the key factors influencing the level of claims under these policies.

The risks relating to property contracts are managed primarily through the pricing and selection process. The Group uses strict underwriting criteria to ensure that the risk of losses is acceptable. Furthermore, the Group accepts property insurance risks for one year so that each contract can be re-priced on renewal to reflect the continually evolving risk profile.

Liability insurance

Under these contracts, compensation is paid for injury suffered by individuals, including employees or members of the public. The main liability exposure is in relation to bodily injury. The timing of claim reporting and settlement is a function of factors such as the nature of the coverage and the policy provisions. Although bodily injury claims have a relatively long tail, the majority of bodily injury claims are settled in full within three to four years. In general, these contracts involve higher estimation uncertainty.

Risks arising from liability insurance are managed primarily through pricing, product design, risk selection, adopting an appropriate investment strategy, rating and reinsurance. The Group monitors and reacts to changes in the general economic and commercial environment in which it operates to ensure that only liability risks which meet its criteria for profitability are underwritten. In pricing contracts, the company makes assumptions that costs will increase in line with the latest available research.

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45. Financial Risk Management (Continued)

(e) Insurance risk (continued)

Property and casualty insurance risk (continued)

Risk exposure and concentrations of risk

The following table shows the Group's exposure to Property and casualty insurance risk (based on the carrying value of insurance provisions at the reporting date) per major category of business:

	2013				
	Liability	**Property**	**Motor**	**Other**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Gross	116,198	213,632	7,119,634	6,945	7,456,408
Net of proportional reinsurance	112,775	56,448	6,989,674	6,759	7,165,655
	2012				
Gross	-	-	-	-	-
Net of proportional reinsurance	-	-	-	-	-

Claims development

Claims development information is disclosed in order to illustrate the property and casualty insurance risk inherent in the Group. The upper section of the table shows how the estimates of total claims for each accident year develop over time. The estimates are increased or decreased as losses are paid and more information becomes known about the severity of unpaid claims. The lower section of the table provides a reconciliation of the total provision included in the statement of financial position and the estimate of cumulative claims.

	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Estimate of cumulative claims at end of financial year	2,129,576	2,524,853	2,425,881	2,255,275	2,138,326	1,828,508	
One year later	2,211,175	2,429,711	2,339,583	2,110,115	2,219,390	-	
Two years later	2,238,318	2,536,118	2,470,371	2,477,329	-	-	
Three years later	2,316,063	2,690,799	2,629,135	-	-	-	
Four years later	2,420,129	2,753,192	-	-	-	-	
Five years later	2,797,878	-	-	-	-	-	
Estimate of cumulative claims	2,797,878	2,753,192	2,629,135	2,477,329	2,219,290	1,828,508	14,705,332
Cumulative payments to date	2,257,148	2,390,719	2,092,742	1,673,098	1,063,932	363,319	9,840,958
Net outstanding claims liability	540,730	362,473	536,393	804,231	1,155,358	1,465,189	4,864,374

45. Financial Risk Management (Continued)

(f) Capital management

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

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

(i) The Bank

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Bank of Jamaica (BOJ), and the relevant management committees. The required information is filed with the respective Authority at the stipulated intervals.

The BOJ requires the Bank to:

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

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

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

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

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

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

The Bank met all the regulatory capital requirements during the years ended September 30, 2012 and 2013.

45. Financial Risk Management (Continued)

(f) Capital management (continued)

(ii) NCB Insurance Company Limited

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

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

The relevant capital requirement is the Minimum Continuing Capital Surplus Ratio (MCCSR) determined in accordance with the FSC regulations. This ratio is calculated by the Appointed Actuary and reviewed by executive management, the Audit Committee and the Board of Directors. This measure is a risk-based formula that compares available capital and surplus to a minimum requirement set by the FSC in regard to the asset and liability profile of the company. The company met all FSC regulatory capital requirements during the years ended September 30, 2012 and 2013.

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

Dynamic capital adequacy testing (DCAT)

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

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

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

National Commercial Bank Jamaica Limited

45. Financial Risk Management (Continued)

(f) Capital management (continued)

(ii) NCB Insurance Company Limited (continued)

Dynamic capital adequacy testing (DCAT)

The results of the latest DCAT are as follows.

The DCAT conducted has not tested any correlation that may exist between assumptions. The following table represents the sensitivity of the MCCSR and the Insurance Risk Reserve in each of the above scenarios. The 2013 information relates to the DCAT report for December 2012. The 2012 information relates to the DCAT report for December 2011.

		2013		2012	
	Variable	**MCCSR**	**Change in Liability $'000**	**MCCSR**	**Change in Liability $'000**
Worsening rate of lapses	+3% for 5 yrs	1198%	(47,454)	1765%	(1,024,461)
High interest rates	+100 bp for 5 yrs	1511%	(8,069,749)	2267%	(8,616,168)
Low interest rates	-100 bp for 5 yrs	103%	13,025,788	382%	10,032,276
Worsening of mortality	-3% for 5 yrs	949%	782,577	1139%	821,691
Higher expenses	+5% for 5 yrs	692%	1,242,612	391%	6,808,277
No sales growth	0% for 5 yrs	1097%	189,552	1657%	(827,044)
High sales growth	+50% for 5 yrs	913%	192,749	1070%	779,023
Extreme lapse and termination rates	x3 for 5 yrs	1476%	750,753	2327%	(562,219)
Fall in interest rates to 7%	-8% for 5 yrs	607%	8,542,953	674%	8,268,022

(iii) Advantage General Insurance Company Limited

The company is regulated by the Financial Services Commission (FSC) and is subject to regulatory capital tests employed by the regulator. Under the FSC regulations, the primary measure used to assess capital adequacy is the Minimum Capital Test (MCT). This measure is a risk-based formula that compares available capital and surplus to a minimum requirement set by the FSC in regard to the asset and liability profile of the company. As at September 30, 2013, the company was in compliance with the requirement set by the FSC.

45. Financial Risk Management (Continued)

(f) Capital management (continued)

(iv) NCB Capital Markets Limited

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

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

(i) Tier 1 capital: share capital, retained earnings and reserves created from appropriations of retained earnings.

(ii) Tier 2 capital: qualifying subordinated debt or loan capital, qualifying capital reserves and unrealized gains derived from the fair valuation of equity instruments classified as available for sale.

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

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

There was no change in relation to how the company manages its capital during the financial year.

The company met all the FSC regulatory capital requirements during the years ended September 30, 2012 and 2013.

46. Fair Values of Financial Instruments

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

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

(a) Investment securities at fair value through profit or loss, derivatives and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models, or discounted cash flows. Fair value is equal to the carrying amount for these items;

(b) Investment securities classified as available-for-sale are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognized valuation techniques;

(c) The fair value of investment securities classified as loans and receivables is determined by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognized valuation techniques;

(d) The fair value of liquid assets and other assets maturing within one year (such as Cash and balances at Bank of Jamaica and amounts Due from other banks) is assumed to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities;

(e) The fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the date of the statement of financial position;

(f) The fair value of variable rate financial instruments is assumed to approximate their carrying amounts; and

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

The carrying value (excluding accrued interest) (Note 23) and fair value of investment securities classified as loans and receivables were as follows:

	The Group		The Bank	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	$'000	$'000	$'000	$'000
At September 30, 2013	42,615,983	43,089,987	19,338,319	18,976,374
At September 30, 2012	40,086,304	39,969,116	19,327,788	18,491,300

The fair values for all other financial instruments approximate their carrying values.

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46. Fair Values of Financial Instruments (Continued)

The following tables provide an analysis of financial instruments held as at the date of the statement of financial position that, subsequent to initial recognition, are measured at fair value. The financial instruments are grouped into levels 1 to 3, based on the degree to which the fair value is observable, as follows:

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

	The Group			
	Level 1	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
At September 30, 2013				
Financial assets				
Investment securities classified as available-for-sale				
Government of Jamaica debt securities	-	168,143,494	-	168,143,494
Government of Jamaica guaranteed corporate bonds	-	9,599,145	-	9,599,145
Other corporate bonds	-	5,869,972	90,000	5,959,972
Foreign government debt securities	-	3,126,279	-	3,126,279
Quoted equity securities	851,179	-	-	851,179
Unquoted equity securities	-	-	47,498	47,498
	851,179	186,738,890	137,498	187,727,567
Investment securities at fair value through profit or loss				
Government of Jamaica debt securities	-	187,435	-	187,435
Government of Jamaica guaranteed corporate bonds	-	15,917	-	15,917
Other corporate bonds	-	12,225	-	12,225
Foreign government debt securities	-	18,326	-	18,326
Quoted equity securities	143,442	-	-	143,442
	143,442	233,903	-	377,345
Derivative financial instruments	-	387,304	-	387,304
	994,621	187,360,097	137,498	188,492,216
Financial liabilities				
Derivative financial instruments	-	1,437	-	1,437
Liabilities under annuity and insurance contracts	-	-	33,914,506	33,914,506
	-	1,437	33,914,506	33,915,943
Net financial assets/(liabilities)	994,621	187,358,660	(33,777,008)	154,576,273

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46. Fair Values of Financial Instruments (Continued)

	The Group			
	Level 1	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
At September 30, 2012				
Financial assets				
Investment securities classified as available-for-sale				
Government of Jamaica debt securities	-	148,418,357	-	148,418,357
Government of Jamaica guaranteed corporate bonds	-	9,264,768	-	9,264,768
Other corporate bonds	-	4,629,752	934,157	5,563,909
Foreign government debt securities	-	1,592,111	151,715	1,743,826
Quoted equity securities	1,739,754	-	-	1,739,754
Unquoted equity securities	-	-	47,498	47,498
	1,739,754	163,904,988	1,133,370	166,778,112
Investment securities at fair value through profit or loss				
Government of Jamaica debt securities	-	111,373	-	111,373
Government of Jamaica guaranteed corporate bonds	-	110,060	-	110,060
Other corporate bonds	-	48,233	161,481	209,714
Quoted equity securities	282,472	-	-	282,472
	282,472	269,666	161,481	713,619
Derivative financial instruments	-	4,978	-	4,978
	2,022,226	164,179,632	1,294,851	167,496,709
Financial liabilities				
Derivative financial instruments	-	5,312	-	5,312
Liabilities under annuity and insurance contracts	-	-	25,194,324	25,194,324
	-	5,312	25,194,324	25,199,636
Net financial assets/(liabilities)	2,022,226	164,174,320	(23,899,473)	142,297,073

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

	The Group	
	2013 **$'000**	**2012** **$'000**
At start of year	1,294,851	3,203,740
Acquisitions	90,000	1,509,299
Loans and receivables that were misclassified as available-for-sale in the prior year	(315,523)	-
Fair value losses recognized in other comprehensive income	-	(921,498)
Disposals/maturities	(931,830)	(2,496,690)
At end of year	137,498	1,294,851

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

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46. Fair Values of Financial Instruments (Continued)

	The Bank			
	Level 1	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
At September 30, 2013				
Financial assets				
Investment securities classified as available-for-sale				
Government of Jamaica debt securities	-	68,271,252	-	68,271,252
Government of Jamaica guaranteed corporate bonds	-	295,902	-	295,902
Corporate debt securities	-	1,548,454	-	1,548,454
Foreign government debt securities	-	1,408,140	-	1,408,140
Quoted equity securities	583,942	-	-	583,942
Unquoted equity securities	-	-	18,255	18,255
	583,942	71,523,748	18,255	72,125,945
Derivative financial instruments	-	387,304	-	387,304
	583,942	71,911,052	18,255	72,513,249
Financial liabilities				
Derivative financial instruments	-	1,437	-	1,437
Net financial assets	583,942	71,909,615	18,255	72,511,812
September 30, 2012				
Financial assets				
Investment securities classified as available-for-sale				
Government of Jamaica debt securities	-	61,585,090	-	61,585,090
Government of Jamaica guaranteed corporate bonds	-	623,858	-	623,858
Corporate debt securities	-	1,794,415	315,523	2,109,938
Foreign government debt securities	-	941,657	-	941,657
Quoted equity securities	550,978	-	-	550,978
Unquoted equity securities	-	-	18,255	18,255
	550,978	64,945,020	333,778	65,829,776
Derivative financial instruments	-	4,978	-	4,978
	550,978	64,949,998	333,778	65,834,754
Financial liabilities				
Derivative financial instruments	-	5,312	-	5,312
Net financial assets	550,978	64,944,686	333,778	65,829,442

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

	The Bank	
	2013	**2012**
	$'000	**$'000**
At start of year	333,778	333,778
Loans and receivables that were misclassified as available-for-sale in the prior year	(315,523)	-
At end of year	18,255	333,778

46. Fair Values of Financial Instruments (Continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets is the current bid price. These instruments are grouped in Level 1 and comprise equity securities that are quoted on the Jamaica Stock Exchange.

The fair value of financial instruments not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. This category includes government bonds, certificates of deposit, commercial paper and most investment grade and liquid corporate bonds. Indicative prices of these instruments are obtained from regular, publicly available quotes by reputable dealers and brokers, such as Bloomberg and Oppenheimer.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. This category includes certain corporate debt securities and unlisted equity securities.

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

	Fair values	Change in yield	Favorable changes		Unfavorable changes	
			Effect on Net Profit	Effect on Equity	Effect on Net Profit	Effect on Equity
	$'000		$'000	$'000	$'000	$'000
As at September 30, 2013:						
Investment securities classified as available-for-sale						
Valued at par	90,000	2%	1,800	1,201	(1,800)	(1,201)
As at September 30, 2012:						
Investment securities classified as available-for-sale						
Valued at par	1,085,872	2%	21,718	17,593	(21,718)	(17,593)
Investment securities at fair value through profit or loss						
Government of Jamaica yield curve	161,481	2%	3,230	2,153	(3,230)	(2,153)
	1,247,353		24,948	19,746	(24,948)	(19,746)

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

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47. Acquisition of Subsidiary

In February 2013, through its shareholding in NCB Capital Markets Limited, the Group acquired the entire share capital of Advantage General Insurance Company Limited. 96.24% of the issued share capital was acquired from AIC (Barbados) Limited and ACF Holdings Insurco Limited. Both AIC (Barbados) Limited and ACF Holdings Insurco Limited are controlled by the Chairman of the Bank.

The acquired business contributed revenues of $3,950,087,000 and profits of $322,711,000 for the year ended September 30, 2013. Had the company been acquired at the beginning of the year, it would have contributed revenues of approximately $5,266,783,000 and profits of approximately $430,281,000 to the Group for the year ended September 30, 2013.

Details of the net assets acquired, goodwill and net cash outlay on acquisition, determined on a provisional basis, were as follows:

	Fair Values $'000
Net assets arising on the acquisition –	
Cash	132,295
Investment securities	7,435,068
Investment properties	450,000
Intangible assets	613,522
Property, plant and equipment	823,334
Income tax recoverable	76,122
Post-employment benefits	(92,540)
Other assets	906,435
Policyholders liabilities	(6,811,520)
Deferred tax liabilities	131,939
Other liabilities	(463,306)
	3,201,349

Goodwill on acquisition:	**$'000**
Purchase consideration –	
Cash	3,016,254
Deferred consideration	185,095
	3,201,349
Net assets acquired	(3,201,349)
	-

Net cash outlay on acquisition:	**$'000**
Purchase consideration paid in cash	3,016,254
Cash acquired	(132,295)
	2,883,959

48. Financial Sector Legislation

At September 30, 2013 and September 30, 2012, the Bank was in breach of Section 13(1)(d)(i) of the Banking Act. This section deals with unsecured lending to connected persons and amounted to $10,000 (2012 – 18,766,000).

49. Fiduciary Activities

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. At September 30, 2013, the Group had financial assets under administration of approximately $52,627,306,000 (2012 – $50,879,847,000).

50. Dividends

The following dividends were paid during the year:
- $0.64 per ordinary stock unit was paid in December 2012
- $0.23 per ordinary stock unit was paid in March 2013
- $0.16 per ordinary stock unit was paid in May 2013
- $0.08 per ordinary stock unit was paid in August 2013

On November 14, 2013, the Board declared a final interim dividend in respect of 2013 of $0.16 per ordinary stock unit. The dividend is payable on December 12, 2013 for stockholders on record as at November 29, 2013. The financial statements for the year ended September 30, 2013 do not reflect this resolution, which will be accounted for in stockholders' equity as an appropriation of retained profits in the year ending September 30, 2014.

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51. Litigation and Contingent Liabilities

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

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

Significant matters are as follows:

(a) Suit has been filed by the Bank's Staff Association against the Bank seeking various declarations regarding the Bank's profit sharing scheme. The Association has not quantified the claim. No provision has been made in the financial statements as the Bank's attorneys are of the opinion that the suit against the Bank is unlikely to succeed.

(b) Suit has been filed by a customer against the Bank for breach of contract, breach of trust and negligence and damages. The claim for damages includes a sum equivalent to the profit of the business foregone as a result of an inability to access a loan approved by the Bank and the cost of interim financing. No provision has been made in these financial statements for this claim as the Bank's attorneys are of the view that the suit against the Bank is unlikely to succeed. On May 11, 2013 the Court ordered that the customer's claim be struck out. However, the customer is seeking to appeal that decision.

(c) Suit has been filed by a customer against the Bank for damages suffered as a result of the Bank's alleged negligence in relation to the sale of property. The proper value of the property, which had been owned by the customer, is in issue, along with the amount properly to be applied to the customer's loan balance. Based on the advice of the Bank's attorneys, a provision has been made in the financial statements in respect of this claim. The court's judgment is not yet received.

(d) Suit has been filed by a customer against the Bank for unlawful, wrongful and/or improper use of power in the appointment of a Receiver and manager of the customer's business property and assets. Damages, interest and costs have been claimed against the Bank. The Bank's attorneys are unable to determine the outcome of the suit and no provision has been made in the financial statements.

(e) Suit has been filed by customers against the Bank for damages suffered for the alleged negligence in the appointment of a Receiver over the assets of the customers and for the Receiver's alleged negligent conduct of the Receivership.

(f) The Ministry of Labour and Social Security referred to the Industrial Disputes Tribunal a dispute between the Staff Association and the Bank in respect of the Association's claim for increased wages and improved conditions of employment. The claim includes an increase in basic salaries of 8% for the financial year 2012-2013 and a further 8% for the following year.

(g) Suit was filed by a claimant seeking specific performance, damages for breach of contract, interest and costs. At the time of trial, the claim against the Bank was quantified by the claimant at approximately $31,400,000,000 plus interest and costs. No provision has been made in these financial statements for this claim as the Bank's attorneys were of the view that the suit against the Bank was unlikely to succeed, and the Supreme Court issued judgment in the Bank's favor. The claimant has appealed.

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