JMMB

CAPITAL & CREDIT
MERCHANT BANK LIMITED
FINANCIALLY FOCUSED

AUDITED FINANCIAL STATEMENTS

31 MARCH 2013

KPMG
Chartered Accountants
The Victoria Mutual Building
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Kingston
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To the Members of
CAPITAL & CREDIT MERCHANT BANK LIMITED

Report on the Financial Statements

We have audited the financial statements of Capital & Credit Merchant Bank Limited, ("the bank") set out on pages 2 to 16, which comprise the statement of financial position as at 31 March 2013, profit and loss account statements of comprehensive income, changes in equity and cash flows for the period then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the 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 as to whether or not the financial statements are free from material misstatement.

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

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

Basis for qualified opinion

Where collection of interest income is considered doubtful, or payment is outstanding for more than 90 days, banking regulations stipulate that interest should be taken into account on the cash basis. IFRS requires that when loans become doubtful of collection, i.e., impaired, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. Future interest receipts are taken into account in estimating future cash flows from the instrument; if no contractual interest payments will be collected, then the only interest income recognised is the unwinding of the discount on those cash flows expected to be received. The bank has complied with the BOJ Regulations. If the Bank had recognised interest income on past-due loans in accordance with IFRS, profit for the period would have been more by an estimated amount of $87 million.

Qualified opinion

In our opinion, except for the effects of the non-compliance with IFRS referred to in the immediately preceding paragraph, the financial statements give a true and fair view of the financial position of the bank as at 31 March 2013, and of its financial performance, changes in equity and cash flows for the period then ended, in accordance with International Financial Reporting Standards and the Jamaican Companies Act.

Report on additional matters as required by Jamaican Companies Act

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

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

Other matter

The financial statements of the bank as of and for the year ended December 31, 2011 were audited by another firm of Chartered Accountants whose report dated February 27, 2012 expressed an unqualified opinion on those financial statements.

KPMG

Chartered Accountants

Kingston, Jamaica

June 10, 2013

Profit and Loss Account
Fifteen months ended 31 March 2013
(With comparative figures for year ended 31 December 2011)
(expressed in Jamaican dollars unless otherwise indicated)

	Note	Fifteen months ended 31 March 2013 $'000	Twelve months ended 31 December 2011 $'000
Net Interest Income and Other Revenue			
Interest on investments		1,036,098	919,245
Interest on loans		554,550	480,449
Total interest income	4	1,590,648	1,399,694
Interest expense	4	987,899	922,709
Net interest income	**4**	**602,749**	**476,985**
Fee and commission income	5	29,958	23,880
(Losses)/gains on securities trading, net		(4,136)	105,230
Foreign exchange trading and translation		392,598	60,157
Dividends		12,719	34,727
Other income		67,194	76,953
Total other operating revenue		498,333	300,947
Net interest income and other revenue		**1,101,082**	**777,932**
Non-interest expenses			
Staff costs	6	454,873	337,940
Loan loss and bad debt expense, less recovery		157,846	(13,078)
Impairment of investment in associate		16,788	3,282
Bank charges		44,864	37,872
Property expenses		84,460	62,268
Depreciation and amortisation	16,17	67,175	83,077
Information technology costs		47,493	17,954
Marketing and corporate affairs		14,435	32,266
Professional fees		51,009	30,930
Regulatory costs		19,598	20,792
Irrecoverable General Consumption Tax		31,405	30,442
Asset tax		22,536	-
Other operating expenses		50,163	39,988
Total non-interest expenses		**1,062,645**	**683,733**
Profit before Taxation	7	38,437	94,199
Taxation	8	68,022	9,011
Profit for Period/Year		**106,459**	**103,210**

The notes are an integral part of these financial statements.

Statement of Comprehensive Income

Fifteen months ended 31 March 2013
(With comparative figures for the year ended 31 December 2011)
(expressed in Jamaican dollars unless otherwise indicated)

	Note	Fifteen months ended 31 March 2013 $'000	Twelve months ended 31 December 2011 $'000
Profit for Period/Year		106,459	103,210
Other comprehensive income			
Net unrealised (losses)/gains arising on revaluation of available-for-sale financial investments		(120,829)	311,809
Reclassification of gains realised and reported in profits		(4,136)	(105,230)
		(124,965)	206,579
Income tax relating to components of other comprehensive income		41,655	(68,860)
Total other comprehensive income for the period/year (net of tax)		(83,310)	137,719
Total comprehensive income for the period/year		23,149	240,929

The notes are an integral part of these financial statements.

Statement of Financial Position

31 March 2013
(With comparative figures as at 31 December 2011)
(expressed in Jamaican dollars unless otherwise indicated)

	Note	31 March 2013 $'000	31 December 2011 $'000
ASSETS			
Cash and cash equivalents	9	1,413,909	1,004,713
Investment in securities	10	1,986,714	2,040,522
Securities purchased under resale agreements	11	200,162	1,165,474
Pledged assets	12	11,838,655	8,756,743
Investment in subsidiaries (shares at cost)	13	-	305,406
Loans and notes receivable	14	5,079,190	6,194,889
Accounts receivable	15	132,297	372,393
Income tax recoverable		84,039	84,039
Intangible asset	16	-	49,566
Property, plant and equipment	17	76,399	55,860
Deferred income tax assets	18	219,325	109,648
Customers' liabilities under acceptances, guarantees and letters of credit as per contra		44,276	157,274
Total assets		21,074,966	20,296,527
LIABILITIES			
Bank overdraft	9	12,642	-
Securities sold under repurchase agreements	19	7,542,901	8,420,504
Deposits	20	7,918,743	5,650,058
Due to other financial institutions	21	378,734	696,369
Loan participation	22	341,498	458,348
Accounts payable	23	109,940	210,891
Liabilities under acceptances, guarantees and letters of credit as per contra		44,276	157,274
Total liabilities		16,348,734	15,593,444
STOCKHOLDERS' EQUITY			
Share capital	24	1,732,888	1,732,888
Statutory reserve fund	25	547,991	532,023
Retained earnings reserve	26	1,515,442	505,842
Capital redemption reserve	27	85,488	85,488
Fair value reserve	28	(467,308)	(383,998)
Loan loss reserve	14(c)	653,193	2,096,416
Retained earnings		658,538	134,424
		4,726,232	4,703,083
Total liabilities and stockholders' equity		21,074,966	20,296,527

Approved for issue by the Board of Directors on June 10, 2013 and signed on its behalf by:

Dr. Noel A. Lyon
Director

Keith Duncan
Director

The notes are an integral part of these financial statements.

Statement of Changes in Equity
Fifteen Months ended 31 March 2013
(With comparative figures as at 31 December 2011)
(expressed in Jamaican dollars unless otherwise indicated)

	Share Capital	Statutory Reserve Fund	Retained Earnings Reserve	Capital Redemption Reserve	Fair Value Reserve	Loan Loss Reserve	Retained Earnings	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 31 December 2010	**1,732,888**	**516,541**	**1,215,442**	**-**	**(521,717)**	**1,004,907**	**514,093**	**4,462,154**
Profit for the year	-	-	-	-	-	-	103,210	103,210
Other comprehensive income for the year:								
Unrealised gains available-for-sale investment, net of tax	-	-	-	-	207,873	-	-	207,873
Reclassification of gains realised and reported in profits	-	-	-	-	(70,154)	-	-	(70,154)
Total other comprehensive income	-	-	-	-	137,719	-	-	137,719
Total comprehensive income for the year	-	-	-	-	137,719	-	103,210	240,929
Transfer to loan loss reserve	-	-	-	-	-	1,091,509	(1,091,509)	-
Transfer from retained earnings reserve	-	-	(709,600)	-	-	-	709,600	-
Transfer to statutory reserve fund	-	15,482	-	-	-	-	(15,482)	-
Transfer to capital redemption reserve fund	-	-	-	85,488	-	-	(85,488)	-
Balance at 31 December 2011	**1,732,888**	**532,023**	**505,842**	**85,488**	**(383,998)**	**2,096,416**	**134,424**	**4,703,083**
Profit for the period	-	-	-	-	-	-	106,459	106,459
Other comprehensive income for the period:								
Unrealised gains available-for-sale investment, net of tax	-	-	-	-	(80,619)	-	-	(80,619)
Reclassification of gains realised and reported in profits	-	-	-	-	(2,691)	-	-	(2,691)
Total other comprehensive income	-	-	-	-	(83,310)	-	-	(83,310)
Total comprehensive income for the period	-	-	-	-	(83,310)		106,459	23,149
Transfer from loan loss reserve	-	-	-	-	-	(1,443,223)	1,443,223	-
Transfer to retained earnings reserve	-	-	1,009,600	-	-	-	(1,009,600)	-
Transfer to statutory reserve fund	-	15,968	-	-	-	-	(15,968)	-
Balance at 31 March 2013	**1,732,888**	**547,991**	**1,515,442**	**85,488**	**(467,308)**	**653,193**	**658,538**	**4,726,232**

The notes are an integral part of these financial statements.

Statement of Cash Flows for the Fifteen months ended 31 March 2013
(With comparative figures for the year ended 31 December 2011)
(expressed in Jamaican dollars unless otherwise indicated)

	Note	Fifteen months ended 31 March 2013 $'000	Twelve months ended 31 December 2011 $'000
Cash Flows from Operating Activities			
Profit for the period/year		106,459	103,210
Adjustments for:			
Interest Income	4	(1,590,648)	(1,399,694)
Interest expense	4	987,899	922,709
Provision for credit losses		133,817	65,799
Impairment loss on investment in associate		16,788	3,282
Depreciation and amortisation	16,17	67,175	83,077
Gains on sale of property and equipment		(1,465)	(77)
Income tax charge	8	(68,022)	(9,011)
		(347,997)	(230,705)
Changes in operating assets and liabilities -			
Accounts receivable		290,178	111,476
Loans receivable		823,744	164,388
Accounts payable		(100,947)	65,162
		664,978	110,321
Interest received		1,758,671	1,504,315
Interest paid		(1,060,481)	(1,001,038)
Cash provided by operating activities		1,363,168	613,598
Cash Flows from Investing Activities			
Proceeds from sale of property and equipment		2,188	84
Acquisition of property and equipment	17	(38,871)	(8,351)
Proceed from sale of subsidiaries		305,406	-
Investments (net)		(3,275,438)	2,996,033
Securities purchased under resale agreements		431,850	13,270
Cash (used in)/provided by investing activities		(2,574,865)	3,001,036
Cash Flows from Financing Activities			
Deposits		2,266,134	(1,702,705)
Securities sold under repurchase agreement		(803,096)	(929,423)
Preference shares redeemed		-	(85,488)
Loan participation		(116,190)	(223,213)
Due to other financial institutions		(317,671)	(18,603)
Cash provided by/(used in) by financing activities		1,029,177	(2,959,432)
Effect of exchange rate changes on cash and cash equivalents		156,522	(37,618)
Net (decrease)/increase in cash and cash equivalents		(25,998)	617,684
Cash and cash equivalents at beginning of period/year		1,142,234	524,650
CASH AND CASH EQUIVALENTS AT END OF YEAR	9	1,116,236	1,142,234

The notes are an integral part of these financial statements.

Notes to the Financial Statements
31 March 2013
(With comparative figures for the year ended 31 December 2011)
(expressed in Jamaican dollars unless otherwise indicated)

1. Identification and Activities

(a) Capital & Credit Merchant Bank Limited ("the bank") is incorporated in Jamaica and is a wholly owned subsidiary of Jamaica Money Market Brokers Limited ("JMMB"), which is also incorporated in Jamaica. The registered office of the Bank is 6 – 8 Grenada Way, Kingston 5.

During the period, the bank and its former subsidiaries were acquired by Jamaica Money Market Brokers Limited.

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

In the prior period, the Bank had two subsidiaries, Capital & Credit Securities Limited and Capital & Credit Fund Managers Limited. Both subsidiaries are incorporated and domiciled in Jamaica. These were sold during the period to the parent company.

The principal activities of the subsidiaries were as follows:

Subsidiaries	Place of incorporation and operation	Proportion of direct ownership interest	Proportion of voting power held	Principal Activities
Capital & Credit Securities Limited	Jamaica	100%	100%	Dealing in securities, stockbroking, portfolio planning, pension fund management and investment advisory services.
JMMB Fund Managers Limited, formerly Capital & Credit Fund Managers Limited	Jamaica	69.85%	69.85%	Management of Jamaica Investment Fund and the selling of units to the public on its behalf.

(c) The bank is licensed under the Financial Institutions Act and the Securities Act and regulated by the Bank of Jamaica (the Supervisor) and the Financial Services Commission.

Capital & Credit Securities Limited is licensed under the Securities Act and is regulated by the Financial Services Commission and the Jamaica Stock Exchange as a stockbroker.

JMMB Fund Managers Limited is licensed under the Unit Trust Act and regulated by the Financial Services Commission.

(d) Associate Company

Associate	Place of incorporation and operation	Proportion of direct ownership interest	Proportion of voting power held	Principal Activities
Capital & Credit Holdings Inc.	United States of America	20%	20%	Investment in Capital & Credit International Inc., an investment banking entity in the USA.

The investment in associate was written off during the period.

(e) Comparative consolidated financial statements of the group (the bank and its subsidiaries) are not presented as the ultimate parent company presents consolidated financial statements in accordance with IFRS.

2. Significant Accounting Policies

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and relevant provisions of the Jamaican Companies Act. They have been prepared on the historical cost basis, except for the revaluation of available-for-sale financial assets.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the bank's accounting policies. Although these estimates are based on management's best knowledge of current events and actions, actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

New, revised and amended standards and interpretations that became effective during the period that are relevant to the Bank's operations:

Certain new, revised and amended standards and interpretations came into effect during the current period. They did not result in any changes to accounting policies and did not have any significant effect on the amounts and disclosures in the financial statements.

New, revised and amended standards and interpretations that were issued but not yet effective and have not been early adopted by the Bank

Certain new, revised and amended standards and interpretations have been published and management considers that the following may be relevant to the Bank's operations when they become effective:

- IAS 1, *Presentation of Financial Statements*, has been amended by the issue of a document entitled *Presentation of Items of Other Comprehensive Income*, effective for annual reporting periods beginning on or after July 1, 2012, to require a reporting entity to present the items of other comprehensive income (OCI) that may be reclassified to profit or loss in the future separately from those that would never be reclassified to profit or loss. Consequently, an entity that presents items of OCI before related tax effects will also have to allocate the aggregated tax amount between these sections. The existing option to present the profit or loss and other comprehensive income in two statements has not changed. The title of the statement has changed from 'Statement of Comprehensive Income' to 'Statement of Profit or Loss and Other Comprehensive Income'. However, an entity is still allowed to use other titles.

- IFRS 9, *Financial Instruments (2010)*, is effective for accounting periods beginning on or after January 1, 2015. The standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. It eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, to present all fair value changes from the investment in other comprehensive income. The standard includes guidance on classification and measurement of financial liabilities designated as at fair value through profit or loss and incorporates certain existing requirements of IAS 39 *Financial Instruments: Recognition and Measurement* on the recognition and de-recognition of financial assets and financial liabilities.

New, revised and amended standards and interpretations that were issued but not yet effective and have not been early adopted by the Bank (continued)

- IFRS 13, *Fair Value Measurement,* which is effective for annual reporting periods beginning on or after January 1, 2013, defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value and is applicable to assets, liabilities and an entity's own equity instruments that, under other IFRSs, are required or permitted to be measured at fair value, or when disclosure of fair values is provided. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

- Amendments to IAS 32, *Financial Instruments: Presentation,* which is effective for annual reporting periods beginning on or after January 1, 2014, clarifies those conditions needed to meet the criteria specified for offsetting financial assets and liabilities. It requires the entity to prove that there is a legally enforceable right to set off the recognised amounts. Conditions such as whether the set off is contingent on a future event and the nature and right of set-off and laws applicable to the relationships between the parties involved should be examined. Additionally, to meet the criteria, an entity should intend to either settle on a net basis or to realise the asset and settle the liability simultaneously.

- *Improvements to IFRS 2009-2011* cycle contains amendments to certain standards and interpretations and are effective for accounting periods beginning on or after January 1, 2013. The main amendments applicable to the company are as follows:

- *IAS 1 Presentation of Financial Statements* is amended to clarify that only one comparative period, which is the preceding period, is required for a complete set of financial statements. IAS 1 requires the presentation of an opening statement of financial position when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification. IAS 1 has been amended to clarify that (a) the opening statement of financial position is required only if a change in accounting policy, a retrospective restatement or a reclassification has a material effect upon the information in that statement of financial position; (b) except for the disclosures required under IAS 8, notes related to the opening statement of financial position are no longer required; and (c) the appropriate date for the opening statement of financial position is the beginning of the preceding period, rather than the beginning of the earliest comparative period presented.

- *IAS 16 Property, Plant and Equipment* – The standard is amended to clarify that the definition of 'property, plant and equipment' in IAS 16 is now considered in determining whether spare parts, standby-by equipment and servicing equipment should be accounted for under the standard. If these items do not meet the definition, then they are accounted for using *IAS 2 Inventories*.

- *IAS 32 Financial Instruments: Presentation* – The standard is amended to clarify that *IAS 12 Income Taxes* applies to the accounting for income taxes relating to distributions to holders of an equity instrument and transaction costs of an equity transaction.

The bank is assessing the impact that these new, revised and amended standards and interpretations will have on the financial statements when they become effective.

(b) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

(c) Financial instruments

(i) Cash and cash equivalents

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

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

(ii) Forward currency contracts

The Bank enters into forward contracts to manage its exposure to foreign exchange risk. These contracts are initially recognised at fair value on the date that they are entered into, and subsequently are re-measured at their fair value at each reporting date. Fair values are obtained from quoted market prices,

Notes to The Financial Statements *(Continued)*

2. Significant Accounting Policies (Continued)

(c) Financial instruments

(ii) Forward currency contracts (Continued)

discounted cash flow models and option pricing models, as appropriate. Forward contracts are carried as assets when fair value is positive and as liabilities when fair value is negative. Assets and liabilities are set off where the contracts are with the same counterparty, a legal right of set off exists and the cash flows are intended to be settled on a net basis.

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

(iii) Resale and repurchase agreements

Transactions involving purchases of securities under resale agreements ('resale agreements' or reverse repos') or sales of securities under repurchase agreements ('repurchase agreements' or 'repos) are accounted for as short-term collateralised lending and borrowing, respectively. Accordingly, securities sold under repurchase agreements remain on the statement of financial position and are measured in accordance with their original measurement principles. The proceeds of sale are reported as liabilities and are carried at amortised cost.

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

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

(iv) Investments

Available-for-sale financial assets

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

Loans and receivables

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

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

(v) Loans and notes receivable and other receivables

Loans and notes receivable and other receivables are stated at amortised cost less impairment provisions.

(vi) Account payable

Accounts payable are stated at amortised cost.

(vii) Interest-bearing borrowings

Interest-bearing borrowings [other than repos, which are described in Note [2(c) (iii)] are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost, with any difference between cost and redemption being recognised in the profit or loss over the period of the borrowings.

(viii) Recognition

Regular purchases and sales of financial assets are recognised on the settlement dates and are initially recognised at fair value plus transaction costs.

(d) Loans and provision for credit losses

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

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

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

For non-performing and impaired loans the accrual of interest income based on the original terms of the loan is discontinued. Jamaican banking regulations require that interest on non-performing loans be taken into account on the cash basis. IFRS require that interest income on non-performing loans be accrued, to the extent collectible, and that the increase in the present value of impaired loans due to the passage of time be reported as interest income. The bank has complied with the Bank of Jamaica Regulations. If the Bank had recognised interest income on past-due loans in accordance with IFRS, profit for the period would have been more by an estimated amount of $87 million.

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

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

(d) Loans and provision for credit losses (continued)

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

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

(e) Property, plant and equipment

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

Cost includes expenditures that are directly attributable to the acquisition of the asset.

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

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

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

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

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

(f) Intangible assets

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

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

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

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

(g) Provisions

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

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

(h) Employee benefits

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

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

The bank participates in a defined contribution plan whereby it pays contributions to a privately administered fund. Once the contributions have been paid, the bank has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and are included in staff costs.

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

Termination benefits

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

Notes to The Financial Statements *(Continued)*

2. Significant Accounting Policies (Continued)

(i) Income taxes

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

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

(i) Current income tax

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

(ii) Deferred income tax

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

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

(j) Guarantees, letters of credit and undertakings

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

Where the bank's liabilities are considered to be contingent, the amounts are disclosed in Note 32.

(k) Impairment

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

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

(i) Calculation of recoverable amount

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

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

(ii) Reversals of impairment

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

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

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

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

(l) Income and expense recognition

Interest income and expense

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

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

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

(l) Income and expense recognition (continued)

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

Fee and commission income

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

Dividend income

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

(m) Leases

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

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

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies

In the application of the bank's accounting policies, which are described in Note 2, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from the sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgments in applying accounting policies

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

Key sources of estimation uncertainties

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

(i) Fair value of financial assets

As described in Note 31, management uses its judgment in selecting appropriate valuation techniques to determine fair values of financial assets. Valuation techniques commonly used by market practitioners supported by appropriate assumptions are applied by the bank. The financial assets of the bank at the reporting period stated at fair value determined in this manner amounted to $13,600,000,000 (2011: $10,300,000,000).

Had the fair value of these securities been 5% higher or lower the profit for the bank would increase/decrease by $Nil while other comprehensive income would increase/decrease by $681,000,000 (2011:$502,200,000).

(ii) Income taxes

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

(iii) Impairment losses on loans and advances

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

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

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

To the extent that the net present value of estimated cash flows changed adversely by 2 percent, the provision as estimated would be increased from $92,900,000 to $202,800,000 (2011: $336,800,000 to $457,400,000).

Notes to The Financial Statements *(Continued)*

4. Investment Revenue

(a) Net interest income

	Fifteen months ended 31 March 2013 $'000	Twelve months ended 31 December 2011 $'000
Interest income		
Government of Jamaica securities	819,109	727,569
US Treasury Bills	660	1,947
Other securities	215,185	188,706
Loans and other receivables (including cash and cash equivalents)	555,694	481,472
	1,590,648	1,399,694
Interest expense		
Securities sold under repurchase agreements	624,464	544,271
Deposits	294,152	302,916
Other	69,283	75,522
	987,899	922,709
Net Interest Income	602,749	476,985

(b) Revenue from financial assets

	Fifteen months ended 31 March 2013 $'000	Twelve months ended 31 December 2011 $'000
Interest revenue:		
Securities available-for-sale	1,034,954	918,222
Loans and other receivables/ (including cash and cash equivalents)	555,694	481,472
	1,590,648	1,399,694
Other revenue:		
Dividends	12,719	34,727
Gains on disposal of available-for-sale investments	392,598	105,230
Net foreign exchange (losses)/gains	(4,136)	60,157
	401,181	200,114

5. Fee and commission income

	Fifteen months ended 31 March 2013 $'000	Twelve months ended 31 December 2011 $'000
This represents loans processing fees.	29,958	23,880

6. Staff Costs

	Fifteen months ended 31 March 2013 $'000	Twelve months ended 31 December 2011 $'000
Salaries and wages	314,239	240,197
Statutory contributions	33,119	24,800
Pension contributions (note 29)	11,371	9,946
Other staff benefits	96,144	62,997
	454,873	337,940

7. Profit before taxation

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

	Fifteen months ended 31 March 2013 $'000	Twelve months ended 31 December 2011 $'000
Directors' emoluments:		
Fees	15,249	5,910
Management	19,854	22,782
Auditors' remuneration:		
Current period/year	5,600	6,300
Prior year	-	159
Depreciation and amortisation	67,175	83,077

8. Taxation

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

	Fifteen months ended 31 March 2013 $'000	Twelve months ended 31 December 2011 $'000
Income tax at 33⅓% of taxable income	-	1,189
Deferred tax (note 18):		
Origination and reversal of temporary differences	(46,820)	(35,744)
Tax benefit of losses carried forward	(21,202)	25,544
	(68,022)	(10,200)
	(68,022)	(9,011)

(b) Subject to agreement with the Commissioner General, Tax Administration Jamaica, tax losses of approximately $63,607,394 (2011: Nil) are available for set off against future taxable profits of the bank, and can be carried forward indefinitely.

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

	Fifteen months ended 31 March 2013 $'000	Twelve months ended 31 December 2011 $'000
Profit before tax	38,437	94,199
Tax at 33⅓%	12,812	31,400
Tax effect of:		
Expenses not deductible in determining taxable profit	12,163	11,091
Non-taxable income	(96,641)	(52,424)
Other adjustments	3,644	922
Tax credit recognised for the period/year	(68,022)	(9,011)

9. Cash and Cash Equivalents

	31 March 2013 $'000	31 December 2011 $'000
Cash and balances with banks including Bank of Jamaica	1,413,909	1,004,713
Securities purchased under resale agreements	200,162	709,511
Promissory note	224,490	-
Cash deposit at investment brokers (note 15)	60,268	-
	1,898,829	1,714,224
Less:		
Statutory reserves with the Bank of Jamaica (see below i)	(769,951)	(571,990)
Bank overdraft (note ii)	(12,642)	-
	(782,593)	(571,990)
	1,116,236	1,142,234

(i) Statutory reserves with the Bank of Jamaica are held in compliance with Section 14(1) of the Financial Institutions Act, which requires that every licensee maintains a cash reserve with the Bank of Jamaica of not less than 5% (2011: 5%) of its prescribed liabilities. The reserve for Jamaican dollar prescribed liabilities is held on a non-interest-earning basis. No portion of the cash reserve is available for investment, lending or other use by the Bank. The actual required ratio at year end was 12% (2011: 12%) for Jamaican dollar cash reserves and 9% (2011: 9%) for foreign currency cash reserves.

(ii) The bank overdraft which is unsecured, results primarily from cheques drawn at year end but not presented to other banks.

Notes to The Financial Statements *(Continued)*

10. Investment in Securities

	31 March 2013 $'000	31 December 2011 $'000
Securities available-for-sale		
Government of Jamaica securities	9,345,899	6,953,451
US Treasury Bills	442,382	376,333
Bank of Jamaica Certificate of Deposits	200,000	465,000
Equity investments	61,971	282,464
Investment debenture	305,406	-
Promissory note	224,489	-
Other securities	3,040,678	2,523,035
	13,620,825	10,600,283
Pledged assets (see Note 12)	(11,838,655)	(8,756,743)
	1,782,170	1,843,540
Interest receivable	204,544	196,982
	1,986,714	2,040,522

Investments mature, from the reporting date as follows:

	31 March 2013 $'000	31 December 2011 $'000
Government of Jamaica securities		
From 3 months to 1 year	171,618	136,785
From 1 year to 5 years	267,615	607,256
Over 5 years	8,906,666	6,209,410
	9,345,899	6,953,451
Certificates of deposit and Treasury :		
Within 3 months	642,382	465,000
From 3 months to 1 year	-	376,333
	642,382	841,333
Debenture and Promissory Notes:		
Within 3 months	224,489	-
From 1 year to 5 years	305,406	-
	529,895	-
Corporate		
From 1 year to 5 years	2,301,127	1,325,145
Over 5 years	739,551	1,197,890
	3,040,678	2,523,035
Other	61,971	282,464
	13,620,825	10,600,283

11. Securities Purchased Under Agreements to Resell

	31 March 2013 $'000	31 December 2011 $'000
Denominated in Jamaica dollars	200,162	569,155
Denominated in United States dollars	-	596,319
	200,162	1,165,474

Resale agreements include balances with related parties as set out in Note 30. All resale agreements mature within twelve months after the reporting date.

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

The fair value of collateral held for securities purchased under resale agreements amounted to $198,198,000

(31 December 2011:$1,390,697,100).

12. Pledged Assets

The Bank enters into collateralised repurchase agreements and as at the reporting date, investment securities amounting to $11,838,655,000 (2011: $8,756,743,000) were pledged as collateral for repurchase agreements (note 19).

13. Investment in Subsidiaries

Investment in subsidiaries were sold during the period to the parent company, Jamaica Money Market Brokers Limited.

14. Loan and Notes Receivable

	31 March 2013 $'000	31 December 2011 $'000
Corporate	2,705,673	4,901,459
Financial institutions	3,563	-
Individuals	2,452,089	1,463,492
	5,161,325	6,364,951
Less: provision for impairment	(97,242)	(336,802)
	5,064,083	6,028,149
Interest receivable	15,107	166,740
	5,079,190	6,194,889

(a) The loan balance includes an amount of $70,930,000 (2011: $91,800,000) receivable from employees.

(b) The aggregate amount of non-performing loans on which interest is not being accrued is $560,570,000 (2011: $3,200,000,000).

(c) The movements in the provisions for loan losses are as follows:

	31 March 2013 $'000	31 December 2011 $'000
Provision for loan losses under IFRS		
Provision at beginning of period/year	336,802	364,733
Write-offs	(292,589)	(1,965)
Recovery of amounts previously written off	4,110	10,614
	48,323	373,382
Charged to profit and loss	153,618	52,012
Recoveries during the year	(17,402)	(78,877)
Write off	(87,297)	-
Transfer (See Note 15)	-	(9,715)
	48,919	(36,580)
Balance at end of period/year	97,242	336,802
Regulatory provision (In excess of IFRS Requirements)		
Provision at January 1	2,096,416	1,004,907
(Credited)/ charged to equity	(1,443,223)	1,091,509
Balance at end of period/year	653,193	2,096,416
Total allowance for impairment	750,435	2,433,218
Allowance based on accounting standards - (IAS 39 see (i) below)	97,242	336,802
Additional allowance based on Bank of Jamaica regulations (see (ii) below)	653,193	2,096,416
	750,435	2,433,218

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

(ii) This is the allowance based on the regulations issued by the banking supervisor, Bank of Jamaica. It represents the additional allowance required to meet the Bank of Jamaica loan loss provision requirements. A non-distributable loan loss reserve was established to represent the excess of the Bank's provision over the IAS 39 requirements.

15. Accounts Receivable

	31 March 2013 $'000	31 December 2011 $'000
Brokers receivable	60,268	1,285
Withholding tax recoverable	45,484	46,229
Owed by wholly-owned subsidiary	-	191
Owed by fellow subsidiary	451	5
Recoverable expenses	795	302,669
Other receivables	27,371	45,516
	134,369	395,895
Less: Provision for impairment (including transfer from loan provision)	(2,072)	(23,502)
	132,297	372,393
Ageing of past due but not impaired		
90 – 180 days	33	25,275
181 – 360 days	325	10,446
Over 360 days	1,423	243,446
	1,781	279,167
Ageing of impaired trade receivable		
Over 180 days	232	23,502

Notes to The Financial Statements *(Continued)*

15. Accounts Receivable (Continued)

Movement in provision for doubtful debts

	31 March 2013 $'000	31 December 2011 $'000
Balance at beginning of period/year	23,502	-
Transferred from loans (Note 14)	-	9,715
Charged to profit or loss	8,846	13,787
Write-offs	(29,110)	-
Recoveries	(1,166)	-
Balance at end of period/year	2,072	23,502

16. Intangible Asset

	Computer Software $'000
Cost	
At 31 December 2010, 31 December 2011 and 31 March 2013	331,090
Accumulated Amortisation	
At 31 December 2010	215,500
Charge for the year	66,024
At 31 December 2011	281,524
Charge for the period	49,566
At 31 March 2013	331,090
Net Book Value	
31 March 2013	-
31 December 2011	49,566
31 December 2010	115,590

17. Property, Plant and Equipment

	Freehold Land and Buildings $'000	Equipment, Furniture and Fittings $'000	Painting and Artwork $'000	Leasehold Improvement $'000	Motor Vehicles $'000	Total $'000
Cost						
At 31 December 2010	23,359	150,461	8,858	60,680	16,049	259,407
Additions	-	8,351	-	-	-	8,351
Disposals	-	(121)	-	-	-	(121)
At 31 December 2011	23,359	158,691	8,858	60,680	16,049	267,637
Additions	-	22,416	-	16,455	-	38,871
Disposals	-	-	-	-	(7,412)	(7,412)
At 31 March 2013	23,359	181,107	8,858	77,135	8,637	299,096
Accumulated Depreciation						
At 31 December 2010	3,568	124,968	-	56,244	10,058	194,838
Charge for the year	510	11,830	-	1,579	3,134	17,053
Disposals	-	(114)	-	-	-	(114)
At 31 December 2011	4,078	136,684	-	57,823	13,192	211,777
Charge for the period	637	13,123	-	1,739	2,110	17,609
Disposals	-	-	-	-	(6,689)	(6,689)
At 31 March 2013	4,715	149,807	-	59,562	8,613	222,697
Net Book Value						
At 31 March 2013	18,644	31,300	8,858	17,573	24	76,399
At 31 December 2011	19,281	22,007	8,858	2,857	2,857	55,860
At 31 December 2010	19,791	25,493	8,858	4,436	5,991	64,569

18. Deferred Income Taxes

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

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

(a) Deferred tax assets and liabilities recognised on the statement of financial position are as follows:

	31 March 2013 $'000	31 December 2011 $'000
Deferred tax assets	299,797	257,885
Deferred tax liabilities	(80,472)	(148,237)
Net assets	219,325	109,648

18. Deferred Income Taxes (Continued)

(b) Deferred income tax assets and deferred income liabilities are due to the following items:

	31 March 2013 $'000	31 December 2011 $'000
Deferred income tax assets -		
Tax losses carried forward	21,202	-
Investments	233,653	191,998
Interest payable	40,602	64,795
Tax credit	1,000	1,000
Accounts/payable	3,340	92
	299,797	257,885
Deferred income tax liabilities -		
Property, plant and equipment	7,202	18,959
Interest receivable	73,270	129,278
	80,472	148,237
Net deferred income tax assets	219,325	109,648

(c) The movement for the period/year in the net deferred tax is as follows:

31 March 2013	Balance at Beginning of Period $'000	Recognised in Income $'000	Recognised in Other Comprehensive Income $'000 (Note 28)	Balance at End of Period $'000
Tax losses carried forward	-	21,202	-	21,202
Property, plant and equipment	(18,959)	11,757	-	(7,202)
Interest receivable	(129,278)	56,008	-	(73,270)
Interest payable	64,795	(24,193)	-	40,602
Accounts payable	92	3,248	-	3,340
Tax credit	1000	-	-	1,000
Investments	191,998	-	41,655	233,653
	109,648	68,022	41,655	219,325

31 December 2011	Balance at Beginning of Period $'000	Recognised in Income $'000	Recognised in Other Comprehensive Income $'000 (Note 28)	Balance at End of Period $'000
Tax losses carried forward	25,544	(25,544)	-	-
Property, plant and equipment	(41,539)	22,580	-	(18,959)
Interest receivable	(164,152)	34,874	-	(129,278)
Interest payable	90,905	(26,110)	-	64,795
Unrealised gains	(4,527)	4,527	-	-
Accounts payable	219	(127)	-	92
Tax credit	1,000	-	-	1000
Investments	260,858	-	(68,860)	191,998
	168,308	10,200	(68,860)	109,648

19. Securities Sold Under Repurchase Agreements

	31 March 2013 $'000	31 December 2011 $'000
Personal	220	37
Financial institutions	5,748,423	6,596,413
Commercial and business enterprises	1,720,562	1,675,851
	7,469,205	8,272,301
Interest payable	73,696	148,203
	7,542,901	8,420,504

Securities pledged to collateralised repurchased agreement are disclosed at note 12.

20. Deposits

	31 March 2013 $'000	31 December 2011 $'000
Personal	3,076,798	3,242,510
Financial institutions	1,783,088	129,555
Commercial and business enterprises	3,011,338	2,233,024
	7,871,224	5,605,089
Interest payable	47,519	44,969
	7,918,743	5,650,058

Notes to The Financial Statements *(Continued)*

21. Due to Other Financial Institutions

	31 March 2013 $'000	31 December 2011 $'000
Principal	378,561	696,231
Interest payable	173	138
	378,734	696,369

The above balance consists of US$700,000 and J$307,900,000 (2011: US$ 4,100,000 and J$340,600,000) due to the Development Bank of Jamaica (DBJ), at interest rates of 4.5% to 7% per annum for periods up to 8 years (2011: 4.5% to10.00% per annum for periods up to 10 years). Loans are repayable in monthly installments. The loans are for on-lending to customers to finance development and agricultural projects within the terms and conditions of the DBJ.

22. Loan Participation

	31 March 2013 $'000	31 December 2011 $'000
Personal	56,948	69,108
Financial institutions	8,934	5,229
Commercial and business enterprises	275,200	382,934
	341,082	457,271
Interest payable	416	1,077
	341,498	458,348

23. Accounts Payable

	31 March 2013 $'000	31 December 2011 $'000
Owed to fellow subsidiary	-	313
Owed to ultimate parent company	7,190	-
Payroll taxes	8,509	22,417
Deferred income	39	56,461
General consumption tax payable	972	385
Other payable	93,230	131,315
	109,940	210,891

24. Share Capital

	31 March 2013 $'000	31 December 2011 $'000
Authorised –		
800,000,000 ordinary shares	800,000	800,000
100,000,000 convertible preference shares	100,000	100,000
Issued and fully paid –		
641,159,682 ordinary shares of no par value	1,732,888	1,732,888

25. Statutory Reserve Fund

Under the Financial Institutions Act (1992), the Bank is required to transfer to a reserve fund a minimum of 15% of the net profit each year until the amount to the credit of the reserve fund is equal to 50% of the paid up capital. Thereafter, 10% of the net profit each year is to be transferred to the reserve fund until the amount at the credit of the reserve fund is equal to the paid up capital. The transfer for the period/year was at the prescribed rate of 15% (2011: 15%).

26. Retained Earnings Reserve

The Financial Institutions Act permits the transfer of net profits to a retained earnings reserve. Such transfers are made at the discretion of the Bank's Directors and must be notified to the Bank of Jamaica.

The Bank of Jamaica has been notified of the $1,009,600,000 (2011: $709,600,000) transfer from retained earnings reserve to loan loss reserve.

27. Capital Redemption Reserve

Capital redemption reserve is based on the redemption of 42,743,979 cumulative redeemable preference shares at a value of $85,488,000 in 2011. In conformity with the provisions of the Jamaica Companies Act, an amount equal to the value of the preference shares redeemed was transferred from retained earnings to the Capital Redemption Reserve.

28. Fair Value Reserve

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

Movement in fair value reserve is as follows:

	31 March 2013 $'000	31 December 2011 $'000
Balance at beginning of period/year	(383,998)	(521,717)
Unrealised (losses)/gains on available-for-sale investments	(120,829)	311,809
Deferred tax on unrealised gains/(losses)	40,276	(103,937)
Realised losses on sale of available-for-sale of investments transferred to profit and loss account	(4,136)	(105,230)
Deferred tax on realised gains	1,379	35,077
Balance at end of period/year	(467,308)	(383,998)

29. Pension Fund

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

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

The Fund is administered by trustees and the assets are held separately from those of the bank. Under the rules of the Fund, an actuarial valuation should be carried out by the appointed actuaries every three years. An actuarial valuation of the Fund was done as at 31 December 2008 by Duggan Consulting Limited, independent actuaries. The valuation report revealed a funding surplus.

The contributions for the period/year amounted to $11,371,000 (2011: $9,946,000) [see note 6].

Consequent on the acquisition of the bank by Jamaica Money Market Brokers Limited (JMMB) no further contributions has been made to the Fund operated by the bank. Approval was granted by the Financial Services Commission (FSC) to proceed with the winding up of the Capital & Credit Financial Group (CCFG) Fund as at 30 September 2012. As of October 2012, contributions are being made to the Fund managed by the parent company, JMMB.

30. Related Party Transactions and Balances

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

	31 March 2013 $'000	31 December 2011 $'000
Securities purchased under resale agreements –		
Ultimate parent company	-	1,165,474
Loans and notes receivable –		
Ultimate parent company	310,736	60,450
Other related entities	-	28,215
Fellow subsidiaries	225,075	-
Key management personnel including directors	46,313	79,583
	582,124	168,248
Accounts receivable –		
Wholly owned subsidiaries	-	191
Fellow subsidiaries	451	5
	451	196

	31 March 2013 $'000	31 December 2011 $'000
Deposits –		
Subsidiary	-	73,106
Ultimate parent company	1,017,402	-
Fellow subsidiaries	135,542	66
Key management personnel including directors	9,797	41,739
	1,162,741	114,911
Accounts payable –		
Fellow subsidiaries	-	313
Ultimate parent company	7,235	-
	7,235	313
Securities sold under repurchase agreements –		
Ultimate parent company	296,262	15
Parent company	8,142	-
Fellow subsidiaries	-	301,480
	304,404	301,495

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

	Fifteen months ended 31 March 2013 $'000	Twelve months ended 31 December 2011 $'000
Interest earned on loans –		
Parent company	8,953	14,181
Wholly owned subsidiary	65,777	55,134
Fellow subsidiary	4,852	5,329
Ultimate parent company	16,369	-
Key management personnel including directors	4,903	7,907
	100,854	82,551
Preference dividend income		
Wholly owned subsidiary	6,198	6,520
Management fees		
Parent company	3,500	6,000
Interest expense-		
Ultimate parent company	25,499	-
Subsidiaries	4,569	33,584
Wholly owned subsidiary	4,446	-
Fellow subsidiary	1,732	1,147
Key management personnel including directors	253	1,970
	36,499	36,701

Notes to The Financial Statements *(Continued)*

30. Related Party Transactions and Balances (Continued)

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

	Fifteen months ended 31 March 2013 $'000	Twelve months ended 31 December 2011 $'000
Staff costs – key management personnel		
Directors	19,854	28,692
Management personnel	92,322	49,749
	112,176	78,441

31. Financial Risk Management

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

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board's risk management mandate is principally carried out through the Conduct Review and Risk Policy Committee, the Credit and Investment Committee, the Audit Committee, the Asset & Liability Committee, the Internal Audit Department and the Risk & Compliance Department.

Conduct Review and Risk Policy Committee

The Conduct Review and Risk Policy Committee has responsibility to ensure that risk policies, processes and controls are in place to manage significant risks and the activities of the Bank are carried out in accordance with these risk policies.

Credit & Investment Committee

The Credit & Investment Committee has responsibility for the oversight and management of credit risk and ensures adherence to sound credit risk management policies and practices. This Committee plays an integral role in the credit approval process and provides guidance and direction in the management of significant credit risk exposure.

Audit Committee

The Audit Committee has oversight for the integrity of the financial statements and reviews the adequacy and effectiveness of internal controls and risk management procedures.

Asset & Liability Committee

This Management Committee has direct responsibility for the management risk of statement of financial position which includes liquidity, interest rate and foreign currency risks.

The Internal Audit Department

The Internal Audit Department has responsibility for ensuring the effectiveness and adequacy of risk management controls and procedures and conducts both ad hoc and regular reviews. The Internal Audit reports the result of all findings to the Audit Committee.

Risk & Compliance Department

The Risk & Compliance Department has responsibility for ensuring compliance with internal and regulatory policies, identifying, monitoring, measuring and reporting significant risk exposure and making recommendations in relation to their management. The Risk & Compliance Department supports the role of the Conduct Review & Risk Policy Committee, the Credit & Investment Committee and the Asset & Liability Committee.

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

(a) Credit risk

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

Credit review process

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

Investments

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

Loans

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

The loan portfolio is separated into two categories: corporate and retail loans, each with specified approval and credit granting criteria. All corporate loans are approved by the Credit & Investment Committee based on recommendation from the Risk and Compliance Department – Credit Risk Unit. Retail loans are approved in accordance with an authorisation structure supported by credit scoring systems and analyses. Retail loans granted are reviewed by the Credit & Investment Committee on a monthly basis.

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

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

Risk Rating Scale		Description
Class	i	Standard
Class	ii	Special Mention
Class	iii	Substandard
Class	iv	Doubtful
Class	v	Loss

31. Financial Risk Management (Continued)

(a) Credit risk (continued)

Collateral

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

The principal collateral types for loans and advances are:

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

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

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

Credit related commitments

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

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

Impairment

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

(i) whether payments of principal or interest on a loan is contractually past due for more than 90 days;

(ii) whether there are known difficulties that may affect a borrower's ability to service the facility going forward; and

(iii) credit rating downgrades or other default events that may impact collectability of the facility or loan.

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

The Bank's loan portfolio is rated as follows:

	31 March 2013 $'000	31 December 2011 $'000
Standard	4,121,774	2,135,108
Special Mention	478,986	995,218
Substandard	23,210	72,581
Doubtful	14,567	2,216,466
Loss	522,788	945,578
	5,161,325	6,364,951

Credit quality

	31 March 2013 $'000	31 December 2011 $'000
Neither past due nor impaired - standard	3,560,626	1,735,527
Past due but not impaired	1,118,503	3,668,384
Impaired	482,196	961,040
Gross	5,161,325	6,364,951
Less: provision for credit loss	(97,242)	(336,802)
Net	5,064,083	6,028,149

The bank held collateral in respect of loans that are individually impaired, as per the table above, excluding unsecured loans, amounting to $156,630,000 (2011:$981,100,000) at their fair value. There were no other financial assets that were individually impaired.

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

	31 March 2013 $'000	31 December 2011 $'000
Past due 1 - 30 days	823,846	1,144,687
Past due 31– 60 days	150,898	194,825
Past due 61 – 90 days	51,493	118,605
More than 90 days	560,565	2,210,267
	1,586,802	3,668,384

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

The fair value of collateral on the aggregate amount of loans past due but not impaired, excluding unsecured loans, that the Bank held were $6,700,000,000 (2011:$ 6,300,000,000).

Notes to The Financial Statements *(Continued)*

31. Financial Risk Management (Continued)

(a) Credit risk (continued)

Aging of impaired loans

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

	31 March 2013 $'000	31 December 2011 $'000
Current	19,514	1,199
1 - 30 days	449	-
31 - 60 days	2,373	1,237
61- 90 days	4,106	1,204
90 - 120 days	407	3,032
120 - 360	14,728	583,069
Over 360 days	440,619	371,299
	482,196	961,040

Renegotiated loans and leases

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

The carrying value of the loans that would otherwise be past due or impaired, whose terms have been negotiated, amounted to nil (2011: $172,900,000).

Repossessed collateral

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

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

The carrying value of the loans on which the collateral was repossessed during the year is $155,800,000 (2011: $44,700,000 million).

Loans

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

	31 March 2013 $'000	31 December 2011 $'000
Construction, land development and real estate acquisition	483,386	2,270,803
Distribution	350,565	223,969
Financial institutions	3,563	87,234
Mining, quarrying and processing	126,940	-
Manufacturing & utilities	125,846	130,481
Personal	2,291,530	1,642,780
Professional and other services	1,684,595	1,669,752
Tourism and entertainment	72,452	312,721
Transport, storage and communication	281	7,551
Agriculture	22,167	19,660
Total	5,161,325	6,364,951
Less: Provisions for impairment	(97,242)	(336,802)
	5,064,083	6,028,149
Interest receivable	15,107	166,740
	5,079,190	6,194,889

Collateral and other credit enhancements held against financial assets

The Bank holds collateral against loans and advances to customers and others in the form of mortgage interests over property, other registered securities over other assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over balances with banks or broker/dealers, except when securities are held under resale agreements. Collateral is generally not held against investment securities, and no such collateral was held at the reporting date (2011: no collateral held).

31. Financial Risk Management (Continued)

Collateral and other credit enhancements held against financial assets (Continued)

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

	Loans and notes receivable		Resale agreements	
	31 March 2013 $'000	31 December 2011 $'000	31, March 2013 $'000	31 December 2011 $'000
Against neither past due nor impaired financial assets:				
Cash secured	275,206	256,604	-	-
Property	3,001,433	1,625,743	-	-
Debt securities	715,561	105,185	198,198	1,390,697
Liens on motor vehicles	746,074	286,776	-	-
Subtotal	**4,738,274**	**2,274,308**	**198,198**	**1,390,697**
Against past due but not impaired financial assets:				
Cash secured	79,907	106,542	-	-
Property	1,056,842	1,336,145	-	-
Liens on motor vehicles	253,449	172,212	-	-
Subtotal	**1,390,198**	**1,614,899**	**-**	**-**
Against past due and impaired financial assets:				
Debt securities	2,665	-	-	-
Property	731,476	4,329,983	-	-
Liens on motor vehicles	38,915	147,587	-	-
Subtotal	**773,056**	**4,477,570**	**-**	**-**
Total	**6,901,528**	**8,366,777**	**198,198**	**1,390,697**

Investments

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

	31 March 2013 $'000	31 December 2011 $'000
Government of Jamaica	9,345,899	6,953,451
US Treasury Bills	442,382	376,333
Bank of Jamaica Certificates of Deposit	200,000	465,000
Corporate	3,040,678	2,523,035
Other	591,866	282,464
	13,620,825	10,600,283
Interest receivable	204,544	196,982
	13,825,369	10,797,265

(b) Liquidity risk

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

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

Management of liquidity risk

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

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

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

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

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

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

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

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

Notes to The Financial Statements *(Continued)*

31. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

	31 March 2013					
	Within 3 Months	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**No specific Maturity**	**Total Contractual Cashflows**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets						
Cash and cash equivalents	1,413,909	-	-	-	-	1,413,909
Investment in securities	1,089,094	906,245	6,522,775	21,290,384	61,971	29,870,469
Securities purchased under resale agreements	200,213	-	-	-	-	200,213
Loans and notes receivables	1,105,189	1,302,227	3,163,467	1,715,107	-	7,285,990
Other assets	61,235	-	-	-	-	61,235
Total financial assets	3,869,640	2,208,472	9,686,242	23,005,491	61,971	38,831,816
Financial liabilities						
Securities sold under repurchase agreements	3,906,421	3,750,407	-	-	-	7,656,828
Deposits	6,435,995	1,524,965	13,895	-	-	7,974,855
Due to other financial institutions	-	-	177,869	337,649	-	515,518
Loan participation	319,558	22,728	-	-	-	342,286
Securities sold under repurchase agreements	12,642	-	-	-	-	12,642
Other liabilities	83,236	-	-	-	-	83,236
Total financial liabilities	10,757,852	5,298,100	191,764	337,649	-	16,585,365
Total liquidity gap	(6,888,212)	(3,089,628)	9,494,478	22,667,842	61,971	22,246,451
Cumulative gap	(6,888,212)	(9,977,840)	(483,362)	22,184,480	22,246,451	

	31 December 2011					
	Within 3 Months	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**No specific Maturity**	**Total Contractual Cashflows**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets						
Cash and cash equivalents	1,004,713	-	-	-	-	1,004,713
Investment in securities	787,855	927,425	4,693,584	16,507,047	282,464	23,198,375
Securities purchased under resale agreements	1,171,388	-	-	-	-	1,171,388
Loans and notes receivables	2,990,184	721,315	3,453,827	1,716,368	-	8,881,694
Other assets	298,006	-	-	-	305,406	603,412
Total financial assets	6,252,146	1,648,740	8,147,411	18,223,415	587,870	34,859,582
Financial liabilities						
Securities sold under repurchase agreements	8,360,427	58,315	38,536	-	-	8,457,278
Deposits	4,128,920	1,581,011	3,911	-	-	5,713,842
Due to other financial institutions	138	427	194,966	798,939	-	994,470
Loan participation	441,287	18,257	-	-	-	459,544
Other liabilities	202,262	-	-	-	-	202,262
Total financial liabilities	13,133,034	1,658,010	237,413	798,939	-	15,827,396
Total liquidity gap	(6,880,888)	(9,270)	7,909,998	17,424,476	587,870	19,032,186
Cumulative gap	(6,880,888)	(6,890,158)	1,019,840	18,444,316	19,032,186	

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

	31 March 2013			
	No later than 1 Years	**1 to 5 Years**	**Over 5 Years**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Loan commitments	1,255,374	-	-	1,255,374
Guarantees, acceptances and other financial liabilities	42,644	1,002	630	44,276
	1,298,018	1,002	630	1,299,650

	31 December 2011			
	No later than 1 Years	**1 to 5 Years**	**Over 5 Years**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Loan commitments	115,233	-	-	115,233
Guarantees, acceptances and other financial liabilities	147,029	10,195	50	157,274
	262,262	10,195	50	272,507

31. Financial Risk Management (Continued)

(c) Market risk

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

Management of market risk

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

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

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

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

Foreign currency risk

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

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

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

Currency risk

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

	31 March 2013			
	US$	**GBP**	**CAN$**	**Euro**
	$'000	**$'000**	**$'000**	**$'000**
Financial assets				
Total assets	144,400	1,399	542	178
Total liabilities	(121,293)	(805)	(690)	(57)
Net exposure	23,107	594	(148)	121

	31 March 2013			
	US$	**GBP**	**CAN$**	**Euro**
	$'000	**$'000**	**$'000**	**$'000**
Financial assets				
Total assets	152,140	945	272	109
Total liabilities	(117,675)	(806)	(469)	(130)
Net exposure	34,465	139	(197)	(21)

Foreign currency sensitivity

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

	31 March 2013		31 December 2011	
	Change in Currency Rate	**Effect on Net Profit**	**Change in Currency Rate**	**Effect on Net Profit**
	%	**$'000**	**%**	**$'000**
Currency:				
US$	10	227,397	1	29,768
CAN$	10	(1,436)	1	(65)
GBP	10	8,905	1	186
EURO	10	1542	1	23
US$	-1	(22,739)	-1	(29,768)
CAN$	-1	144	-1	(165)
GBP	-1	(891)	-1	(186)
EURO	-1	(154)	-1	(23)

Interest rate risk

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

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

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

Notes to The Financial Statements *(Continued)*

31. Financial Risk Management (Continued)

(c) Market risk (continued)

Interest rate risk (continued)

	31 March 2013						
	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	No Rate Sensitive	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets							
Cash and cash equivalents	1,413,909	-	-	-	-	-	1,413,909
Investment in securities	866,871	-	171,618	2,874,148	9,646,218	266,514	13,825,369
Securities purchased under resale agreements	200,000	-	-	-	-	162	200,162
Loans and notes receivables	391,687	14,233	605,890	1,414,958	2,637,315	15,107	5,079,190
Other assets	-	-	-	-	-	61,235	61,235
Total financial assets	2,872,467	14,233	777,508	4,289,106	12,283,533	343,018	20,579,865
Financial liabilities							
Securities sold under repurchase agreements	3,633,700	254,215	3,581,289	-	-	73,696	7,542,901
Deposits	4,607,612	1,789,662	1,461,343	12,607	-	47,519	7,918,743
Due to other financial institutions	-	-	-	148,440	230,121	173	378,734
Loan participation	305,772	13,158	22,152	-	-	416	341,498
Bank overdraft	-	-	-	-	-	12,642	12,642
Other liabilities	-	-	-	-	-	83,236	83,236
Total financial liabilities	8,547,084	2,057,034	5,064,784	161,047	230,121	217,682	16,277,753
Total interest repricing gap	(5,674,617)	(2,042,802)	(4,287,276)	4,128,059	12,053,412	125,336	4,302,112
Cumulative gap	(5,674,617)	(7,717,419)	(12,004,695)	(7,876,636)	4,176,776	4,302,112	

	31 December 2011						
	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	No Rate Sensitive	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets							
Cash and cash equivalents	1,004,713	-	-	-	-	-	1,004,713
Investment in securities	465,000	136,785	376,333	1,932,400	7,399,081	487,666	10,797,265
Securities purchased under resale agreements	1,085,220	56,141	-	-	-	24,113	1,165,474
Investment in subsidiaries	-	-	-	-	-	305,406	305,406
Loans and notes receivables	1,447,837	123,438	109,647	2,373,720	1,973,507	166,740	6,194,889
Other assets	-	-	-	-	-	298,006	298,006
Total financial assets	4,002,770	316,364	485,980	4,306,120	9,372,588	1,281,931	19,765,753
Financial liabilities							
Securities sold under repurchase agreements	7,761,450	418,944	55,911	35,996	-	148,203	8,420,504
Deposits	2,686,507	1,404,264	1,510,805	3,513	-	44,969	5,650,058
Due to other financial institutions	-	-	417	158,191	537,623	138	696,369
Loan participation	406,441	33,440	17,390	-	-	1,077	458,348
Other liabilities	-	-	-	-	-	202,263	202,263
Total financial liabilities	10,854,398	1,856,648	1,584,523	197,700	537,623	396,650	15,427,542
Total interest repricing gap	(6,851,628)	(1,540,284)	(1,098,543)	4,108,420	8,834,965	885,281	4,338,211
Cumulative gap	(6,851,628)	(8,391,912)	(9,490,455)	(5,382,035)	3,452,930	4,338,211	

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

	31 March 2013					
	Immediately Rate Sensitive	Within 1 Month	3 to 12 Months	1 to 5 Years	Over 5 Years	Average
	%	%	%	%	%	%
Financial assets						
Investment in securities	3.15	12.00	7.00	3.77	8.39	7.08
Securities purchased under resale agreements	4.73	-	-	-	-	4.73
Loans and notes receivables	18.38	17.45	9.51	11.84	12.51	12.49
Deposits	2.88	3.96	4.83	3.24	-	3.49
Securities sold under repurchase agreements	3.68	5.80	9.38	-	-	6.49
Loan participation	1.94	4.71	3.63	-	-	2.16
Due to other financial institutions	0.00	-	-	5.87	6.95	6.53

31. Financial Risk Management (Continued)

(c) Market risk (continued)

Interest rate risk (continued)

	31 December 2011					
	Immediately Rate Sensitive	Within 1 Month	3 to 12 Months	1 to 5 Years	Over 5 Years	Average
	%	%	%	%	%	%
Financial assets						
Investment in securities	6.25	12	0.05	5.25	8.52	7.66
Securities purchased under resale agreements	8.06	4.40	-	-	-	7.88
Loans and notes receivables	17.45	10.65	16.94	11.88	13.09	13.74
Deposits	3.24	4.18	5.28	5.71	-	4.03
Securities sold under repurchase agreements	6.33	5.60	6.01	7.00	-	6.30
Loan participation	3.39	4.49	5.37	-	-	3.54
Due to other financial institutions	0.00	-	10.00	6.45	7.47	7.24

(i) Yields are based on book values and contractual interest adjusted for amortisation of premiums and discounts. Yields on tax-exempt investments have not been computed on a taxable equivalent basis.

(ii) Yields are based on book values, net of allowance for credit losses and contractual interest rates.

(iii) Yields are based on contractual interest rates

Interest rate sensitivity risk

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

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

31 March 2013			31 December 2011		
Change in basis points JMD/ USD	Effect on Net Profit	Effect on Other Comprehensive Income	Change in basis points JMD/USD	Effect on Net Profit	Effect on Other Comprehensive Income
	$'000	$'000		$'000	$'000
-100 / -50	(37,829)	400,240	-100	(23,408)	700,578
+250 / +200	95,176	(1,324,357)	+100	23,408	(632,446)

Equity risk

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

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

Equity price sensitivity analysis

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

31 March 2013			31 December 2011		
% Change in Equity Prices	Effect on Net Profit	Effect on Other Comprehensive Income	% Change in Equity Prices	Effect on Net Profit	Effect on Other Comprehensive Income
	$'000	$'000		$'000	$'000
10%	-	5,214	15%	-	41,000
-10%	-	(5,214)	-15%	-	(41,000)

(d) Capital management

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

(i) To comply with the capital requirements set by the regulators;

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

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

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

The BOJ and the FSC require each regulated entity to:

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

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

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

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

Notes to The Financial Statements *(Continued)*

31. Financial Risk Management (Continued)

(d) Capital Management (continued)

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

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

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

The table below summarises the composition of regulatory capital and the ratios of the Bank for the period/year ended 31 March 2013 and 31 December 2011. During the period/year, the Bank complied with all of the externally imposed capital requirements to which it is subjected.

	31 March 2013 $'000	31 December 2011 $'000
Regulatory capital –		
Tier 1 capital	3,313,044	2,337,188
Tier 2 capital	41,562	31,718
Prescribed deductions	-	(305,405)
Total regulatory capital	3,354,606	2,063,501
Total required capital	2,009,807	1,698,042
Risk-weighted assets –		
On statement of financial position	15,841,303	13,823,761
Of statement of financial position	968,218	161,309
Foreign exchange exposure	3,288,544	2,995,347
	20,098,065	16,980,417
Actual capital base to risk weighted assets	17%	12%
Required capital ratio to risk weighted assets	10%	10%

The change of the regulatory capital in 2013 is mainly due to the contribution of the current year profit and the movement in the fair value reserve.

(e) Fair value estimation

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

The following methods and assumptions have been used:

(i) investment in securities classified as available-for-sale are measured at fair value by reference to quoted market prices or broker/dealer price quotation where available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques;

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

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

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

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

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

The following tables provide an analysis of financial instruments held as at 31 March 2013 and 31 December 2011 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).

31. Financial Risk Management (Continued)

(e) Fair value estimation (continued)

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
		31 March 2013		
Available-for-sale investment securities –				
Issued by the Government of Jamaica	-	9,345,899	-	9,345,899
Equity investments	52,130	9,841	-	61,971
US Treasury Bills	-	442,382	-	442,382
Bank of Jamaica certificate of deposits	-	200,000	-	200,000
Other securities	-	3,570,573	-	3,570,573
	52,130	13,568,695	-	13,620,825
		31 December 2011		
Available-for-sale investment securities –				
Issued by the Government of Jamaica	-	6,953,451	-	6,953,451
Equity investments	273,827	8,637	-	282,464
US Treasury Bills	-	376,333	-	376,333
Bank of Jamaica certificate of deposits	-	465,000	-	465,000
Other securities	-	2,523,035	-	2,523,035
	273,827	10,326,456	-	10,600,283

There were no transfers between levels during the period/year.

32. Contingencies and Commitments

(a) Litigation

The Bank is subject to claims, disputes and legal proceedings in the normal course of business. Provision is made for such matters when in the opinion of management and together with legal advice it is probable that a payment will be made and the amount can be reasonably estimated. No provisions have been made as there are no pending litigations or claims at the reporting date.

(b) Operating leases

The Bank has entered into lease agreements for office space expiring August 2014 to December 2017. The amount charged in the profit and loss account during the period/year is $36,790,000 (2011: $32,400,000).

The total annual rentals to be paid are as follows:

	$'000
2014	27,272
2015	3,680
2016	3,937
2017	4,213

(c) Maintenance contract

The Bank has entered into a maintenance agreement for computer software for a period of ten years expiring July 2015. The amount charged in the profit and loss account is $23,300,000 (2011: $2,500,000).

(d) Credit

Commitments to extend credit on term to maturity of no more than one year amounted to $1,260,000,000 (2011: $115,200,000).

33. Subsequent event

Subsequent to the year end, the bank, with the approval of the Minister of Finance and Planning, changed its name to JMMB Merchant Bank Limited.