MERCHANT BANK LTD.

(Formerly Capital & Credit Merchant Bank Limited)

AUDITED FINANCIAL STATEMENTS

31 MARCH 2014

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JMMB MERCHANT BANK LIMITED

(Formerly Capital & Credit Merchant Bank Limited)

AUDITED FINANCIAL STATEMENTS
31 MARCH 2014

KPMG
Chartered Accountants
The Victoria Mutual Building
6 Duke Street
Kingston
Jamaica, W.I.

P.O. Box 76
Kingston
Jamaica, W.I.
Telephone +1 (876) 922-6640
Fax +1 (876) 922-7198
+1 (876) 922-4500
e-Mail firmmail@kpmg.com.jm

INDEPENDENT AUDITORS' REPORT

To the Members of
JMMB Merchant Bank Limited

(Formerly Capital & Credit Merchant Bank Limited)

Report on the Financial Statements

We have audited the financial statements of JMMB Merchant Bank Limited (formerly Capital & Credit Merchant Bank Limited), ("the Bank") set out on pages 3 to 60, which comprise the statement of financial position as at 31 March 2014, profit and loss account, statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year 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 control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 March 2014, and of its financial performance, changes in equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards and the Jamaican Companies Act.

Report on additional matters as required by the Jamaican Companies Act

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

In our opinion, proper accounting records have been 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.

KPMG

Chartered Accountants

Kingston, Jamaica

May 30, 2014

Profit and Loss Account
Year ended 31 March 2014
(expressed in Jamaican dollars unless otherwise indicated)

	Note	Twelve months ended 31 March 2014 $'000	Fifteen months ended 31 March 2013 $'000
Net Interest Income and Other Revenue			
Interest on investments		926,406	1,036,098
Interest on loans		671,988	554,550
Total interest income	4(a)	1,598,394	1,590,648
Interest expense	4(a)	853,707	987,899
Net interest income	**4(a)**	**744,687**	**602,749**
Fee and commission income	5	46,867	29,958
Foreign exchange trading and translation	4(b)	257,489	392,598
Gains/(losses) on securities trading, net	4(b)	6,564	(4,136)
Dividends	4(b)	3,364	12,719
Other income		14,065	67,194
Total other operating revenue		328,349	498,333
Net interest income and other revenue		**1,073,036**	**1,101,082**
Non-interest expenses			
Staff costs	6	449,018	454,873
Loan loss and bad debt expense, less recovery		(10,619)	157,846
Impairment losses		10,898	16,788
Bank charges		41,568	44,864
Property expenses		80,250	84,460
Depreciation and amortisation	15,16	22,311	67,175
Information technology costs		52,206	47,493
Marketing and corporate affairs		9,453	14,435
Professional fees		53,633	51,009
Regulatory costs		17,244	19,598
Irrecoverable General Consumption Tax		26,600	31,405
Asset tax		23,866	22,536
Other operating expenses		41,097	50,163
Total non-interest expenses		**817,525**	**1,062,645**
Profit before taxation	7	255,511	38,437
Taxation	8	48,605	68,022
Profit for year/period		**304,116**	**106,459**

The notes on pages 5 to 19 are an integral part of these financial statements.

Statement of Profit or Loss and Other Comprehensive Income
Year ended 31 March 2014
(expressed in Jamaican dollars unless otherwise indicated)

	Note	Twelve months ended 31 March 2014 $'000	Fifteen months ended 31 March 2013 $'000
Profit for year/period		304,116	106,459
Other comprehensive income			
Items which may be reclassified to profit or loss:			
Net unrealised gains/(losses) arising on revaluation of available-for-sale financial investments		714,168	(120,829)
Reclassification of losses/(gains) realised and reported in profits		6,564	(4,136)
		720,732	(124,965)
Income tax relating to components of other comprehensive income		(240,244)	41,655
Total other comprehensive income for the year/period		480,488	(83,310)
Total comprehensive income for the year/period		784,604	23,149

The notes on pages 5 to 19 are an integral part of these financial statements.

Statement of Financial Position
31 March 2014
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2014 $'000	2013 $'000
Assets			
Cash and cash equivalents	9	2,237,905	1,413,909
Investment in securities	10	714,918	1,986,714
Securities purchased under resale agreements	11	273,803	200,162
Pledged assets	12	16,378,508	11,838,655
Loans and notes receivable	13	6,784,503	5,079,190
Accounts receivable	14	93,696	132,297
Income tax recoverable		84,039	84,039
Property, plant and equipment	16	62,842	76,399
Deferred income tax assets	17	27,686	219,325
Customers' liabilities under acceptances, guarantees and letters of credit as per contra		352,227	44,276
Total Assets		27,010,127	21,074,966
Liabilities			
Bank overdraft	9	-	12,642
Securities sold under repurchase agreements	18	9,907,050	7,542,901
Deposits	19	10,817,166	7,918,743
Due to other financial institutions	20	283,437	378,734
Loan participation	21	-	341,498
Accounts payable	22	139,411	109,940
Liabilities under acceptances, guarantees and letters of credit as per contra		352,227	44,276
Total Liabilities		21,499,291	16,348,734
Stockholders' Equity			
Share capital	23	1,732,888	1,732,888
Statutory reserve fund	24	593,609	547,991
Retained earnings reserve	25	2,215,442	1,515,442
Capital redemption reserve	26	85,488	85,488
Fair value reserve	27	13,180	(467,308)
Loan loss reserve	13(c)	109,126	653,193
Retained earnings		761,103	658,538
		5,510,836	4,726,232
Total Liabilities and Stockholders' Equity		27,010,127	21,074,966

Approved for issue by the Board of Directors on May 30, 2014 and signed on its behalf by:

Dennis L. Harris Chairman

Keith P. Duncan Director

The notes on pages 5 to 19 are an integral part of these financial statements.

MERCHANT BANK LTD.

JMMB MERCHANT BANK LIMITED
(Formerly Capital & Credit Merchant Bank Limited)

AUDITED FINANCIAL STATEMENTS
31 MARCH 2014

Statement of Changes in Equity
Year ended 31 March 2014
(expressed in Jamaican dollars unless otherwise indicated)

	Share Capital $'000	Statutory Reserve Fund $'000	Retained Earnings Reserve $'000	Capital Redemption Reserve $'000	Fair Value Reserve $'000	Loan Loss Reserve $'000	Retained Earnings $'000	Total $'000
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 to 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**
Profit for the year	-	-	-	-	-		304,116	304,116
Other comprehensive income for the year:								
Unrealised gains available-for-sale investment, net of tax	-	-	-	-	476,112	-	-	476,112
Reclassification of gains realised and reported in profits	-	-	-	-	4,376	-	-	4,376
Total other comprehensive income	-	-	-	-	480,488	-	-	480,488
Total comprehensive income for the year	-	-	-	-	480,488	-	304,116	784,604
Transfer from loan loss reserve	-	-	-	-	-	(544,067)	544,067	-
Transfer to retained earnings reserve	-	-	700,000	-	-	-	(700,000)	-
Transfer to statutory reserve fund	-	45,618	-	-	-	-	(45,618)	-
Balance at 31 March 2014	**1,732,888**	**593,609**	**2,215,442**	**85,488**	**13,180**	**109,126**	**761,103**	**5,510,836**

The notes on pages 5 to 19 are an integral part of these financial statements.

Statement of Cash Flows
Year ended 31 March 2014
(expressed in Jamaican dollars unless otherwise indicated)

	Note	Twelve months ended 31 March 2014 $'000	Fifteen months ended 31 March 2013 $'000
Cash Flows from Operating Activities			
Profit for the year/period		304,116	106,459
Adjustments for:			
Interest Income	4(a)	(1,598,394)	(1,590,648)
Interest expense	4(a)	853,707	987,899
Provision for credit losses (net)		(10,619)	133,817
Impairment loss on investment in associate		10,898	16,788
Depreciation and amortisation	15,16	22,311	67,175
Gains on sale of property and equipment		-	(1,465)
Income tax charge	8	(48,605)	(68,022)
		(466,586)	(347,997)
Changes in operating assets and liabilities -			
Accounts receivable		(30,917)	290,178
Loans receivable		(1,673,658)	823,744
Accounts payable		29,471	(100,947)
		(2,141,690)	664,978
Interest received		1,548,053	1,758,671
Interest paid		(783,663)	(1,060,481)
Cash (used in)/provided by operating activities		(1,377,300)	1,363,168
Cash Flows from Investing Activities			
Proceeds from sale of property and equipment		-	2,188
Acquisition of property and equipment	16	(8,754)	(38,871)
Proceed from sale of subsidiaries		-	305,406
Investments (net)		(994,659)	(3,275,438)
Securities purchased under resale agreements		(2,202,395)	431,850
Cash used in investing activities		(3,205,808)	(2,574,865)
Cash Flows from Financing Activities			
Deposits		2,834,950	2,266,134
Securities sold under repurchase agreement		2,357,040	(803,096)
Loan participation		(341,081)	(116,190)
Due to other financial institutions		(95,175)	(317,671)
Cash provided by financing activities		4,755,734	1,029,177
Effect of exchange rate changes on cash and cash equivalents		349,246	156,522
Net increase /(decrease) in cash and cash equivalents		521,872	(25,998)
Cash and cash equivalents at beginning of year/period		1,116,236	1,142,234
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	9	1,638,108	1,116,236

The notes on pages 5 to 19 are an integral part of these financial statements.

Notes to the Financial Statements
31 March 2014
(expressed in Jamaican dollars unless otherwise indicated)

1. Identification and Activities

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

During the prior 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.

(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.

(d) Associated 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 prior period.

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 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 year that are relevant to the Bank's operations:

Certain new, revised and amended standards and interpretations came into effect during the current financial year. The Bank has assessed them and has adopted those which are relevant to its financial statements, viz:

- IAS 1, Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income", which led to the following changes in the financial statements:
- Items of other comprehensive income (OCI) that may be reclassified to profit or loss in the future are presented separately from those that would never be reclassified to profit or loss.
- The title of the statement has changed from 'Statement of Comprehensive Income' to 'Statement of Profit or Loss and Other Comprehensive Income'.

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

- IFRS 7, (Amendment) *'Financial instruments: Disclosures'* requires disclosures about the effects or potential effects of offsetting financial assets and financial liabilities and related arrangements of an entity's financial position. The adoption of this standard has not had a significant impact on the financial statements disclosures in the current year.
- IFRS 13, *Fair Value Measurement,* establishes a single 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 unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. Consequently, the Bank has included additional disclosures in this regard (note 31).

  Notwithstanding the above, the change had no significant impact on the measurements of the bank's assets and liabilities.
- *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 Bank are as follows:
  - *IAS 1, Presentation of Financial Statements* was 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 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 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.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

  - *IAS 16, Property, Plant and Equipment* – The standard was 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 was 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.

  These amendments did not result in any change in amounts recognised in the financial statements.

New, revised and amended standards and interpretations not yet effective:

Certain new, revised and amended standards and interpretations have been issued which are not yet effective for the current year and which the Bank has not early adopted. Management considers that the following may be relevant to the Bank's operations when they become effective:

- IFRS 9, *Financial Instruments (2010)*, is effective for accounting periods beginning on or after January 1, 2018. 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.
- The Bank is assessing the impact this may have on its 2019 financial statements.
- *Improvements to IFRS 2010-2012 and 2011-2013* cycles contain amendments to certain standards and interpretations and are effective for accounting periods beginning on or after July 1, 2014. The main amendments applicable to the Bank are as follows:
  - IFRS 13, *Fair Value Measurement* is amended to clarify that the standard and consequential amendments to IAS 39 and IFRS 9 did not intend to prevent entities from measuring short-term receivables and payables that have no stated interest rate at their invoiced amounts without discounting, if the effect of not discounting is immaterial.
  - IAS 16, *Property, Plant and Equipment* and IAS 38, *Intangible Assets.* The standards have been amended to clarify that, at the date of revaluation:
    - (i) the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset and the accumulated depreciation (amortization) is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking account of accumulated impairment losses or
    - (ii) the accumulated depreciation (amortization) is eliminated against the gross carrying amount of the asset.
  - *IAS 24, Related Party Disclosures* has been amended to extend the definition of 'related party' to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity. For related party transactions that arise when key management personnel services are provided to a reporting entity, the reporting entity is required to separately disclose the amounts that it has recognized as an expense for those services that are provided by a management entity; however, it is not required to 'look through' the management entity and disclose compensation paid by the management entity to the individuals providing the key management personnel services.
  - The Bank is assessing the impact these may have on its 2016 financial statements.
- Amendments to IAS 32, *Offsetting of Financial Assets and Financial Liabilities* 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.

The Bank is assessing the impact that this standard may have in its 2015 financial statements.

- Amendments to IAS 36, *Recoverable Amount Disclosures for Non-Financial Assets*, which is effective for accounting periods beginning on or after January 1, 2014, reverse the unintended requirement in IFRS 13 *Fair Value Measurement*, to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. The amendment requires the recoverable amount to be disclosed only when an impairment loss has been recognised or reversed.

  The Bank is assessing the impact that this standard may have on its 2015 financial statements.
- IFRIC 21, *Levies* which is effective for accounting periods beginning on or after January 1, 2014 provides guidance on accounting for levies in accordance with the requirements of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It requires an entity to recognise a liability for a levy when and only when the triggering event specified in the legislation occurs.

  The Bank is assessing the impact that this standard may have on its 2015 financial statements.

Notes to The Financial Statements *(Continued)*

2. Significant Accounting Policies (Continued)

(b) Foreign currency translation

Functional and presentation currency

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

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

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. For the purposes of the financial statements, financial assets have been determined to include cash and cash equivalents, investment in securities, securities purchased under resale agreements, loans and notes receivable, accounts receivable. Financial liabilities comprise bank overdraft, securities sold under repurchase agreements, deposits, due to other financial institution, and accounts payable. Information relating to fair values and financial instruments risks is summarized below.

Classification of financial instruments

The Bank classifies non-derivative financial assets into the following categories: *loans and receivables*, *held-to-maturity*, *at fair value through profit or loss* and *available-for-sale*. Management determines the appropriate classification of investments at the time of purchase.

The Bank classifies non-derivative financial liabilities into the other financial liabilities category.

Financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Bank becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Bank's contractual rights to the cash flows from the financial assets expire or if the Bank transfers the financial assets to another party without retaining control or substantially all risks and rewards of ownership of the assets. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date the Bank commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Bank's obligations specified in the contract expire or are discharged or cancelled.

(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 cash flows.

(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, 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 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.

(iii) 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 measured 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.

2. Significant Accounting Policies (Continued)

(c) Financial instruments (continued)

(iii) Investments (continued)

Held-to-maturity securities

Held-to-maturity securities are those with fixed or determinable payment and fixed maturity that the Bank has the positive intent and ability to hold to maturity. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years. These securities are measured at amortised cost using the effective interest method.

Derivatives

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

Derivatives may be embedded in another contractual arrangement (a host contract). The Bank accounts for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss. Separated embedded derivatives are measured at fair value, with changes in fair value recognised in profit or loss. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

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.

(iv) Loans and notes receivable and other receivables

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

(v) Account payable

Accounts payable are measured at amortised cost.

(vi) 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.

(vii) 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 difference between the Jamaican regulatory basis and IFRS was assessed to be immaterial.

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

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

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

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 will 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.

Notes to The Financial Statements *(Continued)*

2. Significant Accounting Policies (Continued)

(e) Property, plant and equipment (continued)

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 methods, 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 over the period that 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 expensed off when incurred.

The Bank participates in a defined contribution plan whereby it pays contributions to a fund operated by the ultimate parent company. 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. Pensions are the Bank's only post-employment benefit.

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 at the earlier of when the Bank can no longer withdraw the offer of those benefits and when the Bank recognises costs for a restructuring. If benefits are not expected to be wholly settled within 12 months of the end of the reporting period, they are discounted.

(i) Income taxes

Current and deferred taxes are recognised as income tax expense or benefit in arriving at profit or loss, except that 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.

The Bank's contingent liabilities are disclosed in Note 32.

2. Significant Accounting Policies (Continued)

(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 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 is 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 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.

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 the accrual basis when the service has been provided and collection is reasonably certain. 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.

(n) Comparative information

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current period.

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 $5,801,000,000 (2013: $13,600,000,000).

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 $290,000,000 (2013: $681,200,000).

(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 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 $45,000,000 to $181,760,000 (2013: $92,900,000 to $202,800,000).

4. Investment Revenue

(a) Net interest income

	Twelve months ended 31 March 2014 $'000	Fifteen months ended 31 March 2013 $'000
Interest income		
Government of Jamaica securities	420,720	819,109
US Treasury Bills	270	660
Other securities	504,489	215,185
Loans and other receivables (including cash and cash equivalents)	672,915	555,694
	1,598,394	1,590,648
Interest expense		
Securities sold under repurchase agreements	475,439	624,464
Deposits	353,055	294,152
Other	25,213	69,283
	853,707	987,899
Net Interest Income	744,687	602,749

4. Investment Revenue (Continued)

(b) Revenue from financial assets

	Twelve months ended 31 March 2014 $'000	Fifteen months ended 31 March 2013 $'000
Interest revenue:		
Securities available-for-sale	925,479	1,034,954
Loans and other receivables/ (including cash and cash equivalents)	672,915	555,694
	1,598,394	1,590,648
Other revenue:		
Gains on disposal of available-for-sale investments	257,489	392,598
Net foreign exchange gains/ (losses)	6,564	(4,136)
Dividends	3,364	12,719
	267,417	401,181

5. Fee and commission income

	Twelve months ended 31 March 2014 $'000	Fifteen months ended 31 March 2013 $'000
Loans processing fees	46,867	29,958

6. Staff Costs

	Twelve months ended 31 March 2014 $'000	Fifteen months ended 31 March 2013 $'000
Salaries and wages	320,259	314,239
Statutory contributions	33,105	33,119
Pension contributions (note 28)	11,521	11,371
Other staff benefits	84,133	96,144
	449,018	454,873

7. Profit before taxation

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

	Twelve months ended 31 March 2014 $'000	Fifteen months ended 31 March 2013 $'000
Directors' emoluments:		
Fees	23,011	15,249
Management	-	19,854
Auditors' remuneration	7,050	6,874
Depreciation and amortisation	22,311	67,175

8. Taxation

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

	Twelve months ended 31 March 2014 $'000	Fifteen months ended 31 March 2013 $'000
Income tax at 33⅓ of taxable income	-	-
Deferred tax (note 17):		
Origination and reversal of temporary differences	11,057	(46,820)
Tax benefit of losses carried forward	(59,662)	(21,202)
	(48,605)	(68,022)
	(48,605)	(68,022)

Notes to The Financial Statements *(Continued)*

8. Taxation (Continued)

(b) Subject to agreement with the Commissioner General, Tax Administration Jamaica, tax losses of approximately $178,984,970 (2013: $63,607,394) are available for set off against future taxable profits of the Bank, and can be carried forward indefinitely. As at January 1, 2014, the amount that can be utilised in any one year is restricted to 50% of the current year's taxable profits.

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

	Twelve months ended 31 March 2014 $'000	Fifteen months ended 31 March 2013 $'000
Profit before tax	255,511	38,437
Tax at 33⅓%	85,171	12,812
Tax effect of:		
Expenses not deductible in determining taxable profit	24,953	12,163
Non-taxable income	(162,728)	(96,641)
Tax loss utilised	5,176	-
Other adjustments	(1,177)	3,644
Tax credit recognised for the year/period	(48,605)	(68,022)

9. Cash and Cash Equivalents

	2014 $'000	2013 $'000
Cash and balances with banks including Bank of Jamaica	2,237,905	1,413,909
Securities purchased under resale agreements	260,221	200,162
Promissory note	-	224,490
Cash deposit at investment brokers (note 14)	106	60,268
	2,498,232	1,898,829
Less:		
Statutory reserves with the Bank of Jamaica (see (a) below)	(860,124)	(769,951)
Bank overdraft (see (b) below)	-	(12,642)
	(860,124)	(782,593)
Cash and cash equivalents for statement of cash flows	1,638,108	1,116,236

(a) 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% (2013: 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% (2013: 12%) for Jamaican dollar cash reserves and 9% (2013: 9%) for foreign currency cash reserves.

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

10. Investment in Securities

	2014 $'000	2013 $'000
Securities available-for-sale:		
Government of Jamaica securities	4,567,673	9,345,899
US Treasury Bills	-	442,382
Bank of Jamaica Certificates of Deposit	349,696	200,000
Equity investments	67,032	61,971
Investment debenture	-	305,406
Promissory note	-	224,489
Other securities	817,414	3,040,678
	5,801,815	13,620,825
Fair value through profit & loss		
Credit default swap	663,456	-
Security held-to-maturity		
Credit linked note	8,207,137	-
	14,672,408	13,620,825
Interest receivable	216,860	204,544
	14,889,268	13,825,369
Pledged assets (see Note 12)	(14,174,350)	(11,838,655)
	714,918	1,986,714

10. Investment in Securities (Continued)

Investments mature, from the reporting date as follows:

	2014 $'000	2013 $'000
Government of Jamaica securities		
From 3 months to 1 year	-	171,618
From 1 year to 5 years	538,259	267,615
Over 5 years	4,029,414	8,906,666
	4,567,673	9,345,899
Certificates of Deposit and Treasury Bills :		
Within 3 months	-	642,382
From 1 year to 5 years	349,696	-
	349,696	642,382
Debenture and Promissory Notes:		
Within 3 months	-	224,489
From 1 year to 5 years	-	305,406
	-	529,895
Corporate securities		
From 1 year to 5 years	8,870,593	2,301,127
Over 5 years	817,414	739,551
	9,688,007	3,040,678
Other	67,032	61,971
	14,672,408	13,620,825

11. Securities Purchased Under Resale Agreements

	2014 $'000	2013 $'000
Denominated in Jamaica dollars	2,462,454	200,000
Interest receivable	15,506	162
	2,477,960	200,162
Pledged assets (Note 12)	(2,204,157)	-
	273,803	200,162

Resale agreements include balances with related parties as set out in Note 29. All resale agreements mature within twelve months after the reporting date.

The securities that the Bank 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 $2,811,352,000

(2013: $198,198,000).

12. Pledged Assets

The Bank enters into collateralised repurchase agreements and as at the reporting date, investment securities amounting to $16,378,508,000 (2013: $11,838,655,000) were pledged as collateral for repurchase agreements (note 18) as follows:

	2014 $'000	2013 $'000
Investment in securities (note 10)	14,174,350	11,838,655
Securities purchased under agreements to resell (note 11)	2,204,157	-
	16,378,507	11,838,655

13. Loan and Notes Receivable

	2014 $'000	2013 $'000
Corporate	3,294,397	2,705,673
Financial institutions	271,279	3,563
Individuals	3,226,948	2,452,089
	6,792,624	5,161,325
Less: provision for impairment	(45,908)	(97,242)
	6,746,716	5,064,083
Interest receivable	37,787	15,107
	6,784,503	5,079,190

MERCHANT BANK LTD.

Notes to The Financial Statements *(Continued)*

13. Loan and Notes Receivable (Continued)

(a) The loan balance includes an amount of $130,950,000 (2013: $70,930,000) receivable from employees.

(b) The aggregate amount of non-performing loans on which interest is not being accrued is $95,795,000 (2013: $560,570,000).

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

	2014 $'000	2013 $'000
Provision for loan losses under IFRS		
Provision at beginning of year/period	97,242	336,802
Write-offs	(46,685)	(292,589)
Recoveries during the year/period	(25,381)	-
Transfer (See Note 14)	2,072	-
Recovery of amounts previously written off	17,174	4,110
	44,422	48,323
Charged to profit and loss	138,513	153,618
Recoveries during the year/period	(111,887)	(17,402)
Recovery of amounts previously written off	(17,174)	-
Write off	(7,966)	(87,297)
	1,486	48,919
Balance at end of year/period	45,908	97,242
Regulatory provision (In excess of IFRS Requirements)		
Provision at 1 April/January 1	653,193	2,096,416
Credited to equity	(544,067)	(1,443,223)
Balance at end of year/period	109,126	653,193
Total allowance for impairment	155,034	750,435
Allowance based on IFRS - (IAS 39 see (i) below)	45,908	97,242
Additional allowance based on Bank of Jamaica regulations (see (ii) below)	109,126	653,193
	155,034	750,435

(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.

14. Accounts Receivable

	2014 $'000	2013 $'000
Brokers receivable	106	60,268
Withholding tax recoverable	46,930	45,484
Owed by fellow subsidiary	170	451
Recoverable expenses	13	795
Other receivables	46,901	27,371
	94,120	134,369
Less: Provision for impairment (including transfer from loan provision)	(424)	(2,072)
	93,696	132,297

Aging of past due and impaired receivables

	2014	2013
90 – 180 days	8	33
181 – 360 days	42	616
Over 360 days	374	1,423
	424	2,072

Movement in provision for doubtful debts

	2014 $'000	2013 $'000
Balance at beginning of year/period	2,072	23,502
Charged to profit for the year/period	424	8,846
Write-offs	-	(29,110)
Transfer (See Note 13)	(2,072)	-
Recoveries	-	(1,166)
Balance at end of year/period	424	2,072

15. Intangible Asset

	Computer Software $'000
Cost	
At 31 December 2011, 31 March 2013 and 31 March 2014	331,090
Accumulated amortization	
At 31 December 2011	281,524
Charge for the period	49,566
At 31 March 2013 and 2014	331,090
Net Book Value	
31 March 2014	-
31 March 2013	-
31 December 2011	49,566

16. 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 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
Additions	-	8,389	365	-	-	8,754
Disposals	-	-	-	-	(5,664)	(5,664)
At 31 March 2014	23,359	189,496	9,223	77,135	2,973	302,186
Accumulated Depreciation						
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
Charge for the year	510	10,877	-	10,900	24	22,311
Disposals	-	-	-	-	(5,664)	(5,664)
At 31 March 2014	5,225	160,684	-	70,462	2,973	239,344
Net Book Value						
At 31 March 2014	18,134	28,812	9,223	6,673	-	62,842
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

17. 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:

	2014 $'000	2013 $'000
Deferred tax assets	125,121	299,797
Deferred tax liabilities	(97,435)	(80,472)
Net assets	27,686	219,325

Notes to The Financial Statements *(Continued)*

17. Deferred Income Taxes (Continued)

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

	2014 $'000	2013 $'000
Deferred income tax assets -		
Tax losses carried forward	59,661	21,202
Investments	-	233,653
Interest payable	63,950	40,602
Tax credit	1,000	1,000
Accounts/payable	510	3,340
	125,121	299,797
Deferred income tax liabilities -		
Property, plant and equipment	794	7,202
Investments	6,591	-
Interest receivable	90,050	73,270
	97,435	80,472
Net deferred income tax assets	27,686	219,325

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

2014

	Balance at Beginning of Year	Recognised in Income	Recognised in Other Comprehensive Income	Balance at End of Year
	$'000	$'000	$'000	$'000
Tax losses carried forward	21,202	38,459	-	59,661
Property, plant and equipment	(7,202)	6,408	-	(794)
Interest receivable	(73,270)	(16,780)	-	(90,050)
Interest payable	40,602	23,348	-	63,950
Accounts payable	3,340	(2,830)	-	510
Tax credit	1,000	-	-	1,000
Investments	233,653	-	(240,244)	(6,591)
	219,325	48,605	(240,244)	27,686

2013

	Balance at Beginning of Period	Recognised in Income	Recognised in Other Comprehensive Income	Balance at End of Period
	$'000	$'000	$'000	$'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

18. Securities Sold Under Repurchase Agreements

	2014 $'000	2013 $'000
Personal	1,000	220
Financial institutions	8,257,364	5,748,423
Commercial and business enterprises	1,567,882	1,720,562
	9,826,246	7,469,205
Interest payable	80,804	73,696
	9,907,050	7,542,901

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

19. Deposits

	2014 $'000	2013 $'000
Personal	3,540,724	3,076,798
Financial institutions	2,210,960	1,783,088
Commercial and business enterprises	4,954,489	3,011,338
	10,706,173	7,871,224
Interest payable	110,993	47,519
	10,817,166	7,918,743

20. Due to Other Financial Institutions

	2014 $'000	2013 $'000
Principal	283,386	378,561
Interest payable	51	173
	283,437	378,734

The above balance consists of US$382,000 and J$241,646,000 (2013: US$ 700,000 and J$307,900,000) due to the Development Bank of Jamaica (DBJ), at interest rates of 4.5% to 7.0% per annum for periods up to 10 years (2013: 4.5% to7.0% 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.

21. Loan Participation

	2014 $'000	2013 $'000
Personal	-	56,948
Financial institutions	-	8,934
Commercial and business enterprises	-	275,200
	-	341,082
Interest payable	-	416
	-	341,498

22. Accounts Payable

	2014 $'000	2013 $'000
Owed to ultimate parent company	1,094	7,190
Payroll taxes	9,162	8,509
Deferred income	975	39
General consumption tax payable	636	972
Other payable	127,544	93,230
	139,411	109,940

23. Share Capital

	2014 $'000	2013 $'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

24. 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 year/period was at the prescribed rate of 15% (2013: 15%).

Notes to The Financial Statements *(Continued)*

25. 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 $700,000,000 transfer to retained earnings reserve from unappropriated profits (2013:$1,009,600,000.

26. 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.

27. Fair Value Reserve

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

Movement in fair value reserve is as follows:

	2014 $'000	2013 $'000
Balance at beginning of year/period	(467,308)	(383,998)
Unrealised gains /(losses) on available-for-sale investments	714,168	(120,829)
Deferred tax on unrealised (losses)/gains	(238,056)	40,276
Realised losses on sale of available-for-sale of investments transferred to profit and loss account	6,564	(4,136)
Deferred tax on realised gains	(2,188)	1,379
Balance at end of year/period	13,180	(467,308)

28. 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.

Consequent on the acquisition of the Bank by Jamaica Money Market Brokers Limited (JMMB) no further contributions have 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.

The contributions for the year/period amounted to $11,521,000 (2013: $11,371,000) [see note 6].

29. Related Party Transactions and Balances

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

	2014 $'000	2013 $'000
Securities purchased under resale agreements –		
Ultimate parent company	2,462,454	-
Loans and notes receivable –		
Ultimate parent company	-	310,736
Fellow subsidiaries	-	225,075
Key management personnel, including directors	66,583	46,313
	66,583	582,124
Accounts receivable –		
Fellow subsidiaries	170	451

29. Related Party Transactions and Balances (Continued)

(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 (continued):

	2014 $'000	2013 $'000
Deposits –		
Parent company	7,365	-
Ultimate parent company	538,325	1,017,402
Fellow subsidiaries	321,140	135,542
Other related parties	551,503	-
Key management personnel including directors	76,366	9,797
	1,494,699	1,162,741
Accounts payable –		
Ultimate parent company	1,094	7,235
Securities sold under repurchase agreements –		
Ultimate parent company	54,798	296,262
Parent company	-	8,142
	54,798	304,404

(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:

	Twelve months ended 31 March 2014 $'000	Fifteen months ended 31 March 2013 $'000
Interest earned on loans –		
Parent company	-	8,953
Wholly owned subsidiary	-	65,777
Fellow subsidiary	2,374	4,852
Ultimate parent company	61,553	16,369
Key management personnel including directors	4,086	4,903
	68,013	100,854
Other income		
Ultimate parent company	23,320	-
Fellow subsidiary	215	-
Other related parties	2,153	-
Key management personnel including directors	360	-
	26,048	-
Preference dividend income		
Wholly owned subsidiary	-	6,198
Management fees		
Parent company	-	3,500

(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 (continued):

	Twelve months ended 31 March 2014 $'000	Fifteen months ended 31 March 2013 $'000
Interest expense-		
Ultimate parent company	12,118	25,499
Parent company	295	-
Subsidiaries	-	4,569
Wholly owned subsidiary	-	4,446
Fellow subsidiary	12,474	1,732
Other related parties	50	-
Key management personnel including directors	1,166	253
	26,103	36,499
Other expenses		
Fellow subsidiaries	7,743	-

Notes to The Financial Statements *(Continued)*

29. 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:

	Twelve months ended 31 March 2014 $'000	Fifteen months ended 31 March 2013 $'000
Staff costs – key management personnel		
Directors	-	19,854
Management personnel	123,810	92,322
	123,810	112,176

30. 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 following committees.

Risk Management Committee

The Risk Management Committee is a Board Committee responsible for the supervision of the overall risk management functions of the Bank. The committee decides the policies and strategy for integrated risk management of the various risk exposures of the Bank.

Board Credit Committee

The Board Credit Committee is responsible for approving all credit requests above a specified threshold and ensuring that all lending facilities conform to standards agreed by the Board and embodied in Credit Risk Policy. The committee is ultimately responsible for determining the composition and management of the credit portfolio and has available a number of measures it can employ in this respect including the making of specific and general provisions against actual or potential bad debts. The committee is supported in its work by the Management Credit Committee.

Audit Committee

The Audit Committee monitors the quality of the Bank's internal controls and compliance with regulatory requirements. The Audit Committee is assisted in its oversight role by the Internal Audit Function and the Risk Management unit and Compliance Unit. Internal Audit undertakes both regular and ad hoc reviews of the risk management controls and procedures, the results of which are reported quarterly to the Audit Committee.

The management of certain specific aspects of operational risk, such as fraud, is also within the purview of the Audit Committee.

Investment Committee

The Investment Committee is a senior management level committee responsible for the management of market risks. The committee monitors the composition of assets and liabilities, evaluates potential market risk involved in launching new products, reviews and articulates funding policy and decides optimal ways of managing the Bank's liquidity.

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 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 Certificates of Deposit, 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 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 loans are approved by the Credit Risk Unit and the Board Credit Committee in accordance with an authorisation structure and supported by credit scoring systems and analyses.

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

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

30. Financial Risk Management (Continued)

(a) Credit risk (continued)

(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	1	Excellent
Class	2	Good credit
Class	3	Average credit
Class	4	Acceptable
Class	5	Marginal
Class	6	Substandard
Class	7	Doubtful
Class	8	Loss

Loan and notes receivable that are cash secured are included in our credit classification as Risk Rated 1, based on the Bank's rating grades.

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 make 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 unsecured 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:

	2014 $'000	2013 $'000
Standard	6,290,013	4,121,774
Special Mention	409,976	478,986
Substandard	14,315	23,210
Doubtful	14,288	14,567
Loss	64,032	522,788
	6,792,624	5,161,325

Credit quality

	2014 $'000	2013 $'000
Neither past due nor impaired - standard	5,894,518	3,560,626
Past due but not impaired	822,838	1,118,503
Impaired	75,268	482,196
Gross	6,792,624	5,161,325
Less: provision for credit loss	(45,908)	(97,242)
Net	6,746,716	5,064,083

The Bank held collateral in respect of loans that are individually impaired, as per the table above, excluding unsecured loans, amounting to $120,116,000 (2013:$9,156,630,000) at their fair value. There were no other financial assets that were individually impaired.

Notes to The Financial Statements *(Continued)*

30. Financial Risk Management (Continued)

(a) Credit risk (continued)

Credit quality (continued)

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

	2014 $'000	2013 $'000
Past due 1 - 30 days	431,312	823,846
Past due 31– 60 days	348,890	150,898
Past due 61 – 90 days	18,750	51,493
More than 90 days	95,795	560,565
	894,747	1,586,802

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

Aging of impaired loans

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

	2014 $'000	2013 $'000
Current	3,358	19,514
1 - 30 days	461	449
31 - 60 days	17,339	2,373
61- 90 days	4,601	4,106
90 - 120 days	3,504	407
120 – 360 days	5,555	14,728
Over 360 days	40,450	440,619
	75,268	482,196

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.

There are no loans, that would otherwise be past due or impaired, whose terms have been negotiated.

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 $4,160,000 (2013: $155,800,000).

Loans

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

	2014 $'000	2013 $'000
Construction, land development and real estate acquisition	552,019	483,386
Distribution	1,264,818	350,565
Financial institutions	261,400	3,563
Mining, quarrying and processing	216,648	126,940
Manufacturing & utilities	165,418	125,846
Personal	3,047,656	2,291,530
Professional and other services	892,938	1,684,595
Tourism and entertainment	188,708	72,452
Transport, storage and communication	76,974	281
Electricity, gas and water	2,423	-
Entertainment	56,108	-
Agriculture	67,514	22,167
Total	6,792,624	5,161,325
Less: Provisions for impairment	(45,908)	(97,242)
	6,746,716	5,064,083
Interest receivable	37,787	15,107
	6,784,503	5,079,190

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 (2013: no collateral held).

30. Financial Risk Management (Continued)

(a) Credit risk (continued)

An estimate, made at the time of lending, 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	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Against neither past due nor impaired financial assets:				
Cash secured	657,029	275,206	-	-
Property	4,553,400	3,001,433	-	-
Debt securities	849,491	715,561	2,812,352	198,198
Liens on motor vehicles	1,631,532	746,074	-	-
Subtotal	**7,691,452**	**4,738,274**	**2,812,352**	**198,198**
Against past due but not impaired financial assets:				
Cash secured	21,496	79,907	-	-
Property	835,839	1,056,842	-	-
Liens on motor vehicles	233,426	253,449	-	-
Subtotal	**1,090,761**	**1,390,198**	**-**	**-**
Against past due and impaired financial assets:				
Debt securities	-	2,665	-	-
Property	92,150	731,476	-	-
Liens on motor vehicles	27,966	38,915	-	-
Subtotal	**120,116**	**773,056**	**-**	**-**
Total	**8,902,329**	**6,901,528**	**2,812,352**	**198,198**

Investments

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

	2014 $'000	2013 $'000
Government of Jamaica	4,567,673	9,345,899
US Treasury Bills	-	442,382
Bank of Jamaica Certificates of Deposit	349,696	200,000
Corporate	9,688,007	3,040,678
Other	67,032	591,866
	14,672,408	13,620,825
Interest receivable	216,860	204,544
	14,889,268	13,825,369

(a) 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.

Notes to The Financial Statements *(Continued)*

30. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

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.

2014

	Within 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	No specific Maturity $'000	Total Contractual Cashflows $'000	Total Carrying Amount $'000
Financial assets							
Cash and cash equivalents	2,237,905	-	-	-	-	2,237,905	2,237,905
Investment in securities	162,226	764,657	12,052,438	8,204,607	154,456	21,338,384	14,889,268
Securities purchased under resale agreements	302,560	2,228,812	-	-	-	2,531,372	2,477,960
Loans and notes receivables	1,546,078	1,404,532	4,235,599	1,895,972	-	9,082,181	6,784,503
Other assets	1,842	-	-	-	-	1,842	1,842
Total financial assets	4,250,611	4,398,001	16,288,037	10,100,579	154,456	35,191,684	26,391,478
Financial liabilities							
Securities sold under repurchase agreements	3,747,029	2,228,305	4,739,873	-	-	10,715,207	9,907,050
Deposits	8,718,195	2,165,760	17,530	-	-	10,901,485	10,817,166
Due to other financial institutions	-	2,872	99,183	273,450	-	375,505	283,437
Other liabilities	90,836	-	-	-	-	90,836	90,836
Total financial liabilities	12,556,060	4,396,937	4,856,586	273,450	-	22,083,033	21,098,489
Total liquidity gap	(8,305,449)	1,064	11,431,451	9,827,129	154,456	13,108,651	
Cumulative gap	(8,305,449)	(8,304,385)	3,127,066	12,954,195	13,108,651		

2013

	Within 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	No specific Maturity $'000	Total Contractual Cashflows $'000	Total Carrying Amount $'000
Financial assets							
Cash and cash equivalents	1,413,909	-	-	-	-	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	13,825,369
Securities purchased under resale agreements	200,213	-	-	-	-	200,213	200,162
Loans and notes receivables	1,105,189	1,302,227	3,163,467	1,715,107	-	7,285,990	5,079,190
Other assets	61,235	-	-	-	-	61,235	61,235
Total financial assets	3,869,640	2,208,472	9,686,242	23,005,491	61,971	38,831,816	20,579,865
Financial liabilities							
Securities sold under repurchase agreements	3,906,421	3,750,407	-	-	-	7,656,828	7,542,900
Deposits	6,435,995	1,524,965	13,895	-	-	7,974,855	7,918,743
Due to other financial institutions	-	-	177,869	337,649	-	515,518	378,734
Loan participation	319,558	22,728	-	-	-	342,286	341,498
Bank overdraft	12,642	-	-	-	-	12,642	12,642
Other liabilities	83,236	-	-	-	-	83,236	83,236
Total financial liabilities	10,757,852	5,298,100	191,764	337,649	-	16,585,365	16,277,753
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		

30. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

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

2014

	No later than 1 Year $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
Loan commitments	1,173,675	-	-	1,173,675
Guarantees, acceptances and other financial liabilities	349,438	2,789	-	352,227
	1,523,113	2,789	-	1525,902

2013

	No later than 1 Year $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'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

(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 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.

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)*

30. Financial Risk Management (Continued)

(c) Market risk (Continued)

Interest rate risk

	2014						
	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	No Rate Sensitive $'000	Total $'000
Financial assets							
Cash and cash equivalents	2,237,905	-	-	-	-	-	2,237,905
Investment in securities	-	-	-	9,671,124	4,846,828	371,316	14,889,268
Securities purchased under resale agreements	300,000	-	2,162,454	-	-	15,507	2,477,961
Loans and notes receivables	297,892	557,983	398,602	1,878,387	3,613,852	37,787	6,784,503
Other assets	-	-	-	-	-	1,842	1,842
Total financial assets	2,835,797	557,983	2,561,056	11,549,511	8,460,680	426,452	26,391,479
Financial liabilities							
Securities sold under repurchase agreements	3,201,260	528,452	2,162,454	3,934,080	-	80,804	9,907,050
Deposits	6,034,615	2,574,675	2,080,209	16,674	-	110,993	10,817,166
Due to other financial institutions	-	-	2,768	85,146	195,472	51	283,437
Other liabilities	-	-	-	-	-	90,836	90,836
Total financial liabilities	9,235,875	3,103,127	4,245,431	4,035,900	195,472	282,684	21,098,489
Total interest repricing gap	(6,400,078)	(2,545,144)	(1,684,375)	7,513,611	8,265,208	143,768	5,292,990
Cumulative gap	(6,400,078)	(8,945,222)	(10,629,597)	(3,115,986)	5,149,222	5,292,988	

	2013						
	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	No Rate Sensitive $'000	Total $'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	2,057,035	5,064,784	161,047	230,121	217,682	16,277,754
Total interest repricing gap	(5,674,617)	(2,042,802)	(4,287,276)	4,128,059	12,053,412	125,336	4,302,111
Cumulative gap	(5,674,617)	(7,717,419)	(12,004,695)	(7,876,636)	4,176,776	4,302,112	

30. Financial Risk Management (Continued)

(c) Market risk (continued)

Interest rate risk (continued)

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

	2014					
	Immediately Rate Sensitive %	1 to 3 Month %	3 to 12 Months %	1 to 5 Years %	Over 5 Years %	Average %
Financial assets						
Investment in securities	-	-	-	5.47	8.33	6.38
Securities purchased under resale agreements	9.83	-	6.55	-	-	6.95
Loans and notes receivables	10.51	9.33	11.12	11.53	11.68	11.37
Financial liabilities						
Deposits	3.50	4.46	4.83	3.04	-	3.99
Securities sold under repurchase agreements	3.8	4.71	6.50	8.18	-	6.21
Due to other financial institutions	-	-	6.16	5.91	6.95	6.63

	2013					
	Immediately Rate Sensitive %	1 to 3 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
Financial liabilities						
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	-	-	-	5.87	6.95	6.53

(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.

2014			2013		
Change in basis points JMD/USD	Effect on profit	Effect on Other Comprehensive Income	Change in basis points JMD/USD	Effect on profit	Effect on Other Comprehensive Income
	$'000	$'000		$'000	$'000
-100 / -50	(60,087)	288,904	-100 / -50	(37,829)	400,240
+250 / +200	148,635	(1,027,783)	+250 / +200	95,176	(1,324,357)

Notes to The Financial Statements *(Continued)*

30. Financial Risk Management (Continued)

(c) Market risk (continued)

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

2014			2013		
% 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%	-	5,610	10%	-	5,214
-10%	-	(5,610)	-10%	-	(5,214)

(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.

(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 as at the reporting date. The Bank complied with all of the externally imposed capital requirements to which it is subjected.

	2014	2013
	$'000	$'000
Regulatory capital –		
Tier 1 capital	4,541,939	3,313,044
Tier 2 capital	62,521	41,562
Prescribed deductions	-	-
Total regulatory capital	4,604,460	3,354,606
Total required capital	2,547,666	2,009,807
Risk-weighted assets –		
On statement of financial position	22,456,448	15,841,303
Of statement of financial position	1,525,902	968,218
Foreign exchange exposure	1,694,308	3,288,544
	25,676,658	20,098,065
Actual capital base to risk weighted assets	18%	17%
Required capital ratio to risk weighted assets	10%	10%

The change of the regulatory capital in 2014 is mainly due to the contribution of the current year profit and the movement in the fair value reserve.

30. Financial Risk Management (Continued)

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risks so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirement for appropriate segregation of duties, including the independent authorisation of transactions;
- requirement for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of control and procedures;
- requirement for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks indentified;
- requirement for the reporting of operational losses and proposed remedial action;
- development of a contingency plan;
- risk mitigation, including insurance where this is effective.

Compliance with the Bank's standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to senior management and the Audit Committee.

(f) Fair value of financial instruments

Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its unit absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

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 quotations where available. A market is regarded as active if transactions for the assets or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If quoted market prices are not available, 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 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).

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

The following table shows the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

MERCHANT BANK LTD.

Notes to The Financial Statements *(Continued)*

31. Fair value of financial instruments (continued)

(a) Accounting classifications and fair values

	2014									
	Carrying amount					Fair value				
	Loan and receivables $'000	Available-for-sale $'000	At fair value through profit and loss $'000	Held for-maturity $'000	Other financial liabilities $'000	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets measured at fair value:										
GOJ securities	-	4,567,673	-	-	-	4,567,673	-	4,567,673	-	4,567,673
BOJ certificates of deposit	-	349,696	-	-	-	349,696	-	349,696	-	349,696
Quoted equities	-	67,032	-	-	-	67,032	56,104	10,928	-	67,032
Other securities	-	817,414	663,456	-	-	1,480,870	-	1,480,870	-	1,480,870
	-	5,801,815	663,456	-	-	6,465,271	56,104	6,409,167	-	6,465,271
Financial assets not measured at fair value:										
Cash and cash equivalents	2,237,905	-	-	-	-	2,237,905				
Securities purchased under resale agreements	273,803	-	-	-	-	273,803				
Security held-to-maturity	-	-	-	8,207,137	-	8,207,137				
Loans and notes receivable	6,784,503	-	-	-	-	6,784,503				
Accounts receivable	93,696	-	-	-	-	93,696				
	9,389,907	-	-	8,207,137	-	17,597,044				
Financial liabilities not measured at fair value:										
Securities sold under resale agreements	-	-	-	-	9,907,050	9,907,050				
Deposits	-	-	-	-	10,817,166	10,817,166				
Due to other financial institutions	-	-	-	-	283,437	283,437				
Accounts payable	-	-	-	-	139,411	139,411				
	-	-	-	-	21,147,064	21,147,064				

	2013								
	Carrying amount				Fair value				
	Loan and receivables $'000	Available-for-sale $'000	At fair value through profit and loss $'000	Other financial liabilities $'000	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets measured at fair value:									
GOJ securities	-	9,345,899	-	-	9,345,899	-	9,345,899	-	9,345,899
US Treasury bills	-	442,382	-	-	442,382	-	442,382	-	442,382
BOJ certificates of deposit	-	200,000	-	-	200,000	-	200,000	-	200,000
Quoted equities	-	61,971	-	-	61,971	52,130	9,841	-	61,971
Investment debenture	-	305,406	-	-	305,406	-	305,406	-	305,406
Promissory note	-	224,489	-	-	224,489	-	224,489	-	224,489
Other securities	-	3,040,678	-	-	3,040,678	-	3,040,678	-	3,040,678
	-	13,620,825	-	-	13,620,825	52,130	13,568,695	-	13,620,825
Financial assets not measured at fair value:									
Cash and cash equivalents	1,413,909	-	-	-	1,413,909				
Securities purchased under resale agreements	200,162	-	-	-	200,162				
Loans and notes receivable	5,079,190	-	-	-	5,079,190				
Accounts receivable	132,297	-	-	-	132,297				
	6,825,558	-	-	-	6,825,558				
Financial liabilities not measured at fair value:									
Bank overdraft	-	-	-	12,642	12,642				
Securities sold under resale agreements	-	-	-	7,542,901	7,542,901				
Deposits	-	-	-	7,918,743	7,918,743				
Due to other financial institutions	-	-	-	378,734	378,734				
Loan participation	-	-	-	341,498	341,498				
Accounts payable	-	-	-	109,940	109,940				
	-	-	-	16,304,458	16,304,458				

Notes to The Financial Statements *(Continued)*

31. Fair value of financial instruments (continued)

(b) Valuation techniques for investment securities classified as Level 2

The following table shows the valuation techniques used in measuring the fair value of investment securities.

Type	**Valuation techniques**
US$ denominated GOJ securities	• Obtain bid price provided by a recognized broker/dealer, namely, Oppenheimer • Apply price to estimate fair value
J$ denominated securities issued or guaranteed by GOJ	• Obtain bid price provided by a recognized pricing source (which uses Jamaica-market-supplied indicative bids) • Apply price to estimate fair value

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. At 31 March 2014, there was one legal proceeding outstanding against the Bank for which a probable payment of $5,000,000 was estimated and provided for (March 2013: Nil). The directors do not expect the outcome of any other legal actions to have an impact on the Bank's financial position.

(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 year/period is $37,190,000 (2013: $36,790,000).

The total annual rentals to be paid are as follows:

	$'000
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 $26,232,000 (2013: $23,300,000).

(d) Credit

Commitments to extend credit on term to maturity of no more than one year amounted to $1,173,675,000 (2013: $1,260,000,000).