# First Global Bank Limited

## Financial Statements
## 31 December 2011

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## *Independent Auditors' Report*

To the Members of
First Global Bank Limited

**Report on the Financial Statements**
We have audited the accompanying financial statements of First Global Bank Limited, set out on pages 1 to 54 which comprise the statement of financial position as of 31 December 2011 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

***Management's Responsibility for the Financial Statements***
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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

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

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### *Opinion*

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

### Report on Other Legal and Regulatory Requirements

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

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

PricewaterhouseCoopers

Chartered Accountants
21 March 2012
Kingston, Jamaica

# First Global Bank Limited

Statement of Financial Position

**31 December 2011**

(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and bank balances | 5 | 2,602,772 | 2,226,158 |
| Items in the course of collection from other banks | | 120,354 | 97,857 |
| Securities purchased under resale agreements | 6 | 320,653 | 356,285 |
| Loans | 7 | 11,682,265 | 9,981,752 |
| Investment securities | 8 | 12,559,563 | 14,079,087 |
| Forward contracts | 14 | 6,166 | - |
| Property, plant and equipment | 9 | 385,128 | 324,861 |
| Post-employment benefit asset | 10 | 2,220 | 32,727 |
| Deferred tax assets | 11 | 376,100 | 466,956 |
| Taxation recoverable | | 37,854 | 37,854 |
| Other assets | 12 | 350,432 | 361,749 |
| Customers' liability under guarantees and letters of credit | | 387,227 | 365,031 |
| **Total Assets** | | 28,830,734 | 28,330,317 |

# First Global Bank Limited

Statement of Financial Position

**31 December 2011**

(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| Customer deposits | 13 | 16,370,266 | 15,241,067 |
| Items in the course of payment | | 126,527 | 107,432 |
| Bank overdraft | | 6,266 | 5,289 |
| Forward contracts | 14 | - | 4,903 |
| Securities sold under repurchase agreements | | 4,125,242 | 3,896,539 |
| Short term loans | 15 | 777,699 | 815,783 |
| Loans from specialised banks | 16 | 1,588,675 | 2,869,990 |
| Post-employment benefit obligations | 10 | 132,478 | 118,019 |
| Other liabilities | 17 | 218,506 | 192,030 |
| Guarantees and letters of credit | | 387,227 | 365,031 |
| **Total Liabilities** | | 23,732,886 | 23,616,083 |
| **EQUITY** | | | |
| Share capital | 18 | 2,414,181 | 2,414,181 |
| Reserve fund | 19 | 748,337 | 627,685 |
| Fair value reserve | 20 | 93,399 | (6,912) |
| Loan loss reserve | 21 | 454,186 | 341,324 |
| Retained earnings reserve | 22 | 1,194,630 | 1,594,630 |
| Stock option reserve | 23 | 5,608 | - |
| Retained earnings/(Accumulated deficit) | | 187,507 | (256,674) |
| **Total Equity** | | 5,097,848 | 4,714,234 |
| **Total Liabilities and Equity** | | 28,830,734 | 28,330,317 |

**Approved for issue by the Board of Directors on 20 March 2011 and signed on its behalf by:**

| | | | |
|---|---|---|---|
| Douglas Orane | Director | Courtney Campbell | Director |
| Shirley-Ann Eaton | Director | Rema Spence Dunn | Secretary |

# First Global Bank Limited

Statement of Comprehensive Income

**Year ended 31 December 2011**

(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| **Interest Income –** | | | |
| Loans | | 1,350,528 | 1,445,245 |
| Securities | 24 | 990,301 | 1,104,913 |
| Other | | 758 | 1,990 |
| | | 2,341,587 | 2,552,148 |
| **Interest Expense –** | | | |
| Customer deposits | | (476,664) | (624,813) |
| Securities sold under repurchase agreements | | (151,036) | (209,629) |
| Other | | (192,533) | (223,287) |
| | | (820,233) | (1,057,729) |
| **Net Interest Income** | | 1,521,354 | 1,494,419 |
| **Provision for Loan Losses, Net** | 7 | (48,600) | 56,444 |
| | | 1,472,754 | 1,550,863 |
| **Other Income –** | | | |
| Fees and commissions | 25 | 340,216 | 291,219 |
| Gains on foreign exchange translation and trading | | 126,806 | 115,191 |
| Losses on the sale of securities | 26 | - | (14,965) |
| Other | | 53,680 | 12,475 |
| | | 520,702 | 403,920 |
| **Net Interest and Other Income** | | 1,993,456 | 1,954,783 |
| **Operating Expenses –** | | | |
| Staff costs | 27 | (804,403) | (613,200) |
| Depreciation | 9 | (90,723) | (110,228) |
| Administration and other expenses | 28 | (732,784) | (695,308) |
| | | (1,627,910) | (1,418,736) |
| **Profit before Taxation** | | 365,546 | 536,047 |
| Taxation | 29 | (40,701) | (56,550) |
| **Net Profit for the Year** | | 324,845 | 479,497 |
| **Other Comprehensive Income –** | | | |
| Realised gains and losses on available-for-sale investments | | (15,602) | (77,877) |
| Fair value gains and losses on available-for-sale investments | | 115,913 | 420,152 |
| | | 100,311 | 342,275 |
| **TOTAL COMPREHENSIVE INCOME** | | 425,156 | 821,772 |

# First Global Bank Limited

## Statement of Changes in Equity

**Year ended 31 December 2011**

(expressed in Jamaican dollars unless otherwise indicated)

| | Share Capital | Reserve Fund | Fair Value Reserve | Loan Loss Reserve | Retained Earnings Reserve | Stock Option Reserve | Retained Earnings/ (Accumulated Deficit) | Total |
|---|---|---|---|---|---|---|---|---|
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| Balance at 1 January 2010 | 2,414,181 | 627,685 | (349,187) | 185,740 | 1,594,630 | 17,400 | (597,987) | 3,892,462 |
| Total comprehensive income | - | - | 342,275 | - | - | - | 479,497 | 821,772 |
| Transfer to loan loss reserve | - | - | - | 155,584 | - | - | (155,584) | - |
| Transfer to accumulated deficit | - | - | - | - | - | (17,400) | 17,400 | - |
| **Balance at 31 December 2010** | 2,414,181 | 627,685 | (6,912) | 341,324 | 1,594,630 | - | (256,674) | 4,714,234 |
| Total comprehensive income | - | - | 100,311 | - | - | - | 324,845 | 425,156 |
| Preference dividends paid | - | - | - | - | - | - | (47,150) | (47,150) |
| Employee share option scheme: value of services received | - | - | - | - | - | 5,608 | - | 5,608 |
| Transfer to loan loss reserve | - | - | - | 112,862 | - | - | (112,862) | - |
| Transfer to reserve fund | - | 120,652 | - | - | - | - | (120,652) | - |
| Transfer to accumulated deficit | - | - | - | - | (400,000) | - | 400,000 | - |
| **Balance at 31 December 2011** | 2,414,181 | 748,337 | 93,399 | 454,186 | 1,194,630 | 5,608 | 187,507 | 5,097,848 |

# First Global Bank Limited

Statement of Cash Flows

**Year ended 31 December 2011**

(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Profit for the year | | 324,845 | 479,497 |
| Adjustments to reconcile profit for the year to net cash used in operating activities – | | | |
| Depreciation | 9 | 90,723 | 110,228 |
| Foreign exchange losses | | 26,675 | 113,660 |
| Gain on disposal of property, plant and equipment | | (30) | - |
| Loss on sale of investment securities | 26 | - | 14,965 |
| Employee stock option scheme | 23 | 5,608 | - |
| Provision for loan losses, net | 7 | 48,600 | (56,444) |
| Interest income | | (2,341,587) | (2,552,148) |
| Interest expense | | 820,233 | 1,057,729 |
| Taxation | 29 | 40,701 | 56,550 |
| | | (984,232) | (775,963) |
| Changes in other operating assets and liabilities – | | | |
| Customer deposits | | 1,137,674 | 458,898 |
| Loans | | (1,759,017) | 752,974 |
| Securities sold under repurchase agreements | | 218,078 | (1,563,762) |
| Forward contracts | | (11,069) | 4,903 |
| Positions held in securities trading | | - | (122,517) |
| Restricted cash and bank accounts | | (174,935) | 331,299 |
| Post-employment benefits | | 44,966 | (13,308) |
| Other assets | | 11,317 | (48,040) |
| Other liabilities | | 26,476 | (64,408) |
| | | (1,490,742) | (1,039,924) |
| Interest received | | 2,380,072 | 2,745,794 |
| Interest paid | | (822,289) | (1,086,419) |
| Taxation paid | | - | - |
| Net cash provided by operating activities (carried forward to page 6) | | 67,041 | 619,451 |

# First Global Bank Limited

Statement of Cash Flows

**Year ended 31 December 2011**

(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| **Cash Flows from Operating Activities (brought forward from page 5)** | | 67,041 | 619,451 |
| **Cash Flows from Investing Activities** | | | |
| Investment securities | | 1,619,966 | (904,693) |
| Proceeds on disposal of property, plant and equipment | | 731 | - |
| Acquisition of property, plant and equipment | 9 | (151,691) | (173,684) |
| Net cash provided by/(used in) investing activities | | 1,469,006 | (1,078,377) |
| **Cash Flows from Financing Activities** | | | |
| Due to specialised banks | | (1,281,680) | (66,245) |
| Short term loan | | 6,902 | 770,409 |
| Preference dividends paid | | (47,150) | - |
| Net cash (used in)/provided by financing activities | | (1,321,928) | 704,164 |
| Net increase in cash and cash equivalents | | 214,119 | 245,238 |
| Effect of foreign exchange rate changes on cash and cash equivalents | | (642) | (17,099) |
| **Cash and Cash Equivalents at Beginning of Year** | | 864,512 | 636,373 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | 1,077,989 | 864,512 |
| **Comprising:** | | | |
| Cash and bank balances | 5 | 769,775 | 568,096 |
| Items in the course of collection from other banks | | 120,354 | 97,857 |
| Securities purchased under resale agreements | | 320,653 | 356,285 |
| Items in the course of payment | | (126,527) | (107,432) |
| Bank overdraft | | (6,266) | (5,289) |
| Short term loan | 15 | - | (45,005) |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | 1,077,989 | 864,512 |

## 1. Identification and Activities

(a) First Global Bank Limited (the Bank) is a limited liability company incorporated and domiciled in Jamaica and is licensed under the Banking Act, 1992. The Bank is a subsidiary of First Global Holdings Limited and its ultimate parent company is GraceKennedy Limited. Both companies are incorporated and domiciled in Jamaica. The Bank's registered office is located at 28 - 48 Barbados Avenue, Kingston.

(b) The Bank's principal activities are the provision of commercial banking and related financial services.

## 2. Significant Accounting Policies

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

**(a) Basis of preparation**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and have been prepared under the historical cost convention as modified by the revaluation of certain financial assets.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Although these estimates are based on management's best knowledge of current events and actions, actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

***Standards, interpretations and amendments to published standards effective in the current year***

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

**IAS 24 (Revised), 'Related party disclosures'** The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities by offering certain exemptions. The revised standard did not have a significant impact on the Bank's related party disclosures.

**IFRIC 14 Amendment, *IAS 19* – 'Payments of a minimum funding requirement'** This interpretation removes unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement and results in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment did not have a significant impact on the Bank's financial statements.

# First Global Bank Limited

Notes to the Financial Statements
**31 December 2011**
(expressed in Jamaican dollars unless otherwise indicated)

## 2. Significant Accounting Policies (Continued)

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

***Standards, interpretations and amendments to published standards not yet effective***
At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which are mandatory for the Bank's accounting periods beginning on or after 1 January 2012 or later periods, but were not effective at the date of the statement of financial position, and which the Bank has not early adopted. The Bank has assessed the relevance of all such new standards, interpretations and amendments, has determined that the following may be relevant to its operations, and has concluded as follows:

**IAS 1 (Amendment), 'Presentation of financial statements' (effective for annual periods beginning on or after 1 July 2012).** The main change resulting from this amendment is a requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially recycled to profit or loss. The amendment changes the disclosure of items presented in other comprehensive income in the statement of comprehensive income. The International Accounting Standards Board (IASB) originally proposed that all entities should present profit or loss and other comprehensive income together in a single statement of comprehensive income. The proposal has been withdrawn and IAS 1 will still permit profit or loss and other comprehensive income to be presented in either a single statement or in two consecutive statements. The amendment does not address which items should be presented in other comprehensive income and the option to present items of other comprehensive income either before tax or net of tax has been retained. Currently, all items of other comprehensive income are recyclable to profit or loss and are presented net of tax with details of tax charged on each item in Notes 11 and 20.

**IAS 19 (Revised), 'Employee Benefits' (effective for annual periods beginning on or after 1 January 2013).** These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. The significant changes affecting the Bank are that actuarial gains and losses are renamed 'remeasurements' and will be recognised immediately in other comprehensive income. Actuarial gains and losses will no longer be deferred using the corridor approach or recognised in profit or loss. Remeasurements recognised in other comprehensive income will not be recycled through profit or loss in subsequent periods. The annual income or expense for funded benefit plans will include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability. This will replace the finance charge and expected return on plan assets. Additional disclosures are required to present the characteristics of benefit plans, the amounts recognised in the financial statements and the risks arising from defined benefit plans and multi-employer plans. The Bank will apply these amendments from 1 January 2013.

**IFRS 9, 'Financial Instruments' (effective on or after 1 January 2015).** This standard specifies how an entity should classify and measure financial instruments, including some hybrid contracts. It requires all financial assets to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset; initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs; and subsequently measured at amortised cost or fair value. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of IAS 39. They apply a consistent approach to classifying financial assets and replace the four categories of financial assets in IAS 39, each of which had its own classification criteria. They also result in one impairment method, replacing the two impairment methods in IAS 39 that arise from the different classification categories. The Bank is still assessing the potential impact of IFRS 9 and whether it should adopt the standard prior to the effective date to take advantage of the transitional arrangements which vary depending on the date of initial adoption.

## 2. Significant Accounting Policies (Continued)

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

***Standards, interpretations and amendments to published standards not yet effective (continued)***

**IFRS 13, Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013).** The standard explains how to measure fair value for financial reporting. It defines fair value; sets out in a single IFRS a framework for measuring fair value; and requires disclosures about fair value measurements. This standard applies to those standards that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. The Bank will apply the standard from 1 January 2013 and it will result in expanded disclosure in the financial statements.

**IFRIC 19, 'Extinguishing financial liabilities with equity instruments' (effective on or after 1 July 2011).** This interpretation clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. The interpretation is not expected to have an impact on the financial statements as the Bank has currently no debt for equity swap agreements.

### (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 and presentation 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 net profit or loss.

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 net profit or loss and other changes are recognised in other comprehensive income.

### (c) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, bank overdrafts and loans used for short term liquidity.

## 2. Significant Accounting Policies (Continued)

### (d) Forward 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 the date of each statement of financial position. 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 International Accounting Standard (IAS) 39, Financial Instruments: Recognition and Measurement.

### (e) Securities purchased/sold under resale/repurchase agreements

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

### (f) 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.

## 2. Significant Accounting Policies (Continued)

### (g) Investment securities

*Classification*

The Bank classifies its investment securities in the available-for-sale and loans and receivables categories. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its investment securities at initial recognition and re-evaluates this designation at every reporting date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables either meet the definition of loans and receivables at the date of acquisition, or at the date of reclassification from another category. The Bank reclassifies certain financial assets to loans and receivables when the markets for these securities are inactive. The Bank has elected to reclassify financial assets reclassified to loans and receivables back to available-for-sale category once the markets for these securities become active again.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other category.

*Recognition and measurement*

Regular purchases and sales of financial assets are recognised on the settlement date – the date on which an asset is delivered to or by the Bank – and are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Changes in the fair value of investments classified as available-for-sale are recognised in other comprehensive income.

When investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in arriving at net profit or loss. Interest on available-for-sale securities calculated using the effective interest method is recognised in arriving at net profit or loss. Dividends on available-for-sale equity instruments are recognised in arriving at net profit or loss when the Bank's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis making maximum use of market inputs and relying as little as possible on entity-specific inputs.

*Offsetting financial instruments*

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.

## 2. Significant Accounting Policies (Continued)

### (g) Investment securities (continued)

*Impairment*

The Bank assesses at the date of each statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in arriving at net profit or loss – is removed from other comprehensive income and recognised in arriving at net profit or loss. Impairment losses on equity instruments recognised in arriving at net profit or loss are not reversed.

Debt securities are considered impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event or events has an impact on the estimated future cash flows that can be reliably estimated. The amount of loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate. For debt securities carried at amortised cost, the asset's carrying amount is reduced and the amount of loss is recognised in arriving at net profit or loss. For debt securities classified as available-for-sale, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in arriving at net profit or loss – is removed from equity and recognised in arriving at net profit or loss in the current year. If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in arriving at net profit or loss for the current year.

### (h) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation.

Depreciation is calculated on the straight-line basis at such rates as will write off the carrying value of the assets over the shorter of their expected useful lives or the lease period. The expected useful lives are as follows:

| | |
|---|---|
| Leasehold improvements | 5 years |
| Office equipment, furniture and fixtures | 10 years |
| Computer equipment | 3 years |
| Motor vehicles | 5 years |

Gains or losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

Repairs and maintenance expenses are charged in arriving at net profit or loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the assessed standard of performance of the existing asset will flow to the Bank. Major renovations are depreciated over the remaining useful life of the related asset.

# First Global Bank Limited

Notes to the Financial Statements
**31 December 2011**
(expressed in Jamaican dollars unless otherwise indicated)

## 2. Significant Accounting Policies (Continued)

### (i) Employee benefits

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

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

The asset or liability in respect of defined benefit pension plans is the difference between the present value of the defined benefit obligation at the date of the statement of financial position and the fair value of the plan assets, together with adjustments for actuarial gains and losses and past service cost. Where a pension asset arises, the amount recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in future contributions to the plan.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The defined benefit obligation is measured as the present value of the estimated future outflows using discount rates based on market yields on government securities that have terms to maturity approximating the term of the related liability.

Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are charged or credited in arriving at net profit or loss over the average remaining service lives of the related employees.

Past-service costs are recognised immediately in arriving at net profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

*Other post-employment benefit obligations*
The entitlement to these benefits is usually based on the employee remaining in service up to post-employment age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using accounting methodology similar to that for defined benefit pension plans. These obligations are valued annually by independent qualified actuaries.

*Equity compensation benefits*
The ultimate parent company operates an equity-settled, share-based compensation plan, in which the Bank participates. Stock options in the ultimate parent company are granted to management and key employees of the Bank. The fair value of the employee's services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of non-market vesting conditions. Options are granted at the market price of the shares on the date of the grant and are exercisable at that price. Options are exercisable beginning three months from the date of the grant and have a contractual option term of up to six years. When options are exercised, the proceeds received, net of any transaction costs are passed on to the ultimate parent company and credited to Stock Option Reserve.

## 2. Significant Accounting Policies (Continued)

### (i) Employee benefits (continued)

*Termination benefits*

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

*Incentive plans*

The Bank recognises a liability and an expense for bonuses based on a formula that takes into consideration the results for the year after certain adjustments. The Bank recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

### (j) Income taxes

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

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

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

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

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

### (k) Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method. Any differences between proceeds, net of transaction costs, and the redemption value are recognised in arriving at net profit or loss over the period of the borrowings using the effective yield method.

## 2. Significant Accounting Policies (Continued)

### (l) Income and expense recognition

*Interest income and expense*

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

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

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

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

*Fee and commission income*

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

*Dividend income*

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

### (m) Leases

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

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

## 3. Financial Risk Management

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

In February 2010, the Bank participated in the Jamaica Debt Exchange (JDX) transaction under which it exchanged its holdings of domestic debt instruments issued by the Government of Jamaica for new, longer-dated debt instruments available to the Bank under the election options contained in the agreement. The JDX transaction resulted in a reduction in yields and an increase in the tenor of locally issued Government of Jamaica securities.

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

The Board of Directors is ultimately responsible for the establishment and oversight of the Bank's risk management framework. The following committees were established for managing and monitoring risks:

*Asset and Liability Committee*
The Asset and Liability Committee (ALCO) is a management committee responsible for monitoring and formulating investment portfolios and investment strategies for the Bank. ALCO is also responsible for monitoring adherence to trading limits. Other responsibilities of ALCO include:

- Monitoring management's adherence to policies and procedures that are established to ensure that the Bank has adequate liquidity at all times;
- Monitoring and measuring capital adequacy for regulatory and business requirements;
- Establishing asset and liability pricing policies to protect the liquidity structure as well as assess the probability of various liquidity shocks and interest rate scenarios;
- Monitoring the statement of financial position and ensure business strategies are consistent with liquidity requirements;
- Establishing and monitoring relevant liquidity ratios and statement of financial position targets; and
- Ensuring full compliance with the Bank's Asset and Liability Manual as it relates to the management of liquidity risk, interest rate risk and foreign exchange risk.

The minutes of the ALCO meetings are submitted to the Board of Directors.

*Audit Committee*
The Audit Committee oversees how management monitors compliance with the Bank's risk management policies and procedures, reviews the adequacy of the risk management framework in relation to the risks faced by the Bank and monitors regulatory compliance. The Audit Committee is assisted in its oversight role by the Internal Audit department of the ultimate parent company. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

*Credit Committee*
The Credit Committee manages the Bank's credit portfolio. The Chairman and the members of the committee are charged with the responsibility to approve credit within their designated limits and make recommendations to the Board of Directors.

## 3. Financial Risk Management (Continued)

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 takes on exposure to credit risk, which is the risk that its customers, clients or counterparties will cause a financial loss for the Bank by failing to discharge their contractual obligations. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in investment and lending activities.

For its investment activities, the Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty or groups of related counterparties and to geographical and industry segments. For its lending activities, consideration is given to sectoral exposure, as well as to counterparty and group risk. Additionally, much emphasis is placed on determining the adequacy of cash flow being generated by the counterparty to meet repayment terms, the availability of tangible security that may be realised as a secondary source of payment in the event that cash flow is impaired, and the timeliness and quality of financial information available on/from the counterparty/customer to assist in predicting its future performance.

Credit-related commitment risks also arise from guarantees/bonds issued by the Bank which may require payment on behalf of customers. Such guarantees/bonds are issued after analysis of the customers making the request to ensure that they have a good record of performance in the activity for which the bond or guarantee is being sought, as well as the taking of security as a secondary source of recovery in case of need. Generally, guarantees/bonds expose the Bank to similar risks as loans, and these are mitigated by the same control policies and processes.

***Credit review process***

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

*Loans*

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

The Bank's internal rating scale is as follows:

| **Rating** | **Description** | | |
|---|---|---|---|
| 1 | *Low Risk* | - | excellent credit history |
| 2 | *Standard Risk* | - | generally abides by credit terms |
| 3 | *Sub Standard Risk* | - | late paying with some level of impairment |

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 take corrective action.

*Investments*

The Bank limits its exposure to credit risk by investing mainly in liquid securities, with counterparties that have high credit quality and Government of Jamaica securities. Accordingly, management does not expect any counterparty to fail to meet its obligations.

## 3. Financial Risk Management (Continued)

### (a) Credit risk (continued)

***Collateral and other credit enhancements***
The amount and type of the collateral required depends on the credit risk of the counterparty and the use of professionally derived, estimable realisable values of security, assuming forced sale conditions. Guidelines are implemented regarding the acceptability of different types of collateral, the lending margins against forced sale values which will be used and the quality of work and experience from the professionals from whom these valuations will be accepted.

The main types of collateral obtained are as follows:
- Loans – first demand mortgages over residential and commercial properties, first debenture charges over business assets such as premises, inventory and accounts receivable and charges and hypothecations over deposit balances and financial instruments such as debt securities and equities.
- Securities lending and reverse repurchase transactions – cash or securities.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries and from individual shareholders for loans to their companies.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral held, during its annual review of the individual credit facilities, as well as during its review of the provision for credit losses.

The worst case scenario of credit risk exposure to the Bank, without taking account of any collateral held or credit enhancements, was as follows:

| | 2011<br>$'000 | 2010<br>$'000 |
|---|---:|---:|
| Cash at bank | 2,255,517 | 2,007,703 |
| Items in the course of collection from other banks | 120,354 | 97,857 |
| Securities purchased under resale agreements | 320,653 | 356,285 |
| Loans | 11,682,265 | 9,981,752 |
| Investment securities | 12,554,543 | 14,074,067 |
| Other assets | 146,415 | 82,601 |
| Customers' liability under guarantees and letters of credit | 387,227 | 365,031 |
| | 27,466,974 | 26,965,296 |

## 3. Financial Risk Management (Continued)

### (a) Credit risk (continued)

***Impairment***

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

The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

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

Collectively assessed allowances are provided for portfolios of homogenous assets that are individually below materiality thresholds; and losses that have been incurred but have not yet been identified, by taking into consideration historical losses on the portfolio, current economic conditions and expected receipts and recoveries once impaired.

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

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal and interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

# First Global Bank Limited
Notes to the Financial Statements
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## 3. Financial Risk Management (Continued)

### (a) Credit risk (continued)

***Impairment (continued)***
The impairment provision shown in the statement of financial position at year end is derived from each of the three internal rating grades. However, the majority of the impairment provision comes from the 'Sub Standard' rating class. The table below shows the Bank's loans and the associated impairment provision for each internal rating class:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Loans $'000** | **Impairment provision $'000** | **Loans $'000** | **Impairment provision $'000** |
| Low Risk | 287,315 | - | 478,161 | - |
| Standard Risk | 10,959,617 | - | 8,870,348 | - |
| Sub-Standard Risk | 562,304 | 126,971 | 736,977 | 103,734 |
| | 11,809,236 | 126,971 | 10,085,486 | 103,734 |

The credit quality of loans is summarised as follows:

| | **2011 $'000** | **2010 $'000** |
|---|---|---|
| Neither past due nor impaired – | | |
| Low Risk | 287,315 | 478,161 |
| Standard Risk | 10,819,901 | 8,600,440 |
| Sub Standard Risk | - | - |
| | 11,107,216 | 9,078,601 |
| Past due but not impaired | 139,716 | 269,908 |
| Impaired | 562,304 | 736,977 |
| | 11,809,236 | 10,085,486 |
| Less: Provision for impairment | (126,971) | (103,734) |
| | 11,682,265 | 9,981,752 |

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

| | **2011 $'000** | **2010 $'000** |
|---|---|---|
| Less than 30 days | 41,099 | 22,215 |
| 31 to 60 days | 23,815 | 15,767 |
| 61 to 90 days | 18,971 | 103,789 |
| Greater than 90 days | 55,831 | 128,137 |
| | 139,716 | 269,908 |

# First Global Bank Limited
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## 3. Financial Risk Management (Continued)

### (a) Credit risk (continued)

***Concentration of credit risk***
*Loans*
The majority of loans are extended to customers in Jamaica. The following table summarises the Bank's credit exposure for loans at their carrying amounts, as categorised by industry sector:

| | Number of loan accounts | | Credit exposure | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011 $'000** | **2010 $'000** |
| Public sector | 9 | 13 | 287,315 | 477,749 |
| Financial institutions | 12 | 7 | 1,544,920 | 958,943 |
| Agriculture | 15 | 10 | 37,783 | 18,055 |
| Mining and quarrying | 4 | 1 | 9,733 | 5 |
| Manufacturing | 50 | 44 | 835,166 | 933,284 |
| Construction and land development | 25 | 24 | 539,724 | 417,423 |
| Transportation, storage and communication | 68 | 67 | 1,801,794 | 1,307,686 |
| Electricity, gas and water | 2 | 4 | 1,230 | 2,164 |
| Distribution | 72 | 95 | 1,089,916 | 695,194 |
| Tourism | 36 | 40 | 1,043,912 | 1,075,774 |
| Entertainment | 10 | 10 | 106,181 | 31,833 |
| Professional and other services | 186 | 178 | 1,463,099 | 1,382,075 |
| Individuals | 6,843 | 6,191 | 2,921,492 | 2,681,567 |
| | 7,332 | 6,684 | 11,682,265 | 9,981,752 |

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

| | **2011 $'000** | **2010 $'000** |
|---|---|---|
| Government of Jamaica | 12,483,922 | 13,165,822 |
| Corporate | 70,621 | 908,245 |
| | 12,554,543 | 14,074,067 |

## 3. Financial Risk Management (Continued)

### (b) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due.

***Liquidity risk management process***

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

(i) Monitoring future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure funding if required;

(ii) Maintaining a portfolio of highly marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

(iii) Maintaining committed lines of credit;

(iv) Optimising cash returns on investments;

(v) Monitoring statement of financial position liquidity ratios against internal and regulatory requirements. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities; and

(vi) Managing the concentration, profile and maturities of debt securities.

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

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

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

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## 3. Financial Risk Management (Continued)

### (b) Liquidity risk (continued)

***Cash flows of financial instruments***

The tables below present the undiscounted cash flows (both interest and principal cash flows) of the Bank's financial assets and liabilities based on contractual repayment obligations. The Bank expects that, based on estimates made by management as determined by retention history, many customers will not request repayment on the earliest date the Bank could be required to pay.

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | **Within 3 Months** | **3 to 12 Months** | **1 to 5 Years** | **Over 5 Years** | **No Specific Maturity** | **Total** |
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| **Financial assets** | | | | | | |
| Cash and bank balances | 2,602,772 | - | - | - | - | 2,602,772 |
| Items in the course of collection from other banks | 120,354 | - | - | - | - | 120,354 |
| Securities purchased under resale agreements | 321,293 | - | - | - | - | 321,293 |
| Loans | 1,889,460 | 369,257 | 6,245,603 | 9,191,838 | - | 17,696,158 |
| Investment securities | 1,302,691 | 627,771 | 5,371,566 | 13,567,138 | 5,020 | 20,874,186 |
| Forward contracts | 6,166 | - | - | - | - | 6,166 |
| Other assets | 146,415 | - | - | - | - | 146,415 |
| Customers' liabilities under guarantees and letters of credit | 224,731 | 130,778 | 21,154 | 10,564 | - | 387,227 |
| **Total financial assets** | 6,613,882 | 1,127,806 | 11,638,323 | 22,769,540 | 5,020 | 42,154,571 |
| **Financial liabilities** | | | | | | |
| Customer deposits | 13,298,173 | 3,006,499 | 78,868 | - | - | 16,383,540 |
| Items in the course of payment | 126,527 | - | - | - | - | 126,527 |
| Bank overdraft | 6,266 | - | - | - | - | 6,266 |
| Securities sold under repurchase agreements | 3,543,259 | 614,677 | - | - | - | 4,157,936 |
| Short term loans | - | 790,185 | - | - | - | 790,185 |
| Loans from specialised banks | 588,910 | 247,912 | 881,454 | 115,238 | - | 1,833,514 |
| Other liabilities | 209,843 | - | - | - | - | 209,843 |
| Guarantees and letters of credit | 224,731 | 130,778 | 21,154 | 10,564 | - | 387,227 |
| **Total financial liabilities** | 17,997,709 | 4,790,051 | 981,476 | 125,802 | - | 23,895,038 |
| **Total liquidity gap** | (11,383,827) | (3,662,245) | 10,656,847 | 22,643,738 | 5,020 | 18,259,533 |
| **Cumulative gap** | (11,383,827) | (15,046,072) | (4,389,225) | 18,254,513 | 18,259,533 | |

# First Global Bank Limited

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## 3. Financial Risk Management (Continued)

### (b) Liquidity risk (continued)

***Cash flows of financial instruments (continued)***

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | **Within 3 Months $'000** | **3 to 12 Months $'000** | **1 to 5 Years $'000** | **Over 5 Years $'000** | **No Specific Maturity $'000** | **Total $'000** |
| **Financial assets** | | | | | | |
| Cash and bank balances | 2,226,158 | - | - | - | - | 2,226,158 |
| Items in the course of collection from other banks | 97,857 | - | - | - | - | 97,857 |
| Securities purchased under resale agreements | 369,550 | - | - | - | - | 369,550 |
| Loans | 1,083,502 | 760,798 | 5,795,680 | 6,931,765 | - | 14,571,745 |
| Investment securities | 2,569,539 | 1,270,037 | 8,125,801 | 11,935,216 | 5,020 | 23,905,613 |
| Other assets | 82,601 | - | - | - | - | 82,601 |
| Customers' liabilities under guarantees and letters of credit | 218,867 | 140,401 | 1,200 | 4,563 | - | 365,031 |
| **Total financial assets** | 6,648,074 | 2,171,236 | 13,922,681 | 18,871,544 | 5,020 | 41,618,555 |
| **Financial liabilities** | | | | | | |
| Customer deposits | 12,792,251 | 2,582,152 | 67,123 | - | - | 15,441,526 |
| Items in the course of payment | 107,432 | - | - | - | - | 107,432 |
| Bank overdraft | 5,289 | - | - | - | - | 5,289 |
| Forward contracts | 4,903 | - | - | - | - | 4,903 |
| Securities sold under repurchase agreements | 2,967,587 | 950,454 | - | - | - | 3,918,041 |
| Short term loans | 45,015 | 783,072 | - | - | - | 828,087 |
| Loans from specialised banks | 96,649 | 1,742,740 | 1,293,270 | - | - | 3,132,659 |
| Other liabilities | 181,513 | - | - | - | - | 181,513 |
| Guarantees and letters of credit | 218,867 | 140,401 | 1,200 | 4,563 | - | 365,031 |
| **Total financial liabilities** | 16,419,506 | 6,198,819 | 1,361,593 | 4,563 | - | 23,984,481 |
| **Total liquidity gap** | (9,771,432) | (4,027,583) | 12,561,088 | 18,866,981 | 5,020 | 17,634,074 |
| **Cumulative gap** | (9,771,432) | (13,799,015) | (1,237,927) | 17,629,054 | 17,634,074 | |

The Bank is also able to meet unexpected net cash outflows by selling securities and accessing additional funding sources from its ultimate parent company and other financing institutions.

# First Global Bank Limited

Notes to the Financial Statements
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## 3. Financial Risk Management (Continued)

### (c) Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks mainly arise from changes in foreign currency exchange rates and interest rates. Market risk is monitored by the Risk and Compliance department which carries out extensive research and monitors the price movement of financial assets on the local and international markets. Market risk exposures are measured using sensitivity analysis. There has been no change to the Bank's exposure to market risks or the manner in which it manages and measures the risk.

***Currency risk***

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

The Bank manages its foreign exchange risk by ensuring that the net exposure in foreign assets and liabilities is kept at an acceptable level by monitoring currency positions. The Bank further manages this risk by maximising foreign currency earnings, holding foreign currency balances and by entering into foreign currency forward contracts. The net currency exposure of financial assets and liabilities at 31 December was as follows:

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Jamaican$ | US$ | GBP | CAN$ | Euro | Total |
| | J$'000 | J$'000 | J$'000 | J$'000 | J$'000 | J$'000 |
| **Financial assets** | | | | | | |
| Cash and bank balances | 1,089,213 | 1,349,347 | 99,319 | 38,274 | 26,619 | 2,602,772 |
| Items in the course of collection from other banks | 48,651 | 71,581 | 72 | 50 | - | 120,354 |
| Securities purchased under resale agreements | - | 320,653 | - | - | - | 320,653 |
| Loans | 5,735,479 | 5,946,786 | - | - | - | 11,682,265 |
| Investment securities | 5,067,348 | 6,725,455 | - | - | 766,760 | 12,559,563 |
| Forward contracts | 1,424 | (30,568) | 140,545 | 28,005 | (133,240) | 6,166 |
| Other assets | 28,271 | 117,349 | 84 | 711 | - | 146,415 |
| Customers' liabilities under guarantees and letters of credit | 327,825 | 59,402 | - | - | - | 387,227 |
| **Total financial assets** | 12,298,211 | 14,560,005 | 240,020 | 67,040 | 660,139 | 27,825,415 |
| **Financial liabilities** | | | | | | |
| Customer deposits | 6,091,140 | 9,950,794 | 244,407 | 62,002 | 21,923 | 16,370,266 |
| Items in the course of payment | 92,915 | 32,049 | 114 | 1,445 | 4 | 126,527 |
| Bank overdraft | - | 859 | - | 5,407 | - | 6,266 |
| Securities sold under repurchase agreements | 450,929 | 3,035,571 | - | - | 638,742 | 4,125,242 |
| Short term loans | - | 777,699 | - | - | - | 777,699 |
| Loans from specialised banks | 751,350 | 837,325 | - | - | - | 1,588,675 |
| Other liabilities | 206,857 | 3,851 | 28 | (912) | 19 | 209,843 |
| Guarantees and letters of credit | 327,825 | 59,402 | - | - | - | 387,227 |
| **Total financial liabilities** | 7,921,016 | 14,697,550 | 244,549 | 67,942 | 660,688 | 23,591,745 |
| **Net financial position** | 4,377,195 | (137,545) | (4,529) | (902) | (549) | 4,233,670 |

# First Global Bank Limited
Notes to the Financial Statements
**31 December 2011**
(expressed in Jamaican dollars unless otherwise indicated)

## 3. Financial Risk Management (Continued)

### (c) Market risk (continued)

***Currency risk (continued)***

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | **Jamaican$** | **US$** | **GBP** | **CAN$** | **Euro** | **Total** |
| | **J$'000** | **J$'000** | **J$'000** | **J$'000** | **J$'000** | **J$'000** |
| **Financial assets** | | | | | | |
| Cash and bank balances | 811,484 | 1,248,057 | 94,582 | 16,405 | 55,630 | 2,226,158 |
| Items in the course of collection from other banks | 38,540 | 58,304 | 488 | 525 | - | 97,857 |
| Securities purchased under resale agreements | - | 356,285 | - | - | - | 356,285 |
| Loans | 4,104,891 | 5,876,861 | - | - | - | 9,981,752 |
| Investment securities. | 5,388,600 | 7,871,653 | - | - | 818,834 | 14,079,087 |
| Other assets | 11,087 | 70,730 | 85 | 699 | - | 82,601 |
| Customers' liabilities under guarantees and letters of credit | 280,640 | 84,391 | - | - | - | 365,031 |
| **Total financial assets** | 10,635,242 | 15,566,281 | 95,155 | 17,629 | 874,464 | 27,188,771 |
| **Financial liabilities** | | | | | | |
| Customer deposits | 5,121,244 | 9,769,959 | 260,732 | 46,647 | 42,485 | 15,241,067 |
| Items in the course of payment | 77,641 | 27,703 | 111 | 1,973 | 4 | 107,432 |
| Bank overdraft | - | 5,289 | - | - | - | 5,289 |
| Forward contracts | 506 | 68,431 | (162,627) | (29,632) | 128,225 | 4,903 |
| Securities sold under repurchase agreements | 1,039,097 | 2,176,667 | - | - | 680,775 | 3,896,539 |
| Short term loans | 46,214 | 769,569 | - | - | - | 815,783 |
| Loans from specialised banks | 476,652 | 2,393,338 | - | - | - | 2,869,990 |
| Other liabilities | 131,978 | 49,399 | 110 | 6 | 20 | 181,513 |
| Guarantees and letters of credit | 280,640 | 84,391 | - | - | - | 365,031 |
| **Total financial liabilities** | 7,173,972 | 15,344,746 | 98,326 | 18,994 | 851,509 | 23,487,547 |
| **Net financial position** | 3,461,270 | 221,535 | (3,171) | (1,365) | 22,955 | 3,701,224 |

# First Global Bank Limited

Notes to the Financial Statements
**31 December 2011**
(expressed in Jamaican dollars unless otherwise indicated)

## 3. Financial Risk Management (Continued)

### (c) Market risk (continued)

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

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Change in Currency Rate | Effect on Income | Change in Currency Rate | Effect on Income |
| | % | $'000 | % | $'000 |
| **Currency:** | | | | |
| US$ | 1 | 1,612 | 5 | 18,422 |
| GBP | 1 | (24) | 5 | 12 |
| CAN$ | 1 | 10 | 5 | (46) |
| EURO | 1 | (4) | 5 | 764 |
| US$ | -1 | (1,612) | -5 | (18,422) |
| GBP | -1 | 24 | -5 | (12) |
| CAN$ | -1 | (10) | -5 | 46 |
| EURO | -1 | (4) | -5 | (764) |

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

The Bank takes on exposure to the effects of fluctuations in the prevailing level of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Floating rate instruments expose the Bank to cash flow interest risk, whereas fixed interest rate instruments expose the Bank to fair value interest risk.

The Bank's interest rate risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and liabilities. The Board sets limits on the level of mismatch of interest rate re-pricing that may be undertaken. These limits are monitored by the ALCO.

# First Global Bank Limited
Notes to the Financial Statements
**31 December 2011**
(expressed in Jamaican dollars unless otherwise indicated)

## 3. Financial Risk Management (Continued)

### (c) Market risk (continued)

***Interest rate risk (continued)***
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.

| | 2011 | | | | |
|---|---|---|---|---|---|
| | **Within 3 months $'000** | **3 to 12 months $'000** | **Over 12 months $'000** | **Non rate sensitive $'000** | **Total $'000** |
| **Financial assets** | | | | | |
| Cash and bank balances | 1,212,731 | - | - | 1,390,041 | 2,602,772 |
| Items in the course of collection from other banks | - | - | - | 120,354 | 120,354 |
| Securities purchased under resale agreements | 320,653 | - | - | - | 320,653 |
| Loans | 1,927,287 | 333,801 | 9,421,177 | - | 11,682,265 |
| Investment securities | 1,131,309 | 675,930 | 10,747,304 | 5,020 | 12,559,563 |
| Forward contracts | - | - | - | 6,166 | 6,166 |
| Other assets | - | - | - | 146,415 | 146,415 |
| Customers' liabilities under guarantees and letters of credit | - | - | - | 387,227 | 387,227 |
| **Total financial assets** | 4,591,980 | 1,009,731 | 20,168,481 | 2,055,223 | 27,825,415 |
| **Financial liabilities** | | | | | |
| Customer deposits | 4,550,555 | 11,314,756 | 504,955 | - | 16,370,266 |
| Items in the course of payment | - | - | - | 126,527 | 126,527 |
| Bank overdraft | - | - | - | 6,266 | 6,266 |
| Securities sold under repurchase agreements | 3,055,094 | 1,070,148 | - | - | 4,125,242 |
| Short term loans | - | 777,699 | - | - | 777,699 |
| Loans from specialised banks | 564,770 | 190,125 | 833,780 | - | 1,588,675 |
| Other liabilities | - | - | - | 209,843 | 209,843 |
| Guarantees and letters of credit | - | - | - | 387,227 | 387,227 |
| **Total financial liabilities** | 8,170,419 | 13,352,728 | 1,338,735 | 729,863 | 23,591,745 |
| **Total interest repricing gap** | (3,578,439) | (12,342,997) | 18,829,746 | 1,325,360 | 4,233,670 |
| **Cumulative gap** | (3,578,439) | (15,921,436) | 2,908,310 | 4,233,670 | |

# First Global Bank Limited

Notes to the Financial Statements

**31 December 2011**

(expressed in Jamaican dollars unless otherwise indicated)

## 3. Financial Risk Management (Continued)

### (c) Market risk (continued)

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

| | 2010 | | | | |
|---|---|---|---|---|---|
| | **Within 3 months $'000** | **3 to 12 months $'000** | **Over 12 months $'000** | **Non rate sensitive $'000** | **Total $'000** |
| **Financial assets** | | | | | |
| Cash and bank balances | 1,047,986 | - | - | 1,178,172 | 2,226,158 |
| Items in the course of collection from other banks | - | - | - | 97,857 | 97,857 |
| Securities purchased under resale agreements | 356,285 | - | - | - | 356,285 |
| Loans | 1,693,165 | 133,427 | 8,155,160 | - | 9,981,752 |
| Investment securities | 2,120,696 | 664,544 | 11,288,827 | 5,020 | 14,079,087 |
| Other assets | - | - | - | 82,601 | 82,601 |
| Customers' liabilities under guarantees and letters of credit | - | - | - | 365,031 | 365,031 |
| **Total financial assets** | 5,218,132 | 797,971 | 19,443,987 | 1,728,681 | 27,188,771 |
| **Financial liabilities** | | | | | |
| Customer deposits | 12,666,445 | 2,514,685 | 59,937 | - | 15,241,067 |
| Items in the course of payment | - | - | - | 107,432 | 107,432 |
| Bank overdraft | - | - | - | 5,289 | 5,289 |
| Forward contracts | - | - | - | 4,903 | 4,903 |
| Securities sold under repurchase agreements | 2,961,279 | 935,260 | - | - | 3,896,539 |
| Short term loans | 45,005 | 770,778 | - | - | 815,783 |
| Loans from specialised banks | 53,841 | 1,637,761 | 1,178,388 | - | 2,869,990 |
| Other liabilities | - | - | - | 181,513 | 181,513 |
| Guarantees and letters of credit | - | - | - | 365,031 | 365,031 |
| **Total financial liabilities** | 15,726,570 | 5,858,484 | 1,238,325 | 664,168 | 23,487,547 |
| **Total interest repricing gap** | (10,508,438) | (5,060,513) | 18,205,662 | 1,064,513 | 3,701,224 |
| **Cumulative gap** | (10,508,438) | (15,568,951) | 2,636,711 | 3,701,224 | |

# First Global Bank Limited
Notes to the Financial Statements
**31 December 2011**
(expressed in Jamaican dollars unless otherwise indicated)

## 3. Financial Risk Management (Continued)

### (c) Market risk (continued)

***Interest rate risk (continued)***
The table below summarises the average effective yields of interest rate-sensitive financial instruments by currency:

| | 2011 | | | | |
|---|---|---|---|---|---|
| | **Jamaican$** | **US$** | **GBP** | **CAN$** | **Euro** |
| | % | % | % | % | % |
| Cash and bank balances | 3.96 | 0.01 | 0.06 | 0.36 | - |
| Securities purchased under resale agreements | - | 4.10 | - | - | - |
| Loans | 15.95 | 9.43 | - | - | - |
| Investment securities | 7.99 | 8.61 | - | - | 10.62 |
| Customer deposits | 3.00 | 2.50 | 0.95 | 1.88 | 0.79 |
| Securities sold under repurchase agreements | 5.22 | 4.17 | - | - | 6.05 |
| Short term loans | - | 5.38 | - | - | - |
| Loans from specialised banks | 8.75 | 5.67 | - | - | - |

| | 2010 | | | | |
|---|---|---|---|---|---|
| | **Jamaican$** | **US$** | **GBP** | **CAN$** | **Euro** |
| | % | % | % | % | % |
| Cash and bank balances | 4.10 | 0.02 | 0.05 | 0.77 | - |
| Securities purchased under resale agreements | - | 4.03 | - | - | - |
| Loans | 17.93 | 10.86 | - | - | - |
| Investment securities | 9.04 | 8.99 | - | - | 10.62 |
| Customer deposits | 6.86 | 3.69 | 2.11 | 2.52 | 0.89 |
| Securities sold under repurchase agreements | 5.25 | 4.18 | - | - | 5.01 |
| Short term loans | 4.00 | 5.04 | - | - | - |
| Loans from specialised banks | 9.69 | 5.37 | - | - | - |

# First Global Bank Limited
Notes to the Financial Statements
**31 December 2011**
(expressed in Jamaican dollars unless otherwise indicated)

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

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

***Interest rate risk (continued)***
*Interest rate sensitivity*
The following table indicates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Bank's income and equity.

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

| 2011 | | | 2010 | | |
|---|---|---|---|---|---|
| Change in basis points JMD/USD | Effect on Income | Effect on Equity | Change in basis points JMD/USD | Effect on Income | Effect on Equity |
| | $'000 | $'000 | | $'000 | $'000 |
| -100 / -50 | 10,632 | 165,522 | -100 / -50 | 25,823 | 216,891 |
| +100 / +50 | (10,632) | (155,190) | +200 / +50 | (25,512) | (243,869) |

# First Global Bank Limited
Notes to the Financial Statements
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## 3. Financial Risk Management (Continued)

### (d) Capital management

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

(i) To comply with the capital requirements set by the regulators of the markets within which the Bank operates;
(ii) To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders 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 daily by management and bi-monthly by the Board. The required information is filed with the Bank of Jamaica on a quarterly basis.

The Bank of Jamaica requires the Bank to:

(i) Hold the minimum level of the regulatory capital as a percentage of total assets of 8% (2010 – 8%); and
(ii) Maintain a ratio of total regulatory capital to the risk-weighted assets at or above 10% (2010 – 10%).

The Bank's regulatory capital is managed by the ALCO and is divided into two tiers:

(i) Tier 1 capital: share capital, statutory reserve fund, retained earnings reserve fund, accumulated losses and net loss positions arising from fair value accounting; and
(ii) Tier 2 capital: general provisions for loan losses on assets limited to 1.25% of risk-weighted assets.

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

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December. During those two years, the Bank complied with all of the externally imposed capital requirements to which it is subject.

| | 2011<br>$'000 | 2010<br>$'000 |
|---|---|---|
| Regulatory capital – | | |
| Tier 1 capital | 4,203,023 | 4,321,551 |
| Tier 2 capital | 112,109 | 92,945 |
| | 4,315,132 | 4,414,496 |
| Risk-weighted assets – | | |
| On-balance sheet | 19,186,142 | 15,341,507 |
| Off-balance sheet | 3,455,854 | 1,796,217 |
| | 22,641,996 | 17,137,724 |
| Tier 1 capital ratio | 19% | 25% |
| Total capital ratio | 19% | 26% |
| Required capital ratio | 10% | 10% |

# First Global Bank Limited

Notes to the Financial Statements
**31 December 2011**
(expressed in Jamaican dollars unless otherwise indicated)

## 3. Financial Risk Management (Continued)

### (e) Fair value estimation

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

The following tables provide an analysis of financial instruments held as at 31 December that, subsequent to initial recognition, are measured at fair value. The financial instruments are grouped into levels 1 to 3 based on the degree to which the fair value is observable, as follows:

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

| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| | | **2011** | | |
| Available-for-sale investment securities – | | | | |
| Issued by the Government of Jamaica | - | 12,242,143 | - | 12,242,143 |
| Corporate bonds | - | - | 63,976 | 63,976 |
| | - | 12,242,143 | 63,976 | 12,306,119 |
| | | **2010** | | |
| Available-for-sale investment securities – | | | | |
| Issued by the Government of Jamaica | - | 12,877,911 | - | 12,877,911 |
| Issued by other government | - | 40,435 | - | 40,435 |
| Corporate bonds | - | - | 878,716 | 878,716 |
| | - | 12,918,346 | 878,716 | 13,797,062 |

There were no transfers between levels during the year.

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

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| At start of year | 878,716 | 1,114,494 |
| Foreign exchange gains/(losses) recognised in arriving at net profit or loss | 690 | (38,257) |
| Fair value gains recognised in other comprehensive income | 23,592 | 2,870 |
| Disposals | (839,022) | (200,391) |
| At end of year | 63,976 | 878,716 |

# First Global Bank Limited

Notes to the Financial Statements
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## 3. Financial Risk Management (Continued)

### (e) Fair value estimation (continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets is the current bid price. These instruments are included in Level 1. The Bank did not hold any of these instruments at the date of the statement of financial position.

The fair value of financial instruments not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. This category includes certificates of deposit and bonds issued by the Government of Jamaica, indicative prices of which are obtained from regular, publicly available quotes by reputable dealers and brokers.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. This category includes certain corporate debt securities, the fair values of which are determined based on the prices of recent redemptions of the bonds.

The following methods and assumptions have been used in determining the fair values of financial instruments that are not remeasured at fair value after initial recognition:

- Quoted market prices or dealer quotes for similar instruments. If quoted prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques, such as discounted cash flow analysis.

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

- The fair value of variable rate financial instruments issued at market terms is assumed to approximate their carrying amounts.

- The fair value of fixed rate borrowings issued at market terms is assumed to approximate their carrying amounts.

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

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

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

*Fair value of financial instruments*
In the absence of quoted market prices, the fair value of a significant proportion of the Bank's financial instruments was determined using generally accepted alternative methods. The values derived from applying these methods are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates. Considerable judgement is required in interpreting market data to arrive at estimates of fair values. Consequently, the estimates arrived at may be significantly different from the actual price of the instruments in an arms length transaction.

*Income taxes*
Significant judgement is required in determining the provision for income taxes. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The Bank also recognises deferred tax assets on tax losses carried forward as it anticipates making future taxable income to offset these losses.

# First Global Bank Limited

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## 5. Cash and Bank Balances

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Notes and coins | 347,255 | 218,455 |
| Accounts with foreign banks | 258,273 | 300,596 |
| Balances with the Bank of Jamaica, other than statutory reserves | 164,247 | 49,045 |
| Included in cash and cash equivalents | 769,775 | 568,096 |
| Statutory reserves with the Bank of Jamaica | 1,773,027 | 1,607,667 |
| Cash held as collateral and other restricted cash accounts | 59,970 | 50,395 |
| | 2,602,772 | 2,226,158 |

Statutory reserves with the Bank of Jamaica are held in compliance with Section 14(1) of the Banking Act, which requires that every licensee maintains a cash reserve with the Bank of Jamaica of not less than 5% (2010 – 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% (2010 – 12%) for Jamaican dollar cash reserves and 9% (2010 – 9%) for foreign currency cash reserves.

## 6. Securities Purchased under Resale Agreements

The Bank enters into reverse repurchase agreements collateralised by Government of Jamaica securities and Bank of Jamaica certificates of deposit. These agreements may result in credit exposure in the event that the counterparty to the transaction is unable to fulfil its contractual obligations. The balance in the statement of financial position includes interest receivable of $1,092,000 (2010 – $1,040,000).

# First Global Bank Limited
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(expressed in Jamaican dollars unless otherwise indicated)

## 7. Loans

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Total loans | 11,744,536 | 10,010,882 |
| Less provision for credit losses | (126,971) | (103,734) |
| | 11,617,565 | 9,907,148 |
| Interest receivable | 64,700 | 74,604 |
| | 11,682,265 | 9,981,752 |

The current portion of loans amounted to $2,248,153,000 (2010 – $1,826,592,000).

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

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Balance at beginning of year | 103,734 | 270,082 |
| Provided during the year | 75,951 | 147,077 |
| Recoveries | (27,351) | (203,521) |
| Net amount charged in arriving at net profit or loss | 48,600 | (56,444) |
| Net loan balances written-off during the year | (25,363) | (109,904) |
| Balance at end of year | 126,971 | 103,734 |

The aggregate amount of non-performing loans on which interest was not being accrued amounted to $562,304,000 (2010 – $736,977,000).

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

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Specific provisions | 469,048 | 352,113 |
| General provision | 112,109 | 92,945 |
| | 581,157 | 445,058 |

The excess of the regulatory provision over the IFRS provision of $454,186,000 (2010 – $341,324,000) is included in a non-distributable loan loss reserve and treated as an appropriation of retained earnings (Note 21).

# First Global Bank Limited

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## 8. Investment Securities

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Available-for-sale securities, at fair value: | | |
| Issued by the Government of Jamaica – | | |
| Certificates of deposit | 1,000,000 | 2,099,618 |
| Global bonds | 4,959,617 | 5,293,924 |
| Local registered stocks and treasury bills | 4,003,443 | 3,237,533 |
| Indexed and US$ denominated bonds | 2,279,083 | 2,246,836 |
| | 12,242,143 | 12,877,911 |
| Issued by other government | - | 40,435 |
| Corporate bonds | 63,976 | 878,716 |
| | 12,306,119 | 13,797,062 |
| Available-for-sale securities, at cost less impairment: | | |
| Unquoted equities | 5,020 | 5,020 |
| | 12,311,139 | 13,802,082 |
| Interest receivable | 248,424 | 277,005 |
| | 12,559,563 | 14,079,087 |

The current portion of investment securities amounted to $1,807,239,000 (2010 – $3,571,694,000).

***Pledged assets***

Pledged assets not shown separately on the statement of financial position comprise securities amounting to $4,967,712,000 (2010 – $3,851,859,000) which have been pledged as collateral for securities sold under repurchase agreements and $797,263,000 (2010 – $2,187,535,000) which have been pledged as collateral for loans from specialised banks.

# First Global Bank Limited

Notes to the Financial Statements

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## 9. Property, Plant and Equipment

| | Leasehold Improvements $'000 | Computer Equipment $'000 | Equipment, Furniture and Fixtures $'000 | Motor Vehicles $'000 | Work-in-progress $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| Cost - | | | | | | |
| 1 January 2010 | 65,305 | 288,641 | 111,135 | 20,249 | 92,686 | 578,016 |
| Additions | 3,174 | 6,733 | 4,783 | 6,100 | 152,894 | 173,684 |
| Transfers | 66,022 | 49,882 | 10,293 | - | (126,197) | - |
| 31 December 2010 | 134,501 | 345,256 | 126,211 | 26,349 | 119,383 | 751,700 |
| Additions | 2,716 | 17,659 | 3,610 | - | 127,706 | 151,691 |
| Transfers | 11,997 | 18,231 | 20,128 | - | (50,356) | - |
| Disposals | - | (4,942) | (347) | (2,797) | - | (8,086) |
| 31 December 2011 | 149,214 | 376,204 | 149,602 | 23,552 | 196,733 | 895,305 |
| Depreciation - | | | | | | |
| 1 January 2010 | 36,720 | 203,616 | 58,789 | 17,486 | - | 316,611 |
| Charge for year | 18,774 | 78,581 | 10,125 | 2,748 | - | 110,228 |
| 31 December 2010 | 55,494 | 282,197 | 68,914 | 20,234 | - | 426,839 |
| Charge for year | 20,396 | 56,136 | 12,296 | 1,895 | - | 90,723 |
| Disposals | - | (4,942) | (206) | (2,237) | | (7,385) |
| 31 December 2011 | 75,890 | 333,391 | 81,004 | 19,892 | - | 510,177 |
| Net Book Value - | | | | | | |
| 31 December 2011 | 73,324 | 42,813 | 68,598 | 3,660 | 196,733 | 385,128 |
| 31 December 2010 | 79,007 | 63,059 | 57,297 | 6,115 | 119,383 | 324,861 |

The computer equipment category includes computer software with a net book value of $33,462,000 (2010 – $51,359,000). Additions and transfers to computer software for the year amounted to $29,242,000 (2010 – $41,903,000) and depreciation charges amounted to $47,139,000 (2010 – $66,628,000).

## 10. Post-employment Benefits

In addition to a defined benefit pension scheme described below, the Bank participates in a defined contribution pension scheme started by the ultimate parent company during the prior year open to employees hired on or after 1 April 2010. Employees contribute 5% of pensionable earnings with the option to contribute an additional 5%. The employer contributions are currently set at 10%. The Bank's contribution for the year was $9,939,000 (2010 - $2,134,000).

The Bank also participates in a defined benefit pension plan operated by the ultimate parent company. The plan, which commenced on 1 January 1975, is funded by employee contributions at 5% of salary with the option to contribute an additional 5%, and employer contributions at 0.5%, as recommended by independent actuaries. Pension at normal post-employment age is based on 2% of final 3-year average salary per year of pensionable service. This scheme was closed to new members as at 31 March 2010.

The Bank also participates in a number of other post-employment benefit plans, including group-life, insured and self-insured health care, gratuity and other supplementary plans. These plans are not funded.

# First Global Bank Limited
Notes to the Financial Statements
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## 10. Post-employment Benefits (Continued)

The defined benefit plans are valued annually on 31 December by independent actuaries.

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

| | Pension benefits | | Other post-employment benefits | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Fair value of plan assets | 482,924 | 388,683 | - | - |
| Present value of obligations | (586,378) | (397,155) | (129,014) | (100,949) |
| | (103,454) | (8,472) | (129,014) | (100,949) |
| Unrecognised actuarial gains and losses | 105,674 | 41,199 | (3,464) | (17,070) |
| | 2,220 | 32,727 | (132,478) | (118,019) |

The amounts recognised in arriving at net profit or loss, in staff costs, were as follows:

| | Pension benefits | | Other post-employment benefits | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Current service cost | 75,318 | 54,614 | 20,123 | 13,262 |
| Interest cost | 50,983 | 48,620 | 13,282 | 13,314 |
| Employee contributions | (30,255) | (21,857) | - | - |
| Expected return on plan assets | (39,565) | (27,913) | - | - |
| Additional assets assigned to the Bank | (24,395) | (90,000) | - | - |
| Past service cost – vested benefits | - | - | (17,704) | - |
| Actuarial gains and losses | 79 | - | (577) | (1,105) |
| | 32,165 | (36,536) | 15,124 | 25,471 |

The actual return on plan assets was $55,907,000 (2010 – $53,603,000).

# First Global Bank Limited

Notes to the Financial Statements
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## 10. Post-employment Benefits (Continued)

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

Expected employer contributions for the year ending 31 December 2012 amount to $20,582,000.

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

| | Pension benefits | | Other post-employment benefits | |
|---|---|---|---|---|
| | **2011** **$'000** | **2010** **$'000** | **2011** **$'000** | **2010** **$'000** |
| Balance at start of year | 388,683 | 230,041 | - | - |
| Employee contributions | 30,255 | 21,857 | - | - |
| Employer contributions | 1,658 | 1,733 | - | - |
| Expected return on plan assets | 39,565 | 27,913 | - | - |
| Benefits paid | (17,974) | (8,551) | - | - |
| Additional assets assigned to the Bank | 24,395 | 90,000 | - | - |
| Actuarial gains and losses | 16,342 | 25,690 | - | - |
| Balance at end of year | 482,924 | 388,683 | - | - |

The distribution of plan assets was as follows:

| | Pension benefits | | Other post-employment benefits | |
|---|---|---|---|---|
| | **2011** **$'000** | **2010** **$'000** | **2011** **$'000** | **2010** **$'000** |
| Equities | 84,560 | 61,249 | - | - |
| Government of Jamaica securities | 304,242 | 244,731 | - | - |
| Other debt securities | 12,266 | 11,123 | - | - |
| Other | 81,856 | 71,580 | - | - |
| | 482,924 | 388,683 | - | - |

# First Global Bank Limited
Notes to the Financial Statements
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## 10. Post-employment Benefits (Continued)

The movement in the present value of defined benefit obligations was as follows:

| | Pension benefits | | Other post-employment benefits | |
|---|---|---|---|---|
| | **2011** **$'000** | **2010** **$'000** | **2011** **$'000** | **2010** **$'000** |
| Balance at start of year | 397,155 | 253,535 | 100,949 | 70,205 |
| Current service cost | 75,318 | 54,614 | 20,123 | 13,262 |
| Interest cost | 50,983 | 48,620 | 13,282 | 13,314 |
| Benefits paid | (17,974) | (8,551) | (663) | (510) |
| Past service cost vested | - | - | (17,704) | - |
| Actuarial gains and losses | 80,896 | 48,937 | 13,027 | 4,678 |
| Balance at end of year | 586,378 | 397,155 | 129,014 | 100,949 |

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

| | Pension benefits | | | | |
|---|---|---|---|---|---|
| | **2011** | **2010** | **2009** | **2008** | **2007** |
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| Fair value of plan assets | 482,924 | 388,683 | 230,041 | 183,227 | 175,389 |
| Defined benefit obligation | (586,378) | (397,155) | (253,535) | (249,294) | (99,076) |
| (Deficit)/surplus | (103,454) | (8,472) | (23,494) | (66,067) | 76,313 |
| Experience adjustments – | | | | | |
| Fair value of plan assets | 16,342 | 25,690 | 15,901 | (27,413) | (709) |
| Defined benefit obligation | 40,725 | (76,331) | (78,173) | 21,700 | (3,750) |

| | Other post-employment benefits | | | | |
|---|---|---|---|---|---|
| | **2011** | **2010** | **2009** | **2008** | **2007** |
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| Defined benefit obligation | (129,014) | (100,949) | (70,205) | (59,031) | (49,223) |
| Experience adjustments – | | | | | |
| Defined benefit obligation | 6,876 | (22,471) | (11,692) | (935) | (783) |

## 10. Post-employment Benefits (Continued)

The principal actuarial assumptions used were as follows:

| | 2011 | 2010 |
|---|---|---|
| Discount rate | 10.00% | 11.00% |
| Expected return on plan assets | 10.00% | 10.00% |
| Long term inflation rate | 6.00% | 7.00% |
| Future salary increases | 7.50% | 8.50% |
| Future pension increases | 6.00% | 7.00% |
| Medical claims growth | 7.50% | 10.00% |
| Average expected remaining working lives (years) | 18.7 | 19.0 |

Mortality assumptions are based on the American 1994 Group Annuitant Mortality (GAM94) table.

A 1% increase/(decrease) in the assumed medical cost trend rate would result in an increase/(decrease) in the aggregate current service cost and interest cost of $15,317,000/($8,708,000), and an increase/(decrease) in the defined benefit obligation of $46,413,000/($30,391,000).

## 11. Deferred Income Taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 33⅓%. The movement in the deferred income tax balance was as follows:

| | 2011<br>$'000 | 2010<br>$'000 |
|---|---|---|
| At beginning of year | 466,956 | 694,642 |
| Deferred tax charged in arriving at net profit or loss (Note 29) | (40,701) | (56,550) |
| Deferred tax charged to other comprehensive income | (50,155) | (171,136) |
| At end of year | 376,100 | 466,956 |

Deferred tax recognised in the statement of financial position was attributable to the following temporary differences:

| | 2011<br>$'000 | 2010<br>$'000 |
|---|---|---|
| Tax losses carried forward | 483,154 | 498,374 |
| Post-employment benefits | 43,419 | 28,431 |
| Differences between IFRS and BOJ Specific provisions for loan losses | (114,026) | (82,793) |
| Accelerated tax depreciation | 3,811 | 5,681 |
| Fair value of investment securities | (46,698) | 3,457 |
| Other | 6,440 | 13,806 |
| | 376,100 | 466,956 |

Deferred tax assets include $63,318,000 (2010 – $81,006,000) which is expected to be recovered within 12 months.

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## 11. Deferred Income Taxes (Continued)

Deferred tax assets have been recognised on tax losses carried forward as the Bank is projected to make sufficient profits to utilise these tax losses. Subject to agreement with Tax Administration Jamaica, losses available for offset against future profits amount to $1,449,463,000 (2010 – $1,495,121,000).

The deferred tax charged in arriving at net profit or loss is attributable to the following temporary differences:

| | 2011<br>$'000 | 2010<br>$'000 |
|---|---|---|
| Tax losses carried forward | (15,220) | (24,012) |
| Post-employment benefits | 14,988 | (4,436) |
| Differences between IFRS and BOJ specific provisions for loan losses | (31,233) | (55,957) |
| Accelerated tax depreciation | (1,870) | 9,900 |
| Other | (7,366) | 17,955 |
| | (40,701) | (56,550) |

The deferred tax charged to other comprehensive income is attributable to the following temporary differences:

| | 2011<br>$'000 | 2010<br>$'000 |
|---|---|---|
| Realised losses on available-for-sale investments | 7,801 | 38,940 |
| Fair value gains and losses on available-for-sale investments | (57,956) | (210,076) |
| | (50,155) | (171,136) |

## 12. Other Assets

| | 2011<br>$'000 | 2010<br>$'000 |
|---|---|---|
| Withholding tax recoverable | 204,017 | 279,148 |
| Due from fellow subsidiaries | 45,990 | 27,480 |
| Other | 100,425 | 55,121 |
| | 350,432 | 361,749 |

# First Global Bank Limited
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## 13. Customer Deposits

The customer deposit portfolio was comprised as follows:

| | Number of deposits | | Value of deposits | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 $'000 | 2010 $'000 |
| Financial institutions | 140 | 95 | 1,466,074 | 970,276 |
| Commercial and business enterprises | 2,049 | 1,931 | 5,276,547 | 4,578,971 |
| Personal | 10,426 | 9,175 | 4,466,324 | 4,081,454 |
| Other | 895 | 920 | 5,057,844 | 5,498,414 |
| | 13,510 | 12,121 | 16,266,789 | 15,129,115 |
| Interest payable | | | 103,477 | 111,952 |
| | | | 16,370,266 | 15,241,067 |

The non-current portion of customer deposits amounted to $19,300,000 (2010 – $59,937,000).

## 14. Forward Contracts

Foreign currency forward contracts outstanding at year end, which are to be settled in United States dollars, were as follows:

**As at 31 December 2011**

| Settlement dates | Obligation | Notional amounts '000 | Fair values $'000 |
|---|---|---|---|
| 30 January 2012 –16 March 2012 | Sell | EURO 1,695 | 8,917 |
| 31 January 2012 –14 May 2012 | Buy | CDN 335 | 1,541 |
| 12 January 2012 –12 March 2012 | Buy | GBP 1,050 | (3,912) |
| 12 January 2012 –16 March 2012 | Buy | EURO 500 | (380) |
| | | | 6,166 |

**As at 31 December 2010**

| Settlement dates | Obligation | Notional amounts '000 | Fair values $'000 |
|---|---|---|---|
| 1 March 2011 | Sell | EURO 1,300 | (3,427) |
| 8 March 2011 | Sell | GBP 650 | 239 |
| 11 March 2011 | Buy | EURO 200 | 263 |
| 11 March 2011 | Buy | CDN 350 | (407) |
| 24 January 2011 – 8 March 2011 | Buy | GBP 1,850 | (1,571) |
| | | | (4,903) |

Fair values were determined based on the difference between the agreed settlement rates and the spot rates at the date of the statement of financial position.

Gains and losses on foreign currency forward contracts are recognised in gains on foreign exchange translation and trading in the statement of comprehensive income.

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Notes to the Financial Statements
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## 15. Short Term Loans

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Loan with original maturities of 90 days or less – | | |
| National Commercial Bank Jamaica Limited | - | 45,000 |
| | - | 45,000 |
| Interest payable | - | 5 |
| Included in cash and cash equivalents | - | 45,005 |
| Loan with original maturity of 120 days – | | |
| Citibank NA | 777,311 | 770,409 |
| Interest payable | 388 | 369 |
| | 777,699 | 770,778 |
| | 777,699 | 815,783 |

## 16. Loans from Specialised Banks

These loans are primarily for the purpose of on-lending to customers who meet certain requirements of the banks and are to be used for eligible enterprises and projects. The balance at year end was comprised as follows:

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Development Bank of Jamaica Limited | 852,056 | 641,923 |
| National Export-Import Bank of Jamaica Limited | 51,138 | 1,980 |
| Inter-American Development Bank | 498,428 | 1,976,009 |
| Inter-American Investment Corporation | 182,897 | 241,697 |
| | 1,584,519 | 2,861,609 |
| Interest payable | 4,156 | 8,381 |
| | 1,588,675 | 2,869,990 |

The current portion of amounts due to specialised banks was $754,895,000 (2010 – $1,691,602,000).

## 17. Other Liabilities

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Due to fellow subsidiaries | 28,592 | 12,465 |
| Staff vacation and bonus accruals | 79,532 | 45,639 |
| Trade payables | 34,310 | 30,027 |
| Withholding tax payable | 8,663 | 10,517 |
| Other accruals | 67,409 | 93,382 |
| | 218,506 | 192,030 |

## 18. Share Capital

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Authorised – | | |
| 629,485,000 ordinary shares | | |
| 100,000 convertible preference shares | | |
| Issued and fully paid – | | |
| 628,585,000 ordinary shares of no par value | 1,527,685 | 1,527,685 |
| 100,000 non-redeemable convertible preference shares | 886,496 | 886,496 |
| | 2,414,181 | 2,414,181 |

***Convertible preference shares***

In April 2009, the Bank issued 100,000 5.5% non-voting, non-redeemable, non-cumulative, convertible preference shares to International Finance Corporation (IFC) for a cash consideration of US$10 million. These shares are each convertible into 1,536.55 ordinary shares. After their third anniversary of ownership by IFC, these preference shares are convertible to ordinary shares at IFC's option under certain conditions. The shares may, however, be converted at any time if they are owned by a member of the GraceKennedy Group. If there is a Change in Control of the Bank as defined by the agreement, the shares will be immediately converted into ordinary shares.

Declaration of dividends on these preference shares is at the discretion of, and requires approval from, the Bank's Board of Directors. Such declarations are possible only if there are Available Distributable Profits, as defined by the agreement. Dividends on ordinary shares are subordinate to dividends on these preference shares. Additionally, the preference shareholders are not entitled to further distributions.

In the event of liquidation, preference shareholders are entitled to the aggregate paid-up Share Subscription Price, as defined by the agreement, plus accrued and unpaid preferred dividends after all debt obligations have been met. These preference shareholders have priority over the ordinary shareholders, subject to the availability of adequate net assets.

## 19. Reserve Fund

This fund is maintained in accordance with Section 8 of the Banking Act which requires that a minimum of 15% of the net profits, as defined by the Act, of the Bank be transferred to the reserve fund until the amount of the fund is equal to 50% of the paid-up capital of the Bank and thereafter 10% of the net profits until the amount of the fund is equal to the paid-up capital of the Bank. The Bank transferred $120,652,000 to this reserve in respect of net profits for the years ended 31 December 2010 and 2011.

## 20. Fair Value Reserve

This represents the net unrealised gains/(losses) on the revaluation of investment securities amounting to $140,097,000 (2010 – ($10,369,000)), and is shown net of attributable deferred taxation of $46,698,000 (2010 – $3,457,000).

## 21. Loan Loss Reserve

This is a non-distributable reserve representing the excess of the provision for credit losses determined using the Bank of Jamaica's regulatory requirements over the amount determined under IFRS (Note 7).

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## 22. Retained Earnings Reserve

The Banking Act permits the transfer of any portion of the Bank's net profit to a retained earnings reserve. This reserve constitutes a part of the capital base for the purpose of determining the maximum level of deposit liabilities and lending to customers. The deposit liabilities of the Bank and other indebtedness for borrowed money together with all interest accrued should not exceed twenty-five times its capital base. During the year, approval was obtained from the Bank of Jamaica to transfer $400,000,000 from this reserve back to retained earnings.

## 23. Stock Option Reserve

The Bank participates in the 2003 Stock Option Plan for the Managers of GraceKennedy Limited (Senior Managers Plan) and the 2008 Stock Option Plan for the Permanent Employees of GraceKennedy Limited (Permanent Employees Plan), operated by the ultimate parent company in which management and key employees may participate. 10,000,000 shares have been allocated to each plan since their inception. Allocations were approved at Annual General Meetings of the ultimate parent company. The plans provide for equitable adjustment of the allocated number of shares by reason of stock splits, combinations or exchanges of shares, stock dividends, bonus issues, and reclassifications or similar corporate changes in the ultimate parent company.

The subscription prices of the options granted are generally determined by using the weighted average prices of the ultimate parent company's shares on the Jamaica Stock Exchange for the previous ten trading days prior to the date on which each set of options is approved, less a discount of 25% for the Permanent Employees Plan. The options granted under the provisions of the Senior Managers Plan are exercisable over a period of six years while the options granted under the provisions of the Permanent Employees Plan are exercisable over a period of three months from their grant dates, at the end of which unexercised options will expire. The options granted under the Permanent Employees Plan were fully vested at grant date, while ⅓ of the total grants under the Senior Managers Plan will vest on each anniversary of the grant.

The movement in the number of stock options outstanding for the year and their related weighted average exercise prices were as follows:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Average exercise price in $ per share** | **Options '000** | **Average exercise price in $ per share** | **Options '000** |
| At beginning of year | - | - | 50.67 | 141 |
| Granted | 48.95 | 490 | - | - |
| Forfeited | 42.70 | (130) | 50.67 | (141) |
| Exercised | 31.91 | (20) | - | - |
| At end of the year | 43.74 | 340 | - | - |

Stock options outstanding at the end of the year have the following expiry dates and exercise prices:

| **Year of expiry** | **Exercise price in $ per share** | **2011 '000** | **2010 '000** |
|---|---|---|---|
| 2012 | 33.63 | 221 | - |
| 2017 | 61.20 | 119 | - |

## 23. Stock Option Reserve (Continued)

All outstanding options prior to 2010 were forfeited during 2010. Accordingly, the amounts in stock option reserve in respect of the outstanding options at the end of prior years were transferred to accumulated deficit in 2010.

The fair value of the options granted during the year determined using the Black-Scholes valuation model was $8,231,000. The significant inputs into the model were the weighted average share prices of $51.00, $55.65 and $61.20 at the grant dates, exercise prices of $50.83, $41.67 and $61.20, standard deviation of expected share price returns of 33.2% option life of six years and three months and risk-free interest rates of 7.48%, 6.51% and 6.28%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the terms of the options.

## 24. Interest Income on Securities

| | 2011<br>$'000 | 2010<br>$'000 |
|---|---|---|
| Interest income was earned on – | | |
| Investments classified as loans and receivables | - | 370,490 |
| Investments classified as available-for-sale | 973,556 | 721,434 |
| Securities purchased under resale agreements | 16,745 | 12,989 |
| | 990,301 | 1,104,913 |

## 25. Fee and Commission Income

| | 2011<br>$'000 | 2010<br>$'000 |
|---|---|---|
| Credit related | 115,377 | 95,813 |
| Retail banking | 114,558 | 117,432 |
| Other | 110,281 | 77,974 |
| | 340,216 | 291,219 |

## 26. Losses on the Sale of Securities

| | 2011<br>$'000 | 2010<br>$'000 |
|---|---|---|
| Losses on sale of investments classified as available-for-sale | - | (14,965) |

Losses on sale of investments classified as available-for-sale during the year ended 31 December 2010 resulted from the Bank's participation in the JDX (Note 3).

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## 27. Staff Costs

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Wages and salaries | 612,020 | 516,523 |
| Statutory contributions | 48,325 | 43,334 |
| Pension benefits (Note 10) – | | |
| Defined contribution scheme | 9,939 | 2,134 |
| Defined benefit scheme | 32,165 | (36,536) |
| Other post-employment benefits (Note 10) | 15,124 | 25,471 |
| Other | 86,830 | 62,274 |
| | 804,403 | 613,200 |

## 28. Administration and Other Expenses

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Advertising and publicity | 36,240 | 39,158 |
| Auditors' remuneration | 7,782 | 7,500 |
| Bank charges | 25,810 | 23,987 |
| Computer expenses | 46,035 | 34,150 |
| Credit card expenses | 25,459 | 23,185 |
| Directors' emoluments | 3,725 | 3,621 |
| Fees and charges | 9,382 | 6,889 |
| Group expenses | 256,496 | 220,918 |
| Insurance and licensing | 47,951 | 46,137 |
| Irrecoverable General Consumption Tax | 65,039 | 64,787 |
| Postage and courier | 13,127 | 11,183 |
| Professional fees | 18,066 | 53,990 |
| Property costs, maintenance and utilities | 141,542 | 119,828 |
| Stationery | 11,296 | 12,621 |
| Other | 24,834 | 27,354 |
| | 732,784 | 695,308 |

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## 29. Taxation

Taxation is based on profit for the year adjusted for taxation purposes and comprises:

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Current taxation | - | - |
| Deferred taxation (Note 11) | 40,701 | 56,550 |
| | 40,701 | 56,550 |

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

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Profit before taxation | 365,546 | 536,047 |
| Tax calculated at a tax rate of 33⅓% | 121,849 | 178,682 |
| Adjusted for the effects of – | | |
| Tax-free income | (96,993) | (104,606) |
| Expenses disallowed for tax purposes and other charges | 15,845 | (17,526) |
| | 40,701 | 56,550 |

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(expressed in Jamaican dollars unless otherwise indicated)

## 30. Related Party Transactions and Balances

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

| | **2011 $'000** | **2010 $'000** |
|---|---|---|
| Loans – | | |
| Ultimate parent company | 29,691 | - |
| Fellow subsidiaries | 103,463 | - |
| Key management personnel | 44,655 | 43,513 |
| Other related entities | 3,769 | 54,096 |
| | 181,578 | 97,609 |
| Securities purchased under resale agreements – | | |
| Fellow subsidiaries | - | 98,572 |
| Other assets – | | |
| Fellow subsidiaries | 21,422 | 27,480 |
| Customer deposits – | | |
| Ultimate parent company | 592,216 | 648,920 |
| Fellow subsidiaries | 2,007,251 | 1,498,857 |
| Key management personnel | 85,156 | 71,147 |
| Other related entities | 363,527 | 425,838 |
| | 3,048,150 | 2,644,762 |
| Securities sold under repurchase agreements – | | |
| Ultimate parent company | - | 21,625 |
| Fellow subsidiaries | 424,558 | 363,236 |
| | 424,558 | 384,861 |
| Other liabilities – | | |
| Fellow subsidiaries | 9,942 | 12,465 |

# First Global Bank Limited

Notes to the Financial Statements
**31 December 2011**
(expressed in Jamaican dollars unless otherwise indicated)

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

(b) The statement of comprehensive income 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:

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Interest earned on loans – | | |
| Ultimate parent company | 961 | 2,211 |
| Fellow subsidiaries | 3,318 | 8,056 |
| Key management personnel | 3,390 | 4,775 |
| Other related entities | 7,041 | 30,510 |
| | 14,710 | 45,552 |
| Interest earned on cash and other accounts – | | |
| Ultimate parent company | 1,981 | 1,713 |
| Fellow subsidiaries | 3,640 | 4,097 |
| Key management personnel | 198 | 392 |
| Other related entities | 1,524 | 1,251 |
| | 7,343 | 7,453 |
| Interest earned on securities purchased under resale agreements – | | |
| Fellow subsidiaries | 1,111 | 472 |
| Interest incurred on customer deposits – | | |
| Ultimate parent company | 25,390 | 25,586 |
| Fellow subsidiaries | 43,473 | 82,073 |
| Key management personnel | 2,745 | 3,613 |
| Other related entities | 13,949 | 21,747 |
| | 85,557 | 133,019 |
| Interest incurred on securities sold under repurchase agreements – | | |
| Ultimate parent company | 1,055 | 18,849 |
| Fellow subsidiaries | 7,947 | 28,390 |
| | 9,002 | 47,239 |

# First Global Bank Limited

Notes to the Financial Statements
**31 December 2011**
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## 30. Related Party Transactions and Balances (Continued)

(b) The statement of comprehensive income 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:

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Staff costs – key management personnel | | |
| Directors | 21,731 | 7,594 |
| Senior executives | 108,805 | 91,722 |
| | 130,536 | 99,316 |
| Administration and other expenses – | | |
| Ultimate parent company | 254,408 | 220,918 |
| Fellow subsidiaries | 47,328 | 39,425 |
| Directors' fees | 3,725 | 3,621 |
| | 305,461 | 263,964 |

Other related entities primarily represent entities which are under the control of directors of the Bank.

## 31. Commitments

***Operating lease commitments***
Future lease payments under operating lease commitments are payable in the year ending:

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| 2011 | - | 68,517 |
| 2012 | 54,423 | 53,770 |
| 2013 | 49,944 | 51,797 |
| 2014 | 49,977 | 47,017 |
| 2015 and beyond | 158,359 | 118,689 |
| | 312,703 | 339,790 |

***Loan commitments***
Loans approved but not disbursed at year end amounted to $2,282,240,000 (2010 – $822,632,000).

## 32. Litigation, Claims and Assessments

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

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