FIRST GLOBAL BANK LIMITED

Your Commercial Bank from GraceKennedy

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

pwc

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 60, which comprise the statement of financial position as at 31 December 2013 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the financial statements give a true and fair view of the financial position of First Global Bank Limited as at 31 December 2013, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

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

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

PricewaterhouseCoopers
Chartered Accountants
27 March 2014
Kingston, Jamaica

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STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

	Note	2013 $'000	2012 $'000	2011 $'000
	34		Restated	Restated
ASSETS				
Cash and bank balances	5	3,434,875	3,626,449	2,602,772
Items in the course of collection from other banks		145,509	200,751	120,354
Securities purchased under resale agreements	6	212,347	548,483	320,653
Loans	7	15,829,964	13,481,699	11,682,265
Investment securities	8	7,792,434	6,776,372	6,794,588
Pledged assets	8	5,333,349	4,614,386	5,764,975
Forward currency contracts	9	4,944	-	6,166
Property, plant and equipment	10	338,280	331,839	299,629
Intangible assets	11	359,761	207,172	85,499
Deferred income tax assets	12	370,813	437,069	410,171
Taxation recoverable		37,854	37,854	37,854
Other assets	13	211,367	221,279	350,432
Guarantees, letters of credit and letters of undertaking		51,639	457,505	221,952
Total Assets		34,123,136	30,940,858	28,697,310
LIABILITIES				
Customer deposits	14	21,509,107	18,525,156	16,370,266
Items in the course of payment		116,827	116,520	126,527
Bank overdraft		30,796	8,790	6,266
Forward currency contracts	9	-	3,422	-
Securities sold under repurchase agreements		3,941,004	3,796,201	4,125,242
Short term loans	15	850,856	833,193	777,699
Loans from specialised banks	16	1,480,799	1,345,683	1,588,675
Pension plan liability	17	-	138,635	103,454
Other employment benefit obligations	17	190,223	155,666	129,014
Other liabilities	18	320,651	245,883	218,506
Guarantees, letters of credit and letters of undertaking		51,639	457,505	221,952
Total Liabilities		28,491,902	25,626,654	23,667,601
EQUITY				
Share capital	19	2,414,181	2,414,181	2,414,181
Reserve fund	20	889,096	806,074	748,337
Fair value reserve	21	(209,543)	63,535	93,399
Loan loss reserve	22	516,708	392,424	454,186
Retained earnings reserve	23	1,194,630	1,194,630	1,194,630
Stock option reserve	24	6,904	6,523	5,608
Retained earnings		819,258	436,837	119,368
Total Equity		5,631,234	5,314,204	5,029,709
Total Liabilities and Equity		34,123,136	30,940,858	28,697,310

Approved for issue by the Board of Directors on 27 March 2014 and signed on its behalf by:

Douglas Orane — Director
Shirley-Ann Eaton — Director
Maureen Hayden – Cater — Director
Karen Chin Quee Akin — Secretary

STATEMENT OF COMPREHENSIVE INCOME YEAR ENDED 31 DECEMBER 2013

	Note	2013 $'000	2012 $'000 Restated
	34		
Interest Income –			
Loans		1,820,782	1,594,200
Securities	25	868,660	905,617
Other		13,777	4,201
		2,703,219	2,504,018
Interest Expense –			
Customer deposits		(443,855)	(470,775)
Securities sold under repurchase agreements		(156,549)	(196,508)
Other		(146,381)	(139,392)
		(746,785)	(806,675)
Net Interest Income		1,956,434	1,697,343
Provision for Loan Losses, Net	7	(47,458)	(34,450)
		1,908,976	1,662,893
Other Income –			
Fees and commissions	26	585,702	473,427
Gains on foreign exchange translation and trading		170,442	133,967
Gains on investment activities, net	27	142,364	121
Other		16,421	10,124
		914,929	617,639
Net Interest and Other Income		2,823,905	2,280,532
Operating Expenses –			
Staff costs	28	(996,602)	(913,638)
Amortisation and depreciation		(63,582)	(71,164)
Administration and other expenses	29	(1,052,635)	(908,253)
		(2,112,819)	(1,893,055)
Profit before Taxation		711,086	387,477
Taxation	30	(157,608)	(729)
Net Profit for the Year		553,478	386,748
Other Comprehensive Income –			
Items that may be subsequently reclassified to profit or loss:			
Realised gains on available-for-sale investments, recycled to comprehensive income		(91,400)	(81)
Unrealised losses on available-for-sale investments, net of taxes		(181,678)	(29,783)
Items that will not be reclassified to profit or loss:			
Remeasurement of pension and other employment benefit obligation		90,375	(25,391)
		(182,703)	(55,255)
TOTAL COMPREHENSIVE INCOME		370,775	331,493

STATEMENT OF CHANGES IN EQUITY YEAR ENDED 31 DECEMBER 2013

	Share Capital $'000	Reserve Fund $'000	Fair Value Reserve $'000	Loan Loss Reserve $'000	Retained Earnings Reserve $'000	Stock Option Reserve $'000	Retained Earnings $'000	Total $'000
Balance at 1 January 2012, as restated (Note 34)	2,414,181	748,337	93,399	454,186	1,194,630	5,608	119,368	5,029,709
Total comprehensive income, as restated	-	-	(29,864)	-	-	-	361,357	331,493
Total transactions with equity holders-Preference dividends paid	-	-	-	-	-	-	(47,913)	(47,913)
Employee share option scheme: value of services received	-	-	-	-	-	915	-	915
Transfer from loan loss reserve	-	-	-	(61,762)	-	-	61,762	-
Transfer to reserve fund	-	57,737	-	-	-	-	(57,737)	-
Balance at 31 December 2012, as restated (Note 34)	2,414,181	806,074	63,535	392,424	1,194,630	6,523	436,837	5,314,204
Total comprehensive income	-	-	(273,078)	-	-	-	643,853	370,775
Total transactions with equity holders-Preference dividends paid	-	-	-	-	-	-	(54,126)	(54,126)
Employee share option scheme: value of services received	-	-	-	-	-	381	-	381
Transfer to loan loss reserve	-	-	-	124,284	-	-	(124,284)	-
Transfer to reserve fund	-	83,022	-	-	-	-	(83,022)	-
Balance at 31 December 2013	2,414,181	889,096	(209,543)	516,708	1,194,630	6,904	819,258	5,631,234

STATEMENT OF CASH FLOWS YEAR ENDED 31 DECEMBER 2013

	Note	2013 $'000	Restated 2012 $'000
Cash Flows from Operating Activities			
Profit for the year		553,478	386,748
Adjustments to reconcile profit for the year to net cash used in operating activities –			
Depreciation	10	51,124	46,418
Amortisation	11	12,458	24,746
Foreign exchange gains		(169,736)	(655,881)
Gain on disposal of property, plant and equipment		23	-
Gain on investment activities	27	(142,364)	(121)
Employee stock option scheme		381	915
Provision for loan losses, net	7	47,458	34,450
Interest income		(2,703,219)	(2,504,018)
Interest expense		746,785	806,675
Taxation	30	157,608	729
		(1,446,004)	(1,859,339)
Changes in other operating assets and liabilities –			
Customer deposits		2,992,645	2,166,723
Loans		(2,394,221)	(1,807,070)
Securities sold under repurchase agreements		154,768	(308,208)
Forward contracts		(8,366)	9,588
Restricted cash and bank accounts		(272,880)	(182,822)
Post-employment benefits		31,485	23,747
Other assets		9,912	129,153
Other liabilities		74,768	27,377
		(857,893)	(1,800,851)
Interest received		2,699,413	2,476,743
Interest paid		(765,863)	(841,653)
Net cash provided by/(used in) operating activities		1,075,657	(165,761)
Cash Flows from Investing Activities			
Acquisition of investment securities		(6,829,351)	(1,058,860)
Proceeds on disposal and maturity of investment securities		4,764,858	2,719,112
Proceeds on disposal of property, plant and equipment		222	-
Acquisition of property, plant and equipment	10	(57,810)	(78,628)
Additions to intangible assets	11	(165,047)	(146,419)
Net cash (used in)/provided by investing activities		(2,287,128)	1,435,205
Cash Flows from Financing Activities			
Due to specialised banks		135,918	(261,271)
Short term loan		(514,942)	55,762
Preference dividends paid		(54,126)	(47,913)
Net cash used in financing activities		(433,150)	(253,422)
Net (decrease)/increase in cash and cash equivalents		(1,644,621)	1,016,022
Effect of foreign exchange rate changes on cash and cash equivalents		234,254	140,543
Cash and Cash Equivalents at Beginning of Year		2,234,554	1,077,989
CASH AND CASH EQUIVALENTS AT END OF YEAR		824,187	2,234,554
Comprising:			
Cash and bank balances	5	1,146,176	1,610,630
Items in the course of collection from other banks		145,509	200,751
Securities purchased under resale agreements		212,347	548,483
Items in the course of payment		(116,827)	(116,520)
Short term loans	15	(532,222)	-
Bank overdraft		(30,796)	(8,790)
CASH AND CASH EQUIVALENTS AT END OF YEAR		824,187	2,234,554

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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 5.

(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:

IAS 1, 'Presentation of financial statements'. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The Bank has implemented the amendment and adjusted the statement of comprehensive income.

IAS 19 (Revised), 'Employee Benefits'. The impact on the Bank was as follows: the elimination of the corridor approach and recognition of all actuarial gains and losses in OCI as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). (See Note 34 for the impact on adopting the revised standard).

IFRS 13, Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS or US GAAP. The Bank has adopted the standard which has resulted in extended disclosure in the financial statements.

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 after 1 January 2013 or later periods, but were not effective at the date of the statement of financial position, and which the Bank has not early adopted.

IFRS 9, 'Financial Instruments'. This standard addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Bank is yet to assess IFRS 9's full impact. The Bank will also consider the impact of the remaining phases of IFRS 9 when completed by the International Accounting Standards Board.

IFRIC 21, 'Levies' (effective for annual periods beginning on or after 1 January 2014), This interpretation sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. The Bank is assessing the impact of the adoption of the interpretation on its financial statements.

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

(d) Derivative financial instruments

Derivatives are financial instruments that derive their value from the price of underlying items such as bonds, equities, interest rates, foreign exchange or other indices. These contracts are initially recognised at fair value on the date that they are entered into, and are subsequently 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. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Assets and liabilities are set off where the contracts are with the same counterparty, a legal right of set off exists and the cash flows are intended to be settled on a net basis.

Changes in the fair value of derivatives 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 purchased/sold under resale/repurchase agreements are treated as collateralised financing transactions. The difference between the sale/purchase and repurchase/resale price is treated as interest and is 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.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2013

2. Significant Accounting Policies (Continued)

(g) Financial assets

Classification

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled with 12 months, otherwise they are classified as non-current.

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 the 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 for all financial assets not carried at fair value through profit or loss. Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. 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.

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 – 10 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.

(i) Intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three years.

(j) 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.

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 to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in arriving at net profit or loss.

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. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period which they arise. 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.

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 return on equity 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.

(k) 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.

(l) Borrowings

Borrowings are recognised initially as 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.

(m) Guarantees, letters of credit and undertakings

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

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

CONTINUED ON NEXT PAGE

2. Significant Accounting Policies (Continued)

(n) 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 discounts or premiums on treasury bills and other 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.

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.

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 ensuring 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.

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 classification 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.

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:

	2013 $'000	2012 $'000
Cash at bank	2,986,321	3,051,241
Items in the course of collection from other banks	145,509	200,751
Securities purchased under resale agreements	212,347	548,483
Loans	15,829,964	13,481,699
Investment securities and pledged assets	13,120,763	11,385,738
Forward currency contracts	4,944	-
Other assets	101,360	65,704
Guarantees, letters of credit and letters of undertaking	51,639	457,505
	32,452,847	29,191,121
Credit risk exposures relating to items not on the statement of financial position:		
Guarantees and letters of credit	562,574	132,412
Loan commitments	2,898,656	2,887,375
	3,461,230	3,019,787

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2013

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.

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:

	2013		2012	
	Loans $'000	Impairment provision $'000	Loans $'000	Impairment provision $'000
Low Risk	34,201	-	44,849	-
Standard Risk	15,422,259	-	12,972,600	-
Sub-Standard Risk	528,391	154,887	609,024	144,774
	15,984,851	154,887	13,626,473	144,774

The credit quality of loans is summarised as follows:

	2013 $'000	2012 $'000
Neither past due nor impaired –		
Low Risk	34,201	44,849
Standard Risk	15,297,964	12,722,349
	15,332,165	12,767,198
Past due but not impaired	124,295	250,251
Impaired	528,391	609,024
	15,984,851	13,626,473
Less: Provision for impairment	(154,887)	(144,774)
	15,829,964	13,481,699

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

	2013 $'000	2012 $'000
Less than 30 days	66,355	225,376
31 to 60 days	51,551	7,700
61 to 90 days	6,389	17,175
	124,295	250,251

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	
	2013	2012	2013 $'000	2012 $'000
Public sector	2	2	34,201	44,849
Financial institutions	10	6	95,931	792,926
Agriculture	10	3	251,960	178,882
Mining and quarrying	4	4	58,183	81,343
Manufacturing	44	42	982,850	903,917
Construction and land development	39	35	2,076,318	1,920,861
Transportation, storage and communication	85	80	2,313,787	1,971,058
Electricity, gas and water	7	3	683,689	373,063
Distribution	91	86	2,413,251	2,070,984
Tourism	8	13	312,401	140,967
Entertainment	12	10	2,478	172,859
Professional and other services	320	146	2,415,845	1,573,371
Individuals	11,748	8,917	4,189,070	3,256,619
	12,380	9,347	15,829,964	13,481,699

Investment securities and pledged assets
The following table summarises the credit exposure for debt securities at their carrying amounts as categorised by issuer:

	2013 $'000	2012 $'000
Government of Jamaica	9,934,529	11,385,738
Bank of Jamaica	436,229	-
Corporate	1,857,911	-
Issued by other governments	463,293	-
Placements with other banks	428,801	-
Securities purchased under resale agreements	212,347	548,483
	13,333,110	11,934,221

(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.

2013

	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	3,434,875	-	-	-	-	3,434,875
Items in the course of collection from other banks	145,509	-	-	-	-	145,509
Securities purchased under resale agreements	212,396	-	-	-	-	212,396
Loans	2,801,419	499,973	8,017,626	11,467,997	-	22,787,015
Investment securities and pledged assets	728,287	521,236	1,937,411	19,277,595	5,020	22,469,549
Forward currency contracts	4,944	-	-	-	-	4,944
Other assets	101,360	-	-	-	-	101,360
Guarantees, letters of credit and letters of undertaking	46,337	5,302	-	-	-	51,639
Total financial assets	7,475,127	1,026,511	9,955,037	30,745,592	5,020	49,207,287
Financial liabilities						
Customer deposits	18,327,604	3,279,287	2,929	-	-	21,609,820
Items in the course of payment	116,827	-	-	-	-	116,827
Bank overdraft	30,796	-	-	-	-	30,796
Securities sold under repurchase agreements	2,250,196	809,485	1,000,380	-	-	4,060,061
Short term loans	851,391	-	-	-	-	851,391
Loans from specialised banks	123,884	360,542	1,144,198	64,855	-	1,693,479
Other liabilities	-	-	-	-	262,264	262,264
Guarantees, letters of credit and letters of undertaking	46,337	5,302	-	-	-	51,639
Total financial liabilities	21,747,035	4,454,616	2,147,507	64,855	262,264	28,676,277
Total liquidity gap	(14,271,908)	(3,428,105)	7,807,530	30,680,737	(257,244)	20,531,010
Cumulative gap	(14,271,908)	(17,700,013)	(9,892,483)	20,788,254	20,531,010	

2012

	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	3,626,449	-	-	-	-	3,626,449
Items in the course of collection from other banks	200,751	-	-	-	-	200,751
Securities purchased under resale agreements	549,305	-	-	-	-	549,305
Loans	1,952,522	751,806	7,579,663	9,087,397	-	19,371,388
Investment securities and pledged assets	1,824,527	486,824	3,976,606	13,485,397	5,020	19,778,374
Other assets	65,704	-	-	-	-	65,704
Guarantees, letters of credit and letters of undertaking	446,580	10,925	-	-	-	457,505
Total financial assets	8,665,838	1,249,555	11,556,269	22,572,794	5,020	44,049,476
Financial liabilities						
Customer deposits	15,206,436	3,424,113	3,436	-	-	18,633,985
Items in the course of payment	116,520	-	-	-	-	116,520
Bank overdraft	8,790	-	-	-	-	8,790
Derivative financial instruments	4,905	(1,483)	-	-	-	3,422
Securities sold under repurchase agreements	2,898,573	937,252	-	-	-	3,835,825
Short term loans	838,905	-	-	-	-	838,905
Loans from specialised banks	86,750	275,507	1,155,875	90,060	-	1,608,192
Other liabilities	192,988	-	-	-	-	192,988
Guarantees, letters of credit and letters of undertaking	446,580	10,925	-	-	-	457,505
Total financial liabilities	19,800,447	4,646,314	1,159,311	90,060	-	25,696,132
Total liquidity gap	(11,134,609)	(3,396,759)	10,396,958	22,482,734	5,020	18,353,344
Cumulative gap	(11,134,609)	(14,531,368)	(4,134,410)	18,348,324	18,353,344	

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.

(c) Market risk

The Bank takes on exposure to market risk, 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 risk 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:

2013

	Jamaican$ J$'000	US$ J$'000	GBP J$'000	CAN$ J$'000	Euro J$'000	Total J$'000
Financial assets						
Cash and bank balances	1,280,358	1,365,013	196,753	135,895	456,856	3,434,875
Items in the course of collection from other banks	23,184	122,191	134	-	-	145,509
Securities purchased under resale agreements	-	212,347	-	-	-	212,347
Loans	11,781,727	4,048,230	7	-	-	15,829,964
Investment securities and pledged assets	3,901,046	9,224,737	-	-	-	13,125,783
Derivative financial instruments	-	-	5,443	(499)	-	4,944
Other assets	11,856	88,868	-	636	-	101,360
Guarantees, letters of credit and letters of undertaking	46,337	5,302	-	-	-	51,639
Total financial assets	17,044,508	15,066,688	202,337	136,032	456,856	32,906,421
Financial liabilities						
Customer deposits	8,619,116	11,971,297	317,226	147,568	453,900	21,509,107
Items in the course of payment	68,809	45,165	238	2,448	167	116,827
Bank overdraft	-	30,796	-	-	-	30,796
Securities sold under repurchase agreements	2,104,779	1,836,225	-	-	-	3,941,004
Short term loans	55,010	795,846	-	-	-	850,856
Loans from specialised banks	1,192,799	288,000	-	-	-	1,480,799
Other liabilities	225,686	36,555	-	-	23	262,264
Guarantees, letters of credit and letters of undertaking	46,337	5,302	-	-	-	51,639
Total financial liabilities	12,312,536	15,009,186	317,464	150,016	454,090	28,243,292
Net financial position	4,731,972	57,502	(115,127)	(13,984)	2,766	4,663,129

2012

	Jamaican$ J$'000	US$ J$'000	GBP J$'000	CAN$ J$'000	Euro J$'000	Total J$'000
Financial assets						
Cash and bank balances	1,472,216	1,943,061	77,424	72,320	61,428	3,626,449
Items in the course of collection from other banks	74,489	122,724	3,035	503	-	200,751
Securities purchased under resale agreements	-	548,483	-	-	-	548,483
Loans	9,693,094	3,788,605	-	-	-	13,481,699
Investment securities and pledged assets	3,593,928	7,199,821	-	-	597,009	11,390,758
Other assets	13,755	51,808	94	47	-	65,704
Guarantees, letters of credit and letters of undertaking	72,193	385,312	-	-	-	457,505
Total financial assets	14,919,675	14,039,814	80,553	72,870	658,437	29,771,349
Financial liabilities						
Customer deposits	7,684,321	10,413,716	245,629	122,575	58,915	18,525,156
Items in the course of payment	78,728	35,063	1,073	1,516	140	116,520
Bank overdraft	-	-	-	8,790	-	8,790
Forward currency contracts	-	-	(3,192)	1,711	4,903	3,422
Securities sold under repurchase agreements	1,489,442	1,841,001	-	-	465,758	3,796,201
Short term loans	-	833,193	-	-	-	833,193
Loans from specialised banks	1,040,160	305,523	-	-	-	1,345,683
Other liabilities	166,986	23,095	1,816	1,082	19	192,998
Guarantees, letters of credit and letters of undertaking	72,193	385,312	-	-	-	457,505
Total financial liabilities	10,531,830	13,836,903	245,326	135,674	529,735	25,279,468
Net financial position	4,387,845	202,911	(164,773)	(62,804)	128,702	4,491,881

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.

	2013		2012	
	Change in Currency Rate %	Effect on Income $'000	Change in Currency Rate %	Effect on Income $'000
Currency:				
US$	15	5,750	10	13,527
GBP	15	(11,513)	10	(10,985)
CAN$	15	(1,398)	10	(4,187)
EURO	15	277	10	8,580
US$	-1	(383)	-1	(1,353)
GBP	-1	768	-1	1,098
CAN$	-1	93	-1	419
EURO	-1	(18)	-1	(858)

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.

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.

2013

	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	1,306,462	-	-	2,128,413	3,434,875
Items in the course of collection from other banks	-	-	-	145,509	145,509
Securities purchased under resale agreements	212,347	-	-	-	212,347
Loans	2,800,966	463,434	12,565,564	-	15,829,964
Investment securities and pledged assets	939,319	498,471	11,682,973	5,020	13,125,783
Derivative financial instruments	-	-	-	4,944	4,944
Other assets	-	-	-	101,360	101,360
Guarantees, letters of credit and letters of undertaking	-	-	-	51,639	51,639
Total financial assets	5,259,094	961,905	24,248,537	2,436,885	32,906,421
Financial liabilities					
Customer deposits	18,296,721	3,210,243	2,143	-	21,509,107
Items in the course of payment	-	-	-	116,827	116,827
Bank overdraft	30,796	-	-	-	30,796
Securities sold under repurchase agreements	2,245,706	787,069	908,229	-	3,941,004
Short term loans	850,856	-	-	-	850,856
Loans from specialised banks	100,616	294,640	1,085,543	-	1,480,799
Other liabilities	-	-	-	262,264	262,264
Guarantees, letters of credit and letters of undertaking	-	-	-	51,639	51,639
Total financial liabilities	21,524,695	4,291,952	1,995,915	430,730	28,243,292
Total interest repricing gap	(16,265,601)	(3,330,047)	22,252,622	2,006,155	4,663,129
Cumulative gap	(16,265,601)	(19,595,648)	2,656,974	4,663,129	

2012

	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	1,395,552	-	-	2,230,897	3,626,449
Items in the course of collection from other banks	-	-	-	200,751	200,751
Securities purchased under resale agreements	548,483	-	-	-	548,483
Loans	1,917,614	700,673	10,863,412	-	13,481,699
Investment securities and pledged assets	1,807,136	465,153	9,113,449	5,020	11,390,758
Other assets	-	-	-	65,704	65,704
Guarantees, letters of credit and letters of undertaking	-	-	-	457,505	457,505
Total financial assets	5,668,785	1,165,826	19,976,861	2,959,877	29,771,349
Financial liabilities					
Customer deposits	15,177,823	3,344,407	2,926	-	18,525,156
Items in the course of payment	-	-	-	116,520	116,520
Bank overdraft	8,790	-	-	-	8,790
Derivative financial instruments	-	-	-	3,422	3,422
Securities sold under repurchase agreements	2,889,116	907,085	-	-	3,796,201
Short term loans	833,193	-	-	-	833,193
Loans from specialised banks	65,309	210,413	1,069,961	-	1,345,683
Other liabilities	-	-	-	192,998	192,998
Guarantees, letters of credit and letters of undertaking	-	-	-	457,505	457,505
Total financial liabilities	18,974,231	4,461,905	1,072,887	770,445	25,279,468
Total interest repricing gap	(13,305,446)	(3,296,079)	18,903,974	2,189,432	4,491,881
Cumulative gap	(13,305,446)	(16,601,525)	2,302,449	4,491,881	

The table below summarises the average effective yields of interest rate-sensitive financial instruments by currency:

2013

	Jamaican$ %	US$ %	GBP %	CAN$ %	Euro %
Cash and bank balances	4.00	0.01	0.05	0.35	-
Securities purchased under resale agreements	-	2.80	-	-	-
Loans	12.30	8.66	-	-	-
Investment securities	7.44	7.34	-	-	-
Customer deposits	2.91	1.77	1.50	0.45	0.07
Securities sold under repurchase agreements	7.95	3.93	-	-	-
Short term loans	6.90	2.97	-	-	-
Loans from specialised banks	6.93	5.40	-	-	-

2012

	Jamaican$ %	US$ %	GBP %	CAN$ %	Euro %
Cash and bank balances	3.80	0.01	0.05	0.32	-
Securities purchased under resale agreements	-	4.07	-	-	-
Loans	14.18	9.71	-	-	-
Investment securities	8.20	8.25	-	-	10.50
Customer deposits	3.05	2.23	1.73	1.16	0.62
Securities sold under repurchase agreements	6.39	4.47	-	-	4.69
Short term loans	-	5.18	-	-	-
Loans from specialised banks	7.40	5.70	-	-	-

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NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2013

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.

2013			2012		
Change in basis points JMD/USD	Net Effect on Income $'000	Net Effect on Equity $'000	Change in basis points JMD/USD	Net Effect on Income $'000	Net Effect on Equity $'000
-100 / -50	(11,920)	174,570	-100 / -50	8,724	151,234
+250 / +200	(18,082)	(698,885)	+400 / +250	(62,524)	(618,279)

(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% (2012 – 8%); and

(ii) Maintain a ratio of total regulatory capital to the risk-weighted assets at or above 10% (2012 – 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 Bank complied with all of the externally imposed capital requirements to which it is subject.

(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
		2013		
Available-for-sale investment securities –				
Issued by the Government of Jamaica	-	9,837,938	-	9,837,958
Issued by other Government	-	463,293	-	463,293
Corporate bonds	-	1,857,911	-	1,857,911
Placements with other banks	-	428,821	-	428,821
Certificates of deposit	-	436,229	-	436,229
Financial assets at fair value through profit or loss -				
Put option issued by the Government of Jamaica	-	96,571	-	96,571
Forward currency contracts	-	4,944	-	4,994
	-	13,125,707	-	13,125,707
		2012		
Available-for-sale investment securities –				
Issued by the Government of Jamaica	-	11,385,738	-	11,385,738
Financial assets at fair value through profit or loss -				
Forward currency contracts	-	(3,422)	-	(3,422)
	-	11,382,316	-	11,382,316

There were no transfers between levels during the year.

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

	2013 $'000	2012 $'000
At start of year	-	63,976
Disposals	-	(63,976)
At end of year	-	-

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.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2013

3. Financial Risk Management (Continued)

(f) Financial instruments by category

	Loans and receivables $'000	Assets at fair value through profit and loss $'000	Available for sale $'000	Total $'000
As at 31 December 2013:				
Cash and bank balances	3,434,875	-	-	3,434,875
Items in the course of collection from other banks	145,509	-	-	145,509
Securities purchased under resale agreements	212,347	-	-	212,347
Loans	15,829,964	-	-	15,829,964
Investment securities and pledged assets	-	96,571	13,029,212	13,125,783
Forward currency contracts	-	4,944	-	4,944
Other assets	101,360	-	-	101,360
Guarantees, letters of credit and letters of undertaking	51,639	-	-	51,639
Total financial assets	19,775,694	101,515	13,029,212	32,906,421

	Loans and receivables $'000	Available for sale $'000	Total $'000
As at 31 December 2012:			
Cash and bank balances	3,626,449	-	3,626,449
Items in the course of collection from other banks	200,751	-	200,751
Securities purchased under resale agreements	548,483	-	548,483
Loans	13,481,699	-	13,481,699
Investment securities and pledged assets	-	11,390,758	11,390,758
Other assets	61,885	-	61,885
Guarantees, letters of credit and letters of undertaking	457,505	-	457,505
Total financial assets	18,376,772	11,390,758	29,767,530

	Other financial liabilities at amortised cost $'000	Total $'000
As at 31 December 2013:		
Customer deposits	21,509,107	21,509,107
Items in the course of payment	116,827	116,827
Bank overdraft	30,796	30,796
Securities sold under repurchase agreements	3,941,004	3,941,004
Loans	2,331,655	2,331,655
Other liabilities	262,264	262,264
Guarantees, letters of credit and letters of undertaking	51,639	51,639
Total financial liabilities	28,243,292	28,243,292

	Liabilities at fair value through profit and loss $'000	Other financial liabilities at amortised cost $'000	Total $'000
As at 31 December 2012:			
Customer deposits	-	18,525,156	18,525,156
Items in the course of payment	-	116,520	116,520
Bank overdraft	-	8,790	8,790
Forward currency contracts	3,422	-	3,422
Securities sold under repurchase agreements	-	3,796,201	3,796,201
Loans	-	2,178,876	2,178,876
Other liabilities	-	192,998	192,998
Guarantees, letters of credit and letters of undertaking	-	457,505	457,505
Total financial liabilities	3,422	25,276,046	25,279,468

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 arm's 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.

5. Cash and Bank Balances

	2013 $'000	2012 $'000
Notes and coins	448,554	575,208
Accounts with foreign banks	693,076	690,563
Balances with the Bank of Jamaica, other than statutory reserves	4,546	344,859
Included in cash and cash equivalents	1,146,176	1,610,630
Statutory reserves with the Bank of Jamaica	2,197,310	1,952,395
Cash held as collateral and other restricted cash accounts	91,389	63,424
	3,434,875	3,626,449

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% (2012 – 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% (2012 – 12%) for Jamaican dollar cash reserves and 9% (2012 – 9%) for foreign currency cash reserves.

The current portion of cash and bank balances is classified as cash and cash equivalents of $1,146,176,000 (2012 – $1,610,630,000)

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 $130,000 (2012 – $2,357,000).

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NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2013

7. Loans

	2013 $'000	2012 $'000
Total loans	15,891,835	13,534,959
Less provision for credit losses	(154,887)	(144,774)
	15,736,948	13,390,185
Interest receivable	93,016	91,514
	15,829,964	13,481,699

The current portion of loans amounted to $3,264,399,000 (2012 – $2,618,287,000).

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

	2013 $'000	2012 $'000
Balance at beginning of year	144,774	126,971
Provided during the year	61,618	49,496
Recoveries	(14,160)	(15,046)
Net amount charged in arriving at net profit or loss	47,458	34,450
Net loan balances written-off during the year	(37,345)	(16,647)
Balance at end of year	154,887	144,774

The aggregate amount of non-performing loans on which interest was not being accrued amounted to $528,391,000 (2012 – $609,024,000).

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

	2013 $'000	2012 $'000
Specific provisions	517,536	407,662
General provision	154,059	129,536
	671,595	537,198

The excess of the regulatory provision over the IFRS provision of $516,708,000 (2012 – $392,424,000) is included in a non-distributable loan loss reserve and treated as an appropriation of retained earnings (Note 22).

8. Investment Securities and Pledged Assets

	2013 $'000	2012 $'000
Available-for-sale securities, at fair value:		
Issued by the Government of Jamaica –		
Global bonds	3,230,836	5,012,288
Benchmark investment notes	3,308,563	3,538,486
Benchmark USD investment notes	3,108,558	2,586,079
	9,647,957	11,136,853
Bank of Jamaica	430,155	-
Issued by other government	447,784	-
Placements with other banks	424,188	-
Corporate bonds	1,822,919	-
	12,773,003	11,136,853
Financial assets at fair value through profit or loss:		
Embedded put option issued by Government of Jamaica	96,571	-
Available-for-sale securities, at cost less impairment:		
Unquoted equities	5,020	5,020
	12,874,594	11,141,873
Interest receivable	251,189	248,885
	13,125,783	11,390,758
Less: Pledged assets	(5,333,349)	(4,614,386)
	7,792,434	6,776,372

The current portion of investment securities amounted to $1,437,790,000 (2012 – $2,272,289,000).

Embedded put option
The Bank holds certain Government of Jamaica debt securities which were issued in February 2013 and mature in February 2024. The terms of these securities contain an investor put option exercisable in February 2018 under which the holder may require the Government of Jamaica to redeem the securities at 100% of the principal value plus any accrued interest. The initial recognition of the option is included in the determination of the "Loss on debt exchange transactions" and gains and losses on subsequent revaluations of the option are reflected in "Gain/(loss) on investment activities".

9. Forward Currency 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 2013

Settlement dates	Obligation	Notional amounts '000	Fair values $'000
31 July 2013 - 28 February 2014	Buy	GBP 750	5,443
10 September 2013- 24 February 2014	Buy	CAN 200	(499)
			4,944

As at 31 December 2012

Settlement dates	Obligation	Notional amounts '000	Fair values $'000
10 January 2013 - 11 March 2013	Sell	EURO 1,100	(4,903)
8 January 2013 - 10 January 2013	Sell	GBP 25	(2)
25 February 2013- 13 May 2013	Buy	CAN 760	(1,711)
14 January 2013 - 21 May 2013	Buy	GBP 1,150	3,194
			(3,422)

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.

10. 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 2012	149,214	120,372	149,602	23,552	144,700	587,440
Additions	6,591	6,788	5,073	-	60,176	78,628
Transfers	65,215	1,538	40,900	-	(107,653)	-
31 December 2012	221,020	128,698	195,575	23,552	97,223	666,068
Additions	6,790	24,338	12,619	7,995	6,068	57,810
Transfers	(1,256)	-	-	-	1,256	-
Disposals	-	-	(28,433)	-	-	(28,433)
31 December 2013	226,554	153,036	179,761	31,547	104,547	695,445
Depreciation -						
1 January 2012	75,890	111,025	81,004	19,892	-	287,811
Charge for year	22,971	10,000	12,227	1,220	-	46,418
31 December 2012	98,861	121,025	93,231	21,112	-	334,229
Charge for year	18,633	12,931	16,741	2,819	-	51,124
Disposals	-	-	(28,188)	-	-	(28,188)
31 December 2013	117,494	133,956	81,784	23,931	-	357,165
Net Book Value -						
31 December 2013	109,060	19,080	97,977	7,616	104,547	338,280
31 December 2012	122,159	7,673	102,344	2,440	97,223	331,839

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2013

11. Intangible Assets

	Total $'000
Cost -	
1 January 2012	307,868
Additions	146,419
31 December 2012	454,287
Additions	165,047
31 December 2013	619,334
Amortisation -	
1 January 2012	222,369
Amortisation charge for the year	24,746
31 December 2012	247,115
Amortisation charge for year	12,458
31 December 2013	259,573
Net Book Value -	
31 December 2013	359,761
31 December 2012	207,172

Included in the balance at 31 December 2013 is software with a value of $354,682,000 (2012 - $195,365,000) which is in development. These amounts are not yet available for use and have not been amortised.

12. 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:

	2013 $'000	Restated 2012 $'000
At beginning of year, as restated	437,069	410,171
Deferred tax charged in arriving at net profit or loss (Note 30)	(157,608)	(729)
Deferred tax credited to other comprehensive income (Note 30)	91,352	27,627
At end of year	370,813	437,069

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

	2013 $'000	Restated 2012 $'000
Tax losses carried forward	285,208	424,556
Post-employment benefits	63,408	98,102
Differences between IFRS and BOJ specific provisions for loan losses	(120,883)	(87,629)
Accelerated tax depreciation	25,129	26,920
Fair value of investment securities	104,771	(31,766)
Other	13,180	6,886
	370,813	437,069

Deferred tax assets include $152,528,000 (2012 – $56,887,000) which is expected to be recovered within 12 months.

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 $855,623,000 (2012 – $1,273,669,000).

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

	2013 $'000	Restated 2012 $'000
Tax losses carried forward	(139,348)	(58,598)
Post-employment benefits	10,494	7,916
Differences between IFRS and BOJ specific provisions for loan losses	(33,254)	26,397
Accelerated tax depreciation	(1,791)	23,109
Other	6,291	447
	(157,608)	(729)

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

	2013 $'000	Restated 2012 $'000
Realised (losses)/ gains on available-for-sale investments	(82,338)	1,348
Unrealised gains on available-for-sale investments	218,878	13,583
Realised (losses)/gains on pension re-measurement	(45,188)	12,696
	91,352	27,627

13. Other Assets

	2013 $'000	2012 $'000
Withholding tax recoverable	63,993	114,395
Due from fellow subsidiaries	3,382	3,232
Prepayments and deposits	50,364	44,999
Other	93,628	58,653
	211,367	221,279

14. Customer Deposits

The customer deposit portfolio was comprised as follows:

	Number of deposits		Value of deposits	
	2013	2012	2013 $'000	2012 $'000
Financial institutions	161	140	2,167,235	1,676,391
Commercial and business enterprises	3,173	2,328	10,160,948	6,207,513
Personal	15,688	12,619	8,814,540	5,526,201
Other	286	879	283,434	5,023,407
	19,308	15,966	21,426,157	18,433,512
Interest payable			82,950	91,644
			21,509,107	18,525,156

The non-current portion of customer deposits amounted to $2,143,000 (2012 – $2,925,000).

15. Short Term Loans

	2013 $'000	2012 $'000
Loans with original maturities of 90 days or less –		
National Commercial Bank Jamaica Limited	55,000	-
Citibank NA	477,212	-
	532,212	-
Interest payable	10	-
Included in cash and cash equivalents	532,222	-
Loan with original maturity of 120 days –		
Citibank NA	318,141	833,073
Interest payable	493	120
	318,634	833,193
	850,856	833,193

16. Loans from Specialised Banks

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

	2013 $'000	2012 $'000
(a) Development Bank of Jamaica Limited	1,382,760	1,176,231
(b) National Export-Import Bank of Jamaica Limited	21,872	36,662
(c) Inter-American Investment Corporation	74,857	130,678
	1,479,489	1,343,571
Interest payable	1,310	2,112
	1,480,799	1,345,683

The current portion of amounts due to specialised banks was $ 395,256,000 (2012 – $275,722,000).

a) The loans from Development Bank of Jamaica are granted in both Jamaican and United States Dollars and are utilised by the Bank to finance customers with viable projects in the productive sectors of the economy. These loans are for terms up to 10 years and are at rates ranging from 4 – 10%.

b) The loans from National Export-Import Bank of Jamaica are granted in Jamaican dollars and are utilised by the Bank to finance customers with viable projects in the productive sectors of the economy. The loans are for terms up to 4 years and at rates of 8 – 9%.

c) This represents a United States Dollar facility of US$3,000,000 with an interest rate of 6.50%. The facility expires 15 October 2014.

17. Pensions and Other Employee Benefit Obligations

The Bank participates in a defined contribution pension scheme started by the ultimate parent company. The scheme is 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's contributions are currently set at 10%. The Bank's contribution for the year was $16,981,000 (2012 - $15,727,000).

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 employees' contributions at 5% of salary with the option to contribute an additional 5%, and employer's contributions at 0.5%, as recommended by independent actuaries. Pension at normal post-employment age is based on 2% per year of pensionable service of the average of the highest three years' annual salary during the last ten years of service. This scheme was closed to new members as at 31 March 2010.

The Board of Trustees of the pension fund is comprised of representatives from both the employer and members of the plan. The Board of Trustees of the pension fund is required by law to act in the interest of the fund and all relevant stakeholders. The Board of Trustees of the pension fund is responsible for the investment policy with regard to the assets of the fund. The funds are managed by First Global Financial Services Limited

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.

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

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NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2013

17. Pensions and Other Employee Benefit Obligations (Continued)

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

	Pension		Other post-employment benefits	
	2013 $'000	Restated 2012 $'000	2013 $'000	Restated 2012 $'000
Fair value of plan assets	826,686	598,578	-	-
Present value of funded obligations	(826,686)	(737,213)	(190,223)	(155,666)
Liability in the statement of financial position	-	(138,635)	(190,223)	(155,666)

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

	Pension		Other post-employment benefits	
	2013 $'000	Restated 2012 $'000	2013 $'000	Restated 2012 $'000
Current service cost	65,268	58,157	25,094	22,747
Interest cost on obligation	85,026	66,672	18,940	15,087
Interest income on plan assets	(63,622)	(49,031)	-	-
Past service cost	-	-	(12,028)	(10,526)
Adjustment to Plan Assets	(86,672)	(77,389)	-	-
	-	(1,591)	32,006	27,308

The actual return on plan assets was $134,758,000 (2012 – $23,487,000).

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 contributions for the year ending 31 December 2014 amount to $19,578,000.

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

	Pension	
	2013 $'000	2012 $'000
Balance at start of year, as restated	598,578	482,924
Employees' contributions	33,352	29,794
Employer's contributions	115	195
Interest income on plan assets	63,622	49,031
Benefits paid	(26,788)	(15,211)
Additional assets assigned to the Bank	86,672	77,389
Re-measurements of plan assets	71,135	(25,544)
Balance at end of year	826,686	598,578

The distribution of plan assets for the pension was as follows:

	2013 $'000	2012 $'000
Equities	144,919	95,071
Government of Jamaica securities	458,587	359,219
Other debt securities	36,082	25,376
Other	187,098	118,912
	826,686	598,578

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

	Present value of funded obligations for:			
	Pension		Other post-employment benefits	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Balance at start of year	737,213	586,378	155,666	129,014
Current service cost	65,268	58,157	25,094	22,747
Employees' contributions	33,352	29,794	-	-
Interest cost	85,026	66,672	18,940	15,087
Benefits paid	(26,788)	(15,211)	(407)	(1,775)
Past service cost vested	-	-	(12,028)	(10,526)
Re-measurements:				
Losses from changes in demographic assumptions	-	21,219	-	3,069
(Gains)/losses from changes in financial assumptions	(10,814)	(26,976)	15,048	8,761
Experience gains and losses	(56,571)	17,180	(12,090)	(10,711)
Balance at end of year	826,686	737,213	190,223	155,666

The composition of the liability recognised in relation to the other post-employment obligations in the statement of financial position is as follows:

	2013 $'000	2012 $'000
Gratuity Plan	72,169	73,683
Group Life Plan	49,734	33,234
Insured Group Health	66,854	44,670
Self Insured Health Plan	1,466	2,384
Superannuation Plan	-	1,695
Liability in the statement of financial position	190,223	155,666

The principal actuarial assumptions used were as follows:

	2013	2012
Discount rate	9.50%	10.50%
Long term inflation rate	5.50%	6.00%
Future salary increases	6.00%	7.50%
Future pension increases	5.50%	6.50%
Medical claims growth	7.00%	7.50%
Average expected remaining working lives (years)	22.9	18.4

The average life expectancy in years of a pensioner retiring at age 60 on the statement of financial position date is as follows:

	2013	2012
Male	23.18	23.09
Female	25.98	25.93

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

The sensitivity of the defined benefit obligation to changes in the principal assumptions is:

	Impact on defined benefit obligations		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
		$'000	$'000
Discount rate	1%	155,505	(209,744)
Future salary increases	1%	(84,245)	74,856
Expected pension increase	1%	(109,685)	90,483

	Impact on defined benefit obligations	
	Increase Assumption by One Year	Decrease Assumption by One Year
	$'000	$'000
Life expectancy	16,008	16,303

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

The sensitivity of the post-employment medical benefits to changes in the principal assumptions is:

	Impact on other employee benefit obligations		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
		$'000	$'000
Discount rate	1%	12,334	(16,108)
Medical inflation rate	1%	(16,351)	12,682

Risks associated with pension plans and other employee benefit plans

Through its defined benefit pension plans and post-employment medical plans, the Bank is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility

The plan liabilities are calculated using a discount rate set with reference to Government of Jamaica bond yields; if plan assets underperform this yield, this will create a deficit.

As the plan matures, the Bank intends to reduce the level of investment risk by investing more in assets that better match the liabilities. This process includes monitoring and rebalancing the asset classes and the maturity profile of assets within these classes. The Government bonds largely represent investments in Government of Jamaica securities.

However, the Bank believes that due to the long-term nature of the plan liabilities, a level of continuing equity investment is an appropriate element of the Bank's long term strategy to manage the plans efficiently.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2013

17. Pensions and Other Employee Benefit Obligations (Continued)

Risks associated with pension plans and other employee benefit plans (continued)

Changes in bond yields
A decrease in Government of Jamaica bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

Inflation risk
Higher inflation will lead to higher liabilities in the event that discretionary pension increases are granted. The majority of the plan's assets are either unaffected by fixed interest securities or loosely correlated with inflation, meaning that an increase in inflation will reduce the surplus or create a deficit.

Life expectancy
The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's liabilities. This is particularly significant, where inflationary increases result in higher sensitivity to changes in life expectancy.

The Board of Trustees is ultimately responsible for the establishment and oversight of the plan's risk management framework. The Trustees have established an Investment Committee for managing and monitoring the overall risk management process, as well as implementing policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity. The Committee is responsible for the formulating and monitoring of investment portfolios and investment strategies for the plan. The Committee is also responsible for the approval and monitoring of appropriate trading limits, reports and compliance controls to ensure that the mandate is properly followed.

Funding levels are monitored on an annual basis and the current agreed contribution rate is 0.02% of pensionable salaries. The next triennial valuation is due to be completed as at 31 December 2016. The Bank considers that the contribution rates set at the last valuation date to be sufficient to prevent a deficit and that regular contributions, which are based on service costs, will not increase significantly.

The average duration of the post-employment benefit obligation is as follows:

Plans	Years
Gratuity Plan	11.6
Group Life Plan	14.4
Insured Group Health Plan	19.2
Pension Plan	17.3
Self Insured Health Plan	13.7
Superannuation Plan	7.4

Expected maturity analysis of undiscounted pension and other post-employment benefits as at 31 December 2013 is:

	Less than 1 Year $'000	2 to 5 Years $'000	Over 5 Years $'000	Total $'000
Pension benefits	3,841	32,008	10,660,455	10,696,304
Other employee benefits	10,885	10,844	1,664,653	1,686,382
Total	14,726	42,852	12,325,108	12,382,686

18. Other Liabilities

	2013 $'000	2012 $'000
Asset tax	41,321	36,449
Due to fellow subsidiaries	23,956	3,173
Other accruals	95,079	57,716
Staff vacation and bonus accruals	115,928	89,940
Trade payables	27,301	42,169
Withholding tax payable	17,066	16,436
	320,651	245,883

Total balance falls due within 12 months of the year end.

19. Share Capital

	2013 $'000	2012 $'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.

20. 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. During the year the Bank transferred $83,022,000 (2012 - $57,737,000) to this reserve.

21. Fair Value Reserve

This represents the net unrealised losses on the revaluation of investment securities amounting to $314,317,000 (2012 – gains of $95,301,000), and is shown net of attributable deferred taxation credit of $104,774,000 (2012 – charge of $31,766,000).

22. 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).

23. 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. .

24. 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:

	2013		2012	
	Average exercise price in $ per share	Options '000	Average exercise price in $ per share	Options '000
At beginning of year	50.83	221	43.74	340
Forfeited	50.83	(44)	-	-
Expired	-	-	50.83	(99)
Exercised	-	-	43.91	(20)
At end of the year	50.83	177	50.83	221

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	2013 '000	2012 '000
2016	50.83	177	221

The fair value of the options granted 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.

25. Interest Income on Securities

	2013 $'000	2012 $'000
Interest income was earned on –		
Investments classified as available-for-sale	861,840	891,506
Securities purchased under resale agreements	6,820	14,111
	868,660	905,617

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NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2013

26. Fee and Commission Income

	2013 $'000	2012 $'000
Credit related	237,061	181,766
Retail banking	187,189	140,279
Other	161,452	151,382
	585,702	473,427

27. Gain on Investment Activities

	2013 $'000	2012 $'000
Gain on sale of investments classified as available-for-sale	182,188	121
Losses on debt exchange transactions	(45,088)	-
Gain on revaluation of put option	5,264	-
	142,364	121

28. Staff Costs

	2013 $'000	Restated 2012 $'000
Wages and salaries	786,413	727,915
Statutory contributions	65,864	56,787
Pension benefits		
Defined contribution scheme	23,252	15,727
Defined benefit scheme (Note 17)	-	(1,591)
Other post-employment benefits (Note 17)	32,006	27,308
Other	89,067	87,492
	996,602	913,638

29. Administration and Other Expenses

	2013 $'000	2012 $'000
Advertising and publicity	58,950	46,633
Asset Tax	41,423	36,484
Auditors' remuneration	7,900	7,782
Bank charges	42,608	31,409
Computer expenses	79,699	65,269
Credit card expenses	40,384	29,657
Directors' emoluments	7,343	4,741
Fees and charges	31,437	16,432
Group expenses	312,181	277,219
Insurance and licensing	60,300	54,798
Irrecoverable General Consumption Tax	83,511	74,209
Postage and courier	17,597	15,893
Professional fees	17,786	27,677
Property costs, maintenance and utilities	194,575	170,149
Stationery	14,734	12,610
Other	42,207	37,291
	1,052,635	908,253

Group expenses incurred relate to royalties and management fees paid to its parent and ultimate parent company.

30. Taxation

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

	2013 $'000	Restated 2012 $'000
Current taxation	-	-
Deferred taxation (Note 12)	157,608	729
	157,608	729

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

	2013 $'000	Restated 2012 $'000
Profit before taxation	711,086	387,477
Tax calculated at a tax rate of 33⅓%	237,029	129,159
Adjusted for the effects of –		
Tax free income	(78,120)	(97,900)
Preference dividends -		
Current year	(15,546)	(13,761)
Prior year	-	(13,542)
Asset tax	13,808	12,161
Expenses disallowed for tax purposes and other charges	437	(15,388)
	157,608	729

The tax charge/(credit) relating to components of other comprehensive income is as follows:

	2013		
	Before tax	Tax charge/ (credit)	After tax
	$'000	$'000	$'000
Item that may be subsequently reclassified to profit or loss:			
Realised gains on available-for-sale investments, recycled to comprehensive income	137,100	(45,700)	91,400
Unrealised losses on available-for-sale investments	272,518	(90,840)	181,678
Items that will not be reclassified to profit or loss:			
Remeasurement of pension and other employment benefit obligation	(135,563)	45,188	(90,375)
	274,055	(91,352)	182,703

The tax charge/(credit) relating to components of other comprehensive income is as follows (continued):

	2012		
	Before tax	Tax charge/ (credit)	After tax
	$'000	$'000	$'000
Item that may be subsequently reclassified to profit or loss:			
Realised gains on available-for-sale investments,recycled to comprehensive income	121	(40)	81
Unrealised losses on available-for-sale investments	44,674	(14,891)	29,783
Items that will not be reclassified to profit or loss:			
Remeasurement of pension and other employment benefit obligation	38,087	(12,696)	25,391
	82,882	(27,627)	55,255

31. 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:

	2013 $'000	2012 $'000
Loans –		
Key management personnel	57,657	54,171
Other related entities	119,008	92,931
	176,665	147,102
Loans to key management personnel and other related entities		
Balance as at 1 January	147,102	181,578
Loans advanced	37,532	142,089
Loan repayments received	(8,027)	(176,846)
Interest charged	12,284	7,728
Interest received	(12,226)	(7,447)
Balance as at 1 January	176,665	147,102

The loans to Key management personnel attract interest rates ranging between 0% - 15% (2012 - 0% - 15%) and are repayable in the years 2014 - 2032. These loans are secured and are made on terms similar to those offered to other employees. No provision has been required in 2013 and 2012 for the loans made to directors and senior managers.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2013

31. Related Party Transactions and Balances (Continued)

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

	2013 $'000	2012 $'000
Other assets –		
Fellow subsidiaries	3,382	5,730
Customer deposits –		
Ultimate parent company	410,896	593,393
Fellow subsidiaries	2,539,722	2,160,798
Key management personnel	191,340	153,099
Other related entities	1,033,320	392,777
	4,175,278	3,300,067
Securities sold under repurchase agreements –		
Fellow subsidiaries	50,060	129,958
Other liabilities –		
Fellow subsidiaries	23,956	3,173

(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:

	2013 $'000	2012 $'000
Interest earned on loans –		
Ultimate parent company	-	795
Fellow subsidiaries	-	2,488
Key management personnel	3,587	3,278
Other related entities	8,697	1,167
	12,284	7,728
Interest earned on cash and other accounts –		
Ultimate parent company	1,285	1,565
Fellow subsidiaries	4,806	4,329
Key management personnel	273	296
Other related entities	917	882
	7,281	7,072
Interest earned on securities purchased under resale agreements –		
Fellow subsidiaries	243	191

	2013 $'000	2012 $'000
Interest incurred on customer deposits –		
Ultimate parent company	25,540	41,282
Fellow subsidiaries	68,190	59,145
Key management personnel	3,771	4,436
Other related entities	10,453	15,587
	107,954	120,450
Interest incurred on securities sold under repurchase agreements –		
Fellow subsidiaries	2,474	11,337
Staff costs – key management personnel		
Directors	29,441	29,547
Senior executives	123,202	122,390
	152,643	151,937
Administration and other expenses –		
Ultimate parent company	312,181	273,510
Fellow subsidiaries	39,746	54,386
Directors' fees	7,343	4,741
	359,270	332,637

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

32. Commitments and contingent liabilities

Operating lease commitments
Future lease payments under operating lease commitments are payable

2013	-	77,649
2014	94,853	83,278
2015	93,434	83,054
2016	48,749	44,631
2017 and beyond	153,352	111,576
	390,388	400,188

Loan commitments
Loans approved but not disbursed at year end amounted to $2,898,656,000 (2012 – $2,887,375,000).

Contingent liabilities
Guarantees and letters of credit for which the Bank has an indirect obligation at year end $562,574,000 (2012 - $132,412,000).

33. 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, according to the principles outlined above, which 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.

34. Restatement

The financial statements of the Bank for the years ended 31 December 2012 and 31 December 2011 have been restated to reflect the adoption of IAS 19 (Revised), 'Employee Benefits'. The effect of this adoption on the Bank's financial statements were as follows:

As at 31 December 2012, in the statement of financial position, the pension plan asset decreased by $140,082,000, the other employee benefit obligations decreased by $2,536,000, the deferred tax assets increased by $45,849,000 and the retained earnings decreased by $91,697,000.

In the Statement of Comprehensive Income for the year ended 31 December 2012, staff costs in the income statement decreased by $2,570,000 and taxation expense increased by $917,000 and in Other Comprehensive Income, Re-measurements of pension and other employee benefits increased by $25,391,000.

In the Statement of Cash Flows for the year ended 31 December 2012, there was no impact on the Net Cash Flows from operating activities, Net Cash Flows from Investing Activities or the Net Cash Flows from Financing Activities.

As at 31 December 2011, in the statement of financial position, the pension plan asset decreased by $105,674,000, the other employee benefit obligations decreased by $3,464,000, the deferred tax assets increased by $34,070,000 and the retained earnings decreased by $68,140,000.

No other financial statement lines were affected by the restatement.

The statement of financial position for the years ended 31 December 2012 and 31 December 2011 along with the affected notes to the financial statements were appropriately restated in accordance with the requirements of IAS 1.