



First Global Bank Limited

**Financial Statements
31 December 2012**

First Global Bank Limited

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31 December 2012

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Independent Auditors' Report

To the Members of
First Global Bank Limited

Report on the Financial Statements

We have audited the accompanying financial statements of First Global Bank Limited, set out on pages 1 to 58, which comprise the statement of financial position as at 31 December 2012 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.

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**Members of First Global Bank Limited
Independent Auditors' Report
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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 2012, 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
19 March 2013
Kingston, Jamaica

First Global Bank Limited

Statement of Financial Position

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000	2010 \$'000
	33		Restated	Restated
ASSETS				
Cash and bank balances	5	3,626,449	2,602,772	2,226,158
Items in the course of collection from other banks		200,751	120,354	97,857
Securities purchased under resale agreements	6	548,483	320,653	356,285
Loans	7	13,481,699	11,682,265	9,981,752
Investment securities	8	6,776,372	6,794,588	8,039,693
Pledged assets	8	4,614,386	5,764,975	6,039,394
Forward currency contracts	14	-	6,166	-
Property, plant and equipment	9	539,011	385,128	324,861
Post-employment benefit asset	10	1,447	2,220	32,727
Deferred income tax assets	11	391,220	376,100	466,956
Taxation recoverable		37,854	37,854	37,854
Other assets	12	221,279	350,432	361,749
Guarantees, letters of credit and letters of undertaking		457,505	221,952	203,495
Total Assets		<u>30,896,456</u>	<u>28,665,459</u>	<u>28,168,781</u>

First Global Bank Limited

Statement of Financial Position

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000 Restated	2010 \$'000 Restated
LIABILITIES				
Customer deposits	13	18,525,156	16,370,266	15,241,067
Items in the course of payment		116,520	126,527	107,432
Bank overdraft		8,790	6,266	5,289
Forward currency contracts	14	3,422	-	4,903
Securities sold under repurchase agreements		3,796,201	4,125,242	3,896,539
Short term loans	15	833,193	777,699	815,783
Loans from specialised banks	16	1,345,683	1,588,675	2,869,990
Post-employment benefit obligations	10	158,202	132,478	118,019
Other liabilities	17	245,883	218,506	192,030
Guarantees, letters of credit and letters of undertaking		457,505	221,952	203,495
Total Liabilities		<u>25,490,555</u>	<u>23,567,611</u>	<u>23,454,547</u>
EQUITY				
Share capital	18	2,414,181	2,414,181	2,414,181
Reserve fund	19	806,074	748,337	627,685
Fair value reserve	20	63,535	93,399	(6,912)
Loan loss reserve	21	392,424	454,186	341,324
Retained earnings reserve	22	1,194,630	1,194,630	1,594,630
Stock option reserve	23	6,523	5,608	-
Retained earnings		528,534	187,507	(256,674)
Total Equity		<u>5,405,901</u>	<u>5,097,848</u>	<u>4,714,234</u>
Total Liabilities and Equity		<u>30,896,456</u>	<u>28,665,459</u>	<u>28,168,781</u>

Approved for issue by the Board of Directors on 19 March 2013 and signed on its behalf by:



 Douglas Orane Director



 Shirley-Ann Eaton Director



 Maureen Hayden-Cater Director



 Rema Spence Dunn Secretary

First Global Bank Limited

Statement of Comprehensive Income

Year ended 31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000
Interest Income –			
Loans		1,594,200	1,350,528
Securities	24	905,617	990,301
Other		4,201	758
		<u>2,504,018</u>	<u>2,341,587</u>
Interest Expense –			
Customer deposits		(470,775)	(476,664)
Securities sold under repurchase agreements		(196,508)	(151,036)
Other		(139,392)	(192,533)
		<u>(806,675)</u>	<u>(820,233)</u>
Net Interest Income		1,697,343	1,521,354
Provision for Loan Losses, Net	7	(34,450)	(48,600)
		<u>1,662,893</u>	<u>1,472,754</u>
Other Income –			
Fees and commissions	25	473,427	340,216
Gains on foreign exchange translation and trading		133,967	126,806
Losses on the sale of securities	26	121	-
Other		10,124	53,680
		<u>617,639</u>	<u>520,702</u>
Net Interest and Other Income		2,280,532	1,993,456
Operating Expenses –			
Staff costs	27	(916,388)	(804,403)
Depreciation	9	(71,164)	(90,723)
Administration and other expenses	28	(908,253)	(732,784)
		<u>(1,895,805)</u>	<u>(1,627,910)</u>
Profit before Taxation		384,727	365,546
Taxation	29	188	(40,701)
Net Profit for the Year		<u>384,915</u>	<u>324,845</u>
Other Comprehensive Income –			
Realised gains on available-for-sale investments		(2,696)	(15,602)
Unrealised (losses) and gains on available-for-sale investments, net of taxes		(27,168)	115,913
		<u>(29,864)</u>	<u>100,311</u>
TOTAL COMPREHENSIVE INCOME		<u>355,051</u>	<u>425,156</u>

First Global Bank Limited

Statement of Changes in Equity

Year ended 31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Share Capital	Reserve Fund	Fair Value Reserve	Loan Loss Reserve	Retained Earnings Reserve	Stock Option Reserve	(Accumulated Deficit)/Retained Earnings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2011	2,414,181	627,685	(6,912)	341,324	1,594,630	-	(256,674)	4,714,234
Total comprehensive income	-	-	100,311	-	-	-	324,845	425,156
Total transactions with equity holders-								
Preference dividends paid	-	-	-	-	-	-	(47,150)	(47,150)
Employee share option scheme:								
value of services received	-	-	-	-	-	5,608	-	5,608
Transfer to loan loss reserve	-	-	-	112,862	-	-	(112,862)	-
Transfer to reserve fund	-	120,652	-	-	-	-	(120,652)	-
Transfer to accumulated deficit	-	-	-	-	(400,000)	-	400,000	-
Balance at 31 December 2011	2,414,181	748,337	93,399	454,186	1,194,630	5,608	187,507	5,097,848
Total comprehensive income	-	-	(29,864)	-	-	-	384,915	355,051
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	2,414,181	806,074	63,535	392,424	1,194,630	6,523	528,534	5,405,901

First Global Bank Limited

Statement of Cash Flows

Year ended 31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000
Cash Flows from Operating Activities			
Profit for the year		384,915	324,845
Adjustments to reconcile profit for the year to net cash used in operating activities –			
Depreciation	9	71,164	90,723
Foreign exchange (gains)/losses		(655,881)	26,675
Gain on disposal of property, plant and equipment		-	(30)
Gain on sale of investment securities	26	(121)	-
Employee stock option scheme		915	5,608
Provision for loan losses, net	7	34,450	48,600
Interest income		(2,504,018)	(2,341,587)
Interest expense		806,675	820,233
Taxation	29	(188)	40,701
		<u>(1,862,089)</u>	<u>(984,232)</u>
Changes in other operating assets and liabilities –			
Customer deposits		2,166,723	1,137,674
Loans		(1,807,070)	(1,759,017)
Securities sold under repurchase agreements		(308,208)	218,078
Forward contracts		9,588	(11,069)
Restricted cash and bank accounts		(182,822)	(174,935)
Post-employment benefits		26,497	44,966
Other assets		129,153	11,317
Other liabilities		27,377	26,476
		<u>(1,800,851)</u>	<u>(1,490,742)</u>
Interest received		2,476,743	2,380,072
Interest paid		(841,653)	(822,289)
Net cash (used in)/provided by operating activities (carried forward to page 6)		<u>(165,761)</u>	<u>67,041</u>

First Global Bank Limited

Statement of Cash Flows

Year ended 31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000
Cash Flows from Operating Activities (brought forward from page 5)		(165,761)	67,041
Cash Flows from Investing Activities			
Investment securities, net		1,660,252	1,619,966
Proceeds on disposal of property, plant and equipment		-	731
Acquisition of property, plant and equipment	9	(225,047)	(151,691)
Net cash provided by investing activities		1,435,205	1,469,006
Cash Flows from Financing Activities			
Due to specialised banks		(261,271)	(1,281,680)
Short term loan		55,762	6,902
Preference dividends paid		(47,913)	(47,150)
Net cash used in financing activities		(253,422)	(1,321,928)
Net increase in cash and cash equivalents		1,016,022	214,119
Effect of foreign exchange rate changes on cash and cash equivalents		140,543	(642)
Cash and Cash Equivalents at Beginning of Year		1,077,989	864,512
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>2,234,554</u>	<u>1,077,989</u>
Comprising:			
Cash and bank balances	5	1,610,630	769,775
Items in the course of collection from other banks		200,751	120,354
Securities purchased under resale agreements		548,483	320,653
Items in the course of payment		(116,520)	(126,527)
Bank overdraft		(8,790)	(6,266)
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>2,234,554</u>	<u>1,077,989</u>

First Global Bank Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

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:

IFRS 7 (Amendment), 'Financial instruments: Disclosures', on transfer of financial assets. These amendments are part of the International Accounting Standards Board's comprehensive review of off balance sheet activities. The amendments promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The amendments did not have an impact on the Bank's financial statements.

First Global Bank Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standards not yet effective

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which are mandatory for the Bank's accounting periods beginning after 1 January 2012 or later periods, but were not effective at the date of the statement of financial position, and which the Bank has not early adopted.

IAS 1, 'Presentation of financial statements' (effective for annual periods beginning on or after 1 July 2012). 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 amendments do not address which items are presented in OCI. Management is currently assessing the impact of this amendment.

IAS 19 (Amendment), 'Employee Benefits' (effective for annual periods beginning on or after 1 January 2013). The impact on the Bank will be as follows: to eliminate the corridor approach and recognise 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). The Bank intends to adopt the amendments to IAS 19 no later than the accounting period beginning on or after 1 January 2013. Management is still assessing the full impact of this amendment.

IFRS 9, 'Financial Instruments' effective for annual periods beginning on or after 1 January 2015). This standard specifies how an entity should classify and measure financial instruments, including some hybrid contracts. It requires all financial assets to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset; initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs; and subsequently measured at amortised cost or fair value. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of IAS 39. They apply a consistent approach to classifying financial assets and replace the four categories of financial assets in IAS 39, each of which had its own classification criteria. They also result in one impairment method, replacing the two impairment methods in IAS 39 that arise from the different classification categories. 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. There has been no significant change in the recognition and measurement of financial liabilities carried at amortised cost from what obtained under IAS 39.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Bank is considering the implications of the standard, the impact on the Bank and the timing of its adoption by the Bank.

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 standard will likely result in extended disclosure in the financial statements and the Bank intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013.

First Global Bank Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(b) Foreign currency translation

Functional and presentation currency

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

The Bank enters into forward contracts to manage its exposure to foreign exchange risk. These contracts are initially recognised at fair value on the date that they are entered into, and subsequently are re-measured at their fair value at the date of each statement of financial position. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate. Forward contracts are carried as assets when fair value is positive and as liabilities when fair value is negative. Assets and liabilities are set off where the contracts are with the same counterparty, a legal right of set off exists and the cash flows are intended to be settled on a net basis.

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

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

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

First Global Bank Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(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.

First Global Bank Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(g) Investment securities

Classification

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

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

First Global Bank Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(g) Investment securities (continued)

Impairment

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

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

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

(h) Property, plant and equipment

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

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

Leasehold improvements	5 – 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.

First Global Bank Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(i) Employee benefits

Pension obligations

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

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

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

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

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

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

Other post-employment benefit obligations

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

Equity compensation benefits

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

First Global Bank Limited

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(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(i) Employee benefits (continued)

Termination benefits

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

Incentive plans

The Bank recognises a liability and an expense for bonuses based on a formula that takes into consideration 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.

(j) Income taxes

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

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

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

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

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

(k) Borrowings

Borrowings are recognised initially 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.

(l) 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 31.

First Global Bank Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(m) Income and expense recognition

Interest income and expense

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

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

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

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

Fee and commission income

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

Dividend income

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

(n) Leases

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

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

First Global Bank Limited

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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 disclosures provided in this note are based on the Bank's investment portfolio as at 31 December 2012. As described in Note 33, the Bank participated in the National Debt Exchange (NDX) which resulted in significant changes to the Bank's investment portfolio in February 2013.

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.

First Global Bank Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

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	<i>Low Risk</i>	- excellent credit history
2	<i>Standard Risk</i>	- generally abides by credit terms
3	<i>Sub Standard Risk</i>	- 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.

First Global Bank Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

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:

	2012	2011
	\$'000	\$'000
Cash at bank	3,051,241	2,255,517
Items in the course of collection from other banks	200,751	120,354
Securities purchased under resale agreements	548,483	320,653
Loans	13,481,699	11,682,265
Investment securities and pledged assets	11,385,738	12,554,543
Forward currency contracts	-	6,166
Other assets	65,704	107,767
Guarantees, letters of credit and letters of undertaking	457,505	221,952
	<u>29,191,121</u>	<u>27,269,217</u>
Credit risk exposures relating to items not on the statement of financial position:		
Guarantees and letters of credit	132,412	165,275
Loan commitments	2,887,375	2,282,240
	<u>3,019,787</u>	<u>2,447,515</u>

First Global Bank Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Impairment

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

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

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

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

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

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

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

First Global Bank Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Impairment (continued)

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

	2012		2011	
	Loans \$'000	Impairment provision \$'000	Loans \$'000	Impairment provision \$'000
Low Risk	44,849	-	287,315	-
Standard Risk	12,972,600	-	10,959,617	-
Sub-Standard Risk	609,024	144,774	562,304	126,971
	<u>13,626,473</u>	<u>144,774</u>	<u>11,809,236</u>	<u>126,971</u>

The credit quality of loans is summarised as follows:

	2012 \$'000	2011 \$'000
Neither past due nor impaired –		
Low Risk	44,849	287,315
Standard Risk	12,722,349	10,875,732
Sub Standard Risk	-	-
	<u>12,767,198</u>	<u>11,163,047</u>
Past due but not impaired	250,251	83,885
Impaired	609,024	562,304
	<u>13,626,473</u>	<u>11,809,236</u>
Less: Provision for impairment	<u>(144,774)</u>	<u>(126,971)</u>
	<u>13,481,699</u>	<u>11,682,265</u>

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

	2012 \$'000	2011 \$'000
Less than 30 days	225,376	41,099
31 to 60 days	7,700	23,815
61 to 90 days	17,175	18,971
	<u>250,251</u>	<u>83,885</u>

First Global Bank Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Concentration of credit risk

Loans

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

	Number of loan accounts		Credit exposure	
	2012	2011	2012 \$'000	2011 \$'000
Public sector	2	9	44,849	287,315
Financial institutions	6	12	792,926	1,544,920
Agriculture	3	15	178,882	37,783
Mining and quarrying	4	4	81,343	9,733
Manufacturing	42	50	903,917	835,166
Construction and land development	35	25	1,920,861	539,724
Transportation, storage and communication	80	68	1,971,058	1,801,794
Electricity, gas and water	3	2	373,063	1,230
Distribution	86	72	2,070,984	1,089,916
Tourism	13	36	140,967	1,043,912
Entertainment	10	10	172,859	106,181
Professional and other services	146	186	1,573,371	1,463,099
Individuals	8,917	6,843	3,256,619	2,921,492
	<u>9,347</u>	<u>7,332</u>	<u>13,481,699</u>	<u>11,682,265</u>

Investment securities and pledged assets

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

	2012 \$'000	2011 \$'000
Government of Jamaica	11,385,738	11,483,922
Bank of Jamaica	-	1,000,000
Corporate	-	70,621
Securities purchased under resale agreements	548,483	320,653
	<u>11,934,221</u>	<u>12,875,196</u>

First Global Bank Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(b) Liquidity risk

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

Liquidity risk management process

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

- (i) Monitoring future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure funding if required;
- (ii) Maintaining a portfolio of highly marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- (iii) Maintaining committed lines of credit;
- (iv) Optimising cash returns on investments;
- (v) Monitoring statement of financial position liquidity ratios against internal and regulatory requirements. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities; and
- (vi) Managing the concentration, profile and maturities of debt securities.

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

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

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

First Global Bank Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

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.

	2012					Total \$'000
	Within 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	No specific Maturity \$'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	10,926	-	-	-	457,506
Total financial assets	8,665,838	1,249,556	11,556,269	22,572,794	5,020	44,049,477
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
Forward currency contracts	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	229,447	-	-	-	-	229,447
Guarantees, letters of credit and letters of undertaking	453,383	102,862	22,505	11,168	-	589,918
Total financial liabilities	19,843,709	4,738,251	1,181,816	101,228	-	25,865,004
Total liquidity gap	(11,177,871)	(3,488,695)	10,374,453	22,471,566	5,020	18,184,473
Cumulative gap	(11,177,871)	(14,666,566)	(4,292,113)	18,179,453	18,184,473	

First Global Bank Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Cash flows of financial instruments (continued)

	2011					Total \$'000
	Within 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	No specific Maturity \$'000	
	Financial assets					
Cash and bank balances	2,602,772	-	-	-	-	2,602,772
Items in the course of collection from other banks	120,354	-	-	-	-	120,354
Securities purchased under resale agreements	321,293	-	-	-	-	321,293
Loans	1,889,460	369,257	6,245,603	9,191,838	-	17,696,158
Investment securities and pledged assets	1,302,691	627,771	5,371,566	13,567,138	5,020	20,874,186
Forward currency contracts	4,625	1,541	-	-	-	6,166
Other assets	107,767	-	-	-	-	107,767
Guarantees, letters of credit and letters of undertaking	221,952	-	-	-	-	221,952
Total financial assets	6,570,914	998,569	11,617,169	22,758,976	5,020	41,950,648
Financial liabilities						
Customer deposits	13,298,173	3,006,499	78,868	-	-	16,383,540
Items in the course of payment	126,527	-	-	-	-	126,527
Bank overdraft	6,266	-	-	-	-	6,266
Securities sold under repurchase agreements	3,543,259	614,677	-	-	-	4,157,936
Short term loans	-	790,185	-	-	-	790,185
Loans from specialised banks	588,910	247,912	881,454	115,238	-	1,833,514
Other liabilities	209,843	-	-	-	-	209,843
Guarantees, letters of credit and letters of undertaking	221,952	-	-	-	-	221,952
Total financial liabilities	17,994,930	4,659,273	960,322	115,238	-	23,729,763
Total liquidity gap	(11,424,016)	(3,660,704)	10,656,847	22,643,738	5,020	18,220,885
Cumulative gap	(11,424,016)	(15,084,720)	(4,427,873)	18,215,865	18,220,885	

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

First Global Bank Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk

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

Currency risk

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

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

	2012					Total J\$'000
	Jamaican\$ J\$'000	US\$ J\$'000	GBP J\$'000	CAN\$ J\$'000	Euro 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	385,313	-	-	-	457,506
Total financial assets	14,919,675	14,039,815	80,553	72,870	658,437	29,771,350
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	203,435	23,095	1,816	1,082	19	229,447
Guarantees, letters of credit and letters of undertaking	72,193	385,313	-	-	-	457,506
Total financial liabilities	10,568,279	13,836,904	245,326	135,674	529,735	25,315,918
Net financial position	4,351,396	202,911	-164,773	-62,804	128,702	4,455,432

First Global Bank Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

Currency risk (continued)

	2011					Total J\$'000
	Jamaican\$ J\$'000	US\$ J\$'000	GBP J\$'000	CAN\$ J\$'000	Euro J\$'000	
Financial assets						
Cash and bank balances	1,089,213	1,349,347	99,319	38,274	26,619	2,602,772
Items in the course of collection from other banks	48,651	71,581	72	50	-	120,354
Securities purchased under resale agreements	-	320,653	-	-	-	320,653
Loans	5,735,479	5,946,786	-	-	-	11,682,265
Investment securities and pledged assets	5,067,348	6,725,455	-	-	766,760	12,559,563
Forward currency contracts	-	-	(3,912)	1,541	8,537	6,166
Other assets	19,214	88,469	84	-	-	107,767
Guarantees, letters of credit and letters of undertaking	203,731	18,221	-	-	-	221,952
Total financial assets	12,163,636	14,520,512	95,563	39,865	801,916	27,621,492
Financial liabilities						
Customer deposits	6,091,140	9,950,794	244,407	62,002	21,923	16,370,266
Items in the course of payment	92,915	32,049	114	1,445	4	126,527
Bank overdraft	-	859	-	5,407	-	6,266
Securities sold under repurchase agreements	450,929	3,035,571	-	-	638,742	4,125,242
Short term loans	-	777,699	-	-	-	777,699
Loans from specialised banks	751,350	837,325	-	-	-	1,588,675
Other liabilities	206,857	3,851	28	(912)	19	209,843
Guarantees, letters of credit and letters of undertaking	203,731	18,221	-	-	-	221,952
Total financial liabilities	7,796,922	14,656,369	244,549	67,942	660,688	23,426,470
Net financial position	4,366,714	(135,857)	(148,986)	(28,077)	141,228	4,195,022

First Global Bank Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

Currency risk (continued)

Foreign currency sensitivity

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

	2012		2011	
	Change in Currency Rate %	Effect on Income \$'000	Change in Currency Rate %	Effect on Income \$'000
Currency:				
US\$	10	13,527	1	(1,110)
GBP	10	(10,985)	1	(30)
CAN\$	10	(4,187)	1	(11)
EURO	10	8,580	1	(4)
US\$	-1	(1,353)	-1	1,110
GBP	-1	1,098	-1	30
CAN\$	-1	419	-1	11
EURO	-1	(858)	-1	4

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 repricing that may be undertaken. These limits are monitored by the ALCO.

First Global Bank Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

Interest rate risk (continued)

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

	2012				Total \$'000
	Within 3 months \$'000	3 to 12 months \$'000	Over 12 months \$'000	Non rate sensitive \$'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	-	216,268	10,920,585	253,905	11,390,758
Other assets	-	-	-	65,704	65,704
Guarantees, letters of credit and letters of undertaking	-	-	-	457,506	457,506
Total financial assets	3,861,649	916,941	21,783,997	3,208,763	29,771,350
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
Forward currency contracts	-	-	-	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	-	-	-	229,447	229,447
Guarantees, letters of credit and letters of undertaking	-	-	-	457,506	457,506
Total financial liabilities	18,974,231	4,461,905	1,072,887	806,895	25,315,918
Total interest repricing gap	(15,112,582)	(3,544,964)	20,711,110	2,401,868	4,455,432
Cumulative gap	(15,112,582)	(18,657,546)	2,053,564	4,455,432	

First Global Bank Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

Interest rate risk (continued)

	2011				Total \$'000
	Within 3 months \$'000	3 to 12 months \$'000	Over 12 months \$'000	Non rate sensitive \$'000	
Financial assets					
Cash and bank balances	1,212,731	-	-	1,390,041	2,602,772
Items in the course of collection from other banks	-	-	-	120,354	120,354
Securities purchased under resale agreements	320,653	-	-	-	320,653
Loans	1,927,287	333,801	9,421,177	-	11,682,265
Investment securities and pledged assets	882,885	675,930	10,747,304	253,444	12,559,563
Forward currency contracts	-	-	-	6,166	6,166
Other assets	-	-	-	107,767	107,767
Guarantees, letters of credit and letters of undertaking	-	-	-	221,952	221,952
Total financial assets	4,343,556	1,009,731	20,168,481	2,099,724	27,621,492
Financial liabilities					
Customer deposits	4,550,555	11,314,756	504,955	-	16,370,266
Items in the course of payment	-	-	-	126,527	126,527
Bank overdraft	6,266	-	-	-	6,266
Securities sold under repurchase agreements	3,055,094	1,070,148	-	-	4,125,242
Short term loans	-	777,699	-	-	777,699
Loans from specialised banks	564,770	190,125	833,780	-	1,588,675
Other liabilities	-	-	-	209,843	209,843
Guarantees, letters of credit and letters of undertaking	-	-	-	221,952	221,952
Total financial liabilities	8,176,685	13,352,728	1,338,735	558,322	23,426,470
Total interest repricing gap	(3,833,129)	(12,342,997)	18,829,746	1,541,402	4,195,022
Cumulative gap	(3,833,129)	(16,176,126)	2,653,620	4,195,022	

First Global Bank Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

Interest rate risk (continued)

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

	2012				
	Jamaican\$ %	US\$ %	GBP %	CAN\$ %	Euro %
Cash and bank balances	3.80	0.01	0.05	0.32	-
Securities purchased under resale agreements	4.05	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	-	-	-

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

First Global Bank Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

Interest rate risk (continued)

Interest rate sensitivity

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

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

2012			2011		
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	8,724	151,234	-100 / -50	10,632	165,522
+400 / +250	(62,524)	(618,279)	+100 / +50	(10,632)	(155,190)

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.

First Global Bank Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(d) Capital management (continued)

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% (2011 – 8%); and
- (ii) Maintain a ratio of total regulatory capital to the risk-weighted assets at or above 10% (2011 – 10%).

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

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

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

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

	2012	2011
	\$'000	\$'000
Regulatory capital –		
Tier 1 capital	4,215,560	4,203,023
Tier 2 capital	129,536	112,109
	<u>4,345,096</u>	<u>4,315,132</u>
Risk-weighted assets –		
On-balance sheet	23,236,587	19,186,142
Off-balance sheet	4,881,918	3,455,854
	<u>28,118,505</u>	<u>22,641,996</u>
Tier 1 capital ratio	<u>15%</u>	<u>19%</u>
Total capital ratio	<u>15%</u>	<u>19%</u>
Required capital ratio	<u>10%</u>	<u>10%</u>

First Global Bank Limited

Notes to the Financial Statements

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3. Financial Risk Management (Continued)

(e) Fair value estimation

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

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

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

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
2012				
Available-for-sale investment securities –				
Issued by the Government of Jamaica	-	11,385,738	-	11,385,738
Forward currency contracts	-	(3,422)	-	(3,422)
	-	11,382,316	-	11,382,316
2011				
Available-for-sale investment securities –				
Issued by the Government of Jamaica	-	11,490,567	-	11,490,567
Bank of Jamaica		1,000,000	-	1,000,000
Forward currency contracts	-	6,166	-	6,166
Corporate bonds	-	-	63,976	63,976
	-	12,496,733	63,976	12,560,709

There were no transfers between levels during the year.

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

	2012 \$'000	2011 \$'000
At start of year	63,976	878,716
Foreign exchange gains recognised in arriving at net profit or loss	-	690
Fair value gains recognised in other comprehensive income	-	23,592
Disposals	(63,976)	(839,022)
At end of year	-	63,976

First Global Bank Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(e) Fair value estimation (continued)

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

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

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

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

- Quoted market prices or dealer quotes for similar instruments. If quoted prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques, such as discounted cash flow analysis.
- The fair value of liquid assets and other assets maturing within one year is assumed to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities.
- The fair value of variable rate financial instruments issued at market terms is assumed to approximate their carrying amounts.

First Global Bank Limited

Notes to the Financial Statements

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4. Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Impairment losses on loans

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

Pension and other post-employment benefits

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

Fair value of financial instruments

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

Income taxes

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

First Global Bank Limited

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5. Cash and Bank Balances

	2012 \$'000	2011 \$'000
Notes and coins	575,208	347,255
Accounts with foreign banks	690,563	258,273
Balances with the Bank of Jamaica, other than statutory reserves	344,859	164,247
Included in cash and cash equivalents	1,610,630	769,775
Statutory reserves with the Bank of Jamaica	1,952,395	1,773,027
Cash held as collateral and other restricted cash accounts	63,424	59,970
	<u>3,626,449</u>	<u>2,602,772</u>

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% (2011 – 5%) of its prescribed liabilities. The reserve for Jamaican dollar prescribed liabilities is held on a non-interest-earning basis. No portion of the cash reserve is available for investment, lending or other use by the Bank. The actual required ratio at year end was 12% (2011 – 12%) for Jamaican dollar cash reserves and 9% (2011 – 9%) for foreign currency cash reserves.

The current portion of cash and bank balances is classified as cash and cash equivalents of \$1,610,630,000 (2011 – \$769,775,000)

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 \$2,357,000 (2011 – \$1,092,000).

First Global Bank Limited

Notes to the Financial Statements

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7. Loans

	2012 \$'000	2011 \$'000
Total loans	13,534,959	11,744,536
Less provision for credit losses	(144,774)	(126,971)
	<u>13,390,185</u>	<u>11,617,565</u>
Interest receivable	91,514	64,700
	<u>13,481,699</u>	<u>11,682,265</u>

The current portion of loans amounted to \$2,618,287,000 (2011 – \$2,248,153,000).

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

	2012 \$'000	2011 \$'000
Balance at beginning of year	126,971	103,734
Provided during the year	49,496	75,951
Recoveries	(15,046)	(27,351)
Net amount charged in arriving at net profit or loss	34,450	48,600
Net loan balances written-off during the year	(16,647)	(25,363)
Balance at end of year	<u>144,774</u>	<u>126,971</u>

The aggregate amount of non-performing loans on which interest was not being accrued amounted to \$609,024,000 (2011 – \$562,304,000).

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

	2012 \$'000	2011 \$'000
Specific provisions	407,662	469,048
General provision	129,536	112,109
	<u>537,198</u>	<u>581,157</u>

The excess of the regulatory provision over the IFRS provision of \$392,424,000 (2011 – \$454,186,000) is included in a non-distributable loan loss reserve and treated as an appropriation of retained earnings (Note 21).

First Global Bank Limited

Notes to the Financial Statements

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8. Investment Securities and Pledged Assets

	2012 \$'000	Reclassified 2011 \$'000	Reclassified 2010 \$'000
Available-for-sale securities, at fair value:			
Issued by the Government of Jamaica –			
Global bonds	5,012,288	4,959,617	5,293,924
Benchmark investment notes	3,538,486	4,003,443	3,237,533
Benchmark USD investment notes	2,586,079	2,279,083	2,246,836
	11,136,853	11,242,143	10,778,293
Bank of Jamaica	-	1,000,000	2,099,618
Issued by other government	-	-	40,435
Corporate bonds	-	63,976	878,716
	11,136,853	12,306,119	13,797,062
Available-for-sale securities, at cost less impairment:			
Unquoted equities	5,020	5,020	5,020
	11,141,873	12,311,139	13,802,082
Interest receivable	248,885	248,424	277,005
	11,390,758	12,559,563	14,079,087

The current portion of investment securities amounted to \$2,272,289,000 (2011 – \$1,807,239,000) (2010 – \$3,571,694,000).

First Global Bank Limited

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9. Property, Plant and Equipment

	Leasehold Improvements \$'000	Computer Equipment \$'000	Equipment, Furniture and Fixtures \$'000	Motor Vehicles \$'000	Work-in- progress \$'000	Total \$'000
Cost -						
1 January 2011	134,501	345,256	126,211	26,349	119,383	751,700
Additions	2,716	17,659	3,610	-	127,706	151,691
Transfers	11,997	18,231	20,128	-	(50,356)	-
Disposals	-	(4,942)	(347)	(2,797)	-	(8,086)
31 December 2011	149,214	376,204	149,602	23,552	196,733	895,305
Additions	6,591	9,317	5,074	-	204,065	225,047
Transfers	65,215	2,099	40,900	-	(108,214)	-
31 December 2012	221,020	387,620	195,576	23,552	292,584	1,120,352
Depreciation -						
1 January 2011	55,494	282,197	68,914	20,234	-	426,839
Charge for year	20,396	56,136	12,296	1,895	-	90,723
Disposals	-	(4,942)	(206)	(2,237)	-	(7,385)
31 December 2011	75,890	333,391	81,004	19,892	-	510,177
Charge for year	22,971	34,746	12,227	1,220	-	71,164
31 December 2012	98,861	368,137	93,231	21,112	-	581,341
Net Book Value -						
31 December 2012	122,159	19,483	102,345	2,440	292,584	539,011
31 December 2011	73,324	42,813	68,598	3,660	196,733	385,128

The computer equipment category includes computer software with a net book value of \$11,807,000 (2011 – \$33,462,000). Additions and transfers to computer software for the year amounted to \$3,090,000 (2011 – \$29,242,000) and depreciation charges amounted to \$24,745,000 (2011 – \$47,139,000).

The work in progress category includes computer software with a cost of \$181,803,000 (2011 - \$52,033,000). Additions and transfers from computer software for the year amounted to \$129,770,000 (2011 - \$32,078,000).

10. Post-employment Benefits

In addition to a defined benefit pension scheme described below, the Bank participates in a defined contribution pension scheme started by the ultimate parent company which 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 contributions are currently set at 10%. The Bank's contribution for the year was \$15,727,000 (2011 - \$9,939,000).

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

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

First Global Bank Limited

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

10. Post-employment Benefits (Continued)

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

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

	Pension benefits		Other post-employment benefits	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Fair value of plan assets	598,578	482,924	-	-
Present value of obligations	(737,213)	(586,378)	(155,666)	(129,014)
	(138,635)	(103,454)	(155,666)	(129,014)
Unrecognised actuarial gains and losses	140,082	105,674	(2,536)	(3,464)
	1,447	2,220	(158,202)	(132,478)

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

	Pension benefits		Other post-employment benefits	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Current service cost	87,951	75,318	22,747	20,123
Interest cost	66,672	50,983	15,087	13,282
Employee contributions	(29,794)	(30,255)	-	-
Expected return on plan assets	(49,031)	(39,565)	-	-
Additional assets assigned to the Bank	(77,389)	(24,395)	-	-
Past service cost – vested benefits	-	-	(10,526)	(17,704)
Actuarial gains and losses	2,559	79	191	(577)
	968	32,165	27,499	15,124

The actual return on plan assets was \$23,487,000 (2011 – \$55,907,000).

First Global Bank Limited

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10. Post-employment Benefits (Continued)

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

Expected employer contributions for the year ending 31 December 2013 amount to \$21,837,000.

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

	Pension benefits	
	2012 \$'000	2011 \$'000
Balance at start of year	482,924	388,683
Employee contributions	29,794	30,255
Employer contributions	195	1,658
Expected return on plan assets	49,031	39,565
Benefits paid	(15,211)	(17,974)
Additional assets assigned to the Bank	77,389	24,395
Actuarial gains and losses	(25,544)	16,342
Balance at end of year	<u>598,578</u>	<u>482,924</u>

The distribution of plan assets was as follows:

	Pension benefits	
	2012 \$'000	2011 \$'000
Equities	95,071	84,560
Government of Jamaica securities	359,219	304,242
Other debt securities	25,376	12,266
Other	118,912	81,856
	<u>598,578</u>	<u>482,924</u>

First Global Bank Limited

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10. Post-employment Benefits (Continued)

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

	Pension benefits		Other post-employment benefits	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Balance at start of year	586,378	397,155	129,014	100,949
Current service cost	87,951	75,318	22,747	20,123
Interest cost	66,672	50,983	15,087	13,282
Benefits paid	(15,211)	(17,974)	(1,775)	(663)
Past service cost vested	-	-	(10,526)	(17,704)
Actuarial gains and losses	11,423	80,896	1,119	13,027
Balance at end of year	<u>737,213</u>	<u>586,378</u>	<u>155,666</u>	<u>129,014</u>

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

	Pension benefits				
	2012 \$'000	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000
Fair value of plan assets	598,578	482,924	388,683	230,041	183,227
Defined benefit obligation	(737,213)	(586,378)	(397,155)	(253,535)	(249,294)
Deficit	<u>(138,635)</u>	<u>(103,454)</u>	<u>(8,472)</u>	<u>(23,494)</u>	<u>(66,067)</u>
Experience adjustments –					
Fair value of plan assets	(25,544)	16,342	25,690	15,901	(27,413)
Defined benefit obligation	17,180	40,725	(76,331)	(78,173)	21,700
	<u>17,180</u>	<u>40,725</u>	<u>(76,331)</u>	<u>(78,173)</u>	<u>21,700</u>
	Other post-employment benefits				
	2012 \$'000	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000
Defined benefit obligation	(155,666)	(129,014)	(100,949)	(70,205)	(59,031)
Experience adjustments –					
Defined benefit obligation	(10,711)	6,876	(22,471)	(11,692)	(935)
	<u>(10,711)</u>	<u>6,876</u>	<u>(22,471)</u>	<u>(11,692)</u>	<u>(935)</u>

First Global Bank Limited

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10. Post-employment Benefits (Continued)

The principal actuarial assumptions used were as follows:

	2012	2011
Discount rate	10.50%	10.00%
Expected return on plan assets	8.00%	10.00%
Long term inflation rate	6.00%	6.00%
Future salary increases	7.50%	7.50%
Future pension increases	6.50%	6.00%
Medical claims growth	7.50%	7.50%
Average expected remaining working lives (years)	<u>18.4</u>	<u>18.7</u>

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

A 1% increase/(decrease) in the assumed medical cost trend rate would result in an increase/(decrease) in the aggregate current service cost and interest cost of \$2,827,000/(\$2,451,000), and an increase/(decrease) in the defined benefit obligation of \$10,724,000/(\$8,354,000).

11. Deferred Income Taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 33½%. The movement in the deferred income tax balance was as follows:

	2012	2011
	\$'000	\$'000
At beginning of year	376,100	466,956
Deferred tax credited/(charged) in arriving at net profit or loss (Note 29)	188	(40,701)
Deferred tax credited/(charged) to other comprehensive income	14,932	(50,155)
At end of year	<u>391,220</u>	<u>376,100</u>

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

	2012	2011
	\$'000	\$'000
Tax losses carried forward	424,556	483,154
Post-employment benefits	52,252	43,419
Differences between IFRS and BOJ specific provisions for loan losses	(87,629)	(114,026)
Accelerated tax depreciation	26,920	3,811
Fair value of investment securities	(31,766)	(46,698)
Other	6,887	6,440
	<u>391,220</u>	<u>376,100</u>

Deferred tax assets include \$56,887,000 (2011 – \$63,318,000) which is expected to be recovered within 12 months.

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11. Deferred Income Taxes (Continued)

Deferred tax assets have been recognised on tax losses carried forward as the Bank is projected to make sufficient profits to utilise these tax losses. Subject to agreement with Tax Administration Jamaica, losses available for offset against future profits amount to \$1,273,669,000 (2011 – \$1,449,463,000).

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

	2012 \$'000	2011 \$'000
Tax losses carried forward	(58,598)	(15,220)
Post-employment benefits	8,833	14,988
Differences between IFRS and BOJ specific provisions for loan losses	26,397	(31,233)
Accelerated tax depreciation	23,109	(1,870)
Other	447	(7,366)
	<u>188</u>	<u>(40,701)</u>

The deferred tax credited/(charged) to other comprehensive income is attributable to the following temporary differences:

	2012 \$'000	2011 \$'000
Realised losses on available-for-sale investments	1,348	7,801
Unrealised gains and losses on available-for-sale investments	13,584	(57,956)
	<u>14,932</u>	<u>(50,155)</u>

12. Other Assets

	2012 \$'000	2011 \$'000
Withholding tax recoverable	114,395	204,017
Due from fellow subsidiaries	3,232	45,990
Prepayments and deposits	44,999	42,117
Other	58,653	58,308
	<u>221,279</u>	<u>350,432</u>

Total balance is recoverable within 12 months of the year end.

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13. Customer Deposits

The customer deposit portfolio was comprised as follows:

	Number of deposits		Value of deposits	
	2012	2011	2012 \$'000	2011 \$'000
Financial institutions	140	140	1,676,391	1,466,074
Commercial and business enterprises	2,328	2,049	6,207,513	5,276,547
Personal	12,619	10,426	5,526,201	4,466,324
Other	879	895	5,023,407	5,057,844
	<u>15,966</u>	<u>13,510</u>	<u>18,433,512</u>	<u>16,266,789</u>
Interest payable			91,644	103,477
			<u>18,525,156</u>	<u>16,370,266</u>

The non-current portion of customer deposits amounted to \$2,925,000 (2011 – \$19,300,000).

14. 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 2012

Settlement dates	Obligation	Notional amounts '000	Fair values \$'000
10 January 2013 - 11 March 2013	Sell	EURO 1,100	(4,903)
08 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
			<u>(3,422)</u>

As at 31 December 2011

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

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

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

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15. Short Term Loans

	2012 \$'000	2011 \$'000
Loan with original maturity of 120 days –		
Citibank NA	833,073	777,311
Interest payable	120	388
	833,193	777,699

16. Loans from Specialised Banks

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

	2012 \$'000	2011 \$'000
(a) Development Bank of Jamaica Limited	1,176,231	852,056
(b) National Export-Import Bank of Jamaica Limited	36,662	51,138
(c) Inter-American Development Bank	-	498,428
(d) Inter-American Investment Corporation	130,678	182,897
	1,343,571	1,584,519
Interest payable	2,112	4,156
	1,345,683	1,588,675

The current portion of amounts due to specialised banks was \$275,722,000 (2011 – \$754,895,000).

- a) The loans from Development Bank of Jamaica are granted in both Jamaican and United States Dollars and are utilized 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 utilized 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 facility is accessed through the Development Bank of Jamaica by Approved Financial intermediaries (AFIs) for on-lending to eligible sub-borrowers in the productive sector. Loans under this facility are priced at 6-month USD LIBOR plus 400bps (reset semi-annually) with a maximum tenor of 36 months inclusive of a 2 year moratorium on principal repayments. The facility expired on 18 January 2012.
- d) 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.

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17. Other Liabilities

	2012 \$'000	2011 \$'000
Due to fellow subsidiaries	3,173	28,592
Staff vacation and bonus accruals	89,940	79,532
Trade payables	42,169	34,310
Withholding tax payable	16,436	8,663
Asset tax	36,449	-
Other accruals	57,716	67,409
	<u>245,883</u>	<u>218,506</u>

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

18. Share Capital

	2012 \$'000	2011 \$'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
	<u>2,414,181</u>	<u>2,414,181</u>

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.

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19. Reserve Fund

This fund is maintained in accordance with Section 8 of the Banking Act which requires that a minimum of 15% of the net profits, as defined by the Act, of the Bank be transferred to the reserve fund until the amount of the fund is equal to 50% of the paid-up capital of the Bank and thereafter 10% of the net profits until the amount of the fund is equal to the paid-up capital of the Bank. During the year the Bank transferred \$57,737,000 (2011 - \$120,652,000) to this reserve.

20. Fair Value Reserve

This represents the net unrealised gains on the revaluation of investment securities amounting to \$95,301,000 (2011 - \$140,097,000), and is shown net of attributable deferred taxation of \$31,766,000 (2011 - \$46,698,000).

21. Loan Loss Reserve

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

22. Retained Earnings Reserve

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

23. Stock Option Reserve

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

The subscription prices of the options granted are generally determined by using the weighted average prices of the ultimate parent company's shares on the Jamaica Stock Exchange for the previous ten trading days prior to the date on which each set of options is approved, less a discount of 25% for the Permanent Employees Plan. The options granted under the provisions of the Senior Managers Plan are exercisable over a period of six years while the options granted under the provisions of the Permanent Employees Plan are exercisable over a period of three months from their grant dates, at the end of which unexercised options will expire. The options granted under the Permanent Employees Plan were fully vested at grant date, while $\frac{1}{3}$ of the total grants under the Senior Managers Plan will vest on each anniversary of the grant.

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23. Stock Option Reserve (Continued)

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

	2012		2011	
	Average exercise price in \$ per share	Options '000	Average exercise price in \$ per share	Options '000
At beginning of year	43.74	340	-	-
Granted	-	-	48.95	490
Forfeited	-	-	42.70	(130)
Expired	50.83	(99)	-	-
Exercised	43.91	(20)	31.91	(20)
At end of the year	50.83	221	43.74	340

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

Year of expiry	Exercise price in \$ per share	2012	2011
		'000	'000
2016	50.83	221	221
2017	61.20	-	119

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.

24. Interest Income on Securities

	2012 \$'000	2011 \$'000
Interest income was earned on –		
Investments classified as available-for-sale	891,506	973,556
Securities purchased under resale agreements	14,111	16,745
	905,617	990,301

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25. Fee and Commission Income

	2012 \$'000	2011 \$'000
Credit related	181,766	115,377
Retail banking	140,279	114,558
Other	151,382	110,281
	<u>473,427</u>	<u>340,216</u>

26. Gain on the Sale of Securities

	2012 \$'000	2011 \$'000
Gain on sale of investments classified as available-for-sale	121	-

27. Staff Costs

	2012 \$'000	2011 \$'000
Wages and salaries	727,915	612,020
Statutory contributions	56,787	48,325
Pension benefits		
Defined contribution scheme	15,727	9,939
Defined benefit scheme (Note 10)	968	32,165
Other post-employment benefits (Note 10)	27,499	15,124
Other	87,492	86,830
	<u>916,388</u>	<u>804,403</u>

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28. Administration and Other Expenses

	2012	2011
	\$'000	\$'000
Advertising and publicity	46,633	36,240
Asset Tax	36,484	35
Auditors' remuneration	7,782	7,782
Bank charges	31,409	25,810
Computer expenses	65,269	46,035
Credit card expenses	29,657	25,459
Directors' emoluments	4,741	3,725
Fees and charges	16,432	9,382
Group expenses	277,219	256,496
Insurance and licensing	54,798	47,951
Irrecoverable General Consumption Tax	74,209	65,039
Postage and courier	15,893	13,127
Professional fees	27,677	18,066
Property costs, maintenance and utilities	170,149	141,542
Stationery	12,610	11,296
Other	37,291	24,799
	<u>908,253</u>	<u>732,784</u>

The increase in asset tax was due to a change in the basis used to derive the tax.

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

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29. Taxation

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

	2012 \$'000	2011 \$'000
Current taxation	-	-
Deferred taxation (Note 11)	(188)	40,701
	<u>(188)</u>	<u>40,701</u>

The tax on the profit before tax differs from the theoretical amount that would arise using the basic statutory rate of 33 $\frac{1}{3}$ % as follows:

	2012 \$'000	2011 \$'000
Profit before taxation	<u>384,727</u>	<u>365,546</u>
Tax calculated at a tax rate of 33 $\frac{1}{3}$ %	128,242	121,849
Adjusted for the effects of –		
Tax free income	(97,900)	(96,993)
Preference dividends -		
Current year	(13,761)	-
Prior year	(13,542)	-
Asset tax	12,161	-
Expenses and other charges adjusted for tax purposes	(15,388)	15,845
	<u>(188)</u>	<u>40,701</u>

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30. Related Party Transactions and Balances

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

	2012 \$'000	2011 \$'000
Loans –		
Ultimate parent company	-	29,691
Fellow subsidiaries	-	103,463
Key management personnel	54,171	44,655
Other related entities	92,931	3,769
	<u>147,102</u>	<u>181,578</u>
Other assets –		
Fellow subsidiaries	5,730	21,422
	<u>5,730</u>	<u>21,422</u>
Customer deposits –		
Ultimate parent company	593,393	592,216
Fellow subsidiaries	2,160,798	2,007,251
Key management personnel	153,099	85,156
Other related entities	392,777	363,527
	<u>3,300,067</u>	<u>3,048,150</u>
Securities sold under repurchase agreements –		
Fellow subsidiaries	129,958	424,558
	<u>129,958</u>	<u>424,558</u>
Other liabilities –		
Fellow subsidiaries	3,173	9,942
	<u>3,173</u>	<u>9,942</u>

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Notes to the Financial Statements

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30. Related Party Transactions and Balances (Continued)

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

	2012 \$'000	2011 \$'000
Interest earned on loans –		
Ultimate parent company	795	961
Fellow subsidiaries	2,488	3,318
Key management personnel	3,278	3,390
Other related entities	1,167	7,041
	<u>7,728</u>	<u>14,710</u>
Interest earned on cash and other accounts –		
Ultimate parent company	1,565	1,981
Fellow subsidiaries	4,329	3,640
Key management personnel	296	198
Other related entities	882	1,524
	<u>7,072</u>	<u>7,343</u>
Interest earned on securities purchased under resale agreements –		
Fellow subsidiaries	191	1,111
	<u>191</u>	<u>1,111</u>
Interest incurred on customer deposits –		
Ultimate parent company	37,665	25,390
Fellow subsidiaries	59,145	43,473
Key management personnel	4,436	2,745
Other related entities	15,587	13,949
	<u>116,833</u>	<u>85,557</u>
Interest incurred on securities sold under repurchase agreements –		
Ultimate parent company	-	1,055
Fellow subsidiaries	11,337	7,947
	<u>11,337</u>	<u>9,002</u>

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(expressed in Jamaican dollars unless otherwise indicated)

30. Related Party Transactions and Balances (Continued)

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

	2012 \$'000	2011 \$'000
Staff costs – key management personnel		
Directors	29,547	21,731
Senior executives	122,390	108,805
	<u>151,937</u>	<u>130,536</u>
Administration and other expenses –		
Ultimate parent company	273,510	254,408
Fellow subsidiaries	54,386	47,328
Directors' fees	4,741	3,725
	<u>332,637</u>	<u>305,461</u>

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

31. Commitments and contingent liabilities

Operating lease commitments

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

	2012 \$'000	2011 \$'000
2012	-	54,423
2013	77,649	49,944
2014	83,278	49,977
2015	83,054	44,764
2016 and beyond	156,207	113,595
	<u>400,188</u>	<u>312,703</u>

Loan commitments

Loans approved but not disbursed at year end amounted to \$2,887,375,000 (2011 – \$2,282,240,000).

Contingent liabilities

Guarantees and letters of credit for which the Bank has an indirect obligation at year end \$132,412,000 (2011 - \$165,275,000).

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32. Litigation, Claims and Assessments

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

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

33. Restatement and reclassification

The Bank's financial statements for the years ended 31 December 2011 and 2010 were restated or reclassified to recognise the effect of the following.

- (a) In the prior year financial statements, the Bank included Guarantees, letters of credit and letters of undertaking for which it has an indirect obligation on its statement of financial position. This resulted in an overstatement in Guarantees, letters of credit and letters of undertaking of \$132,412,000 as at 31 December 2011 and \$165,275,000 as at 31 December 2010.
- (b) In the prior year financial statements, pledged assets of \$4,967,712,000 as at 31 December 2011 and \$3,851,859,000 as at 31 December 2010 were included in investment securities. This is now disclosed separately on the face of the statement of financial position.

The statement of financial position for the years ended 31 December 2011 and 2010 along with the affected notes to the financial statements were appropriately restated in accordance with the requirements of IAS 1.

No other financial statement lines were affected by the restatement and reclassification.

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34. Subsequent Event

(i) National Debt Exchange

In February 2013, the Bank participated in the National Debt Exchange (NDX) transaction under which it exchanged its holdings of domestic debt instruments issued by the Government of Jamaica for new, longer-dated debt instruments with lower coupon interest rates.

The key features of the NDX are as follows:

- Jamaican-resident holders of certain domestic debt instruments (collectively referred to as the “Old Notes”) were invited to exchange those Old Notes for new, longer-dated debt instruments (collectively referred to as the “New Notes”). Participation in the NDX was voluntary.
- The New Notes offered have a variety of payment terms, including but not limited to fixed and variable rates in J\$, CPI-indexed in J\$, and fixed rates in USD.
- Eligible investors had the option to choose New Notes based on the type and maturity of the Old Notes which are offered for exchange based on certain election options. The election options only allow investors to choose New Notes of longer tenor relative to Old Notes. Most New Notes have lower coupon interest rates than Old Notes.
- Introduction of new Fixed Rate Accreting Notes (“FRANs”) which were issued with J\$80 of principal value for every J\$100 of principal value of Old Notes, whereby such principal will accrete to J\$100 of principal value by the maturity date in 2028. The Bank elected not to receive any FRANs.
- Eligible investors who made offers to the Government of Jamaica to exchange Old Notes received an equivalent principal value (par-for-par value) of New Notes and the payment in cash of accrued interest, net of applicable withholding taxes, on the Old Notes up to but excluding 22 February 2013 (the Settlement Date).

(ii) Debt securities

The NDX has had a significant impact on the expected future cash flows from the Bank’s portfolio. The transaction is expected to have a short term adverse impact on profitability. This will not materially affect the financial position of the Bank. The table below summarise the impact on coupon rates and maturities of the instruments that were exchanged.

	Pre NDX	Post NDX
Jamaican dollar denominated instruments:		
Total face value exchanged (J\$3,454,697,000)		
Weighted average coupon rate (%)	8.85	7.41
Weighted average tenor to maturity (years)	4.66	9.47
United States dollar denominated instruments:		
Total face value exchanged (US\$25,904,000)		
Weighted average coupon rate (%)	6.89	5.25
Weighted average tenor to maturity (years)	0.81	7.10

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34. Subsequent Events (Continued)

National Debt Exchange (continued)

(ii) Post-employment benefits

Following the NDX, there is likely to be a shift in the Jamaica sovereign debt yield curve. This shift may result in a reduction in the discount rate used to measure the Bank's obligations under its defined benefit pension and other post-employment benefit plans. The Bank, in conjunction with its actuaries, is in the process of determining the impact on both the accounting measurement and funding of these plans.