# Audited Financial Statements

## Scotia Group Jamaica Limited

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INDEPENDENT AUDITORS' REPORT

To the Members of
**SCOTIA GROUP JAMAICA LIMITED**

## Report on the Financial Statements

We have audited the financial statements of Scotia Group Jamaica Limited ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), set out on pages 65 to 114, which comprise the Group's and Company's balance sheets as at October 31, 2009, the Group's and Company's statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

*Auditors' Responsibility*
Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether or not the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*
In our opinion, the financial statements give a true and fair view of the financial positions of the Group and the Company as at October 31, 2009, and of the Group's and the Company's financial performance, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Jamaican Companies Act.

## Report on additional matters as required by the Jamaican Companies Act

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit. In our opinion, proper accounting records have been maintained and the financial statements are in agreement therewith and give the information required by the Jamaican Companies Act in the manner required.

KPMG

November 26, 2009

## SCOTIA GROUP JAMAICA LIMITED

## Statement of Consolidated Revenue and Expenses

**Year ended 31 October 2009**

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Note | 2009 | 2008 |
|---|---|---|---|
| **Net interest income and other revenue** | | | |
| Interest from loans and deposits with banks | | 23,885,700 | 20,203,918 |
| Interest from securities | | 18,183,979 | 12,581,572 |
| Total interest income | 6 | 42,069,679 | 32,785,490 |
| Interest expense | 6 | (12,738,025) | (10,559,288) |
| Net interest income | | 29,331,654 | 22,226,202 |
| Impairment losses on loans | 25 | ( 1,872,869) | ( 758,756) |
| Net interest income after impairment losses on loans | | 27,458,785 | 21,467,446 |
| Fee and commission income | | 4,831,340 | 4,862,877 |
| Fee and commission expense | | ( 1,141,041) | ( 1,063,777) |
| | 7 | 3,690,299 | 3,799,100 |
| Net foreign exchange trading income | 8 | 1,175,757 | 1,136,268 |
| Net insurance premium income | 9 | 765,620 | 754,538 |
| Other revenue | 10 | 224,968 | 644,089 |
| | | 5,856,644 | 6,333,995 |
| | | 33,315,429 | 27,801,441 |
| **Expenses** | | | |
| Salaries, pension contributions and other staff benefits | 11 | 7,603,189 | 6,407,894 |
| Property expenses, including depreciation | | 2,693,939 | 2,370,551 |
| Amortisation and impairment of intangible assets | 30 | 169,842 | 240,699 |
| Other impairment loss | 12 | 69,712 | - |
| Change in policyholders' benefits and reserves | 13 | 4,220,231 | 2,838,416 |
| Other operating expenses | | 3,178,857 | 2,824,786 |
| | 13 | 17,935,770 | 14,682,346 |
| **Profit before taxation** | 14 | 15,379,659 | 13,119,095 |
| **Taxation** | 15 | ( 3,774,200) | ( 3,495,038) |
| **Profit for the year** | | 11,605,459 | 9,624,057 |
| **Attributable to:** | | | |
| **Stockholders' of the company** | | 11,152,199 | 9,390,739 |
| **Minority interest** | | 453,260 | 233,318 |
| **Profit for the year** | | 11,605,459 | 9,624,057 |
| **EARNINGS PER STOCK UNIT** (expressed in $ per share) **attributable to stockholders of the company** | 16 | 3.58 | 3.02 |

## Consolidated Balance Sheet

**31 October 2009**

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Note | 2009 | 2008 |
|---|---|---|---|
| **ASSETS** | | | |
| **Cash resources** | | | |
| Notes and coins of, deposits with, and money at call at, Bank of Jamaica | 17 | 48,261,763 | 40,325,039 |
| Government and bank notes other than Jamaica | | 330,405 | 384,440 |
| Amounts due from other banks | 18 | 8,381,610 | 13,683,803 |
| Accounts with parent and fellow subsidiaries | 19 | 2,058,103 | 1,655,080 |
| | | 59,031,881 | 56,048,362 |
| **Financial assets at fair value through profit or loss** | 21 | 105,369 | 116,951 |
| **Government securities purchased under resale agreements** | 22 | 555,871 | 407,920 |
| **Pledged assets** | 23 | 66,813,480 | 58,705,068 |
| **Loans, after allowance for impairment losses** | 24 | 92,066,854 | 89,559,349 |
| **Leases, after allowance for impairment losses** | 26 | 111,457 | 137,730 |
| **Investment securities** | 27 | | |
| Available-for-sale | | 26,668,965 | 19,771,900 |
| Held-to-maturity | | 47,776,957 | 35,941,612 |
| | | 74,445,922 | 55,713,512 |
| **Other assets** | | | |
| Customers' liabilities under acceptances, guarantees and letters of credit | | 9,357,362 | 6,919,264 |
| Taxation recoverable | | 1,127,180 | 1,011,717 |
| Deferred taxation | 39 | 101,333 | 241,969 |
| Sundry assets | 28 | 458,209 | 821,341 |
| Property, plant and equipment | 29 | 3,434,483 | 2,910,703 |
| Intangible assets | 30 | 2,119,331 | 2,288,141 |
| Retirement benefit asset | 31 | 5,827,140 | 5,402,224 |
| | | 22,425,038 | 19,595,359 |
| | | 315,555,872 | 280,284,251 |

# SCOTIA GROUP JAMAICA LIMITED

## Consolidated Balance Sheet (continued)

**31 October 2009**

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Note | 2009 | 2008 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Deposits** | | | |
| Deposits by the public | 32 | 141,877,096 | 130,673,257 |
| Amounts due to other banks and financial institutions | 33 | 2,842,839 | 2,386,319 |
| Amounts due to parent company | 34 | 7,927,885 | 6,848,521 |
| Amounts due to fellow subsidiaries | 35 | 335 | 397 |
| | | 152,648,155 | 139,908,494 |
| **Other liabilities** | | | |
| Cheques and other instruments in transit | | 2,279,585 | 2,677,670 |
| Acceptances, guarantees and letters of credit | | 9,357,362 | 6,919,264 |
| Securities sold under repurchase agreements | | 46,120,207 | 40,206,572 |
| Promissory notes | | 54,826 | 71,146 |
| Capital management and government securities funds | 36 | 15,899,029 | 14,991,522 |
| Assets held in trust on behalf of participants | | 43,777 | 50,069 |
| Redeemable preference shares | 37 | 100,000 | 100,000 |
| Other liabilities | 38 | 2,604,653 | 1,381,348 |
| Taxation payable | | 731,606 | 1,148,955 |
| Deferred tax liabilities | 39 | 2,232,443 | 1,581,188 |
| Retirement benefit obligations | 31 | 1,132,488 | 930,576 |
| | | 80,555,976 | 70,058,310 |
| **Policyholders' liabilities** | 40 | 34,407,877 | 30,561,418 |
| **STOCKHOLDERS' EQUITY** | | | |
| Share capital | 41 | 6,569,810 | 6,569,810 |
| Reserve fund | 42 | 3,217,867 | 3,200,107 |
| Retained earnings reserve | 43 | 9,610,421 | 7,309,781 |
| Capital reserve | | 9,383 | 9,383 |
| Cumulative remeasurement result from available-for-sale financial assets | 44 | ( 1,242,095) | ( 2,105,365) |
| Loan loss reserve | 45 | 1,715,750 | 1,301,215 |
| Other reserves | 46 | 12,892 | 12,892 |
| Unappropriated profits | | 25,830,627 | 21,643,109 |
| **Total equity attributable to equity holders of the Company** | | 45,724,655 | 37,940,932 |
| Minority interest | | 2,219,209 | 1,815,097 |
| **Total equity** | | 47,943,864 | 39,756,029 |
| **Total equity and liabilities** | | 315,555,872 | 280,284,251 |

The financial statements on pages 65 to 114 were approved for issue by the Board of Directors on November 26, 2009 and signed on its behalf by:

Robert H. Pitfield — Director

Bruce F. Bowen — Director

Charles H. Johnston — Director

Julie Thompson James — Secretary

# SCOTIA GROUP JAMAICA LIMITED

## Statement of Changes in Consolidated Stockholders' Equity

### Year ended 31 October 2009

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

| | | Attributable to equity holders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Share capital | Reserve fund | Retained earnings reserve | Capital reserve | Cumulative remeasurement result from available for sale financial assets | Loan loss reserve | Other reserves | Unappropriated profits | Total | Minority interest | Total equity |
| **Balances at October 31, 2007** | | **6,569,810** | **3,160,917** | **5,992,902** | **-** | **( 211,809)** | **1,045,600** | **26,714** | **17,789,196** | **34,373,330** | **1,934,896** | **36,308,226** |
| Unrealised loss on available-for-sale investments, net of taxes | | - | - | - | - | (1,850,776) | - | - | - | ( 1,850,776)* | ( 218,086) | ( 2,068,862) |
| Realised gains on available-for-sale securities transferred to statement of revenue and expenses | | - | - | - | - | ( 42,780) | - | - | - | ( 42,780)* | ( 8,570) | ( 51,350) |
| Movement on reserves relating to subsidiary | | - | - | - | - | - | - | ( 8,999) | - | ( 8,999) | - | ( 8,999) |
| Profit for the year | | - | - | - | - | - | - | - | 9,390,739 | 9,390,739* | 233,318 | 9,624,057 |
| Transfer of reserve relating to liquidation of subsidiary | | - | - | - | 9,383 | - | - | ( 4,823) | ( 4,560) | - | - | - |
| Transfer to reserve fund | | - | 39,190 | - | - | - | - | - | ( 39,190) | - | - | - |
| Loan loss reserve transfer | | - | - | - | - | - | 255,615 | - | ( 255,615) | - | - | - |
| Transfer to retained earnings reserve | | - | - | 1,316,879 | - | - | - | - | ( 1,316,879) | - | - | - |
| Net movement in reserves for minority interest | | - | - | - | - | - | - | - | - | - | ( 24,790) | ( 24,790) |
| Dividends paid | 55 | - | - | - | - | - | - | - | ( 3,920,582) | ( 3,920,582) | ( 101,671) | ( 4,022,253) |
| Movement for the year | | - | 39,190 | 1,316,879 | 9,383 | (1,893,556) | 255,615 | (13,822) | 3,853,913 | 3,567,602 | ( 119,799) | 3,447,803 |
| **Balances at October 31, 2008** | | **6,569,810** | **3,200,107** | **7,309,781** | **9,383** | **(2,105,365)** | **1,301,215** | **12,892** | **21,643,109** | **37,940,932** | **1,815,097** | **39,756,029** |
| Unrealised loss on available-for-sale investments, net of taxes | | - | - | - | - | 825,852 | - | - | - | 825,852* | 61,688 | 887,540 |
| Realised gains on available-for-sale securities transferred to statement of revenue and expenses | | - | - | - | - | 37,418 | - | - | - | 37,418* | ( 2,522) | 34,896 |
| Profit for the year | | - | - | - | - | - | - | - | 11,152,199 | 11,152,199* | 453,260 | 11,605,459 |
| Transfer to reserve fund | | - | 17,760 | - | - | - | - | - | ( 17,760) | - | - | - |
| Loan loss reserve transfer | | - | - | - | - | | 414,535 | | ( 414,535) | - | - | - |
| Transfer to retained earnings reserve | | - | - | 2,300,640 | - | - | - | - | ( 2,300,640) | | | |
| Net movement in reserves for minority interest | | - | - | - | - | - | - | - | - | - | 6,005 | 6,005 |
| Dividends paid | 55 | - | - | - | - | - | - | - | ( 4,231,746) | ( 4,231,746) | ( 114,319) | ( 4,346,065) |
| Movement for the year | | - | 17,760 | 2,300,640 | - | 863,270 | 414,535 | - | 4,187,518 | 7,783,723 | 404,112 | 8,187,835 |
| **Balances at October 31, 2009** | | **6,569,810** | **3,217,867** | **9,610,421** | **9,383** | **(1,242,095)** | **1,715,750** | **12,892** | **25,830,627** | **45,724,655** | **2,219,209** | **47,943,864** |

*Total recognised income and expenses for the year attributable to equity holders of the company $12,015,469 (2008: $7,497,183) and total recognised income and expenses for the year attributable to the minority interest $512,426 (2008: $6,662).

## SCOTIA GROUP JAMAICA LIMITED

# Statement of Consolidated Cash Flows

**Year ended 31 October 2009**

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Note | 2009 | 2008 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year | | 11,605,459 | 9,624,057 |
| Items not affecting cash: | | | |
| Interest income | 6 | (42,069,679) | (32,785,490) |
| Interest expense | 6 | 12,738,025 | 10,559,288 |
| Taxation charge | | 3,774,200 | 3,495,038 |
| Depreciation | 29 | 381,335 | 362,591 |
| Amortisation of intangible asset | | 169,842 | 240,699 |
| Impairment losses on loans | 25 | 1,872,869 | 758,756 |
| Impairment loss - other | | 69,712 | - |
| Gain on sale of property, plant and equipment | | 1,199 | 5,426 |
| Write-off of property, plant and equipment | 29 | - | 1,793 |
| Gain on Visa shares | | ( 53,308) | ( 456,612) |
| | | (11,510,346) | ( 8,194,454) |
| Changes in operating assets and liabilities | | | |
| Loans | | ( 4,330,456) | (13,668,554) |
| Retirement benefits | | ( 223,003) | ( 354,802) |
| Deposits by the public | | 12,101,620 | 573,509 |
| Policyholders' fund | | 3,846,458 | 3,546,650 |
| Other assets, net | | 363,131 | ( 535,377) |
| Other liabilities, net | | 1,217,013 | 203,986 |
| Due to parent company and fellow subsidiaries | | 1,065,485 | 2,030,178 |
| Amounts due from other banks | | 456,520 | ( 3,878,244) |
| Accounts with parent and fellow subsidiaries | | ( 2,703,462) | ( 892,275) |
| Financial assets at fair value through profit or loss | | 11,582 | 1,008,285 |
| Taxation recoverable | | ( 115,463) | 281,214 |
| Deposits with Bank of Jamaica with tenure greater than 90 days | | 3,681 | ( 9,795,148) |
| Amounts due to other banks and financial institutions | | 7,038,074 | 325,264 |
| Statutory reserves at Bank of Jamaica | | ( 6,824,538) | ( 452,367) |
| Securities sold under repurchase agreements | | 5,627,293 | 8,079,461 |
| | | 6,023,589 | (21,722,674) |
| Interest received | | 39,038,807 | 31,156,688 |
| Interest paid | | (12,123,046) | (10,247,763) |
| Taxation paid | | ( 3,821,682) | ( 2,569,323) |
| Net cash provided by/(used in) operating activities | | 29,117,668 | ( 3,383,072) |
| **Cash flows from investing activities** | | | |
| Investment securities | | (21,836,348) | 4,432,358 |
| Pledged assets | | ( 6,693,943) | ( 9,560,769) |
| Government securities purchased under resale agreements | | ( 145,810) | 714,839 |
| Proceeds from the sale of property, plant and equipment | | 322 | 12,968 |
| Purchase of property, plant and equipment | 29 | ( 906,635) | ( 591,034) |
| Intangible assets | | ( 1,032) | - |
| Proceeds from liquidation of subsidiary | | - | 17,758 |
| Proceeds from sale of shares | | 126,197 | 249,030 |
| Promissory notes | | ( 321,413) | ( 216,986) |
| Net cash used in investing activities | | (29,778,662) | ( 4,941,836) |
| **Cash flows from operating and investing activities** | | ( 660,994) | ( 8,324,908) |

# Statement of Consolidated Cash Flows (continued)

**Year ended 31 October 2009**

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Note | 2009 | 2008 |
|---|---|---|---|
| **Cash flows from operating and investing activities** | | ( 660,994) | ( 8,324,908) |
| **Cash flows from financing activities** | | | |
| Dividends paid to stockholders | | ( 4,231,746) | ( 3,920,582) |
| Dividends paid to minority interest | | ( 114,319) | ( 101,671) |
| Net cash used in financing activities | | ( 4,346,065) | ( 4,022,253) |
| Effect of exchange rate changes on cash and cash equivalents | | 2,443,771 | 272,315 |
| Net decrease in cash and cash equivalents | | ( 2,563,288) | (12,074,846) |
| Cash and cash equivalents at beginning of year | | 18,359,498 | 30,434,344 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 20 | 15,796,210 | 18,359,498 |

## SCOTIA GROUP JAMAICA LIMITED

## Statement of Revenue and Expenses

**Year ended 31 October 2009**

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Note | 2009 | 2008 |
|---|---|---|---|
| **Net interest income and other revenue** | | | |
| Dividend income | | 4,246,848 | 3,911,779 |
| **Expenses** | | | |
| Operating expenses | 13 | ( 17,876) | ( 5,923) |
| **Profit for the year** | 14 | 4,228,972 | 3,905,856 |

## Balance Sheet

**31 October 2009**

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Note | 2009 | 2008 |
|---|---|---|---|
| **ASSETS** | | | |
| **Cash resources** | | | |
| Accounts with subsidiary | 19 | 219,977 | 47,642 |
| Investment in subsidiaries | | 9,332,408 | 9,332,408 |
| | | 9,552,385 | 9,380,050 |
| **LIABILITES** | | | |
| Accrued charges | | 176,274 | 1,165 |
| **STOCKHOLDERS' EQUITY** | | | |
| Share capital | 41 | 6,569,810 | 6,569,810 |
| Unappropriated profits | | 2,806,301 | 2,809,075 |
| Total stockholders equity | | 9,376,111 | 9,378,885 |
| **Total liabilities and stockholders equity** | | 9,552,385 | 9,380,050 |

The financial statements on pages 65 to 114 were approved for issue by the Board of Directors on November 26, 2009 and signed on its behalf by:

Robert H. Pitfield, Director

Bruce F. Bowen, Director

Charles H. Johnston, Director

Julie Thompson James, Secretary

## Statement of Changes in Stockholders' Equity

**Year ended 31 October 2009**

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Note | Share Capital | Unappropriated Profits | Total |
|---|---|---|---|---|
| **Balances at October 31, 2007** | | 6,569,810 | 2,823,801 | 9,393,611 |
| Profit for the year | | - | 3,905,856 | 3,905,856* |
| Dividends paid | 55 | - | (3,920,582) | (3,920,582) |
| **Balances at October 31, 2008** | | 6,569,810 | 2,809,075 | 9,378,885 |
| Profit for the year | | - | 4,228,972 | 4,228,972* |
| Dividends paid | 55 | - | (4,231,746) | (4,231,746) |
| **Balances at October 31, 2009** | | 6,569,810 | 2,806,301 | 9,376,111 |

* Total recognised income and expenses for the year $4,228,972 (2008: $3,905,856).

## Statement of Cash Flows

**Year ended 31 October 2009**

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Note | 2009 | 2008 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year, being net cash provided by operating activities | | 4,228,972 | 3,905,856 |
| Changes in operating assets and liabilities | | | |
| Other liabilities | | 175,109 | 1,165 |
| Net cash provided by operating activities | | 4,404,081 | 3,907,021 |
| **Cash flows from financing activities** | | | |
| Dividends paid, being net cash used in financing activities | | (4,231,746) | (3,920,582) |
| Net increase/(decrease) in cash and cash equivalents | | 172,335 | ( 13,561) |
| Cash equivalents at beginning of year | | 47,642 | 61,203 |
| **CASH EQUIVALENTS AT END OF YEAR** | 20 | 219,977 | 47,642 |

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

## 1. Identification, Regulation and Licence

Scotia Group Jamaica Limited ("the Company") is incorporated and domiciled in Jamaica. It is a 71.78% subsidiary of The Bank of Nova Scotia, which is incorporated and domiciled in Canada and is the ultimate parent. The registered office of the Company is located at the Scotiabank Centre, Corner of Duke and Port Royal Streets, Kingston, Jamaica.

The Company is the parent of The Bank of Nova Scotia Jamaica Limited, which is licensed under the Banking Act, and Scotia DBG "(SDBG)" Investments Limited, which is licensed under the Securities Act. The Company and these two subsidiaries are listed on the Jamaica Stock Exchange.

The Company's subsidiaries, which together with the Company are referred to as "the Group", are as follows:

| Subsidiaries | Principal Activities | Holding by Company | Holding by Subsidiary | Financial Year End |
|---|---|---|---|---|
| The Bank of Nova Scotia Jamaica Limited and its subsidiaries: | Banking | 100% | | October 31 |
| The Scotia Jamaica Building Society | Mortgage Financing | | 100% | October 31 |
| Scotia Jamaica Life Insurance Company Limited | Life Insurance | | 100% | December 31 |
| Scotia Jamaica Financial Services Limited | Non-trading | | 100% | October 31 |
| Brighton Holdings Limited | Non-trading | | 100% | October 31 |
| Scotia DBG Investments Limited and its subsidiaries: | Investment Banking | 77.01% | | October 31 |
| Scotia DBG Merchant Bank Limited | Merchant Banking | | 100% | October 31 |
| Scotia DBG Fund Managers Limited | Unit Trust and Fund Management | | 100% | October 31 |
| Scotia Jamaica Investment Management Limited | Non-trading | | 100% | October 31 |
| Asset Management Company Limited | Hire Purchase Financing | | 100% | October 31 |

## 1. Identification, Regulation and Licence (continued)

| Subsidiaries | Principal Activities | Holding by Company | Holding by Subsidiary | Financial Year End |
|---|---|---|---|---|
| DB&G Corporate Services Limited | Administrative and Management services | | 100% | October 31 |
| Billy Craig Investments Limited | Non-trading | | 100% | October 31 |
| Interlink Investments Limited | Non-trading | | 100% | October 31 |
| Scotia DBG Fund Managers Inc | Funds management | | 100% | October 31 |

All of the company's subsidiaries, except for Interlink Investments Limited, are incorporated and domiciled in Jamaica. Interlink Investments Limited is incorporated in Grand Cayman.

## 2. Summary of 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 by the Group for all the periods presented, unless otherwise stated.

### (a) Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board, and the Jamaican Companies Act.

**New standards and amendments to published standards and interpretations that became effective during the year:**

Certain new standards, amendments to published standards and interpretations came into effect during the current financial year. The Group has assessed the relevance of all such amendments and interpretations and has adopted those which are relevant to its operations, viz:

*IFRIC 13 Accounting for Customer Loyalty Programmes,* which became effective for annual reporting periods that began on or after July 1, 2008, clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple element arrangement. The consideration receivable from the customer is allocated between the components of the arrangement using fair values. The adoption of IFRIC 13 did not have a material impact on the financial statements as these programs are operated on behalf of third parties.

*IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction,* which became effective for annual reporting periods that began on or after January 1, 2008, provides guidance on assessing the limit set in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This standard did not have a material impact on the financial statements.

**2. Summary of significant accounting policies (continued)**

**(a) Basis of preparation (continued)**

(i) Statement of compliance (continued)

**New standards, and interpretations of and amendments to existing standards, that are not yet effective:**

At the date of authorisation of these financial statements, certain new standards, and amendments to and interpretations of existing standards, have been issued which are not yet effective at balance sheet date and which the Group has not early-adopted. The Group has assessed the relevance of all such new standards, amendments and interpretations with respect to the Group's operations and has determined that the following are relevant to its operations:

*Revised IFRS 3 Business Combinations* and *amended IAS 27 Consolidated and Separate Financial Statements* became effective for annual reporting periods beginning on or after July 1, 2009. The definition of a business combination has been revised and focuses on control. All items of consideration transferred by the acquirer are measured and recognised at fair value as of the acquisition date, including contingent consideration. An acquirer can elect to measure non-controlling interest at fair value at the acquisition date or on a transaction by transaction basis. New disclosure requirements have been introduced. The revisions are not expected to have any significant impact on the financial statements.

Amendments to *IFRS 7 Financial Instruments: Disclosures*, which becomes effective for annual reporting periods beginning on or after January 1, 2009, require enhanced disclosures in respect of two aspects: disclosures over fair value measurement relating to financial instruments, specifically, in relation to disclosures over the inputs used in valuation techniques and the uncertainty associated with such valuations; and improving disclosures over liquidity risk to address current diversity in practice. The Group is assessing the impact that the revised standard will have on the financial statements.

*IFRS 8, Operating Segments,* which becomes effective for annual reporting periods beginning on or after January 1, 2009, replaces IAS 14 and sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates and its major customers. The Group is assessing the impact that IFRS 8 will have on the disclosures in the financial statements.

*IFRS 9, Financial Instruments,* is effective for annual reporting periods beginning on or after January 1, 2013. The standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The Group is assessing the impact that the standard will have on the financial statements.

**2. Summary of significant accounting policies (continued)**

**(a) Basis of preparation (continued)**

(i) Statement of compliance (continued)

**New standards, and interpretations of and amendments to existing standards, that are not yet effective (continued):**

*IAS 1 (Revised) Presentation of Financial Statements,* which becomes effective for annual reporting periods beginning on or after January 1, 2009, requires the presentation of all non-owners changes in equity in one or two statements: either in a single statement of comprehensive income, or in an income statement and a statement of comprehensive income. The Group is assessing the impact that the revised standard will have on the financial statements.

*IAS 23(Revised) - Borrowing Costs,* which becomes effective for annual reporting periods beginning on or after January 1, 2009, removes the option of either capitalising borrowing costs relating to qualifying assets or expensing the borrowing costs, and, instead, requires management to capitalise all borrowing costs attributable to qualifying assets. Qualifying assets are assets that take a substantial time to get ready for their intended use or sale. IAS 23 (Revised) will not have a significant impact on the financial statements.

*IAS 27 (Revised) Consolidated and Separate Financial Statements* becomes effective for annual reporting periods beginning on or after July 1, 2009. It requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. It specifies the accounting when control is lost, requiring that any remaining interest in the entity be re-measured to fair value, and a gain or loss be recognized in profit or loss. The Group is assessing the impact the revised standard will have on the financial statements.

Amendments to *IAS 32 Financial Instruments: Presentation* and *IAS 1, Presentation of Financial Statements* become effective for annual reporting periods beginning on or after January 1, 2009. The amendments allow certain instruments that would normally be classified as liabilities to be classified as equity if certain conditions are met. Where such instruments are reclassified, the entity is required to disclose the amount, the timing and the reason for the reclassification. The revisions are not expected to have any significant impact on the financial statements.

*IAS 36 (Amendment), Impairment of Assets* becomes effective for annual reporting periods beginning on or after January 1, 2009. The revision provides that where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group is assessing the impact that the revised standard will have on the financial statements.

**2. Summary of significant accounting policies (continued)**

**(a) Basis of preparation (continued)**

(i) Statement of compliance (continued)

**New standards, and interpretations of and amendments to existing standards, that are not yet effective (continued):**

*IAS 39 (Amendment), Financial Instruments: Recognition and Measurement,* became effective for annual reporting periods beginning on or after July 1, 2009. The amendment provides clarification that it is possible for there to be movements into and out of the fair value through profit or loss category where:

- A derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

- Financial assets are reclassified following a change in policy by an insurance company in accordance with IFRS 4.

The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition. There is also the removal of a segment as an example of what may be considered a party external to the reporting entity. When re-measuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used. This Group will apply this amendment from 1 January 2010.

*IFRIC 17, Distribution of Non-Cash Assets to Owners* is effective for annual reporting periods beginning on or after July 1, 2009 and is required to be applied prospectively; earlier application is permitted. It provides that a dividend payable should be recognized when appropriately authorized and no longer at the entity's discretion. Where an owner has a choice of a dividend of a non-cash asset or cash, the dividend payable is estimated considering both the fair value and probability of the owners selecting each option. The dividend payable is measured at the fair value of the net assets to be distributed. The difference between fair value of the dividend paid and the carrying amount of the net assets distributed is recognized in profit or loss. The Group is assessing the impact this interpretation will have on its financial statements.

(ii) Basis of measurement

The financial statements have been prepared on the historical cost basis as modified for the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss.

**2. Summary of significant accounting policies (continued)**

**(a) Basis of preparation (continued)**

(iii) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS and the Jamaican Companies Act requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(iv) Functional and presentation currency

These financial statements are presented in Jamaican dollars, which is the Group's functional currency. Except where indicated to be otherwise, financial information presented is shown in thousands of Jamaican dollars.

(v) Comparative information

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

**(b) Basis of consolidation**

The consolidated financial statements include the assets, liabilities and results of operations of the Company and its subsidiaries presented as a single economic entity. Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are no longer consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of consolidated revenue and expenses.

**2. Summary of significant accounting policies (continued)**

**(c) Segment reporting**

A segment is a distinguishable component of the Group (a group of assets and operations) that is engaged in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment) and which is subject to risks and rewards that are different from those of other segments. The Group bases its segment reporting on business segments.

**(d) Foreign currency translation**

Assets and liabilities denominated in foreign currencies are translated into Jamaican dollars at the exchange rates prevailing at the balance sheet date, being the mid-point between the Bank of Jamaica's (the Central Bank) weighted average buying and selling rates at that date.

Transactions in foreign currencies are translated at the rates of exchange ruling at the dates of those transactions.

**(e) Revenue recognition**

(i) Interest income

Interest income is recognised in the statement of revenue and expenses for all interest earning instruments on the accrual basis using the effective interest method based on the actual purchase price. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset. The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently. Interest income includes coupons earned on fixed income investments and accretion of discount on treasury bills and other discounted instruments, and amortization of premium on instruments bought at a premium.

Where collection of interest income is considered doubtful, or payment is outstanding for more than 90 days, the banking regulations stipulate that interest should be taken into account on the cash basis. IFRS requires 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. However, the difference between the amounts recognized under the banking regulations and such amounts as would have been determined under IFRS are considered to be immaterial.

(ii) Fee and commission

Fee and commission income are recognised on the accrual basis when service has been provided. Origination fees, for loans which are probable of being drawn down, are recognised in the statement of revenue and expenses immediately, as they are not considered material for deferral.

**2. Summary of significant accounting policies (continued)**

**(e) Revenue recognition (continued)**

(ii) Fee and commission (continued)

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees are apportioned over the period the service is provided. The same principle is applied for financial planning and custody services that are continuously provided over an extended period of time.

Fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(iii) Dividend income

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

(iv) Premium income

Premiums are recognised as earned when received.

**(f) Interest expense**

Interest expense is recognised in the statement of revenue and expenditures on the accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial liability.

**(g) Claims**

Death claims are recorded in the statement of revenue and expenses net of reinsurance recoverable.

**(h) Reinsurance contracts held**

The Group enters into contracts with reinsurers under which it is compensated for losses on contracts it issues and which meet the classification requirements for insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. Reinsurance does not relieve the originating insurer of its liability.

**(i) Taxation**

Taxation on the profit or loss for the period comprises current and deferred taxes. Current and deferred taxes are recognised as tax expense or benefit in the statement of revenue and expenses except where they relate to items recorded in stockholders' equity, in which case they are charged or credited to stockholders' equity.

**2. Summary of significant accounting policies (continued)**

**(i) Taxation (continued)**

(i) Current taxation

Current tax charges are based on the taxable profit for the period, which differs from the profit before tax reported because it excludes items that are taxable or deductible in other periods, and items that are never taxable or deductible. The current tax is calculated at tax rates that have been enacted at the balance sheet date.

(ii) Deferred tax

Deferred tax liabilities are recognised for temporary differences between the carrying amounts of assets and liabilities and their amounts as measured for tax purposes, which will result in taxable amounts in future periods. Deferred tax assets are recognised for temporary differences which will result in deductible amounts in future periods, but only to the extent it is probable that sufficient taxable profits will be available against which these differences can be utilised. Deferred tax assets are reviewed at each reporting date to determine whether it is probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realised or the liability will be settled based on enacted rates.

Current and deferred tax assets and liabilities are offset when the legal right of set-off exists, and when they relate to income taxes levied by the same tax authority on either the same taxable entity, or different taxable entities which intend to settle current tax liabilities and assets on a net basis.

**(j) Insurance contracts**

(i) Classification

The Group issues contracts that transfer insurance risk or financial risk or both.

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. The Group defines insurance risk as significant if an insured event could cause an insurer to pay significant additional benefits in a scenario that has a discernible effect on the economics of the transactions. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits, at the occurrence of an insured event, that is at least 10% more than the benefits payable if the insured event did not occur.

**2. Summary of significant accounting policies (continued)**

**(j) Insurance contracts (continued)**

(ii) Recognition and measurement

Insurance contracts

These contracts insure human life events (for example death or permanent disability) over a long duration. The accounting treatment differs according to whether the contract bears investment options or not. Under contracts that do not bear investment options, premiums are recognised as income when they become payable by the contract holder and benefits are recorded as an expense when they are incurred.

Under contracts that bear an investment option, insurance premiums received are initially recognised directly as liabilities. These liabilities are increased by credited interest and are decreased by policy administration fees, mortality and surrender charges and any withdrawals; the resulting liability is the Life Assurance Fund. Income consists of fees deducted for mortality, policy administration and surrenders. Interest credited to the account and benefit claims in excess of the account balances incurred in the period are recorded as expenses in the statement of revenue and expenses.

Insurance contract liabilities are determined by an independent actuary using the Policy Premium Method of valuation as discussed in Note 3(iv). These liabilities are, on valuation, adjusted through the income statement to reflect the valuation determined under the Policy Premium Method.

**(k) Policyholders' liabilities**

The policyholders' liabilities has been calculated using the Policy Premium Method (PPM) of valuation. Under this method explicit allowance is made for all future benefits and expenses under the policies. The premiums, benefits and expenses for each policy are projected and the resultant future cash flows are discounted back to the valuation date to determine the reserves.

The process of calculating policy reserves necessarily involves the use of estimates concerning such factors as mortality and morbidity rates, future investment yields and future expense levels. Consequently, these liabilities include reasonable provisions for adverse deviations from the estimates.

An actuarial valuation is prepared annually. Any adjustment to the reserves is reflected in the period to which it relates.

**2. Summary of significant accounting policies (continued)**

**(l) Financial assets and liabilities**

Financial assets carried on the balance sheet include cash resources, investments, securities purchased under resale agreements, pledged assets, loans and leases, other assets, deposits, other liabilities and policyholders' fund.

(i) Recognition

The Group initially recognises loans and receivables and deposits on the date at which the Group becomes a party to the contractual provisions of the instrument i.e., the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated as at fair value through profit or loss) are initially recognized on the settlement date – the date on which the asset is delivered to or by the Group.

(ii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or have expired.

The Group enters into transactions whereby it transfers assets recognized on its balance sheet, but retains either all or a portion of the risks and rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized from the balance sheet. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

(iii) Measurement

Initial measurement: On initial recognition, financial assets and liabilities are measured at fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

**2. Summary of significant accounting policies (continued)**

**(l) Financial assets and liabilities (continued)**

(iii) Measurement (continued)

Subsequent measurement of financial assets: The measurement of financial assets subsequent to initial recognition depends upon their classification as set out in note 2(m) below, namely: loans and receivables are measured at amortised cost using the effective interest method; held-to-maturity investments are measured at amortised cost using the effective interest method; investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably determined are measured at amortised cost.

Other financial assets are measured at their fair values without any deduction for transaction costs that may be incurred on sale or other disposal.

Subsequent measurement of financial liabilities: After initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

**(m) Financial assets**

(i) Classification

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

(1) Financial assets at fair value through profit or loss

This category includes financial assets held for trading. A financial asset is classified in this category at inception if acquired principally for the purpose of selling in the short term or if so designated by management. These assets are measured at fair value and all related gains and losses are included in the statement of revenue and expenses.

(2) Loans and receivables

See details at note 2(p).

(3) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity and which are not designated as at fair value through profit or loss or as available-for-sale. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be compromised and reclassified as available-for-sale and the Group would be prohibited from classifying investment securities as held-to-maturity for the current and the following two financial years. Held-to-maturity investments are measured at amortised cost using the effective interest method.

**2. Summary of significant accounting policies (continued)**

**(m) Financial assets (continued)**

(i) Classification (continued)

(4) Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified in any of the other three categories of financial assets. They are intended to be held for an indefinite period of time, and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or market prices. Available-for-sale investments are measured at fair value except for any unquoted equity securities whose fair value cannot be reliably measured, which are carried at cost. Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized in the statement of revenue and expenditure when the Group becomes entitled to the dividend. Other unrealized gains and losses arising from changes in fair value of available-for-sale investments are recognized in stockholders' equity. On disposal or impairment of these investments, the unrealized gains or losses included in stockholders' equity are transferred to the statement of revenue and expenditure.

(ii) Identification and measurement of impairment

At each balance sheet date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

**2. Summary of significant accounting policies (continued)**

**(m) Financial assets (continued)**

(ii) Identification and measurement of impairment (continued)

The Group considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the management makes judgements as to current economic and credit conditions and their effect on default rates, loss rates and the expected timing of future recoveries, ensuring that assumptions remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised directly in equity to profit or loss. The cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity.

**2. Summary of significant accounting policies (continued)**

**(n) Investment in subsidiaries**

Investments by the Bank in subsidiaries are stated at cost less impairment losses.

**(o) Repurchase and reverse repurchase agreements**

Securities sold under agreements to repurchase the asset at a fixed price on a future date (repurchase agreements) and securities purchased under agreements to resell the asset at a fixed price on a future date (reverse repurchase agreements) are treated as collateralised financing transactions. In the case of reverse repurchase agreements, the underlying asset is not recognized in the Group's financial statements; in the case of repurchase agreements the underlying collateral is not derecognized from the Groups balance sheet but is segregated as pledged assets. 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.

**(p) Loans and receivables and allowance for impairment losses**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, and that, upon initial recognition, the Group designates as at fair value through profit or loss, or as available-for-sale.

Loans are initially recorded at the fair value of the consideration given, which is the cash disbursed to originate the loan, including any transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

Loans are stated net of unearned income and allowance for impairment.

An allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the impaired loans.

A loan is classified as impaired when, in management's opinion, there has been a deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of the full amount of principal and interest. As required by statutory regulations, if a payment on a loan is contractually 90 days in arrears, the loan will be classified as impaired, if not already classified as such. Any credit card loan that has a payment that is contractually 90 days in arrears is written-off.

**2. Summary of significant accounting policies (continued)**

**(p) Loans and receivables and allowance for impairment losses (continued)**

When a loan is classified as impaired, recognition of interest in accordance with the terms of the original loan ceases, and interest is taken into account on the cash basis. This differs from IFRS which requires that interest on the impaired asset continues to be recognised through the unwinding of the discount that was applied to the estimated future cash flows. However, the difference is not considered material.

Statutory and other regulatory loan loss reserve amounts that exceed the amounts required under IFRS are included in a non-distributable loan loss reserve as an appropriation of profits.

**(q) Acceptances and guarantees**

The Group's potential liability under acceptances and guarantees is reported as a liability in the balance sheet. The Group has equal and offsetting claims against its customers in the event of a call on these commitments, which are reported as an asset.

**(r) Intangible assets**

(i) Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

(ii) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

**2. Summary of significant accounting policies (continued)**

**(r) Intangible assets (continued)**

(iii) Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(iv) Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

**2. Summary of significant accounting policies (continued)**

**(r) Intangible assets (continued)**

(iv) Goodwill (continued)

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units which are expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

(v) Customer relationships

This asset represents the present value of the benefit to the Group from customer lists, contracts, or customer relationships that can be identified separately and measured reliably. Customer relationships include those of SDBG Investments Limited, SDBG Merchant Bank and Stockbroking customer relationships with an estimated useful life of 15 years.

(vi) Contract- based intangible asset

Contract-based intangible assets represent the Group's right to benefit from SDBG's Unit Trust Management contracts and EasyOwn consumer financing contracts. This asset has an indefinite useful life and is therefore tested for impairment annually and whenever there is an indication that the asset may be impaired.

(vii) Licences

The asset represents the value of SDBG's Jamaica Stock Exchange seat, which has an indefinite useful life. The asset is tested for impairment annually, and whenever there is an indication that the asset may be impaired.

**2. Summary of significant accounting policies (continued)**

**(r) Intangible assets (continued)**

(viii) Tax Shield

The asset represents the present value of tax saving on tax-free bonds held by SDBG Investments Limited and SDBG Merchant Bank, recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefit. The carrying amount of the tax asset is reviewed at each balance sheet date and reduced to the extent that the benefit is already realised, or it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. The assets are measured at the tax rate that is expected to apply in the period in which the asset is realised, based on tax rates (and tax laws) that have been enacted by the balance sheet date.

(ix) Computer software

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with acquiring identifiable and unique software products which are expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. However, such costs are expensed where they are considered to be immaterial.

**(s) Leases**

(i) As lessee

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are recognised at the inception of the lease at the lower of the fair value of the leased asset and the present value of future minimum lease payments. Each lease payment is allocated between the liability and interest charges so as to produce a constant rate of charge on the lease obligation. The interest element of the lease payments is charged as an expense and included in the statement of revenue and expenses over the lease period.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases are charged to the statement of revenue and expenses on the straight-line basis over the period of the lease.

(ii) As lessor

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease in a manner which reflects a constant periodic rate of return on the net investment in the lease.

**2. Summary of significant accounting policies (continued)**

**(s) Leases (continued)**

(ii) As lessor (continued)

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned assets. Rental income is recognised on the straight-line basis over the lease term.

**(t) Property, plant and equipment**

Land is stated at historical cost. All other property, plant and equipment are stated at historical cost less accumulated depreciation and, if any, impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Expenditure subsequent to acquisition are included in the asset’s carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other expenditure is classified as repairs and renewals and charged as expenses in the statement of revenue and expenses during the financial period in which it is incurred.

Depreciation and amortisation are calculated on the straight-line method at rates that will write off the depreciable amount of the assets over their expected useful lives, as follows:

| | |
|---|---|
| Buildings | 40 Years |
| Furniture, fixtures and equipment | 10 Years |
| Computer equipment | 4 Years |
| Motor vehicles | 5 Years |
| Leasehold improvements | Year of lease |

The depreciation methods, useful lives and residual values are reassessed at the reporting dates.

Property, plant and equipment are reviewed periodically for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

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

**(u) Employee benefits**

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

**2. Summary of significant accounting policies (continued)**

**(u) Employee benefits (continued)**

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

(i) Pension obligations

The Group operates both a defined benefit and a defined contribution pension plan. The assets of both plans are held in separate trustee-administered funds. The pension plans are funded by contributions from employees and by the relevant group companies, after, in the case of the defined benefit plan, taking the recommendations of the actuary into account.

The asset or liability in respect of defined benefit plans is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of plan assets, adjusted for unrecognised actuarial gains/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 pension costs are assessed using the Projected Unit Credit Method. Under this method, the cost of providing pensions is charged to the statement of revenue and expenses so as to spread the regular cost over the service lives of the employees in accordance with the advice of the actuaries, who carry out a full valuation of the plan every year in accordance with IAS 19. The pension obligation is measured at the present value of the estimated future cash outflows using estimated discount rates based on market yields on Government securities which have terms to maturity approximating the terms of the related liability.

A portion of actuarial gains and losses is recognised in the statement of revenue and expenses if the net cumulative unrecognised actuarial gains or losses at the end of the previous reporting period exceeded 10 percent of the greater of the present value of the gross defined benefit obligation and the fair value of plan assets at that date. Any excess actuarial gains or losses are deferred and recognised in the statement of revenue and expenses over the average remaining service lives of the participating employees.

Contributions to defined contribution plans are charged to the statement of revenue and expenses in the period to which it relates.

**2. Summary of significant accounting policies (continued)**

**(u) Employee benefits (continued)**

(ii) Termination obligations

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

(iii) Other post-retirement obligations

The Group also provides supplementary health, dental and life insurance benefits to qualifying employees upon retirement. The entitlement to these benefits is usually based on the completion of a minimum service period and the employee remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans. These obligations are valued annually by qualified independent actuaries.

(iv) Equity compensation benefits

The Group has two Employee Share Ownership Plans (ESOPs) for eligible employees. In the case of the first, the Group provides a fixed benefit to each participant, which is linked to the number of years of service. This benefit is recorded in salaries and staff benefits expense in the statement of revenue and expenses.

The amount contributed to the ESOP trust (note 55) by the Group for acquiring shares and allocating them to employees is recognised as an employee expense at the time of making the contribution, as the effect of recognising it over the two-year period in which the employees become unconditionally entitled to the shares, is not considered material. Further, the effect of forfeitures is not considered material.

The special purpose entity that operates the Plan has not been consolidated as the effect of doing so is not considered material.

In the case of the second, the Group provides a fixed benefit to eligible employees, after one full year of service. This benefit is recorded in salaries and staff benefits expense in the statement of revenue and expenses.

The amount contributed to the ESOP trust (note 56) by the Group for acquiring shares and allocating them to employees is recognised as an employee expense at the time of making the contribution. The special purpose entity that operates the Plan has been consolidated.

## 2. Summary of significant accounting policies (continued)

### (v) Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between proceeds, net of transaction costs, and the redemption value is recognised in the statement of revenue and expenses immediately, as they are not considered material for deferral.

### (w) Share capital

(i) Classification

Ordinary shares are classified as equity when there is no obligation to transfer cash or other assets.

Preference share capital is classified as equity except where it is redeemable on a specific or determinable date or at the option of the shareholders and/or if dividend payments are not discretionary, in which case it is classified as a liability. Dividend payments on preference shares classified as a liability are recognized in the statement of revenue and expenses as interest expense.

(ii) Share issue costs

Incremental costs directly attributable to the issue of new shares or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(iii) Dividends

Dividends are recorded in the financial statements in the period in which they are approved by the Board of Directors.

### (x) Fiduciary activities

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets, and income arising thereon, are excluded from these financial statements, as they are not assets of the Group.

### (y) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include notes and coins on hand, unrestricted balances held with Bank of Jamaica, amounts due from other banks, and highly liquid financial assets with original maturities of less than ninety days, which are readily convertible to known amounts of cash, and are subject to insignificant risk of changes in their fair value.

## 2. Summary of significant accounting policies (continued)

### (z) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## 3. Critical accounting estimates, and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of, and disclosures relating to, assets, liabilities, income and expenses reported in these financial statements and may be reported in the financial statements of the next financial year. Estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances, and are continually evaluated.

**3. Critical accounting estimates, and judgements in applying accounting policies (continued)**

(i) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of revenue and expenses, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in 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. To the extent that the net present value of estimated cash flows differs by +/-5 percent, the provision would be an estimated $138,367 (2008: $107,446) lower or $138,367 (2008: $107,446) higher.

(ii) Held-to-maturity investments

The Group follows the guidance of lAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than in the specific permissible circumstances - for example, selling other than an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value, not amortised cost. If the entire class of held-to-maturity investments is compromised, the fair value would increase by $1,931,476 (2008: increase of $433,638) with a corresponding entry in the fair value reserve in stockholders' equity.

(iii) Income taxes

Estimates and judgements are required in determining the provision for income taxes. The tax liability or asset arising from certain transactions or events may be uncertain during the ordinary course of business. In cases of such uncertainty, the Group recognises liabilities for possible additional taxes based on its judgement. Where, on the basis of a subsequent determination, the final tax outcome in relation to such matters is different from the amount that was initially recognised, the difference will impact the current and deferred income tax provisions in the period in which such determination is made.

**3. Critical accounting estimates, and judgements in applying accounting policies (continued)**

(iii) Income taxes (continued)

Were the actual final outcome (on the judgement areas) to differ by 10% from management's estimates, the Group would need to:

- increase the income tax liability by $62,855 and the deferred tax liability by $23,452, if unfavourable; or
- decrease the income tax liability by $62,766 and the deferred tax liability by $23,452, if favourable.

(iv) Estimate of future payments and premiums arising from long-term insurance contracts

The liabilities under long-term insurance contracts have been determined using the Policy Premium Method of valuation. Under this method explicit allowance is made for all future benefits and expenses under the policies. The premiums, benefits and expenses for each policy are projected and the resultant future cash flows are discounted back to the valuation date to determine the reserves. Any adjustment to the reserves is reflected in the year to which it relates.

The process of calculating policy reserves necessarily involves the use of estimates concerning such factors as mortality and morbidity rates, future investment yields and future expense levels. Consequently, these liabilities include reasonable provisions for adverse deviations from the estimates. Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

These estimates are more fully described in note 40(c).

**3. Critical accounting estimates, and judgements in applying accounting policies (continued)**

(v) 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 determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net periodic cost (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 post-employment medical benefits, the expected rate of increase in medical costs. Any changes in these assumptions will impact the net periodic cost (income) recorded for pension and 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 investments returns. The Group determines the appropriate discount rate at the end of each year; such rate 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 post-retirement benefit obligations. In determining the appropriate discount rate, the Group considered interest rate of high-quality corporate bonds 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 the historical relationship of the actual medical cost increases with the rate of inflation in the respective economies. Past experience has shown that the actual medical costs have increased on average by one time the rate of inflation. Other key assumptions for the pension and other post retirement benefits cost and credits are based, in part, on current market conditions.

Were the actual expected return on pension plan assets to differ by 1% from management's estimates, there would be no impact on the consolidated net income. Similarly, were the actual discount rate used at the beginning of the fiscal year, to differ by 1% from management's estimates there would be no impact on the consolidated net income. Were the assumed medical inflation rate on the health plan to differ by 1.50% from management estimates, the health expense would increase by $70,487 or decrease by $51,704.

(vi) Recognition and measurement of intangible assets

The recognition and measurement of intangible assets, other than goodwill, in a business combination, involve the utilization of valuation techniques. These intangibles may be market related, consumer related, contract based or technology based.

For significant amounts of intangibles arising from a business combination, the Group utilizes independent professional advisors to assist management in determining the recognition and measurement of these assets.

**4. Responsibilities of the appointed actuary and external auditors**

The Board of Directors, pursuant to the Insurance Act, appoints the Actuary whose responsibility is to carry out an annual valuation of the Group's insurance policyholders liabilities in accordance with accepted actuarial practice and regulatory requirements and report thereon to the policyholders and stockholders. In performing the valuation, the Actuary makes assumptions as to the future rates of interest, asset defaults, mortality, morbidity, claims experience, policy termination, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Group and the insurance policies in force. An actuarial valuation is prepared annually.

The shareholders, pursuant to the Companies Act, appoint the external auditors. Their responsibility is to conduct an independent and objective audit of the financial statements in accordance with International Standards on Auditing and report thereon to the stockholders. In carrying out their audit, the auditors also make use of the work of the appointed Actuary and his report on the policyholders' liabilities.

**5. Segmental financial information**

The Group is organised into six main business segments:

(a) Retail Banking - incorporating personal banking services, personal customer current, savings and deposits accounts, credit and debit cards, consumer loans and mortgages;

(b) Corporate and Commercial Banking - incorporating non-personal direct debit facilities, current accounts, deposits, overdrafts, loans and other credit facilities, and foreign currency transactions;

(c) Treasury - incorporating the Group's liquidity and investment management function, management of correspondent bank relationships, as well as foreign currency trading;

(d) Investment Management Services — incorporating investments, unit trusts, pension and other fund management, brokerage and advisory services, and the administration of trust accounts;

(e) Insurance Services - incorporating the provision of life and medical insurance, individual pension administration and investment management;

(f) Other operations of the Group – comprising non-trading subsidiaries.

Transactions between the business segments are on normal commercial terms and conditions.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet, but exclude items such as taxation, retirement benefit assets and obligations and borrowings.

The Group's operations are located mainly in Jamaica.

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

## 5. Segmental financial information (continued)

| | 2009 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Banking | | | | | | | |
| | Retail | Corporate and Commercial | Treasury | Investment Management Services | Insurance Services | Other | Eliminations | Group |
| Gross external revenues | 12,519,557 | 7,957,939 | 8,233,713 | 10,089,828 | 9,105,277 | 20,009 | - | 47,926,323 |
| Revenue/(expenses) from other segments | 2,366,280 | 2,405,002 | (4,580,219) | 302,674 | (29,626) | 4,267,881 | (4,731,992) | - |
| **Total gross revenues** | 14,885,837 | 10,362,941 | 3,653,494 | 10,392,502 | 9,075,651 | 4,287,890 | (4,731,992) | 47,926,323 |
| Total expenses | (12,215,845) | (7,594,958) | (145,883) | (8,036,093) | (4,873,872) | (7,840) | 327,827 | (32,546,664) |
| Profit before tax | 2,669,992 | 2,767,983 | 3,507,611 | 2,356,409 | 4,201,779 | 4,280,050 | (4,404,165) | 15,379,659 |
| Taxation | | | | | | | | (3,774,200) |
| Profit for the year | | | | | | | | 11,605,459 |
| Segment assets | 50,243,466 | 58,063,916 | 85,974,223 | 74,704,679 | 48,217,499 | 10,097,019 | (18,556,596) | 308,744,206 |
| Unallocated assets | | | | | | | | 6,811,666 |
| **Total assets** | | | | | | | | 315,555,872 |
| Segment liabilities | 88,858,350 | 78,925,479 | 467,356 | 65,958,497 | 35,806,374 | 422,110 | (9,019,581) | 261,418,585 |
| Unallocated liabilities | | | | | | | | 6,193,423 |
| **Total liabilities** | | | | | | | | 267,612,008 |
| Other segment items: | | | | | | | | |
| Capital expenditure | 479,884 | 408,023 | - | 10,816 | 7,912 | - | | 906,635 |
| Impairment losses on loans | 1,703,511 | 102,009 | - | 67,349 | - | - | | 1,872,869 |
| Depreciation | 195,188 | 145,115 | - | 16,351 | 6,111 | 18,570 | | 381,335 |

## 5. Segmental financial information (continued)

| | 2008 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Banking | | | | | | | |
| | Retail | Corporate and Commercial | Treasury | Investment Management Services | Insurance Services | Other | Eliminations | Group |
| Gross external revenues | 12,366,899 | 6,657,908 | 7,173,805 | 6,980,480 | 5,898,243 | 42,150 | - | 39,119,485 |
| Revenue/(expenses) from other segments | 2,073,510 | 2,005,252 | (4,030,398) | 200,929 | 8,400 | 4,009,878 | (4,267,571) | - |
| **Total gross revenues** | 14,440,409 | 8,663,160 | 3,143,407 | 7,181,409 | 5,906,643 | 4,052,028 | (4,267,571) | 39,119,485 |
| Total expenses | (10,475,710) | (6,304,710) | (78,673) | (5,758,609) | (3,328,298) | (169,479) | 115,089 | (26,000,390) |
| Profit before tax | 3,964,699 | 2,358,450 | 3,064,734 | 1,422,800 | 2,578,345 | 3,882,549 | (4,152,482) | 13,119,095 |
| Taxation | | | | | | | | (3,495,038) |
| Profit for the year | | | | | | | | 9,624,057 |
| Segment assets | 51,383,480 | 51,405,726 | 72,424,284 | 66,621,004 | 39,533,192 | 9,931,233 | (17,598,859) | 273,700,060 |
| Unallocated assets | | | | | | | | 6,584,191 |
| **Total assets** | | | | | | | | **280,284,251** |
| Segment liabilities | 81,995,398 | 69,429,170 | 1,504,015 | 59,856,858 | 30,758,781 | 303,817 | (8,247,811) | 235,600,228 |
| Unallocated liabilities | | | | | | | | 4,927,994 |
| **Total liabilities** | | | | | | | | **240,528,222** |
| Other segment items: | | | | | | | | |
| Capital expenditure | 349,177 | 220,246 | - | 9,711 | 3,391 | 8,509 | | 591,034 |
| Impairment losses on loans | 794,970 | (40,780) | - | 4,566 | - | - | | 758,756 |
| Depreciation | 182,779 | 126,843 | - | 23,915 | 4,894 | 24,160 | | 362,591 |

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

## 6. Net interest income

| | The Group 2009 | The Group 2008 |
|---|---|---|
| Interest income: | | |
| Deposits with banks and other financial institutions | 7,003,845 | 5,426,339 |
| Investment securities | 17,981,195 | 11,462,564 |
| Income on financial assets at fair value through profit and loss | 22,472 | 91,663 |
| Reverse repurchase agreements | 180,314 | 1,027,345 |
| Loans and advances | 16,866,277 | 14,764,039 |
| Other | 15,576 | 13,540 |
| | 42,069,679 | 32,785,490 |
| Interest expense: | | |
| Banks and customers | 7,174,735 | 6,768,554 |
| Repurchase agreements | 5,528,539 | 3,741,991 |
| Other | 34,751 | 48,743 |
| | 12,738,025 | 10,559,288 |
| Net interest income | 29,331,654 | 22,226,202 |

## 7. Net fee and commission income

| | The Group 2009 | The Group 2008 |
|---|---|---|
| Fee and commission income: | | |
| Retail banking fees | 2,541,962 | 2,465,578 |
| Credit related fees | 815,827 | 839,638 |
| Commercial and depository fees | 1,194,183 | 1,296,481 |
| Trust and other fiduciary fees | 202,923 | 191,186 |
| Asset management and related fees | 76,445 | 69,994 |
| | 4,831,340 | 4,862,877 |
| Fee and commission expenses | (1,141,041) | (1,063,777) |
| | 3,690,299 | 3,799,100 |

## 8. Net foreign exchange trading income

Net trading income includes gains and losses arising from foreign currency trading activities.

## 9. Net insurance premium income

| | The Group 2009 | The Group 2008 |
|---|---|---|
| Gross written premium | | |
| Individual life | 380,860 | 339,012 |
| Group | 386,079 | 417,231 |
| | 766,939 | 756,243 |
| Reinsurance ceded | ( 1,319) | ( 1,705) |
| | 765,620 | 754,538 |

## 10. Other revenue

| | The Group 2009 | The Group 2008 |
|---|---|---|
| Gain on shares and sale of property plant and equipment | 52,109 | 451,186 |
| Securities trading | 147,001 | 187,225 |
| Other | 25,858 | 5,678 |
| | 224,968 | 644,089 |

Other revenue includes $53,308 which represents the gain on sale of Visa shares during the year. The 2008 gain on shares of $456,611 resulted from the exchange of the Bank's membership interest in Visa International for equity shares in Visa Inc. consequent on the reorganization of Visa International. The reorganization involved a series of transactions by which Visa International, Visa U.S.A. and Visa Canada became subsidiaries of a Delaware stock corporation, Visa Inc., and was completed on October 2, 2007. Upon completion of the restructuring, common shares were issued by Visa Inc. to each member of a class corresponding to the Visa region with which each member is associated. The Bank was advised of the restructuring in April 2008. At that time there was also a forced redemption of 52% of the shares received. The remaining shares (48%) are subject to a lock up period of three years ending March 2011, unless the shareholder exercises the disposal option available at specified periods.

## 11. Salaries, pension contributions and other staff benefits

| | The Group 2009 | The Group 2008 |
|---|---|---|
| Wages and salaries | 6,025,633 | 5,032,788 |
| Payroll taxes | 517,845 | 451,853 |
| Pension costs, net defined benefit plan [note 31(a)] | ( 387,218) | ( 519,780) |
| Pension costs – defined contribution plan | - | 18,183 |
| Other post employment benefits [note 31(b)] | 237,898 | 233,531 |
| Other staff benefits | 1,209,031 | 1,191,319 |
| Total (note 13) | 7,603,189 | 6,407,894 |

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

## 12. Other impairment loss

The Group has recognised an impairment loss, other than that on loans, as follows:

| | The Group | |
|---|---|---|
| | 2009 | 2008 |
| Securities pledged with Lehman Brothers (Europe) under repurchase agreement | 69,712 | - |

The Group has an outstanding liability to Lehman Brothers (Europe) arising from a repurchase agreement entered into during the normal course of business. Under these arrangements, GOJ EURO denominated bonds were pledged as security and it is considered doubtful that the excess of the value of these pledged assets held over the liability will be recovered, in light of the insolvency proceedings that have been initiated with respect to members of the Lehman Brothers Group. Consequently, a full provision for this excess of EURO561,183 has been made in these financial statements.

## 13. Expenses by nature

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Salaries, pension contributions and other staff benefits (note 11) | 7,603,189 | 6,407,894 | - | - |
| Property expenses, including depreciation | 2,693,939 | 2,370,551 | - | - |
| Changes in policyholders' reserves | 4,220,231 | 2,838,416 | - | - |
| Transportation and communication | 775,527 | 880,818 | - | - |
| Marketing and advertising | 621,734 | 591,556 | - | - |
| Management and consultancy fees | 413,960 | 403,770 | - | - |
| Deposit insurance | 219,046 | 196,493 | - | - |
| Stationery | 324,212 | 284,990 | - | - |
| Other operating expenses | 824,378 | 467,159 | 17,876 | 5,923 |
| Impairment loss (note 12) | 69,712 | - | - | - |
| Amortisation of intangibles | 169,842 | 240,699 | - | - |
| | 17,935,770 | 14,682,346 | 17,876 | 5,923 |

## 14. Profit before taxation

In arriving at the profit before taxation, the following are among the items that have been charged/(credited):

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Auditors' remuneration: | | | | |
| - Current year | 40,150 | 19,989 | 3,250 | 1,165 |
| - Prior years | 17,761 | - | 3,361 | - |
| Depreciation | 381,335 | 362,591 | - | - |
| Directors' emoluments: | | | | |
| Fees | 41,361 | 35,574 | 1,550 | - |
| Other | 43,193 | 70,122 | - | - |
| Gain on sale of shares and property, plant and equipment | ( 52,109) | (451,186) | - | - |
| Operating lease rentals | 274,873 | 235,723 | - | - |

## 15. Taxation

(a) Taxation charge

Income tax is computed on the profit for the year as adjusted for tax purposes; other taxes are computed at rates and on items shown below:

| | The Group | |
|---|---|---|
| | 2009 | 2008 |
| Current income tax: | | |
| Income tax at 33⅓% | 2,681,103 | 2,431,611 |
| Income tax at 30% | 194,427 | 192,037 |
| Premium income tax at 3% | 81,383 | 93,199 |
| Investment income tax at 15% | 447,420 | 183,590 |
| Deferred income tax (note 39) | 369,867 | 594,601 |
| | 3,774,200 | 3,495,038 |

(b) Reconciliation of applicable tax charge to effective tax charge:

| | The Group | |
|---|---|---|
| | 2009 | 2008 |
| Profit before taxation | 15,379,659 | 13,119,095 |
| Tax calculated at 33⅓% | 5,126,553 | 4,373,032 |
| Adjusted for the tax effects of: | | |
| Different tax regimes applicable to the life insurance and mortgage financing subsidiaries | ( 738,176) | ( 527,691) |
| Income not subject to tax – tax free investments | ( 518,499) | ( 383,281) |
| Expenses not deductible for tax purposes | 1, 121, 915 | 711,023 |
| Capital gains | ( 17,585) | ( 156,463) |
| Other charges and allowances | ( 1,156,557) | 213,576 |
| Tax losses utilized | ( 43,451) | ( 735,158) |
| | 3,774,200 | 3,495,038 |

(c) Taxation expense for life insurance business

Tax on the life insurance business is charged on investment income, less expenses allowable in earning that income, at the rate of 15%, and on premium income less reinsurance premiums, at 3%.

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 16. Earnings per stock unit

Basic earnings per stock unit is calculated by dividing the profit attributable to stockholders of the Company by the weighted average number of ordinary stock units in issue during the year.

| | 2009 | 2008 |
|---|---|---|
| Profit attributable to stockholders of the Company | 11,152,199 | 9,390,739 |
| Weighted average number of ordinary stock units in issue ('000) | 3,111,573 | 3,111,573 |
| Basic earnings per stock unit (expressed in $ per share) | 3.58 | 3.02 |

## 17. Cash and balances at Bank of Jamaica

| | The Group | |
|---|---|---|
| | 2009 | 2008 |
| Statutory reserves with Bank of Jamaica – interest-bearing | 5,408,868 | 3,640,792 |
| Statutory reserves – non interest bearing | 12,469,361 | 7,412,899 |
| Total statutory reserves (note 20) | 17,878,229 | 11,053,691 |
| Cash in hand and other balances at Bank of Jamaica (note 20) | 30,383,534 | 29,271,348 |
| | 48,261,763 | 40,325,039 |

Statutory reserves with the Bank of Jamaica under Section 14(i) of the Banking Act, 1992, Section 14 of the Financial Institutions Act, and the Building Societies Regulations represent the required primary reserve ratio of 14% for Jamaican dollar reserves and 11% for foreign currency reserves (2008: 9%) of the Bank's and Scotia DBG Merchant Bank's and 1% (2008: 1%) of the Society's prescribed liabilities, respectively. They are not available for investment, lending or other use by the Group.

## 18. Amounts due from other banks

| | The Group | |
|---|---|---|
| | 2009 | 2008 |
| Items in course of collection from other banks | 437,736 | 729,506 |
| Placements with other banks | 7,943,874 | 12,954,297 |
| | 8,381,610 | 13,683,803 |

## 19. Accounts with parent and fellow subsidiaries

These represent accounts held with the parent company, fellow subsidiaries and, in the case of the company, a subsidiary in the normal course of business.

## 20. Cash and cash equivalents

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Cash and balances with Bank of Jamaica | 48,261,763 | 40,325,039 | - | - |
| Less: statutory reserves (note 17) | (17,878,229) | (11,053,691) | - | - |
| | 30,383,534 | 29,271,348 | - | - |
| Less: balances at Bank of Jamaica with tenures greater than 90 days | (20,739,114) | (20,742,795) | - | - |
| | 9,644,420 | 8,528,553 | - | - |
| Accounts with subsidiary | - | - | 219,977 | 47,642 |
| Government and bank notes other than Jamaica | 330,405 | 384,440 | - | - |
| Amounts due from other banks | 7,551,681 | 5,714,802 | - | - |
| Accounts with parent and fellow subsidiaries | 224,151 | 126,822 | - | - |
| Government of Jamaica treasury bills and bonds | 2,294,781 | 7,647,824 | - | - |
| Cheques and other instruments in transit | ( 2,279,585) | ( 2,677,670) | - | - |
| | 17,765,853 | 19,724,771 | 219,977 | 47,642 |
| Less accrued interest receivable on Bank of Jamaica Certificates of Deposit and Deposits with Banks | ( 1,969,643) | ( 1,365,273) | - | - |
| | 15,796,210 | 18,359,498 | 219,977 | 47,642 |

## 21. Financial assets at fair value through profit or loss

| | The Group | |
|---|---|---|
| | 2009 | 2008 |
| Quoted shares | 1,698 | 116,951 |
| Units in unit trusts | 103,671 | - |
| | 105,369 | 116,951 |

## 22. Government securities purchased under resale agreements

The Group enters into reverse repurchase agreements collateralised by Government of Jamaica securities. These agreements result in credit exposure in that the counterparty to the transaction may be unable to fulfil its contractual obligations.

The fair value of collateral held pursuant to reverse repurchase agreements is $556,733 (2008: $349,686) for the Group.

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

**22. Government securities purchased under resale agreements (continued)**

Included in Government Securities purchased under resale agreement are the following amounts which are regarded as cash equivalents for the purposes of the statement of cash flows:

| | The Group | |
|---|---|---|
| | 2009 | 2008 |
| Reverse repurchase agreements with an original maturity of less than 90 days. | 555,000 | 405,000 |

**23. Pledged assets**

Assets are pledged as collateral under repurchase agreements with counterparties. Mandatory reserve deposits are also held with The Bank of Jamaica under Section 14 (i) of the Banking Act, 1992, viz:

| | The Group | | | |
|---|---|---|---|---|
| | Asset | | Related Liability | |
| | 2009 | 2008 | 2009 | 2008 |
| Securities with Bank of Jamaica | 939,238 | 1,124,612 | - | - |
| Securities sold under repurchase agreements | 51,960,375 | 43,862,459 | 46,120,207 | 40,206,572 |
| Capital Management and Government Securities funds | 13,212,326 | 13,216,544 | 15,899,029 | 14,991,522 |
| Securities with other financial institutions and clearing houses | 701,541 | 501,453 | - | - |
| | 66,813,480 | 58,705,068 | 62,019,236 | 55,198,094 |

The Bank of Jamaica holds, as security, Government of Jamaica Local Registered Stocks and Bank of Jamaica Certificates of Deposit with a carrying amount of $939,238 (2008: $1,124,612) for the Group against possible shortfalls in the operating account.

Other financial institutions hold, as security, Government of Jamaica Local Registered Stocks with a carrying amount of $701,541 (2008: $501,453) for the Bank in the normal course of inter-bank transactions. These transactions are conducted under terms that are usual and customary for standard securities lending and repurchase agreements.

**24. Loans, and leases after allowance for impairment losses**

| | The Group | |
|---|---|---|
| | 2009 | 2008 |
| Business and Government | 48,077,819 | 45,109,427 |
| Personal and credit cards | 37,398,527 | 38,314,629 |
| Residential mortgages | 6,763,978 | 6,132,772 |
| Leases | 107,274 | 144,834 |
| Interest receivable | 917,154 | 879,731 |
| Total | 93,264,752 | 90,581,393 |
| Less: allowance for impairment losses (note 25) | ( 1,086,441) | ( 884,314) |
| | 92,178,311 | 89,697,079 |

(i) The aging of the loans at the reporting date was:

| | 2009 | 2008 |
|---|---|---|
| Neither past due nor impaired | 80,269,551 | 77,394,182 |
| Past due but not impaired | | |
| Past due 0-30 days | 5,952,784 | 6,506,202 |
| Past due 30-60 days | 1,720,502 | 1,805,185 |
| Past due 60-90 days | 713,289 | 903,286 |
| | 8,386,575 | 9,214,673 |
| Past due and impaired | | |
| Past due more than 90 days | 3,584,198 | 2,961,540 |
| Interest receivable | 909,565 | 866,447 |
| Gross loan portfolio | 93,149,889 | 90,436,842 |
| Less: Allowance for impairment losses | ( 1,083,035) | ( 877,493) |
| | 92,066,854 | 89,559,349 |

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

**24. Loans, after allowance for impairment losses (continued)**

(ii) The aging of the leases at the reporting date was:

| | 2009 | 2008 |
|---|---|---|
| Neither past due nor impaired | 90,152 | 101,074 |
| Past due but not impaired | | |
| Past due 0-30 days | 11,047 | 13,586 |
| Past due 30-60 days | 2,518 | 5,208 |
| Past due 60-90 days | 725 | 2,225 |
| | 14,290 | 21,019 |
| Past due and impaired more than 90 days (NAL) | 2,832 | 9,174 |
| Interest receivable | 7,589 | 13,284 |
| Gross loan portfolio | 114,863 | 144,551 |
| Less: Allowance for impairment losses | ( 3,406) | ( 6,821) |
| | 111,457 | 137,730 |

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of loans not past due up to 90 days.

There are no financial assets other than those listed above that were individually impaired.

(iii) Renegotiated loans and leases

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account may be reset to a normal status and managed together with other similar accounts after careful analysis and the demonstration to maintain the scheduled payments over a prolonged period.

Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review.

The Group's renegotiated loans that would otherwise be past due or impaired totalled $59,199 (2008: $35,286).

(iv) Repossessed collateral

During 2008, the Group obtained financial assets by taking possession of collateral it holds as security as follows:

| | 2009 | 2008 |
|---|---|---|
| Quoted shares | - | 6,289 |

**24. Loans, after allowance for impairment losses (continued)**

(iv) Repossessed collateral (continued)

In general, the Group does not obtain financial or non financial assets by taking possession of collateral. In the normal course of business, the security documentation which governs the collateral charged in favour of the Group to secure the debt, gives the Group express authority to repossess the collateral in the event of default. Repossessed collateral are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

(v) Collateral accepted as security for assets

The fair value of assets accepted as collateral that the Group is permitted to sell or repledge in the absence of default is Nil (2008: Nil). The fair value of any such collateral that has been sold or repledged was Nil (2008: Nil).

**25. Impairment losses on loans and leases**

| | The Group | |
|---|---|---|
| | 2009 | 2008 |
| Total non-performing loans | 3,587,030 | 2,970,714 |
| Provision at beginning of year | 884,314 | 856,542 |
| Charged against revenue during the year | 1,872,869 | 758,756 |
| Bad debts written off | (2,151,893) | (1,002,746) |
| Translation difference on foreign currency provision | 34,495 | - |
| Recoveries of bad debts | 446,656 | 271,762 |
| At end of year | 1,086,441 | 884,314 |
| This comprises: | | |
| Specific provisions | 826,661 | 612,086 |
| General provisions | 259,780 | 272,228 |
| | 1,086,441 | 884,314 |

Allowance for impairment losses

A loan is classified as impaired if its book value exceeds the present value of the cash flows expected in future periods from interest payments, principal repayments, and proceeds of liquidation of collateral. Provisions for credit losses are made on all impaired loans. Uncollected interest not accrued in these financial statements on impaired loans was estimated at $313,301 as at October 31, 2009 (2008: $252,290) for the Group.

The total allowance for loan losses is made up as follows:

| | The Group | |
|---|---|---|
| | 2009 | 2008 |
| Allowance based on accounting standard - IAS 39 [see (a) below] | 1,086,441 | 884,314 |
| Additional allowance based on BOJ regulations [see (b) below] | 1,715,750 | 1,301,215 |
| | 2,802,191 | 2,185,529 |

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

**25. Impairment losses on loans and leases (continued)**

(a) This is the allowance based on the requirements of IAS 39, *Financial Instruments: Recognition and Measurement*, and is the amount included in the table above.

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

**26. Lease receivables**

| | The Group | |
|---|---|---|
| | 2009 | 2008 |
| Gross investment in finance leases receivable in | | |
| Not later than one year | 94,116 | 130,668 |
| Later than one year and not later than five years | 49,448 | 49,263 |
| | 143,564 | 179,931 |
| Less: unearned income | ( 32,107) | ( 42,201) |
| Net investment in finance leases | 111,457 | 137,730 |
| Net investment in finance leases may be classified as follows: | | |
| Not later than one year | 69,926 | 100,275 |
| Later than one year and not later than five years | 41,531 | 37,455 |
| | 111,457 | 137,730 |

The provision for uncollectible finance lease receivables amounted to $3,406 as at October 31, 2009 (2008: $7,103).

**27. Investment securities**

| | The Group | |
|---|---|---|
| | 2009 | 2008 |
| Available-for-sale (AFS) | | |
| Quoted shares | - | 6,289 |
| Unquoted shares | 190,188 | 227,687 |
| Government of Jamaica securities | 25,482,154 | 18,774,277 |
| Corporate securities | - | 84,392 |
| Interest receivable | 996,623 | 679,255 |
| | 26,668,965 | 19,771,900 |
| Held-to-Maturity (HTM) | | |
| Government of Jamaica securities | 45,805,759 | 34,970,048 |
| Interest receivable | 1,971,198 | 971,564 |
| | 47,776,957 | 35,941,612 |

**27. Investment securities (continued)**

Included in investment securities are Government of Jamaica Local Registered Stocks with a fair value of $110,000 (2008: $90,000) which have been deposited by one of the Group's subsidiaries, Scotia Jamaica Life Insurance Company Limited, with the insurance regulator, Financial Services Commission, pursuant to Section 8(1)(a) of the Insurance Regulations 2001.

The debt securities are made up of fixed and variable coupons. The Group has not reclassified any HTM Securities (measured at amortised cost) to AFS securities (measured at fair value), during the year

**28. Sundry assets**

| | The Group | |
|---|---|---|
| | 2009 | 2008 |
| Accounts receivable and prepayments | 266,056 | 294,365 |
| Other | 192,153 | 526,976 |
| | 458,209 | 821,341 |

**29. Property, plant and equipment**

| | The Group | | | | |
|---|---|---|---|---|---|
| | Freehold Land and Buildings | Leasehold Improvements | Furniture, Fixtures, Motor vehicles & Equipment | Capital Work- in-Progress | Total |
| Cost: | | | | | |
| October 31, 2007 | 1,778,738 | 203,717 | 3,394,646 | 201,341 | 5,578,442 |
| Additions | 8,886 | 5,124 | 91,425 | 485,599 | 591,034 |
| Disposals | ( 19) | ( 22,599) | ( 97,763) | - | ( 120,381) |
| Transfers | 108,562 | 13,781 | 195,315 | (317,658) | - |
| Write-offs | - | - | - | ( 1,793) | ( 1,793) |
| October 31, 2008 | 1,896,167 | 200,023 | 3,583,623 | 367,489 | 6,047,302 |
| Additions | 28,071 | 5,537 | 104,722 | 768,305 | 906,635 |
| Disposals | ( 451) | (1,202) | (31,368) | - | ( 33,021) |
| Transfers | 391,628 | 21,839 | 319,126 | (732,593) | - |
| October 31, 2009 | 2,315,415 | 226,197 | 3,976,103 | 403,201 | 6,920,916 |
| Accumulated depreciation: | | | | | |
| October 31, 2007 | 330,377 | 121,028 | 2,424,590 | - | 2,875,995 |
| Charge for the year | 33,773 | 38,121 | 290,697 | - | 362,591 |
| Eliminated on disposals | - | ( 12,616) | ( 89,371) | - | ( 101,987) |
| October 31, 2008 | 364,150 | 146,533 | 2,625,916 | - | 3,136,599 |
| Charge for the year | 43,107 | 30,009 | 308,219 | - | 381,335 |
| Eliminated on disposals | ( 90) | ( 1,175) | ( 30,236) | - | ( 31,501) |
| October 31, 2009 | 407,167 | 175,367 | 2,903,899 | - | 3,486,433 |
| Net book values | | | | | |
| October 31, 2009 | 1,908,248 | 50,830 | 1,072,204 | 403,201 | 3,434,483 |
| October 31, 2008 | 1,532,017 | 53,490 | 957,707 | 367,489 | 2,910,703 |
| October 31, 2007 | 1,448,361 | 82,689 | 970,056 | 201,341 | 2,702,447 |

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 30. Intangible assets

| | Customer Relationships | Contract Based Intangibles | License | Tax Benefits | Goodwill | Computer Software | Total |
|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | |
| October 31, 2007 | 1,382,582 | 348,987 | 49,470 | 692,466 | 136,892 | 127,034 | 2,737,431 |
| Additions during the year | - | - | - | - | - | 1,180 | 1,180 |
| October 31, 2008 | 1,382,582 | 348,987 | 49,470 | 692,466 | 136,892 | 128,214 | 2,738,611 |
| Additions during the year | - | - | - | - | - | 1,032 | 1,032 |
| October 31, 2009 | 1,382,582 | 348,987 | 49,470 | 692,466 | 136,892 | 129,246 | 2,739,643 |
| Amortisation: | | | | | | | |
| October 31, 2007 | 46,086 | - | - | 79,550 | - | 84,135 | 209,771 |
| Amortisation for the year | 89,911 | - | - | 114,061 | - | 16,087 | 220,059 |
| Impairment charge | - | 20,640 | - | - | - | - | 20,640 |
| Movement for the year | 89,911 | 20,640 | - | 114,061 | - | 16,087 | 240,699 |
| October 31, 2008 | 135,997 | 20,640 | - | 193,611 | - | 100,222 | 450,470 |
| Amortisation for the year | 92,172 | - | - | 63,284 | - | 12,526 | 167,982 |
| Impairment charge | - | 1,860 | - | - | - | - | 1,860 |
| Movement for the year | 92,172 | 1,860 | - | 63,284 | - | 12,526 | 169,842 |
| October 31, 2009 | 228,169 | 22,500 | - | 256,895 | - | 112,748 | 620,312 |
| Net book values | | | | | | | |
| October 31, 2009 | 1,154,413 | 326,487 | 49,470 | 435,571 | 136,892 | 16,498 | 2,119,331 |
| October 31, 2008 | 1,246,585 | 328,347 | 49,470 | 498,855 | 136,892 | 27,992 | 2,288,141 |
| October 31, 2007 | 1,336,496 | 348,987 | 49,470 | 612,916 | 136,892 | 42,899 | 2,527,660 |

## 31. Retirement benefit asset/obligation

Amounts recognised in the balance sheet:

| | The Group 2009 | The Group 2008 |
|---|---|---|
| Defined benefit pension plan | 5,827,140 | 5,402,224 |
| Other post retirement benefits | (1,132,488) | ( 930,576) |
| | 4,694,652 | 4,471,648 |

(a) Defined benefit pension plan

The Group has established a pension plan covering all permanent employees. The pension plan is a final salary (the average of the best three consecutive years' remuneration, with no salary cap) defined benefit plan and is fully funded. The assets of the plan are held independently of the Group's assets in a separate trustee-administered fund. The fund established under the plan is valued by independent actuaries annually using the Projected Unit Credit Method. The latest actuarial valuation was carried out as at October 31, 2009.

(i) The amounts recognised in the balance sheet are determined as follows:

| | The Group 2009 | The Group 2008 |
|---|---|---|
| Present value of funded obligations | (10,948,143) | ( 9,087,313) |
| Fair value of plan assets | 26,446,396 | 22,726,007 |
| Unrecognised actuarial gains | ( 4,388,599) | ( 3,915,583) |
| | 11,109,654 | 9,723,111 |
| Limitation on recognition of surplus due to uncertainty of obtaining future benefits | ( 5,282,514) | ( 4,320,887) |
| Asset in the balance sheet | 5,827,140 | 5,402,224 |

(ii) The movement in the present value of funded obligations for the year is as follows:

| | The Group 2009 | The Group 2008 |
|---|---|---|
| At beginning of year | ( 9,087,313) | (6,911,961) |
| Interest and service costs | ( 1,738,688) | (1,401,802) |
| Past service cost – vested benefits | - | (1,128,199) |
| Actuarial loss on obligation | ( 706,720) | ( 102,382) |
| Benefits paid | 584,578 | 457,031 |
| At end of year | (10,948,143) | (9,087,313) |

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

**31. Retirement benefit asset/obligation (continued)**

(a) Defined benefit pension plan (continued)

(iii) The movement in fair value of plan assets for the year is as follows:

| | The Group 2009 | 2008 |
|---|---|---|
| At beginning of year | 22,726,007 | 20,514,621 |
| Expected return on plan assets | 2,712,372 | 2,146,694 |
| Actuarial loss on plan assets | 1,253,835 | 204,530 |
| Contributions | 338,760 | 317,193 |
| Benefits paid | ( 584,578) | ( 457,031) |
| At end of year | 26,446,396 | 22,726,007 |

(iv) Analysis of fair value of plan assets:

| | The Group 2009 | 2008 |
|---|---|---|
| Government stocks and bonds | 20,992,497 | 15,423,191 |
| Quoted investments | 1,751,417 | 2,289,702 |
| Repurchase agreements | 1,255,934 | 2,918,306 |
| Real estate | 982,822 | 812,822 |
| Net current assets | 1,463,726 | 1,281,986 |
| | 26,446,396 | 22,726,007 |

Plan assets include of the following:

| | 2009 | 2008 |
|---|---|---|
| Scotia Group Jamaica Limited's ordinary stock units | 989,684 | 1,201,133 |

(v) The amounts recognised in the statement of revenue and expenses are as follows:

| | The Group 2009 | 2008 |
|---|---|---|
| Current service cost, net of employee contributions | 225,782 | 128,552 |
| Interest cost | 1,211,843 | 1,023,716 |
| Expected return on plan assets | (2,712,372) | (2,146,694) |
| Net actuarial gain recognised in year | ( 74,100) | ( 83,100) |
| Past service cost - vested benefits | - | 1,128,199 |
| Income not recognised due to limit | 961,629 | ( 570,453) |
| Included in staff costs (note 11) | ( 387,218) | ( 519,780) |

The actual return on plan assets was $3,966,207 (2008: $2,351,224).

**31. Retirement benefit asset/obligation (continued)**

(a) Defined benefit pension plan (continued)

(vi) The principal actuarial assumptions used were as follows:

| | The Group 2009 | 2008 |
|---|---|---|
| Discount rate | 18.0% | 13.0% |
| Expected return on plan assets | 12.0% | 10.5% |
| Future salary increases | 14.5% | 10.5% |
| Future pension increases | 11.5% | 4.5% |
| Average expected remaining working lives (years) | 22.2 | 22.2 |

(b) Other post retirement benefits

In addition to pension benefits, the Group offers retiree medical and group life insurance benefits that contribute to the health care and life insurance coverage of employees and beneficiaries after retirement. The method of accounting and frequency of valuations are similar to those used for the defined benefit pension plan.

In addition to the assumptions used for the pension plan, the main actuarial assumption is a long-term increase in health costs of 13.5% per year (2008: 10.5%).

(i) The amounts recognised in the balance sheet are as follows:

| | The Group 2009 | 2008 |
|---|---|---|
| Present value of unfunded obligations | (1,569,756) | (1,209,160) |
| Unrecognised actuarial losses | 437,268 | 278,584 |
| Liability in the balance sheet | (1,132,488) | ( 930,576) |

(ii) The movement in the present value of unfunded obligations for the year is as follows:

| | The Group 2009 | 2008 |
|---|---|---|
| At beginning of year | (1,209,160) | (1,141,333) |
| Interest and service costs | ( 232,043) | ( 222,131) |
| Actuarial loss/(gain) on obligation | ( 164,539) | 128,228 |
| Benefits paid | 35,986 | 26,076 |
| Liability in the balance sheet | (1,569,756) | (1,209,160) |

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

## 31. Retirement benefit asset/obligation (continued)

(b) Other post retirement benefits (continued)

(iii) The amounts recognised in the statement of revenue and expenses are as follows:

| | The Group | |
|---|---|---|
| | 2009 | 2008 |
| Current service cost | 68,311 | 72,083 |
| Interest cost | 163,732 | 150,048 |
| Net actuarial losses recognised in year | 5,855 | 11,400 |
| Total included in staff costs (Note 11) | 237,898 | 233,531 |

(c) Five year trend analysis

| | Pension | | | | |
|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| Fair value of plan assets | 26,446,396 | 22,726,007 | 20,514,620 | 18,483,277 | 16,377,620 |
| Present value of defined benefit obligation | 10,948,143 | 9,087,313 | 6,911,961 | 5,872,871 | 5,124,428 |
| Surplus in the plan | 15,498,253 | 13,638,694 | 13,602,659 | 12,610,406 | 11,253,192 |
| Experience adjustments to plan liabilities | 793,979 | 427,376 | 474,870 | (397,996) | 225,179 |
| Experience adjustments to plan assets | 1,253,835 | 204,530 | 21,643 | 352,091 | 306,914 |

| | Health and Group Life | | | | |
|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| Present value of defined benefit obligation | 1,569,756 | 1,209,160 | 1,141,333 | 1,195,379 | 877,965 |
| Deficit in the plan | (1,569,756) | (1,209,160) | (1,141,333) | (1,195,379) | (877,965) |
| Experience adjustments to plan liabilities | (184,950) | (8,502) | (140,505) | 56,384 | 422,921 |

## 32. Deposits by the public

| | The Group | |
|---|---|---|
| | 2009 | 2008 |
| Personal | 85,284,801 | 77,763,281 |
| Other | 56,288,238 | 52,613,647 |
| Interest payable | 304,057 | 296,329 |
| | 141,877,096 | 130,673,257 |

Deposits include $1,478,702 (2008: $260,093) held as collateral for irrevocable commitments under letters of credit.

## 33. Amounts due to other banks and financial institutions

These represent deposits by other banks and financial institutions in the normal course of business.

## 34. Due to parent company

| | The Group | |
|---|---|---|
| | 2009 | 2008 |
| Facility I | 1,065,158 | 984,018 |
| Facility II | 3,260,330 | 2,785,447 |
| Facility III | 3,510,686 | 2,999,337 |
| | 7,836,174 | 6,768,802 |
| Interest payable | 85,305 | 71,488 |
| | 7,921,479 | 6,840,290 |
| Deposits held with Bank | 6,406 | 8,231 |
| | 7,927,885 | 6,848,521 |

(i) Facility I is a US$ denominated fifteen (15) year non-revolving loan from the parent company, for onlending. The repayment of the principal commenced June 30, 2003 and is subject to an interest rate of LIBOR + 1% per annum.

(ii) Facility II is a US$ denominated twelve (12) year non-revolving loan from the parent company, for on-lending. The repayment of the principal will commence May 2012 and is subject to a fixed interest rate of 5.63% per annum.

(iii) Facility III is a US$ denominated fourteen (14) year non-revolving loan from the parent company, for on-lending. The repayment of the principal will commence May 2012 and is subject to a fixed interest rate of 5.95% per annum.

The above loan facilities are unsecured.

## 35. Amounts due to subsidiaries and fellow subsidiaries

These represent accounts held by subsidiaries and fellow subsidiaries in the normal course of business.

## 36. Capital Management and Government Securities funds

(a) Capital Management fund

This fund represents the investment of contributions from third-party clients. Changes in the value of the fund at each valuation date are based on the net accretion in the value of the investments.

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

**36. Capital Management and Government Securities funds (continued)**

(b) Government Securities fund

The Group manages funds, on a non-recourse basis, on behalf of investors. There is no legal or equitable right or interest in these funds.

**37. Redeemable preference shares**

The Bank of Nova Scotia Jamaica Limited's authorised capital includes 100,000 redeemable preference shares with no par value, all of which are issued and fully paid. Because they are redeemable at the option of the Bank (subject to the Companies Act 2004) and dividends are not discretionary, they are required by IFRS to be classified as liabilities.

The key terms and conditions of the redeemable preference shares are:

(1) the right to a cumulative preferential dividend payable semi-annually on June 30 and December 31 at the rate of the six month's weighted average Treasury Bill yield at the start of the dividend period.

(2) the right on winding to recover the amounts paid up on the preference shares and any arrears or accruals of the preference dividend.

(3) no right to vote except:
- (i) if the preference dividend is in arrears for more than six months,
- (ii) any resolution is proposed for the winding up of the company
- (iii) there is a proposal submitted to the meeting to vary the special rights and privileges attached to the preference shares.

**38. Other liabilities**

| | The Group | |
|---|---|---|
| | 2009 | 2008 |
| Accrued liabilities | 1,606,195 | 889,994 |
| Prepaid letters of credit | 139,179 | 30,316 |
| Other | 859,279 | 461,038 |
| | 2,604,653 | 1,381,348 |

**39. Deferred tax assets and liabilities**

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of:

33⅓ for the Bank and its subsidiaries except for
The Scotia Jamaica Building Society at 30%;
Scotia Jamaica Life Insurance Company Limited at 15%
33⅓ for Scotia DBG and all its subsidiaries.

**39. Deferred tax assets and liabilities (continued)**

The movement on the deferred income tax account is as follows:

| | The Group | |
|---|---|---|
| | 2009 | 2008 |
| Balance at beginning of year | (1,339,219) | (1,793,803) |
| Recognised in the statement of revenue and expenses (note 15) | ( 369,867) | ( 594,601) |
| Recognised in equity: | | |
| Available-for-sale investments | | |
| - fair value re-measurement | ( 384,606) | 1,043,569 |
| - transfer to net profit | ( 37,418) | 5,616 |
| Balances at end of year | (2,131,110) | (1,339,219) |

Deferred income tax assets and liabilities are attributable to the following items:

| | The Group | |
|---|---|---|
| | 2009 | 2008 |
| Other post retirement benefits | 377,496 | 310,192 |
| Available-for-sale investments | 277,412 | 699,437 |
| Losses carry forward | 4,135 | 30,044 |
| Vacation accrued | 25,647 | 20,523 |
| Pension benefits | (1,942,380) | (1,800,742) |
| Accelerated tax depreciation | ( 134,713) | ( 144,020) |
| Acquisition | ( 16,000) | ( 16,000) |
| Impairment losses on loans | ( 389,200) | ( 262,927) |
| Interest receivable | ( 333,507) | ( 175,726) |
| Net deferred tax liability | (2,131,110) | (1,339,219) |
| This is comprised of :- | | |
| Deferred tax asset | 101,333 | 241,969 |
| Deferred tax liability | (2,232,443) | (1,581,188) |
| | (2,131,110) | (1,339,219) |

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

**39. Deferred tax assets and liabilities (continued)**

The deferred tax charge in the statement of revenue and expenses comprises the following temporary differences and related tax:

| | The Group 2009 | The Group 2008 |
|---|---|---|
| Accelerated tax depreciation | ( 9,308) | 53,267 |
| Pensions and other post retirement benefits | 74,334 | 117,875 |
| Allowance for loan impairment | 126,274 | 102,322 |
| Vacation accrued | ( 5,123) | ( 1,829) |
| Losses carry forward | 25,908 | 246,673 |
| Interest receivable | 157,782 | 76,293 |
| | 369,867 | 594,601 |

Deferred income tax liabilities exclude withholding tax and other taxes that would be payable on distribution of the unappropriated profits of subsidiaries as such amounts are permanently reinvested; such unappropriated profits totaled $14,440,777 at October 31, 2009 (2008: $13,117,434).

**40. Policyholders' liabilities**

(a) Composition of policyholders liabilities

| | The Group 2009 | The Group 2008 |
|---|---|---|
| Policyholders' fund | 36,048,630 | 32,222,016 |
| Benefits and claims payable | 60,645 | 52,513 |
| Unprocessed premiums | 17,159 | 18,592 |
| Insurance risk reserve – Individual life | ( 1,861,798) | ( 1,892,953) |
| – Group life | 143,241 | 161,250 |
| | 34,407,877 | 30,561,418 |

**40. Policyholders' liabilities (continued)**

(b) Change in policyholders' liabilities:

| | The Group 2009 | The Group 2008 |
|---|---|---|
| **Policyholders fund:** | | |
| At beginning of year | 32,222,016 | 28,585,195 |
| Gross premium | 4,729,862 | 4,495,436 |
| Benefits and claims | ( 4,938,391) | ( 3,730,948) |
| Interest credited | 4,035,143 | 2,872,333 |
| At end of year | 36,048,630 | 32,222,016 |
| **Benefits and claims payable:** | | |
| At beginning of year | 52,513 | 28,559 |
| Policyholders' claims and benefits | 179,677 | 110,109 |
| Benefits and claims paid | ( 171,545) | ( 86,155) |
| At end of year | 60,645 | 52,513 |
| **Unprocessed premiums:** | | |
| At beginning of year | 18,592 | 12,003 |
| Premiums received | 5,171,240 | 4,984,611 |
| Premiums applied | ( 5,172,673) | ( 4,978,022) |
| At end of year | 17,159 | 18,592 |

| 2009 | Individual life | Group life | Total |
|---|---|---|---|
| **Insurance risk reserve:** | | | |
| At beginning of year | (1,892,953) | 161,250 | (1,731,703) |
| Changes in assumptions | 217,779 | ( 652) | 217,127 |
| Normal changes | ( 186,624) | ( 17,357) | ( 203,981) |
| At end of year | (1,861,798) | 143,241 | (1,718,557) |

| 2008 | Individual life | Group life | Total |
|---|---|---|---|
| **Insurance risk reserve:** | | | |
| At beginning of year | (1,734,707) | 123,718 | (1,610,989) |
| Changes in assumptions | ( 68,151) | ( 635) | ( 68,786) |
| Normal changes | ( 90,095) | 38,167 | ( 51,928) |
| At end of year | (1,892,953) | 161,250 | (1,731,703) |

**40. Policyholders' liabilities (continued)**

(c) Policy assumptions

Policy liabilities are valued using two major classes of assumptions, best estimate assumptions and provisions for adverse deviation assumptions.

(1) Best estimate assumptions:

Assumptions cover the lifetime of the policies and are made for many variables including mortality, morbidity, investment yields, rates of policy termination, operating expenses and certain taxes.

(i) Mortality and morbidity

The assumptions are based on industry experience.

(ii) Investment yields

The Group matches assets and liabilities by line of business. The projected cash flows from these assets are combined with projected reinvestment rates to determine the expected rates of return for future periods.

The Group has assumed a portfolio yield of 13.50% beginning January 2009, decreasing monthly to 8% in the year 2015, and then decreasing yearly to 6% in the year 2028 and later. Assumed interest rates are net of investment income tax. A margin for adverse deviation is added to account for 0.50% reduction in the yield.

The main source of the uncertainty is the fluctuation in the economy, as lower yields would result in higher reserves and reduced income.

(iii) Persistency

Persistency assumptions are made in relation to the time since inception that a policy exists before it lapses or is surrendered. Lapses relate to termination of policies due to non-payment of premiums. Surrenders relate to voluntary termination of policies by the policyholders. Policy terminations are based on the Group's own experience adjusted for expected future conditions.

The expected lapse rates are 2% in the first year, 8% in the second year, 7% in the third year and 6% thereafter. A margin for adverse deviation is added by increasing or decreasing the lapse rates, whichever is adverse, by 20%.

The main source of uncertainty derives from changes in policyholder behaviour as it relates to changes in economic conditions.

**40. Policyholders' liabilities (continued)**

(c) Policy assumptions (continued)

(1) Best estimate assumptions (continued):

(iv) Policy expenses and inflation

Policy maintenance expenses are derived from the Group's own internal cost studies projected into the future with an allowance for inflation.

Inflation is assumed to be 10% beginning in 2009, decreasing to 5% in the year 2015, and then decreasing to 3% in year 2028 and later.

A margin for adverse deviation is added by increasing the maintenance expenses by 10% of the best estimate assumption.

(v) Partial withdrawal of policy funds

The Group's contracts allow policyholders to withdraw a portion of the funds accumulated under the contract without surrendering the entire contract. Partial withdrawal rates are derived from the Group's own experience. A margin for adverse deviation is added by increasing the partial withdrawal rates by 10% of the best-estimate assumption.

(vi) Taxation

It is assumed that current tax legislation and rates continue unaltered.

(2) Provision for adverse deviation assumptions

The basic assumptions made in establishing policy liabilities are best estimates for a range of possible outcomes. To recognise the uncertainty in establishing these best estimates, to allow for possible deterioration in experience and to provide greater comfort that the reserves are adequate to pay future benefits, the appointed actuary is required to include a margin in each assumption.

The impact of these margins is to increase reserves and so decrease the income that would be recognised on inception of the policy. The Canadian Institute of Actuaries prescribes a range of allowable margins. The Group uses assumptions at the conservative end of the range, taking into account the risk profiles of the business.

(expressed in thousands of Jamaican dollars unless otherwise stated)

**41. Share capital**

| | Number of Units '000 | | Total | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Authorised: | | | | |
| Ordinary shares of no par value | 10,000,000 | 10,000,000 | | |
| Issued and fully paid: | | | | |
| Ordinary stock units | 3,111,573 | 3,111,573 | 6,569,810 | 6,569,810 |

The holders of the ordinary stock units are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

**42. Reserve fund**

| | The Group | |
|---|---|---|
| | 2009 | 2008 |
| Opening balance | 3,200,107 | 3,160,917 |
| Transfer from unappropriated profit | 17,760 | 39,190 |
| Closing balance | 3,217,867 | 3,200,107 |

In accordance with the regulations under which they operate, certain companies in the Group are required to make transfers of a minimum of 15% or 10% of net profit, depending on the circumstances, to the reserve fund until required statutory levels are attained.

**43. Retained earnings reserve**

Transfers to the retained earnings reserve are made at the discretion of the Board of Directors. Such transfers must be notified to the Bank of Jamaica and any re-transfer must be approved by the Bank of Jamaica.

**44. Cumulative remeasurement result from available-for-sale financial assets**

This represents the unrealised surplus or deficit on the revaluation of available-for-sale investments.

**45. Loan loss reserve**

This is a non-distributable loan loss reserve which represents the excess of the regulatory loan loss provision over IAS 39 requirements.

**46. Other reserves**

| | The Group | |
|---|---|---|
| | 2009 | 2008 |
| Capital reserve arising on consolidation, net | 67 | 67 |
| Reserves of subsidiary capitalised through issue of bonus shares | 16,548 | 16,548 |
| Transfer of reserves relating to liquidation of subsidiary | ( 4,823) | ( 4,823) |
| General reserve | 1,100 | 1,100 |
| | 12,892 | 12,892 |

**47. Financial risk management**

**(a) Overview and risk management framework**

By their nature, the Group's activities are principally related to the use of financial instruments. Therefore this will involve analysis, evaluation and management of some degree of risk or combination of risks. The Group manages risk through a framework of risk principles, organizational structures and risk measurement and monitoring processes that are closely aligned with the activities of its business units. The Group'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 Group 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 Board's risk management framework. The Board has established committees for managing and monitoring risks.

Two key committees for managing and monitoring risks are as follows:

(i) Board Audit Committee

The Board Audit Committee is solely comprised of independent directors. The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Committee is assisted in its oversight role by the Internal Audit Department. The Internal Audit Department undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board Audit Committee.

The Board Audit Committee also reviews the annual and quarterly financial statements, related policies and assumptions for recommendation of approval to the Board of Directors.

**47. Financial risk management (continued)**

**(a) Overview and risk management framework (continued)**

(ii) Asset and Liability Committee

The Asset and Liability Committee (ALCO) has the responsibility of ensuring that risks are managed within the limits established by the Board of Directors. The Committee meets at least once monthly to review risks, evaluate performance and provide strategic direction. The Committee reviews investment, loan and funding activities, and ensures that the existing policies comprehensively deal with the management and diversification of the Group's investment and loan portfolios and that appropriate limits are being adhered to.

The Investment Advisory Committee performs a similar role to ALCO for Scotia Jamaica Life Insurance, which provides a specialized focus due to the different nature of the insurance business.

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

**(b) Credit risk**

(i) Credit Risk Management

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are made for losses that have been incurred at the balance sheet date. However, significant negative changes in the economy, industry segment that represent a concentration in the Group's loan portfolio, or positions in tradable assets such as bonds could result in losses that are different from those provided for at the balance sheet date.

At a strategic level, the Group manages the levels of credit risk they undertake by placing limits on the amount of risk accepted in relation to any one borrower, or groups of borrowers, and industry segments. Limits on the level of credit risk are approved quarterly by the Board of Directors. The exposure to any one borrower, including banks and brokers, is further restricted by sub-limits covering on-and off-balance sheet exposures. Actual exposures against limits are monitored daily.

**47. Financial risk management (continued)**

**(b) Credit risk (continued)**

(i) Credit Risk Management (continued)

Operationally, exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by restructuring loans where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. The principal collateral types for loans are:

- Cash
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

In addition, the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans.

The Group's policy requires the review of individual financial assets that are above materiality thresholds 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 balance-sheet date 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 impairment allowances are provided for:

(1) portfolios of homogenous assets

(2) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

**47. Financial risk management (continued)**

**(b) Credit risk (continued)**

(i) Credit Risk Management (continued)

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

(ii) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to issue drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than direct borrowing.

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

**47. Financial risk management (continued)**

**(b) Credit risk (continued)**

(iii) Credit quality

In measuring credit risk of commercial loans at the counterparty level, the Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgment and are validated, where appropriate, by comparison with externally available data. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class:

**Group's internal ratings scale and mapping of external ratings based on international rating agency, Standards and Poors.**

| Group's rating | External rating : Standard & Poor's equivalent. |
|---|---|
| Excellent | AAA to AA+ |
| Very Good | AA to A+ |
| Good | A to A- |
| Acceptable | BBB+ to BB+ |
| Higher Risk | BB to B- |

Retail loans are risk-rated based on an internal scoring system which combine statistical analysis with credit officer judgment, and fall within the following categories:

- Excellent
- Good
- Higher risk

The table below shows the percentage of the Group's loan portfolio as at October 31, 2009 relating to loans and credit commitments for each of the Group's internal rating categories:

| | Loans and credit commitments | |
|---|---|---|
| | The Group | |
| | 2009 (%) | 2008 (%) |
| Excellent | 17.8 | 5.0 |
| Very Good | 0.3 | 0.2 |
| Good | 15.4 | 20.8 |
| Acceptable | 5.0 | 25.2 |
| Higher Risk | 61.5 | 48.8 |
| | 100.0 | 100.0 |

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

**47. Financial risk management (continued)**

**(b) Credit risk (continued)**

(iii) Credit quality (continued)

**Under the Bank of Jamaica Credit Classification, Provisioning and Non Accrual Requirements, the following classifications are used:**

**Standard** – loans where the financial condition of the borrower is in no way impaired, and appropriate levels of cash flows or income flows are available to meet debt payments.

**Special Mention** – loans where credit is currently up to date and collateral values protect the Group's exposure. However, there exists evidence to suggest that certain factors could, in future, affect the borrower's ability to service the credit properly or impair the collateral.

**Sub-standard** – loans with well-defined credit weakness or weakness in the sector of the borrower such that cash flows are insufficient to service debt as arranged.

**Doubtful** – loans where collection of the debt in full is highly questionable or improbable.

**Loss** – loans considered uncollectible due to insolvency of the borrower. The borrower's financial position is insufficient to service or retire outstanding debt.

Using these classifications to rate credit quality, the credit profile of the Group's loan portfolio would be as set out in the following table:

| | The Group | |
|---|---|---|
| | 2009 (%) | 2008 (%) |
| Standard | 90.7 | 90.8 |
| Special Mention | 6.4 | 6.5 |
| Sub-Standard | 0.9 | 1.4 |
| Doubtful | 1.1 | 0.7 |
| Loss | 0.9 | 0.6 |
| | 100.0 | 100.0 |

**47. Financial risk management (continued)**

**(b) Credit risk (continued)**

(iii) Credit quality (continued)

**Debt securities**

The following table presents an analysis by rating agency designation of debt and similar securities, other than loans, based on Standard & Poor's ratings or their equivalent as at October 31, 2009:

| | The Group | |
|---|---|---|
| | 2009 | 2008 |
| AAA to AA+ | - | - |
| AA to A+ | - | - |
| A to A- | - | - |
| BBB+ to BB+ | 185,450 | 339,310 |
| BB to B- | 878,232 | 133,595,885 |
| Lower than B- | 167,117,841 | 472 |
| Unrated | - | 168,868 |
| | 168,181,523 | 134,104,535 |

| | The Group | |
|---|---|---|
| | 2009 | 2008 |
| *of which classified as:* | | |
| Deposits with | | |
| Bank of Jamaica | 28,234,994 | 27,465,275 |
| Investment securities | | |
| Held-to-maturity | 47,776,822 | 35,941,477 |
| Available-for-sale | 26,478,777 | 19,537,924 |
| Pledged assets and Capital Management Accounts | | |
| Loans and receivables | 14,405,840 | 12,587,125 |
| Held-to-maturity | 2,701,542 | 1,301,453 |
| Available-for-sale | 48,583,548 | 37,271,281 |
| | 168,181,523 | 134,104,535 |

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

**47. Financial risk management (continued)**

**(b) Credit risk (continued)**

(iv) Maximum exposure to credit risk

The following represents the maximum exposure to credit risk, before taking account of any collateral held or other credit enhancements. For financial assets, the exposure to credit risk equals their carrying amount. For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that would have to be paid if the guarantees were called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

| | Maximum Exposure | | | |
|---|---|---|---|---|
| | The Group | | The Company | |
| | 2009 | 2008 | 2009 | 2008 |
| Deposits with the Bank of Jamaica | 46,365,922 | 38,766,534 | - | - |
| Balances due from other banks | 10,439,713 | 15,338,881 | 219,977 | 47,642 |
| Financial assets at fair value through profit or loss | 103,671 | 97,113 | - | - |
| Government securities purchased under resale agreements | 555,871 | 407,920 | - | - |
| Pledged assets | 66,813,480 | 58,705,068 | - | - |
| Loans, after allowance for impairment losses | 92,066,854 | 89,559,349 | - | - |
| Leases, after allowance for impairment losses | 111,457 | 137,730 | - | - |
| Investment securities | | | | |
| Available-for-sale | 26,478,777 | 19,544,213 | - | - |
| Held-to-maturity | 47,776,957 | 35,941,612 | - | - |
| Customers' liabilities under acceptances, guarantees and letters of credit | 9,357,362 | 6,919,264 | - | - |
| Other assets | 746,600 | 943,665 | - | - |
| | 300,816,664 | 266,361,349 | 219,977 | 47,462 |

**47. Financial risk management (continued)**

**(b) Credit risk (continued)**

(v) Concentration of exposure to credit risk

(1) Loans and Leases

The following table summarises credit exposure for loans and leases at their carrying amounts, as categorised by the industry sectors. Loans and leases are well diversified across industry sectors, and are primarily extended to customers within Jamaica.

| | The Group | | | |
|---|---|---|---|---|
| | Loans and Leases | Acceptances, Guarantees and Letters of Credit | Total 2009 | Total 2008 |
| Agriculture, fishing and mining | 1,524,486 | 72,420 | 1,596,906 | 1,072,813 |
| Construction and real estate | 2,115,647 | 133,478 | 2,249,125 | 2,788,112 |
| Distribution | 3,698,169 | 1,341,143 | 5,039,312 | 5,744,081 |
| Financial institutions | 18,433 | 2,055,364 | 2,073,797 | 3,235,052 |
| Government and public entities | 21,125,650 | 2,211,901 | 23,337,551 | 15,789,638 |
| Manufacturing | 4,686,559 | 2,444,346 | 7,130,905 | 7,138,753 |
| Personal | 44,999,714 | 826,935 | 45,826,649 | 45,697,946 |
| Professional and other services | 5,590,579 | 215,978 | 5,806,557 | 5,514,346 |
| Tourism and entertainment | 8,588,361 | 55,797 | 8,644,158 | 9,640,185 |
| Interest receivable | 917,154 | - | 917,154 | 879,731 |
| Total | 93,264,752 | 9,357,362 | 102,622,114 | 97,500,657 |
| Total impairment allowance | | | ( 1,086,441) | ( 884,314) |
| | | | 101,535,673 | 96,616,343 |

(2) Debt securities and amounts due from other banks

The following table summarises credit exposure for debt securities and amounts due from other banks at their carrying amounts, categorised by issuer:

| | Maximum Exposure | |
|---|---|---|
| | The Group | |
| | 2009 | 2008 |
| Government | 125,839,595 | 90,988,922 |
| Bank of Jamaica | 58,296,023 | 54,246,943 |
| Financial institutions | 12,549,221 | 19,781,896 |
| Corporates and other | 1,442,054 | 979,270 |
| | 198,126,893 | 165,997,031 |

Other than exposure on Government of Jamaica securities, there is no significant concentration of liquid funds. For securities purchased under resale agreements, titles to securities are transferred to the Group for the duration of the agreement.

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

## 47. Financial risk management (continued)

### (c) Market risk

The Group manages market risk through risk limits approved by the Board of Directors. Risk limits are determined for each portfolio, and are set by product and risk type, with market liquidity being a principal factor in determining the level of limits set. Limits are set using a combination of risk measurement techniques, including position limits and stress testing to identify the potential net interest income and market value effects of the positions in different scenarios. The results of the stress tests are reviewed by senior management and by the Board of Directors.

The Group also trades in financial instruments where it takes positions to take advantage of short-term market movements in securities prices and in foreign exchange and interest rates. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

The management of the individual elements of market risks – interest rate, currency and other price risk – is as follows:

(i) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The Group monitors interest rate risk using its Asset and Liability model. It calculates the interest rate risk gaps, economic value and annual income amounts which are compared with risk limits approved by the Board of Directors. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly.

The following tables summarise carrying amounts of balance sheet assets, liabilities and equity in order to arrive at the Group's and the Company's interest rate gap based on the earlier of contractual repricing and maturity dates.

## 47. Financial risk management (continued)

### (c) Market risk (continued)

(i) Interest rate risk (continued)

| | The Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2009 | | | | | | |
| | Immediately rate sensitive (1) | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non-rate sensitive | Total |
| Cash resources | 1,842,040 | 16,348,642 | 16,479,665 | 1,782,073 | - | 22,579,461 | 59,031,881 |
| Securities purchased under resale agreements | - | 555,000 | - | - | - | 871 | 555,871 |
| Loans and leases (3) | 20,139,767 | 35,703,264 | 9,772,212 | 16,510,594 | 8,529,516 | 1,522,958 | 92,178,311 |
| Investment securities (2) | | | | | | | |
| - Available-for-sale | - | 5,376,468 | 1,194,626 | 13,186,330 | 5,724,729 | 1,186,812 | 26,668,965 |
| - Held to maturity | - | 24,932,173 | 11,215,547 | 6,903,954 | 2,753,950 | 1,971,333 | 47,776,957 |
| - Financial assets at fair value through profit and loss | - | - | - | - | - | 105,369 | 105,369 |
| Pledged assets | - | 29,181,141 | 14,160,509 | 7,891,982 | 12,644,899 | 2,934,949 | 66,813,480 |
| Other assets | - | - | - | - | - | 22,425,038 | 22,425,038 |
| Total assets | 21,981,807 | 112,096,688 | 52,822,559 | 46,274,933 | 29,653,094 | 52,726,791 | 315,555,872 |
| Deposits | 119,134,353 | 14,306,210 | 8,175,506 | 5,220,055 | 5,088,126 | 723,905 | 152,648,155 |
| Securities sold under repurchase agreements | 447,886 | 32,538,352 | 11,682,724 | 20,834 | - | 1,430,411 | 46,120,207 |
| Promissory notes | - | 14,253 | 5,408 | 5,006 | 29,259 | 900 | 54,826 |
| Other liabilities | - | - | - | - | - | 18,481,914 | 18,481,914 |
| Capital Management and Government Securities funds | 15895,292 | - | - | - | - | 3,737 | 15,899,029 |
| Policyholders' fund | 20,502,283 | 3,459,168 | 12,087,203 | | - | ( 1,640,777) | 34,407,877 |
| Stockholders' equity | - | - | - | - | - | 47,943,864 | 47,943,864 |
| Total liabilities and stockholders' equity | 155,979,814 | 50,317,983 | 31,950,841 | 5,245,895 | 5,117,385 | 66,943,954 | 315,555,872 |
| **Total interest rate sensitivity gap** | (133,998,007) | 61,778,705 | 20,871,718 | 41,029,038 | 24,535,709 | (14,217,163) | - |
| **Cumulative gap** | (133,998,007) | ( 72,219,302) | (51,347,584) | (10,318,546) | 14,217,163 | - | - |
| | 2008 | | | | | | |
| Total assets | 24,850,864 | 105,755,416 | 48,983,391 | 35,016,734 | 23,718,961 | 41,958,885 | 280,284,251 |
| Total liabilities and stockholders' equity | 141,366,171 | 44,240,369 | 29,791,315 | 4,673,826 | 6,116,587 | 54,095,983 | 280,284,251 |
| **Total interest rate sensitivity gap** | (116,515,307) | 61,515,047 | 19,192,076 | 30,342,908 | 17,602,374 | (12,137,098) | - |
| **Cumulative gap** | (116,515,307) | (55,000,260) | (35,808,184) | ( 5,465,276) | 12,137,098 | - | - |

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

**47. Financial risk management (continued)**

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

(i) Interest rate risk (continued)

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

The Group 2009

| | Immediately rate sensitive % | Within 3 months % | 3 to 12 months % | 1 to 5 years % | Over 5 years % | Weighted average % |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash resources | 0.32 | 10.19 | 22.95 | 8.00 | - | 15.18 |
| Securities purchased under resale agreements | - | 12.69 | - | - | - | 12.69 |
| Loans (2) | 20.71 | 23.59 | 15.15 | 16.20 | 8.72 | 19.33 |
| Investment securities (1) | | | | | | |
| Available-for-sale | - | 19.48 | 18.33 | 7.92 | 10.24 | 11.33 |
| Held to maturity | - | 19.92 | 22.01 | 17.87 | 20.76 | 20.17 |
| Pledged assets | - | 17.54 | 21.43 | 10.98 | 9.11 | 15.90 |
| **LIABILITIES** | | | | | | |
| Deposits (3) | 4.37 | 7.41 | 7.47 | 7.15 | 5.97 | 4.97 |
| Securities sold under repurchase agreements | 1.37 | 12.12 | 13.13 | 18.85 | - | 12.28 |
| Promissory notes | - | 15.41 | 10.30 | 9.00 | 10.00 | 11.37 |
| Capital Management and Government Securities fund | 5.03 | - | - | - | - | 5.03 |
| Policyholders' fund | 12.45 | 12.18 | 14.73 | - | - | 13.19 |

The Group 2008

| | Immediately rate sensitive % | Within 3 months % | 3 to 12 months % | 1 to 5 years % | Over 5 years % | Weighted average % |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash resources | 1.43 | 8.62 | 13.04 | 14.90 | - | 10.72 |
| Securities purchased under resale agreements | - | 15.51 | - | - | - | 15.51 |
| Loans (2) | 19.64 | 24.11 | 17.21 | 16.14 | 8.92 | 19.36 |
| Investment securities (1) | | | | | | |
| Available-for-sale | - | 16.35 | 15.59 | 7.69 | 7.67 | 9.65 |
| Held to maturity | - | 15.90 | 16.58 | 14.89 | 17.00 | 15.94 |
| Pledged assets | - | 14.49 | 15.20 | 10.69 | 8.68 | 13.18 |
| **LIABILITIES** | | | | | | |
| Deposits (3) | 4.26 | 7.52 | 7.85 | 7.28 | 5.92 | 5.00 |
| Securities sold under repurchase agreements | 5.78 | 11.16 | 11.26 | 12.99 | - | 11.14 |
| Promissory notes | - | 7.98 | 14.08 | 9.00 | 10.00 | 10.30 |
| Capital Management and Government Securities fund | 6.37 | - | - | - | - | 6.37 |
| Policyholders' fund | 9.66 | 11.00 | 11.09 | - | - | 10.27 |

**47. Financial risk management (continued)**

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

(i) Interest rate risk (continued)

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

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

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

(3) Yields are based on contractual interest rates.

**Sensitivity analysis**

The changes in the interest rates as noted below are based on recently observed market movements. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

| | 2009 | 2008 |
|---|---|---|
| Sensitivity of market risk variable | | |
| JMD Interest rates | Increase/decrease by 600bps | Increase/decrease by 100bps |
| USD Interest rates | Increase/decrease by 400bps | Increase/decrease by 250bps |

| | 2009 | 2008 |
|---|---|---|
| Effect on profit or loss | 2,973,762 | 659,569 |
| Effect on stockholders' equity | 3,956,029 | 1,214,727 |

Sensitivity to interest rate risk for SJLIC, the insurance subsidiary is considered in note 47(e) under the DCAT scenarios.

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

## 47. Financial risk management (continued)

### (c) Market risk (continued)

(ii) Foreign exchange risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The main currencies giving rise to this risk are the USD, CAD, GBP, and EUR. The Group ensures that the net exposure is kept to an acceptable level by matching foreign assets with liabilities as far as possible.

The table below summarizes the Group's exposure to foreign currency exchange risk:

| | 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| JMD Equivalent | JMD | USD | CAD | GBP | EUR | Other | Total |
| **ASSETS** | | | | | | | |
| Cash resources | 36,939,248 | 14,545,452 | 1,852,644 | 5,400,134 | 268,503 | 25,900 | 59,031,881 |
| Investments | 59,058,408 | 15,320,032 | - | - | 67,482 | - | 74,445,922 |
| Financial assets at fair value through profit or loss | 105,369 | - | - | - | - | - | 105,369 |
| Govt securities purchased under resale agreements | 555,871 | - | - | - | - | - | 555,871 |
| Pledged assets | 44,089,780 | 21,839,983 | - | - | 883,717 | - | 66,813,480 |
| Loans and leases | 63,618,398 | 27,996,702 | 291,146 | 132,201 | 139,864 | - | 92,178,311 |
| Other assets | 16,822,599 | 3,618,173 | 5,884 | 493,370 | 1,496,579 | (11,567) | 22,425,038 |
| | 221,189,673 | 83,320,342 | 2,149,674 | 6,025,705 | 2,856,145 | 14,333 | 315,555,872 |
| **LIABILITIES** | | | | | | | |
| Deposits | 90,383,388 | 54,681,409 | 1,986,360 | 5,200,654 | 395,988 | 356 | 152,648,155 |
| Securities sold under resale agreements | 32,148,297 | 13,563,673 | - | - | 408,237 | - | 46,120,207 |
| Capital Management and Government Securities Funds | 3,804,562 | 10,163,393 | 337,810 | 1,144,640 | 448,624 | | 15,899,029 |
| Other liabilities | 10,117,505 | 6,442,060 | 108,529 | 130,494 | 1,724,175 | 13,977 | 18,536,740 |
| Policyholder's liabilities | 34,407,877 | - | - | - | - | - | 34,407,877 |
| | 170,861,629 | 84,850,535 | 2,432,699 | 6,475,788 | 2,977,024 | 14,333 | 267,612,008 |
| **NET POSITION** | **50,328,044** | **(1,530,193)** | **(283,025)** | **(450,083)** | **(120,879)** | **-** | **47,943,864** |

## 47. Financial risk management (continued)

### (c) Market risk (continued)

(ii) Foreign exchange risk (continued)

| | 2008 | | | | | | |
|---|---|---|---|---|---|---|---|
| JMD Equivalent | JMD | USD | CAD | GBP | EUR | Other | Total |
| **ASSETS** | | | | | | | |
| Cash resources | 37,088,696 | 13,076,723 | 1,184,694 | 4,412,643 | 246,730 | 38,876 | 56,048,362 |
| Investments | 42,900,766 | 12,761,905 | - | - | 50,841 | - | 55,713,512 |
| Financial assets at fair value through profit or loss | 116,951 | - | - | - | - | - | 116,951 |
| Govt securities purchased under resale agreements | 407,920 | - | - | - | - | - | 407,920 |
| Pledged assets | 38,363,448 | 19,007,177 | 142,671 | 244,480 | 947,292 | - | 58,705,068 |
| Loans and leases | 65,019,426 | 24,181,929 | 204,066 | 173,978 | 117,680 | - | 89,697,079 |
| Other assets | 15,095,313 | 2,953,933 | 511,177 | 11,496 | 1,029,625 | ( 6,185) | 19,595,359 |
| | 198,992,520 | 71,981,667 | 2,042,608 | 4,842,597 | 2,392,168 | 32,691 | 280,284,251 |
| **LIABILITIES** | | | | | | | |
| Deposits | 85,338,841 | 48,556,313 | 1,319,938 | 4,248,085 | 445,056 | 261 | 139,908,494 |
| Securities sold under resale agreements | 29,309,833 | 10,794,600 | - | - | 102,139 | - | 40,206,572 |
| Capital Management and Government Securities Funds | 4,615,715 | 9,028,970 | 247,324 | 878,900 | 220,613 | - | 14,991,522 |
| Other liabilities | 7,052,516 | 5,807,925 | ( 22,335) | ( 364,027) | 2,353,699 | 32,438 | 14,860,216 |
| Policyholder's liabilities | 30,561,418 | - | - | - | - | - | 30,561,418 |
| | 156,878,323 | 74,187,808 | 1,544,927 | 4,762,958 | 3,121,507 | 32,699 | 240,528,222 |
| **NET POSITION** | **42,114,197** | **(2,206,141)** | **497,681** | **79,639** | **(729,339)** | **(8)** | **39,756,029** |

The following significant exchange rates were applied during the period:

| | Average Rate for the Period | | Reporting Date Spot Rate | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| USD | 86.8489 | 71.8371 | 89.1037 | 76.1253 |
| CAD | 74.1712 | 69.5487 | 81.8778 | 61.6269 |
| GBP | 133.4279 | 137.8254 | 145.9954 | 21.9273 |
| EUR | 118.4444 | 106.8925 | 129.8712 | 96.7723 |

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

**47. Financial risk management (continued)**

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

(ii) Foreign exchange risk (continued)

Sensitivity to foreign exchange risk

A weakening of the JMD against the currencies indicated above at October 31, would have increased/(decreased) equity and profit and loss by the amounts shown below. This analysis is performed on the same basis as for 2008. The strengthening of the JMD against the same currencies at October 31 would have had the equal but opposite effect on the amounts shown, on the basis that all other variables remain constant.

Sensitivity to foreign exchange:

| | 2009 | 2008 |
|---|---|---|
| USD | Increase/decrease by 20% | Increase/decrease by 7% |
| CAD | Increase/decrease by 30% | Increase/decrease by 25% |
| GBP | Increase/decrease by 25% | Increase/decrease by 20% |
| EUR | Increase/decrease by 30% | Increase/decrease by 20% |

| | 2009 | 2008 |
|---|---|---|
| Effect on profit and stockholders' equity | 732,805 | 273,025 |

(iii) Equity price risks

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

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

At the reporting date the size of the Group's equity trading portfolio was:

| | 2009 | 2008 |
|---|---|---|
| Financial assets at fair value through profit or loss | 1,698 | 19,793 |
| Available-for-sale | - | 6,289 |
| Pledged assets | 7,067 | - |

**47. Financial risk management (continued)**

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

(iii) Equity price risks (continued)

**Sensitivity analysis**

Maximum changes observed in running 10 day periods during the financial year for the equity portfolio as at October 31, 2009 would have increased or decreased equity and profit and loss by the amounts shown below:

This analysis is performed on the same basis as for 2008. Prices used are the bid prices for the equities. A 10 day period is used to account for the liquidity of the local market equities.

| | Profit or loss | | Equity | |
|---|---|---|---|---|
| | Maximum increase | Maximum decrease | Maximum increase | Maximum decrease |
| 31 October 2009 | 328 | 382 | 11,772 | 1,768 |
| 31 October 2008 | 1,838 | 4,264 | 5,907 | 6,769 |

**(d) Liquidity risk**

The Group is exposed to daily calls on its available cash resources from overnight and maturing deposits, loan drawdowns and guarantees. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for companies to be completely matched, as transacted business 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 Group and its exposure to changes in interest rates and exchange rates. Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash and central bank balances; government and corporate bonds and treasury bills; and loans.

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

## 47. Financial risk management (continued)

### (d) Liquidity risk (continued)

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

Financial liabilities cash flows

The tables below present the undiscounted cash flows (both interest and principal cash flows) to settle financial liabilities based on contractual repayment obligations. The Group expects that many policyholders/depositors/customers will not request repayment on the earliest date the Group could be required to pay. The expected maturity dates of financial assets and liabilities are based on estimates made by management as determined by retention history.

**The Group**

**2009**

| | **Within 3 months** | **3 to 12 months** | **1 to 5 years** | **Over 5 years** | **No specific maturity** | **Total** |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Deposits | 132,600,769 | 9,001,562 | 8,103,882 | 9,387,916 | - | 159,094,129 |
| Promissory notes | 16,183 | 5,727 | 5,006 | 29,259 | - | 56,175 |
| Securities sold under repurchase agreement | 36,343,121 | 12,294,315 | 41,821 | - | - | 48,679,257 |
| Capital Management and Government Securities fund | 15,899,029 | - | - | - | - | 15,899,029 |
| Policyholders fund | 22,385,776 | 13,853,584 | - | - | - | 36,239,360 |
| Other liabilities | 6,146,413 | 3,693,657 | 2,570,790 | 1,583,266 | 4,311,515 | 18,305,641 |
| Total Liabilities (contractual maturity dates) | 213,391,291 | 38,848,845 | 10,721,499 | 11,000,441 | 4,311,515 | 278,273,591 |

**2008**

| | **Within 3 months** | **3 to 12 months** | **1 to 5 years** | **Over 5 years** | **No specific maturity** | **Total** |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Deposits | 122,891,644 | 8,510,545 | 6,252,325 | 7,107,833 | - | 144,762,347 |
| Promissory notes | 324,730 | 16,343 | - | - | - | 341,073 |
| Securities sold under repurchase agreement | 32,195,823 | 13,063,603 | 18,965 | - | - | 45,278,391 |
| Capital Management and Government Securities fund | 14,991,522 | - | - | - | - | 14,991,522 |
| Policyholders fund | 20,219,526 | 12,904,742 | - | - | - | 33,124,268 |
| Other liabilities | 6,177,147 | 1,163,993 | 2,036,907 | 1,470,679 | 3,940,344 | 14,789,070 |
| Total Liabilities (contractual maturity dates) | 196,800,392 | 35,659,226 | 8,308,197 | 8,578,512 | 3,940,344 | 253,286,671 |

## 47. Financial risk management (continued)

### (d) Liquidity risk (continued)

The tables below analyze assets and liabilities of the Group into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity dates.

The Group

2009

| | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | No specific maturity | Total |
|---|---|---|---|---|---|---|
| Cash resources | 39,188,748 | 18,061,059 | 1,782,074 | - | - | 59,031,881 |
| Securities purchased under resale agreements | 555,871 | - | - | - | - | 555,871 |
| Loan and leases | 22,798,774 | 13,997,709 | 33,173,946 | 22,207,882 | - | 92,178,311 |
| Investment securities | | | | | | |
| - Held to maturity | 2,794,380 | 11,164,104 | 25,638,477 | 8,179,996 | - | 47,776,957 |
| - Available-for-sale | 931,237 | 496,481 | 15,089,714 | 10,136,533 | 15,000 | 26,668,965 |
| - Financial assets at fair value through profit or loss | 103,671 | - | - | - | 1,698 | 105,369 |
| Pledged assets | 9,020,329 | 14,571,422 | 23,122,650 | 19,842,433 | 256,646 | 66,813,480 |
| Other assets | 3,387,971 | 2,951,682 | 2,542,585 | 1,583,265 | 11,959,535 | 22,425,038 |
| Total assets | 78,780,981 | 61,242,457 | 101,349,446 | 61,950,109 | 12,232,879 | 315,555,872 |
| Deposits | 132,029,003 | 8,228,773 | 6,147,458 | 6,242,921 | - | 152,648,155 |
| Securities sold under repurchase agreements | 33,930,057 | 12,152,371 | 37,779 | - | - | 46,120,207 |
| Other liabilities | 6,106,440 | 3,693,656 | 2,570,790 | 1,583,266 | 4,527,762 | 18,481,914 |
| Promissory notes | 15,126 | 5,435 | 5,006 | 29,259 | - | 54,826 |
| Policyholders' fund | 22,320,674 | 12,087,203 | - | - | - | 34,407,877 |
| Capital Management and Government Securities funds | 15,899,029 | | | | | 15,899,029 |
| Stockholders' equity | - | - | - | - | 47,943,864 | 47,943,864 |
| Total liabilities and stockholders' equity | 210,300,329 | 36,167,438 | 8,761,033 | 7,855,446 | 52,471,626 | 315,555,872 |
| **Total liquidity gap** | (131,519,348) | 25,075,019 | 92,588,413 | 54,094,663 | (40,238,747) | - |
| **Cumulative gap** | (131,519,348) | (106,444,329) | ( 13,855,916) | 40,238,747 | - | - |

2008

| | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | No specific maturity | Total |
|---|---|---|---|---|---|---|
| Total assets | 77,219,897 | 52,515,098 | 79,480,932 | 59,237,657 | 11,830,667 | 280,284,251 |
| Total liabilities and stockholders' equity | 193,378,247 | 30,109,571 | 5,483,904 | 7,616,156 | 43,696,373 | 280,284,251 |
| **Total liquidity gap** | (116,158,350) | 22,405,527 | 73,997,028 | 51,621,501 | (31,865,706) | - |
| **Cumulative gap** | (116,158,350) | (93,752,823) | (19,755,795) | 31,865,706 | - | - |

(expressed in thousands of Jamaican dollars unless otherwise stated)

**47. Financial risk management (continued)**

**(e) Insurance risk**

The Group issues long term contracts that transfer insurance risk or financial risk or both. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits is greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio.

Two key matters affecting insurance risk are discussed below:

(i) Long term insurance contracts

Long-term contracts are typically for a minimum period of 5 years and a maximum period which is determined by the remaining life of the insured. In addition to the estimated benefits which may be payable under the contract, the insurer has to assess the cash flows which may be attributable to the contract.

The Group has developed its insurance underwriting strategy and reinsurance arrangements to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. The Group's underwriting strategy includes the use of a medical questionnaire with benefits limited to reflect the health condition of applicants and retention limits on any single life insured.

(1) Frequency and severity of claims

For contracts where death is the insured risk the most significant factors that could increase the overall frequency and severity of claims are epidemics and wide-ranging lifestyle changes such as in eating, smoking and exercise habits resulting in earlier or more claims than expected.

The Group charges for mortality risks on a monthly basis for all insurance contracts and has the right to alter these charges to a certain extent based on mortality experience and hence minimize its exposure to mortality risk. Delays in implementing increases in charges and market or regulatory restraints over the extent of the increases may reduce its mitigating effect.

**47. Financial risk management (continued)**

**(e) Insurance risk (continued)**

(i) Long term insurance contracts (continued)

(1) Frequency and severity of claims (continued)

The tables below indicate the concentration of insured benefits across bands of insured benefits per individual life assured. The amounts at risk are fully retained.

| | Total benefits assured | | | |
|---|---|---|---|---|
| | Before and After Reinsurance 2009 | % | Before and After Reinsurance 2008 | % |
| Individual Life Benefits assured per life | | | | |
| 0 to 250,000 | 5,456,387 | 18 | 4,811,064 | 21 |
| 250,001 to 500,000 | 2,254,603 | 8 | 2,059,880 | 9 |
| 500,001 to 750,000 | 3,335,587 | 11 | 3,277,803 | 14 |
| 750,001 to 1,000,000 | 2,703,548 | 9 | 1,889,547 | 8 |
| 1,000,001 to 1,500,000 | 5,377,502 | 18 | 4,432,037 | 19 |
| 1,500,001 to 2,000,000 | 3,799,674 | 13 | 2,224,426 | 10 |
| Over 2,000,000 | 6,939,243 | 23 | 4,681,826 | 19 |
| Total | 29,866,544 | 100 | 23,376,583 | 100 |

The tables below indicate the concentration of insured benefits across bands of insured benefits per individual life assured. The benefit insured figures are shown gross as reinsurance has not been considered due to immateriality.

| | Total benefits assured | | | |
|---|---|---|---|---|
| | 2009 | % | 2008 | % |
| Group Life Benefits assured per life | | | | |
| 0 to 250,000 | 4,194,129 | 16 | 3,799,558 | 11 |
| 250,001 to 500,000 | 3,528,165 | 13 | 12,306,135 | 35 |
| 500,001 to 750,000 | 2,119,369 | 9 | 2,323,808 | 7 |
| 750,001 to 1,000,000 | 1,396,788 | 5 | 1,497,586 | 4 |
| 1,000,001 to 1,500,000 | 3,106,280 | 12 | 3,048,623 | 8 |
| 1,500,001 to 2,000,000 | 2,223,832 | 8 | 2,220,599 | 6 |
| Over 2,000,000 | 9,798,448 | 37 | 10,145,547 | 29 |
| Total | 26,367,011 | 100 | 35,341,856 | 100 |

Insurance risk for contracts disclosed in this note is also affected by the policyholders' right to pay reduced or no future premiums and to terminate the contract completely. As a result, the amount of insurance risk is also subject to the policyholders' behaviour. The Group has factored the impact of policyholders' behaviour into the assumptions used to measure these liabilities.

**47. Financial risk management (continued)**

**(e) Insurance risk (continued)**

(i) Long term insurance contracts (continued)

(2) Sources of uncertainty in the estimation of future benefit payments and premiums

Uncertainty in the estimation of future benefit payments and premium receipts for long term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and the variability in policyholder behaviour.

Estimates are made as to the expected number of deaths for each of the years in which the company is exposed to risk. The Group bases these estimates on standard industry and international mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Group's own experience.

(3) Process used in deriving assumptions

The assumptions for long term insurance contracts and the process used in deriving these assumptions have remained substantially unchanged since the previous year.

For long-term contracts with fixed and guaranteed terms, estimates are made in two stages. Estimates of future deaths, voluntary terminations and partial withdrawal of policy funds, investment returns, crediting rates, inflation and administration expenses are made and form the assumptions used for calculating the liabilities at the inception of the contract. A margin for risk and uncertainty is added to these assumptions.

(4) Process used in deriving assumptions

New estimates are made each year based on updated Group experience studies and economic forecasts. The valuation assumptions are altered to reflect these revised best estimates. The margins for risk and uncertainty may also be altered if the underlying level of uncertainty in the updated assumptions has changed. The financial impact of revisions to the valuation assumption or the related margins is recognised in the accounting period in which the change is made.

See note 40(c) for detailed policy assumptions.

**47. Financial risk management (continued)**

**(e) Insurance risk (continued)**

(ii) Reinsurance Risk

Reinsurance risk is the risk that a reinsurer will default and not honour obligations arising from claims. To limit its exposure of potential loss on an insurance policy, the Group cedes certain levels of risk to a reinsurer. Reinsurance ceded does not discharge the Group's liability as primary issuer. The Group also limits the probable loss in the event of a single catastrophic occurrence by reinsuring this type of risk with reinsurers. The Group manages reinsurance risk by selecting reinsurers which have established capability to meet their contractual obligations and which generally have favourable credit ratings as determined by a reputable rating agency.

Retention limits represent the level of risk retained by the insurer. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit. The retention programs used by the Group are summarized below:

| Type of insurance contract | Retention |
|---|---|
| Individual, group & creditor life catastrophe | maximum retention of $420 for a single event; treaty limits apply |
| Group creditor life contracts | maximum retention of $15,000 per insured |

(iii) Sensitivity analysis of actuarial liabilities

(1) Sensitivity arising from the valuation of life insurance contracts.

The determination of actuarial liabilities is sensitive to a number of assumptions, and changes in these assumptions could have a significant effect on the valuation results.

In summary, the valuation of actuarial liabilities of life insurance contracts is sensitive to:

- the economic scenario used in the Policy Premium Method (PPM)
- the investments allocated to back the liabilities
- the underlying assumptions used, and
- the margins for adverse deviations.

Under the PPM methodology, the Appointed Actuary is required to test the actuarial liability under several economic scenarios. The tests have been done and the results of the valuation provide adequately for liabilities derived from the worst of these different scenarios.

The assumption for future investment yields has a significant impact on actuarial liabilities. The different scenarios tested under Policy Premium Method (PPM) reflect the impact of different yields.

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

**47. Financial risk management (continued)**

**(e) Insurance risk (continued)**

(iii) Sensitivity analysis of actuarial liabilities (continued)

(1) Sensitivity arising from the valuation of life insurance contracts (continued)

The other assumptions which are most sensitive in determining the actuarial liabilities of the Group, are in descending order of impact:

- operating expenses and taxes
- lapse
- mortality and morbidity

The following table presents the sensitivity of the liabilities to a change in assumptions:

| | 2009 | 2008 |
|---|---|---|
| Interest rates decrease by 1% | 29,902 | 38,912 |
| Interest rates increase by 1% | (101,607) | ( 85,107) |
| Mortality increases by 10% | 127,563 | 100,434 |
| Mortality decreases by 10% | (130,488) | (103,007) |
| Expenses increase by 10% | 156,819 | 106,417 |
| Expenses decrease by 10% | (154,785) | (105,102) |
| Lapses and withdrawals increase by 10% | 108,748 | 111,865 |
| Lapses and withdrawals decrease by 10% | (120,807) | (124,206) |

(2) Dynamic capital adequacy testing (DCAT)

DCAT is a technique used by the Group to assess the adequacy of its financial position and financial condition in the light of different future economic and policy experience scenarios. DCAT assesses the impact of the Group's financial position and condition over the next 5 years under specific scenarios as required by the Insurance Regulations.

The financial position of the Group is reflected by the amount of assets, liabilities and equity in the balance sheet at a given date.

The financial condition of the Group at a given date is its prospective ability to meet its future obligations, especially obligations to policyholders, those to whom it owes benefits, and to its shareholders.

The purpose of the DCAT is:

- to develop an understanding of the sensitivity of the total equity of the group and future financial condition to changes in various experience factors and management policies
- to alert management to material, plausible and imminent threats to the group's solvency
- and to describe possible courses of action to address these threats.

**47. Financial risk management (continued)**

**(e) Insurance risk (continued)**

(iii) Sensitivity analysis of actuarial liabilities (continued)

(2) Dynamic capital adequacy testing (DCAT) (continued)

A full DCAT report was completed for the Group during March 2009, and the results were as follows:

- Mortality and morbidity risks
  To test this scenario, existing mortality and morbidity rates were increased by 3% starting in 2009, for five years. The accumulated deterioration would be 15% by the end of the five-year DCAT period. The results for this scenario show relative insensitivity to the change in assumptions.

- Low lapse rates
  The business was tested by applying a factor of 0.5 to existing lapse and surrender rates. Overall this scenario produces a higher surplus and a lower Minimum Continuing Capital and Surplus Requirement (MCCSR) ratio over the 5-year period.

- Higher lapse rates
  The business was tested by doubling existing lapses, surrenders and partial withdrawal rates. Under this scenario, the surplus decreases while the MCCSR increases.

- Expense risks
  Higher unit maintenance expenses were tested by setting the annual inflation at 5% greater than current expenses, starting in 2009, for five years. Overall, this scenario produces a lower MCCSR ratio over the 5-year period.

- Low interest rate
  An assumed decrease in the portfolio rate of 7.5% per year over a 5 year period was tested in this scenario. Overall, this scenario produces a lower MCCSR over the five year period.

- High sales growth
  New business was projected to grow at 10% higher than existing sales per year over five years. The increased sales result in increased profits but will produce net higher liabilities over the next five years.

- Flat sales
  This scenario assumed sales were 10% less than existing sales starting in 2009 and staying at that level for 5 years. Overall this scenario produces adverse results for the next five years.

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

**47. Financial risk management (continued)**

**(e) Insurance risk (continued)**

(iii) Sensitivity analysis of actuarial liabilities (continued)

(2) Dynamic capital adequacy testing (DCAT) (continued)

The DCAT conducted has not tested any correlation that may exist between assumptions. The following table represents the estimated sensitivity of each of the above scenarios over the next five years to net actuarial liabilities at the end of the projection period which is 5 years after the relevant balance sheet date.

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Surplus | MCCSR | Surplus | MCCSR |
| Base | 10,354,310 | 1,075% | 8,173,819 | 810% |
| Variable | | | | |
| Mortality risks | 10,316,168 | 1,075% | 8,142,819 | 808% |
| Low lapse rates | 10,567,151 | 1,057% | 8,376,072 | 811% |
| Higher lapse rates | 9,435,190 | 1,167% | 7,328,310 | 855% |
| Expense risks | 10,258,632 | 1,069% | 8,090,996 | 804% |
| Low interest rate | 10,372,885 | 1,073% | 8,133,417 | 804% |
| High sales growth | 10,341,133 | 1,059% | 8,186,472 | 798% |
| Flat sales | 10,258,394 | 1,100% | 8,140,607 | 816% |

**48. Fair value of financial instruments**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction. Market price is used to determine fair value where an active market exists as it is the best evidence of the fair value of a financial instrument for financial instruments for which no market price is available, the fair values presented have been estimated using present value or other estimation and valuation techniques based on market conditions existing at the balance sheet dates.

The values derived from applying these techniques are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates. The following methods and assumptions have been used:

(i) financial instruments classified as available-for-sale and held-to-maturity: measured fair value is estimated by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques;

(ii) financial instruments classified as at fair value through profit or loss: fair value is estimated by reference to quoted market prices when available.

If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques. Fair value is equal to the carrying amount of these investments;

**48. Fair value of financial instruments (continued)**

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

(iv) the fair value of demand deposits and savings accounts with no specific maturity is considered to be the amount payable on demand at the balance sheet date; the fair value of fixed-term interest-bearing deposits is based on discounted cash flows using interest rates for new deposits.

(v) the fair value of variable rate financial instruments is considered to approximate their carrying amounts; and

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

(vii) The fair values of quoted equity investments are based on quoted market bid prices. Equity securities for which fair values cannot be measured reliably are recognized at cost less impairment.

The following tables present the fair value of financial instruments that are not carried at fair value based on the above-mentioned valuation methods and assumptions.

| | The Group | | | |
|---|---|---|---|---|
| | Carrying Value 2009 | Fair Value 2009 | Carrying Value 2008 | Fair Value 2008 |
| **Financial assets** | | | | |
| Loans | 92,178,311 | 91,083,826 | 89,697,079 | 89,020,389 |
| Pledged assets | 66,813,480 | 65,600,939 | 58,705,068 | 58,707,728 |
| Investment securities: | | | | |
| Held-to-maturity | 47,776,957 | 49,708,433 | 35,941,612 | 36,375,250 |
| **Financial liability** | | | | |
| Deposits | 152,648,155 | 152,703,425 | 139,908,494 | 139,944,309 |

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

**49. Capital Risk Management**

Capital risk is the risk that the Group fails to comply with mandated regulatory requirements, resulting in a breach of its minimum capital ratios and the possible suspension or loss of its licences.

Regulators are primarily interested in protecting the rights of the depositors and policyholders and monitor them closely to ensure that the Group is satisfactorily managing affairs for the benefit of depositors and policyholders. At the same time, the regulators are also interested in ensuring that the Group maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

The Group manages its capital resources according to the following objectives:

- To comply with the capital requirements established by banking, insurance and other financial intermediaries regulatory authority;
- To safeguard its ability to continue as a going concern, and meet future obligations to depositors, policyholders and stockholders;
- To provide adequate returns to stockholders by pricing investment, insurance and other contracts commensurately with the level of risk; and
- To maintain a strong capital base to support the future development of the Group's operations.

Individual banking and insurance subsidiaries are directly regulated by their respective regulator, who sets and monitors their capital adequacy requirements. Required capital adequacy information is filed with the regulators at least on an annual basis.

**Banking and investment management**

Capital adequacy is reviewed by executive management, the audit committee and the Board of Directors. Based on the guidelines developed by the Bank of Jamaica and the Financial Services Commission, each regulated entity is required to:

- Hold the minimum level of regulatory capital; and
- Maintain a minimum ratio of total regulatory capital to risk weighted assets.

Regulatory capital is divided into two tiers:

1. Tier 1 capital comprises share capital, reserve fund and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and
2. Tier 2 capital comprises qualifying subordinated loan capital, collective impairment allowances and revaluation surplus on fixed assets.

Investment in subsidiaries are deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

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

**49. Capital Risk Management (continued)**

**Banking and investment management (continued)**

The table below summarises the composition of regulatory capital and the ratios for each subsidiary based on the similarity of the regulator. During the year, the individual entities complied with all of the externally imposed capital requirements to which they are subject.

| | Regulated by the BOJ [1] | | Regulated by the FSC [2] | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Tier 1 Capital | 17,583,463 | 15,546,038 | 7,033,268 | 5,139,158 |
| Tier 2 Capital | 524,800 | 540,626 | 25,119 | 26,591 |
| | 18,108,263 | 16,086,664 | 7,058,387 | 5,165,749 |
| Less prescribed adjustment | ( 242,093) | ( 242,093) | ( 483,567) | ( 494,198) |
| Total regulatory capital | 17,866,170 | 15,844,571 | 6,574,820 | 4,671,551 |
| **Risk weighted assets** | | | | |
| On-balance sheet | 81,815,163 | 84,973,397 | 2,966,322 | 2,617,387 |
| Off-balance sheet | 87,585 | 94,157 | - | - |
| Foreign exchange exposure | 1,010,282 | 903,034 | 197,345 | 230,790 |
| Total risk weighted assets | 82,913,030 | 85,970,588 | 3,163,667 | 2,848,177 |
| Actual regulatory capital to risk weighted assets | 21.5% | 18.4% | 207.8% | 164.0% |
| Regulatory requirement | 10.0% | 10.0% | 10.0% | 10.0% |

[1] This relates to The Bank of Nova Scotia Jamaica Limited, Scotia Jamaica Building Society, and Scotia DBG Merchant Bank.

[2] This relates to Scotia DBG Investments Limited.

**Life insurance business**

Capital adequacy is calculated by the Appointed Actuary and reviewed by executive management, the audit committee and the Board of Directors. In addition, the Group seeks to maintain internal capital adequacy levels higher than the regulatory requirements. To assist in evaluating the current business and strategic opportunities, a risk-based approach is one of the core measures of financial performance. The risk-based assessment measure which has been adopted is the Minimum Continuing Capital and Surplus Requirement (MCCSR) standard as defined by the Financial Services Commission and required by the Insurance Regulations 2001. Under Jamaican regulations, the minimum standard recommended for companies is an MCCSR of 135% in 2008 and 2009, and up to 150% in 2010 and later. The MCCSR for the insurance subsidiary as of October 31, 2009 and 2008 is set out below:

| | 2009 | 2008 |
|---|---|---|
| Regulatory capital held | 11,312,242 | 7,664,426 |
| Minimum regulatory capital | 662,184 | 977,882 |
| MCCSR Ratio | 1,708% | 784% |

(expressed in thousands of Jamaican dollars unless otherwise stated)

**50. Commitments**

| | The Group 2009 | 2008 |
|---|---|---|
| (a) Capital expenditure: | | |
| Authorised and contracted | 160,788 | 406,465 |
| (b) Commitments to extend credit: | | |
| Originated term to maturity of more than one year | 25,362,399 | 11,005,385 |

(c) Operating lease commitments:

The future aggregate minimum lease payments under non-cancellable operating leases are payable as follows:

| | The Group 2009 | 2008 |
|---|---|---|
| Not later than one year | 183,718 | 125,714 |
| Later than one year and not later than five years | 760,042 | 499,342 |
| Later than five years | 3,391,237 | 3,354,218 |
| | 4,334,997 | 3,979,274 |

**51. Reclassification of financial assets**

As a consequence of the 2008 adverse market conditions in the financial sector worldwide and the demise of certain broker/dealers which were significantly involved in the marketing of Global Bonds issued by The Government of Jamaica (GOJ), one of the company's subsidiaries, Scotia DBG Investments Limited, reclassified certain investments that are included in pledged and Capital Management and Government Securities Fund assets from available-for-sale to loans and receivables in accordance with paragraph 50E of IAS 39 as follows:

| | The Group | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | Carrying value | Fair value | Carrying value | Fair value |
| Securities: | | | | |
| US$ GOJ Global Bonds | 13,527,684 | 12,192,485 | 11,907,367 | 10,184,253 |
| EURO GOJ Global Bonds | 878,156 | 971,913 | 927,539 | 825,893 |

(a) Fair value losses exclusive of deferred taxation of $243,383 (2008: $266,886) were recognized in equity in relation to the above investments reclassified during the year, using the fair value as at September 30, 2008.

**51. Reclassification of financial assets (continued)**

(b) Fair value losses of $1,241,442, exclusive of deferred taxation, would have been included in equity at the end of the year had the investments not been reclassified. This amount was estimated on the basis of the mid-price of the securities as at October 31, 2009. Management does not believe that this price is necessarily indicative of the amount that would have been valued if an active market for the securities actually existed at that date.

(c) The weighted average effective interest rate of the investments at the date of reclassification was 8.39%. The undiscounted cash flows to be recovered from the investments reclassified is $23,474,526.

**52. Fiduciary activities**

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties; this involves the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. At the balance sheet date, there were assets under administration amounting to approximately $65,039,775 (2008: $48,461,151) for the Group.

**53. Related party transactions and balances**

The Group is controlled by The Bank of Nova Scotia, a bank incorporated and domiciled in Canada, which owns 71.78% of the ordinary stock units. The remaining 28.22% of the stock units is widely held.

Parties are considered to be related if one party has the ability to control or exercise significant influence over, or be controlled and significantly influenced by, the other party or both parties are subject to common control or significant influence. A number of banking transactions are entered into with related parties, including companies connected by virtue of common directorship in the normal course of business. These include loans, deposits, investment management services and foreign currency transactions.

Related party transactions with the parent company comprise the payment of dividends, management fees, guarantee fees, and centralized computing service fees. The related party balance with the parent is the amount due to the parent company as set out in note 34.

No provisions have been recognised in respect of loans made to related parties.

Pursuant to Section 13(1)(d) and (i) of the Banking Act, 1992, connected companies include companies that have directors in common with the Company and/or its subsidiaries.

Related credit facilities in excess of the limits of Section 13(1)(d) and (i), subject to the maximum of the limits in Section 13(1)(e) of the Banking Act are supported by guarantees issued by the parent company.

The amounts of related party transactions, outstanding balances at the year end, and related expenses and income for the year are as follows:

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

## 53. Related party transactions and balances (continued)

| | The Group | | | | | |
|---|---|---|---|---|---|---|
| | Parent | Fellow subsidiaries | Directors and Key Management Personnel | Connected companies | Total 2009 | Total 2008 |
| **Loans** | | | | | | |
| Loans outstanding at beginning of year | - | - | 274,847 | 9,367,066 | 9,641,913 | 6,792,883 |
| Net loans issued/(repaid) during the year | - | - | 106,159 | 1,611,394 | 1,717,553 | 2,849,030 |
| Loans outstanding at end of year | - | - | 381,006 | 10,978,460 | 11,359,466 | 9,641,913 |
| Interest income earned | - | - | 26,772 | 1,107,957 | 1,134,729 | 1,134,245 |
| Average repayment term (Years) | - | - | 10.65 | 4.63 | 4.83 | 4.30 |
| Average interest rate (%) | - | - | 7.86 | 9.77 | 9.71 | 9.71 |
| **Deposits** | | | | | | |
| Deposits outstanding at beginning of year | 6,768,802 | - | 117,014 | 3,114,706 | 10,000,522 | 9,928,465 |
| Net deposits received/(repaid) during the year | 1,067,372 | - | ( 13,949) | ( 145,214) | 908,209 | 75,263 |
| Deposits outstanding at end of year | 7,836,174 | - | 103,065 | 2,969,492 | 10,908,731 | 10,003,728 |
| Interest expense on deposits | 432,557 | - | 3,387 | 118,611 | 554,555 | 413,990 |
| **Other** | | | | | | |
| Fees and commission earned | - | - | 11,052 | 134,982 | 146,034 | 99,783 |
| Insurance products | - | - | 35,396 | - | 35,396 | 22,938 |
| Securities sold under repurchase agreements | - | - | (131,168) | - | ( 131,168) | ( 160,321) |
| Interest paid on repurchase agreements | - | - | ( 8,339) | - | ( 8,339) | ( 9,723) |
| Other investment | - | - | (180,318) | - | ( 180,318) | ( 370,310) |
| Interest paid on other investments | - | - | ( 9,236) | - | ( 9,236) | ( 23,538) |
| Due from banks and other financial institutions | 205,429 | 1,800,795 | - | - | 2,006,224 | 1,649,328 |
| Due to banks and other financial institutions | 6,406 | - | - | - | 6,406 | 8,231 |
| Interest earned from banks and other financial institutions | 75 | 143,071 | - | - | 143,146 | 92,927 |
| Management fees paid to parent company | 387,917 | - | - | - | 387,917 | 391,195 |
| Guarantee fees paid to parent company | 4,671 | - | - | - | 4,671 | 7,905 |
| Other operating expense/income | ( 428,302) | ( 3,206) | - | - | ( 431,508) | ( 280,115) |

| | The Group | |
|---|---|---|
| | 2009 | 2008 |
| **Key management compensation** | | |
| Salaries and other short term benefits | 483,133 | 475,652 |
| Post-employment benefits | 618,261 | 621,004 |

## 54. Litigation and contingent liabilities

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

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

(b) On April 7, 1999, a writ was filed by National Commercial Bank Jamaica Limited ("NCB") in which they set out a claim for payment of the sum of US$13,286,000 in connection with an alleged undertaking given to NCB by Scotia Jamaica Investment Management Limited (formerly Scotiabank Jamaica Trust and Merchant Bank Limited). Legal opinion has been obtained which states that the subsidiary has a strong defence to the claim. Consequently, no provision has been made for this amount in these financial statements.

## 55. Dividends

(a) Paid

| | The Group 2009 | The Group 2008 | The Company 2009 | The Company 2008 |
|---|---|---|---|---|
| **Scotia Group Jamaica Limited** | | | | |
| Paid to stockholders: | | | | |
| In respect of 2007 | - | 933,472 | - | 933,472 |
| In respect of 2008 | 1,057,935 | 2,987,110 | 1,057,935 | 2,987,110 |
| In respect of 2009 | 3,173,811 | - | 3,173,811 | - |
| | 4,231,746 | 3,920,582 | 4,231,746 | 3,920,582 |
| Paid to minority interest in a subsidiary | 114,319 | 101,671 | - | - |
| | 4,346,065 | 4,022,253 | 4,231,746 | 3,920,582 |

(b) Proposed

At the Board of Directors meeting on November 26, 2009, a dividend in respect of 2009 of $0.37 per share (2008: $0.34 per share) amounting to a total of $1,151,282 (2008: $1,057,935) was proposed. The financial statements for the year ended October 31, 2009 do not reflect this resolution, which will be accounted for in stockholders' equity as an appropriation of retained profits in the year ending October 31, 2010.

(expressed in thousands of Jamaican dollars unless otherwise stated)

**56. Employee Share Ownership Plan**

(i) Scotia Group Jamaica Limited

Scotia Group Jamaica Limited has an Employee Share Ownership Plan ("ESOP" or "Plan"), the purpose of which is to encourage eligible employees of The Bank of Nova Scotia Jamaica Limited to steadily increase their ownership of the company's shares. Participation in the Plan is voluntary; any employee who has completed at least one year's service with any Group entity is eligible to participate.

The operation of the ESOP is facilitated by a Trust. The employer and employees make contributions to the trust fund and these contributions are used to fund the acquisition of shares for the employees. Employees' contributions are determined by reference to the length of their employment and their basic annual remuneration. The employer contributions, are as prescribed by the formula set out in the rules of the Plan.

The contributions are used by the trustees to acquire the company's shares, at market value. The shares purchased with the employees contributions vest immediately, although they are subject to the restriction that they may not be sold within two years of acquisition. Out of shares purchased with the company's contributions, allocations are made to participating employees, but are held by the trust for a two-year period, at the end of which they vest with the employees; if an employee leaves the employer within the two-year period, the right to these shares are forfeited; such shares then become available to be granted by the employer to other participants in accordance with the formula referred to previously.

The amount contributed by the Group to employee share purchase during the year, included in employee compensation, amounted to $34,185 (2008: $35,296).

At the balance sheet date, the shares acquired with the employer's contributions and held in trust pending allocation to employees and/or vesting were:

| | 2009 | 2008 |
|---|---|---|
| Number of shares | 3,284,867 | 2,213,073 |
| Fair value of shares | 60,376 | 44,759 |

(ii) Scotia DBG Investments Limited

Scotia DBG Investment Limited has an Employee Share Ownership Plan ("ESOP"), the purpose of which is to encourage eligible employees of SDBG and it's subsidiaries to steadily increase their ownership of the company's shares. Participation in the Plan is voluntary; any employee who has completed at least one year's service with any entity is eligible to participate.

**56. Employee Share Ownership Plan (continued)**

(ii) Scotia DBG Investments Limited (continued)

The operation of the ESOP is facilitated by a Trust. Grants are issued by the company to the Plan to facilitate the issue of loans to employees to acquire the company's shares, at a discounted value. Allocations are made to participating employees on repayment of the outstanding loans. Allocated shares must be held for a two-year period, at the end of which they vest with the employees.

At the balance sheet date, the shares acquired with the employer's contributions and held in trust pending allocation to employees and/or vesting were:

| | 2009 | 2008 |
|---|---|---|
| Number of shares | 2,565,774 | 2,829,481 |
| Fair value of shares | 44,927 | 68,615 |

# Audited Financial Statements

## The Bank of Nova Scotia Jamaica Limited

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# INDEPENDENT AUDITORS' REPORT

To the Members of
**THE BANK OF NOVA SCOTIA JAMAICA LIMITED**

## Report on the Financial Statements

We have audited the financial statements of The Bank of Nova Scotia Jamaica Limited ("the Bank") and the consolidated financial statements of the Bank and its subsidiaries ("the Group"), set out on pages 117 to 169, which comprise the Group's and Bank's balance sheets as at October 31, 2009, the Group's and Bank's statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

*Auditors' Responsibility*
Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether or not the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*
In our opinion, the financial statements give a true and fair view of the financial positions of the Group and the Bank as at October 31, 2009, and of the Group's and the Bank's financial performance, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Jamaican Companies Act.

## Report on other matters as required by the Jamaican Companies Act

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit. In our opinion, proper accounting records have been maintained, proper returns have been received for branches not visited by us and the financial statements are in agreement with the accounting records and returns, and give the information required by the Jamaican Companies Act in the manner required.

November 26, 2009

# THE BANK OF NOVA SCOTIA JAMAICA LIMITED

## Statement of Consolidated Revenue and Expenses

**Year ended 31 October 2009**

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Note | 2009 | 2008 |
|---|---|---|---|
| Net interest income and other revenue | | | |
| Interest from loans and deposits with banks | | 20,826,337 | 18,293,646 |
| Interest from securities | | 11,305,653 | 7,563,615 |
| Total interest income | 6 | 32,131,990 | 25,857,261 |
| Interest expense | 6 | ( 6,159,435) | ( 5,591,074) |
| Net interest income | | 25,972,555 | 20,266,187 |
| Impairment losses on loans | 23 | ( 1,800,819) | ( 756,220) |
| Net interest income after impairment losses on loans | | 24,171,736 | 19,509,967 |
| Fee and commission income | 7 | 4,543,656 | 4,584,301 |
| Fee and commission expense | 7 | ( 1,141,041) | ( 1,061,258) |
| Net fee and commission income | | 3,402,615 | 3,523,043 |
| Net foreign exchange trading income | 8 | 979,008 | 966,712 |
| Net insurance premium income | 9 | 765,620 | 754,538 |
| Other revenue | 10 | 56,597 | 461,369 |
| | | 822,217 | 1,215,907 |
| | | 29,375,576 | 25,215,629 |
| Expenses | | | |
| Salaries, pension contributions and other staff benefits | 11 | 6,890,264 | 5,811,506 |
| Property expenses, including depreciation | | 2,546,537 | 2,194,604 |
| Change in policyholders' benefits and reserves | 13 | 4,220,231 | 2,838,416 |
| Other operating expenses | | 2,747,949 | 2,554,637 |
| | 13 | 16,404,981 | 13,399,163 |
| Profit before taxation | 14 | 12,970,595 | 11,816,466 |
| Taxation | 15 | ( 3,318,814) | ( 3,196,882) |
| Profit for the year | | 9,651,781 | 8,619,584 |

## Consolidated Balance Sheet

**31 October 2009**

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Note | 2009 | 2008 |
|---|---|---|---|
| ASSETS | | | |
| Cash resources | | | |
| Notes and coins of, deposits with, and money at call at, Bank of Jamaica | 17 | 47,733,280 | 40,082,448 |
| Government and bank notes other than Jamaica | | 301,934 | 343,493 |
| Amounts due from other banks | 18 | 8,318,663 | 13,339,371 |
| Accounts with parent and fellow subsidiaries | 19 | 2,058,103 | 1,655,080 |
| | | 58,411,980 | 55,420,392 |
| Government securities purchased under resale agreements | 21 | 692,401 | 523,392 |
| Pledged assets | 45 | 2,701,541 | 1,301,453 |
| Loans, after allowance for impairment losses | 22 | 89,340,846 | 86,152,384 |
| Investment securities | 24 | | |
| Available-for-sale | | 25,843,184 | 19,151,961 |
| Held-to-maturity | | 46,576,957 | 35,941,612 |
| | | 72,420,141 | 55,093,573 |
| Other assets | | | |
| Customers' liabilities under acceptances, guarantees and letters of credit | | 8,641,071 | 6,228,186 |
| Taxation recoverable | | 702,909 | 892,451 |
| Deferred taxation | 33 | - | 178 |
| Sundry assets | 25 | 353,021 | 639,162 |
| Property, plant and equipment | 26 | 3,357,222 | 2,807,769 |
| Retirement benefit asset | 27 | 5,827,140 | 5,402,224 |
| | | 18,881,363 | 15,969,970 |
| | | 242,448,272 | 214,461,164 |

## THE BANK OF NOVA SCOTIA JAMAICA LIMITED

## Consolidated Balance Sheet (continued)

31 October 2009

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Note | 2009 | 2008 |
|---|---|---|---|
| LIABILITIES | | | |
| Deposits | | | |
| Deposits by the public | 28 | 139,233,073 | 126,917,903 |
| Amounts due to other banks and financial institutions | 29 | 2,842,839 | 2,386,319 |
| Amounts due to ultimate parent company | 30 | 8,316,825 | 7,003,706 |
| Amounts due to fellow subsidiaries | 31 | 2,331,931 | 2,302,225 |
| | | 152,724,668 | 138,610,153 |
| Other liabilities | | | |
| Cheques and other instruments in transit | | 2,317,503 | 2,524,687 |
| Acceptances, guarantees and letters of credit | | 8,641,071 | 6,228,186 |
| Securities sold under repurchase agreements | | 267,356 | - |
| Redeemable preference shares | 34 | 100,000 | 100,000 |
| Other liabilities | 32 | 2,138,217 | 1,142,071 |
| Taxation payable | | 338,903 | 1,078,951 |
| Deferred tax liabilities | 33 | 2,210,068 | 1,567,918 |
| Retirement benefit obligations | 27 | 1,132,488 | 930,576 |
| | | 17,145,606 | 13,572,389 |
| Policyholders' liabilities | 12 | 34,407,877 | 30,561,418 |
| STOCKHOLDERS' EQUITY | | | |
| Share capital | 34 | 2,927,232 | 2,927,232 |
| Reserve fund | 35 | 3,158,481 | 3,158,481 |
| Retained earnings reserve | 36 | 10,902,091 | 8,702,091 |
| Cumulative remeasurement result from available-for-sale financial assets | 37 | ( 358,111) | ( 1,023,193) |
| Capital reserve | 38 | 9,383 | 9,383 |
| Loan loss reserve | 39 | 1,709,767 | 1,295,232 |
| Other reserves | 40 | 2,928 | 2,928 |
| Unappropriated profits | | 19,818,350 | 16,645,050 |
| | | 38,170,121 | 31,717,204 |
| | | 242,448,272 | 214,461,164 |

The financial statements on pages 117 to 169 were approved for issue by the Board of Directors on November 26, 2009 and signed on its behalf by:

Robert H. Pitfield — Director

Bruce F. Bowen — Director

Charles H. Johnston — Director

Julie Thompson-James — Secretary

# THE BANK OF NOVA SCOTIA JAMAICA LIMITED

## Statement of Changes in Consolidated Stockholders' Equity

### Year ended 31 October 2009

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Note | Share capital | Reserve fund | Retained earnings reserve | Capital reserves | Cumulative remeasurement result from available for sale financial assets | Loan loss reserve | Other reserves | Unappropriated profits | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Balances at October 31, 2007 | | 2,927,232 | 3,158,481 | 5,992,902 | 1,659,189 | 110,289 | 1,017,136 | 16,751 | 12,920,345 | 27,802,325 |
| Unrealised loss on available-for-sale investments, net of taxes | | - | - | - | - | (1,127,978) | - | - | - | ( 1,127,978)* |
| Realised gains on available-for-sale securities transferred to statement of revenue and expenses | | - | - | - | - | ( 5,504) | - | - | - | ( 5,504) |
| Profit for the year | | - | - | - | - | - | - | - | 8,619,584 | 8,619,584* |
| Transfer of reserve relating to liquidation of subsidiary | | - | - | - | 9,383 | - | - | ( 4,823) | ( 4,560) | - |
| Loan loss reserve transfer | | - | - | - | - | - | 278,096 | - | ( 278,096) | - |
| Transfer of reserve relating to subsidiary | | | - | - | - | - | - | ( 9,000) | 9,000 | - |
| Transfer to retained earnings reserve | | - | - | 2,709,189 | (1,659,189) | - | - | - | ( 1,050,000) | - |
| Dividends paid | 48 | - | - | - | - | - | - | - | ( 3,571,223) | ( 3,571,223) |
| Movement for the year | | - | - | 2,709,189 | (1,649,806) | (1,133,482) | 278,096 | (13,823) | 3,724,705 | 3,914,879 |
| Balances at October 31, 2008 | | 2,927,232 | 3,158,481 | 8,702,091 | 9,383 | (1,023,193) | 1,295,232 | 2,928 | 16,645,050 | 31,717,204 |
| Unrealised loss on available-for-sale investments, net of taxes | | - | - | - | - | 616,691 | - | - | - | 616,691* |
| Realised gains on available-for-sale securities transferred to statement of revenue and expenses | | - | - | - | - | 48,391 | - | - | - | 48,391 |
| Profit for the year | | - | - | - | - | - | - | - | 9,651,781 | 9,651,781* |
| Loan loss reserve transfer | | - | - | - | - | - | 414,535 | | ( 414,535) | - |
| Transfer to retained earnings reserve | | - | - | 2,200,000 | - | - | - | - | ( 2,200,000) | - |
| Dividends paid | 48 | - | - | - | - | - | - | - | ( 3,863,946) | ( 3,863,946) |
| Movement for the year | | - | - | 2,200,000 | - | 665,082 | 414,535 | - | 3,173,300 | 6,452,917 |
| Balances at October 31, 2009 | | 2,927,232 | 3,158,481 | 10,902,091 | 9,383 | ( 358,111) | 1,709,767 | 2,928 | 19,818,350 | 38,170,121 |

* Total recognised income and expenses for the year $10,268,472 (2008: $7,491,606)

# THE BANK OF NOVA SCOTIA JAMAICA LIMITED

## Statement of Consolidated Cash Flows

**Year ended 31 October 2009**

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Note | 2009 | 2008 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Profit for the year | | 9,651,781 | 8,619,584 |
| Items not affecting cash: | | | |
| Interest income | 6 | (32,131,990) | (25,857,261) |
| Interest expense | 6 | 6,159,435 | 5,591,074 |
| Taxation charge | 15 | 3,318,814 | 3,196,882 |
| Depreciation | 26 | 345,707 | 313,339 |
| Impairment losses on loans | 23 | 1,800,819 | 756,220 |
| Loss/(gain) on sale of property, plant and equipment | | 338 | ( 3,396) |
| Write-offs of property, plant and equipment | 26 | - | 1,793 |
| Gain on Visa shares | 10 | ( 53,308) | ( 456,612) |
| | | (10,908,404) | ( 7,838,377) |
| Changes in operating assets and liabilities | | | |
| Loans | | ( 4,964,332) | (13,707,178) |
| Retirement benefits | | ( 223,003) | ( 354,802) |
| Deposits by the public | | 12,277,170 | ( 884,314) |
| Policyholders' liabilities | | 3,846,457 | 3,546,650 |
| Other assets, net | | 286,139 | ( 501,465) |
| Other liabilities, net | | 996,146 | 53,550 |
| Due to parent company and fellow subsidiaries | | 1,328,961 | 4,009,484 |
| Amounts due from other banks | | 7,038,073 | ( 4,073,394) |
| Accounts with parent and fellow subsidiaries | | ( 2,051,498) | ( 885,822) |
| Taxation recoverable | | 189,543 | 360,060 |
| Amounts due to other banks and financial institutions | | 456,520 | 325,264 |
| Deposits with Bank of Jamaica maturing after 90 days | | 207,281 | ( 9,623,337) |
| Statutory reserves at Bank of Jamaica | | ( 6,759,038) | ( 432,537) |
| Securities sold under repurchase agreements | | 267,311 | ( 234,310) |
| | | 1,987,326 | (30,240,528) |
| Interest received | | 30,257,882 | 24,717,520 |
| Interest paid | | ( 6,107,527) | ( 5,643,962) |
| Taxation paid | | ( 3,709,899) | ( 2,556,093) |
| Net cash provided by/(used in)operating activities | | 22,427,782 | (13,723,063) |
| Cash flows from investing activities | | | |
| Investment securities | | (14,985,052) | ( 62,836) |
| Government securities purchased under resale agreements | | ( 166,621) | 927,043 |
| Pledged assets | | ( 1,400,088) | 39,532 |
| Proceeds from the sale of property, plant and equipment | | 322 | 7,071 |
| Net proceeds on liquidation of subsidiary | | - | 17,758 |
| Purchase of property, plant and equipment | 26 | ( 895,819) | ( 572,735) |
| Net proceeds from sale of shares | | 126,197 | 249,030 |
| Net cash (used in)/provided by investing activities | | (17,321,061) | 604,863 |
| Net cash flows from operating and investing activities | | 5,106,721 | (13,118,200) |

## Statement of Consolidated Cash Flows (continued)

**Year ended 31 October 2009**

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Note | 2009 | 2008 |
|---|---|---|---|
| Cash flows from operating and investing activities | | 5,106,721 | (13,118,200) |
| Cash flows from financing activity | | | |
| Dividends paid | 48 | ( 3,863,946) | ( 3,571,223) |
| Effect of exchange rate changes on cash and cash equivalents | | 1,791,930 | 286,957 |
| Net increase/(decrease) in cash and cash equivalents | | 3,034,705 | (16,402,466) |
| Cash and cash equivalents at beginning of year | | 10,824,315 | 27,226,781 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 20 | 13,859,020 | 10,824,315 |

## THE BANK OF NOVA SCOTIA JAMAICA LIMITED

### Statement of Revenue and Expenses

**Year ended 31 October 2009**

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Note | 2009 | 2008 |
|---|---|---|---|
| Net interest income and other revenue | | | |
| Interest from loans and deposits with banks | | 18,443,831 | 16,347,484 |
| Income from securities | | 4,151,504 | 3,217,375 |
| Total interest income | 6 | 22,595,335 | 19,564,859 |
| Interest expense | 6 | ( 5,748,064) | ( 5,173,528) |
| Net interest income | | 16,847,271 | 14,391,331 |
| Impairment losses on loans | 23 | ( 1,799,143) | ( 746,555) |
| Net interest income after impairment losses on loans | | 15,048,128 | 13,644,776 |
| Fee and commission income | 7 | 4,489,173 | 4,539,314 |
| Fee and commission expense | 7 | ( 1,141,041) | ( 1,061,258) |
| Net fee and commission income | | 3,348,132 | 3,478,056 |
| Net foreign exchange trading income | 8 | 978,992 | 966,336 |
| Other revenue | 10 | 56,380 | 477,717 |
| | | 1,035,372 | 1,444,053 |
| | | 19,431,632 | 18,566,885 |
| Expenses | | | |
| Salaries, pension contributions and other staff benefits | 11 | 6,452,728 | 5,451,940 |
| Property expenses, including depreciation | | 2,506,391 | 2,158,392 |
| Other operating expenses | | 2,436,157 | 2,355,059 |
| | 13 | 11,395,276 | 9,965,391 |
| Profit before taxation | 14 | 8,036,356 | 8,601,494 |
| Taxation | 15 | ( 2,411,952) | ( 2,646,278) |
| Profit for the year | | 5,624,404 | 5,955,216 |

## THE BANK OF NOVA SCOTIA JAMAICA LIMITED

### Balance Sheet

**31 October 2009**

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Note | 2009 | 2008 |
|---|---|---|---|
| ASSETS | | | |
| Cash resources | | | |
| Notes and coins of, deposit with, and money at call at, Bank of Jamaica | 17 | 39,552,911 | 30,319,327 |
| Government and bank notes other than Jamaica | | 301,935 | 343,493 |
| Amounts due from other banks | 18 | 8,287,378 | 13,283,820 |
| Accounts with parent and fellow subsidiaries | 19 | 2,058,103 | 1,655,080 |
| | | 50,200,327 | 45,601,720 |
| Government securities purchased under resale agreements | 21 | 1,557,259 | 407,920 |
| Pledged assets | 45 | 2,701,541 | 1,301,453 |
| Loans, after allowance for impairment losses | 22 | 82,554,936 | 79,996,715 |
| Investment securities | 24 | | |
| Available-for-sale | | 19,416,832 | 14,098,874 |
| Held-to-maturity | | 11,669,863 | 10,096,345 |
| | | 31,086,695 | 24,195,219 |
| Investment in subsidiaries | | 242,093 | 242,093 |
| Other assets | | | |
| Customers' liabilities under acceptances, guarantees and letters of credit | | 8,259,126 | 5,835,740 |
| Sundry assets | 25 | 351,861 | 638,734 |
| Property, plant and equipment | 26 | 3,299,800 | 2,750,330 |
| Retirement benefit asset | 27 | 5,827,140 | 5,402,224 |
| | | 17,737,927 | 14,627,028 |
| | | 186,080,778 | 166,372,148 |

# THE BANK OF NOVA SCOTIA JAMAICA LIMITED

## Balance Sheet (continued)

**31 October 2009**

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Note | 2009 | 2008 |
|---|---|---|---|
| LIABILITIES | | | |
| Deposits | | | |
| Deposits by the public | 28 | 134,960,101 | 122,331,269 |
| Amounts due to other banks and financial institutions | 29 | 1,739,661 | 1,504,015 |
| Amounts due to ultimate parent company | 30 | 8,316,825 | 7,003,706 |
| Amounts due to subsidiaries | 31 | 317,672 | 228,129 |
| Amounts due to fellow subsidiaries | 31 | 2,331,931 | 2,302,225 |
| | | 147,666,190 | 133,369,344 |
| Other liabilities | | | |
| Cheques and other instruments in transit | | 2,383,509 | 2,872,257 |
| Acceptances, guarantees and letters of credit | | 8,259,126 | 5,835,740 |
| Securities sold under repurchase agreements | | 267,356 | - |
| Redeemable preference shares | 34 | 100,000 | 100,000 |
| Other liabilities | 32 | 2,059,455 | 1,095,376 |
| Taxation payable | | 309,767 | 1,013,877 |
| Deferred tax liabilities | 33 | 1,838,938 | 1,395,154 |
| Retirement benefit obligations | 27 | 1,132,488 | 930,576 |
| | | 16,350,639 | 13,242,980 |
| STOCKHOLDERS' EQUITY | | | |
| Share capital | 34 | 2,927,232 | 2,927,232 |
| Reserve fund | 35 | 2,930,616 | 2,930,616 |
| Retained earnings reserve | 36 | 9,501,341 | 8,301,341 |
| Cumulative remeasurement result from available-for-sale financial assets | 37 | ( 426,729) | ( 970,396) |
| Capital reserve | 38 | 9,383 | 9,383 |
| Loan loss reserve | 39 | 1,596,943 | 1,248,712 |
| Unappropriated profits | | 5,525,163 | 5,312,936 |
| | | 22,063,949 | 19,759,824 |
| | | 186,080,778 | 166,372,148 |

The financial statements on pages 117 to 169 were approved for issue by the Board of Directors on November 26, 2009 and signed on its behalf by:

Robert H. Pitfield — Director

Bruce F. Bowen — Director

Charles H. Johnston — Director

Julie Thompson James — Secretary

# THE BANK OF NOVA SCOTIA JAMAICA LIMITED

## Statement of Changes in Stockholders' Equity

### Year ended 31 October 2009

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Note | Share capital | Reserve fund | Retained earnings reserve | Capital reserve | Cumulative remeasurement result from available for sale financial assets | Loan loss reserve | Unappropriated profits | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balances at October 31, 2007** | | 2,927,232 | 2,930,616 | 5,592,152 | 1,659,189 | 137,442 | 983,418 | 4,253,620 | 18,483,669 |
| Unrealised loss on available-for-sale investments, net of taxes | | - | - | - | - | (1,102,222) | - | - | (1,102,222)* |
| Realised gains on available-for-sale securities, transferred to statement of revenue and expenses | | - | - | - | - | ( 5,616) | - | - | ( 5,616) |
| Profit for the year | | - | - | - | - | - | - | 5,955,216 | 5,955,216* |
| Transfer of reserves relating to liquidation of subsidiary | | - | - | - | 9,383 | - | - | ( 9,383) | - |
| Dividends paid | 48 | - | - | - | - | - | - | (3,571,223) | ( 3,571,223) |
| Retained earnings transfer | | - | - | 2,709,189 | (1,659,189) | - | - | (1,050,000) | - |
| Loan loss reserve transfer | | - | - | - | - | - | 265,294 | ( 265,294) | - |
| Movement for the year | | - | - | 2,709,189 | (1,649,806) | (1,107,838) | 265,294 | 1,059,316 | 1,276,155 |
| **Balances at October 31, 2008** | | 2,927,232 | 2,930,616 | 8,301,341 | 9,383 | ( 970,396) | 1,248,712 | 5,312,936 | 19,759,824 |
| Unrealised loss on available-for-sale investments, net of taxes | | - | - | - | - | 541,276 | - | - | 541,276* |
| Realised gains on available-for-sale securities, transferred to statement of revenue and expenses | | - | - | - | - | 2,391 | - | - | 2,391 |
| Profit for the year | | - | - | - | - | - | - | 5,624,404 | 5,624,404* |
| Dividends paid | 48 | - | - | - | - | - | - | (3,863,946) | (3,863,946) |
| Retained earnings transfer | | - | - | 1,200,000 | - | - | - | (1,200,000) | - |
| Loan loss reserve transfer | | - | - | - | - | - | 348,231 | ( 348,231) | - |
| Movement for the year | | - | - | 1,200,000 | - | 543,667 | 348,231 | 212,227 | 2,304,125 |
| **Balances at October 31, 2009** | | 2,927,232 | 2,930,616 | 9,501,341 | 9,383 | ( 426,729) | 1,596,943 | 5,525,163 | 22,063,949 |

Total recognised income and expenses for the year $6,165,680 (2008: $4,852,994)

# THE BANK OF NOVA SCOTIA JAMAICA LIMITED

## Statement of Cash Flows

### Year ended 31 October 2009

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Note | 2009 | 2008 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Profit for the year | | 5,624,404 | 5,955,216 |
| Items not affecting cash: | | | |
| Interest income | 6 | (22,595,335) | (19,564,859) |
| Interest expense | 6 | 5,748,064 | 5,173,528 |
| Taxation charge | 15 | 2,411,952 | 2,646,278 |
| Depreciation | 26 | 337,421 | 306,253 |
| Impairment losses on loans | 23 | 1,799,143 | 746,555 |
| (Loss)/gain on sale of property, plant and equipment | | 554 | ( 3,396) |
| Gain on liquidation of subsidiary | | - | ( 9,383) |
| Gain on Visa shares | 10 | ( 53,308) | ( 456,612) |
| Write off of property, plant and equipment | | - | 1,063 |
| | | ( 6,727,105) | ( 5,205,357) |
| Changes in operating assets and liabilities | | | |
| Loans | | ( 4,334,419) | (12,528,307) |
| Retirement benefits | | ( 223,004) | ( 354,801) |
| Deposits by the public | | 12,588,781 | ( 967,209) |
| Statutory reserves at Bank of Jamaica | | ( 6,763,226) | ( 431,343) |
| Deposits with Bank of Jamaica maturing after ninety days | | ( 2,490,548) | ( 7,398,793) |
| Other liabilities, net | | 964,078 | 40,259 |
| Due to parent company and fellow subsidiaries | | 1,418,504 | 4,073,485 |
| Amounts due from other banks | | 7,013,673 | ( 4,029,401) |
| Amounts with parents and fellow subsidiaries | | ( 2,051,423) | ( 885,066) |
| Amounts due to other banks and financial institutions | | 235,646 | ( 89,256) |
| Other assets, net | | 286,874 | ( 500,081) |
| Securities sold under repurchase agreements | | 267,311 | ( 234,310) |
| | | 185,142 | (28,510,180) |
| Interest received | | 21,771,762 | 18,941,640 |
| Interest paid | | ( 5,694,104) | ( 5,230,218) |
| Taxation paid | | ( 2,944,109) | ( 2,110,061) |
| Net cash provided by/(used in) operating activities | | 13,318,691 | (16,908,819) |
| Cash flows from investing activities | | | |
| Investment securities | | ( 4,473,179) | 3,087,089 |
| Government securities purchased under resale agreements | | ( 1,150,000) | 845,000 |
| Pledged assets | | ( 1,400,088) | 39,532 |
| Purchase of property, plant and equipment | 26 | ( 887,445) | ( 567,300) |
| Proceeds from liquidation of subsidiary | | - | 22,029 |
| Proceeds from the sale of property, plant and equipment | | - | 6,368 |
| Net proceeds from sale of shares | | 126,197 | 249,030 |
| Net cash (used)/provided by investing activities | | ( 7,784,515) | 3,681,748 |
| Net cash flows from operating and investing activities | | 5,534,176 | (13,227,071) |

## Statement of Cash Flows (continued)

### Year ended 31 October 2009

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

| | Note | 2009 | 2008 |
|---|---|---|---|
| Cash flows from operating and investing activities | | 5,534,176 | (13,227,071) |
| Cash flows from financing activity | | | |
| Dividends paid | 48 | ( 3,863,946) | ( 3,571,223) |
| Effect of exchange rate changes on cash and cash equivalents | | 1,791,855 | 286,198 |
| Net increase/(decrease) in cash and cash equivalents | | 3,462,085 | (16,512,096) |
| Cash and cash equivalents at beginning of year | | 9,397,205 | 25,909,301 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 20 | 12,859,290 | 9,397,205 |

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

## 1. Identification, Regulation and Licence

(a) The Bank of Nova Scotia Jamaica Limited ("the Bank") is incorporated and domiciled in Jamaica. It is a 100% subsidiary of Scotia Group Jamaica Limited, which is incorporated and domiciled in Jamaica. Scotia Group Jamaica Limited is a 71.78% subsidiary of The Bank of Nova Scotia, which is incorporated and domiciled in Canada and is the ultimate parent. The registered office of the Bank is located at the Scotiabank Centre, Corner of Duke and Port Royal Streets, Kingston, Jamaica.

The Bank is licensed under the Banking Act, 1992 and is listed on the Jamaica Stock Exchange.

(b) The Bank's subsidiaries, which together with the Bank are referred to as "the Group", are as follows:

| Subsidiaries | Principal Activities | Holding | Financial Year End |
|---|---|---|---|
| The Scotia Jamaica Building Society | Deposit taking and mortgage financing | 100% | October 31 |
| Scotia Jamaica Life Insurance Company Limited | Life insurance | 100% | December 31 |
| Scotia Jamaica Financial Services Limited | Non-trading | 100% | October 31 |
| Brighton Holdings Limited | Non-trading | 100% | October 31 |

All of the Bank's subsidiaries are incorporated and domiciled in Jamaica.

## 2. Summary of significant accounting policies

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

### (a) Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board, the Jamaican Companies Act and the Banking Act.

**New standards, amendments to standards and interpretations that became effective during the year**

Certain new standards, amendments to published standards and interpretations came into effect during the current financial year. The Group has assessed the relevance of all such standards, amendments and interpretations and has adopted those which are relevant to its operations, viz:

*IFRIC 13 Accounting for Customer Loyalty Programmes,* which became effective for annual reporting periods that began on or after July 1, 2008, clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple element arrangement. The consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 did not have a material impact on the Group's financial statements as these programmes are operated on behalf of third parties.

*IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction,* which became effective for annual reporting periods that began on or after January 1, 2008, provides guidance on assessing the limit set in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This standard did not have a material impact on the financial statements.

**New standards, and interpretations of and amendments to existing standards, that are not yet effective:**

At the date of authorization of these financial statements, certain new standards, and amendments to and interpretations of existing standards, have been issued which are not yet effective at balance sheet date and which the Group has not early-adopted. The Group has assessed the relevance of all such new standards, amendments and interpretations with respect to the Group's operations and has determined that the following are relevant to its operations.

**(a) Basis of preparation (continued)**

(i) Statement of compliance (continued)

**New standards, and interpretations of and amendments to existing standards, that are not yet effective (cont'd):**

*Revised IFRS 3 Business Combinations* and *amended IAS 27 Consolidated and Separate Financial Statements* becomes effective for annual reporting periods beginning on or after July 1, 2009. The definition of a business combination has been revised and focuses on control. All items of consideration transferred by the acquirer are measured and recognised at fair value as of the acquisition date, including contingent consideration. An acquirer can elect to measure non-controlling interest at fair value at the acquisition date or on a transaction by transaction basis. New disclosure requirements have been introduced. The revisions are not expected to have any significant impact on the financial statements.

Amendments to *IFRS 7 Financial Instruments: Disclosures*, which becomes effective for annual reporting periods beginning on or after January 1, 2009, require enhanced disclosures in respect of two aspects: disclosures over fair value measurement relating to financial instruments, specifically, in relation to disclosures over the inputs used in valuation techniques and the uncertainty associated with such valuations; and improving disclosures over liquidity risk to address current diversity in practice. The Group is assessing the impact that the revised standard will have on the financial statements.

*IFRS 8, Operating Segments*, which becomes effective for annual reporting periods beginning on or after January 1, 2009, replaces IAS 14 and sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates and its major customers. The Group is assessing the impact that IFRS 8 will have on the disclosures in the financial statements.

*IAS 1 (Revised) Presentation of Financial Statements,* which becomes effective for annual reporting periods beginning on or after January 1, 2009, requires the presentation of all non-owner changes in equity in one or two statements: either in a single statement of comprehensive income, or in an income statement of comprehensive income. The Group is assessing the impact that the revised standard will have on the financial statements.

*IAS 23(Revised) - Borrowing Costs,* which becomes effective for annual reporting periods beginning on or after January 1, 2009, removes the option of either capitalizing borrowing costs relating to qualifying assets or expensing the borrowing costs, and, instead, requires management to capitalize all borrowing costs attributable to qualifying assets. Qualifying assets are assets that take a substantial time to get ready for their intended use or sale. The Group is assessing the impact IAS 23 (Revised) will have on the financial statements.

**2. Summary of significant accounting policies (continued)**

**(a) Basis of preparation (continued)**

(i) Statement of compliance (continued)

**New standards, and interpretations of and amendments to existing standards, that are not yet effective (cont'd):**

*IAS 27 (Revised) Consolidated and Separate Financial Statements* becomes effective for annual reporting periods beginning on or after July 1, 2009. It requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. It also specifies the accounting when control is lost, requiring that any remaining interest in the entity be re-measured to fair value, and a gain or loss be recognized in profit or loss. The Group is assessing the impact the revision will have on the financial statements.

Amendments to *IAS 32 Financial Instruments: Presentation* and *IAS 1, Presentation of Financial Statements* become effective for annual reporting periods beginning on or after January 1, 2009. The amendments allow certain instruments that would normally be classified as liabilities to be classified as equity if certain conditions are met. Where such instruments are reclassified, the entity is required to disclose the amount, the timing and the reason for the reclassification. The Group is assessing the impact that the revised standard will have on the financial statements.

*IAS 36 (Amendment), Impairment of Assets* becomes effective for annual reporting periods beginning on or after January 1, 2009. The standard provides that where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculations should be made. The Group is assessing the impact that the revised standard will have on the financial statements.

*IAS 39 (Amendment), Financial Instruments: Recognition and Measurement* becomes effective for annual reporting periods beginning on or after July 1, 2009. The amendment provided clarification that it is possible for there to be movements into and out of the fair value through profit or loss category where:

- A derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

- Financial assets are reclassified following a change in policy by an insurance company in accordance with IFRS 4.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

New standards, and interpretations of and amendments to existing standards, that are not yet effective (cont'd):

The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition. There is also the removal of a segment as an example of what may be considered a party external to the reporting entity. When re-measuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used. The Group is assessing the impact the amendment will have on the financial statements.

*IFRIC 17, Distribution of Non-Cash Assets to Owners* is effective for annual reporting periods beginning on or after July 1, 2009 and is required to be applied prospectively; earlier application is permitted. IFRIC 17 provides that a dividend payable should be recognized when appropriately authorized and no longer at the entity's discretion. Where an owner has a choice of a dividend of a non-cash asset or cash, the dividend payable is estimated considering both the fair value and probability of the owners selecting each option. The dividend payable is measured at the fair value of the net assets to be distributed. The difference between fair value of the dividend paid and the carrying amount of the net assets distributed is recognized in profit or loss. The Group is assessing the impact this interpretation will have on the financial statements.

(ii) Basis of measurement

The financial statements have been prepared on the historical cost basis as modified for the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss.

(iii) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS and the Companies Act requires the use of certain assumptions and critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(iv) Functional and presentation currency

These financial statements are presented in Jamaican dollars, which is the Group's functional currency. Except where indicated to be otherwise, financial information presented is shown in thousands of Jamaican dollars.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(v) Comparative information

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

(b) Basis of consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the Bank and its subsidiaries presented as a single economic entity.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are no longer consolidated from the date that control ceases.

Intra-group transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Segment reporting

A segment is a distinguishable component of the Group (a group of assets and operations) that is engaged in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment) and which is subject to risks and rewards that are different from those of other segments. The Group bases its segment reporting on business segments.

(d) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Jamaican dollars at the exchange rates prevailing at the balance sheet date, being the mid-point between the Bank of Jamaica's (the Central Bank) weighted average buying and selling rates at that date.

Transactions in foreign currencies are translated at the rates of exchange ruling at the dates of those transactions.

2. Summary of significant accounting policies (continued)

(e) Revenue recognition

(i) Interest income

Interest income is recognised in the statement of revenue and expenses for all interest earning instruments on the accrual basis using the effective interest method based on the actual purchase price. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset. The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently. Interest income includes coupons earned on fixed income investments, accretion of discount on treasury bills and other discounted instruments, and amortization of premium on instruments bought at a premium.

Where collection of interest income is considered doubtful, or payment is outstanding for more than 90 days, the banking regulations stipulate that interest should be taken into account on the cash basis. IFRS requires 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. However, the difference between the amounts recognized under the banking regulations and such amounts as would have been determined under IFRS are considered to be immaterial.

(ii) Fee and commission

Fee and commission income are recognised on the accrual basis when service has been provided. Origination fees, for loans which are probable of being drawn down, are recognised in the statement of revenue and expenses immediately, as they are not considered material for deferral.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees are apportioned over the period the service is provided. The same principle is applied for financial planning and custody services that are continuously provided over an extended period of time.

Fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(iii) Premium income

Premiums are recognised as earned when received.

(f) Interest expense

Interest expense is recognised in the statement of revenue and expenses on the accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial liability.

**2. Summary of significant accounting policies (continued)**

**(g) Claims**

Death claims are recorded in the statement of revenue and expenses, net of reinsurance recoverable.

**(h) Reinsurance contracts held**

The Group enters into contracts with reinsurers under which it is compensated for losses on contracts it issues and which meet the classification requirements for insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. Reinsurance does not relieve the originating insurer of its liability.

**(i) Taxation**

Taxation on the profit or loss for the year comprises current and deferred taxes. Current and deferred taxes are recognised as tax expense or benefit in the statement of revenue and expenses except where they relate to items recorded in stockholders' equity, in which case they are charged or credited to stockholders' equity.

(i) Current taxation

Current tax charges are based on the taxable profit for the year, which differs 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 current tax is calculated at tax rates that have been enacted at the balance sheet date.

(ii) Deferred tax

Deferred tax liabilities are recognised for temporary differences between the carrying amounts of assets and liabilities and their amounts as measured for tax purposes, which will result in taxable amounts in future periods. Deferred tax assets are recognised for temporary differences which will result in deductible amounts in future periods, but only to the extent it is probable that sufficient taxable profits will be available against which these differences can be utilised. Deferred tax assets are reviewed at each reporting date to determine whether it is probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realised or the liability will be settled based on enacted rates.

Current and deferred tax assets and liabilities are offset when the legal right of set-off exists, and when they relate to income taxes levied by the same tax authority on either the same taxable entity, or different taxable entities which intend to settle current tax liabilities and assets on a net basis.

2. Summary of significant accounting policies (continued)

(j) Insurance contracts – recognition and measurement

(i) Classification

The Group issues contracts that transfer insurance risk or financial risk or both.

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. The Group defines insurance risk as significant if an insured event could cause an insurer to pay significant additional benefits in a scenario that has a discernible effect on the economics of the transactions. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits, at the occurrence of an insured event, that is at least 10% more than the benefits payable if the insured event did not occur.

(ii) Recognition and measurement

Insurance contracts

These contracts insure human life events (for example death or permanent disability) over a long duration. The accounting treatment differs according to whether the contract bears investment options or not. Under contracts that do not bear investment options, premiums are recognised as income when they become payable by the contract holder and benefits are recorded as an expense when they are incurred.

Under contracts that bear an investment option, insurance premiums received are initially recognised directly as liabilities. These liabilities are increased by credited interest and are decreased by policy administration fees, mortality and surrender charges and any withdrawals; the resulting liability is called the Life Assurance Fund. Income consists of fees deducted for mortality, policy administration and surrenders. Interest credited to the account and benefit claims in excess of the account balances incurred in the period are recorded as expenses in the statement of revenue and expenses.

Insurance contract liabilities are determined by an independent actuary using the Policy Premium Method of valuation as discussed in Note 3(iv). These liabilities are, on valuation, adjusted through the income statement to reflect the valuation determined under the Policy Premium Method.

(k) Policyholders' liabilities

The policyholders' liabilities have been calculated using the Policy Premium Method (PPM) of valuation. Under this method explicit allowance is made for all future benefits and expenses under the policies. The premiums, benefits and expenses for each policy are projected and the resultant future cash flows are discounted back to the valuation date to determine the reserves.

2. Summary of significant accounting policies (continued)

(k) Policyholders' liabilities (continued)

The process of calculating policy reserves necessarily involves the use of estimates concerning such factors as mortality and morbidity rates, future investment yields and future expense levels. Consequently, these liabilities include reasonable provisions for adverse deviations from the estimates.

An actuarial valuation is prepared annually. Any adjustment to the reserves is reflected in the year to which it relates.

(l) Financial assets and liabilities

Financial assets carried on the balance sheet include cash resources, investments, securities purchased under resale agreements, pledged assets, loans and leases, other assets, deposits, other liabilities and policyholders' fund.

(i) Recognition

The Group initially recognises loans and advances and deposits on the date at which the Group becomes a party to the contractual provisions of the instrument i.e., the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated as at fair value through profit or loss) are initially recognized on the settlement date – the date on which the asset is delivered to or by the Group.

(ii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or have expired.

The Group enters into transactions whereby it transfers assets recognized on its balance sheet, but retains either all or a portion of the risks and rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized from the balance sheet. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

(iii) Measurement

Initial measurement: On initial recognition, financial assets and liabilities are measured at fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

2. Summary of significant accounting policies (continued)

(l) Financial assets and liabilities (continued)

(iii) Measurement (continued)

Subsequent measurement of financial assets: The measurement of financial assets subsequent to initial recognition depends upon their classification as set out in note 2 (m) below, namely: loans and receivables are measured at amortised cost using the effective interest method; held-to-maturity investments are measured at amortised cost using the effective interest method; investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably determined are measured at amortised cost.

Other financial assets are measured at their fair values without any deduction for transaction costs that may be incurred on sale or other disposal.

Subsequent measurement of financial liabilities: After initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

(m) Financial assets

(i) Classification

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

(1) Financial assets at fair value through profit or loss

This category includes financial assets held for trading. A financial asset is classified in this category at inception if acquired principally for the purpose of selling in the short term or if so designated by management. These assets are measured at fair value and all related gains and losses are included in the statement of revenue and expenses.

(2) Loans and receivables

See details at note 2(p).

(3) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity and which are not designated as at fair value through profit or loss or as available-for-sale. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be compromised and reclassified as available-for-sale and the Group would be prohibited from classifying investment securities as held-to-maturity for the current and the following two financial years. Held-to-maturity investments are measured at amortised cost using the effective interest method.

2. Summary of significant accounting policies (continued)

(m) Financial assets (continued)

(i) Classification (continued)

(4) Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified in any of the other three categories of financial assets. They are intended to be held for an indefinite period of time, and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or market prices. Available-for-sale investments are measured at fair value except for any unquoted equity securities whose fair value cannot be reliably measured, which are carried at cost. Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized in the statement of revenue and expenditure when the Group becomes entitled to the dividend. Other unrealized gains and losses arising from changes in fair value of available-for-sale investments are recognized in stockholders' equity. On disposal or impairment of these investments, the unrealized gains or losses included in stockholders' equity are transferred to profit or loss.

(ii) Identification and measurement of impairment

At each balance sheet date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

**2. Summary of significant accounting policies (continued)**

**(m) Financial assets (continued)**

(ii) Identification and measurement of impairment (continued)

The Group considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the management makes judgements as to current economic and credit conditions and their effect on default rates, loss rates and the expected timing of future recoveries, ensuring that assumptions remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised directly in equity to profit or loss. The cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity.

2. Summary of significant accounting policies (continued)

(n) Investment in subsidiaries

Investments by the Bank in subsidiaries are stated at cost less impairment losses.

(o) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase the asset at a fixed price on a future date (repurchase agreements) and securities purchased under agreements to resell the asset at a fixed price on a future date (reverse repurchase agreements) are treated as collateralised financing transactions. In the case of reverse repurchase agreements, the underlying asset is not recognized in the Group's financial statements; in the case of repurchase agreements the underlying collateral is not derecognized from the Group's financial statements but is segregated as pledged assets. 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.

(p) Loans and receivables and allowance for impairment losses

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, and that, upon initial recognition, the Group designates as at fair value through profit or loss, or as available-for-sale.

Loans and receivables are initially recorded at the fair value of the consideration given, which is the cash disbursed to originate the loan, including any transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

Loans are stated net of unearned income and allowance for impairment.

An allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the impaired loans.

A loan is classified as impaired when, in management's opinion, there has been a deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of the full amount of principal and interest. As required by statutory regulations, if a payment on a loan is contractually 90 days in arrears, the loan will be classified as impaired, if not already classified as such. Any credit card loan that has a payment that is contractually 90 days in arrears is written-off.

**2. Summary of significant accounting policies (continued)**

**(p) Loans and receivables and allowance for impairment losses (continued)**

When a loan is classified as impaired, recognition of interest in accordance with the terms of the original loan ceases, and interest is taken into account on the cash basis. This differs from IFRS which requires that interest on the impaired asset continues to be recognised through the unwinding of the discount that was applied to the estimated future cash flows. However, the difference is not considered material.

Statutory and other regulatory loan loss reserve amounts that exceed the amounts required under IFRS are included in a non-distributable loan loss reserve as an appropriation of profits.

**(q) Acceptances and guarantees**

The Bank's potential liability under acceptances and guarantees is reported as a liability in the balance sheet. The Bank has equal and offsetting claims against its customers in the event of a call on these commitments, which are reported as an asset.

**(r) Intangible assets**

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with acquiring identifiable and unique software products which are expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. However, such costs are expensed where they are considered to be immaterial.

**(s) Leases**

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are recognised at the inception of the lease at the lower of the fair value of the leased asset and the present value of minimum lease payments. Each lease payment is allocated between the liability and interest charges so as to produce a constant rate of charge on the lease obligation. The interest element of the lease payments is charged as an expense and included in the statement of revenue and expenses over the lease period.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases are charged to the statement of revenue and expenses on the straight-line basis over the period of the lease.

**(t) Property, plant and equipment**

Land is stated at historical cost. All other property, plant and equipment are stated at historical cost less accumulated depreciation and, if any, impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

2. Summary of significant accounting policies (continued)

(t) Property, plant and equipment (continued)

Expenditure subsequent to acquisition is included in the asset's carrying amount or is recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other expenditure is classified as repairs and renewals and charged as expenses in the statement of revenue and expenses during the financial period in which it is incurred.

Depreciation and amortisation are calculated on the straight-line method at rates estimated to write off the depreciable amount of the assets over their expected useful lives, as follows:

| | |
|---|---|
| Buildings | 40 years |
| Furniture, fixtures and equipment | 10 years |
| Computer equipment | 4 years |
| Motor vehicles | 5 years |
| Leasehold improvements | Period of lease |

The depreciation methods, useful lives and residual values are reassessed at the reporting date.

Property, plant and equipment are reviewed periodically for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

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

(u) Employee benefits

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

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

**2. Summary of significant accounting policies (continued)**

**(u) Employee benefits (continued)**

(i) Pension obligations

The Group operates a defined benefit plan, the assets of which are held in a separate trustee-administered fund. The pension plan is funded by contributions from employees and the Bank, taking the recommendations of the actuary into account.

The asset or liability in respect of defined benefit plans is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of plan assets, adjusted for unrecognised actuarial gains/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 pension costs are assessed using the Projected Unit Credit Method. Under this method, the cost of providing pensions is charged to the statement of revenue and expenses so as to spread the regular cost over the service lives of the employees in accordance with the advice of the actuaries, who carry out a full valuation of the plan every year in accordance with IAS 19. The pension obligation is measured at the present value of the estimated future cash outflows using estimated discount rates based on market yields on Government securities which have terms to maturity approximating the terms of the related liability.

A portion of actuarial gains and losses is recognised in the statement of revenue and expenses if the net cumulative unrecognised actuarial gains or losses at the end of the previous reporting period exceeded 10 percent of the greater of the present value of the gross defined benefit obligation and the fair value of plan assets at that date. Any excess actuarial gains or losses are deferred and recognised in the statement of revenue and expenses over the average remaining service lives of the participating employees.

(ii) Termination obligations

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

**2. Summary of significant accounting policies (continued)**

**(u) Employee benefits (continued)**

(iii) Other post-retirement obligations

The Group also provides supplementary health, dental and life insurance benefits to qualifying employees upon retirement. The entitlement to these benefits is usually based on the completion of a minimum service period and the employee remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans. These obligations are valued annually by qualified independent actuaries.

(iv) Equity compensation benefits

The Group has an Employee Share Ownership Plan (ESOP) for eligible employees. The Group provides a fixed benefit to each participant, which is linked to the number of years of service. This benefit is recorded in salaries and staff benefits in the statement of revenue and expenses.

The amount contributed to the ESOP trust (note 49) by the Group for acquiring shares and allocating them to employees is recognised as an employee expense at the time of making the contribution, as the effect of recognising it over the two-year period in which the employees become unconditionally entitled to the shares is not considered material. Further, the effect of forfeitures is not considered material.

The special purpose entity that operates the Plan has not been consolidated as the effect of doing so is not considered material.

**(v) Borrowings**

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between proceeds, net of transaction costs, and the redemption amount is recognised in the statement of revenue and expenses immediately, as they are not considered material for deferral.

**(w) Share capital**

(i) Ordinary shares are classified as equity when there is no obligation to transfer cash or other assets.

Preference share capital is classified as equity except where it is redeemable on a specific or determinable date or at the option of the shareholders and/or if dividend payments are not discretionary, in which case it is classified as a liability. Dividend payments on preference shares classified as a liability are recognized in the statement of revenue and expenses as interest expense.

**2. Summary of significant accounting policies (continued)**

**(w) Share capital (continued)**

(ii) Dividends

Dividends are recorded in the financial statements in the period in which they are approved by the Board of Directors.

**(x) Financial instruments**

Financial instruments carried on the balance sheet include cash resources, investments, securities purchased under resale agreements, pledged assets, loans and leases, other assets, deposits, other liabilities and policyholders' fund.

The fair values of the Group's financial instruments are discussed in note 42.

**(y) Cash and cash equivalents**

For the purpose of the cash flow statement, cash and cash equivalents include notes and coins on hand, unrestricted balances held with Bank of Jamaica, amounts due from other banks, and highly liquid financial assets with original maturities of less than ninety days, which are readily convertible to known amounts of cash, and are subject to insignificant risk of changes in their fair value.

**(z) Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent of other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

**2. Summary of significant accounting policies (continued)**

**(z) Impairment of non-financial assets (continued)**

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**3. Critical accounting estimates, and judgements in applying accounting policies**

The Group makes estimates and assumptions that affect the reported amounts of, and disclosures relating to, assets, liabilities, income and expenses reported in these financial statements and may be reported in the financial statements of the next financial year. Estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances, and are continually evaluated.

(i) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of revenue and expenses, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in 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. To the extent that the net present value of estimated cash flows differs by +/-5 percent, the provision would be an estimated $112,215 (2008: $82,199) lower or $112,215 (2008: $82,199) higher.

(ii) Held-to-maturity investments

The Group follows the guidance of IAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than in the specific permissible circumstances - for example, selling other than an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value, not amortised cost. If the entire class of held-to-maturity investments is compromised, the fair value of investments would increase by $1,931,476 (2008: increase by $433,638) with a corresponding entry in the fair value reserve in stockholders' equity.

3. Critical accounting estimates, and judgements in applying accounting policies (continued)

(iii) Income taxes

Estimates and judgements are required in determining the provision for income taxes. The tax liability or asset arising from certain transactions or events may be uncertain during the ordinary course of business. In cases of such uncertainty, the Group recognises liabilities for possible additional taxes based on its judgement. Where the final tax outcome in relation to such matters is different from the amount that was initially recognised, the difference will impact the current and deferred income tax provisions in the period in which such determination is made.

Were the actual final outcome (on the judgement areas) to differ by 10% from management's estimates, the Group would need to:

- Increase the income tax liability by $62,756 and the deferred tax liability by $24,023, if unfavourable; or
- Decrease the income tax liability by$62,756 and the deferred tax liability by $24,023, if favourable.

(iv) Estimate of future payments and premiums arising from long-term insurance contracts

The liabilities under long-term insurance contracts have been determined using the Policy Premium Method of valuation. Under this method explicit allowance is made for all future benefits and expenses under the policies. The premiums, benefits and expenses for each policy are projected and the resultant future cash flows are discounted back to the valuation date to determine the reserves. Any adjustment to the reserves is reflected in the year to which it relates.

The process of calculating policy reserves necessarily involves the use of estimates concerning such factors as mortality and morbidity rates, future investment yields and future expense levels. Consequently, these liabilities include reasonable provisions for adverse deviations from the estimates. Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

These estimates are more fully described in note 12(c).

**3. Critical accounting estimates, and judgements in applying accounting policies (continued)**

(v) 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 determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net periodic cost (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 post-employment medical benefits, the expected rate of increase in medical costs. Any changes in these assumptions will impact the net periodic cost (income) recorded for pension and 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 Group determines the appropriate discount rate at the end of each year; such rate 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 post-employment benefit obligations. In determining the appropriate discount rate, the Group considered interest rate of high-quality corporate bonds 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 the historical relationship of the actual medical cost increases with the rate of inflation in the respective economies.

Past experience has shown that the actual medical costs have increased on average by the rate of inflation. Other key assumptions for the pension and other post retirement benefits cost and credits are based, in part, on current market conditions.

Were the actual expected return on pension plan assets to differ by 1% from management's estimates, there would be no impact on the consolidated net income. Similarly, were the actual discount rate used at the beginning of the fiscal year to differ by 1% from management's estimates there would be no impact on consolidated net income. Were the assumed medical inflation rate on the health plan to differ by 1.50% from management estimates, the health expense would increase by $67,878 or decrease by $48,344.

**4. Responsibilities of the appointed actuary and external auditors**

The Board of Directors, pursuant to the Insurance Act, appoints the Actuary. His responsibility is to carry out an annual valuation of the Group's insurance policyholders liabilities in accordance with accepted actuarial practice and regulatory requirements and report thereon to the policyholders and stockholders. In performing the valuation, the Actuary makes assumptions as to the future rates of interest, asset defaults, mortality, morbidity, claims experience, policy termination, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Group and the insurance policies in force. An actuarial valuation is prepared annually.

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

4. Responsibilities of the appointed actuary and external auditors (continued)

The shareholders, pursuant to the Companies Act, appoint the external auditors. Their responsibility is to conduct an independent and objective audit of the financial statements in accordance with International Standards on Auditing and report thereon to the stockholders. In carrying out their audit, the auditors also make use of the work of the appointed Actuary and his report on the policyholders' liabilities.

5. Segmental financial information

The Group is organised into five main business segments:

(a) Retail Banking - incorporating personal banking services, personal customer current, savings and deposits accounts, credit and debit cards, consumer loans and mortgages;

(b) Corporate and Commercial Banking - incorporating non-personal direct debit facilities, current accounts, deposits, overdrafts, loans and other credit facilities, and foreign currency transactions;

(c) Treasury - incorporating the Bank's liquidity and investment management function, management of correspondent bank relationships, as well as foreign currency trading;

(d) Insurance Services - incorporating the provision of life and medical insurance, individual pension, administration and investment management.

(e) Other operations of the Group – comprising non-trading subsidiaries

Transactions between the business segments are on normal commercial terms and conditions.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet, but exclude items such as taxation, retirement benefit assets and obligations and borrowings.

The Group's operations are located solely in Jamaica.

5. Segmental financial information (continued)

| | 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Banking | | | | | |
| | Retail | Corporate and Commercial | Treasury | Insurance services | Other | Eliminations | Group |
| Gross external revenues | 12,441,557 | 7,732,275 | 8,032,897 | 9,105,600 | 23,501 | - | 37,335,830 |
| Revenue/(expenses) from other segments | 2,269,615 | 2,394,677 | (4,572,947) | ( 29,949) | 17 | ( 61,413) | - |
| Total gross revenues | 14,711,172 | 10,126,952 | 3,459,950 | 9,075,651 | 23,518 | ( 61,413) | 37,335,830 |
| Total expenses | (12,144,252) | ( 7,259,441) | ( 145,883) | (4,873,872) | ( 3,200) | 61,413 | ( 24,365,235) |
| Profit before tax | 2,566,920 | 2,867,511 | 3,314,067 | 4,201,779 | 20,318 | - | 12,970,595 |
| Taxation | | | | | | | ( 3,318,814) |
| Profit for the year | | | | | | | 9,651,781 |
| Segment assets | 49,896,187 | 55,986,981 | 83,634,180 | 48,217,499 | 162,812 | (1,628,387) | 236,269,272 |
| Unallocated assets | | | | | | | 6,179,000 |
| Total assets | | | | | | | 242,448,272 |
| Segment liabilities | 87,125,539 | 76,821,736 | 467,356 | 35,806,374 | 57,341 | (1,440,842) | 198,837,504 |
| Unallocated liabilities | | | | | | | 5,440,647 |
| Total liabilities | | | | | | | 204,278,151 |
| Other segment items: | | | | | | | |
| Capital expenditure | 479,884 | 408,023 | - | 7,912 | - | - | 895,819 |
| Impairment losses on loans | 1,704,651 | 96,168 | - | - | - | - | 1,800,819 |
| Depreciation | 195,188 | 143,868 | - | 6,111 | 540 | - | 345,707 |

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

5. Segmental financial information (continued)

| | 2008 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Banking | | | | | | |
| | Retail | Corporate and Commercial | Treasury | Insurance services | Other | Eliminations | Group |
| Gross external revenues | 12,226,466 | 6,410,926 | 7,007,045 | 5,900,615 | 17,871 | - | 31,562,923 |
| Revenue/(expenses) from other segments | 2,002,494 | 1,991,270 | ( 3,967,930) | 6,028 | - | ( 31,862) | - |
| Total gross revenues | 14,228,960 | 8,402,196 | 3,039,115 | 5,906,643 | 17,871 | ( 31,862) | 31,562,923 |
| Total expenses | (10,332,057) | ( 6,022,811) | ( 78,673) | ( 3,328,298) | ( 4,861) | 20,243 | ( 19,746,457) |
| Profit before tax | 3,896,903 | 2,379,385 | 2,960,442 | 2,578,345 | 13,010 | ( 11,619) | 11,816,466 |
| Taxation | | | | | | | ( 3,196,882) |
| Profit for the year | | | | | | | 8,619,584 |
| Segment assets | 50,509,554 | 49,154,554 | 69,894,167 | 39,533,192 | 147,699 | (818,961) | 208,420,205 |
| Unallocated assets | | | | | | | 6,040,959 |
| Total assets | | | | | | | 214,461,164 |
| Segment liabilities | 80,144,200 | 66,377,593 | 1,504,015 | 30,758,781 | 55,805 | (631,415) | 178,208,979 |
| Unallocated liabilities | | | | | | | 4,534,981 |
| Total liabilities | | | | | | | 182,743,960 |
| Other segment items: | | | | | | | |
| Capital expenditure | 349,156 | 220,188 | - | 3,391 | - | - | 572,735 |
| Impairment losses on loans | 793,015 | ( 36,795) | - | - | - | - | 756,220 |
| Depreciation | 182,301 | 125,604 | - | 4,894 | 540 | - | 313,339 |

Capital expenditure comprises additions to property, plant and equipment (note 26).

## 6. Net interest income

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Interest income: | | | | |
| Deposits with banks and other financial institutions | 4,711,685 | 4,125,253 | 3,212,369 | 3,009,191 |
| Investment securities | 11,221,480 | 7,334,340 | 4,064,371 | 3,104,348 |
| Reverse repurchase agreements | 84,174 | 229,275 | 87,133 | 113,027 |
| Loans and advances | 16,106,197 | 14,158,332 | 15,228,349 | 13,335,668 |
| Other | 8,454 | 10,061 | 3,113 | 2,625 |
| | 32,131,990 | 25,857,261 | 22,595,335 | 19,564,859 |
| Interest expense: | | | | |
| Banks and customers | 6,045,645 | 5,548,798 | 5,632,262 | 5,136,285 |
| Repurchase agreements | 79,039 | 17,890 | 83,031 | 12,857 |
| Other | 34,751 | 24,386 | 32,771 | 24,386 |
| | 6,159,435 | 5,591,074 | 5,748,064 | 5,173,528 |
| Net interest income | 25,972,555 | 20,266,187 | 16,847,271 | 14,391,331 |

## 7. Net fee and commission income

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Fee and commission income: | | | | |
| Retail banking fees | 2,541,962 | 2,465,578 | 2,541,962 | 2,465,578 |
| Credit related fees | 807,511 | 822,242 | 795,800 | 811,120 |
| Commercial and depository fees | 1,194,183 | 1,296,481 | 1,151,411 | 1,262,616 |
| | 4,543,656 | 4,584,301 | 4,489,173 | 4,539,314 |
| Fee and commission expenses | (1,141,041) | (1,061,258) | (1,141,041) | (1,061,258) |
| | 3,402,615 | 3,523,043 | 3,348,132 | 3,478,056 |

## 8. Net foreign exchange trading income

Net foreign exchange trading income includes gains and losses arising primarily from foreign currency trading activities.

## 9. Net insurance premium income

| | The Group | |
|---|---|---|
| | 2009 | 2008 |
| Gross written premium | | |
| Individual life | 380,860 | 339,012 |
| Group life | 386,079 | 417,231 |
| | 766,939 | 756,243 |
| Reinsurance ceded | ( 1,319) | ( 1,705) |
| | 765,620 | 754,538 |

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

10. Other revenue

| | The Group 2009 | The Group 2008 | The Bank 2009 | The Bank 2008 |
|---|---|---|---|---|
| Capital gain on liquidation of subsidiary | - | - | - | 9,383 |
| Gain on sale of property, plant and equipment | ( 338) | 3,396 | ( 554) | 3,396 |
| Gain on Visa shares | 53,308 | 456,612 | 53,308 | 456,612 |
| Other | 3,627 | 1,361 | 3,626 | 8,326 |
| | 56,597 | 461,369 | 56,380 | 477,717 |

The 2008 gain on shares represents a gain on exchange of the Bank's membership interest in Visa International for equity shares in Visa Inc. consequent on the reorganization of Visa International. The reorganization involved a series of transactions by which Visa International, Visa U.S.A. and Visa Canada became subsidiaries of a Delaware stock corporation, Visa Inc., and was completed on October 2, 2007. Upon completion of the restructuring, common shares, of a class corresponding to the Visa region with which each member is associated, were issued by VISA Inc. to each member. The Bank was advised of the restructuring in April 2008. At that time there was also a forced redemption of 52% of the shares received. The remaining shares (48%) are subject to a lock up period of three years ending March 2011, unless the shareholder exercises the disposal option available at specified periods.

11. Salaries, pension contributions and other staff benefits

| | The Group 2009 | The Group 2008 | The Bank 2009 | The Bank 2008 |
|---|---|---|---|---|
| Wages and salaries | 5,455,195 | 4,574,451 | 5,085,826 | 4,281,406 |
| Payroll taxes | 471,398 | 410,224 | 446,734 | 388,807 |
| Pension costs, net [note 27(a)] | ( 387,218) | ( 519,780) | ( 387,218) | (519,780) |
| Other post-employment benefits [note 27(b)] | 237,898 | 233,531 | 237,898 | 233,531 |
| Other staff benefits | 1,112,991 | 1,113,080 | 1,069,488 | 1,067,976 |
| Total (note 13) | 6,890,264 | 5,811,506 | 6,452,728 | 5,451,940 |

12. Policyholders' liabilities

(a) Composition of policyholders' liabilities

| | The Group 2009 | The Group 2008 |
|---|---|---|
| Policyholders' fund | 36,048,630 | 32,222,016 |
| Benefits and claims payable | 60,645 | 52,513 |
| Unprocessed premiums | 17,159 | 18,592 |
| Insurance risk reserve – Individual life | ( 1,861,798) | ( 1,892,953) |
| – Group life | 143,241 | 161,250 |
| | 34,407,877 | 30,561,418 |

12. Policyholders' liabilities (continued)

(b) Policyholders' liabilities:

| | The Group 2009 | The Group 2008 |
|---|---|---|
| Policyholders fund: | | |
| At beginning of year | 32,222,016 | 28,585,195 |
| Gross premiums | 4,729,862 | 4,495,436 |
| Benefits and claims | ( 4,938,391) | ( 3,730,948) |
| Interest credited | 4,035,143 | 2,872,333 |
| At end of year | 36,048,630 | 32,222,016 |
| Benefits and claims payable: | | |
| At beginning of year | 52,513 | 28,559 |
| Policyholders' claims and benefits | 179,677 | 110,109 |
| Benefits and claims paid | ( 171,545) | ( 86,155) |
| At end of year | 60,645 | 52,513 |
| Unprocessed premiums: | | |
| At beginning of year | 18,592 | 12,003 |
| Premiums received | 5,171,240 | 4,984,611 |
| Premiums applied | (5,172,673) | (4,978,022) |
| At end of year | 17,159 | 18,592 |

| | 2009 Individual life | 2009 Group life | 2009 Total |
|---|---|---|---|
| Insurance risk reserve: | | | |
| At beginning of year | (1,892,953) | 161,250 | (1,731,703) |
| Changes in assumptions | 217,779 | ( 652) | 217,127 |
| Normal changes | ( 186,624) | ( 17,357) | ( 203,981) |
| At end of year | (1,861,798) | 143,241 | (1,718,557) |

| | 2008 Individual life | 2008 Group life | 2008 Total |
|---|---|---|---|
| Insurance risk reserve: | | | |
| At beginning of year | (1,734,707) | 123,718 | (1,610,989) |
| Changes in assumptions | ( 68,151) | ( 635) | ( 68,786) |
| Normal changes | ( 90,095) | 38,167 | ( 51,928) |
| At end of year | (1,892,953) | 161,250 | (1,731,703) |

12. Policyholders' liabilities (continued)

(c) Policy assumptions

Policy liabilities are valued using two major classes of assumptions, namely, best estimate assumptions and provisions for adverse deviation assumptions.

(1) Best estimate assumptions:

Assumptions cover the lifetime of the policies and are made for many variables including mortality, morbidity, investment yields, rates of policy termination, operating expenses and certain taxes.

(i) Mortality and morbidity

The assumptions are based on industry experience.

(ii) Investment yields

The Group matches assets and liabilities by line of business. The projected cash flows from these assets are combined with projected reinvestment rates to determine expected rates of return for future periods.

The Group has assumed a portfolio yield of 13.50% beginning January 2009, decreasing monthly to 8% in the year 2015, and then decreasing yearly to 6% in the year 2028 and later.

A margin for adverse deviation is added to account for 0.50% reduction in the yield.

Assumed interest rates are net of Investment Income Tax.

The main source of the uncertainty is the fluctuation in the economy as lower yields would result in higher reserves and reduced income.

(iii) Persistency

Persistency assumptions are made in relation to the time since inception that a policy exists before it lapses or is surrendered. Lapses relate to termination of policies due to non-payment of premiums. Surrenders relate to voluntary termination of policies by the policyholders. Policy terminations are based on the Group's own experience adjusted for expected future conditions. The main source of uncertainty derives from changes in policyholder behaviour as it relates to changes in economic conditions. The expected lapse rates are 2% in the first year, 8% in the second year, 7% in the third year and 6% thereafter. A margin for adverse deviation is added by increasing or decreasing the lapse rates, whichever is adverse, by 20%.

12. Policyholders' liabilities (continued)

(c) Policy assumptions (continued)

(1) Best estimate assumptions (continued):

(iv) Policy expenses and inflation

Policy maintenance expenses are derived from the Group's own internal cost studies projected into the future with an allowance for inflation. Inflation is assumed to be 10% beginning in 2009, 8% beginning January 2010, decreasing to 5% in the year 2015, and then decreasing to 3% in year 2028 and later.

A margin for adverse deviation is added by increasing the maintenance expenses by 10% of the best estimate assumption.

(v) Partial withdrawal of policy funds

The Group's contracts allow policyholders to withdraw a portion of the funds accumulated under the contract without surrendering the entire contract. Partial withdrawal rates are derived from the Group's own experience. A margin for adverse deviation is added by increasing the partial withdrawal rates by 10% of the best-estimate assumption.

(vi) Taxation

It is assumed that current tax legislation and rates continue unaltered.

(2) Provision for adverse deviation assumptions

The basic assumptions made in establishing policy liabilities are best estimates for a range of possible outcomes. To recognise the uncertainty in establishing these best estimates, to allow for possible deterioration in experience and to provide greater comfort that the reserves are adequate to pay future benefits, the appointed actuary is required to include a margin in each assumption.

The impact of these margins is to increase reserves and so decrease the income that would be recognised on inception of the policy. The Canadian Institute of Actuaries prescribes a range of allowable margins. The Group uses assumptions at the conservative end of the range, taking into account the risk profiles of the business.

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

## 13. Expenses by nature

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Salaries, pension contributions and other staff benefits (note 11) | 6,890,264 | 5,811,506 | 6,452,728 | 5,451,940 |
| Property expenses, including depreciation | 2,546,537 | 2,194,604 | 2,506,391 | 2,158,392 |
| Changes in policyholders' reserves | 4,220,231 | 2,838,416 | - | - |
| Transportation and communication | 741,246 | 872,264 | 710,707 | 849,767 |
| Marketing and advertising | 560,490 | 523,561 | 467,243 | 472,643 |
| Management and consultancy fees | 372,458 | 372,600 | 312,517 | 309,375 |
| Deposit insurance | 212,704 | 190,504 | 204,731 | 182,553 |
| Stationery | 305,082 | 259,064 | 295,981 | 252,835 |
| Other operating expenses | 555,969 | 336,644 | 444,978 | 287,886 |
| | 16,404,981 | 13,399,163 | 11,395,276 | 9,965,391 |

## 14. Profit before taxation

In arriving at the profit before taxation, the following are among the items that have been charged/(credited):

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Auditors' remuneration: | | | | |
| - Prior years | 12,102 | - | 8,076 | - |
| - Current year | 22,250 | 10,441 | 16,000 | 7,168 |
| Depreciation | 345,707 | 313,339 | 337,421 | 306,253 |
| Directors' emoluments: | | | | |
| Fees | 29,202 | 25,358 | 23,065 | 18,502 |
| Other | 31,186 | 56,231 | 31,186 | 56,231 |
| Gains on sale of shares and property, plant and equipment | ( 52,970) | (460,008) | ( 52,754) | (460,008) |
| Operating lease rentals | 214,640 | 212,396 | 195,806 | 194,832 |

## 15. Taxation

### (a) Taxation charge

Income tax is computed on the profit for the year as adjusted for tax purposes; other taxes are computed at rates and on items shown below:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Current income tax: | | | | |
| Income tax at 33⅓% | 2,246,621 | 2,371,089 | 2,240,001 | 2,364,101 |
| Income tax at 30% | 194,427 | 192,037 | - | - |
| Premium income tax at 3% | 81,383 | 93,199 | - | - |
| Investment income tax at 15% | 447,420 | 183,590 | - | - |
| Deferred income tax (note 33) | 348,963 | 356,967 | 171,951 | 282,177 |
| | 3,318,814 | 3,196,882 | 2,411,952 | 2,646,278 |

### (b) Reconciliation of applicable tax charge to effective tax charge:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Profit before taxation | 12,970,595 | 11,816,466 | 8,036,356 | 8,601,494 |
| Tax calculated at 33⅓% | 4,323,532 | 3,938,822 | 2,678,786 | 2,867,165 |
| Adjusted for the tax effects of: | | | | |
| Different tax regime applicable to life insurance and mortgage financing subsidiaries | ( 738,176) | ( 527,691) | - | - |
| Income not subject to tax – tax free investments | ( 280,065) | ( 191,904) | ( 280,065) | ( 191,904) |
| Expenses not deductible for tax purposes | 5,784 | 3,330 | 5,784 | 3,330 |
| Capital gains | ( 17,585) | ( 156,463) | ( 17,585) | ( 156,463) |
| Other charges and allowances | 25,324 | 130,788 | 25,032 | 124,150 |
| Taxation expense | 3,318,814 | 3,196,882 | 2,411,952 | 2,646,278 |

Tax on the life insurance business is charged on investment income, less expenses allowable in earning that income, at the rate of 15%, and on premium income less reinsurance premiums, at 3%.

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

16. Earnings per stock unit

Basic earnings per stock unit is calculated by dividing the net profit attributable to stockholders by the weighted average number of ordinary stock units in issue during the year.

| | 2009 | 2008 |
|---|---|---|
| Net profit attributable to stockholders | 9,651,781 | 8,619,584 |
| Weighted average number of ordinary stock units in issue ('000) | 2,927,232 | 2,927,232 |
| Basic earnings per stock unit (expressed in $ per share) | 3.30 | 2.94 |

17. Cash and balances at Bank of Jamaica

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Statutory reserves with Bank of Jamaica – interest-bearing | 5,282,175 | 3,564,323 | 5,281,720 | 3,563,931 |
| Statutory reserves with Bank of Jamaica – non interest-bearing | 12,395,038 | 7,353,852 | 12,354,100 | 7,308,663 |
| Total statutory reserve (note 20) | 17,677,213 | 10,918,175 | 17,635,820 | 10,872,594 |
| Cash in hand and at bank (note 20) | 30,056,067 | 29,164,273 | 21,917,091 | 19,446,733 |
| | 47,733,280 | 40,082,448 | 39,552,911 | 30,319,327 |

Statutory reserves with the Bank of Jamaica under Section 14 (i) of the Banking Act, 1992, and the Building Societies Regulations represent the required primary reserve ratio of 14% for Jamaica dollar reserves, and 11% for foreign currency reserves (2008: 9%) of the Bank's and 1% (2008: 1%) of the Society's prescribed liabilities, respectively. They are not available for investment, lending or other use by the Group and the Bank.

18. Amounts due from other banks

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Items in course of collection from other banks | 437,736 | 729,506 | 437,736 | 729,506 |
| Placements with other banks | 7,880,927 | 12,609,865 | 7,849,642 | 12,554,314 |
| | 8,318,663 | 13,339,371 | 8,287,378 | 13,283,820 |

19. Accounts with parent and fellow subsidiaries

These represent inter-company accounts held with the parent company and fellow subsidiaries in the normal course of business.

20. Cash and cash equivalents

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Cash and balances with Bank of Jamaica | 47,733,280 | 40,082,448 | 39,552,911 | 30,319,327 |
| Less: statutory reserves (note 17) | (17,677,213) | (10,918,175) | (17,635,820) | (10,872,594) |
| Cash in hand and at bank (note 17) | 30,056,067 | 29,164,273 | 21,917,091 | 19,446,733 |
| Less balances at bank with tenures greater than 90 days | (20,495,489) | (20,702,770) | (15,054,341) | (12,563,793) |
| | 9,560,578 | 8,461,503 | 6,862,750 | 6,882,940 |
| Government and bank notes other than Jamaica | 301,934 | 343,493 | 301,934 | 343,493 |
| Amounts due from other banks | 7,488,734 | 5,370,372 | 7,477,054 | 5,358,952 |
| Accounts with parent and fellow subsidiaries | 224,152 | 126,822 | 224,152 | 126,822 |
| Government of Jamaica Treasury bills and bonds | 556,200 | 410,085 | 1,555,000 | 405,000 |
| Cheques and other instruments in transit | ( 2,317,503) | ( 2,524,687) | ( 2,383,509) | ( 2,872,258) |
| | 15,814,095 | 12,187,588 | 14,037,381 | 10,244,949 |
| Less accrued interest receivable on Bank of Jamaica Certificates of Deposit | ( 1,955,075) | ( 1,363,273) | ( 1,178,091) | ( 847,744) |
| | 13,859,020 | 10,824,315 | 12,859,290 | 9,397,205 |

21. Government securities purchased under resale agreements

The Group and the Bank enter into reverse repurchase agreements collateralised by Government of Jamaica securities. These agreements result in credit exposure in that the counterparty to the transaction may be unable to fulfil its contractual obligations.

The fair value of collateral held pursuant to reverse repurchase agreements is $557,939 (2008: $463,507) for the Group and $1,557,702 (2008: $349,686) for the Bank.

(expressed in thousands of Jamaican dollars unless otherwise stated)

21. Government securities purchased under resale agreements (continued)

Included in Government securities purchased under resale agreements are the following amounts which are regarded as cash equivalents for the purposes of the statement of cash flows:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Reverse repurchase agreements with an original maturity of less than 90 days | 556,200 | 410,085 | 1,555,000 | 405,000 |

22. Loans, after allowance for impairment losses

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Business and Government | 45,319,016 | 42,329,376 | 45,313,861 | 42,321,947 |
| Personal and credit cards | 37,095,883 | 37,441,267 | 37,095,883 | 37,441,267 |
| Residential mortgages | 6,763,978 | 6,132,772 | - | - |
| Interest receivable | 882,683 | 857,735 | 823,955 | 801,010 |
| Total | 90,061,560 | 86,761,150 | 83,233,699 | 80,564,224 |
| Less: allowance for impairment losses (note 23) | (720,714) | (608,766) | (678,763) | (567,509) |
| | 89,340,846 | 86,152,384 | 82,554,936 | 79,996,715 |

(i) The aging of the loans at the reporting date was:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Neither past due nor impaired | 78,284,996 | 74,659,595 | 72,873,267 | 70,000,675 |
| Past due but not impaired loans | | | | |
| Past due 0-30 days | 5,804,675 | 6,379,595 | 4,999,602 | 5,388,823 |
| Past due 30-60 days | 1,671,506 | 1,773,939 | 1,416,856 | 1,522,178 |
| Past due 60-90 days | 716,643 | 892,311 | 691,707 | 809,288 |
| | 8,192,824 | 9,045,845 | 7,108,165 | 7,720,289 |
| Carried forward | 86,477,820 | 83,705,440 | 79,981,432 | 77,720,964 |

**22. Loans, after allowance for impairment losses (continued)**

(i) The aging of the loans at the reporting date was (continued):

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Balance brought forward | 86,477,820 | 83,705,440 | 79,981,432 | 77,720,964 |
| Past due and impaired loans more than 90 days | 2,701,057 | 2,197,975 | 2,428,312 | 2,042,250 |
| Interest receivable | 882,683 | 857,735 | 823,955 | 801,010 |
| Gross loan portfolio | 90,061,560 | 86,761,150 | 83,233,699 | 80,564,224 |
| Less: Allowance for impairment losses | (720,714) | (608,766) | (678,763) | (567,509) |
| | 89,340,846 | 86,152,384 | 82,554,936 | 79,996,715 |

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of loans not past due up to 90 days.

(ii) Renegotiated loans

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account may be reset to a normal status and managed together with other similar accounts after careful analysis and the demonstration to maintain the scheduled payments over a prolonged period.

Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review.

The Group's and Bank's renegotiated loans that would otherwise be past due or impaired totalled $59,199 (2008: $35,286).

(iii) Repossessed collateral

In general, the Group does not obtain financial or non-financial assets by taking possession of collateral. In the normal course of business, the security documentation which governs the collateral charged in favour of the Group to secure the debt, gives the Group express authority to repossess the collateral in the event of default. Repossessed collateral are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

The Group has no repossessed collateral.

(iv) Collateral accepted as security for assets

The fair value of assets accepted as collateral that the Group is permitted to sell or repledge in the absence of default is Nil (2008: Nil). The fair value of any such collateral that has been sold or repledged was Nil (2008: Nil).

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

## 23. Impairment losses on loans

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Total non-performing loans | 2,701,057 | 2,197,975 | 2,428,312 | 2,042,250 |
| Allowance at beginning of year | 608,766 | 530,368 | 567,509 | 498,776 |
| Charged against revenue during the year | 1,800,819 | 756,220 | 1,799,143 | 746,555 |
| Bad debts written off | (2,133,547) | ( 932,752) | (2,132,565) | ( 932,752) |
| Recoveries of bad debts | 444,676 | 254,930 | 444,676 | 254,930 |
| Allowance at end of year | 720,714 | 608,766 | 678,763 | 567,509 |
| This comprises: | | | | |
| Specific allowance | 464,808 | 346,248 | 423,740 | 305,810 |
| General allowance | 255,906 | 262,518 | 255,023 | 261,699 |
| | 720,714 | 608,766 | 678,763 | 567,509 |

Allowance for impairment losses

A loan is classified as impaired if its book value exceeds the present value of the cash flows actually expected in future periods from interest payments, principal repayments, and proceeds of liquidation of collateral. Provisions for credit losses are made on all impaired loans. Uncollected interest on impaired loans not accrued in these financial statements was estimated at $212,815 as at October 31, 2009 (2008: $144,766) for the Group and $191,296 as at October 31, 2009 (2008: $132,168) for the Bank.

The total allowance for loan losses is made up as follows:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Allowance based on accounting standard - IAS 39 [see (a) below] | 720,714 | 608,766 | 678,763 | 567,509 |
| Additional allowance based on BOJ regulations [see (b) below] | 1,709,767 | 1,295,232 | 1,596,943 | 1,248,712 |
| | 2,430,481 | 1,903,998 | 2,275,706 | 1,816,221 |

(a) This is the allowance based on the requirements of IAS 39, *Financial Instruments: Recognition and Measurement*, and is the amount included in the table above.

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

## 24. Investment securities

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Available-for-sale (AFS) | | | | |
| Government of Jamaica securities | 24,700,596 | 18,197,603 | 18,449,125 | 13,307,690 |
| Corporate bonds | - | 84,392 | - | - |
| Unquoted shares | 175,188 | 212,687 | 175,188 | 212,687 |
| Interest receivable | 967,400 | 657,279 | 792,519 | 578,497 |
| | 25,843,184 | 19,151,961 | 19,416,832 | 14,098,874 |

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Held-to-Maturity (HTM) | | | | |
| Government of Jamaica securities | 44,605,759 | 34,970,048 | 10,998,547 | 9,736,607 |
| Interest receivable | 1,971,198 | 971,564 | 671,316 | 359,738 |
| | 46,576,957 | 35,941,612 | 11,669,863 | 10,096,345 |

Included in investment securities are Government of Jamaica Local Registered Stocks with a fair value of $110,000 (2008 - $90,000) which have been deposited by one of the Bank's subsidiaries, Scotia Jamaica Life Insurance Company Limited, with the insurance regulator, Financial Services Commission, pursuant to Section 8(1)(a) of the Insurance Regulations 2001.

The Group has not reclassified any HTM securities (measured at amortized cost) to AFS securities, (measured at fair value), during the year.

## 25. Sundry assets

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Accounts receivable and prepayments | 181,401 | 156,085 | 179,012 | 155,658 |
| Other | 171,620 | 483,077 | 172,849 | 483,076 |
| | 353,021 | 639,162 | 351,861 | 638,734 |

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 26. Property, plant and equipment

| | The Group | | | | |
|---|---|---|---|---|---|
| | Freehold Land and Buildings | Leasehold Improvements | Furniture, Fixtures, Motor vehicles & Equipment | Capital Work-in-Progress | Total |
| Cost: | | | | | |
| October 31, 2007 | 1,665,552 | 203,717 | 3,113,597 | 201,341 | 5,184,207 |
| Additions | 8,886 | 1,832 | 76,418 | 485,599 | 572,735 |
| Disposals | ( 19) | - | ( 91,067) | - | ( 91,086) |
| Transfers | 108,562 | 13,781 | 195,315 | (317,658) | - |
| Write offs | - | - | - | ( 1,793) | ( 1,793) |
| October 31, 2008 | 1,782,981 | 219,330 | 3,294,263 | 367,489 | 5,664,063 |
| Additions | 28,071 | 4,102 | 95,341 | 768,305 | 895,819 |
| Disposals | - | - | ( 22,920) | - | ( 22,920) |
| Transfers | 391,628 | 21,839 | 319,126 | (732,593) | - |
| October 31, 2009 | 2,202,680 | 245,271 | 3,685,810 | 403,201 | 6,536,962 |
| Accumulated depreciation: | | | | | |
| October 31, 2007 | 259,235 | 121,028 | 2,250,103 | - | 2,630,366 |
| Charge for the year | 33,699 | 21,864 | 257,776 | - | 313,339 |
| Eliminated on disposals | - | - | ( 87,411) | - | ( 87,411) |
| October 31, 2008 | 292,934 | 142,892 | 2,420,468 | - | 2,856,294 |
| Charge for the year | 43,014 | 22,777 | 279,916 | - | 345,707 |
| Eliminated on disposals | - | - | ( 22,261) | - | ( 22,261) |
| October 31, 2009 | 335,948 | 165,669 | 2,678,123 | - | 3,179,740 |
| Net book values | | | | | |
| October 31, 2009 | 1,866,732 | 79,602 | 1,007,687 | 403,201 | 3,357,222 |
| October 31, 2008 | 1,490,047 | 76,438 | 873,795 | 367,489 | 2,807,769 |
| October 31, 2007 | 1,406,317 | 82,689 | 863,494 | 201,341 | 2,553,841 |

## 26. Property, plant and equipment (continued)

| | The Bank | | | | |
|---|---|---|---|---|---|
| | Freehold Land and Buildings | Leasehold Improvements | Furniture, Fixtures, Motor vehicles & Equipment | Capital Work-in Progress | Total |
| Cost: | | | | | |
| October 31, 2007 | 1,614,808 | 199,905 | 3,052,497 | 200,056 | 5,067,266 |
| Additions | 8,886 | 1,832 | 71,165 | 485,417 | 567,300 |
| Disposals | ( 19) | - | ( 90,338) | - | ( 90,357) |
| Transfers | 108,562 | 13,781 | 195,315 | (317,658) | - |
| Write offs | - | - | - | ( 1,063) | ( 1,063) |
| October 31, 2008 | 1,732,237 | 215,518 | 3,228,639 | 366,752 | 5,543,146 |
| Additions | 28,071 | 3,876 | 87,838 | 767,660 | 887,445 |
| Disposals | - | - | ( 22,603) | - | ( 22,603) |
| Transfers | 391,628 | 21,839 | 318,481 | (731,948) | - |
| Write offs | - | - | - | - | - |
| October 31, 2009 | 2,151,936 | 241,233 | 3,612,355 | 402,464 | 6,407,988 |
| Accumulated depreciation: | | | | | |
| October 31, 2007 | 245,927 | 119,091 | 2,208,928 | - | 2,573,946 |
| Charge for the year | 33,069 | 21,864 | 251,320 | - | 306,253 |
| On disposals | - | - | ( 87,383) | - | ( 87,383) |
| October 31, 2008 | 278,996 | 140,955 | 2,372,865 | - | 2,792,816 |
| Charge for the year | 41,844 | 22,107 | 273,470 | - | 337,421 |
| On disposals | - | - | ( 22,049) | - | ( 22,049) |
| October 31, 2009 | 320,840 | 163,062 | 2,624,286 | - | 3,108,188 |
| Net book values | | | | | |
| October 31, 2009 | 1,831,096 | 78,171 | 988,069 | 402,464 | 3,299,800 |
| October 31, 2008 | 1,453,241 | 74,563 | 855,774 | 366,752 | 2,750,330 |
| October 31, 2007 | 1,368,881 | 80,814 | 843,569 | 200,056 | 2,493,320 |

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

27. Retirement benefit asset/obligation

Amounts recognised in the balance sheet:

| | The Group and The Bank 2009 | 2008 |
|---|---|---|
| Defined benefit pension plan | 5,827,140 | 5,402,224 |
| Other post retirement benefits | (1,132,488) | ( 930,576) |
| | 4,694,652 | 4,471,648 |

(a) Defined benefit pension plan

The Group has established a pension plan covering all permanent employees. The pension plan is a final salary (the average of the best three consecutive years' remuneration, with no salary cap) defined benefit plan and is fully funded. The assets of the plan are held independently of the Group's assets in a separate trustee-administered fund. The fund established under the plan is valued by independent actuaries annually using the Projected Unit Credit Method. The latest actuarial valuation was carried out as at October 31, 2009.

(i) The amounts recognised in the balance sheet are determined as follows:

| | The Group and The Bank 2009 | 2008 |
|---|---|---|
| Present value of funded obligations | (10,948,143) | ( 9,087,313) |
| Fair value of plan assets | 26,446,396 | 22,726,007 |
| Unrecognised actuarial gains | ( 4,388,599) | ( 3,915,583) |
| | 11,109,654 | 9,723,111 |
| Limitation on recognition of surplus due to uncertainty of obtaining future benefits | ( 5,282,514) | ( 4,320,887) |
| Asset in the balance sheet | 5,827,140 | 5,402,224 |
| Pension plan assets include the following: | | |
| The parent company's ordinary stock units | 989,684 | 1,201,133 |

27. Retirement benefit asset/obligation (continued)

(a) Defined benefit pension plan (continued)

(ii) The movement in the present value of funded obligations for the year is as follows:

| | The Group 2009 | 2008 |
|---|---|---|
| At beginning of year | ( 9,087,313) | (6,911,961) |
| Interest and service costs | ( 1,738,688) | (1,401,802) |
| Past service cost – vested benefits | - | (1,128,199) |
| Actuarial loss on obligation | ( 706,720) | ( 102,382) |
| Benefits paid | 584,578 | 457,031 |
| At end of year | (10,948,143) | (9,087,313) |

(iii) The movement in fair value of plan assets for the year is as follows:

| | The Group and The Bank 2009 | 2008 |
|---|---|---|
| At beginning of year | 22,726,007 | 20,514,621 |
| Expected return on plan assets | 2,712,372 | 2,146,694 |
| Actuarial loss on plan assets | 1,253,835 | 204,530 |
| Contributions | 338,760 | 317,193 |
| Benefits paid | ( 584,578) | ( 457,031) |
| At end of year | 26,446,396 | 22,726,007 |

(iv) Analysis of fair value of plan assets:

| | The Group and The Bank 2009 | 2008 |
|---|---|---|
| Government stocks and bonds | 20,992,497 | 15,423,191 |
| Quoted investments | 1,751,417 | 2,289,702 |
| Repurchase agreements | 1,255,934 | 2,918,306 |
| Real estate | 982,822 | 812,822 |
| Net current assets | 1,463,726 | 1,281,986 |
| | 26,446,396 | 22,726,007 |

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

27. Retirement benefit asset/obligation (continued)

(a) Defined benefit pension plan (continued)

(v) The amounts recognised in the statement of revenue and expenses are as follows:

| | The Group and The Bank 2009 | 2008 |
|---|---|---|
| Current service cost, net of employee contributions | 225,782 | 128,552 |
| Interest cost | 1,211,843 | 1,023,716 |
| Expected return on plan assets | (2,712,372) | (2,146,694) |
| Net actuarial gain recognised in year | ( 74,100) | ( 83,100) |
| Past service cost-vested benefits | - | 1,128,199 |
| Income not recognised due to limit | 961,629 | ( 570,453) |
| Included in staff costs (note 11) | ( 387,218) | ( 519,780) |

The actual return on plan assets was $3,966,207 (2008: $2,351,224).

(vi) The principal actuarial assumptions used were as follows:

| | The Group and The Bank 2009 | 2008 |
|---|---|---|
| Discount rate | 18.0% | 13.0% |
| Expected return on plan assets | 12.0% | 10.5% |
| Future salary increases | 14.5% | 10.5% |
| Future pension increases | 11.5% | 4.5% |
| Average expected remaining working lives (years) | 22.2 | 22.2 |

(b) Other post retirement benefits

In addition to pension benefits, the Bank offers retiree medical and group life insurance benefits that contribute to the health care and life insurance coverage of employees and beneficiaries after retirement. The method of accounting and frequency of valuations are similar to those used for the defined benefit pension plan.

In addition to the assumptions used for the pension plan, the main actuarial assumption is a long-term increase in health costs of 13.5% per year (2008: 10.5%).

(i) The amounts recognised in the balance sheet are as follows:

| | The Group and The Bank 2009 | 2008 |
|---|---|---|
| Present value of unfunded obligations | (1,569,756) | (1,209,160) |
| Unrecognised actuarial losses | 437,268 | 278,584 |
| Liability in the balance sheet | (1,132,488) | ( 930,576) |

27. Retirement benefit asset/obligation (continued)

(b) Other post retirement benefits (continued)

(ii) The movement in the present value of unfunded obligations for the year is as follows:

| | The Group and The Bank 2009 | 2008 |
|---|---|---|
| At beginning of year | (1,209,160) | (1,141,333) |
| Interest and service costs | ( 232,043) | ( 222,131) |
| Actuarial (gain)/loss on obligation | ( 164,539) | 128,228 |
| Benefits paid | 35,986 | 26,076 |
| Liability in the balance sheet | (1,569,756) | (1,209,160) |

(iii) The amounts recognised in the statement of revenue and expenses are as follows:

| | The Group and The Bank 2009 | 2008 |
|---|---|---|
| Current service cost | 68,311 | 72,083 |
| Interest cost | 163,732 | 150,048 |
| Net actuarial losses recognised in year | 5,855 | 11,400 |
| Total included in staff costs (Note 11) | 237,898 | 233,531 |

(c) Five year trend analysis

| | Pension 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Fair value of plan assets | 26,446,396 | 22,726,007 | 20,514,620 | 18,483,277 | 16,377,620 |
| Present value of defined benefit obligation | 10,948,143 | 9,087,313 | 6,911,961 | 5,872,871 | 5,124,428 |
| Surplus in the plan | 15,498,253 | 13,638,694 | 13,602,659 | 12,610,406 | 11,253,192 |
| Experience adjustments to plan liabilities | 793,979 | 427,376 | 474,870 | ( 397,996) | 225,179 |
| Experience adjustments to plan assets | 1,253,835 | ( 204,530) | 21,643 | 352,091 | 306,914 |

| | Health and Group Life 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Present value of defined benefit obligation | 1,569,756 | 1,209,160 | 1,141,333 | 1,195,379 | 877,965 |
| Deficit in the plan | (1,569,756) | (1,209,160) | (1,141,333) | (1,195,379) | (877,965) |
| Experience adjustments to plan liabilities | ( 184,950) | ( 8,502) | ( 140,505) | 56,384 | 422,921 |

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

28. Deposits by the public

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Personal | 83,636,974 | 75,980,234 | 79,925,360 | 72,194,221 |
| Other | 55,346,251 | 50,723,813 | 54,832,832 | 49,973,408 |
| Interest payable | 249,848 | 213,856 | 201,909 | 163,640 |
| | 139,233,073 | 126,917,903 | 134,960,101 | 122,331,269 |

Deposits include $1,478,702 (2008: $260,093) held as collateral for irrevocable commitments under letters of credit.

29. Amounts due to other banks and financial institutions

These represent deposits by other banks and financial institutions in the normal course of business.

30. Due to ultimate parent company

| | The Group and Bank | |
|---|---|---|
| | 2009 | 2008 |
| Bank of Nova Scotia: | | |
| Facility I | 1,065,158 | 984,018 |
| Facility II | 3,260,331 | 2,785,447 |
| Facility III | 3,510,686 | 2,999,337 |
| | 7,836,175 | 6,768,802 |
| Interest payable | 85,305 | 71,488 |
| | 7,921,480 | 6,840,290 |
| Deposits held with the Bank : | | |
| Scotia Group Jamaica Limited | 388,940 | 155,185 |
| Bank of Nova Scotia | 6,405 | 8,231 |
| | 8,316,825 | 7,003,706 |

(i) Facility I is a US$ denominated fifteen (15) year non-revolving loan from the parent company, for on-lending. The repayment of the principal commenced June 30, 2003 and is subject to an interest rate of LIBOR + 1% per annum.

(ii) Facility II is a US$ denominated twelve (12) year non-revolving loan from the parent company, for on-lending. The repayment of the principal will commence May 2012 and is subject to a fixed interest rate of 5.63% per annum.

(iii) Facility III is a US$ denominated fourteen (14) year non-revolving loan from the parent company, for on-lending. The repayment of the principal will commence May 2012 and is subject to a fixed interest rate of 5.95% per annum.

The above loan facilities are unsecured.

**31. Amounts due to subsidiaries and fellow subsidiaries**

These represent accounts held by subsidiaries and fellow subsidiaries in the normal course of business.

**32. Other liabilities**

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Accrued vacation and redundancy | 77,149 | 59,314 | 72,511 | 55,158 |
| Other accrued liabilities | 1,322,586 | 812,583 | 1,276,517 | 789,818 |
| Prepaid letters of credit | 139,179 | 30,316 | 139,179 | 30,316 |
| Other | 599,303 | 239,858 | 571,248 | 220,084 |
| | 2,138,217 | 1,142,071 | 2,059,455 | 1,095,376 |

**33. Deferred tax assets and liabilities**

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of:

- 30% for The Scotia Jamaica Building Society;
- 15% for Scotia Jamaica Life Insurance Company Limited, and
- 33⅓ for the Bank and all its other subsidiaries.

(a) The movement on the deferred income tax account is as follows:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Balances at beginning of year | (1,567,740) | (1,767,044) | (1,395,154) | (1,666,896) |
| Recognised in the statement of revenue and expenses (note 15) | ( 348,963) | ( 356,967) | ( 171,951) | ( 282,177) |
| Recognised in equity on available-for-sale investments: | | | | |
| - fair value re-measurement | ( 244,974) | 550,655 | ( 269,442) | 548,303 |
| - transfer to net profit | ( 48,391) | 5,616 | ( 2,391) | 5,616 |
| Net Deferred Tax Asset and Liability | (2,210,068) | (1,567,740) | (1,838,938) | (1,395,154) |

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

33. Deferred tax assets and liabilities (continued)

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

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Other post retirement benefits | 377,496 | 310,192 | 377,496 | 310,192 |
| Available-for-sale investments | 201,687 | 495,053 | 213,365 | 485,198 |
| Vacation accrued | 24,942 | 19,107 | 24,170 | 18,386 |
| Pension benefits | (1,942,380) | (1,800,742) | (1,942,380) | (1,800,742) |
| Accelerated tax depreciation | ( 153,831) | ( 155,007) | ( 152,714) | ( 153,944) |
| Impairment losses on loans | ( 384,475) | ( 260,618) | ( 358,875) | ( 254,244) |
| Interest receivable other | ( 333,507) | ( 175,725) | - | - |
| Net deferred tax liability | (2,210,068) | (1,567,740) | (1,838,938) | (1,395,154) |

This is comprised of:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Deferred tax asset | - | 178 | - | - |
| Deferred tax liability | (2,210,068) | (1,567,918) | (1,838,938) | (1,395,154) |
| | (2,210,068) | (1,567,740) | (1,838,938) | (1,395,154) |

(c) The deferred tax charge in the statement of revenue and expenses comprises tax arising from the following temporary differences:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Accelerated tax depreciation | ( 1,176) | 64,694 | ( 1,230) | 64,692 |
| Pensions and other post retirement benefits | 74,334 | 117,875 | 74,334 | 117,863 |
| Allowance for loan impairment | 123,858 | 98,945 | 104,631 | 100,362 |
| Vacation accrued | ( 5,835) | ( 839) | ( 5,784) | ( 740) |
| Interest receivable | 157,782 | 76,292 | - | - |
| Total [note 15(a)] | 348,963 | 356,967 | 171,951 | 282,177 |

Deferred income tax liabilities exclude withholding tax and other taxes that would be payable on distribution of the unappropriated profits of subsidiaries as such amounts are permanently reinvested; such unappropriated profits totaled $14,293,187 at October 31, 2009 (2008: $11,332,114).

**34. Share capital**

| | Number of Units '000 | |
|---|---|---|
| | 2009 | 2008 |
| Authorised: | | |
| Ordinary shares of no par value | 3,000,000 | 3,000,000 |
| Preference shares of no par value | 100,000 | 100,000 |
| | 3,100,000 | 3,100,000 |

| | Number of Units '000 | | Amount | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Issued and fully paid: | | | | |
| Ordinary stock units | 2,927,232 | 2,927,232 | 2,927,232 | 2,927,232 |
| Preference shares | 100,000 | 100,000 | 100,000 | 100,000 |
| Total stated capital | 3,027,232 | 3,027,232 | 3,027,232 | 3,027,232 |
| Less: Redeemable preference shares required by IFRS to be accounted for as a liability | ( 100,000) | ( 100,000) | ( 100,000) | ( 100,000) |
| | 2,927,232 | 2,927,232 | 2,927,232 | 2,927,232 |

Stated capital comprises both the ordinary and preference shares in accordance with the Companies Act. However, in accordance with IFRS the preference shares are presented as a liability.

Under the provisions of the Companies Act 2004, the shares have no par value.

The key terms and conditions of the redeemable preference shares are:

(1) the right to a cumulative preferential dividend payable semi-annually on June 30 and December 31 at the rate of the six month's weighted average Treasury Bill yield at the start of the dividend period.

(2) the right on winding to recover the amounts paid up on the preference shares and any arrears or accruals of the preference dividend.

(3) no right to vote except:
- (i) if the preference dividend is in arrears for more than six months,
- (ii) any resolution is proposed for the winding up of the company
- (iii) there is a proposal submitted to the meeting to vary the special rights and privileges attached to the preference shares.

**35. Reserve fund**

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| As at October 31 | 3,158,481 | 3,158,481 | 2,930,616 | 2,930,616 |

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

35. Reserve fund (continued)

In accordance with the regulations under which they operate, certain companies in the Group are required to make transfers of a minimum of 15% or 10% of net profit, depending on the circumstances, to the reserve fund until the required statutory levels are attained. As the required levels have been attained, no further transfers are being made.

36. Retained earnings reserve

Transfers to the retained earnings reserve are made at the discretion of the Board of Directors. Such transfers must be notified to the Bank of Jamaica and any transfer out of the retained earnings reserve must be approved by the Bank of Jamaica.

37. Cumulative remeasurement result from available-for-sale financial assets

This represents the unrealized surplus or deficit on the revaluation of available-for-sale investments.

38. Capital reserve

This represents the gain on liquidation of Scotia Jamaica General Insurance Brokers Limited.

39. Loan loss reserve

This is a non-distributable loan loss reserve which represents the excess of the regulatory loan loss provision over IAS 39 requirements (note 23).

40. Other reserves

| | The Group | |
|---|---|---|
| | 2009 | 2008 |
| Capital reserve arising on consolidation, net | 67 | 67 |
| Reserves of subsidiary capitalised through issue of bonus shares | 7,548 | 7,548 |
| General reserve | 136 | 136 |
| Transfer of reserves relating to the liquidation of a subsidiary | (4,823) | (4,823) |
| | 2,928 | 2,928 |

41. Financial risk management

(a) Overview and risk management framework

By their nature, the Group's activities are principally related to the use of financial instruments. Therefore, this will involve analysis, evaluation and management of some degree of risk or combination of risks. The Group'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 Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

41. Financial risk management (continued)

(a) Overview and risk management framework (continued)

The Board of Directors is ultimately responsible for the establishment and oversight of the Group's risk management framework. The Board has established committees for managing and monitoring risks.

Two key committees for managing and monitoring risks are as follows:

(i) Board Audit Committee

The Board Audit Committee is comprised solely of independent directors. The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Committee is assisted in its oversight role by the Internal Audit Department. The Internal Audit Department undertakes both regular and *ad hoc* reviews of risk management controls and procedures, the results of which are reported to the Board Audit Committee.

The Board Audit Committee also reviews the annual and quarterly financial statements, related policies and assumptions for recommendation of approval to the Board of Directors.

(ii) Asset and Liability Committee

The Asset and Liability Committee (ALCO) has the responsibility of ensuring that risks are managed within the limits established by the Board of Directors. The Committee meets at least once monthly to review risks, evaluate performance and provide strategic direction. The Committee reviews investment, loan and funding activities, and ensures that the existing policies comprehensively deal with the management and diversification of the Group's investment and loan portfolios and that appropriate limits are being adhered to.

The Investment Advisory Committee performs a similar role to ALCO for Scotia Jamaica Life Insurance, which provides a specialized focus due to the different nature of the insurance business.

The most important types of risk are credit risk, market risk, liquidity risk, and insurance risk. Market risk includes currency risk and interest rate risk.

41. Financial risk management (continued)

(b) Credit risk

(i) Credit risk management

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are made for losses that have been incurred at the balance sheet date. However significant negative changes in the economy, or industry segment that represents a concentration in the Group's loan portfolio, or positions in tradeable assets such as bonds could result in losses that are different from those provided for at the balance sheet date.

At a strategic level, the Group manages the levels of credit risk they undertake by placing limits on the amount of risk accepted in relation to any one borrower, or groups of borrowers, and industry segments. Limits on the level of credit risk are approved quarterly by the Board of Directors. The exposure to any one borrower, including banks and brokers, is further restricted by sub-limits covering on and off-balance sheet exposures. Actual exposures against limits are monitored daily.

Operationally, exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by restructuring loans where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. The principal collateral types for loans are:

- Cash
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

In addition, the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans.

41. Financial risk management (continued)

(b) Credit risk (continued)

(i) Credit risk management (continued)

The Group's policy requires the review of individual financial assets that are above materiality thresholds 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 balance-sheet date 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 impairment allowances are provided for:

(1) portfolios of similar assets

(2) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

(ii) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than direct borrowing.

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

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

41. Financial risk management (continued)

(b) Credit risk (continued)

(iii) Credit quality

In measuring credit risk of commercial loans at the counterparty level, the Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgment and are validated, where appropriate, by comparison with externally available data. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class:

Group's internal ratings scale and mapping of external ratings based on International rating agency, Standards and Poors.

| The Group's rating | External rating : Standard & Poor's equivalent |
|---|---|
| Excellent | AAA to AA+ |
| Very Good | AA to A+ |
| Good | A to A- |
| Acceptable | BBB+ to BB+ |
| Higher Risk | BB to B- |

Retail loans are risk-rated based on an internal scoring system which combine statistical analysis with credit officer judgment, and fall within the following categories:

- Excellent
- Good
- Higher risk

The table below shows the percentage of the Group's loan portfolio as at October 31, 2009 relating to loans and credit commitments for each of the Group's internal rating categories:

41. Financial risk management (continued)

(b) Credit risk (continued)

(iii) Credit quality (continued)

| | Loans and credit commitments | | | |
|---|---|---|---|---|
| | The Group | | The Bank | |
| | 2009 (%) | 2008 (%) | 2009 (%) | 2008 (%) |
| Excellent | 17.6 | 5.2 | 14.4 | 5.6 |
| Very Good | 0.3 | 0.3 | 0.4 | 0.3 |
| Good | 15.9 | 21.6 | 14.4 | 18.7 |
| Acceptable | 5.1 | 26.0 | 5.5 | 25.4 |
| Higher Risk | 61.1 | 46.9 | 65.3 | 50.0 |
| | 100.0 | 100.0 | 100.0 | 100.0 |

Under the Bank of Jamaica Credit Classification, Provisioning and Non Accrual Requirements, the following classifications are used:

Standard – loans where the financial condition of the borrower is in no way impaired, and appropriate levels of cash flows or income flows are available to meet debt payments.

Special Mention – loans where credit is currently up to date and collateral values protect the Group's exposure. However, there exists evidence to suggest that certain factors could, in future, affect the borrower's ability to service the credit properly or impair the collateral.

Sub-standard – loans with well-defined credit weakness or weakness in the sector of the borrower such that cash flows are insufficient to service debt as arranged.

Doubtful – loans where collection of the debt in full is highly questionable or improbable.

Loss – loans considered uncollectible due to insolvency of the borrower. The borrower's financial position is insufficient to service or retire outstanding debt.

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

41. Financial risk management (continued)

(b) Credit risk (continued)

(iii) Credit quality (continued)

Using these classifications to rate credit quality, the credit profile of the Group's and Bank's loan portfolios would be as set out in the following table:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Standard | 90.6% | 90.6% | 90.4% | 90.4% |
| Special Mention | 6.5% | 6.6% | 6.8% | 6.8% |
| Sub-Standard | 0.9% | 1.5% | 0.9% | 1.5% |
| Doubtful | 1.1% | 0.7% | 1.0% | 0.7% |
| Loss | 0.9% | 0.6% | 0.9% | 0.6% |
| | 100.0% | 100.0% | 100.0% | 100.0% |

Debt Securities

The following table presents an analysis by rating agency designation of debt and similar securities, other than loans, based on Standard & Poor's ratings or their equivalent as at October 31, 2009:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| BB to B- | - | 83,504,841 | - | 42,973,465 |
| Lower than B- | 102,898,159 | - | 53,426,462 | - |
| Unrated | - | 83,462 | - | - |
| | 102,898,159 | 83,588,303 | 53,426,462 | 42,973,465 |

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| *Of which classified as:* | | | | |
| Deposits with the Bank of Jamaica | 27,951,800 | 27,406,099 | 19,813,414 | 17,689,480 |
| Investment securities | | | | |
| Held-to-maturity | 46,576,822 | 35,941,477 | 11,669,863 | 10,096,345 |
| Available-for-sale | 25,667,996 | 18,939,274 | 19,241,644 | 13,886,187 |
| Pledged assets | | | | |
| Held-to-maturity | 2,701,541 | 1,301,453 | 2,701,541 | 1,301,453 |
| Available-for-sale | - | - | - | - |
| | 102,898,159 | 83,588,303 | 53,426,462 | 42,973,465 |

41. Financial risk management (continued)

(b) Credit risk (continued)

(iv) Maximum exposure to credit risk

The following represents the maximum exposure to credit risk, before taking account of any collateral held or other credit enhancements. For financial assets, the exposure to credit risk equals their carrying amount. For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that would have to be paid, if the guarantees were called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

| | Maximum Exposure | | | |
|---|---|---|---|---|
| | The Group | | The Bank | |
| | 2009 | 2008 | 2009 | 2008 |
| Deposits with the Bank of Jamaica | 45,880,891 | 38,570,781 | 37,701,111 | 28,808,582 |
| Due from other banks | 10,376,766 | 14,944,451 | 10,345,481 | 14,938,900 |
| Government securities purchased under resale agreements | 692,401 | 523,392 | 1,557,259 | 407,920 |
| Pledged assets | 2,701,541 | 1,301,453 | 2,701,541 | 1,301,453 |
| Loans, after allowance for impairment losses | 89,340,846 | 86,152,384 | 82,554,936 | 79,996,715 |
| Investment securities | | | | |
| Available-for-sale | 25,667,996 | 18,939,274 | 19,241,644 | 13,886,187 |
| Held-to-maturity | 46,576,957 | 35,941,612 | 11,669,863 | 10,096,345 |
| Customers' liabilities under acceptances, guarantees and letters of credit | 8,641,071 | 6,228,186 | 8,259,126 | 5,835,740 |
| Other assets | 701,834 | 891,437 | - | - |
| | 230,580,303 | 203,492,970 | 174,030,961 | 155,271,842 |

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

41. Financial risk management (continued)

(b) Credit risk (continued)

(v) Concentration of exposure to credit risk

(1) Loans and leases

The following table summarises credit exposure for loans and leases at their carrying amounts, as categorised by the industry sectors. Loans and leases are well diversified across industry sectors, and are primarily extended to customers within Jamaica.

| | The Group | | | |
|---|---|---|---|---|
| | Loans and Leases | Acceptances, Guarantees and Letters of Credit | Total 2009 | Total 2008 |
| Agriculture, fishing and mining | 1,471,514 | 72,420 | 1,543,934 | 1,009,592 |
| Construction and real estate | 1,599,953 | 121,128 | 1,721,081 | 2,176,584 |
| Distribution | 3,457,686 | 1,331,943 | 4,789,629 | 5,421,381 |
| Financial institutions | 349 | 1,938,029 | 1,938,378 | 3,110,999 |
| Government and public entities | 21,089,954 | 2,211,901 | 23,301,855 | 15,784,545 |
| Manufacturing | 4,675,719 | 2,326,046 | 7,001,765 | 6,841,055 |
| Personal | 44,640,435 | 486,334 | 45,126,769 | 44,778,766 |
| Professional and other services | 4,550,505 | 97,472 | 4,647,977 | 4,202,558 |
| Tourism and entertainment | 7,691,502 | 55,797 | 7,747,299 | 8,805,171 |
| Interest receivable | 883,943 | - | 883,943 | 858,685 |
| Total | 90,061,560 | 8,641,070 | 98,702,630 | 92,989,336 |
| Total impairment allowance | | | ( 720,714) | ( 608,766) |
| | | | 97,981,916 | 92,380,570 |

| | The Bank | | | |
|---|---|---|---|---|
| | Loans and Leases | Acceptances, Guarantees and Letters of Credit | Total 2009 | Total 2008 |
| Agriculture, fishing and mining | 1,471,514 | 72,420 | 1,543,934 | 1,009,592 |
| Construction and real estate | 1,599,953 | 121,128 | 1,721,081 | 2,176,584 |
| Distribution | 3,457,686 | 1,331,943 | 4,789,629 | 5,421,381 |
| Financial institutions | 349 | 1,938,029 | 1,938,378 | 3,110,999 |
| Government and public entities | 21,089,772 | 2,211,901 | 23,301,673 | 15,783,454 |
| Manufacturing | 4,675,719 | 2,326,046 | 7,001,765 | 6,841,055 |
| Personal | 37,876,640 | 104,389 | 37,981,029 | 38,254,639 |
| Professional and other services | 4,545,350 | 97,472 | 4,642,822 | 4,195,129 |
| Tourism and entertainment | 7,691,502 | 55,797 | 7,747,299 | 8,805,171 |
| Interest receivable | 825,215 | - | 825,215 | 801,960 |
| Total | 83,233,700 | 8,259,125 | 91,492,825 | 86,399,964 |
| Total impairment allowance | | | ( 678,763) | ( 567,509) |
| | | | 90,814,062 | 85,832,455 |

41. Financial risk management (continued)

(b) Credit risk (continued)

(v) Concentration of exposure to credit risk (continued)

(2) Debt securities and amounts due from other banks

The following table summarises credit exposure for debt securities and amounts due from other banks at their carrying amounts, as categorised by issuer:

| | Maximum Exposure | | | |
|---|---|---|---|---|
| | The Group | | The Bank | |
| | 2009 | 2008 | 2009 | 2008 |
| Government | 74,946,358 | 56,097,812 | 33,613,048 | 25,283,986 |
| Bank of Jamaica | 45,880,891 | 38,570,781 | 37,701,110 | 28,808,582 |
| Financial institutions | 11,069,166 | 15,352,548 | 11,902,740 | 15,181,522 |
| Corporate and other | 135 | 84,527 | - | - |
| | 131,896,550 | 110,105,668 | 83,216,898 | 69,274,090 |

Other than exposure on Government of Jamaica securities there is no significant concentration of liquid funds. For securities purchased under resale agreements, titles to securities are transferred to the company for the duration of the agreement.

(c) Market

The Group manages market risk through risk limits approved by the Board of Directors. Risk limits are determined for each portfolio, and are set by product and risk type, with market liquidity being a principal factor in determining the level of limits set. Limits are set using a combination of risk measurement techniques, including position limits and stress testing to identify the potential net interest income and market value effects of the positions in different scenarios. The results of the stress tests are reviewed by senior management and by the Board of Directors.

The Group also trades in financial instruments where it takes positions to take advantage of short-term market movements in securities prices and in foreign exchange and interest rates. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

The management of the individual elements of market risks – interest rate and currency risk – is as follows:

(i) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

## 41. Financial risk management (continued)

### (c) Market Risk (continued)

(i) Interest rate risk (continued)

The Group monitors interest rate risk using its Asset and Liability model. It calculates the interest rate risk gaps, economic value and annual income amounts which are compared with risk limits approved by the Board of Directors. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly.

The following tables summarize carrying amounts of balance sheet assets, liabilities and equity in order to arrive at the Group's and the Bank's interest rate gap based on the earlier of contractual repricing and maturity dates.

| | The Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2009 | | | | | | |
| | Immediately rate sensitive (1) | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non-rate sensitive | Total |
| Cash resources | 1,842,040 | 16,126,421 | 16,306,565 | 1,782,074 | - | 22,354,880 | 58,411,980 |
| Securities purchased under resale agreements | - | 556,200 | 132,281 | - | - | 3,920 | 692,401 |
| Pledged assets | - | 1,400,000 | 1,301,453 | - | - | 88 | 2,701,541 |
| Loans (3) | 20,133,580 | 33,417,814 | 9,726,114 | 16,443,620 | 7,780,187 | 1,839,531 | 89,340,846 |
| Investment securities (2) | | | | | | | |
| - Available-for-sale | - | 5,315,929 | 1,054,707 | 12,739,008 | 5,590,951 | 1,142,589 | 25,843,184 |
| - Held to maturity | - | 23,732,173 | 11,215,547 | 6,903,953 | 2,753,950 | 1,971,334 | 46,576,957 |
| Other assets | - | - | - | - | - | 18,881,363 | 18,881,363 |
| Total assets | 21,975,620 | 80,548,537 | 39,736,667 | 37,868,655 | 16,125,088 | 46,193,705 | 242,448,272 |
| Deposits | 119,523,293 | 15,071,338 | 7,174,887 | 5,197,329 | 5,088,126 | 669,695 | 152,724,668 |
| Other liabilities | - | - | - | - | - | 16,878,250 | 16,878,250 |
| Policyholders' liabilities | 20,502,283 | 3,459,168 | 12,087,203 | - | - | ( 1,640,777) | 34,407,877 |
| Securities sold under repurchase agreements | - | 267,311 | - | - | - | 45 | 267,356 |
| Stockholders' equity | - | - | - | - | - | 38,170,121 | 38,170,121 |
| Total liabilities and stockholders' equity | 140,025,576 | 18,797,817 | 19,262,090 | 5,197,329 | 5,088,126 | 54,077,334 | 242,448,272 |
| **Total interest rate sensitivity gap** | (118,049,956) | 61,750,720 | 20,474,577 | 32,671,326 | 11,036,962 | ( 7,883,629) | - |
| **Cumulative gap** | (118,049,956) | (56,299,236) | (35,824,659) | ( 3,153,333) | 7,883,629 | - | - |
| | 2008 | | | | | | |
| Total assets | 25,331,157 | 73,979,267 | 37,985,910 | 29,376,628 | 12,410,366 | 35,377,836 | 214,461,164 |
| Total liabilities and stockholders' equity | 126,063,711 | 16,514,196 | 17,648,016 | 4,236,908 | 6,083,994 | 43,914,339 | 214,461,164 |
| **Total interest rate sensitivity gap** | (100,732,554) | 57,465,071 | 20,337,894 | 25,139,720 | 6,326,372 | ( 8,536,503) | - |
| **Cumulative gap** | (100,732,554) | (43,267,483) | (22,929,589) | 2,210,131 | 8,536,503 | - | - |

## 41. Financial risk management (continued)

### (c) Market Risk (continued)

(i) Interest rate risk (continued)

| | The Bank | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2009 | | | | | | |
| | Immediately rate sensitive (1) | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non-rate sensitive | Total |
| Cash resources | 1,831,416 | 12,704,955 | 12,335,348 | 1,782,074 | - | 21,546,534 | 50,200,327 |
| Securities purchased under resale agreements | - | 1,555,000 | - | - | - | 2,259 | 1,557,259 |
| Pledged assets | - | 1,400,000 | 1,301,453 | - | - | 88 | 2,701,541 |
| Loans (3) | 20,133,580 | 27,606,145 | 9,588,839 | 15,792,568 | 7,653,002 | 1,780,802 | 82,554,936 |
| Investment securities (2) | | | | | | | |
| - Available-for-sale | - | 1,113,080 | - | 12,259,318 | 5,076,727 | 967,707 | 19,416,832 |
| - Held to maturity | - | 6,700,000 | 1,698,547 | 2,600,000 | - | 671,316 | 11,669,863 |
| Investment in subsidiaries | - | - | - | - | - | 242,093 | 242,093 |
| Other assets | - | - | - | - | - | 17,737,927 | 17,737,927 |
| Total assets | 21,964,996 | 51,079,180 | 24,924,187 | 32,433,960 | 12,729,729 | 42,948,726 | 186,080,778 |
| Deposits | 117,009,584 | 13,373,222 | 6,417,694 | 5,167,687 | 5,067,034 | 630,969 | 147,666,190 |
| Other liabilities | - | - | - | - | - | 16,083,283 | 16,083,283 |
| Securities sold under repurchase agreement | - | 267,311 | - | - | - | 45 | 267,356 |
| Stockholders' equity | - | - | - | - | - | 22,063,949 | 22,063,949 |
| Total liabilities and stockholders' equity | 117,009,584 | 13,640,533 | 6,417,694 | 5,167,687 | 5,067,034 | 38,778,246 | 186,080,778 |
| **Total interest rate sensitivity gap** | ( 95,044,588) | 37,438,647 | 18,506,493 | 27,266,273 | 7,662,695 | 4,170,480 | - |
| **Cumulative gap** | ( 95,044,588) | (57,605,941) | (39,099,448) | (11,833,175) | ( 4,170,480) | - | - |
| | 2008 | | | | | | |
| Total assets | 25,377,674 | 46,364,147 | 23,866,133 | 26,102,756 | 11,743,831 | 32,917,607 | 166,372,148 |
| Total liabilities and stockholders' equity | 105,331,440 | 12,212,580 | 5,325,849 | 4,209,662 | 6,054,685 | 33,237,932 | 166,372,148 |
| **Total interest rate sensitivity gap** | ( 79,953,766) | 34,151,567 | 18,540,284 | 21,893,094 | 5,689,146 | ( 320,325) | - |
| **Cumulative gap** | ( 79,953,766) | (45,802,199) | (27,261,915) | ( 5,368,821) | 320,325 | - | - |

(1) This represents those financial instruments whose interest rates change concurrently with a change in the underlying interest rate basis, for example, base rate loans.

(2) This includes financial instruments such as equity investments.

(3) This includes impaired loans.

(expressed in thousands of Jamaican dollars unless otherwise stated)

**41. Financial risk management (continued)**

**(c) Market Risk (continued)**

(i) Interest rate risk (continued)

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

| | The Group 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Immediately rate sensitive % | Within 3 months % | 3 to 12 months % | 1 to 5 years % | Over 5 years % | Weighted Average % |
| Cash resources | 0.32 | 10.22 | 22.98 | 8.00 | - | 14.99 |
| Investment securities (1) | | | | | | |
| Available-for-sale | - | 19.47 | 19.81 | 7.85 | 10.24 | 11.36 |
| Held to maturity | - | 19.79 | 22.02 | 17.87 | 20.76 | 20.11 |
| Securities purchased under resale agreements | - | 12.69 | 17.21 | - | - | 13.58 |
| Pledged assets | - | 22.17 | 21.41 | - | - | 21.80 |
| Loans (2) | 20.70 | 24.24 | 15.04 | 16.17 | 9.07 | 19.54 |
| Deposits (3) | 4.37 | 7.53 | 7.48 | 7.12 | 5.97 | 4.98 |
| Securities sold under repurchase agreements | - | 1.03 | - | - | - | 1.03 |
| Policyholders' liabilities | 12.45 | 12.18 | 14.73 | - | - | 13.19 |

| | The Group 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Immediately rate sensitive % | Within 3 months % | 3 to 12 months % | 1 to 5 years % | Over 5 years % | Weighted Average % |
| Cash resources | 1.44 | 8.62 | 13.09 | - | - | 10.71 |
| Investment securities (1) | | | | | | |
| Available-for-sale | - | 16.35 | 16.11 | 7.60 | 5.76 | 9.63 |
| Held to maturity | - | 15.90 | 16.58 | 14.49 | 17.00 | 15.94 |
| Securities purchased under resale agreements | - | 15.47 | 13.81 | - | - | 15.12 |
| Pledged assets | - | - | 16.51 | - | - | 16.51 |
| Loans (2) | 19.64 | 25.31 | 16.91 | 16.12 | 8.96 | 19.66 |
| Deposits (3) | 4.26 | 7.63 | 7.95 | 7.40 | 5.92 | 4.93 |
| Policyholders' liabilities | 9.66 | 11.00 | 11.09 | - | - | 10.27 |

41. Financial risk management (continued)

(c) Market Risk (continued)

(i) Interest rate risk (continued)

| | The Bank 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Immediately rate sensitive % | Within 3 months % | 3 to 12 months % | 1 to 5 years % | Over 5 years % | Weighted average % |
| Cash resources | 0.30 | 8.46 | 22.89 | 8.00 | - | 14.12 |
| Investment securities (1) | | | | | | |
| Available-for-sale | - | 20.90 | - | 7.49 | 9.43 | 8.83 |
| Held to maturity | - | 20.08 | 22.10 | 19.57 | - | 20.27 |
| Securities purchased under resale agreements | - | 11.41 | - | - | - | 11.41 |
| Pledged assets | - | 22.17 | 21.41 | - | - | 21.80 |
| Loans (2) | 20.70 | 26.42 | 15.05 | 16.38 | 9.02 | 20.03 |
| Deposits (3) | 4.29 | 7.33 | 7.22 | 7.12 | 5.96 | 4.85 |
| Securities sold under resale agreements | - | 1.03 | - | - | - | 1.03 |

| | The Bank 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Immediately rate sensitive % | Within 3 months % | 3 to 12 months % | 1 to 5 years % | Over 5 years % | Weighted average % |
| Cash resources | 1.56 | 7.44 | 12.11 | - | - | 9.71 |
| Investment securities (1) | | | | | | |
| Available-for-sale | - | - | 14.52 | 7.32 | 7.82 | 7.46 |
| Held to maturity | - | 16.07 | 16.51 | 13.88 | - | 16.08 |
| Securities purchased under resale agreements | - | 15.51 | - | - | - | 15.51 |
| Pledged assets | - | - | 16.51 | - | - | 16.51 |
| Loans (2) | 19.64 | 27.72 | 16.98 | 16.30 | 8.89 | 20.14 |
| Deposits (3) | 4.17 | 7.38 | 7.72 | 7.40 | 5.91 | 4.79 |

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

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

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

(3) Yields are based on contractual interest rates.

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

41. Financial risk management (continued)

(c) Market Risk (continued)

(i) Interest rate risk (continued)

Sensitivity analysis

The changes in the interest rates as noted below are based on recently observed market movements. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

| Sensitivity of market risk variable | 2009 | 2008 |
|---|---|---|
| JMD Interest rates | Increase/decrease by 600bps | Increase/decrease by 100bps |
| USD Interest rates | Increase/decrease by 400bps | Increase/decrease by 250bps |

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Effect on profit or loss | 1,950,085 | 283,535 | 1,910,785 | 276,539 |
| Effect on Stockholders' equity | 2,060,828 | 414,308 | 2,041,714 | 410,119 |

Sensitivity to interest rate risk for SJLIC, the insurance subsidiary is considered in note 41(e ) under the DCAT scenarios.

(ii) Foreign exchange risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The main currencies giving rise to this risk are the USD, CAD, GBP, and EUR. The Group ensures that the net exposure is kept to an acceptable level by matching foreign assets with liabilities as far as possible.

41. Financial risk management (continued)

(c) Market risk (continued)

(ii) Foreign exchange risk (continued)

The table below summarizes the exposure to foreign currency exchange risk:

| | The Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2009 | | | | | | |
| JMD Equivalent | JMD | USD | CAD | GBP | EUR | OTHER | TOTAL |
| ASSETS | | | | | | | |
| Cash resources | 36,538,217 | 14,471,926 | 1,843,682 | 5,361,705 | 170,692 | 25,758 | 58,411,980 |
| Investments | 57,780,572 | 14,572,086 | - | - | 67,483 | - | 72,420,141 |
| Govt securities purchased under resale agreements | 692,401 | - | - | - | - | - | 692,401 |
| Pledged assets | 2,701,541 | - | - | - | - | - | 2,701,541 |
| Loans | 62,933,218 | 25,844,417 | 291,146 | 132,201 | 139,864 | - | 89,340,846 |
| Other assets | 13,517,595 | 3,792,077 | 2,710 | (68,148) | 1,650,455 | (13,326) | 18,881,363 |
| | 174,163,544 | 58,680,506 | 2,137,538 | 5,425,758 | 2,028,494 | 12,432 | 242,448,272 |
| LIABILITIES | | | | | | | |
| Deposits | 91,886,747 | 53,187,493 | 2,030,125 | 5,317,176 | 302,771 | 356 | 152,724,668 |
| Securites sold under repurchase agreements | 267,356 | - | - | - | - | - | 267,356 |
| Other liabilities | 9,016,123 | 5,890,749 | 107,552 | 126,854 | 1,724,896 | 12,076 | 16,878,250 |
| Policyholders liabilities | 34,407,877 | - | - | - | - | - | 34,407,877 |
| | 135,578,103 | 59,078,242 | 2,137,677 | 5,444,030 | 2,027,667 | 12,432 | 204,278,151 |
| NET POSITION | 38,585,441 | (397,736) | (139) | (18,272) | 827 | - | 38,170,121 |

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 41. Financial risk management (continued)

### (c) Market Risk (continued)

#### (ii) Foreign exchange risk (continued)

| | The Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2008 | | | | | | |
| JMD Equivalent | JMD | USD | CAD | GBP | EUR | OTHER | TOTAL |
| ASSETS | | | | | | | |
| Cash resources | 37,339,475 | 12,495,549 | 1,151,604 | 4,225,935 | 170,291 | 37,538 | 55,420,392 |
| Investments | 42,853,665 | 12,189,067 | - | - | 50,841 | - | 55,093,573 |
| Govt securities purchased under resale agreements | 523,392 | - | - | - | - | - | 523,392 |
| Pledged assets | 1,301,453 | - | - | - | - | - | 1,301,453 |
| Loans | 64,064,137 | 21,592,522 | 204,066 | 173,978 | 117,681 | - | 86,152,384 |
| Other assets | 11,761,325 | 2,751,936 | 14,240 | ( 56,618) | 1,526,465 | (27,378) | 15,969,970 |
| | 157,843,447 | 49,029,074 | 1,369,910 | 4,343,295 | 1,865,278 | 10,160 | 214,461,164 |
| LIABILITIES | | | | | | | |
| Deposits | 87,121,604 | 45,577,114 | 1,319,938 | 4,248,085 | 343,150 | 262 | 138,610,153 |
| Other liabilities | 7,170,681 | 4,725,289 | 49,668 | 92,048 | 1,524,794 | 9,909 | 13,572,389 |
| Policyholders' liabilities | 30,561,418 | - | - | - | - | - | 30,561,418 |
| | 124,853,703 | 50,302,403 | 1,369,606 | 4,340,133 | 1,867,944 | 10,171 | 182,743,960 |
| NET POSITION | 32,989,744 | ( 1,273,329) | 304 | 3,162 | ( 2,666) | ( 11) | 31,717,204 |

## 41. Financial risk management (continued)

### (c) Market Risk (continued)

#### (ii) Foreign exchange risk (continued)

The table below summarizes exposure to foreign currency exchange risk:

| | The Bank | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2009 | | | | | | |
| JMD Equivalent | JMD | USD | CAD | GBP | EUR | OTHER | TOTAL |
| **ASSETS** | | | | | | | |
| Cash resources | 28,400,740 | 14,426,820 | 1,843,682 | 5,332,635 | 170,692 | 25,758 | 50,200,327 |
| Investments | 16,689,219 | 14,572,086 | - | - | 67,483 | - | 31,328,788 |
| Govt securities purchased under resale agreements | 1,557,259 | - | - | - | - | - | 1,557,259 |
| Pledged assets | 2,701,541 | - | | - | - | - | 2,701,541 |
| Loans | 56,147,309 | 25,844,417 | 291,146 | 132,201 | 139,864 | - | 82,554,937 |
| Foreign exchange spot position | 963,908 | (776,592) | ( 42,645) | ( 64,465) | (66,851) | (13,326) | 29 |
| Other assets | 11,397,973 | 4,577,264 | 45,355 | - | 1,717,305 | - | 17,737,897 |
| | 117,857,949 | 58,643,995 | 2,137,538 | 5,400,371 | 2,028,493 | 12,432 | 186,080,778 |
| **LIABILITIES** | | | | | | | |
| Deposits | 86,890,014 | 53,151,127 | 2,030,125 | 5,291,797 | 302,771 | 356 | 147,666,190 |
| Securities sold under repurchase agreements | 267,356 | - | | - | - | - | 267,356 |
| Other liabilities | 8,221,309 | 5,890,604 | 107,552 | 126,846 | 1,724,896 | 12,076 | 16,083,283 |
| Policyholders' liabilities | 95,378,679 | 59,041,731 | 2,137,677 | 5,418,643 | 2,027,667 | 12,432 | 164,016,829 |
| **NET POSITION** | **22,479,270** | **( 397,736)** | **( 139)** | **( 18,272)** | **826** | **-** | **22,063,949** |

| | The Bank | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2008 | | | | | | |
| JMD Equivalent | JMD | USD | CAD | GBP | EUR | OTHER | TOTAL |
| **ASSETS** | | | | | | | |
| Cash resources | 27,603,260 | 12,424,801 | 1,151,604 | 4,214,226 | 170,291 | 37,538 | 45,601,720 |
| Investments | 11,955,311 | 12,189,067 | - | - | 50,841 | - | 24,195,219 |
| Investment in subsidiary | 242,093 | - | - | - | - | - | 242,093 |
| Govt securities purchased under resale agreements | 407,920 | - | - | - | - | - | 407,920 |
| Pledged assets | 1,301,453 | - | - | - | - | - | 1,301,453 |
| Loans | 57,908,469 | 21,592,522 | 204,066 | 173,978 | 117,680 | - | 79,996,715 |
| Other assets | 10,418,383 | 2,751,936 | 14,240 | ( 56,618) | 1,526,465 | (27,378) | 14,627,028 |
| | 109,836,889 | 48,958,326 | 1,369,910 | 4,331,586 | 1,865,277 | 10,160 | 166,372,148 |
| **LIABILITIES** | | | | | | | |
| Deposits | 81,920,083 | 45,547,952 | 1,319,938 | 4,237,959 | 343,150 | 262 | 133,369,344 |
| Other liabilities | 6,841,282 | 4,725,287 | 49,668 | 92,040 | 1,524,794 | 9,909 | 13,242,980 |
| Policyholders' liabilities | 88,761,365 | 50,273,239 | 1,369,606 | 4,329,999 | 1,867,944 | 10,171 | 146,612,324 |
| **NET POSITION** | **21,075,524** | **( 1,314,913)** | **304** | **1,587** | **( 2,667)** | **( 11)** | **19,759,824** |

(expressed in thousands of Jamaican dollars unless otherwise stated)

41. Financial risk management (continued)

(c) Market Risk (continued)

(ii) Foreign exchange risk (continued)

The following significant exchange rates were applied during the period:

| | Average rate for the period | | Reporting date spot rate | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| USD | 86.8489 | 71.8371 | 89.1037 | 76.1253 |
| CAD | 74.1712 | 69.5487 | 81.8778 | 61.6269 |
| GBP | 133.4279 | 137.8254 | 145.9954 | 121.9273 |
| EUR | 118.4444 | 106.8925 | 129.8712 | 96.7723 |

Sensitivity to foreign exchange risk

A weakening of the JMD against the currencies indicated at October 31 would have increased/(decreased) equity and profit by the amounts shown below. This analysis is performed on the same basis for 2008. The strengthening of the JMD against the same currencies at October 31 would have had the equal but opposite effect on the amounts shown, on the basis that all other variable remain constant.

| | 2009 | 2008 |
|---|---|---|
| USD | Increase/decrease by 20% | Increase/decrease by 7% |
| CAD | Increase/decrease by 30% | Increase/decrease by 25% |
| GBP | Increase/decrease by 25% | Increase/decrease by 20% |
| EUR | Increase/decrease by 30% | Increase/decrease by 20% |

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Effect on profit or loss and stockholders' equity | 608,343 | 236,865 | 608,033 | 236,631 |

**41. Financial risk management (continued)**

**(d) Liquidity Risk**

The Group is exposed to daily calls on its available cash resources from overnight and maturing deposits, loan drawdowns and guarantees. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for companies to be completely matched, as transacted business 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 Group and its exposure to changes in interest rates and exchange rates. Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash and central bank balances; government and corporate bonds and treasury bills; and loans.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

41. Financial risk management (continued)

(d) Liquidity risk (continued)

Financial liabilities cash flows

The tables below present the undiscounted cash flows (both interest and principal cash flows) to settle financial liabilities, based on contractual repayment obligations. The Group expects that many policyholders/depositors/customers will not request repayment on the earliest date the Group could be required to pay. The expected maturity dates of financial assets and liabilities are based on estimates made by management as determined by retention history.

The Group

| 2009 | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | No specific maturity | Total |
|---|---|---|---|---|---|---|
| Financial liabilities | | | | | | |
| Deposits | 133,634,266 | 7,918,279 | 8,077,920 | 9,387,916 | - | 159,018,381 |
| Policyholders' fund | 22,385,776 | 13,853,584 | - | - | - | 36,239,360 |
| Securities sold under repurchase agreements | 267,394 | - | - | - | - | 267,394 |
| Other liabilities | 5,240,970 | 2,929,138 | 2,563,535 | 1,582,773 | 2,331,767 | 14,648,183 |
| Total liabilities (contractual maturity dates) | 161,528,406 | 24,701,001 | 10,641,455 | 10,970,689 | 2,331,767 | 210,173,318 |

| 2008 | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | No specific maturity | Total |
|---|---|---|---|---|---|---|
| Financial liabilities | | | | | | |
| Deposits | 123,591,406 | 6,766,132 | 5,737,492 | 7,107,833 | - | 143,202,863 |
| Policyholders' fund | 20,219,525 | 12,904,742 | - | - | - | 33,124,267 |
| Other liabilities | 5,433,777 | 1,063,301 | 2,005,251 | 1,470,258 | 3,599,802 | 13,572,389 |
| Total liabilities (contractual maturity dates) | 149,244,708 | 20,734,175 | 7,742,743 | 8,578,091 | 3,599,802 | 189,899,519 |

41. Financial risk management (continued)

(d) Liquidity risk (continued)

The Bank

| 2009 | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | No specific maturity | Total |
|---|---|---|---|---|---|---|
| Financial liabilities | | | | | | |
| Deposits | 130,408,296 | 7,105,950 | 8,077,920 | 8,212,029 | - | 153,804,195 |
| Security sold under repurchase agreements | 267,394 | - | - | - | - | 267,394 |
| Other liabilities | 4,846,501 | 2,948,468 | 2,534,836 | 1,582,773 | 2,331,767 | 14,244,345 |
| Total liabilities (contractual maturity dates) | 135,522,191 | 10,054,418 | 10,612,756 | 9,794,802 | 2,331,767 | 168,315,934 |

| 2008 | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | No specific maturity | Total |
|---|---|---|---|---|---|---|
| Financial liabilities | | | | | | |
| Deposits | 119,909,217 | 5,998,310 | 5,737,492 | 6,170,496 | - | 137,815,515 |
| Other liabilities | 5,345,759 | 893,430 | 1,940,132 | 1,470,258 | 3,593,401 | 13,242,980 |
| Total liabilities (contractual maturity dates) | 125,254,976 | 6,891,740 | 7,677,624 | 7,640,754 | 3,593,401 | 151,058,495 |

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

## 41. Financial risk management (continued)

### (d) Liquidity risk (continued)

The tables below analyse assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity dates.

| | The Group | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | | | | |
| | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | No specific maturity | Total |
| Cash resources | 38,756,947 | 17,872,959 | 1,782,074 | - | - | 58,411,980 |
| Securities purchased under resale agreements | 557,075 | 135,326 | - | - | - | 692,401 |
| Pledged assets | 88 | - | 2,426,484 | 274,969 | - | 2,701,541 |
| Loans | 21,907,112 | 13,856,212 | 31,810,706 | 21,766,816 | - | 89,340,846 |
| Investment securities | | | | | | |
| - Available-for-sale | 920,149 | 329,041 | 14,595,952 | 9,998,042 | - | 25,843,184 |
| - Held to maturity | 2,794,380 | 11,164,104 | 24,438,477 | 8,179,996 | - | 46,576,957 |
| Other assets | 2,270,318 | 2,948,469 | 2,534,836 | 1,582,773 | 9,544,967 | 18,881,363 |
| Total assets | 67,206,069 | 46,306,111 | 77,588,529 | 41,802,596 | 9,544,967 | 242,448,272 |
| Deposits | 133,147,818 | 7,209,354 | 6,124,575 | 6,242,921 | - | 152,724,668 |
| Other liabilities | 5,240,763 | 3,293,481 | 2,563,535 | 1,582,773 | 4,197,698 | 16,878,250 |
| Policyholders' fund | 22,320,674 | 12,087,203 | - | - | - | 34,407,877 |
| Securities sold under repurchase agreement | 267,356 | - | - | - | - | 267,356 |
| Stockholders' equity | - | - | - | - | 38,170,121 | 38,170,121 |
| Total liabilities and stockholders' equity | 160,976,611 | 22,590,038 | 8,688,110 | 7,825,694 | 42,367,819 | 242,448,272 |
| **Total liquidity gap** | ( 93,770,542) | 23,716,073 | 68,900,419 | 33,976,902 | (32,822,852) | - |
| **Cumulative gap** | ( 93,770,542) | (70,054,469) | ( 1,154,050) | 32,822,852 | - | - |
| | 2008 | | | | | |
| Total assets | 59,391,503 | 40,991,176 | 67,237,484 | 38,333,918 | 8,507,083 | 214,461,164 |
| Total liabilities and stockholders' equity | 147,620,500 | 18,928,778 | 5,011,737 | 7,583,143 | 35,317,006 | 214,461,164 |
| **Total liquidity gap** | ( 88,228,997) | 22,062,398 | 62,225,747 | 30,750,775 | (26,809,923) | - |
| **Cumulative gap** | ( 88,228,997) | (66,166,599) | ( 3,940,852) | 26,809,923 | - | - |

## 41. Financial risk management (continued)

### (d) Liquidity risk (continued)

| | The Bank | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | | | | |
| | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | No specific maturity | Total |
| Cash resources | 35,045,247 | 13,373,006 | 1,782,074 | - | - | 50,200,327 |
| Securities purchased under resale agreements | 1,557,259 | - | - | - | - | 1,557,259 |
| Pledged assets | 88 | - | 2,426,484 | 274,969 | - | 2,701,541 |
| Loans | 21,738,764 | 13,543,519 | 30,565,184 | 16,707,469 | - | 82,554,936 |
| Investment securities | | | | | | |
| - Available-for-sale | 781,804 | 159,579 | 12,588,165 | 5,887,284 | - | 19,416,832 |
| - Held to maturity | 635,823 | 1,735,493 | 9,073,516 | 225,031 | - | 11,669,863 |
| Subsidiary companies | - | - | - | - | 242,093 | 242,093 |
| Other assets | 1,184,457 | 2,948,468 | 2,534,836 | 1,582,773 | 9,487,393 | 17,737,927 |
| Total assets | 60,943,442 | 31,760,065 | 58,970,259 | 24,677,526 | 9,729,486 | 186,080,778 |
| Deposits | 129,962,884 | 6,511,697 | 6,124,575 | 5,067,034 | - | 147,666,190 |
| Other liabilities | 4,846,502 | 2,948,468 | 2,534,836 | 1,582,772 | 4,170,705 | 16,083,283 |
| Securities sold under repurchase agreement | 267,356 | - | - | - | - | 267,356 |
| Stockholders' equity | - | - | - | - | 22,063,949 | 22,063,949 |
| Total liabilities and stockholders' equity | 135,076,742 | 9,460,165 | 8,659,411 | 6,649,806 | 26,234,654 | 186,080,778 |
| **Total liquidity gap** | ( 74,133,300) | 22,299,900 | 50,310,848 | 18,027,720 | (16,505,168) | - |
| **Cumulative gap** | ( 74,133,300) | (51,833,400) | ( 1,522,552) | 16,505,168 | - | - |
| | 2008 | | | | | |
| Total assets | 54,184,902 | 28,626,326 | 52,077,004 | 22,792,696 | 8,691,220 | 166,372,148 |
| Total liabilities and stockholders' equity | 124,943,663 | 6,482,836 | 4,946,618 | 6,645,806 | 23,353,225 | 166,372,148 |
| **Total liquidity gap** | ( 70,758,761) | 22,143,490 | 47,130,386 | 16,146,890 | (14,662,005) | - |
| **Cumulative gap** | ( 70,758,761) | (48,615,271) | ( 1,484,885) | 14,662,005 | - | - |

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

## 41. Financial risk management (continued)

### (d) Liquidity risk (continued)

| | The Bank | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | | | | |
| | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | No specific maturity | Total |
| Cash resources | 35,045,247 | 13,373,006 | 1,782,074 | - | - | 50,200,327 |
| Securities purchased under resale agreements | 1,557,259 | - | - | - | - | 1,557,259 |
| Pledged assets | 88 | - | 2,426,484 | 274,969 | - | 2,701,541 |
| Loans | 21,738,764 | 13,543,519 | 30,565,184 | 16,707,469 | - | 82,554,936 |
| Investment securities | | | | | | |
| - Available-for-sale | 781,804 | 159,579 | 12,588,165 | 5,887,284 | - | 19,416,832 |
| - Held to maturity | 635,823 | 1,735,493 | 9,073,516 | 225,031 | - | 11,669,863 |
| Subsidiary companies | - | - | - | - | 242,093 | 242,093 |
| Other assets | 1,184,457 | 2,948,468 | 2,534,836 | 1,582,773 | 9,487,393 | 17,737,927 |
| Total assets | 60,943,442 | 31,760,065 | 58,970,259 | 24,677,526 | 9,729,486 | 186,080,778 |
| Deposits | 129,962,884 | 6,511,697 | 6,124,575 | 5,067,034 | - | 147,666,190 |
| Other liabilities | 4,846,502 | 2,948,468 | 2,534,836 | 1,582,772 | 4,170,705 | 16,083,283 |
| Securities sold under repurchase agreement | 267,356 | - | - | - | - | 267,356 |
| Stockholders' equity | - | - | - | - | 22,063,949 | 22,063,949 |
| Total liabilities and stockholders' equity | 135,076,742 | 9,460,165 | 8,659,411 | 6,649,806 | 26,234,654 | 186,080,778 |
| **Total liquidity gap** | ( 74,133,300) | 22,299,900 | 50,310,848 | 18,027,720 | (16,505,168) | - |
| **Cumulative gap** | ( 74,133,300) | (51,833,400) | ( 1,522,552) | 16,505,168 | - | - |
| | 2008 | | | | | |
| Total assets | 54,184,902 | 28,626,326 | 52,077,004 | 22,792,696 | 8,691,220 | 166,372,148 |
| Total liabilities and stockholders' equity | 124,943,663 | 6,482,836 | 4,946,618 | 6,645,806 | 23,353,225 | 166,372,148 |
| **Total liquidity gap** | ( 70,758,761) | 22,143,490 | 47,130,386 | 16,146,890 | (14,662,005) | - |
| **Cumulative gap** | ( 70,758,761) | (48,615,271) | ( 1,484,885) | 14,662,005 | - | - |

## 41. Financial risk management (continued)

### (e) Insurance risk

The group issues long term contracts that transfer insurance risk or financial risk or both. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits is greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio.

Two key matters affecting insurance risk are discussed below:

#### (i) Long term insurance contracts

Long-term contracts are typically for a minimum period of 5 years and a maximum period which is determined by the remaining life of the insured. In addition to the estimated benefits which may be payable under the contract, the insurer has to assess the cash flows which may be attributable to the contract.

The Group has developed its insurance underwriting strategy and reinsurance arrangements to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. The Group's underwriting strategy includes the use of a medical questionnaire with benefits limited to reflect the health condition of applicants and retention limits on any single life insured.

##### (1) Frequency and severity of claims

For contracts where death is the insured risk the most significant factors that could increase the overall frequency and severity of claims are epidemics and wide-ranging lifestyle changes such as in eating, smoking and exercise habits resulting in earlier or more claims than expected.

The Group charges for mortality risks on a monthly basis for all insurance contracts and has the right to alter these charges to a certain extent based on mortality experience and hence minimize its exposure to mortality risk. Delays in implementing increases in charges and market or regulatory restraints over the extent of the increases may reduce its mitigating effect.

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

41. Financial risk management (continued)

(e) Insurance risk (continued)

(i) Long term insurance contracts (continued)

(1) Frequency and severity of claims (continued)

The tables below indicate the concentration of insured benefits across bands of insured benefits per individual life assured and group life insured benefits. The benefit insured figures are shown gross and net of reinsurance.

| | Total benefits assured | | | |
|---|---|---|---|---|
| | Before and After Reinsurance 2009 | % | Before and After Reinsurance 2008 | % |
| Individual Life Benefits assured per life | | | | |
| 0 to 250,000 | 5,456,387 | 18 | 4,811,064 | 21 |
| 250,001 to 500,000 | 2,254,603 | 8 | 2,059,880 | 9 |
| 500,001 to 750,000 | 3,335,587 | 11 | 3,277,803 | 14 |
| 750,001 to 1,000,000 | 2,703,548 | 9 | 1,889,547 | 8 |
| 1,000,001 to 1,500,000 | 5,377,502 | 18 | 4,432,037 | 19 |
| 1,500,001 to 2,000,000 | 3,799,674 | 13 | 2,224,426 | 10 |
| Over 2,000,000 | 6,939,243 | 23 | 4,681,826 | 19 |
| Total | 29,866,544 | 100 | 23,376,583 | 100 |

| | 2009 Total benefits assured | | | |
|---|---|---|---|---|
| | Before Reinsurance | % | After Reinsurance | % |
| Group Life Benefits assured per life | | | | |
| 0 to 250,000 | 4,194,129 | 16 | 3,799,558 | 11 |
| 250,001 to 500,000 | 3,528,165 | 13 | 12,306,135 | 35 |
| 500,001 to 750,000 | 2,119,369 | 9 | 2,323,808 | 7 |
| 750,001 to 1,000,000 | 1,396,788 | 5 | 1,497,586 | 4 |
| 1,000,001 to 1,500,000 | 3,106,280 | 12 | 3,048,623 | 8 |
| 1,500,001 to 2,000,000 | 2,223,832 | 8 | 2,220,599 | 6 |
| Over 2,000,000 | 9,798,448 | 37 | 10,145,547 | 29 |
| Total | 26,367,011 | 100 | 35,341,856 | 100 |

**41. Financial risk management (continued)**

**(e) Insurance risk (continued)**

(i) Long term insurance contracts (continued)

(1) Frequency and severity of claims (continued)

| | 2008 Total benefits assured | | | |
|---|---|---|---|---|
| | Before Reinsurance | % | After Reinsurance | % |
| Group Life Benefits assured per life | | | | |
| 0 to 250,000 | 3,799,558 | 11 | 3,799,558 | 11 |
| 250,001 to 500,000 | 12,306,135 | 35 | 12,306,135 | 35 |
| 500,001 to 750,000 | 2,323,808 | 7 | 2,323,808 | 7 |
| 750,001 to 1,000,000 | 1,497,586 | 4 | 1,497,586 | 4 |
| 1,000,001 to 1,500,000 | 3,048,623 | 9 | 3,048,623 | 9 |
| 1,500,001 to 2,000,000 | 2,220,599 | 6 | 2,220,599 | 6 |
| Over 2,000,000 | 10,145,547 | 28 | 10,046,227 | 28 |
| Total | 35,341,856 | 100 | 35,242,536 | 100 |

Insurance risk for contracts disclosed in this note is also affected by the policyholders' right to pay reduced or no future premiums and to terminate the contract completely. As a result, the amount of insurance risk is also subject to the policyholders' behaviour. The Group has factored the impact of policyholders' behaviour into the assumptions used to measure these liabilities.

(2) Sources of uncertainty in the estimation of future benefit payments and premiums

Uncertainty in the estimation of future benefit payments and premium receipts for long term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and the variability in policyholder behaviour.

Estimates are made as to the expected number of deaths for each of the years in which the company is exposed to risk. The Group bases these estimates on standard industry and international mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Group's own experience.

**41. Financial risk management (continued)**

**(e) Insurance risk (continued)**

(i) Long term insurance contracts (continued)

(3) Process used in deriving assumptions

The assumptions for long term insurance contracts and the process used in deriving these assumptions have remained substantially unchanged since the previous year.

For long-term contracts with fixed and guaranteed terms, estimates are made in two stages. Estimates of future deaths, voluntary terminations and partial withdrawal of policy funds, investment returns, crediting rates, inflation and administration expenses are made and form the assumptions used for calculating the liabilities at the inception of the contract. A margin for risk and uncertainty is added to these assumptions.

New estimates are made each subsequent year based on updated Group experience studies and economic forecasts. The valuation assumptions are altered to reflect these revised best estimates. The margins for risk and uncertainty may also be altered if the underlying level of uncertainty in the updated assumptions has changed. The financial impact of revisions to the valuation assumption or the related margins is recognised in the accounting period in which the change is made.

See note 12 ( c ) for detailed policy assumptions.

(ii) Reinsurance risk

Reinsurance risk is the risk that a reinsurer will default and not honour obligations arising from claims. To limit its exposure of potential loss on an insurance policy, the Group cedes certain levels of risk to a reinsurer. Reinsurance ceded does not discharge the Group's liability as primary issuer. The Group also limits the probable loss in the event of a single catastrophic occurrence by reinsuring this type of risk with reinsurers. The Group manages reinsurance risk by selecting reinsurers which have established capability to meet their contractual obligations and which generally have favourable credit ratings as determined by a reputable rating agency.

41. Financial risk management (continued)

(e) Insurance risk (continued)

(ii) Reinsurance risk (continued)

Retention limits represent the level of risk retained by the insurer. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit. The retention programs used by the Group are summarized below:

| Type of insurance contract | Retention |
|---|---|
| Individual, group & creditor life catastrophe | maximum retention of $420 for a single event; treaty limits apply |
| Group creditor life contracts | maximum retention of $15,000 per insured |

(iii) Sensitivity analysis of actuarial liabilities

(1) Sensitivity arising from the valuation of life insurance contracts

The determination of actuarial liabilities is sensitive to a number of assumptions, and changes in these assumptions could have a significant effect on the valuation results.

In summary, the valuation of actuarial liabilities of life insurance contracts is sensitive to:

- the economic scenario used in the Policy Premium Method (PPM)
- the investments allocated to back the liabilities
- the underlying assumptions used, and
- the margins for adverse deviations.

Under the PPM methodology, the Appointed Actuary is required to test the actuarial liability under several economic scenarios. The tests have been done and the results of the valuation provide adequately for liabilities derived from the worst of these different scenarios.

The assumption for future investment yields has a significant impact on actuarial liabilities. The different scenarios tested under Policy Premium Method (PPM) reflect the impact of different yields.

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

41. Financial risk management (continued)

(e) Insurance risk (continued)

(iii) Sensitivity analysis of actuarial liabilities (continued)

(1) Sensitivity arising from the valuation of life insurance contracts (continued)

The other assumptions which are most sensitive in determining the actuarial liabilities of the Group, are in descending order of impact:

- operating expenses and taxes
- lapse
- mortality and morbidity

The following table presents the sensitivity of the liabilities to a change in assumptions:

| | 2009 | 2008 |
|---|---|---|
| Interest rates decrease by 1% | 29,902 | 38,912 |
| Interest rates increase by 1% | (101,607) | ( 85,107) |
| Mortality increases by 10% | 127,563 | 100,434 |
| Mortality decreases by 10% | (130,488) | (103,007) |
| Expenses increase by 10% | (156,819) | 106,417 |
| Expenses decrease by 10% | (154,785) | (105,102) |
| Lapses and withdrawals increase by 10% | 108,748 | 111,865 |
| Lapses and withdrawals decrease by 10% | (120,807) | (124,206) |

(2) Dynamic capital adequacy testing (DCAT)

DCAT is a technique used by the Group to assess the adequacy of its financial position and financial condition in the light of different future economic and policy experience scenarios. DCAT assesses the impact of the Group's financial position and condition over the next 5 years under specific scenarios as required by the Insurance Regulations.

The financial position of the Group is reflected by the amount of assets, liabilities and equity in the balance sheet at a given date.

The financial condition of the Group at a given date is its prospective ability to meet its future obligations, especially obligations to policyholders, those to whom it owes benefits, and to its shareholders.

The purpose of the DCAT is:

- to develop an understanding of the sensitivity of the total equity of the Group and future financial condition to changes in various experience factors and management policies
- to alert management to material, plausible and imminent threats to the Group's solvency
- and to describe possible courses of action to address these threats.

41. Financial risk management (continued)

(e) Insurance risk (continued)

(iii) Sensitivity analysis of actuarial liabilities (continued)

(2) Dynamic capital adequacy testing (DCAT) (continued)

A full DCAT report was completed for the Group during 2009, and the results were as follows:

- Mortality and morbidity risks
  To test this scenario, existing mortality and morbidity rates were increased by 3% starting in 2009, for five years. The accumulated deterioration would be 15% by the end of the five-year DCAT period. The results for this scenario show relative insensitivity to the change in assumptions.

- Low lapse rates
  The business was tested by applying a factor of 0.5 to existing lapse and surrender rates. Overall this scenario produces a higher surplus and a lower MCCSR ratio over the 5-year period.

- Higher lapse rates
  The business was tested by doubling existing lapses, surrenders and partial withdrawal rates. Under this scenario, the surplus decreases while the MCCSR increases.

- Expense risks
  Higher unit maintenance expenses were tested by setting the annual inflation at 5% greater than current expenses, starting in 2009, for five years. Overall, this scenario produces a lower MCCSR ratio over the 5-year period.

- Low interest rate
  An assumed decrease in the portfolio rate of 7.5% over a 5 year period was tested in this scenario. Overall, this scenario produces a lower MCCSR over the five year period.

- High sales growth
  New business was projected to grow at 10% higher than existing sales per year over five years. The increased sales result in increased profits but the MCCSR ratio falls.

- Flat sales
  This scenario assumed sales were 10% less than existing sales starting in 2009 and staying at that level for 5 years. Overall this scenario produces adverse results for the next five years.

(expressed in thousands of Jamaican dollars unless otherwise stated)

41. Financial risk management (continued)

(e) Insurance risk (continued)

(iii) Sensitivity analysis of actuarial liabilities (continued)

(2) Dynamic capital adequacy testing (DCAT) (continued)

The DCAT conducted has not tested any correlation that may exist between assumptions. The following table represents the estimated sensitivity of each of the above scenarios for the next five years to net actuarial liabilities at the end of the project – period which is 5 years after the relevant balance sheet.

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Surplus | MCCSR | Surplus | MCCSR |
| Base | 10,354,310 | 1,075% | 8,173,819 | 810% |
| Variable | | | | |
| Mortality risks | 10,316,168 | 1,075% | 8,142,819 | 808% |
| Low lapse rates | 10,567,151 | 1,057% | 8,376,072 | 811% |
| Higher lapse rates | 9,435,190 | 1,167% | 7,328,310 | 855% |
| Expense risks | 10,258,632 | 1,069% | 8,090,996 | 804% |
| Low interest rate | 10,372,885 | 1,073% | 8,133,417 | 804% |
| High sales growth | 10,341,133 | 1,059% | 8,186,472 | 798% |
| Flat sales | 10,258,394 | 1,100% | 8,140,607 | 816% |

42. Fair value of financial instruments

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. Market price is used to determine fair value where an active market exists as it is the best evidence of the fair value of a financial instrument. For financial instruments for which no market price is available, the fair values presented have been estimated using present value or other estimation and valuation techniques based on market conditions existing at the balance sheet dates.

The values derived from applying these techniques are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates. The following methods and assumptions have been used:

(i) financial instruments classified as available-for-sale and held-to-maturity: fair value is estimated by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques;

(ii) financial instruments classified as at fair value through profit or loss fair value is estimated by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognized valuation techniques. Fair value is equal to the carrying amount of these investments.

42. Fair value of financial instruments (continued)

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

(iv) the fair value of demand deposits and savings accounts with no specific maturity is considered to be the amount payable on demand at the balance sheet date; the fair value of fixed-term interest bearing deposits is based on discounted cash flows using interest rates for new deposits;

(v) the fair value of variable rate financial instruments is considered to approximate their carrying amounts; and

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

The following tables present the fair value of financial instruments that are not carried at fair value, based on the above-mentioned valuation methods and assumptions.

| | The Group | | | |
|---|---|---|---|---|
| | Carrying Value 2009 | Fair Value 2009 | Carrying Value 2008 | Fair Value 2008 |
| Financial assets | | | | |
| Loans | 89,340,846 | 88,277,470 | 86,152,384 | 85,484,446 |
| Pledged assets | 2,701,541 | 2,730,442 | 1,301,453 | 1,304,113 |
| Investment securities: | | | | |
| Held-to-maturity | 46,576,957 | 48,508,433 | 35,941,612 | 36,375,250 |
| Financial liability | | | | |
| Deposits | 152,724,668 | 152,753,642 | 138,610,153 | 138,603,436 |

| | The Bank | | | |
|---|---|---|---|---|
| | Carrying Value 2009 | Fair Value 2009 | Carrying Value 2008 | Fair Value 2008 |
| Financial assets | | | | |
| Loans | 82,554,936 | 81,725,746 | 79,996,715 | 79,510,544 |
| Pledged assets | 2,701,541 | 2,730,442 | 1,301,453 | 1,304,113 |
| Investment securities: | | | | |
| Held-to-maturity | 11,669,863 | 11,820,612 | 10,096,345 | 10,071,944 |
| Financial liability | | | | |
| Deposits | 147,666,190 | 147,724,070 | 133,369,344 | 133,394,466 |

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

## 43. Capital Risk Management

Capital risk is the risk that the Group fails to comply with mandated regulatory requirements, resulting in a breach of its minimum capital ratios and the possible suspension or loss of its licences.

Regulators are primarily interested in protecting the rights of depositors and policyholders, and monitor the Group closely to ensure that it is satisfactorily managing fiduciary responsibility to the depositors and policyholders. At the same time, the regulators are also interested in ensuring that the Group maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

The Group manages its capital resources according to the following objectives:

- To comply with the capital requirements established by banking, insurance and other financial intermediaries regulatory authority;
- To safeguard its ability to continue as a going concern, and meet future obligations to depositors, policyholders and stockholders;
- To provide adequate returns to stockholders by pricing investment, insurance and other contracts commensurately with the level of risk; and
- To maintain a strong capital base to support the future development of the Group's operations.

Individual banking and insurance subsidiaries are directly regulated by their respective regulator, who set and monitor their capital adequacy requirements. Required capital adequacy information is filed with the regulators at least on an annual basis.

Banking and Mortgage lending

Capital adequacy is reviewed by Executive Management, the Audit Committee and the Board of Directors. Based on the guidelines developed by the Bank of Jamaica, each regulated entity is required to:

- Hold the minimum level of regulatory capital; and
- Maintain a minimum ratio of total regulatory capital to risk weighted assets.

Regulatory capital is divided into two tiers:

1. Tier 1 capital comprises share capital and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and

2. Tier 2 capital comprises qualifying subordinated loan capital, collective impairment allowances and revaluation surplus on fixed assets

## 43. Capital Risk Management (continued)

Banking and Mortgage lending (continued)

Investment in subsidiaries is deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

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

The table below summarises the composition of regulatory capital and the ratios for each subsidiary based on the similarity of the regulator. During the year, the individual entities complied with all of the externally imposed capital requirements to which they are subject.

| | The Group [1] | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Tier 1 Capital | 16,989,189 | 14,789,189 | 15,359,189 | 14,159,189 |
| Tier 2 Capital | 507,149 | 512,071 | 479,660 | 485,979 |
| Total regulatory capital | 17,496,338 | 15,301,260 | 15,838,849 | 14,645,168 |
| Less prescribed adjustment | ( 242,093) | ( 242,093) | ( 242,093) | ( 242,093) |
| | 17,254,245 | 15,059,167 | 15,596,756 | 14,403,075 |
| Risk weighted assets | | | | |
| On-balance sheet | 80,490,692 | 83,524,166 | 76,520,108 | 79,910,215 |
| Foreign exchange exposure | 978,829 | 738,805 | 963,879 | 731,674 |
| Total risk weighted assets | 81,469,521 | 84,262,971 | 77,483,987 | 80,641,889 |
| Actual regulatory capital to risk weighted assets | 21.5% | 17.9% | 20.1% | 17.9% |
| Regulatory requirement | 10.0% | 10.0% | 10.0% | 10.0% |

[1] This relates to The Bank of Nova Scotia Jamaica Limited, and Scotia Jamaica Building Society.

(expressed in thousands of Jamaican dollars unless otherwise stated)

43. Capital Risk Management (continued)

Life Insurance

Capital adequacy is calculated by the Appointed Actuary and reviewed by Executive Management, the Audit Committee and the Board of Directors. In addition, the Group seeks to maintain internal capital adequacy levels higher than the regulatory requirement. To assist in evaluating the current business and strategic opportunities, a risk-based approach is one of the core measures of financial performance. The risk-based assessment measure which has been adopted is the Minimum Continuing Capital and Surplus Requirement (MCCSR) standard as defined by the Financial Services Commission and required by the Insurance Regulations 2001. Under the regulations, the minimum standard recommended for companies is an MCCSR of 135% in 2008 and 2009, and up to 150% in 2010 and later. The MCCSR for the insurance subsidiary as of October 31, 2009 and 2008 is set out below:

| | 2009 | 2008 |
|---|---|---|
| Regulatory capital held | 11,312,242 | 7,664,426 |
| Minimum regulatory capital | 662,184 | 977,882 |
| MCCSR Ratio | 1708% | 784% |

44. Commitments

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| (a) Capital expenditure: Authorised and contracted | 160,788 | 406,465 | 160,788 | 406,465 |
| (b) Commitments to extend credit: Originated term to maturity of more than one year | 25,362,399 | 11,005,385 | 24,980,454 | 10,612,939 |

(c) Operating lease commitments:

The future aggregate minimum lease payments under non-cancellable operating leases are payable as follows:

| | The Group | |
|---|---|---|
| | 2009 | 2008 |
| Not later than one year | 183,718 | 125,714 |
| Later than one year and not later than five years | 711,615 | 482,014 |
| Later than five years | 3,391,237 | 3,354,218 |
| | 4,286,570 | 3,961,946 |

**45. Pledged assets**

Assets are pledged as collateral under repurchase agreements with counterparties. Mandatory reserve deposits are also held with The Bank of Jamaica under Section 14(i) of the Banking Act, 1992, viz:

| | The Group and The Bank | | | |
|---|---|---|---|---|
| | Asset | | Related Liability | |
| | 2009 | 2008 | 2009 | 2008 |
| Securities with regulators | 800,000 | 800,000 | - | - |
| Securities with other financial institutions and clearing house | 701,541 | 501,453 | - | - |
| Securities sold under repurchase agreements | 1,200,000 | - | 267,356 | - |
| | 2,701,541 | 1,301,453 | 267,356 | - |

The Bank of Jamaica holds as security, Government of Jamaica Local Registered Stocks and Bank of Jamaica Certificates of Deposit with a carrying amount of $800,000 (2008: $800,000) for the Group and the Bank against possible shortfalls in the operating account.

Other financial institutions hold as security, Government of Jamaica Local Registered Stocks with a carrying amount of $701,541 (2008: $501,453) for the Bank in the normal course of inter bank transactions. These transactions are conducted under terms that are usual and customary for standard securities lending and repurchase agreements.

**46. Related party transactions and balances**

The Group is controlled by Scotia Group Jamaica Limited, which is incorporated and domiciled in Jamaica. Scotia Group Jamaica Limited is a 71.78% subsidiary of The Bank of Nova Scotia, which is incorporated and domiciled in Canada, and is the ultimate parent company. The remaining 28.22% of the stock units are widely held.

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party or both parties are subject to common control or significant influence. A number of banking transactions are entered into with related parties, including companies connected by virtue of common directorships in the normal course of business. These include loans, deposits, investment management services and foreign currency transactions.

No impairment losses have been recognised in respect of loans given to related parties.

Pursuant to Section 13(1), (d) and (i) of the Banking Act, 1992, connected companies include companies that have directors in common with the Bank and/or its subsidiaries.

Related credit facilities in excess of the limits of Section 13(1), (d) and (i), subject to the maximum of the limits in Section 13(1)(e) of the Banking Act are supported by guarantees issued by the parent company.

There were no related party transactions with the ultimate parent company other than the payment of dividends, management fees, guarantee fees, centralized computing service fees and the amount due to the ultimate parent company (note 30).

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

## 46. Related party transactions and balances (continued)

The amounts of related party transactions, outstanding balances at the year end, and related expenses and income for the year are as follows:

| | The Group | | | | | |
|---|---|---|---|---|---|---|
| | Ultimate parent | Fellow subsidiaries | Directors and Key Management Personnel | Connected companies | Total 2009 | Total 2008 |
| **Loans** | | | | | | |
| Loans outstanding at beginning of year | - | - | 237,724 | 9,367,066 | 9,604,790 | 6,776,979 |
| Net loans issued/(repaid) during the year | - | - | 130,297 | 1,611,394 | 1,741,691 | 2,827,811 |
| Loans outstanding at end of year | - | - | 368,021 | 10,978,460 | 11,346,481 | 9,604,790 |
| Interest income earned | - | - | 25,501 | 1,107,957 | 1,133,458 | 1,132,280 |
| Average repayment term (Years) | - | - | 10.89 | 4.63 | 4.83 | 4.31 |
| Average interest rate (%) | - | - | 7.86 | 9.77 | 9.71 | 9.71 |
| **Deposits** | | | | | | |
| Deposits outstanding at beginning of year | 6,768,802 | - | 117,014 | 3,114,706 | 10,000,522 | 9,928,465 |
| Net deposits received/(repaid) during the year | 1,067,372 | - | ( 13,949) | ( 145,214) | 908,209 | 72,057 |
| Deposits outstanding at end of year | 7,836,174 | - | 103,065 | 2,969,492 | 10,908,731 | 10,000,522 |
| Interest expense on deposits | 432,557 | - | 3,387 | 118,611 | 554,555 | 413,990 |
| **Other** | | | | | | |
| Fees and commission earned | - | - | 413 | 134,982 | 135,395 | 94,622 |
| Insurance products | - | - | 35,396 | - | 35,396 | 22,938 |
| Securities (sold)/purchased under repurchase agreements | - | ( 133,830) | - | - | ( 133,830) | 113,821 |
| Interest (paid)/earned on repurchase agreements | - | ( 60,413) | - | - | ( 60,413) | 20,559 |
| Due from banks and other financial institutions | 205,429 | 1,800,795 | - | - | 2,006,224 | 1,649,328 |
| Interest earned from banks and other financial institutions | 75 | 143,071 | - | - | 143,146 | 92,927 |
| Due to banks and other financial institutions | 226,383 | 2,561,571 | - | - | 2,787,954 | 2,419,012 |
| Interest paid to banks and other financial institutions | - | 43,806 | - | - | 43,806 | 11,305 |
| Management fees paid to parent company | 387,917 | ( 33,582) | - | - | 354,335 | 357,613 |
| Guarantee fees paid to parent company | 4,671 | - | - | - | 4,671 | 7,905 |
| Other operating (expense)/income | ( 428,302) | ( 11,513) | - | - | ( 439,815) | ( 295,586) |

## 46. Related party transactions and balances (continued)

| | The Bank | | | | | |
|---|---|---|---|---|---|---|
| | Ultimate Parent | Fellow subsidiaries | Directors and Key Management Personnel | Connected companies | Total 2009 | Total 2008 |
| **Loans** | | | | | | |
| Loans outstanding at beginning of year | - | - | 213,461 | 9,367,066 | 9,580,527 | 6,743,276 |
| Net loans issued/(repaid) during the year | - | - | 89,757 | 1,611,394 | 1,701,151 | 2,837,251 |
| Loans outstanding at end of year | - | - | 303,218 | 10,978,460 | 11,281,678 | 9,580,527 |
| Interest income earned | - | - | 21,894 | 1,107,957 | 1,129,851 | 1,128,859 |
| Average repayment term (Years) | - | - | 8.74 | 4.63 | 4.74 | 4.28 |
| Average interest rate (%) | - | - | 7.46 | 9.77 | 9.71 | 9.71 |
| **Deposits** | | | | | | |
| Deposits outstanding at beginning of year | 6,768,802 | - | 113,338 | 3,114,706 | 9,996,846 | 9,923,098 |
| Net deposits received/(repaid) during the year | 1,067,372 | - | ( 18,394) | ( 145,214) | 903,764 | 73,748 |
| Deposits outstanding at end of year | 7,836,174 | - | 94,944 | 2,969,492 | 10,900,610 | 9,996,846 |
| Interest expense on deposits | 432,557 | - | 2,813 | 118,611 | 553,981 | 413,394 |
| **Other** | | | | | | |
| Fees and commission earned | - | - | 413 | 134,982 | 135,395 | 94,622 |
| Securities sold under repurchase agreements | - | 732,689 | - | - | 732,689 | - |
| Interest paid on repurchase agreements | - | ( 29,638) | - | - | ( 29,638) | 8,028 |
| Due from banks and other financial institutions | 205,429 | 1,800,795 | - | - | 2,006,224 | 1,649,328 |
| Interest earned from banks and other financial institutions | 75 | 143,071 | - | - | 143,146 | 92,927 |
| Due to banks and other financial institutions | 226,383 | 2,883,746 | - | - | 3,110,129 | 2,946,758 |
| Interest paid to banks and other financial institutions | - | 62,428 | - | - | 62,428 | 22,373 |
| Management fees paid to parent company | 341,411 | ( 33,582) | - | - | 307,829 | 304,218 |
| Guarantee fees paid to parent company | 4,671 | - | - | - | 4,671 | 7,905 |
| Other operating (expense)/income | ( 428,302) | 47,260 | - | - | ( 381,042) | ( 284,273) |

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| **Key management compensation** | | | | |
| Salaries and other short term benefits | 395,197 | 310,981 | 331,702 | 256,243 |
| Post-employment benefits | 613,787 | 615,400 | 510,640 | 535,506 |

*(expressed in thousands of Jamaican dollars unless otherwise stated)*

47. Litigation and contingent liabilities

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

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

(b) On April 7, 1999, a writ was filed by National Commercial Bank Jamaica Limited ("NCB") in which they set out a claim for the sum of US$13,286,000 in connection with an alleged undertaking given to NCB by Scotia Jamaica Investment Management Limited (formerly Scotiabank Jamaica Trust and Merchant Bank Limited). Legal opinion has been obtained which states that the subsidiary has a strong defence to the claim. Consequently, no provision has been made for this amount in these financial statements.

48. Dividends

(a) Paid

| | The Group and The Bank | |
|---|---|---|
| | 2009 | 2008 |
| In respect of 2007 | - | 848,897 |
| In respect of 2008 | 965,987 | 2,722,326 |
| In respect of 2009 | 2,897,959 | - |
| | 3,863,946 | 3,571,223 |

(b) Proposed

At the Board of Directors meeting on November 26, 2009, a dividend in respect of 2009 of $0.357 per share (2008 - actual dividend $0.33 per share) amounting to a total of $1,045,022 (2008: $965,987) was proposed. The financial statements for the year ended October 31, 2009 do not reflect this resolution, which will be accounted for in stockholders' equity as an appropriation of retained profits in the year ending October 31, 2010.

49. Employee Share Ownership Plan

The Bank has an Employee Share Ownership Plan ("ESOP" or "Plan"), the purpose of which is to encourage eligible employees of the Group to steadily increase their ownership of the parent company's shares. Participation in the Plan is voluntary; any employee who has completed at least one year's service with any Group entity is eligible to participate.

The operation of the ESOP is facilitated by a Trust. The employer and employees make contributions to the trust fund and these contributions are used to fund the acquisition of shares for the employees. Employees' contributions are determined by reference to the length of their employment and their basic annual remuneration. The employer contributions are as prescribed by the formula set out in the rules of the Plan.

The contributions are used by the trustees to acquire the parent company's shares, at market value. The shares purchased with the employees contributions vest immediately, although they are subject to the restriction that they may not be sold within two years of acquisition. Out of shares purchased with the Bank's contributions, allocations are made to participating employees, but are held by the trust for a two-year period, at the end of which they vest with the employees; if an employee leaves the employer within the two-year period, the right to these shares is forfeited; such shares then become available to be granted by the employer to other participants in accordance with the formula referred to previously.

The amount contributed by the Group to employee share purchase during the year, included in employee compensation, amounted to $34,185 (2008: $35,296).

At the balance sheet date, the shares acquired with the employer's contributions and held in trust pending allocation to employees and/or vesting were:

| | 2009 | 2008 |
|---|---|---|
| Number of shares | 3,284,867 | 2,213,073 |
| Fair value of shares $'000 | 60,376 | 44,759 |

50. Fiduciary activities

The Group provides administration and investment management services to an approved retirement scheme. This involves the Group making allocation and purchase and sale decisions in relation to fixed income securities. Those assets that are held in a fiduciary capacity are not included in these financial statements. At the balance sheet date there were assets under administration amounting to approximately $219,498 (2008: Nil) for the Group.

# Economic Review

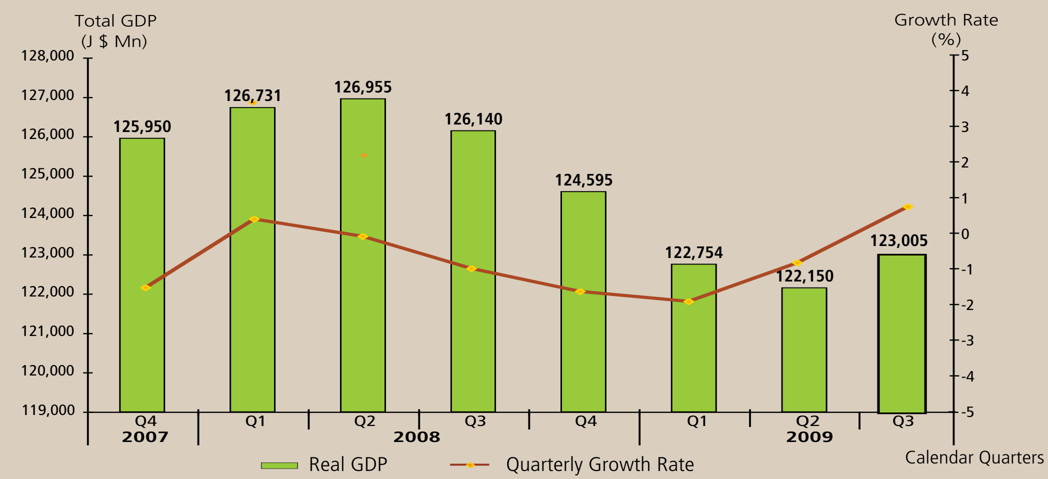
## Overview

Scotiabank's fiscal year began in November 2008 at the height of the devastating impact of the global economic crisis. The collapse, nationalization and financial rescue of some of the world's largest financial institutions led to the general freezing of credit markets, rising unemployment and huge losses on major stock, commodity and bond markets. However, massive stimulus packages employed by the world's leading economies from late 2008 to early 2009 have not only stemmed the downward economic spiral, but since the third quarter, have begun to reverse some of the negative economic indicators. This is expected to continue into 2010, and will account for the majority of global growth during the next year.

Jamaica's economy has not been immune to the impact of the financial crisis, as the country's major earners of foreign exchange – remittances, bauxite and tourism – have been negatively affected by varying degrees. The virtual closure of international credit markets has forced the Government to seek assistance from multilateral agencies, and raise expensive capital on the local market.

As a small, open economy that is highly dependent on the economic fortunes of our major developed trading partners, we expect that it will take some time for U.S. unemployment to return to pre-2008 levels and for developed country consumers to increase their spending to levels that would generate increased demand for Jamaican goods and services. As such, we expect the next fiscal year to remain very challenging, as Jamaican consumers, businesses and Government will have to make tough decisions in order to ride out the continuing recession.

### GDP Trends




## Economic growth

The Jamaican economy, for the first time since 1998, recorded real negative growth as it contracted by 1.0% in the calendar year 2008. Since then, the economy has contracted by around 3.5% in the first half of 2009, when compared to the same period in 2008, and reflects consistent declines in the goods producing sector, and a mixed performance in the output of the services sector. Consequently, the Bank of Jamaica projects that real GDP will decline by 3-4% in the 2009 fiscal year ending March 2010, barring further shocks.

### Goods Producing Sector

The major shock to the Goods Producing Sector occurred in the first quarter of 2009, when the country was hit by the temporary closure of three of its four major alumina processing plants. The closure occurred mainly as a result of weak demand and falling prices — world alumina prices were approximately 50% of their peak in mid-2008.

The Manufacturing and Construction industries were adversely affected by weak external and domestic demand. This is expected to continue through the current fiscal year, ending in March 2010.

The Agriculture sector is the only goods producing segment that has reported increases in recent quarters, on the back of a recovery from prior storm systems, as well as targeted efforts by the Government to boost productivity.

Services sector

The Services sector has weathered the global economic turmoil relatively well. Jamaica's tourism industry has performed well compared with its regional peers. Layovers by arriving tourists were up by more than 4% year-over-year during the period from January to August, while the region as a whole faced a 5% year-over-year decline during the same period. Meanwhile, cruise ship arrivals declined by 14.5%. Promotional efforts during this global recession included heavy discounting of vacation packages, which will negatively affect the returns from the sector.

The Finance and Insurance services industry expanded in 2008. This performance was influenced mainly by growth in interest-related income of financial institutions. The growth in interest income on all interest-bearing assets continued in the first half of 2009 as a result of dramatic increases in market interest rates from December 2008 to January 2009.

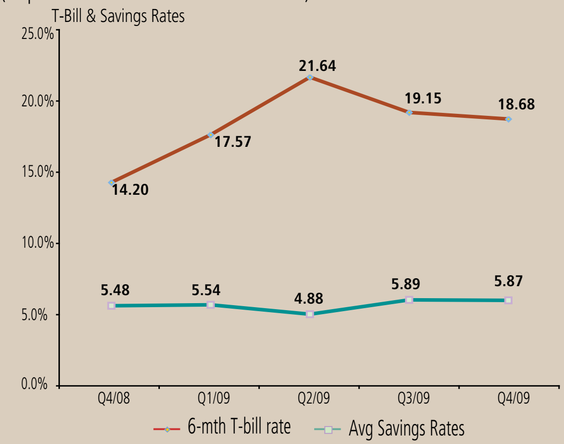
## Fiscal performance

Central Government operations generated a fiscal deficit during the 2008-2009 year of J$75.3 billion, or 7.3% of GDP, largely due to a shortfall in budgeted revenues from GCT, the bauxite levy and income tax from bauxite companies. As a result, the Government borrowed J$28.6 billion more than planned, mostly on the domestic market, at interest rates significantly higher than expected.

The Government's fiscal deficit target has been revised to 8.7% of GDP. In addition to low tax revenues related to the challenging economic conditions, the Government is also dealing with higher than expected interest costs. These high interest costs are due to elevated levels of interest rates arising from the central bank's tight monetary policy stance, aimed at stabilizing the exchange rate and controlling inflation. The actions by the Bank of Jamaica saw market interest rates (i.e., 3 and 6-month treasury bill yields) rising sharply from an average yield of 13.97% and 14.22% in April 2008 to a peak of 22.3% and 24.4%, respectively, in December 2009. This increased the weighted average interest rate on the Jamaican dollar-denominated variable rate debt from 14.76% at the start of the fiscal year to 15.32% by the end of April 2009, while the U.S. dollar-denominated debt (81.9% of the external debt portfolio) suffered from increased interest costs due to the 20% devaluation of the Jamaican dollar during the fiscal year.

## Start of Quarter Interest Rates

(as per Scotiabank Fiscal Year Nov - Oct)




In the first half of the year, the Government started dialogue with the International Monetary Fund (IMF) regarding the execution of a comprehensive stabilization and growth programme, which would focus on improving the country's fiscal and debt profiles. According to the country's authorities, an application to borrow up to US$1.2 billion has been made to help to meet the country's large external financing needs. After an agreement with the IMF is in place, budgetary support should become available from other multilateral creditors.

Notwithstanding this development, Jamaica suffered multiple ratings downgrades during 2009. Standard & Poors downgraded Jamaica from B- to CCC due to

"Jamaica's vulnerable fiscal profile, combined with difficult financing conditions, (which) may compel the Government to undertake a debt exchange that we could regard as a distressed debt exchange." This rating downgrade was subsequently mirrored by both Moody's and Fitch, both of whom cited the delay in finalizing the agreement with the IMF as an important factor behind their downgrades.

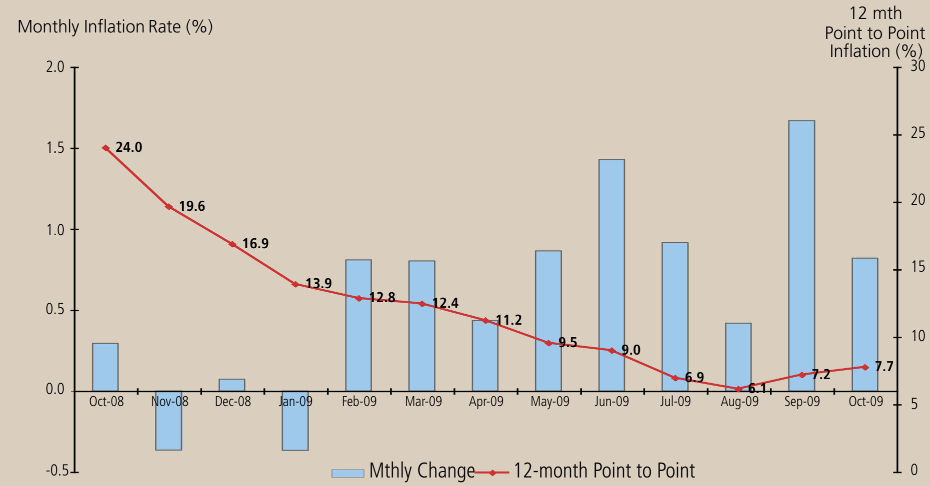
## Monetary policy and inflation

The Jamaican dollar declined by 20% versus the U.S. dollar in fiscal 2008, despite relative stability in the first half of the year. To stabilize the situation, the Bank of Jamaica intervened heavily and supplied U.S. dollars to the market in Q4-08 and Q1-09. As a result, the Net International Reserves declined by US$162 million to US$1.6 billion in the last 6 months leading to March 2009 (representing an estimated 12 weeks of imports). Further interventions, including the direct handling of U.S. dollar demand by large public entities; moral suasion; increasing the surrender requirement of U.S. dollar purchases for the commercial banks and cambios by an additional 15% and 10%, respectively; and an increase in the reserve ratio by 5 percentage points to 28%, have provided relative stability to the currency.

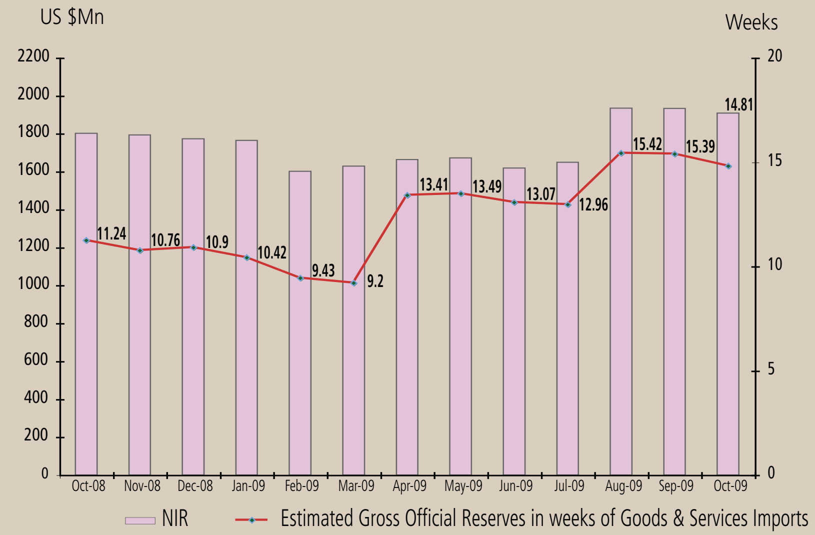
Inflationary pressures have eased significantly; the annual headline consumer price inflation rate was hovering near 8% in October 2009, significantly lower than the August 2008 peak of 26.5%. However, annual price pressures have been on the rise in recent months following the rebound of global energy prices.

The financial services industry will not be immune to the challenging economic environment. The central bank will likely continue to ease monetary conditions, as a result of weaker inflationary pressures. This, in turn, will adversely affect the financial industry's interest revenues that drove growth in the first half of 2009. Meanwhile, lower interest rates may not bring about an offsetting stimulatory demand effect, as business confidence remains low, and expansion plans remain postponed.

## Inflation Rate




## NIR Trend




## Outlook

While the global economy is recovering, Jamaica's short and medium-term growth prospects remain weak, due to domestic challenges and the expected lag in increased demand for its exports by the global economy. Current global demand will therefore continue to have an impact on the Jamaican economy through much of the next fiscal year to March 2011, especially related to the export industries of bauxite and manufacturing. Weakened consumer disposable income, and reduced Government capital expenditure to meet fiscal targets, will continue to dampen the construction sector, while low consumer confidence and subdued remittances will affect the wholesale and retail trade.

The expected IMF funding will bring some measure of stability to the economy and the exchange rate through improved investor confidence. The IMF-supervised programme will likely include such conditional factors as reduction of the fiscal deficit through policies aimed at sustained lowering of interest payments, tax reform implementation, increased taxation, reduction of the public sector wage bill and divestment of unprofitable state entities. However, the Government's ability to meet key fiscal targets will be further challenged by possible adverse weather conditions and further downgrades of sovereign credit ratings, but would be boosted by a stronger than estimated global economic recovery.

**ALLOWANCE FOR IMPAIRMENT LOSSES:** An allowance set aside which, in management's opinion, is adequate to absorb all credit-related losses. It is decreased by write-offs, realized losses and recoveries; and increased by new provisions. It includes specific and general allowances, and is deducted from the related asset category on the Group's consolidated balance sheet.

**ASSETS UNDER ADMINISTRATION AND MANAGEMENT:** The total market value of assets owned by customers, for whom the Group and its subsidiaries provides custody, trustee, corporate administration, investment management and advisory services, and are not reported on the Group's consolidated balance sheet.

**ASSETS HELD IN TRUST:** Consists of custodial and non-discretionary trust assets administered by the Group and its subsidiaries, which are beneficially owned by customers and are therefore not reported on the Group's consolidated balance sheet. Services provided in respect of these assets are administrative in nature, such as security custody; trusteeship, stock transfer and personal trust services.

**BOJ:** The Bank of Jamaica, the regulator for Commercial Banks, Merchant Banks, and Building Societies in Jamaica.

**BASIS POINT:** A unit of measure defined as one-hundredth of one per cent; 100bp equals 1%.

**CAPITAL:** Consists of common shareholders' equity. Capital supports asset growth, provides against loan losses and protects the Group and its subsidiaries' depositors.

**FAIR VALUE:** The amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

**FOREIGN EXCHANGE CONTRACTS:** Commitments to buy or sell a specified amount of foreign currency on a set date and at a predetermined rate of exchange.

**FSC:** The Financial Services Commission, the regulator for securities dealers, insurance companies, and pension funds in Jamaica.

**GENERAL PROVISIONS:** Established against the loan portfolio in the Group and its subsidiaries when management's assessment of economic trends suggests that losses may occur, but such losses cannot yet be specifically identified on an individual item-by-item basis.

**IFRS:** International Financial Reporting Standards issued by the International Accounting Standards Board, the global accounting standards setting body, which have been adopted by the Institute of Chartered Accountants of Jamaica.

**MARKED-TO-MARKET:** The valuation of certain financial instruments at market prices as of the balance sheet date.

**NET INTEREST MARGIN:** Net interest income, expressed as a percentage of average total assets.

**NON-PERFORMING (IMPAIRED) LOANS:** Loans on which the Group and its subsidiaries no longer have reasonable assurance as to the timely collection of interest and principal, or where a contractual payment is past due for a prescribed period. Interest is not accrued on non-performing loans.

**OPERATING LEVERAGE:** Operating Leverage is defined internally as the difference between the rate of revenue growth and the rate of expense growth.

**PRODUCTIVITY RATIO:** Measures the efficiency with which the Group and its subsidiaries incur expenses to generate revenue. It expresses non-interest expenses as a percentage of the sum of net interest income and other income. A lower ratio indicates improved productivity.

**REPOS:** Repos is short for "obligations related to assets sold under repurchase agreements" – a short-term transaction where the Group and its subsidiaries sells assets, normally Government bonds, to a client and simultaneously agrees to repurchase them on a specified date and at a specified price. It is a form of short-term funding.

**RETURN ON EQUITY:** Net income available to common shareholders, expressed as a percentage of average common shareholders' equity.

**REVERSE REPOS:** Short for "assets purchased under resale agreements" – a short-term transaction where the Group and its subsidiaries purchase assets, normally Government bonds, from a client and simultaneously agrees to resell them on a specified date and at a specified price. It is a form of short-term collateralized lending.

**RISK-WEIGHTED ASSETS:** Calculated using weights based on the degree of credit risk for each class of counterparty. Off-balance sheet instruments are converted to balance sheet equivalents, using specified conversion factors, before the appropriate risk weights are applied.

**STANDBY LETTERS OF CREDIT AND LETTERS OF GUARANTEE:** Assurances given by the Group and its subsidiaries that it will make payments on behalf of clients to third-parties in the event that the customer defaults. The Group and its subsidiaries have recourse against its customers for any such advanced funds.

**STRESS TESTING:** A scenario that measures market risk under unlikely but plausible events in abnormal markets.

**TIER 1, TIER 2 CAPITAL RATIOS:** These are ratios of capital to risk-weighted assets, as stipulated by the Bank of Jamaica and the Financial Services Commission, based on guidelines developed under the auspices of the Bank for International Settlements (BIS). Tier 1 capital is more permanent and based on the regulator. It is defined as follows:

(a) For entities regulated by the BOJ: Tier 1 capital consists primarily of common shareholders' equity,and certain designated retained earnings which by statute may not be distributed or reduced without permission from the Bank of Jamaica.

(b) For entities regulated by the FSC: Tier 1 capital consists primarily of common shareholders' equity and certain reserves designated by the Commission such as retained earnings and investment reserves. Deductions may also be applied for net investments in associates/subsidiaries, goodwill and other intangibles assets, among other things.

Tier 2 capital consists mainly of eligible general allowances. Together, Tier 1 and Tier 2 capital less certain deductions, comprise total regulatory capital.

**YIELD CURVE:** A graph showing the term structure of interest rates, plotting the yields of similar quality bonds by term to maturity.

# Branches & Team Leaders - The Bank of Nova Scotia Jamaica Limited

## Metro East

(From left to right standing) Lois Hemmings - Manager, Linstead Branch, Peter Mohan - Manager, UWI Mona Branch, Yvett Anderson - Manager, Highgate Branch, Regald Reid - Manager, Port Antonio Branch, Avril Leonce - Manager, New Kingston Branch, Heather John Keith - Manager, Port Maria Branch, Conrad Wright - Manager, Portmore Branch, Karen Tomlinson - Manager, Half-Way-Tree Branch, Paul Wallace - Manager, Morant Bay Branch, (from left to right seated ) Pamela Douglas - Manager, Oxford Road Branch, Michelle Lee Rutland - Manager, Sales and Service Support, Junior Clarke - Manager, Cross Roads Branch, Junior Carter James - Manager, Spanish Town Branch and Courtney Sylvester - District Vice President.

## BRANCHES & TEAM LEADERS - The Bank of Nova Scotia Jamaica Limited (continued)

**Metro West**

(From left to right standing ) Steve Distant - Manager, Liguanea Branch, Althea Howard - Manager, Premier Branch, Denise Hyman - Manager, Santa Cruz Branch, Dean Webb - Manager, May Pen Branch, Valerie Omess - Manager, Hagley Park Road Branch, Althea Bell Grant - Manager, Old Harbour Branch, Michael Shaw - Manager, King Street Branch, Donna Maxwell - Manager, Victoria and Blake Branch, Carl Bright - Manager, Mandeville Branch, Andrica Senior - Manager, Christiana Branch, Claudia Sanderson - Manager, Junction Branch (from left to right seated ) Peter Walters - District Vice President, Michael Lee - Manager, Sales and Service Support, Phoebe Buchannan - Manager, Constant Spring Branch, Donovan Hanson - Manager, Scotiabank Centre Branch and Audrey Barrett - Manager, Black River Branch.

## BRANCHES & TEAM LEADERS - The Bank of Nova Scotia Jamaica Limited (continued)

**Metro North**

(From left to right standing) Linley Reynolds - Manager, Montego Bay Branch, David James - Manager, Brown's Town Branch, Caswell Dawes - Manager, Savanna-la-Mar Branch, Marlene Davidson - Manager, Falmouth Branch, Garth Graham - Manager, Westgate Branch, Fitzaudy Wright - Manager, Negril Branch, Rhoan Bennett - Manager, Ironshore Branch, (from left to right seated ) Dwight Bryan - Manager, Lucea Branch, Doreen Mortimer - Manager, St. Ann's Bay Branch, Milton Elliot - Manager, Sales and Service Support, Taryn Buddo - Manager, Ocho Rios Branch and Michael Thompson - District Vice President.

120 YEARS IN JAMAICA

*1889-2009*

# BRANCHES & TEAM LEADERS - The Bank of Nova Scotia Jamaica Limited (continued)

**BLACK RIVER**
6 High Street
P. O. Box 27
Black River
St. Elizabeth

Mrs. A. N. Barrett, Manager

**BROWN'S TOWN**
Main Street
P. O. Box 35
Brown's Town
St. Ann

D. A. James, Manager

**CHRISTIANA**
Main Street
P. O. Box 11
Christiana, Manchester

Miss A. E. Senior, Manager

**CONSTANT SPRING**
*(Scotiabank Group Financial Centre)*
132-132A Constant Spring Road
Kingston 8

Miss P. N. Buchanan, Manager

**CORPORATE & COMMERCIAL BANKING CENTRE**
Mrs. D. R. Brown
Snr. Relationship Manager
Miss M. A. Flake
Snr. Relationship Manager
Miss C. A. Lyn, Snr. Relationship Manager
H. C. Mair, Snr. Relationship Manager
Miss T. M. Palmer, Snr. Manager,
Trade Services & Business Development
D. M. Brown, Relationship Manager
M. S .A. Nelson, Relationship Manager
H. P. Ebanks, Relationship Manager
K. E. Reese, Relationship Manager
H. D. Stephens, Relationship Manager
G. A. Hogarth, Portfolio Manager

**CROSS ROADS**
86 Slipe Road
P. O. Box 2
Kingston 5

J. A. Clarke, Manager

**FALMOUTH**
Trelawny Wharf
P. O. Box 27
Falmouth,
Trelawny

Mrs. M. V Davidson, Manager

**HAGLEY PARK ROAD**
128 Hagley Park Road
P. O. Box 5
Kingston 11

Miss V. I. Omess, Manager

Mrs. Y. T. Leslie, Asst. Manager

**HALF-WAY-TREE**
80 Half-Way-Tree Road
P. O. Box 5
Kingston 10

Mrs K. A. Tomlinson, Manager

H. R. Lewis
Asst. Manager, Personal Banking

Mrs G. A. Morrison
Asst. Manager, Commercial Credit

Miss V. J. Williams
Asst. Manager, Business Banking

Mrs. D. M. Lounges
Asst. Manager, Operations & Service

**HIGHGATE**
Main Street
P. O. Box 9
Highgate
St. Mary

Mrs. Y. Anderson, Manager

**IRONSHORE SERVICE CENTRE**
Shops 2 & 3, Golden Triangle
Shopping Centre
Ironshore
Montego Bay

R. W. Bennett, Manager

**JUNCTION**
Junction P. O.
St. Elizabeth

Mrs. C. A. Sanderson, Manager

**KING STREET**
35-45 King Street
P. O. Box 511, Kingston

M. E. Shaw, Manager

M. St. A. Scott
Asst. Manager, Personal Banking

Mrs. I. C Tucker
Asst. Manager, Commercial Credit

Mrs. J. M. Badson-Mignott
Asst. Manager, Operations & Service

**LIGUANEA**
125-127 Old Hope Road
P. O. Box 45
Kingston 6

S. A. Distant, Manager

**LINSTEAD**
42 King Street
P. O. Box 19
Linstead
St. Catherine

Mrs. L. A. Hemmings, Manager

Miss A. A. Jones,
Asst. Manager, Commercial Credit

**LUCEA**
Willie Delisser Boulevard
P. O. Box 63
Lucea
Hanover

D. Bryan, Manager

**MANDEVILLE**
1A Caledonia Road
P. O. Box 106
Mandeville, Manchester

A. C. Bright, Manager

E. Blake
Asst. Manager, Commercial Credit

A. O. Harvey, Manager, Personal Banking

Mrs. L. M. Vickers
Asst. Manager, Operations & Service

**MAY PEN**
36 Main Street
P.O. Box 32
May Pen
Clarendon

D. E. Webb, Manager

**MONTEGO BAY**
6-7 Sam Sharpe Square
P.O. Box 311
Montego Bay
St. James

L. M. Reynolds, Manager

Miss M. A. Senior
Asst. Manager, Commercial Credit

Mrs. A. M. Walters
Asst. Manager, Operations & Service

M. D. Greg,
Asst. Manager, Personal Banking

**MORANT BAY**
23 Queen Street
P. O. Box 30
Morant Bay
St. Thomas

P. A. Wallace, Manager

# BRANCHES & TEAM LEADERS - The Bank of Nova Scotia Jamaica Limited (continued)

**NEGRIL**
Negril Square
Negril P. O.
Westmoreland

F. O. Wright, Manager

**NEW KINGSTON**
2 Knutsford Boulevard
P. O. Box 307
Kingston 5

Miss A. Leonce, Manager

L. S. Estick
Asst. Manager, Commercial Credit

C. A. Allen
Asst. Manager, Personal Banking

Mrs. J. M. Thompson
Asst. Manager, Operations & Service

**OCHO RIOS**
Main Street
P. O. Box 150
Ocho Rios
St. Ann

Miss T. E. Buddo, Manager

Mrs. C. A. Senior
Asst. Manager, Commercial Credit

**OLD HARBOUR**
4 South Street
P. O. Box 43
Old Harbour
St. Catherine

Mrs. A. E. Bell Grant, Manager

**OXFORD ROAD**
6 Oxford Road
P. O. Box 109
Kingston 5

Miss P. J. Douglas, Manager

**PORT ANTONIO**
3 Harbour Street
P. O. Box 79
Port Antonio
Portland

R. R. Reid, Manager

**PORT MARIA**
57 Warner Street
P. O. Box 6
Port Maria
St. Mary

Mrs. H. J. John Keith, Manager

**PORTMORE**
Lot 2 Cookson Pen, Bushy Park
P.O. Box 14
Greater Portmore
St Catherine

C. A. Wright, Manager

**PREMIER**
10 Constant Spring Road
P. O. Box 509
Kingston 10

Mrs. A. Y. Howard, Manager

**ST. ANN'S BAY**
18 Bravo Street
P. O. Box 2
St. Ann's Bay
St. Ann

Miss D. M. Mortimer, Manager

**SANTA CRUZ**
77 Main Street
P. O. Box 20
Santa Cruz
St. Elizabeth

Miss D. A. Hyman, Manager

**SAVANNA-LA-MAR**
19 Great George's Street
P.O. Box 14
Savanna-La-Mar
Westmoreland

C. A. Dawes, Manager

Mrs. A. A. Rhule Hudson
Asst. Manager, Commercial Credit

**SCOTIABANK CENTRE**
Cnr. Duke & Port Royal Streets
P. O. Box 59
Kingston

D. A. Hanson, Manager

C. C. Wiggan
Asst. Manager, Commercial Credit

Mrs. K. Y. Hosang Bancroft
Operations Manager

**SPANISH TOWN**
Shops 25 & 26
Oasis Shopping Plaza
6 March Pen Road
Spanish Town

Mrs. J. Carter James, Manager

Miss J.D. Thompson
Asst. Manager, Commercial Credit

**UWI, MONA CAMPUS**
Cnr. Ring Road & Shed Lane
Kingston 7

P. G. Mohan, Manager

**VICTORIA & BLAKE**
29 Victoria Avenue
P.O. Box 625
Kingston

Mrs. D. A. Maxwell, Manager

**WESTGATE**
Westgate Shopping Centre
P.O. Box 11
Montego Bay
St. James

G. C. Graham, Manager

## SUB-BRANCHES

BARNETT STREET
(Sub to Montego Bay)
51 Barnett Street
Montego Bay
St. James

CLAREMONT
(Sub to St. Ann's Bay)
Claremont P.O.
Claremont
St. Ann

FRANKFIELD
(Sub to Christiana)
Frankfield
Clarendon

PARK CRESCENT
(Sub to Mandeville)
17 Park Crescent
Mandeville
Manchester

# Subsidiary, Board Members and Senior Officers

## THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Head Office, Scotiabank Centre
Cnr. Duke & Port Royal Streets
P.O. Box 709
Kingston, Jamaica

**Board of Directors**
R. H. Pitfield – Chairman
Hon. M. M. Matalon, OJ
- Deputy Chairman
A. V. Chang
Ms. B.A. Alexander
B. F. Bowen
Dr. J. A. Dixon, CD
M. J. Golding
J. M. Hall
Miss M. M. Issa
C. H. Johnston, CD
W. A. McDonald, JP
P. Minicucci
Dr. H. J. Thompson, CD
Prof. S. C. Vasciannie
R. E. Waugh

## SCOTIA JAMAICA INVESTMENT MANAGEMENT LIMITED

Scotiabank Centre
Cnr. Duke & Port Royal Streets
P.O. Box 627
Kingston, Jamaica

**Board of Directors**
B. F. Bowen
H. W. Powell

## SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

5th Floor, Scotiabank Centre
Cnr. Duke & Port Royal Streets
Kingston, Jamaica

**Board of Directors**
Miss M. M. Issa - Chairperson
A. V. Chang
B. F. Bowen
H. W. Powell
Dr. A. E. Samuels-Harris
Prof. S. C. Vasciannie
O. Zimmerman
N. Foster
A. Mijares Ricci

**Senior Officers**
Mrs. J. T. Sharp
Vice President & General Manager
*(Appointed Chief Financial Officer, October 1, 2009)*

Mrs. M. Ramgeet Williams
Senior Manager,
Finance & Investments

Ms. L. S. Heslop
Manager, Operations
& Customer Service

## THE SCOTIA JAMAICA BUILDING SOCIETY

95 Harbour Street
P.O. Box 8463
Kingston, Jamaica

**Board of Directors**
Dr. J. A. Dixon, CD - Chairperson
Dr. H. J. Thompson, CD
- Deputy Chairman
Ms. B. A. Alexander
Dr. C. D. Archer
B. F. Bowen
W. P. S. Hewitt
Miss M. M. Issa
Dr. A. Law
H. W. Powell

**Senior Officers**
G. F. Whitelocke
Vice President & General Manager

Mrs. M. D. Scott
Manager, Finance & Operations

P. F. Williams
Manager, Mortgage Services

## SCOTIA JAMAICA FINANCIAL SERVICES LIMITED

Scotiabank Centre
Cnr. Duke & Port Royal Streets
P.O. Box 709
Kingston, Jamaica

**Board of Directors**
B. F. Bowen - Chairman
H. W. Powell

## SCOTIABANK JAMAICA FOUNDATION

Scotiabank Centre
Cnr. Duke & Port Royal Streets
P.O. Box 709
Kingston, Jamaica

**Board of Directors**
Dr. J. A. Dixon, CD - Chairperson
B. F. Bowen - Deputy Chairman
Mrs. J. A. Griffiths Irving
Mrs. H. D. M. Goldson
M. D. Jones
Mrs. R. A. Pilliner
H. W. Powell
Mrs. R. Voordouw

**Senior Officer**
Mrs. J. A. Griffiths Irving
Executive Director

## BRIGHTON HOLDINGS LIMITED

Scotiabank Centre
Cnr. Duke & Port Royal Streets
Kingston, Jamaica

**Board of Directors**
B. F. Bowen - Chairman
H. W. Powell

## SCOTIA DBG INVESTMENTS LIMITED

Head Office, 7 Holborn Road
Kingston 10, Jamaica

**Board of Directors**
Prof. S. C. Vasciannie, Chairman
Ms. B. A. Alexander
A. V. Chang
Mrs. A. M. Fowler
Miss M. M. Issa
Dr. A. Law
P. P. Martin
Miss A. M. Schnoor
J. A. Woodward

**Senior Officers**
Miss A. Schnoor
Chief Executive Officer

Miss A. Tinker
Vice President &
Chief Financial Officer

Lissant Mitchell
Senior Vice President
Treasury & Capital Markets

## SCOTIA DBG FUND MANAGERS LIMITED

1B Holborn Road, Kingston 10
Jamaica

**Board of Directors**
Ms. B. A. Alexander, Chairperson
Dr. J. A. Dixon, CD
Miss M. M. Issa
Miss A. M. Schnoor
Mrs. J. T. Sharp
Ms. A. Richards
Mr. J. Heaven
Mr. L. Mitchell

**Senior Officers**
B. O. Frazer
Assistant Vice President
Pensions & General Manager

## SCOTIA DBG MERCHANT BANK LIMITED

1B Holborn Road, Kingston 10
Jamaica

**Board of Directors**
A. V. Chang, Chairman
W. P. S. Hewitt
C. H. Johnston, CD
Dr. A. Law
Miss A. Schnoor

**Senior Officers**
Ms. T. Hoshue
General Manager

D. Dacres
Senior Manager
Finance & Operations

# Corporate Data

**SECRETARY**

Keri-Gaye Brown
Senior Vice President/General Counsel
& Corporate Secretary*
*(*Demitted office November 16, 2009)*

The Bank of Nova Scotia Jamaica Limited
Executive Offices
Scotiabank Centre
Cnr. Duke & Port Royal Streets
P.O. Box 709
Kingston, Jamaica

**AUDITORS**

KPMG
6 Duke Street
Kingston, Jamaica

Telephone: (876) 922.6640
Fax: (876) 922.7198
922.4500

**REGISTRAR & TRANSFER AGENT**

Duke Corporation
Scotiabank Centre
Duke Street
P.O. Box 372
Kingston, Jamaica

Telephone: (876) 922.6230
Fax: (876) 922.8435

**REGISTERED OFFICE**

Scotiabank Centre
Cnr. Duke & Port Royal Streets
P.O. Box 709
Kingston, Jamaica

Telephone: (876) 922.1000
Fax: (876) 922.6548
Website: www.jamaica.scotiabank.com
Telex: 2297
SWIFT Bic Code: NOSCJMKN

# Management Officers

## EXECUTIVE OFFICERS

Mr. Bruce Bowen
President & Chief Executive Officer

Miss Stacie Ann Wright
Executive Vice President & Chief Financial Officer
*(Resigned March 31, 2009)*

Mrs. Rosemarie A. Pilliner
Executive Vice President, Operations & Shared Services

Mr. H. Wayne Powell
Executive Vice President, Branch Banking

Miss Keri-Gaye Brown
Senior Vice President
Senior Legal Counsel & Corporate Secretary*
*(*Demitted office November 16, 2009)*

Miss Monique French
Senior Vice President, Risk Management

Mrs. Heather D. M. Goldson
Senior Vice President, Marketing & Products

Mr. Wayne P. Hewitt
Senior Vice President, Corporate & Commercial Banking

Mr. Michael D. Jones
Senior Vice President, Human Resources

Mr. Hugh G. Miller
Vice President, Treasury & Foreign Exchange

Miss Anya M. Schnoor
Senior Vice President, Wealth Management

Mrs. Jacqueline Sharp
Senior Vice President & Chief Financial Officer
*(Appointed October 1, 2009)*

Miss Maya Walrond
Senior Vice President,
Customer Experience,Technology Innovation & Projects

## SENIOR MANAGEMENT OFFICERS

### Audit

Miss Yvonne M. Pandohie
Vice President & Chief Auditor

### Branch Banking

Mr. Dudley E. Walters, District Vice President - Metro West

Mr. Courtney A. Sylvester, District Vice President - Metro East

Mr. Michael A. Thompson, District Vice President - Metro North

### Centralized Retail Collection Unit

Mr. Vincent Harvey, Director

### Contact Centre

Mr. Reuben Canagaratnam, Director

### Corporate & Commercial Banking Centre

Miss Marcette McLeggon, Assistant General Manager
Credit Solutions

### Corporate Human Resources

Miss Suzanne Donalds, Director
HR Planning, Performance & Capability Development

### Credit Risk Management

Mr. Bevan A. Callam
Vice President

### Customer Experience, Technology, Innovation & Projects

Miss Tricia Davies
Director, Service & Technology Innovation

Mrs Shiela Segree-White
Director, Service Quality & Measurement

### Electronic Financial Services & Retail Banking

Mrs. Maroya E. Villafana Sylvester
Vice President

### Employee Consultations & Ombuds Services

Mrs. Rosemarie A. Voordouw, Director

### Finance

Miss Shirley K. Ramsaran
Vice President, Finance & Comptroller

Miss Carolyn Kean
Director, Strategic Planning,

Mr. Frederick A. Williams
Assistant General Manager
Market & Operational Risk Management

### Legal & Compliance

Mrs. Julie Thompson James
Director, Legal Counsel & Assistant Secretary

### Marketing

Mrs. Joan Forrest Henry
Director, Marketing Services

Mrs. Monique Todd
Director, Wealth

### Operations & Shared Services

Mrs. Suzette A. M. McLeod
Vice President, Shared Services

Mr. David M. Williams
Assistant General Manager

### Processing Support Centre

Mrs. Dorette M. Barrett, Director

### Procurement & Logistics

Mrs. Marcia Parker Robinson, Director

120 YEARS IN JAMAICA 1889-2009

### Public, Corporate & Government Affairs

Mrs. Joylene A. Griffiths Irving, Director
& Executive Director
Scotiabank Jamaica Foundation

### Retail Risk Assessment

Mr. Cecil Rhoden, Director

### Scotia Private Client Group

Miss Bridget A. Lewis
General Manager

### Small & Medium Enterprises

Mrs. Patsy Latchman Atterbury
Vice President

### Systems Support Centre

Miss Sharon A. Colquhoun, Director

### Treasury

Mr. Gary-Vaughn White
Manager, Treasury & Foreign Exchange

## SUBSIDIARIES

### The Bank of Nova Scotia Jamaica Limited

Mr. Bruce Bowen
President & Chief Executive Officer

### The Scotia Jamaica Building Society

Mr. Gladstone Whitelocke
Vice President & General Manager

### Scotia Jamaica Life Insurance Company Limited

Mrs. Jacqueline Sharp
Vice President & General Manager
*(Appointed Chief Financial Officer, October 1, 2009)*

### Scotia DBG Investments Limited

Miss Anya M. Schnoor
Chief Executive Officer

120 YEARS IN JAMAICA

1889-2009

# Notes

Scotia Group Jamaica Limited
www.jamaica.scotiabank.com
1-888-4-SCOTIA

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