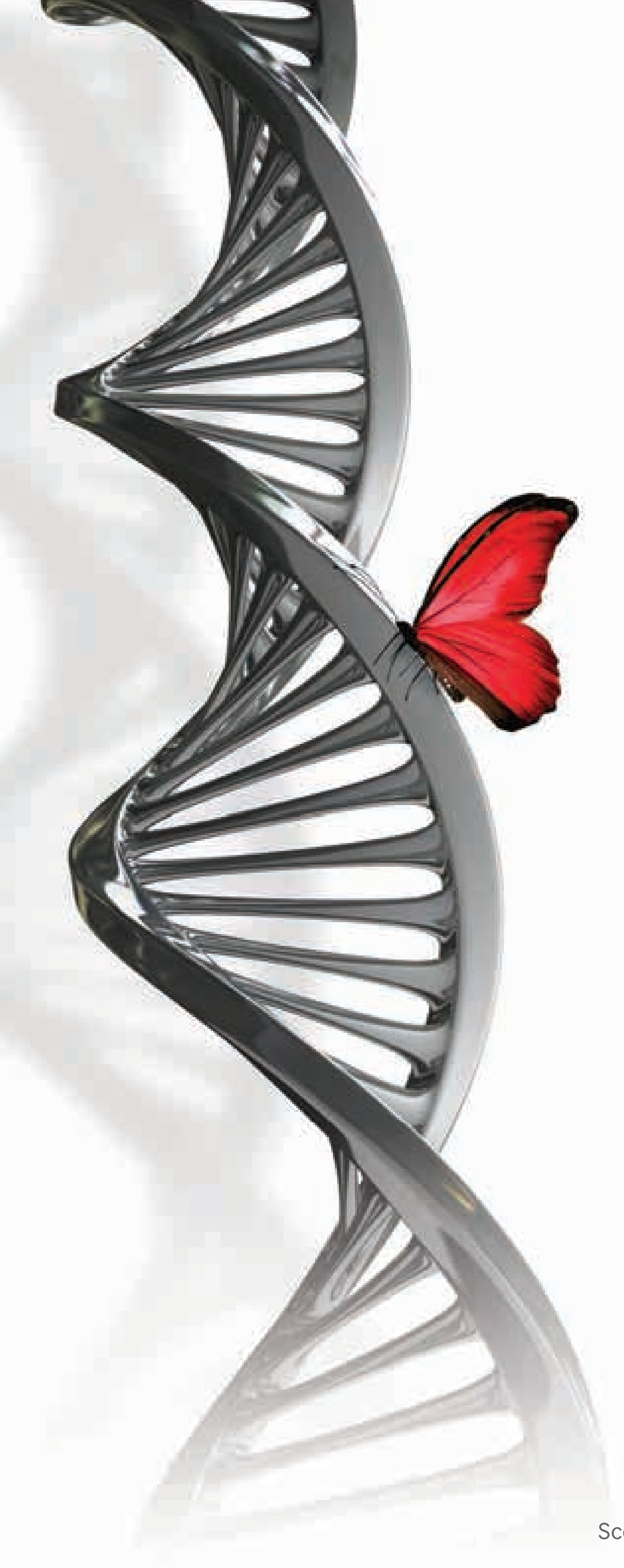

Audited Financial Statements

Scotia Group Jamaica Limited

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

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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, comprising the separate 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 61 to 156, which comprise the Group's and Company's statements of financial position as at October 31, 2013, the Group's and Company's statements of revenue and expenses, comprehensive income, changes in stockholders' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Company as at October 31, 2013, and of the Group's and Company's financial performance, changes in stockholders' equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards and the Jamaican Companies Act.

Report on additional matters as required by The Jamaican Companies Act

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

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

KPMG

Chartered Accountants
Kingston, Jamaica
November 28,2013

Consolidated Statement of Revenue and Expenses

Year ended October 31, 2013

(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2013	2012
Net interest income and other revenue			
Net interest income:			
Interest from loans and deposits with banks		18,599,965	17,392,211
Interest from securities		11,380,261	12,538,017
Total interest income	6	29,980,226	29,930,228
Interest expense	6	(6,117,194)	(6,975,588)
Net interest income		23,863,032	22,954,640
Impairment losses on loans	23	(1,013,376)	(845,452)
Net interest income after impairment losses on loans		22,849,656	22,109,188
Other income:			
Fee and commission income	7	8,879,618	7,467,311
Fee and commission expense	7	(3,081,826)	(2,219,563)
		5,797,792	5,247,748
Net gains on foreign currency activities	8	2,729,312	1,389,203
Net gains on financial assets		248,936	259,025
Insurance revenue	9	2,413,111	2,026,331
Other revenue	10	202,515	188,085
Total other income		11,391,666	9,110,392
		34,241,322	31,219,580
Expenses			
Salaries, pension contributions and other staff benefits	11	8,417,817	8,543,646
Property expenses, including depreciation		2,190,670	2,054,274
Amortisation and impairment of intangible assets	27	233,279	121,503
Other operating expenses		7,144,315	5,649,880
	12	17,986,081	16,369,303
Profit before taxation	13	16,255,241	14,850,277
Taxation	14	(4,330,387)	(4,275,186)
Profit for the year		11,924,854	10,575,091
Attributable to:			
Stockholders' of the company		11,517,195	10,159,045
Non-controlling interest		407,659	416,046
Profit for the year		11,924,854	10,575,091
EARNINGS PER STOCK UNIT (expressed in $ per share) **attributable to stockholders of the company**	15	3.70	3.26

The accompanying notes form an integral part of the financial statements.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2013	2012
Profit for the year		11,924,854	10,575,091
Other comprehensive income:			
Unrealised losses on available-for-sale financial assets		(879,739)	(1,641,154)
Realised gains on available-for-sale financial assets transferred to profit		(892,192)	(324,609)
Amortization of fair value reserve on financial instruments on reclassification to loans and receivable		(33,014)	56,692
		(1,804,945)	(1,909,071)
Taxation	35	275,586	567,346
Other comprehensive loss, net of tax		(1,529,359)	(1,341,725)
Total comprehensive income		10,395,495	9,233,366
Attributable to:			
Stockholders' of the company		10,019,375	8,846,751
Non-controlling interest		376,120	386,615
Total comprehensive income		10,395,495	9,233,366

The accompanying notes form an integral part of the financial statements.

Consolidated Statement of Financial Position

October 31, 2013

(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2013	2012
ASSETS			
Cash resources			
Cash and balances at Bank of Jamaica	16	26,185,183	33,256,154
Government and bank notes other than Jamaican		589,748	439,316
Amounts due from other banks	17	34,071,372	8,916,536
Accounts with parent and fellow subsidiaries	18	14,036,260	10,256,701
	19	74,882,563	52,868,707
Financial assets at fair value through profit or loss	20	813,101	477,941
Pledged assets	21	59,028,856	63,057,493
Loans, after allowance for impairment losses	22	134,823,756	122,524,668
Investment securities			
Available-for-sale	24	80,342,802	84,480,935
Held-to-maturity	24	12,492,257	11,323,782
		92,835,059	95,804,717
Other assets			
Customers' liabilities under acceptances, guarantees and letters of credit		7,173,614	6,333,327
Taxation recoverable		2,499,165	1,692,436
Deferred taxation	35	34,349	-
Sundry assets	25	970,319	879,953
Property, plant and equipment	26	4,679,879	4,738,704
Intangible assets	27	1,499,675	1,717,705
Retirement benefits asset	28	10,065,469	8,113,770
		26,922,470	23,475,895
		389,305,805	358,209,421

The accompanying notes form an integral part of the financial statements.

Consolidated Statement of Financial Position (continued)
October 31, 2013

(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2013	2012
LIABILITIES			
Deposits			
Deposits by the public	29	183,369,415	160,994,182
Amounts due to other banks and financial institutions	30	6,135,159	2,983,656
Amounts due to parent company	31	8,017,008	7,682,871
Amounts due to fellow subsidiaries	32	314	259
		197,521,896	171,660,968
Other liabilities			
Cheques and other instruments in transit		1,608,106	1,409,206
Acceptances, guarantees and letters of credit		7,173,614	6,333,327
Securities sold under repurchase agreements		42,588,792	45,384,758
Capital management and government securities funds	33	13,018,564	14,174,566
Assets held in trust on behalf of participants		38,316	41,905
Other liabilities	34	4,369,520	2,714,471
Taxation payable		1,183,607	2,015,770
Deferred tax liabilities	35	3,179,118	2,938,163
Retirement benefits obligations	28	2,848,375	2,341,321
		76,008,012	77,353,487
Policyholders' liabilities	36	43,013,959	41,679,958
STOCKHOLDERS' EQUITY			
Share capital	37	6,569,810	6,569,810
Reserve fund	38	3,248,591	3,248,591
Retained earnings reserve	39	14,391,770	12,441,770
Capital reserve		9,383	9,383
Cumulative remeasurement result from available-for-sale securities	40	(463,053)	642,821
Loan loss reserve	41	2,781,066	2,299,390
Other reserves	42	12,892	12,892
Unappropriated profits		43,042,579	39,327,555
Total equity attributable to equity holders of the Company		69,593,038	64,552,212
Non-controlling interest		3,168,900	2,962,796
Total equity		72,761,938	67,515,008
Total equity and liabilities		389,305,805	358,209,421

The financial statements on pages 61 to 156 were approved for issue by the Board of Directors on November 28, 2013 and signed on its behalf by:

Bruce F. Bowen — Director

Jacqueline T. Sharp — Director

Anthony V. Chang — Director

Julie Thompson-James — Secretary

The accompanying notes form an integral part of the financial statements.

SCOTIA GROUP JAMAICA LIMITED
Consolidated Statement of Changes in Stockholders' Equity
Year ended October 31, 2013
(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	Non controlling interest	Total equity
Balances at October 31, 2011		6,569,810	3,248,591	11,341,770	9,383	1,955,115	2,251,257	12,892	34,921,801	60,310,619	2,740,918	63,051,537
Profit for the year		-	-	-	-	-	-	-	10,159,045	10,159,045	416,046	10,575,091
Other comprehensive income:												
Unrealised losses on available-for-sale securities, net of taxes		-	-	-	-	(1,189,912)	-	-	-	(1,189,912)	(30,825)	(1,220,737)
Realised gains on available-for-sale securities transferred to profit or loss		-	-	-	-	(227,238)	-	-	-	(227,238)	(29,909)	(257,147)
Amortisation of fair value reserve on financial instruments reclassified to loans and receivables		-	-	-	-	104,856	-	-	-	104,856	31,303	136,159
Total other comprehensive income		-	-	-	-	(1,312,294)	-	-	-	(1,312,294)	(29,431)	(1,341,725)
Total comprehensive income		-	-	-	-	(1,312,294)	-	-	10,159,045	8,846,751	386,615	9,233,366
Transfer to loan loss reserve		-	-	-	-	-	48,133	-	(48,133)	-	-	-
Transfer to retained earnings reserve		-	-	1,100,000	-	-	-	-	(1,100,000)	-	-	-
Net movement in reserves for non-controlling interest		-	-	-	-	-	-	-	-	-	2,606	2,606
Dividends paid	51	-	-	-	-	-	-	-	(4,605,158)	(4,605,158)	(167,343)	(4,772,501)
Net movement for the year		-	-	1,100,000	-	(1,312,294)	48,133	-	4,405,754	4,241,593	221,878	4,463,471
Balances at October 31, 2012		6,569,810	3,248,591	12,441,770	9,383	642,821	2,299,390	12,892	39,327,555	64,552,212	2,962,796	67,515,008
Profit for the year		-	-	-	-	-	-	-	11,517,195	11,517,195	407,659	11,924,854
Other comprehensive income:												
Unrealised losses on available-for-sale securities, net of taxes		-	-	-	-	(666,466)	-	-	-	(666,466)	(9,947)	(676,413)
Realised gains on available-for-sale securities transferred to profit or loss		-	-	-	-	(774,864)	-	-	-	(774,864)	(4,728)	(779,592)
Amortisation of fair value reserve on financial instruments reclassified to loans and receivables		-	-	-	-	(56,490)	-	-	-	(56,490)	(16,864)	(73,354)
Total other comprehensive income		-	-	-	-	(1,497,820)	-	-	-	(1,497,820)	(31,539)	(1,529,359)
Total comprehensive income		-	-	-	-	(1,497,820)	-	-	11,517,195	10,019,375	376,120	10,395,495
Transfer to loan loss reserve		-	-	-	-	-	481,676	-	(481,676)	-	-	-
Transfer to retained earnings reserve		-	-	1,950,000	-	-	-	-	(1,950,000)	-	-	-
Transfer to unappropriated profits		-	-	-	-	391,946	-	-	(391,946)	-	-	-
Net movement in reserves for non-controlling interest		-	-	-	-	-	-	-	-	-	5,110	5,110
Dividends paid	51	-	-	-	-	-	-	-	(4,978,549)	(4,978,549)	(175,126)	(5,153,675)
Net movement for the year		-	-	1,950,000	-	391,946	481,676	-	(7,802,171)	(4,978,549)	(170,016)	(5,148,565)
Balances at October 31, 2013		6,569,810	3,248,591	14,391,770	9,383	(463,053)	2,781,066	12,892	43,042,579	69,593,038	3,168,900	72,761,938

The accompanying notes form an integral part of the financial statements.

SCOTIA GROUP JAMAICA LIMITED
Consolidated Statement of Cash Flows
Year ended October 31, 2013
(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2013	2012
Cash flows from operating activities			
Profit for the year		11,924,854	10,575,091
Adjustments for:			
Taxation charge	14	4,330,387	4,275,186
Depreciation	26	544,069	466,745
Amortisation of intangible asset	27	233,279	121,503
Impairment losses on loans	23	2,063,978	1,783,741
Gain on sale of property, plant and equipment	10	(174,930)	(1,525)
Write-off of property, plant and equipment	26	18,698	201
Gain on sale of shares	10	-	(105,272)
		18,940,335	17,115,670
Interest income	6	(29,980,226)	(29,930,228)
Interest expense	6	6,117,194	6,975,588
		(4,922,697)	(5,838,970)
Changes in operating assets and liabilities			
Loans		(14,297,454)	(24,233,299)
Deposits by the public		22,398,728	16,277,857
Policyholders' liabilities		1,334,001	2,660,197
Other assets, net		(90,366)	(527,783)
Other liabilities, net		1,651,460	769,774
Due to parent company and fellow subsidiaries		331,285	27,960
Amounts due from other banks		(312,398)	2,230,246
Accounts with parent and fellow subsidiaries		(13,196,889)	(1,712,518)
Financial assets at fair value through profit or loss		(335,126)	(123,221)
Taxation recoverable		(806,729)	134,677
Retirement benefits asset, net		(1,444,645)	(264,607)
Amounts due to other banks and financial institutions		3,151,503	179,058
Statutory reserves at Bank of Jamaica		(2,820,520)	(1,839,689)
Securities sold under repurchase agreements		(3,885,503)	692,209
		(13,245,350)	(11,568,109)
Interest received		30,326,786	29,741,574
Interest paid		(6,204,247)	(7,009,925)
Taxation paid		(4,680,358)	(2,678,464)
Net cash provided by operating activities (carried forward to page 67)		6,196,831	8,485,076

The accompanying notes form an integral part of the financial statements.

Consolidated Statement of Cash Flows (continued)
Year ended October 31, 2013
(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

	Note	2013	2012
Cash flows from operating activities			
(brought forward from page 66)		6,196,831	8,485,076
Cash flows from investing activities			
Investment securities		(759,029)	(7,474,388)
Pledged assets		7,071,940	2,299,246
Government securities purchased under resale agreements		-	(1,772,947)
Proceeds from disposal of property, plant and equipment		227,704	1,545
Purchase of property, plant and equipment	26	(556,716)	(1,414,800)
Intangible assets	27	(15,249)	(29,304)
Proceeds from sale of shares		-	187,940
Promissory notes		-	(2,376)
Net cash provided by/(used in) investing activities		7,486,708	(8,205,084)
Cash flows from financing activities			
Dividends paid to stockholders	51	(4,978,549)	(4,605,158)
Dividends paid to non-controlling interest	51	(175,126)	(167,343)
Net cash used in financing activities		(5,153,675)	(4,772,501)
Effect of exchange rate changes on cash and cash equivalents		3,192,489	668,652
Net increase/(decrease) in cash and cash equivalents		11,722,353	(3,823,857)
Cash and cash equivalents at beginning of year		31,384,317	35,208,174
Cash and cash equivalents at end of year	19	43,106,670	31,384,317

The accompanying notes form an integral part of the financial statements.

SCOTIA GROUP JAMAICA LIMITED
Statement of Comprehensive Income
Year ended October 31, 2013
(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2013	2012
Net interest income and other revenue			
Interest from deposit with banks		28,008	2,801
Interest from securities		617,854	414,420
	6	645,862	417,221
Net gains on foreign currency activities		1,006,287	35,456
Net gains on financial assets		7,268	-
Dividend income		4,801,818	19,894,900
		5,815,373	19,930,356
Total income		6,461,235	20,347,577
Expenses			
Operating expenses	12	(27,992)	(21,919)
Profit before taxation	13	6,433,243	20,325,658
Taxation	14	(167,887)	(143,745)
Profit for the year		6,265,356	20,181,913
Other comprehensive income			
Realised gains on available-for-sale financial assets transferred to profit		(7,869)	-
Unrealised (losses)/gains on available-for-sale financial assets		(3,558)	8,933
		(11,427)	8,933
Taxation		3,726	(2,978)
Other comprehensive (loss)/income, net of tax		(7,701)	5,955
Total comprehensive income for the year		6,257,655	20,187,868

The accompanying notes form an integral part of the financial statements.

Statement of Financial Position
October 31, 2013

(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2013	2012
ASSETS			
Cash resources			
Accounts with subsidiary	19	8,615,808	3,875,613
Loans to subsidiary	22	50,012	-
Investment securities			
Available-for-sale	24	8,056,988	11,691,767
Investment in subsidiaries, at cost		9,532,408	9,532,408
Other assets			
Taxation recoverable		248,311	71,229
Sundry assets		-	11,456
		248,311	82,685
		26,503,527	25,182,473
LIABILITES			
Other liabilities		8,210	4,673
Taxation payable		159,756	143,745
Deferred tax liabilities	35	25,378	2,978
		193,344	151,396
STOCKHOLDERS' EQUITY			
Share capital	37	6,569,810	6,569,810
Cumulative remeasurement resulting from available for sale securities	40	(1,746)	5,955
Unappropriated profits		19,742,119	18,455,312
Total stockholders' equity		26,310,183	25,031,077
Total liabilities and stockholders' equity		26,503,527	25,182,473

The financial statements on pages 61 to 156 were approved for issue by the Board of Directors on November 28, 2013 and signed on its behalf by:

Director
Bruce F. Bowen

Director
Jacqueline T. Sharp

Director
Anthony V. Chang

Secretary
Julie Thompson-James

The accompanying notes form an integral part of the financial statements.

SCOTIA GROUP JAMAICA LIMITED
Statement of Changes in Stockholders' Equity
Year ended October 31, 2013
(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	Share Capital	Cumulative Remeasurement result from available for sale financial assets	Unappropriated Profits	Total
Balances at October 31, 2011		6,569,810	-	2,878,557	9,448,367
Profit for the year		-	-	20,181,913	20,181,913
Other comprehensive income:					
Unrealised gains on available for sale securities, net		-	5,955	-	5,955
Total comprehensive income		-	5,955	20,181,913	20,187,868
Dividends paid	51	-	-	(4,605,158)	(4,605,158)
Balances at October 31, 2012		6,569,810	5,955	18,455,312	25,031,077
Profit for the year		-	-	6,265,356	6,265,356
Other comprehensive income:					
Unrealised losses on available for sale securities, net		-	(2,192)	-	(2,192)
Realised gains on available for sale sale securities, net		-	(5,509)	-	(5,509)
Total comprehensive income		-	(7,701)	6,265,356	6,257,655
Dividends paid	51	-	-	(4,978,549)	(4,978,549)
Balances at October 31, 2013		6,569,810	(1,746)	19,742,119	26,310,183

The accompanying notes form an integral part of the financial statements.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2013	2012
Cash flows from operating activities			
Profit for the year		6,265,356	20,181,913
Adjustments for:			
Interest income	6	(645,862)	(417,221)
Taxation	14	167,887	143,745
		5,787,381	19,908,437
Changes in operating assets and liabilities			
Loan to subsidiary		(50,000)	-
Other assets, net		(165,626)	(82,685)
Account with fellow subsidiary		(8,402,270)	-
Other liabilities		3,537	951
		(2,826,978)	19,826,703
Interest received		729,332	246,664
Taxation paid		(125,750)	-
		603,582	246,664
Net cash (used in)/provided by operating activities		(2,223,396)	20,073,367
Cash flow from investing activities			
Investment in subsidiary		-	(100,000)
Investment securities		3,536,327	(11,512,277)
Net cash provided/(used) by investing activities		3,536,327	(11,612,277)
Cash flows from financing activities			
Dividends paid, being net cash used in financing activities	51	(4,978,549)	(4,605,158)
Net (decrease)/increase in cash and cash equivalents		(3,665,618)	3,855,932
Cash and cash equivalents at beginning of year		3,875,613	19,681
Cash and cash equivalents at end of year	19	209,995	3,875,613

The accompanying notes form an integral part of the financial statements.

(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, ("the Bank") which is licensed under the Banking Act, Scotia Investments Jamaica Limited ("SIJL"), which is licensed under the Securities Act, and Scotia Jamaica Microfinance Company Limited. The Company and SIJL 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 Investments Jamaica Limited and its subsidiaries:	Investment Banking	77.01%		October 31
Scotia Asset Management Jamaica Limited	Unit Trust and Fund Management		100%	October 31
Scotia Jamaica Investment Management Limited	Non-trading		100%	October 31
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 Asset Management (St. Lucia) Inc	Funds Management		100%	October 31
Scotia Jamaica Microfinance Company Limited	Micro-financing		100%	October 31

All subsidiaries are incorporated in Jamaica except for Scotia Asset Management (St. Lucia) Inc. and Interlink Investments Limited.

*The statements included in the consolidation are audited financial statements as at and for the year ended October 31, 2013.

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2. **Summary of significant accounting policies**

The principal accounting policies used in the preparation of these financial statements are set out below. They have been consistently applied 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 International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board, and the Jamaican Companies Act.

New, revised and amended standards and interpretations that became effective during the year:

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

IAS 1, *Presentation of Financial Statements*, has been amended, effective for annual reporting periods beginning on or after July 1, 2012, to require a reporting entity to present separately the items of other comprehensive income (OCI) that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss.

IAS 12, *Income Taxes*, has been amended, effective for annual reporting periods beginning on or after January 1, 2012, to require an entity to measure deferred taxes relating to an asset based on whether the entity expects to recover the carrying amount of the asset through use or sale.

Based on the group's current operations, adoption of the standards named above did not result in changes to the accounting policies or have a significant effect on the amount and disclosures in the financial statements.

New revised and amended standards and interpretations that are not yet effective:

At the date of authorisation of these financial statements, certain new, revised and amended standards and interpretations which were in issue were not effective at the reporting date and have not been early-adopted by the Group. The Group is assessing them and has determined that the following are relevant to its financial statements:

IAS 19, *Employee Benefits*, effective for annual periods beginning on or after January 1, 2013, requires the elimination of the corridor approach and recognition of all actuarial gains and losses in OCI as they occur. It also immediately recognises all past service costs and replaces interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

New revised and amended standards and interpretations that are not yet effective (continued):

Amendments to IAS 32, *Financial Instruments: Presentation*, which is effective for annual reporting periods beginning on or after January 1, 2014, clarifies those conditions needed to meet the criteria specified for offsetting financial assets and liabilities. It requires the entity to prove that there is a legally enforceable right to set off the recognised amounts. Conditions such as whether the set off is contingent on a future event and the nature and right of set-off and laws applicable to the relationships between the parties involved should be examined. Additionally, to meet the criteria, an entity should intend to either settle on a net basis or to realise the asset and settle the liability simultaneously.

IFRS 7, Disclosures – Offsetting financial assets and financial liabilities (effective for annual periods beginning on or after January 1, 2013). These amendments require an entity to disclose information about the rights to offset and provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position.

IFRS 9, *Financial Instruments,* is effective for annual reporting periods beginning on or after January 1, 2015. The standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. It eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, to present all fair value changes from the investment in other comprehensive income. The standard includes guidance on classification and measurement of financial liabilities designated as fair value through profit or loss and incorporates certain existing requirements of IAS 39 *Financial Instruments: Recognition and Measurement* on the recognition and de-recognition of financial assets and financial liabilities.

IFRS 10, *Consolidated Financial Statements*, which is effective for annual reporting periods beginning on or after 1 January 2013, introduces a new approach to determining which investees should be consolidated. It was issued as part of a suite of consolidation and related standards, also replacing existing requirements for joint ventures (now 'joint arrangements') and making limited amendments in relation to associates. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements,* and SIC-12, *Consolidation – Special Purpose Entities,* and provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. An investor controls an investee when (i) it is exposed, or has rights, to variable returns from its involvement with the investee, (ii) has the ability to affect those returns through its power over the investee and (iii) there is a link between power and returns.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

New, revised and amended standards and interpretations that are not yet effective (continued):

IFRS 11, *Joint Arrangements*, which is effective for annual reporting periods beginning on or after January 1, 2013, identifies two main types of joint arrangements – joint operations and joint ventures:

(i) *Joint operations* refers to those cases in which although there is a separate vehicle created by the venturers, that separation is ineffective in certain ways. These joint arrangements are treated similarly to jointly controlled assets/operations under IAS 31.

(ii) *Joint ventures* refers to all other joint arrangements. They are required to be accounted for using the equity method (thus prohibiting the use of proportionate consolidation). The application of the equity method is subject to two exemptions carried forward from IAS 28 (2008) and IAS 31.

IFRS 12, Disclosure of Interest in Other Entities, which is effective for annual reporting periods beginning on or after January 1, 2013, contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities. The disclosure requirements encompass risk exposures for the sponsor of such an entity even if it no longer has any contractual involvement. These required disclosures aim to provide information to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows.

The Group is required to: understand what a structured entity is in the context of its operations; apply judgement in assessing whether it is 'involved' with a structured entity, which has the potential to broaden the transactions and relationships to which the disclosures may apply, particularly for those who sponsor, or perhaps even transact business with, but do not consolidate, structured entities; and assess the level of disclosure that it believes will be meaningful to users of the financial statements.

IFRS 13, *Fair Value Measurement,* which is effective for annual reporting periods beginning on or after January 1, 2013, defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value and is applicable to assets, liabilities and an entity's own equity instruments that, under other IFRS, are required or permitted to be measured at fair value, or when disclosure of fair values is provided. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

New, revised and amended standards and interpretations that are not yet effective (continued):

Improvements to IFRS 2009-2011 cycle contains amendments to certain standards and interpretations and are effective for accounting periods beginning on or after January 1, 2013. The main amendments applicable to the group are as follows:

- IAS 1, *Presentation of Financial Statements*, has been amended to clarify that only one comparative period, which is the preceding period, is required for a complete set of financial statements. IAS 1 requires the presentation of an opening statement of financial position when an entity applies an accounting policy retrospectively or makes a restatement or reclassification. IAS 1 has been amended to clarify that (a) the opening statement of financial position is required only if a change in accounting policy, a restatement or a reclassification has a material effect upon the information in that statement of financial position; (b) except for the disclosures required under IAS 8, notes related to the opening statement of financial position are no longer required; and (c) the appropriate date for the opening statement of financial position is the beginning of the preceding period, rather than the beginning of the earliest comparative period presented.

- IAS 16, *Property, Plant and Equipment*, has been amended to clarify that the definition of 'property, plant and equipment' in IAS 16 is now considered in determining whether spare parts, standby equipment and servicing equipment should be accounted for under the standard. If these items do not meet the definition, then they are accounted for using IAS 2, *Inventories*.

- IAS 32, *Financial Instruments: Presentation*, has been amended to clarify that IAS 12 *Income Taxes* applies to the accounting for income taxes relating to distributions to holders of an equity instrument and transaction costs of an equity transaction.

- IAS 34, *Interim Financial Reporting*, has been amended to require the disclosure of a measure of total assets and liabilities for a particular reporting segment. In addition, such disclosure is only required when the amount is regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.

The Group is assessing the impact the new, revised and amended standards and interpretations will have on its financial statements when they become effective.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(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 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 Company'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 amounts have been reclassified to conform with changes in the presentation in the current year. The changes made to the comparative amounts are not considered material.

(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.

Subsidiaries are all entities over which the Company 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 Company 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 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 are consistent with those of the Group.

2. Summary of significant accounting policies (continued)

(b) Basis of consolidation (continued)

The Group uses the acquisition method of accounting for business combinations. 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling 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 consolidated statement of revenue and expenses.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to, and assesses the performance of the operating segments of an entity. The Group has determined the Board of Directors as its chief operating decision maker. All transactions between business segments are conducted on an arms length basis, with inter-segment revenue and costs eliminated on consolidation. Income and expenses directly associated with each segment are included in determining business segment performance.

(d) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Jamaican dollars at the exchange rates prevailing at the reporting date, being the mid-point between the weighted average buying and selling rates of Bank of Jamaica (the Central Bank) 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 profit or loss for all interest earning instruments using the effective interest method. 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.

2. Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

(i) Interest income (continued)

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. The difference between the amounts recognized under the banking regulations and such amounts as would have been determined under IFRS is considered to be immaterial.

(ii) Fee and commission income

Fee and commission income are recognised on the accrual basis when service has been provided. Origination fees for loans are recognised in profit or loss 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 recognised 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

Gross premiums are recognized as revenue when due. The related actuarial liabilities are computed when premiums are recognized, resulting in benefits and expenses being matched with revenue. Unearned premiums are those proportions of premiums written in the current year that relate to periods of risk after the reporting date.

(iv) Dividend income

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

(f) Interest expense

Interest expense is recognised in profit or loss 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 net of reinsurance recoveries, are recorded in the profit or loss.

(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. Reinsurance does not relieve the Group of its liability and reinsurance recoveries are recorded when collection is reasonably assured.

(i) Taxation

Taxation on the profit or loss for the year comprises current and deferred income taxes. Current and deferred income taxes are recognised as tax expense or benefit in profit or loss, except where they relate to a business combination, or items recognized in other comprehensive income.

(i) Current income tax

Current income 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 reporting date.

(ii) Deferred income 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

(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 are at least 10% more than the benefits payable if the insured event did not occur.

(ii) Recognition and measurement

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, the investment portion of insurance premiums received are initially recognised directly as liabilities. These liabilities are increased by interest credited and are decreased by policy administration fees, mortality charges and any withdrawals or surrenders; the resulting liability is the policyholders' fund. Income consists of fees deducted for mortality, policy administration, withdrawals and surrenders. Interest credited to the policy and benefit claims in excess of the cash surrender value 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 summarised in note 2(k). These liabilities are adjusted through profit or loss to reflect any changes in the valuation.

(k) Policyholders' liabilities

(i) 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.

(ii) Annuities

Annuities are immediate payouts of fixed and variable amounts for a guaranteed period and recognised on the date that they originate. Benefits are recognised as liabilities until the end of the guaranteed period.

2. Summary of significant accounting policies (continued)

(k) Policyholders' liabilities (continued)

(ii) Annuities (continued)

These liabilities are increased by credited interest and are decreased by policy administration fees, period payment charges and any withdrawals. Income consists mainly of fees deducted for fund administration and interest credited is treated as an expense in profit or loss. The annuity fund is included as a part of policyholders' liabilities [note 36(a)].

(l) Financial assets and liabilities

Financial assets comprise cash resources, financial assets at fair value through profit or loss, securities purchased under resale agreements, pledged assets, loans, investment securities, leases, and certain other assets. Financial liabilities comprise deposits, securities sold under repurchase agreements, promissory notes, capital management and government securities funds, assets held in trust on behalf of participants, certain other liabilities and policyholders' liabilities.

(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 the transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

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

The Group enters into transactions whereby it transfers assets, 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 derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

2. Summary of significant accounting policies (continued)

(l) Financial assets and liabilities (continued)

(iii) 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.

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; held-to-maturity investments are measured at amortised cost; 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 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.

Financial liabilities are measured at amortised cost, after initial recognition.

(m) Financial assets

(i) Classification

The Group classifies its financial assets into the following categories: 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 profit or loss.

(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 two financial years. Held-to-maturity investments are measured at amortised cost.

2. Summary of significant accounting policies (continued)

(m) Financial assets (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 profit or loss 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 other comprehensive income. 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 financial year end, 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.

The Group considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset level and collectively. 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.

2. Summary of significant accounting policies (continued)

(m) Financial assets (continued)

(ii) Identification and measurement of impairment (continued)

In assessing collective impairment, 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 as an allowance 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 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.

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 other comprehensive income.

(n) Investment in subsidiaries

Investments by the Group 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 but is segregated as pledged assets. The difference between the sale/purchase and repurchase/resale price is recognised as interest over the life of the agreements using the effective interest method.

2. Summary of significant accounting policies (continued)

(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.

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.

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. The difference is not considered material.

Statutory and other regulatory loan loss provisions 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 statement of financial position. 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 the straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at each reporting date, with the effect of any changes in estimate being accounted for on a prospective basis.

2. Summary of significant accounting policies (continued)

(r) Intangible assets (continued)

(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.

(iii) Impairment of tangible and intangible assets excluding goodwill

At each reporting 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.

2. Summary of significant accounting policies (continued)

(r) Intangible assets (continued)

(iii) Impairment of tangible and intangible assets excluding goodwill (continued)

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.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units 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.

(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 SIJL, and stockbroking customer relationships with an estimated useful life of 15 years.

2. Summary of significant accounting policies (continued)

(r) Intangible assets (continued)

(vi) Contract-based intangible asset

Contract-based intangible assets represent the Group's right to benefit from SIJL's unit trust management 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 SIJL'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.

(viii) Tax Shield

The asset represents the present value of tax saving on tax-free bonds held by SIJL 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 reporting 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 reporting 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 profit or loss over the lease period.

2. Summary of significant accounting policies (continued)

(s) Leases (continued)

(i) As lessee (continued)

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 profit or loss 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.

Assets leased out under operating leases are included in property, plant and equipment. 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 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 expense in profit or loss 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	Period of lease

2. Summary of significant accounting policies (continued)

(t) Property, plant and equipment (continued)

The depreciation methods, useful lives and residual values are reassessed at each 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 or loss 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 and vacation leave; non-monetary benefits such as medical care; post-employments benefits such as pensions; and other long-term employee benefits such as termination benefits.

Employee benefits that are earned as a result of past or current service are recognised in the following manner: Short-term employee benefits are recognised as a liability, net of payments made, and charged as expense. 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 expensed when incurred.

(i) Pension obligations

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

The asset or liability in respect of the defined benefit plan is the difference between the present value of the defined benefit obligation at the reporting 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 as an expense in such a manner 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.

2. Summary of significant accounting policies (continued)

(u) Employee benefits (continued)

(i) Pension obligations (continued)

A portion of actuarial gains and losses is recognised in profit or loss 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 profit or loss over the average remaining service lives of the participating employees.

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

(ii) Termination benefits

Termination benefits are payable whenever an employee's service 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 services 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 financial year end 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 in profit or loss.

The amount contributed to the ESOP trust (note 52) 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.

2. Summary of significant accounting policies (continued)

(u) Employee benefits (continued)

(iv) Equity compensation benefits (continued)

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 profit or loss.

The amount contributed to the ESOP trust (note 52) 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.

(v) Annual leave

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the year end.

(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.

(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 on ordinary shares are recognized in stockholder's equity in the period in which they are approved by the Board of Directors, thereby becoming irrevocably payable.

2. Summary of significant accounting policies (continued)

(w) Share capital (continued)

(iii) Dividends (continued)

Dividend payments on preference shares classified as a liability are recognized in the statement of revenue and expenses as interest expense.

(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 or income 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.

(z) Impairment of non-financial assets

The carrying amounts of the Group's non-financial 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 are largely 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.

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 made in applying accounting policies

The Group makes estimates, assumptions and judgements that affect the reported amounts of, and disclosures relating to, assets, liabilities, income and expenses reported in these financial statements. Amounts and disclosures based on these estimates assumptions and judgements may be different from actual outcomes, and these differences 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, 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 estimating 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.

(ii) 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 made in applying accounting policies (continued)

(iii) 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, which is outlined in note 2 (k).

The process of calculating policy liabilities 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 36(c).

(iv) 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 considers 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. 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-employment benefit cost and credit 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 material impact on the consolidated profit for the year. Similarly, were the actual discount rate used at the beginning of the fiscal year, to differ by 1% from management's estimates the pension costs would increase by $4,357,000 or decrease by $4,599,000. Were the assumed medical inflation rate on the health plan to differ by 1% from management estimates, the health expense would increase by $176,000 or decrease by $131,000.

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

(v) 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 has utilized independent professional advisors to assist management in determining the recognition and measurement of these assets.

(vi) Valuation of financial instruments

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates.

Considerable judgment is required in interpreting market data to arrive at estimates of fair values. Consequently, the estimates arrived at may be significantly different from the actual price of the instrument in an arm's length transaction.

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 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 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 deposit accounts, credit and debit cards, consumer loans and mortgages and microfinance;

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

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

(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 annuities;

(f) Other operations of the Group – comprising the parent company and 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 items on the statement of financial position, but exclude items such as taxation, retirement benefits asset and obligation and borrowings.

The Group's operations are located mainly in Jamaica. The operations of subsidiaries located overseas represents less than 10% of the Group's operating revenue and assets.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

5. Segmental financial information (continued)

	2013							
	Banking							
	Retail	Corporate and Commercial	Treasury	Investment Management Services	Insurance Services	Other	Eliminations	Group
Net external revenues	14,841,254	6,140,309	3,994,553	4,362,579	4,255,241	1,660,762	-	35,254,698
Revenue from other segments	(464,939)	1,475,811	(1,150,317)	(3,938)	137,641	7,141	(1,399)	-
Total revenues	14,376,315	7,616,120	2,844,236	4,358,641	4,392,882	1,667,903	(1,399)	35,254,698
Total expenses and losses	(10,338,092)	(5,447,960)	(188,290)	(1,562,118)	(1,227,285)	(28,814)	(206,898)	(18,999,457)
Profit before tax	4,038,223	2,168,160	2,655,946	2,796,523	3,165,597	1,639,089	(208,297)	16,255,241
Taxation								(4,330,387)
Profit for the year								11,924,854
Segment assets	84,383,754	63,912,978	94,280,448	73,746,560	51,983,533	26,684,543	(16,810,609)	378,181,207
Unallocated assets								11,124,598
Total assets								**389,305,805**
Segment liabilities	103,800,507	104,058,101	2,525,000	61,254,671	43,385,480	251,782	(8,457,254)	306,818,287
Unallocated liabilities								9,725,580
Total liabilities								**316,543,867**
Other segment items:								
Capital expenditure	197,807	317,639	-	25,381	31,138	-	-	571,965
Impairment losses on loans	1,071,273	39,657	-	(97,554)	-	-	-	1,013,376
Depreciation and amortization	332,513	185,250	-	246,719	12,866	-	-	777,348

(Expressed in thousands of Jamaican dollars unless otherwise stated)

5. Segmental financial information (continued)

	2012							
	Banking							
	Retail	Corporate and Commercial	Treasury	Investment Management Services	Insurance Services	Other	Eliminations	Group
Net external revenues	13,105,437	5,514,560	4,500,018	4,042,557	4,448,436	454,024		32,065,032
Revenue from other segments	64,370	1,479,391	(1,624,924)	63,605	8,169	8,004	1,385	-
Total revenues	13,169,807	6,993,951	2,875,094	4,106,162	4,456,605	462,028	1,385	32,065,032
Total expenses and losses	(9,581,725)	(4,916,190)	(95,090)	(1,346,939)	(1,131,893)	(33,253)	(109,665)	(17,214,755)
Profit before tax	3,588,082	2,077,761	2,780,004	2,759,223	3,324,712	428,775	(108,280)	14,850,277
Taxation								(4,275,186)
Profit for the year								**10,575,091**
Segment assets	75,234,212	62,740,117	76,189,249	73,871,395	50,637,238	25,358,259	(14,941,244)	349,089,226
Unallocated assets								9,120,195
Total assets								**358,209,421**
Segment liabilities	93,201,605	89,586,359	1,414,457	62,497,336	42,216,124	209,666	(6,794,154)	282,331,393
Unallocated liabilities								8,363,020
Total liabilities								**290,694,413**
Other segment items:								
Capital expenditure	901,750	493,683	-	40,765	7,906	-	-	1,444,104
Impairment losses on loans	916,572	(49,700)	-	(21,420)	-	-	-	845,452
Depreciation and amortization	283,553	156,756	-	127,708	9,851	10,380	-	588,248

(Expressed in thousands of Jamaican dollars unless otherwise stated)

6. Net interest income

	The Group		The Company	
	2013	2012	2013	2012
Interest income:				
Deposits with banks and other financial institutions	336,528	917,758	27,981	2,801
Investment securities	11,268,390	12,460,063	617,854	414,420
Financial assets at fair value through profit or loss	13,592	21,776	-	-
Reverse repurchase agreements	98,693	56,176	-	-
Loans and advances	18,262,933	16,468,900	27	-
Other	90	5,555	-	-
	29,980,226	29,930,228	645,862	417,221
Interest expense:				
Banks and customers	2,439,481	2,879,453	-	-
Repurchase agreements	1,763,142	2,035,210	-	-
Policyholders' liabilities	1,902,032	2,052,099	-	-
Other	12,539	8,826	-	-
	6,117,194	6,975,588	-	-
Net interest income	23,863,032	22,954,640	645,862	417,221

7. Net fee and commission income

	The Group	
	2013	2012
Fee and commission income:		
Retail banking fees	3,969,140	3,246,769
Credit related fees	977,016	1,112,764
Commercial and depository fees	2,869,508	2,217,278
Insurance related fees	145,259	130,471
Trust and other fiduciary fees	38,918	31,324
Asset management and related fees	879,777	728,705
	8,879,618	7,467,311
Fee and commission expenses	(3,081,826)	(2,219,563)
	5,797,792	5,247,748

8. Net gains on foreign currency activities

Net gains on foreign currency activities are comprised primarily of gains and losses arising from foreign currency trading activities.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

9. Insurance revenue

	The Group	
	2013	2012
Gross premiums		
Individual life	811,544	697,567
Group	1,141,497	990,213
	1,953,041	1,687,780
Reinsurance ceded	(616)	(270)
	1,952,425	1,687,510
Changes in actuarial reserves	460,686	338,821
	2,413,111	2,026,331

10. Other revenue

	The Group	
	2013	2012
Gain on sale of shares	-	105,272
Gain on sale of property, plant and equipment	174,930	1,525
Other	27,585	81,288
	202,515	188,085

11. Salaries, pension contributions and other staff benefits

	The Group	
	2013	2012
Wages and salaries	7,674,840	7,010,897
Statutory payroll contributions	702,237	619,405
Other staff benefits	1,400,140	1,082,433
	9,777,217	8,712,735
Post-employment benefits		
Pension costs, net defined benefit plan [note 28(a) (v)]	(1,921,318)	(653,937)
Other post employment benefits [note 28(b)(iii)]	561,918	484,848
	(1,359,400)	(169,089)
Total (note 12)	8,417,817	8,543,646

(Expressed in thousands of Jamaican dollars unless otherwise stated)

12. Expenses by nature

	The Group		The Company	
	2013	2012	2013	2012
Salaries, pension contributions and other staff benefits (note 11)	8,417,817	8,543,646	-	-
Property expenses, including depreciation	2,195,289	2,061,467	-	-
Systems related expenses	1,319,637	910,309	-	-
Insurance claims and benefits	190,210	178,785	-	-
Transportation and communication	1,032,064	887,651	6,268	4,879
Marketing and advertising	783,781	704,257	-	-
Management and consultancy fees	1,168,145	888,064	-	-
Deposit insurance	263,086	242,348	-	-
Stationery	458,181	312,101	1,300	1,059
Asset tax	396,145	427,216	100	135
Licensing and other regulatory fees	69,919	89,401	-	-
Other operating expenses	1,458,528	1,002,555	20,324	15,846
Amortisation and impairment of intangible assets	233,279	121,503	-	-
	17,986,081	16,369,303	27,992	21,919

13. Profit before taxation

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

	The Group		The Company	
	2013	2012	2013	2012
Auditors' remuneration	44,369	43,413	4,200	3,925
Depreciation	544,069	466,745	-	-
Amortisation and impairment of intangible assets	233,279	121,503	-	-
Directors' emoluments:				
Fees	28,645	28,190	4,184	1,405
Other	47,245	38,367	-	-
Operating lease rentals	361,742	369,802	-	-

(Expressed in thousands of Jamaican dollars unless otherwise stated)

14. 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 Company	
	2013	2012	2013	2012
Current income tax:				
Income tax at 33⅓%	2,938,730	3,350,706	210,432	143,745
Income tax at 30%	566,483	303,438	-	-
Income tax 25%	5,060	-	-	-
Premium income tax at 3%	121,152	141,886	-	-
Investment income tax at 15%	285,441	337,505	-	-
Adjustment for over provision of prior year's charge	(68,671)	(2,772)	(68,671)	-
Deferred income tax (note 35)	482,192	144,423	26,126	-
	4,330,387	4,275,186	167,887	143,745

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

	The Group		The Company	
	2013	2012	2013	2012
Profit before taxation	16,255,241	14,850,277	6,433,243	20,325,658
Tax calculated at 33⅓%	5,418,414	4,950,092	2,144,414	6,775,219
Adjusted for the tax effects of:				
Different tax regimes applicable to the life insurance and mortgage financing subsidiaries and non-regulated entities	(712,134)	(675,756)	(214,414)	-
Interest /dividends from tax free investments	(162,452)	(250,883)	(1,440,545)	(6,631,633)
Expenses not deductible for tax purposes	318,817	391,471	-	159
Capital gains	-	(35,091)	-	-
Other charges and allowances	(463,587)	(115,554)	(252,897)	-
Prior period overprovision	(68,671)	10,907	(68,671)	-
	4,330,387	4,275,186	167,887	143,745
Effective tax rate	26.64%	28.79%	2.61%	0.71%

(c) Taxation expense for life insurance business

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

Notes to the Financial Statements (Continued)
October 31, 2013
(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

14. Taxation (continued)

(d) The Income Tax Act was amended to enact a reduction in the corporate income tax rate for unregulated companies (that are not "large unregulated companies") from 33⅓% to 25%, with effect from January 1, 2013. The Act defines a "large unregulated company" as any unregulated company which has a gross annual income of not less than J$500,000 in any year of assessment. As at the reporting date, the newly enacted rates have been applied in determining the amounts for taxation in these financial statements. The rate change has affected the current and deferred tax recognised in the Group's non-regulated companies as at the reporting date.

15. Earnings per stock unit

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

	2013	2012
Profit for the year attributable to stockholders of the Company	11,517,195	10,159,045
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)	3.70	3.26

16. Cash and balances at Bank of Jamaica

	The Group	
	2013	2012
Statutory reserves – interest-bearing	6,838,837	4,879,732
Statutory reserves – non interest bearing	13,524,680	12,663,265
Total statutory reserves (note 19)	20,363,517	17,542,997
Cash in hand and other balances at Bank of Jamaica	5,821,666	15,713,157
	26,185,183	33,256,154

Statutory reserves with the Bank of Jamaica represent the required primary reserve ratios as follows:

Relevant legislation	Entity	Reserve percentage			
		Jamaican		Foreign currency	
		2013	2012	2013	2012
Banking Act, Section 14(i)	BNSJ	12%	12%	9%	9%
Building Society Regulations Section 31	SJBS	1%	1%	1%	1%

These balances are not available for investment, lending or other use by the Group.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

17. Amounts due from other banks

	The Group	
	2013	2012
Items in course of collection from other banks	360,373	507,258
Placements with other banks	33,710,999	8,409,278
	34,071,372	8,916,536

18. Accounts with parent and fellow subsidiaries

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

19. Cash and cash equivalents

	The Group		The Company	
	2013	2012	2013	2012
Cash resources	74,882,563	52,868,707	8,615,808	3,875,613
Less amounts not considered cash and cash equivalents:				
Statutory reserves (note 16)	(20,363,517)	(17,542,997)	-	-
Cheques and other instruments in transit	(1,608,106)	(1,409,206)	-	-
Due from banks greater than ninety days	(765,736)	(453,338)	-	-
Accounts with parent and fellow subsidiaries greater than ninety days	(13,636,600)	(3,632,200)	(8,402,270)	-
Accrued interest	(9,027)	(10,439)	(3,543)	-
	38,499,577	29,820,527	209,995	3,875,613
Add other cash equivalent balances:				
Pledged assets less than ninety days	4,607,093	1,563,790	-	-
	43,106,670	31,384,317	209,995	3,875,613
Cash and cash equivalents is comprised of:				
Cash and balances with Bank of Jamaica other than statutory reserves	5,821,666	15,713,157	-	-
Government and bank notes other than Jamaican	589,748	439,316	-	-
Amounts due from other banks	33,305,636	8,463,198	-	-
Accounts with parent and fellow subsidiaries	399,660	6,624,501	213,538	3,875,613
Pledged assets	4,607,093	1,563,790	-	-
Accrued interest	(9,027)	(10,439)	(3,543)	-
	44,714,776	32,793,523	209,995	3,875,613
Cheques and other instruments in transit	(1,608,106)	(1,409,206)	-	-
	43,106,670	31,384,317	209,995	3,875,613

(Expressed in thousands of Jamaican dollars unless otherwise stated)

20. Financial assets at fair value through profit or loss

	The Group	
	2013	2012
Government of Jamaica Securities	578,315	310,877
Quoted shares	-	14,351
Unit trusts	234,703	152,664
Accrued interest	83	49
	813,101	477,941

21. Pledged assets

Assets are pledged to regulators, the clearing house and other financial institutions, and as collateral under repurchase agreements with counterparties. These latter transactions are conducted under terms that are usual and customary for standard repurchase agreements.

	The Group			
	Asset		Related Liability	
	2013	2012	2013	2012
Securities sold under repurchase agreements	39,459,542	50,923,444	35,194,054	45,384,758
Capital Management and Government Securities funds	10,252,065	11,277,881	13,018,564	14,174,566
Securities with regulators, clearing houses and other financial institutions	9,317,249	856,168	8,394,738	-
	59,028,856	63,057,493	56,607,356	59,559,324

Included in pledged assets are the following categories of assets:

	The Group	
	2013	2012
Deposits with financial institutions	4,607,981	1,159,748
Government issued securities:		
Fair value through profit or loss	202,760	331,610
Available-for-sale	38,578,998	38,819,555
Loans and receivables	7,309,772	11,778,869
Held-to-maturity	6,324,142	9,207,494
Loans	131,183	127,633
Unitised funds:		
Available-for-sale	889,087	774,211
Other:		
Available-for-sale	984,933	858,373
	59,028,856	63,057,493

(Expressed in thousands of Jamaican dollars unless otherwise stated)

22. Loans, after allowance for impairment losses

	The Group		The Company	
	2013	2012	2013	2012
Business and Government	58,274,518	58,243,202	50,000	-
Personal and credit cards	58,688,883	51,467,830	-	-
Residential mortgages	18,550,164	13,849,845	-	-
Interest receivable	1,030,885	965,273	12	-
	136,544,450	124,526,150	50,012	-
Less: Allowance for impairment losses (note 23)	(1,720,694)	(2,001,482)	-	-
	134,823,756	122,524,668	50,012	-

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

	The Group	
	2013	2012
Neither past due nor impaired	119,077,614	106,382,117
Past due but not impaired		
Past due 1-30 days	7,326,688	5,142,082
Past due 31-60 days	3,060,098	5,502,526
Past due 61-90 days	1,557,782	1,983,126
	11,944,568	12,627,734
Impaired:		
Past due more than 90 days	4,491,383	4,551,026
Interest receivable	1,030,885	965,273
Gross loan portfolio	136,544,450	124,526,150
Less: Allowance for impairment losses	(1,720,694)	(2,001,482)
	134,823,756	122,524,668

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

(ii) Repossessed collateral

In the normal course of business, the security documentation which governs the collateral charged in favour of the Group to secure a loan, 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. Re-possessed collateral is not recognized on the Group's statement of financial position.

The Group had no repossessed collateral at the reporting date (2012: None).

(Expressed in thousands of Jamaican dollars unless otherwise stated)

23. Impairment losses on loans

	The Group	
	2013	2012
Total impaired loans	4,491,383	4,551,026
Allowance at beginning of year	2,001,482	2,016,405
Provided during the year	2,063,978	1,783,741
Bad debts written off	(2,399,807)	(1,816,858)
Translation difference on foreign currency provision	55,041	18,194
Allowance at end of year (note 22)	1,720,694	2,001,482
Provided during the year	2,063,978	1,783,741
Recoveries of bad debts	(1,050,602)	(938,289)
Impairment losses reported in profit for the year	1,013,376	845,452

Allowance for impairment losses

A loan is classified as impaired if its book value exceeds the present value of the expected cash flows from interest payments, principal repayments, guarantees, and proceeds of liquidation of collateral. As at October 31, 2013, provisions for credit losses are made on all impaired loans. Uncollected interest not accrued in these financial statements on impaired loans was estimated at $2,153,707 (2012: $1,636,592) for the Group.

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

	The Group	
	2013	2012
Allowance based on IFRS - [see (a) below]	1,720,694	2,001,482
Additional allowance based on BOJ regulations [see (b) below]	2,781,066	2,299,390
	4,501,760	4,300,872

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

(b) This represents the additional allowance 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 (note 41).

(Expressed in thousands of Jamaican dollars unless otherwise stated)

24. Investment securities

	The Group		The Company	
	2013	2012	2013	2012
Available-for-sale (AFS)				
Quoted shares	25,500	-	-	-
Unquoted shares	5,240	14,022	-	-
Government of Jamaica securities	76,337,371	81,250,049	7,973,456	11,521,210
Treasury bills	293,448	295,929	-	-
Other	2,683,097	1,520,685	-	-
Interest receivable	998,146	1,400,250	83,532	170,557
	80,342,802	84,480,935	8,056,988	11,691,767
Held-to-Maturity (HTM)				
Government of Jamaica securities	10,120,320	9,220,787	-	-
Other	2,093,732	1,816,100	-	-
Interest receivable	278,205	286,895	-	-
	12,492,257	11,323,782	-	-

Included in investment securities are Government of Jamaica Benchmark Investment Notes with a book value of $90,000 (2012: $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 include fixed rate and variable rate instruments. The Group has not reclassified any HTM Securities (measured at amortised cost) to AFS securities (measured at fair value), during the year.

The Group participated in the National and Private Debt Exchanges during 2013, which resulted in a net loss of $396,817 reported in net gains on financial assets in the consolidated statement of revenue and expenses.

25. Sundry assets

	The Group	
	2013	2012
Accounts receivable and prepayments	292,925	324,790
Deferred charges	666,587	450,197
Other	10,807	104,966
	970,319	879,953

(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, 2011	2,795,136	251,765	4,173,965	429,006	7,649,872
Additions	6,349	15,901	107,575	1,284,975	1,414,800
Disposals	(20)	-	(5,167)	-	(5,187)
Transfers	544,748	95,431	755,494	(1,395,673)	-
Write-offs	-	-	-	(201)	(201)
October 31, 2012	3,346,213	363,097	5,031,867	318,107	9,059,284
Additions	6,807	8,261	122,642	419,006	556,716
Disposals	(29,584)	-	(83,243)	-	(112,827)
Transfers	113,563	16,355	408,790	(538,708)	-
Write-offs	-	-	-	(18,698)	(18,698)
October 31, 2013	3,436,999	387,713	5,480,056	179,707	9,484,475
Accumulated depreciation:					
October 31, 2011	489,693	230,959	3,138,350	-	3,859,002
Charge for the year	72,780	43,272	350,693	-	466,745
Eliminated on disposals	-	-	(5,167)	-	(5,167)
October 31, 2012	562,473	274,231	3,483,876	-	4,320,580
Charge for the year	65,315	38,488	440,266	-	544,069
Eliminated on disposals	(2,595)	-	(57,458)	-	(60,053)
October 31, 2013	625,193	312,719	3,866,684	-	4,804,596
Net book values					
October 31, 2013	2,811,806	74,994	1,613,372	179,707	4,679,879
October 31, 2012	2,783,740	88,866	1,547,991	318,107	4,738,704
October 31, 2011	2,305,443	20,806	1,035,615	429,006	3,790,870

(Expressed in thousands of Jamaican dollars unless otherwise stated)

27. Intangible assets

	The Group						
	Customer Relationships	Contract-Based Intangibles	License	Tax Benefits	Goodwill	Computer Software	Total
Cost:							
October 31, 2011	1,382,582	348,987	49,470	692,466	136,892	211,306	2,821,703
Additions during the year	-	-	-	-	-	29,304	29,304
October 31, 2012	1,382,582	348,987	49,470	692,466	136,892	240,610	2,851,007
Additions during the year	-	-	-	-	-	15,249	15,249
October 31, 2013	1,382,582	348,987	49,470	692,466	136,892	255,859	2,866,256
Amortisation:							
October 31, 2011	436,181	41,632	333	368,396	35,611	129,646	1,011,799
Amortisation for the year	73,521	14,971	-	20,206	-	7,805	116,503
Impairment charge	-	-	5,000	-	-	-	5,000
October 31, 2012	509,702	56,603	5,333	388,602	35,611	137,451	1,133,302
Amortisation for the year	73,521	14,971	-	132,842	-	7,327	228,661
Impairment charge	-	-	-	-	4,618	-	4,618
October 31, 2013	583,223	71,574	5,333	521,444	40,229	144,778	1,366,581
Net book values:							
October 31, 2013	799,359	277,413	44,137	171,022	96,663	111,081	1,499,675
October 31, 2012	872,880	292,384	44,137	303,864	101,281	103,159	1,717,705
October 31, 2011	946,401	307,355	49,137	324,070	101,281	81,660	1,809,904

(Expressed in thousands of Jamaican dollars unless otherwise stated)

28. Retirement benefits asset/obligations

Amounts recognised in the statement of financial position:

	The Group	
	2013	2012
Defined benefit pension plan asset (a)	10,065,469	8,113,770
Other post retirement benefits obligation (b)	(2,848,375)	(2,341,321)
	7,217,094	5,772,449

(a) Defined benefit pension plan

The Group has established a defined benefit pension plan covering all permanent employees of The Bank of Nova Scotia Jamaica Limited and its subsidiaries. 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, 2013.

(i) The amounts recognised in the statement of financial position are determined as follows:

	The Group	
	2013	2012
Present value of funded obligations	(19,988,949)	(16,254,535)
Fair value of plan assets	37,719,728	36,082,995
Unrecognised actuarial gains	(2,707,621)	(6,060,765)
Unrecognised past service costs	45,301	67,616
	15,068,459	13,835,311
Unrecognised amount of plan assets due to limitation on economic benefit	(5,002,990)	(5,721,541)
Asset in the statement of financial position	10,065,469	8,113,770

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

	The Group	
	2013	2012
At beginning of year	(16,254,535)	(15,752,204)
Interest and service costs	(2,396,642)	(2,319,739)
Actuarial (loss)/gain on obligation	(2,059,262)	1,276,557
Benefits paid	721,490	540,851
At end of year	(19,988,949)	(16,254,535)

(Expressed in thousands of Jamaican dollars unless otherwise stated)

28. Retirement benefits asset/obligations (continued)

(a) Defined benefit pension plan (continued)

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

	The Group	
	2013	2012
At beginning of year	36,082,995	34,780,109
Expected return on plan assets	3,061,101	2,948,374
Actuarial (loss)/gains on plan assets	(1,156,103)	(1,559,292)
Contributions	453,225	454,655
Benefits paid	(721,490)	(540,851)
At end of year	37,719,728	36,082,995

(iv) Composition of plan assets:

	The Group	
	2013	2012
Government stocks and bonds	29,522,263	28,887,275
Quoted equities	3,979,932	3,667,468
Reverse repurchase agreements	887,409	371,989
Certificates of deposits	230,063	447,643
Real estate	2,437,801	1,875,037
Net current assets	662,260	833,583
	37,719,728	36,082,995

Pension plan assets include the Company's ordinary shares at a carrying value of $1,170,234 (2012:$1,170,234).

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

	The Group	
	2013	2012
Current service cost, net of employee contributions	307,971	317,574
Interest cost	1,665,827	1,595,221
Expected return on plan assets	(3,061,101)	(2,948,373)
Net actuarial gain recognised in year	(137,779)	(162,812)
Past service cost – vested and non vested benefits	22,315	22,315
Income (recognised)/not recognised due to limit	(718,551)	522,138
Included in staff costs (note 11)	(1,921,318)	(653,937)

The actual return on plan assets was $1,904,998 (2012: $1,389,082).

(Expressed in thousands of Jamaican dollars unless otherwise stated)

28. Retirement benefits asset/obligations (continued)

(a) Defined benefit pension plan (continued)

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

	The Group	
	2013	2012
Discount rate	9.50%	10.00%
Expected return on plan assets	8.50%	8.50%
Future salary increases	6.00%	6.50%
Future pension increases	4.25%	4.50%
Average expected remaining working lives (years)	17.80	18.60

(b) Other post-employment benefits

In addition to pension benefits, the Group offers post-employment medical and group life insurance benefits to retirees 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 that are relevant to the Group health plan, the estimate assumes a long-term increase in health care costs of 5.5% per year (2012: 6%).

(i) The liability recognised in the statement of financial position is as follows:

	The Group	
	2013	2012
Present value of unfunded obligations	(3,224,811)	(3,140,953)
Unrecognised past service costs	(5,231)	(6,707)
Unrecognised actuarial losses	381,667	806,339
Liability in the statement of financial position	(2,848,375)	(2,341,321)

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

	The Group	
	2013	2012
At beginning of year	(3,140,953)	(2,671,261)
Interest and service costs	(535,740)	(459,011)
Actuarial gain/(loss) on obligation	397,019	(58,485)
Benefits paid	54,863	47,804
At end of year	(3,224,811)	(3,140,953)

(Expressed in thousands of Jamaican dollars unless otherwise stated)

28. Retirement benefit asset/obligations (continued)

(b) Other post-employment benefits (continued)

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

	The Group 2013	The Group 2012
Current service cost	203,668	176,650
Interest cost	332,072	282,361
Net actuarial losses recognised in year	27,654	27,313
Past service cost – vested and non vested benefits	(1,476)	(1,476)
Included in staff costs (note 11)	561,918	484,848

(c) Five year trend analysis

	Pension 2013	2012	2011	2010	2009
Fair value of plan assets	37,719,728	36,082,995	34,780,109	30,457,536	26,446,396
Present value of defined benefit obligation	(19,988,949)	(16,254,535)	(15,752,204)	(13,384,602)	(10,948,143)
Surplus in the plan	17,730,779	19,828,460	19,027,905	17,072,934	15,498,253
Experience adjustments to plan liabilities (loss)/gain	1,490,056	(487,777)	278,387	(762,749)	793,979
Experience adjustments to plan assets – (loss)/gain	(1,156,103)	(1,559,292)	1,533,177	1,508,399	1,253,835

	Health and Group Life 2013	2012	2011	2010	2009
Present value of defined benefit obligation-unfunded	(3,224,811)	(3,140,953)	(2,671,261)	(2,485,118)	(1,569,756)
Experience adjustments to plan liabilities (gain)/loss	(404,260)	(44,896)	78,638	(318,837)	184,950

29. Deposits by the public

	The Group 2013	The Group 2012
Personal	96,068,262	88,543,961
Other	87,251,407	72,376,980
Interest payable	49,746	73,241
	183,369,415	160,994,182

(Expressed in thousands of Jamaican dollars unless otherwise stated)

29. Deposits by the public (continued)

Deposits include $NIL (2012: $36,039) held as collateral for irrevocable commitments under letters of credit.

30. Amounts due to other banks and financial institutions

These represent deposits by other banks and financial institutions, as well as funds for on-lending to eligible customers, in the normal course of business.

31. Due to parent company

	The Group	
	2013	2012
Facility I	1,217,514	1,056,070
Facility II	3,154,541	3,127,136
Facility III	3,505,954	3,398,831
	7,878,009	7,582,037
Interest payable	86,194	83,287
	7,964,203	7,665,324
Deposits held with Bank	52,805	17,547
	8,017,008	7,682,871

(i) Facility I is a US$ denominated eight (8) year non-revolving loan from the parent company, for on-lending. The facility was restructured in May 2012 with principal repayments scheduled to commence May 2014 and the balance is subject to interest at the 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 maturity date is August 2020 and the balance 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 maturity date is February 2022 and the balance is subject to a fixed interest rate of 5.95%.

32. Amounts due to fellow subsidiaries

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

33. 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)

33. Capital Management and Government Securities funds (continued)

(b) Government securities fund

The Group manages funds, on a non-recourse basis, on behalf of investors. The investors have a direct traceable interest in the investments.

34. Other liabilities

	The Group	
	2013	2012
Accrued staff benefits	1,052,572	798,809
Prepaid letters of credit	7,788	36,093
Accrued liabilities	1,662,748	946,343
Other	1,646,412	933,226
	4,369,520	2,714,471

35. Deferred tax assets and liabilities

Deferred income taxes are calculated on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, using applicable tax rates of:

Scotia Group Jamaica Limited at 30% (2012: 33⅓%)
The Bank of Nova Scotia Limited at 33⅓%;
Scotia Investments Jamaica Limited at 33⅓%;
The Scotia Jamaica Building Society at 30%;
Scotia Jamaica Life Insurance Company Limited at 15% and;
Other unregulated subsidiaries at 25% (2012: 33⅓%);

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

	The Group		The Company	
	2013	2012	2013	2012
Balance at beginning of year	(2,938,163)	(3,361,086)	(2,978)	-
Recognised in the profit for the year (note 14)	(482,192)	(144,423)	(26,126)	-
Recognised in other comprehensive income:				
Available-for-sale investments				
- fair value re-measurement	112,873	555,835	1,910	(2,978)
- transfer to profit	162,713	11,511	1,816	-
	275,586	567,346	3,726	(2,978)
Balances at end of year	(3,144,769)	(2,938,163)	(25,378)	(2,978)

(Expressed in thousands of Jamaican dollars unless otherwise stated)

35. Deferred tax assets and liabilities (continued)

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

	The Group		The Company	
	2013	2012	2013	2012
Pension benefits	(3,355,156)	(2,704,590)	-	-
Other post retirement benefits	949,457	780,440	-	-
Available-for-sale investments	115,697	(159,658)	748	(2,978)
Vacation accrued	106,719	89,261	-	-
Accelerated tax depreciation	(148,210)	(172,224)	-	-
Impairment losses on loans	(515,804)	(393,570)	-	-
Unrealised foreign exchange gains	(11,152)	-	-	-
Interest receivable	(286,320)	(377,822)	(26,126)	-
Net deferred income tax liability	(3,144,769)	(2,938,163)	(25,378)	(2,978)
This is comprised of :-				
Deferred income tax asset	34,349	-	-	-
Deferred income tax liability	(3,179,118)	(2,938,163)	(25,378)	(2,978)
	(3,144,769)	(2,938,163)	(25,378)	(2,978)

(c) The deferred tax charge comprises the following temporary differences and related tax:

	The Group		The Company	
	2013	2012	2013	2012
Accelerated tax depreciation	(23,571)	60,742	-	-
Pensions and other post retirement benefits	481,548	88,202	-	-
Allowance for loan impairment	122,233	(18,441)	-	-
Unrealised foreign currency gains	11,152	-	-	-
Vacation accrued	(17,897)	(2,530)	-	-
Losses carry forward	-	2,511	-	-
Interest receivable	(91,273)	13,939	26,126	-
	482,192	144,423	26,126	-

36. Policyholders' liabilities

(a) Composition of policyholders liabilities

	The Group	
	2013	2012
Policyholders' fund	46,701,215	44,954,278
Benefits and claims payable	132,291	138,707
Unprocessed premiums	7,544	(2,570)
Annuity fund	124,894	73,766
Insurance risk reserve – Individual life	(4,694,643)	(4,075,620)
- Individual accident and sickness	215,490	172,570
- Group life	532,832	418,827
- Whole life	(5,664)	-
	43,013,959	41,679,958

(Expressed in thousands of Jamaican dollars unless otherwise stated)

36. Policyholders' liabilities (continued)

(b) Movement in policyholders' liabilities:

	The Group	
	2013	2012
Policyholders' fund:		
At beginning of year	44,954,278	42,019,066
Gross premium	5,900,882	6,347,014
Disbursements	(6,055,977)	(5,463,901)
Interest credited	1,902,032	2,052,099
At end of year	46,701,215	44,954,278
Benefits and claims payable:		
At beginning of year	138,707	103,199
New claims and benefits made during the year	183,794	214,293
Benefits and claims paid	(190,210)	(178,785)
At end of year	132,291	138,707
Unprocessed premiums:		
At beginning of year	(2,570)	11,637
Premiums received	8,024,922	8,151,321
Premiums applied	(8,014,808)	(8,165,528)
At end of year	7,544	(2,570)
Annuity fund:		
At beginning of year	73,766	42,637
Issue of new annuities	55,431	31,429
Payments	(8,663)	(3,137)
Interest credited	4,360	2,837
At end of year	124,894	73,766

(Expressed in thousands of Jamaican dollars unless otherwise stated)

36. Policyholders' liabilities (continued)

(b) Movement in policyholders' liabilities (continued):

	2013		
	Individual life	Group life	Total
Insurance risk reserve:			
At beginning of year	(3,903,050)	418,827	(3,484,223)
Changes in assumptions	(442,638)	3,051	(439,587)
Normal changes	(139,129)	110,954	(28,175)
At end of year	(4,484,817)	532,832	(3,951,985)

	2012		
	Individual life	Group life	Total
Insurance risk reserve:			
At beginning of year	(3,427,906)	271,128	(3,156,778)
Changes in assumptions	(186,529)	(859)	(187,388)
Normal changes	(288,615)	148,558	(140,057)
At end of year	(3,903,050)	418,827	(3,484,223)

(c) Policy assumptions

Policy liabilities are valued using 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

For Scotia Mint and Creditor Insurance, the Actuary has assumed a portfolio rate of 6.54% in January 2013 decreasing monthly to 5% in 2033 and later. For Criticare, the Actuary has assumed a portfolio rate of 6.5% in January 2013 decreasing to 5% over 30 years. Assumed interest rates are net of investment income tax and have been decreased by 0.50% as a margin for adverse deviation. The appropriateness of these rates has been tested by projecting asset and liability cash flows under various reinvestment scenarios.

36. Policyholders' liabilities (continued)

(c) Policy assumptions (continued)

(1) Best estimate assumptions (continued):

(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 experience adjusted for expected future conditions.

Lapse and surrender rates are derived from the Group's experience. A margin for adverse deviation is added by increasing or decreasing the lapse rates, whichever is adverse, by 25%.

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

(iv) Policy expenses and inflation

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

Inflation is assumed to be 5% in January 2013, decreasing to 2% over 20 years.

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, a margin for adverse deviation is included in each assumption.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

36. Policyholders' liabilities (continued)

(c) Policy assumptions (continued)

(2) Provision for adverse deviation assumptions

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.

37. Share capital

	Number of Units '000		Total $'000	
	2013	2012	2013	2012
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.

38. Reserve fund

	The Group	
	2013	2012
As at October 31	3,248,591	3,248,591

In accordance with the Banking Act 1992, certain companies in the Group are required to make transfers of a minimum of 15% of net profit until the amount in the fund is equal to 50% of the paid-up capital of the bank and thereafter 10% of the net profits until the reserve fund is equal to the respective paid-up capital.

The Building Society subsidiary is required to make transfers of a minimum of 10% of net profit, until the amount at the credit of the reserve fund is equal to the total of the amount paid up on its capital shares and the amount of its deferred shares.

39. Retained earnings reserve

The Banking Act 1992 permits transfers from the Bank's net profit to retained earnings reserve, which constitutes a part of the capital base. 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 reverse must be approved by the Bank of Jamaica.

40. Cumulative remeasurement result from available-for-sale securities

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

41. Loan loss reserve

This is a non-distributable loan loss reserve which represents the excess of the regulatory loan loss provision over the amount determined under IFRS requirements (note 23).

42. Other reserves

This represents reserves arising on consolidation of subsidiaries, net.

43. 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 directorships, in the normal course of business. These include loans, deposits, investment management services and foreign currency transactions.

Related party transactions with the parent company include the payment of dividends, management fees, guarantee fees, centralized computing and other service fees. The related party balance with the parent is the amount due to the parent company as set out in note 31.

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, connected companies include companies that have directors in common with the Company and/or its subsidiaries.

Related party credit facilities in excess of the limits set out in 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 income and expenses for the year are as follows:

(Expressed in thousands of Jamaican dollars unless otherwise stated)

43. Related party transactions and balances (continued)

	The Group					
	Parent	Fellow subsidiaries	Directors and Key Management Personnel	Connected companies	Total 2013	2012
Loans						
Loans outstanding at beginning of year	-	-	382,818	369,650	752,468	7,734,399
Net loans issued/(repaid) during the year	-	-	145,233	134,440	279,673	(6,981,931)
Loans outstanding at end of year	-	-	528,051	504,090	1,032,141	752,468
Interest income earned	-	-	39,639	31,635	71,274	513,273
Average repayment term (Years)	-	-	14.81	3.53	9.30	9.08
Average interest rate (%)	-	-	7.93%	11.34%	9.60%	10.32%
Deposits						
Deposits outstanding at beginning of year	7,599,584	-	138,256	1,030,506	8,768,346	10,281,273
Net deposits received/(repaid) during the year	331,230	-	113,916	339,458	784,604	(1,512,927)
Deposits outstanding at end of year	7,930,814	-	252,172	1,369,964	9,552,950	8,768,346
Interest expense on deposits	429,709	-	1,755	22,842	454,306	442,815
Other						
Fees and commission earned	-	-	490	38,355	38,845	70,005
Insurance products	-	-	39,674	-	39,674	38,164
Securities sold under repurchase agreements	-	-	(87,374)	-	(87,374)	(103,742)
Interest paid on repurchase agreements	-	-	(2,797)	-	(2,797)	(3,066)
Other investment	-	4,516,102	(66,471)	-	4,449,631	3,907,653
Interest earned on other investments	-	278,606	(638)	-	277,968	243,555
Due from banks and other financial institutions	357,482	18,280,654	-	-	18,638,136	8,186,105
Interest earned from banks and other financial institutions	18	62,738	-	-	62,756	13,533
Management fees paid	(1,069,460)	-	-	-	(1,069,460)	(842,662)
Guarantee fees paid to parent company	(106)	-	-	-	(106)	(1,403)
Other operating expense/income	(768,523)	327,902	-	-	(440,621)	(156,642)

	The Group	
	2013	2012
Key management compensation		
Salaries and other short-term benefits	740, 048	715,953
Post-employment benefits	(252 ,645)	(103,266)

44. 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, which involves 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; in addition, there are management committees established to manage risks.

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

(i) Board Audit Committee

The Board Audit Committee is comprised of independent directors. This committee oversees the integrity of the Group's financial statements, compliance with legal and regulatory requirements, the performance of the Bank's internal audit function and external auditors, as well as the system of internal controls over financial reporting. The Audit Committee reviews the quarterly and annual financial statements, examining significant issues regarding the financial results, accounting principles and policies, as well as management estimates and assumptions, for recommendation to the Board for approval. This committee is assisted in its oversight role by the Internal Audit Department, which undertakes reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(ii) Executive and Enterprise Risk Committee

The Executive and Enterprise Risk Committee reviews and recommends to the Board for approval, the risk management policies, limits, procedures and standards. This involves review of the quarterly reports on the Group's enterprise wide risk profile, including credit, market, operational and liquidity risks. This Committee also oversees the corporate strategy and profit plans for the Group, as well as develops and makes recommendations for improvement of the corporate governance policies and procedures.

44. Financial risk management (continued)

(a) Overview and risk management framework (continued)

(iii) Asset and Liability Committee

The Asset and Liability Committee (ALCO), a management committee, 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, where it provides a specialized focus due to the different nature of the insurance business.

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

(b) Credit risk

(i) Credit Risk Management

At a strategic level, the Group manages the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to any one borrower or groups of borrowers, and industry segments. Credit risk limits are approved 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 principal 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.

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

The Group's policy requires the review of individual financial assets that are above materiality thresholds annually or more regularly when individual circumstances require. Impairment allowances is consistent with the policies outlined in note 2(p).

44. Financial risk management (continued)

(b) Credit risk (continued)

(i) Credit Risk Management (continued)

The Group further manages 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 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 customers 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.

(iii) Credit quality

<u>Commercial loans</u>: 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. 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:

(Expressed in thousands of Jamaican dollars unless otherwise stated)

44. Financial risk management (continued)

(b) Credit risk (continued)

(iii) Credit quality (continued)

Mapping of the Group's internal ratings to external ratings of international rating agency, Standard and Poor's.

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 and under

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

- Excellent
- Good
- Higher risk

The following table shows the percentage of the loan portfolio as at the reporting date relating to loans and credit commitments for each of the internal rating categories:

	The Group Loans and credit commitments	
	2013 (%)	2012 (%)
Excellent	24.2	22.3
Very Good	4.9	5.1
Good	20.1	19.1
Acceptable	6.8	5.7
Higher Risk	44.0	47.8
	100.0	100.0

(Expressed in thousands of Jamaican dollars unless otherwise stated)

44. 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	
	2013 (%)	2012 (%)
Standard	84.9	83.1
Special Mention	8.8	11.1
Sub-Standard	4.6	4.3
Doubtful	0.3	0.2
Loss	1.4	1.3
	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, 2013 and 2012:

(Expressed in thousands of Jamaican dollars unless otherwise stated)

44. Financial risk management (continued)

(b) Credit risk (continued)

(iii) Credit quality (continued)

	The Group		The Company	
	2013	2012	2013	2012
AAA to AA+	296,786	269,029	-	-
A to A-	-	36,985	-	-
BBB+ to BB+	197,956	192,945	-	-
BB to B-	147,192,665	167,342,339	8,056,988	11,691,767
Lower than B-	6	4	-	-
Unrated	985,318	-	-	-
	148,672,731	167,841,302	8,056,988	11,691,767

	The Group		The Company	
	2013	2012	2013	2012
Classified as follows:				
Deposits with Bank of Jamaica	2,193,096	11,530,469	-	-
Financial assets at fair value through profit and loss	578,398	310,926	-	-
Investment securities				
Held-to-maturity	12,492,257	11,323,782	-	-
Available-for-sale	80,097,240	84,211,094	8,056,988	11,691,767
Pledged assets, Capital Management and Government Securities Funds:				
Loans and receivables	7,264,588	11,677,853	-	-
Held-to-maturity	6,056,130	7,078,401	-	-
Available-for-sale	39,989,149	41,390,672	-	-
Trading	1,873	318,105	-	-
	148,672,731	167,841,302	8,056,988	11,691,767

(iv) Maximum exposure to credit risk

The maximum exposure to credit risk is the amount 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.

Collateral and other credit enhancements held against loans

It is the Group's practice to lend on the basis of the customer's ability to meet their obligations out of their cash flow resources, rather than rely on the value of security offered as collateral. Nevertheless, the collateral is an important mitigant of credit risk. Depending on the customer's standing and the type of product, some facilities are granted on an unsecured basis. For other facilities, a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of default the Group may utilise the collateral as a source of repayment. In such cases the collateral is used to settle all debt obligations to the Group, and excess value is returned to the borrower.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

44. Financial risk management (continued)

(b) Credit risk (continued)

(iv) Maximum exposure to credit risk (continued)

Collateral and other credit enhancements held against loans (continued)

The Group holds collateral against credits to borrowers primarily in the form of cash, motor vehicles, real estate, charges over business assets such as premises, inventory and accounts receivable and charges over financial instruments such as debt securities and equities. Estimates of collateral value are assessed at the time of borrowing and are generally not updated except when credits to borrowers are individually assessed as impaired.

The estimated value of the collateral with enforceable legal right pursuant to the agreements for outstanding loans and guarantees is $103,622,243 (2012:$100,805,123) for the Group.

(v) Concentration of exposure to credit risk

(1) Loans and customer liabilities under acceptances, guarantees and letters of credit

The following table summarises credit exposure for loans and customer liabilities under acceptances, guarantees and letters of credit at their carrying amounts, as categorised by the industry sectors. These credit facilities are well diversified across industry sectors, and are primarily extended to customers within Jamaica.

	The Group			
	Loans	Acceptances, Guarantees and Letters of Credit	Total 2013	Total 2012
Agriculture, fishing and mining	922,471	35,296	957,767	864,704
Construction and real estate	1,395,850	199,544	1,595,394	1,275,117
Distribution	11,176,395	1,485,395	12,661,790	10,801,424
Financial institutions	5,367	1,210,820	1,216,187	1,567,965
Government and public entities	19,796,619	505,060	20,301,679	21,901,742
Manufacturing	4,853,010	195,509	5,048,519	5,588,673
Transportation, electricity, water and other	6,496,875	366,147	6,863,022	6,706,927
Personal	78,555,436	2,453,668	81,009,104	68,689,107
Professional and other services	5,864,858	588,938	6,453,796	6,479,955
Tourism and entertainment	6,446,684	133,237	6,579,921	6,018,590
Interest receivable	1,030,885	-	1,030,885	965,273
Total	136,544,450	7,173,614	143,718,064	130,859,477
Total impairment allowance (note 23)			(1,720,694)	(2,001,482)
			141,997,370	128,857,995

(Expressed in thousands of Jamaican dollars unless otherwise stated)

44. Financial risk management (continued)

(b) 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, categorised by issuer:

	The Group		The Company	
	2013	2012	2013	2012
Government of Jamaica	142,766,329	149,422,839	8,056,988	11,691,767
Bank of Jamaica	23,353,790	29,527,954	-	-
Financial institutions	58,847,867	27,792,159	8,615,808	3,875,613
Corporates and other	985,453	639,240	-	-
	225,953,439	207,382,192	16,672,796	15,567,380

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

(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 limits set. Limits are set using a combination of risk measurement techniques, including 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 capitalize on short-term market movements in security prices, 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 market interest rates on its financial position and cash flows.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

44. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

The Group monitors interest rate risk using its Asset and Liability management 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 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.

	The Group						
	2013						
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	16,046,684	16,886,695	13,636,600	-	-	28,312,584	74,882,563
Financial assets at fair value through profit or loss	-	-	-	570,020	8,297	234,784	813,101
Pledged assets	560	37,728,432	2,835,828	8,914,258	7,982,207	1,567,571	59,028,856
Loans (2)	27,921,725	44,528,935	16,620,542	40,227,174	4,000,219	1,525,161	134,823,756
Investment securities (1)							
- Available-for-sale	-	47,158,955	1,011,448	12,351,491	18,518,132	1,302,776	80,342,802
- Held to maturity	-	3,110,732	-	8,950,809	152,511	278,205	12,492,257
Other assets	-	-	-	-	-	26,922,470	26,922,470
Total assets	43,968,969	149,413,749	34,104,418	71,013,752	30,661,366	60,143,551	389,305,805
Deposits (3)	166,025,563	22,047,234	3,431,080	3,533,613	2,346,395	138,011	197,521,896
Securities sold under Repurchase agreements	1,591,621	35,658,723	5,055,834	45,680	-	236,934	42,588,792
Other liabilities	-	-	-	-	-	20,400,656	20,400,656
Capital Management and Government Securities funds	13,017,402	-	-	-	-	1,162	13,018,564
Policyholders' liabilities	30,514,296	3,513,052	12,798,760	-	-	(3,812,149)	43,013,959
Stockholders' equity	-	-	-	-	-	72,761,938	72,761,938
Total liabilities and stockholders' equity	211,148,882	61,219,009	21,285,674	3,579,293	2,346,395	89,726,552	389,305,805
Total interest rate sensitivity gap	(167,179,913)	88,194,740	12,818,744	67,434,459	28,314,971	(29,583,001)	-
Cumulative gap	(167,179,913)	(78,985,173)	(66,166,429)	1,268,030	29,583,001	-	-
	2012						
Total assets	27,846,542	172,795,799	31,444,451	65,047,823	11,663,162	49,411,644	358,209,421
Total liabilities and stockholders' equity	186,286,898	61,659,237	21,986,907	3,262,541	2,618,858	82,394,980	358,209,421
Total interest rate sensitivity gap	(158,440,356)	111,136,562	9,457,544	61,785,282	9,044,304	(32,983,336)	-
Cumulative gap	(158,440,356)	(47,303,794)	(37,846,250)	23,939,032	32,983,336	-	-

(Expressed in thousands of Jamaican dollars unless otherwise stated)

44. 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					
	2013					
	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted average %
ASSETS						
Cash resources	0.20	0.94	0.03	-	-	0.40
Financial assets at fair value through profit or loss	-	-	-	7.27	8.15	7.55
Loans (2)	12.78	20.15	13.71	14.10	9.47	15.62
Investment securities (1)						
Available-for-sale	-	6.87	5.63	6.17	8.99	7.24
Held to maturity	-	7.46	-	7.45	8.50	7.47
Pledged assets	12.75	6.64	6.83	8.43	7.85	7.09
LIABILITIES						
Deposits (3)	1.07	2.11	2.79	5.79	5.83	1.35
Securities sold under repurchase agreements	4.89	4.45	4.06	4.25	-	4.42
Capital Management and Government Securities fund	0.33	-	-	-	-	0.33
Policyholders' liabilities	3.66	4.95	4.32	-	-	3.94

	2012					
	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted average %
ASSETS						
Cash resources	0.53	1.51	1.60	-	-	0.97
Financial assets at fair value through profit or loss	-	9.36	12.00	9.81	-	9.81
Loans (2)	14.04	17.42	15.10	14.15	9.46	15.53
Investment securities (1)						
Available-for-sale	-	7.58	10.25	8.81	12.62	8.44
Held to maturity	-	7.21	11.86	10.64	-	10.76
Pledged assets	2.10	7.77	10.13	8.43	5.22	8.11
LIABILITIES						
Deposits (3)	1.40	3.02	3.91	5.82	5.80	1.78
Securities sold under repurchase agreements	4.89	4.64	4.06	4.25	-	4.58
Capital Management and Government Securities fund	3.04	-	-	-	-	3.04
Policyholders' liabilities	4.65	4.95	4.98	-	-	4.77

(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)

44. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

Sensitivity to interest rate movements

The following shows the sensitivity to interest rate movements using scenarios that are based on recently observed market movements. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis is performed on the same basis as for 2012.

	2013	2012
	Increase/decrease	Increase/decrease
JMD Interest rates	by 350bps	by 350bps
USD Interest rates	by 300bps	by 225bps

	The Group		The Company	
	2013	2012	2013	2012
Effect on profit or loss	1,757,997	491,240	675,550	394,115
Effect on stockholders' equity	696,050	1,372,579	174,296	136,989

Sensitivity to interest rate risk for SJLIC, the insurance subsidiary, is considered in note 44(e) under the DCAT scenarios.

(ii) Currency 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 tables below summarize the Group's exposure to foreign currency risk:

	2013						
JMD Equivalent $'000	JMD	USD	CAD	GBP	EUR	Other	Total
ASSETS							
Cash resources	21,073,119	45,483,934	2,451,825	5,509,697	323,981	40,007	74,882,563
Investments	83,858,288	8,593,102	295,331	-	88,338	-	92,835,059
Financial assets at fair value through profit or loss	1,097,127	(284,026)	-	-	-	-	813,101
Pledged assets	37,636,588	21,216,420	-	-	175,848	-	59,028,856
Loans	103,719,805	30,696,045	326,203	-	81,703	-	134,823,756
Other assets	32,081,490	(6,322,786)	33,289	686,533	443,944	-	26,922,470
	279,466,417	99,382,689	3,106,648	6,196,230	1,113,814	40,007	389,305,805

(Expressed in thousands of Jamaican dollars unless otherwise stated)

44. Financial risk management (continued)

(c) Market risk (continued)

(ii) Currency risk (continued)

JMD Equivalent $'000	2013						
	JMD	USD	CAD	GBP	EUR	Other	Total
LIABILITIES							
Deposits	116,711,069	72,952,494	2,476,380	5,109,621	271,903	429	197,521,896
Other liabilities	46,249,189	27,255,206	602,296	1,040,668	840,848	19,805	76,008,012
Policy holders' liabilities	43,013,959	-	-	-	-	-	43,013,959
	205,974,217	100,207,700	3,078,676	6,150,289	1,112,751	20,234	316,543,867
NET POSITION	73,492,200	(825,011)	27,972	45,941	1,062	19,774	72,761,938

JMD Equivalent $'000	2012						
	JMD	USD	CAD	GBP	EUR	Other	Total
ASSETS							
Cash resources	29,001,836	17,249,008	1,797,817	4,433,101	355,649	31,296	52,868,707
Financial assets at fair value through profit or loss	180,925	297,016	-	-	-	-	477,941
Pledged assets	37,735,910	24,541,906	266,665	191,734	321,278	-	63,057,493
Loans	92,266,174	29,949,107	224,108	903	84,376	-	122,524,668
Investments	82,960,209	12,770,357	-	-	74,151	-	95,804,717
Other assets	24,855,858	(2,212,150)	199,194	596,804	36,189	-	23,475,895
	267,000,912	82,595,244	2,487,784	5,222,542	871,643	31,296	358,209,421
LIABILITIES							
Deposits	110,646,701	54,473,014	1,879,013	4,311,931	349,914	395	171,660,968
Other liabilities	48,563,441	26,844,491	571,055	829,549	530,830	14,121	77,353,487
Policyholders' liabilities	41,679,958	-	-	-	-	-	41,679,958
	200,890,100	81,317,505	2,450,068	5,141,480	880,744	14,516	290,694,413
NET POSITION	66,110,812	1,277,739	37,716	81,062	(9,101)	16,780	67,515,008

The following significant exchange rates were applied during the period:

	Average Rate for the Period		Reporting Date Spot Rate	
	2013	2012	2013	2012
USD	98.6419	88.0388	104.6866	90.8050
CAD	96.3132	87.2836	100.4229	90.6676
GBP	154.0407	137.0296	170.1634	146.3108
EUR	129.7239	112.9194	142.8333	117.9639

(Expressed in thousands of Jamaican dollars unless otherwise stated)

44. Financial risk management (continued)

(c) Market risk (continued)

(ii) Currency risk (continued)

Sensitivity to foreign exchange rate movements

A weakening of the JMD against the currencies indicated above, at October 31, would have increased/(decreased) equity and profit by the amounts shown below. This analysis is performed on the same basis as 2012. The strengthening of the JMD against the same currencies at October 31 would have had an equal but opposite effect on the amounts shown, on the basis that all other variables remain constant.

Sensitivity to foreign exchange:

	2013 Increase/decrease	2012 Increase/decrease
USD	by 7.25%	by 3.75%
CAD	by 6.25%	by 8.75%
GBP	by 10.5%	by 7.75%
EUR	by 9.75%	by 11.75%

	2013	2012
Effect on profit and stockholders' equity	389,079	166,679

(iii) Equity price risks

Equity price risk arises out of price fluctuations in equity prices. The risk arises from 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, Group's equity portfolio was:

	Group	
	2013	2012
Financial assets at fair value through statement of revenue and expenses	-	14,463
Investment securities		
Available-for-sale	25,500	-

(Expressed in thousands of Jamaican dollars unless otherwise stated)

44. Financial risk management (continued)

(c) Market risk (continued)

(iii) Equity price risks (continued)

Sensitivity to equity price movements

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

This analysis is performed on the same basis as 2012. 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 2013	-	-	4,653	2,950
31 October 2012	3,405	2,098	3,405	2,098

(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 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; treasury bills; and loans.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

44. 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. However, the Group expects that many policyholders/depositors/customers will not request repayment on the earliest date the Group could be required to pay.

	The Group						
	2013						
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Total	Carrying amounts
Financial liabilities							
Deposits	188,279,341	3,692,844	3,732,484	2,213,906	-	197,918,575	197,521,896
Securities sold under repurchase agreements	38,886,577	5,006,717	52,778	-	-	43,946,072	42,588,792
Capital Management and Government Securities fund	13,018,564	-	-	-	-	13,018,564	13,018,564
Policyholders liabilities	29,974,725	13,131,556	-	-	-	43,106,281	43,013,959
Other liabilities	6,313,869	835,475	1,452,999	14,817	7,364	8,624,524	8,624,524
Total liabilities	276,473,076	22,666,592	5,238,261	2,228,723	7,364	306,614,016	304,767,735

	2012						
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Total	Carrying amounts
Financial liabilities							
Deposits	166,800,260	3,170,631	3,304,114	2,701,085	-	175,976,090	171,660,968
Securities sold under repurchase agreements	39,825,531	6,100,162	1,442	-	-	45,927,135	45,384,758
Capital Management and Government Securities fund	14,174,566	-	-	-	-	14,174,566	14,174,566
Policyholders liabilities	28,669,522	13,431,008	-	-	-	42,100,530	41,679,958
Other liabilities	5,452,892	820,895	1,446,227	22,517	41,907	7,784,438	7,784,438
Total liabilities	254,922,771	23,522,696	4,751,783	2,723,602	41,907	285,962,759	280,684,688

44. 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 applications 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)

44. 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 and group life assured. The benefit insured are shown gross and net of reinsurance.

	Total benefits assured			
	Before and After Reinsurance 2013	%	Before and After Reinsurance 2012	%
Individual Life Benefits assured per life				
0 to 250,000	6,482,941	14	6,626,858	15
250,001 to 500,000	2,636,639	6	2,722,017	6
500,001 to 750,000	3,968,051	9	4,142,318	10
750,001 to 1,000,000	3,263,205	7	3,211,202	7
1,000,001 to 1,500,000	8,811,203	19	8,270,548	19
1,500,001 to 2,000,000	5,117,433	11	4,564,223	11
Over 2,000,000	15,139,691	34	13,918,449	32
Total	45,419,163	100	43,455,615	100

	Total benefits assured			
	Before and After Reinsurance 2013	%	Before and After Reinsurance 2012	%
Group Life Benefits assured per life				
0 to 250,000	7,797,004	11	6,782,284	12
250,001 to 500,000	5,736,309	8	5,718,143	10
500,001 to 750,000	5,973,921	9	5,789,244	10
750,001 to 1,000,000	4,614,380	7	4,101,785	8
1,000,001 to 1,500,000	12,248,990	18	10,639,177	19
1,500,001 to 2,000,000	7,744,535	11	5,727,132	10
Over 2,000,000	25,258,368	36	17,461,388	31
Total	69,373,507	100	56,219,153	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.

44. 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 Group 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.

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 36(c) for detailed policy assumptions.

44. 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 Policy Premium Method (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 PPM reflect the impact of different yields.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

44. 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:

	2013	2012
Interest rates decrease by 1%	96,035	56,420
Interest rates increase by 1%	(38,952)	(32,987)
Mortality increases by 10%	342,361	288,517
Mortality decreases by 10%	(353,322)	(297,565)
Expenses increase by 10%	303,034	274,871
Expenses decrease by 10%	(299,095)	(271,223)
Lapses and withdrawals increase by 10%	227,804	202,989
Lapses and withdrawals decrease by 10%	(250,012)	(223,388)

(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 reported in the statement of financial position 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.

44. Financial risk management (continued)

(e) Insurance risk (continued)

(iii) Sensitivity analysis of actuarial liabilities (continued)

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

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.

A full DCAT report was completed for the Group during 2013, 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 2013, 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 2013, 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 5% over a 5 year period was tested in this scenario. It is assumed that inflation ultimately decreases by 5.75%. Overall, this scenario produces a lower MCCSR over the five year period.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

44. Financial risk management (continued)

(e) Insurance risk (continued)

(iii) Sensitivity analysis of actuarial liabilities (continued)

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

- High interest rate
  This scenario assumed an increase of 5% over a 5 year period in the portfolio rate. It is also assumed that inflation increased by 3% over the same period. Overall, this scenario produces a lower MCCSR over the five year period.

- High sales growth
  New business was projected to be 20% higher than existing sales per year over five years. The increased sales result in increased profits but the MCCSR ratio falls.

- Low sales
  This scenario assumed sales were 20% less every year starting 2013. Fees are also lower than under the base scenario. Overall this scenario produces a reduced surplus and an improvement in the MCCSR.

- Flat sales
  This scenario assumed sales were 20% less than existing sales starting in 2013. Overall this scenario produces adverse results for the next five years.

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 projection period, which is 5 years after the relevant financial year end.

	2013		2012	
	Surplus	MCCSR	Surplus	MCCSR
Base	14,625,551	683%	11,037,680	926%
Variable				
Mortality risks	13,781,915	691%	10,989,804	925%
Low lapse rates	16,899,015	601%	11,233,676	900%
Higher lapse rates	12,214,421	995%	10,005,092	1,087%
Expense risks	13,467,471	667%	10,936,404	923%
Low interest rate	11,133,667	577%	9,580,488	881%
High Interest rate	13,835,363	614%	10,845,768	967%
High sales growth	15,206,811	640%	11,066,396	897%
Flat sales	13,330,815	719%	10,851,276	944%

45. 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: 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 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;

(iii) the fair value of liquid assets and other assets maturing within one year is considered to approximate 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 reporting 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.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

45. Fair value of financial instruments (continued)

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 2013	Fair Value 2013	Carrying Value 2012	Fair Value 2012
Financial assets				
Loans	134,823,756	136,990,112	122,524,668	124,950,291
Pledged assets	22,326,371	22,555,749	23,301,910	23,165,941
Investment securities:				
Held-to-maturity	12,492,257	12,303,220	11,323,782	11,430,323
Financial liability				
Deposits	197,521,896	197,501,586	171,660,968	171,644,819

	The Company			
	Carrying Value 2013	Fair Value 2013	Carrying Value 2012	Fair Value 2012
Financial assets				
Loans	50,012	50,012	-	-

Fair value hierarchy

IFRS 7, Financial Instruments: Disclosures, specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Group's market assumptions.

The table below provides a summary of financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

(i) Level 1 – fair value measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

(ii) Level 2 – fair value measured based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

(iii) Level 3 – fair value measured based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(Expressed in thousands of Jamaican dollars unless otherwise stated)

45. Fair value of financial instruments (continued)

	The Group			
	2013			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
- Debt securities	-	578,399	-	578,399
- Equity securities	-	234,702	-	234,702
Available-for-sale securities				
- Debt securities	-	80,312,062	-	80,312,062
- Equity securities	25,500	-	5,240	30,740
Pledged assets				
- Debt securities	-	41,147,529	-	41,147,529
- Equity securities	-	889,087	-	889,087
	25,500	123,161,779	5,240	123,192,519

	2012			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
- Debt securities	-	8,298	-	8,298
- Equity securities	14,351	455,292	-	469,643
Available-for-sale securities				
- Debt securities	-	84,466,913	-	84,466,913
- Equity securities	-	-	14,022	14,022
Pledged assets				
- Debt securities	-	39,981,362	-	39,981,362
- Equity securities	-	774,221	-	774,221
	14,351	125,686,086	14,022	125,714,459

46. 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 they monitor closely to ensure that the Group is satisfactorily managing its 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 the regulatory authorities responsible for banking, insurance and other financial intermediaries;
- 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 commensurate with the level of risk; and
- To maintain a strong capital base to support the future development of the Group's operations.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

46. Capital Risk Management (continued)

Individual banking, investment 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 a quarterly basis.

Banking, mortgage lending 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 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 four 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, the ratios for each subsidiary and identifies the applicable regulator. During the year, the individual entities complied with all of the externally imposed capital requirement to which they are subject.

	Regulated by the BOJ [1]		Regulated by the FSC [2]	
	2013	2012	2013	2012
Tier 1 Capital	21,503,522	19,652,852	12,052,341	11,113,910
Tier 2 Capital	1,227,485	1,094,488	24,615	24,649
	22,731,007	20,747,340	12,076,956	11,138,559
Less prescribed deductions	(242,093)	(242,093)	(202,662)	(94,590)
Total regulatory capital	22,488,914	20,505,247	11,874,294	11,043,969
Risk weighted assets				
On-balance sheet	151,851,856	140,828,865	27,658,467	29,331,943
Off-balance sheet	21,118,343	17,371,126	-	-
Foreign exchange exposure	2,236,454	2,101,679	991,171	782,102
Total risk weighted assets	175,206,653	160,301,670	28,649,638	30,114,045
Actual regulatory capital to risk weighted assets	12.8%	12.8%	41.4%	36.7%
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.

[2] This relates to Scotia Investments Jamaica Limited.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

46. Capital Risk Management (continued)

Life insurance business

Capital adequacy is calculated by the Appointed Actuary and reviewed by executive management, the audit committee and the Board of Directors. The Group seeks to maintain internal capital adequacy levels higher than the regulatory requirements. To assist in evaluating the current financial strength, 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 a MCCSR of 150%. The MCCSR for the insurance subsidiary as of October 31, 2013 and 2012 is set out below:

	2013	2012
Regulatory capital held	6,525,309	6,052,803
Minimum regulatory capital	1,311,697	1,180,942
Minimum Continuing Capital on Surplus Requirements Ratio	497%	512%

47. Commitments

	The Group	
	2013	2012
(a) Capital expenditure		
Authorised and contracted	594,800	-
(b) Commitments to extend credit:		
Originated term to maturity of more than one year	18,793,554	18,927,642

(c) Operating lease commitments:

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

	The Group	
	2013	2012
Not later than one year	307,429	216,755
Later than one year and not later than five years	532,494	652,530
Later than five years	2,029,301	1,971,251
	2,869,224	2,840,536

(Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Reclassification of financial assets

On October 1, 2008 the company reclassified certain investments that were included in pledged assets from available-for-sale to loans and receivables in accordance with paragraph 50E of IAS 39. The standard requires that such reclassification be made at the fair value of the instruments at the date of reclassification. The prices of GOJ Global Bonds as at September 30, 2008 were used to determine the fair value used for the reclassification. The carrying value and fair value of these assets as at the reporting date are as follows:

	The Group			
	2013		2012	
	Carrying value	Fair value	Carrying value	Fair value
Securities:				
US$ GOJ Global Bonds	7,010,694	7,204,928	11,213,598	11,723,578
EURO GOJ Global Bonds	131,548	136,143	260,504	274,722

(a) Fair value losses, excluding deferred tax liabilities of $40,455 (2012: $65,465), were recognized in equity in relation to the above investments reclassified in 2008.

(b) Fair value gains of $147,923 (2012: $416,986), exclusive of deferred taxation, would have been included in equity for the previous year had the investments not been reclassified. This amount was estimated on the basis of the bid-price of the securities as at October 31, 2013. This price is not necessarily what would have been obtained 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 $11,119,647.

49. 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 reporting date, the Group had assets under administration amounting to approximately $119,394,240 (2012: $103,279,036).

50. 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.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

50. Litigation and contingent liabilities (continued)

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 financial performance.

(b) Judgment was handed down against Scotia Jamaica Investment Management Limited (SJIM) in the sum of US $14,861,992.98 plus interest rate at a rate of 4% per annum from July 1997 to the date of payment and costs. The claim arose from an alleged breach of contract and negligent performance of a letter of undertaking issued by SJIM in May 1997. SJIM filed an Appeal challenging the judgment on several grounds and based on legal advice obtained. On July 3, 2012, the Court of Appeal granted a stay of execution of the judgment pending determination of the Appeal. The Bank of Nova Scotia Jamaica Limited (BNSJ) has assumed the liability arising from the claim and was substituted as the Appellant in the Appeal in 2013. Notwithstanding the strong grounds for appeal, management has considered it prudent to make some provision in the accounts of BNSJ for the year ended October 31, 2013.

51. Dividends

(a) Paid

	The Group		The Company	
	2013	2012	2013	2012
Scotia Group Jamaica Limited				
Paid to stockholders:				
In respect of 2011	-	1,151,289	-	1,151,289
In respect of 2012	1,244,637	3,453,869	1,244,637	3,453,869
In respect of 2013	3,733,912	-	3,733,912	-
	4,978,549	4,605,158	4,978,549	4,605,158
Paid to minority interest in a subsidiary	175,126	167,343	-	-
	5,153,675	4,772,501	4,978,549	4,605,158

(b) Proposed

At the Board of Directors meeting on November 28, 2013, a dividend in respect of 2013 of $0.40 per share (2012: $0.40 per share) amounting to $1,244,637 (2012: $1,244,637) was proposed. Stockholders' equity for the current financial year does not reflect this resolution, which will be accounted for in stockholders' equity as an appropriation of retained profits in the ensuing financial year.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

52. Employee Share Ownership Plan

(i) The Bank of Nova Scotia Jamaica Limited

The Bank of Nova Scotia Jamaica Limited has an Employee Share Ownership Plan ("ESOP" or "Plan"), the purpose of which is to encourage eligible employees of the Bank 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 annual basic 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 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 $31,595 (2012: $27,480).

At the financial year end, the shares acquired with the employer's contributions and held in trust pending allocation to employees and/or vesting were:

	2013	2012
Number of shares	1,646,489	872,595
Fair value of shares $'000	32,880	18,521

(ii) Scotia Investments Jamaica Limited

Scotia Investments Jamaica Limited has an Employee Share Ownership Plan ("ESOP"), the purpose of which is to encourage eligible employees of SIJL 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 is eligible to participate.

52. Employee Share Ownership Plan (continued)

(ii) Scotia Investments Jamaica 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 financial year end, the shares acquired with the employer's contributions and held in trust pending allocation to employees and/or vesting were:

	2013	2012
Number of shares	499,114	1,257,215
Fair value of shares $'000	12,987	35,215

The International Market

The first half of the fiscal year was characterized by a slowdown in global growth as developed economies struggled to create enough jobs to maintain full employment. The beginning of the year was also marked by US political gridlock which resulted in automatic spending cuts and the expiration of tax cuts, which led to weaker than expected US growth in the first half of the year. In response to sluggish growth, the leading global central banks launched an unprecedented volley of unconventional monetary policy which pushed interest rates to record lows.

The central banks of Japan, the United States, the United Kingdom and the Eurozone enacted or continued record asset purchase programmes to keep interest rates low and stimulate economic growth. In December 2012, the US Federal Reserve increased its asset purchase programme from US$40 billion to US$85 billion. Not to be outdone, the Japanese central bank, under new leadership, began the world's most intense burst of monetary stimulus by unleashing the first phase of a US$1.4 trillion stimulus to run over two years. Meanwhile, the Bank of England maintained its record £375 billion asset purchase programme. The Eurozone central bank maintained its unlimited bond buying programme launched in September 2012, known as Outright Monetary Transactions, which allowed the central bank to intervene in European financial markets to purchase bonds maturing between one and three years.

The second half of the fiscal year was characterized by escalating volatility and risk aversion. This began with an uprising in Egypt followed by rising geopolitical tensions in Syria which threatened to disrupt the supply of crude oil. In addition, the US Federal Reserve had hinted in June that it intended to taper its stimulus programme just six months after it had expanded the program. As a result, the benchmark US ten year treasury yields, which fell to a record low of 1.6% in May, jumped to 2.62% in June and peaked at 3.0% in early September.

The impact of rising rates was far reaching: the US housing market slowed as mortgage rates increased; investors fled emerging markets assets in droves, resulting in currency crisis in a number of countries led by India and Indonesia and to a lesser extent Brazil, whose currencies experienced double digit declines; emerging market bonds plunged as investors pulled record amounts of cash from bond funds during June to July 2013. However the biggest threat to global financial markets came from US political gridlock, which resulted in a 15 day partial shutdown of the US Government and the real threat of a US default. Since the partial shutdown, there has been a renewed emphasis by US lawmakers to find a long-term fiscal and debt compromise. This bodes well for the US and world economies if US lawmakers can reach a consensus.

The Jamaican Market

The New IMF Agreement

The financial year commenced with the completion of a funding deal between the Government and the International Monetary Fund (IMF) being the main priority. Before a deal could be reached, the government had to undertake a set of prior actions which involved a National Debt Exchange (NDX) and a new budget in line with achieving a primary surplus of 7.5% of Gross Domestic Product (GDP).

The Jamaican Market

The New IMF Agreement (cont'd)
In February 2013, the Government undertook the NDX to swap $860 billion worth of Government of Jamaica (GOJ) old bonds for new ones with longer maturities and lower coupon rates, a deal aimed at yielding savings of 1.25% of GDP or $17 billion in annual interest payments through to 2020. However, only 98.8% of bondholders participated in the offer, prompting the Government to embark upon a second debt exchange to make up the deficit from the first debt exchange. Eight financial institutions participated in this private offer, swapping $26 billion worth of local bonds.

As part of a wider tax reform programme and in line with its budgetary objectives, the Government implemented a $15.9 billion tax package in February. The administration was also successful in getting the majority of civil servants to forego wage increases for the next three years, a deal critical to attaining the wages to GDP ratio of no more than 9.0% of GDP by March 2016.

After successfully completing the prior actions, an agreement was finally reached on May 1, 2013 for a new four year Extended Fund Facility (EFF) totaling SDR615.38 million or US$932.0 million. The new deal encompasses a set of reform measures and time bound fiscal consolidation aimed at sustainably reducing the country's public debt stock to no more than 96% of GDP by fiscal year 2019/20. The World Bank and the Inter-American Development Bank (IDB) also pledged support for the four year programme, each offering US$510 million in loans and grants to the Jamaican authorities.

Gross Domestic Products (GDP)
Incoming data from the Statistical Institute of Jamaica (STATIN) reflected continued economic weakness on the domestic soil. Real GDP has now fallen for six consecutive quarters with output for Q2 of 2013 down by -0.1% when compared to the similar period of 2012. Previously, output contracted by -1.2% in Q4 of 2012 and -1.3% for Q1 of 2013. Both the Goods Producing and Services sectors fared weak with the former down for all quarters of the review period while the latter remained relatively flat.

In the Goods Producing sector, Agriculture has been the chief decliner impacted by the lingering effects of hurricane Sandy in October 2012 and severe drought conditions in the first half of 2013. Likewise, the Manufacturing sub-sector reflected lower levels of output. However, in the earlier stage of the year, Mining suffered from lower alumina capacity utilization but rebounded in Q3 of 2013. Notably, Construction rebounded posting gains for the first half of 2013 due largely to increased civil engineering activities. As it relates to Services, Finance and Insurance remained the sole sub-sector to record positive growth in all quarters so far.

Fiscal Accounts
The Planning Institute of Jamaica (PIOJ) reported that the local economy advanced by 0.6% for Q3 of calendar year 2013 when compared to the corresponding period of 2012. According to the Institute, growth was led predominantly by the Goods Producing industry which is estimated to have grown by 2.2% year-over-year due to higher output from three of the four sub-industries. Agriculture (+5.0%), Mining (+5.0%) and Construction (+2.5%) all recorded positive movement, while Manufacturing contracted by 0.8% year-over-year. The Services industry also recorded growth of 0.1% year-over-year as all sub-sectors increased with the exception of Electricity and Producers of Government Services, which fell by 3.5% year-over-year and 0.5% year-over-year respectively. This jump in Q3 real GDP if confirmed by STATIN, the final arbiter on this measure, would break six consecutive quarterly declines in domestic output.

The weak data for August led to a reversal in the previously recorded tax surplus, bringing the year-to-date shortfall in tax collections to $5.9 billion. Interestingly, growth in tax revenue for the five month period slowed to 6.0% year-over-year from 11.7% for the four months to July and 4.7 percentage points lower than budget but marginally above the 5.3% for the comparable period a year ago. The current growth pace remains well below the 12.7% necessary to meet the primary balance goal of 7.5% of GDP.

While revenues are underperforming, the expenditure data indicates lower spending in all categories. Total expenditure trails plan by $10 billion due to under spending of $5.1 billion in interest payments and $4.9 billion in primary expenditure (Wages, recurrent programmes and Capital).

Inflation

For the fiscal year ended March 2013, central government's fiscal profile improved markedly. Bolstered by the new tax measures and tight expenditure control, the primary balance expressed as a percentage of GDP increased to 5.3% from 3.1% previously while the fiscal deficit narrowed to 4.0% of GDP from 6.4% of GDP the prior year.

Notwithstanding, generating a minimum primary balance of 7.5% of GDP for the medium term remains crucial to the Government's effort of lowering the country's debt to GDP ratio to the targeted 96.0% of GDP by 2020. For the seven months to October 2013, the primary balance surpassed its planned number by $3.9 billion while the fiscal deficit is better by $9.2 billion. The outperformance witnessed in the aforementioned fiscal metrics stemmed solely from lower than budgeted expenditure levels as total revenue fell below target by $5.5 billion due largely to a $6.7 billion shortfall in tax collections.

In year-over-year terms, the growth in tax revenue for the seven month period slowed marginally to 10.0% from 10.3% recorded for the six months to September 2013. This is also lower than the budgeted 14.0% and the 20.3% recorded for the corresponding period of last year when the Government implemented the $19.4 billion tax package. Similarly, the year-over-year growth in total tax revenue for the past 12 months eased to 12.3% in October 2013 after peaking at 13.3% the previous month but trending close to the 12.7% required by March 2014.

While revenues are underperforming, the expenditure data indicate lower spending in all categories. Total expenditure trails plan by $14.8 billion due to expenditure cuts of $5.4 billion in interest payments and $9.4 billion in primary expenditure (Wages, Recurrent Programmes and Capital).

Foreign Exchange

At the start of the financial year, US dollar demand increased significantly, fuelled largely by heightened uncertainty regarding the timing of a new IMF deal. For the first three months, the local dollar depreciated at an average monthly pace of 1.1% relative to the US dollar. The pace of devaluation then jumped to 3.15% in February, the highest witnessed since January 2009.

Following the announcement of an IMF staff level agreement in April, the rate of devaluation moderated to 0.47% for the same month. Market conditions improved further in May after an IMF deal was finally reached, causing the Jamaican dollar to lose only 0.1% thus ending the month at an average selling rate of $99.45/ US$1.

Strong demand for the US currency re-emerged in June and despite the Bank of Jamaica intervening on the supply side, the dollar accelerated past the $100 mark to end the month at $101.38/US$1. The weakening of the dollar continued through to year-end. Financial year to October 31, 2013, the Jamaican dollar lost 15.33% or $13.96 against its US dollar counterpart. For the review period, the local currency also lost versus the British Pound, depreciating by 16.74% or $24.60. Similarly, the Jamaican dollar lost 10.17% or $9.33 to the Canadian dollar as the exchange rate moved from $91.77/ CAD$1 at November 1, 2012 to J$101.10/CAD1$ at the end of the period.

In light of the absence of an IMF agreement in the earlier stage of the year, the resultant lack of multilateral funding coupled with a strong US dollar demand initiated an overall decline in the net international reserve (NIR) of US$242.36 million for the 12 months to October 2013. As a result, the NIR ended the financial year at US$890.43 million, representing 11.97 weeks of goods and services imports and on par with the international benchmark of 12 weeks.

Foreign Exchange

Exchange Rates - JAD per	Nov. 1, 2012	Oct. 31, 2013	% Change
USD	91.09	105.05	15.33%
POUND	146.99	171.59	16.74%
CAD	91.77	101.10	10.17%

Domestic Money Market

	Nov. 1, 2012	Oct. 31, 2013	% Change
30 Day BOJ OMO	6.25%	5.75%	-0.50%
30 Day T-bills	6.21%	6.28%	0.07%
90 Day T-bills	6.38%	7.37%	0.99%
180 Day T-bills	6.69%	7.84%	1.15%

The Jamaican Market

Domestic Money Market

Following the National Debt Exchange in February 2013, the Bank of Jamaica on February 25, 2013 reduced its policy rate by 50 basis points to a historical low of 5.75%. The rate held firm for the remainder of the year due to inflationary pressure coupled with tighter Jamaican dollar liquidity conditions. In contrast, market-determined interest rates ended the period at higher levels notwithstanding the record lows reached in February.

Driven by tight liquidity conditions due in part by the NDX and to a large extent, policy measures of the Bank of Jamaica and the Ministry of Finance, the average rate on the 90-day tenor rose to 7.37%, 187 basis points above the low reached subsequent to the NDX and 0.99% higher than where it started the year. Similarly, average yield on the 180-day and 30-day declined to 5.75% for the former and 5.25% for the latter immediately following the NDX but rose steadily to end the review period at 7.84% and 6.28% respectively.

Global Bond Market

Investors remained mostly on the sideline during the financial year following the NDX and the signing of a new four year deal with the international monetary fund. While the global bonds were not affected in the debt exchange, the low credit rating of CCC+ with a negative outlook kept investment interest lukewarm. Credit rating agency Standard & Poors upgraded Jamaica one notch to B- / Stable in September, which should be positive for the credit once global financial markets settle down and the country continues to meet its fiscal targets.

Stock Market

During the year, the Jamaica Stock Exchange Main Index remained largely in the negative territory due in part to low demand amid ongoing uncertainties associated with the performance of the Jamaican economy. Further, the JSE Main Market experienced adverse effects due to the impact of the National Debt Exchange, which resulted in a sharp fall in the earnings of a number of key listed companies. As a result, the main JSE recorded declines in all three Indexes, with the All Jamaican Composite posting the steepest fall of 10.15%, followed by the JSE Select and the JSE Main, which sagged by 9.19% and 8.89% respectively.

Stock Market

	Nov. 1, 2012	Oct. 31, 2013	% Change	% Change
JSE Main Index	89,821.80	81,832.16	-7,989.64	-8.89%
All Jamaica Composite	88,678.56	79,677.09	-9,001.47	-10.15%
JSE Select	2,411.92	2,190.25	-221.67	-9.19%
JSE Junior Market	668.51	732.59	64.08	9.59%

Branches & Team Leaders

The Bank of Nova Scotia Jamaica Limited
As at October 31, 2013

BLACK RIVER
6 High Street
P. O. Box 27
Black River
St. Elizabeth

Mrs. A. A. Rhule, Manager

BROWN'S TOWN
Main Street
P. O. Box 35
Brown's Town
St. Ann

Mr. P. O. Brown, Manager

CHRISTIANA
Main Street
P. O. Box 11
Christiana, Manchester

Miss A. E. Senior, Manager

CONSTANT SPRING
132-132A Constant Spring Road
Kingston 8

Miss M.A Senior
Manager

CORPORATE & COMMERCIAL BANKING CENTRE

Mr. D. M. Brown
Snr. Relationship Manager

Mrs. R. M. Dixon
Senior Manager
Credit Solutions

Mr. H. P. Ebanks
Snr. Manager
Credit Solutions

Miss M. A. Flake
Snr. Relationship Manager

Mrs. N. G. Heywood
Senior Relationship Manager

Miss A. M. Jones
Portfolio Manager

Mrs. S. Lue-Whittingham
Snr. Relationship Manager

Mrs. G. A. Morrison
Relationship Manager

Mr. M. S. A. Nelson
Snr. Manager
Credit Solutions

Mr. K. E. Reese
Snr. Relationship Manager

Miss. C. A. Rochester
Relationship Manager

Mr. H. D. Stephens
Snr. Relationship Manager

Mr. A. Thompson
Client Relationship Manager

Mr. C. M. Wisdom
Snr. Manager
Credit Solutions

Mr. C. Wright
Snr. Relationship Manager

CROSS ROADS
86 Slipe Road
P. O. Box 2
Kingston 5

Mr. R. W. Bennett, Manager

FALMOUTH
Trelawny Wharf
P. O. Box 27
Falmouth
Trelawny

Mr. K. Butler
Manager

HAGLEY PARK ROAD
128 Hagley Park Road
P. O. Box 5
Kingston 11

Mrs. D. R. Brown
Manager

Mr. V. L. Johnson
Assistant Manager
Business Banking

HALF-WAY-TREE
80 Half-Way-Tree Road
P. O. Box 5
Kingston 10

Mrs J. Carter-James
Manager

Miss V. J. Williams
Asst. Manager
Business Banking

Mrs C. Creary
Asst. Manager
Personal Banking

Mr. D. Black
Asst. Manager
Operations & Service

IRONSHORE SERVICE CENTRE
Shops 2 & 3, Golden Triangle
Shopping Centre
Ironshore
Montego Bay

Mr. K. L. Burton, Manager

JUNCTION
Junction P. O.
St. Elizabeth

Miss J. D. Thompson
Manager

KING STREET
35-45 King Street
P. O. Box 511, Kingston

Mr. L. Reynolds, Manager

Mrs. A. Y. Howard
Asst. Manager
Business Banking

Mrs. A. A. Douglas
Asst. Manager
Operations & Service

LIGUANEA
125-127 Old Hope Road
P. O. Box 45
Kingston 6

Mr. M. O. Lee, Manager

LINSTEAD
42 King Street
P. O. Box 19
Linstead
St. Catherine

Mrs. M. G. Lee-Rutland
Manager

LUCEA
Willie Delisser Boulevard
P. O. Box 63
Lucea, Hanover

Mr. D. Bryan, Manager

MANDEVILLE
1A Caledonia Road
P. O. Box 106
Mandeville, Manchester

Mrs. J. D. Billings - Frith
Acting Manager

Mr. Christopher Samuels
Manager, Personal Banking

MAY PEN
36 Main Street
P. O. Box 32
May Pen
Clarendon

Mr. E. A. Blake, Manager

MONTEGO BAY
6-7 Sam Sharpe Square
P.O. Box 311
Montego Bay
St. James

Mr S. Thompson
Manager

Dr. N. Smellie
Asst. Manager
Business Banking

Mr. R. Clarke
Asst. Manager
Personal Banking

Miss L. A. Hosang
Asst. Manager
Operations & Service

MORANT BAY
23 Queen Street
P. O. Box 30
Morant Bay
St. Thomas

Mr. L. V. Sutherland, Manager

NEGRIL
Negril Square
Negril P. O.
Westmoreland

Miss D. M. Mortimer
Manager

Branches & Team Leaders

The Bank of Nova Scotia Jamaica Limited
As at October 31, 2013.

NEW KINGSTON
2 Knutsford Boulevard
P. O. Box 307
Kingston 5

Miss A. Leonce, Manager

Mrs. E. Kepple
Asst. Manager
Business Banking

Mr. L. A. Leach
Asst. Manager
Personal Banking

Mrs. J. M. Thompson
Asst. Manager
Operations & Service

OCHO RIOS
Main Street
P. O. Box 150
Ocho Rios
St. Ann

Mr. F. O. Wright, Manager

Mrs. H. J. John Keith
Assistant Manager
Business Banking

OLD HARBOUR
4 South Street
P. O. Box 43
Old Harbour
St. Catherine

Mr. D. O. Bucknor, Manager

OXFORD ROAD
6 Oxford Road
P. O. Box 109
Kingston 5

Mr. C. C. Wiggan, Manager

PORT ANTONIO
3 Harbour Street
P. O. Box 79
Port Antonio
Portland

Mr. N. Scott, Manager

PORT MARIA
57 Warner Street
P. O. Box 6
Port Maria
St. Mary

Mr. P. Wallace, Manager

PORTMORE
Lot 2 Cookson Pen
Bushy Park
P.O. Box 14
Greater Portmore
St Catherine

Mr. R. R. Reid, Manager

PREMIER
10 Constant Spring Road
P. O. Box 509
Kingston 10

Miss P. N. Buchanan
Manager

ST. ANN'S BAY
18 Bravo Street
P. O. Box 2
St. Ann's Bay
St. Ann

Mrs. M. Davidson, 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

Mr. C. A. Dawes, Manager

Miss C. Murray
Asst. Manager
Business Banking

SCOTIABANK CENTRE
Cnr. Duke & Port Royal
Streets
P. O. Box 59
Kingston

Mr. S. A. Distant, Manager

Mrs. D. A. Maxwell
Asst. Manager
Business Banking

Mrs. J. M. Badson-Mignott
Manager, Operations

SPANISH TOWN
Shops 25 & 26
Oasis Shopping Plaza
6 March Pen Road
Spanish Town

Mr. J. A. Clarke, Manager

UWI, MONA CAMPUS
Cnr. Ring Road & Shed Lane
Kingston 7

Mr. P. G. Mohan, Manager

WESTGATE
Westgate Shopping Centre
P.O. Box 11
Montego Bay
St. James

Mr. 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

Subsidiaries, Board Members & 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
Ms. S. D. Chrominska – Chairperson

A. V. Chang

Ms. B. A. Alexander

B. F. Bowen

J. M. Hall

J. M. Matalon, CD

Mrs. J. T Sharp

Dr. H. J. Thompson, CD

Senior Officers
Mrs J. T. Sharp
President & CEO

Mrs. R. A. Pilliner
Executive Vice-President
Operations & Shared Services

H. W. Powell
Executive Vice-President
Retail Banking

F. A. Williams
Executive Vice-President,
Chief Financial Officer &
Chief Administration Officer

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

5th Floor, Scotiabank Centre
Cnr. Duke & Port Royal Streets
Kingston, Jamaica

Board of Directors
A. V. Chang - Chairman

N. A. Foster

H. W. Powell

H. A. Reid

Dr. A. E. Samuels-Harris

A. Mijares Ricci

P. B. Scott

Mrs. J. T. Sharp

O. Zimmerman

Senior Officers
H. A. Reid
General Manager
Ms. M. Scott
Senior Manager,
Finance & Investments

Mrs. L. H. Forbes
Director Sales & Channel Delivery

Mrs. M. Williams
Director, Operations

THE SCOTIA JAMAICA BUILDING SOCIETY

95 Harbour Street
P.O. Box 8463
Kingston, Jamaica

Board of Directors
Dr. H. J. Thompson, CD
- Chairman

Ms. B. A. Alexander
Deputy Chairperson

Dr. C. D. Archer

Dr. A. N. Law

H. W. Powell

Mrs. J. T. Sharp

D. Walters

Senior Officers
G. F. Whitelocke
Vice-President &
General Manager
Non-Branch Sales

D. Webb
Assistant General Manager
Business Development
& Director, Non-Branch
Sales & Service

Ms. L. Thompson
Manager, Financial Reporting

SCOTIA JAMAICA FINANCIAL SERVICES LIMITED

Scotiabank Centre
Cnr. Duke & Port Royal Streets
P.O. Box 709
Kingston, Jamaica

Board of Directors
H. W. Powell

Mrs. J. T Sharp

SCOTIA JAMAICA MICROFINANCE COMPANY LIMITED

12 Duke Street, Kingston,
Jamaica, W.I.

Board of Directors
H. W. Powell, Chairman
B. Callam

Mrs. J. T. Sharp

F. Williams

Ms. C. Logan

Mrs. M. Johnston

Senior Officer
Mrs. Y. Anderson
General Manager

SCOTIABANK JAMAICA FOUNDATION

Scotiabank Centre
Cnr. Duke & Port Royal Streets
P.O. Box 709
Kingston, Jamaica

Board of Directors
H. W. Powell - Chairman

Mrs. J. A. Griffiths Irving

M. D. McAnuff-Jones

Dr. R. Moodie

Mrs. R. A. Pilliner

Mrs. J. T. Sharp

Mrs. M. Todd

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
H. W. Powell

Mrs. J. T. Sharp

SCOTIA INVESTMENTS JAMAICA LIMITED

Head Office: 7 Holborn Road
Kingston 10, Jamaica

Board of Directors
B. F. Bowen, Chairman

Ms. B. A. Alexander

A. V. Chang

Mrs. A. M. Fowler

J. M. Hall

Dr. A. N. Law

L. L. Mitchell

P. P. Martin

Ms. C. Welling

M. Schroder

Mrs. J. T. Sharp

Senior Officers
L. L. Mitchell
Chief Executive Officer

Miss Y. Pandohie
Vice-President &
Chief Financial Officer

H. Miller
Chief Operating Officer

SCOTIA ASSET MANAGEMENT (JAMAICA) LIMITED

1B Holborn Road, Kingston 10
Jamaica

Board of Directors
Ms. B. A. Alexander
Chairperson

Mrs. K. Bilyk-Mitchell

Mrs. A. Fowler

L. L. Mitchell

Ms. A. Richards

Mrs. J. T. Sharp

Senior Officer
B. O. Frazer
Vice-President, Asset Management
& General Manager

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

Corporate Data

SECRETARY

Julie Thompson-James
Vice-President
Senior Legal Counsel
& Corporate Secretary

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
(876) 922.4500

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

(of the Group and its Subsidiaries)
As at October 31, 2013

EXECUTIVE OFFICERS

Mrs. Jacqueline Sharp
President & Chief Executive Officer

Mrs. Rosemarie Pilliner
Executive Vice-President, Operations & Shared Services

Mr. H. Wayne Powell
Executive Vice-President, Retail Banking

Mr. Frederick Williams
Executive Vice-President, Chief Financial Officer &
Chief Administration Officer

Miss Monique French
Senior Vice-President, Credit Risk Management

Mr. Michael McAnuff-Jones
Senior Vice-President, Human Resources

Mr. Lissant Mitchell
Senior Vice-President, Wealth &
CEO, Scotia Investment Jamaica Limited

Mr. Hugh Reid
Senior Vice-President, Scotia Group &
President, Scotia Jamaica Life Insurance
Company Limited

Mr. Norm Stevenson
Senior Vice-President
Corporate & Commercial Banking

SENIOR MANAGEMENT OFFICERS

Audit

Mr. James Brown
Chief Auditor

Centralized Retail Collection Unit

Mr. Vincent Harvey
Vice-President, Collections & Recovery

Compliance

Mr. George Roper, Vice-President, Compliance

Contact Centre

Mr. Reuben Canagaratnam, Vice-President

Mrs. Sheila Segree-White, General Manager

Corporate & Commercial Banking

Miss Marcette McLeggon
Vice-President, Credit Solutions

Miss Carlene Lyn
Vice-President, Commercial Banking

Corporate Human Resources

Miss Suzanne Donalds, Director
HR Planning, Staffing & Capability Development

Mrs. Hopelin Hines
Director, Total Rewards and Evaluations

Corporate & Legal

Mrs. Julie Thompson-James
Vice-President, Senior Legal Counsel
& Company Secretary

Mrs. Shaun Lawson-Laing
Director, Legal Counsel & Assistant Company Secretary

Credit Risk Management

Mr. Bevan Callam, Vice-President

Miss Carol Logan, Assistant General Manager

Mr. Lennox Elvy, Director, Retail Risk

Customer Experience

Mrs. Rosemarie Voordouw, Director

Employee Consultations & Ombuds Services

Mrs. Claudine McCalla, Director

Finance

Miss Shirley Ramsaran
Vice-President, Finance & Comptroller

Dr. Adrian Stokes
Vice-President
Business Analytics & Strategy and Risk Management

Miss Carolyn Kean
Director, Business Intelligence

Management Officers

(of the Group and its Subsidiaries)
As at October 31, 2013

SENIOR MANAGEMENT OFFICERS (cont'd)

Government Affairs

Dr. Wayne Henry
Vice-President, Government Affairs

Marketing, Public & Corporate Affairs

Mrs. Monique Todd
Vice-President, Marketing, Public & Corporate Affairs

Mrs. Joylene A. Griffiths Irving
Director, Corporate Social Responsibility
& Executive Director, Scotiabank Jamaica Foundation

Mrs. Simone Walker
Director, Marketing Programmes

Retail Banking & SME

Mrs. Patsy Latchman Atterbury
Vice-President, SME Banking

Mr. Carl Bright
District Vice-President, Metro East

Mr. Michael E. Shaw
District Vice-President, Metro North

Mr. Dudley E. Walters
District Vice-President, Metro West

Mr. Gladstone Whitelocke
Vice-President & General Manager
Scotia Jamaica Building Society
& Non-Branch Sales & Service

Mr. Dean Webb
Assistant General Manager, SJBS Business Development
& Non-Branch Sales & Service

Miss Pamela Douglas
Director, Professional Partnerships, SME

Shared Services

Mr. David M. Williams
Vice-President, Operations, Shared Services

Mr. Donovan Hanson,
Vice-President, Lending Services

Mrs. Saliann Wright
Vice President, Processing Support Centre

Mrs. Marcia Parker Robinson
Director, Regional Strategic Sourcing, Caribbean

Mr. Cecil Rhoden, Director,
Retail Risk Assessment

Mrs. Dorette Barrett
Director, Business Service Centre

Scotia Private Client Group

Mrs. Debra Lopez-Spence
Centre Director

Security & Investigations

Mr. Denver Frater
Regional Director & Chief Security Officer

Systems Support Centre

Mr. Adza Davis, Director,
Systems Support Centre

Treasury

Mr. Gary-Vaughn White
Vice-President, Treasury

Mr. Adrian Reynolds
Director, Treasury & Foreign Exchange Trading

Glossary

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 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.

CREDIT SPREAD RISK: The risk of loss due to changes in the market price of credit, or the credit-worthiness of a particular issuer.

EQUITY RISK: The risk of loss due to changes in the prices, and the volatility, of individual equity instruments and equity indices.

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 CURRENCY RISK: The risk of loss due to changes in spot and forward prices, and the volatility of currency exchange rates.

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.

FUNDS UNDER ADMINISTRATION & MANAGEMENT: The total market value of portfolios 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.

GAP ANALYSIS: Gap analysis is used to assess the interest rate sensitivity of the Group's operations. Under gap analysis, interest rate sensitive assets, liabilities and off-balance sheet instruments are assigned to defined time periods on the basis of expected re-pricing dates.

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.

INTEREST RATE RISK : The risk of loss due to changes in the level, slope and curvature of the yield curve; the volatility of interest rates; and mortgage prepayment rates.

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.

Glossary

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 total 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 assigned by the regulators 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.

SENSITIVITY ANALYSIS: Sensitivity analysis assesses the effect of changes in interest rates on current earnings and on the economic value of shareholders' equity related to non-trading portfolios.

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: Assessment of market risk under unlikely but possible events in abnormal markets. Stress testing examines the impact that abnormally large swings in market factors and periods of prolonged inactivity might have on trading portfolios. The stress testing program is designed to identify key risks and ensure that the Group's capital can absorb potential losses from abnormal events.

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 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 qualifying capital.

VALUE AT RISK (VaR) : VaR is a method of measuring market risk based upon a common confidence interval and time horizon. It is a statistical estimate of expected potential loss that is derived by translating the riskiness of any financial instrument into a common standard. The Group calculates VaR daily using a 99% confidence level, and a one-day holding period for its trading portfolios. This means that about once in every 100 days, the trading positions are expected to lose more than the VaR estimate.

YIELD CURVE: A graph showing the term structure of interest rates, plotting the yields of similar quality bonds by term to maturity.

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 total income. A lower ratio indicates improved productivity.

Notes

Notes

Paper materials produced from well-managed forest and tree farms, chemical-free printing plates and soya-based inks were used in the production of this Annual Report.

Designed and produced by: Marketing, Public & Corporate Affairs Department
Scotiabank Group (Jamaica)

Scotiabank Group

Scotia Group Jamaica Limited