Sagicor Investments

FROM STRENGTH TO STRENGTH

ANNUAL REPORT 2012

Our Corporate Vision

Creating Value, Winning Customers for Life

Our Mission

Building success for all stakeholders through an inspired team

Our Brand Vision

To be loved by our clients...and admired by our competitors

Our Values

Integrity: We value relationships and closely guard the trust placed in us by our stakeholders.

Teamwork: We pull together to achieve the best possible results while building leaders at all levels.

Service: We go the extra mile to surpass our internal and external customers' expectations.

Our Philosophy

We exist to improve the financial well-being of our clients and their families, sooner rather than later in life, through the delivery of quality financial products, services and advice.

Contents

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Strategy & Business Model
Governance
Leadership
Financials

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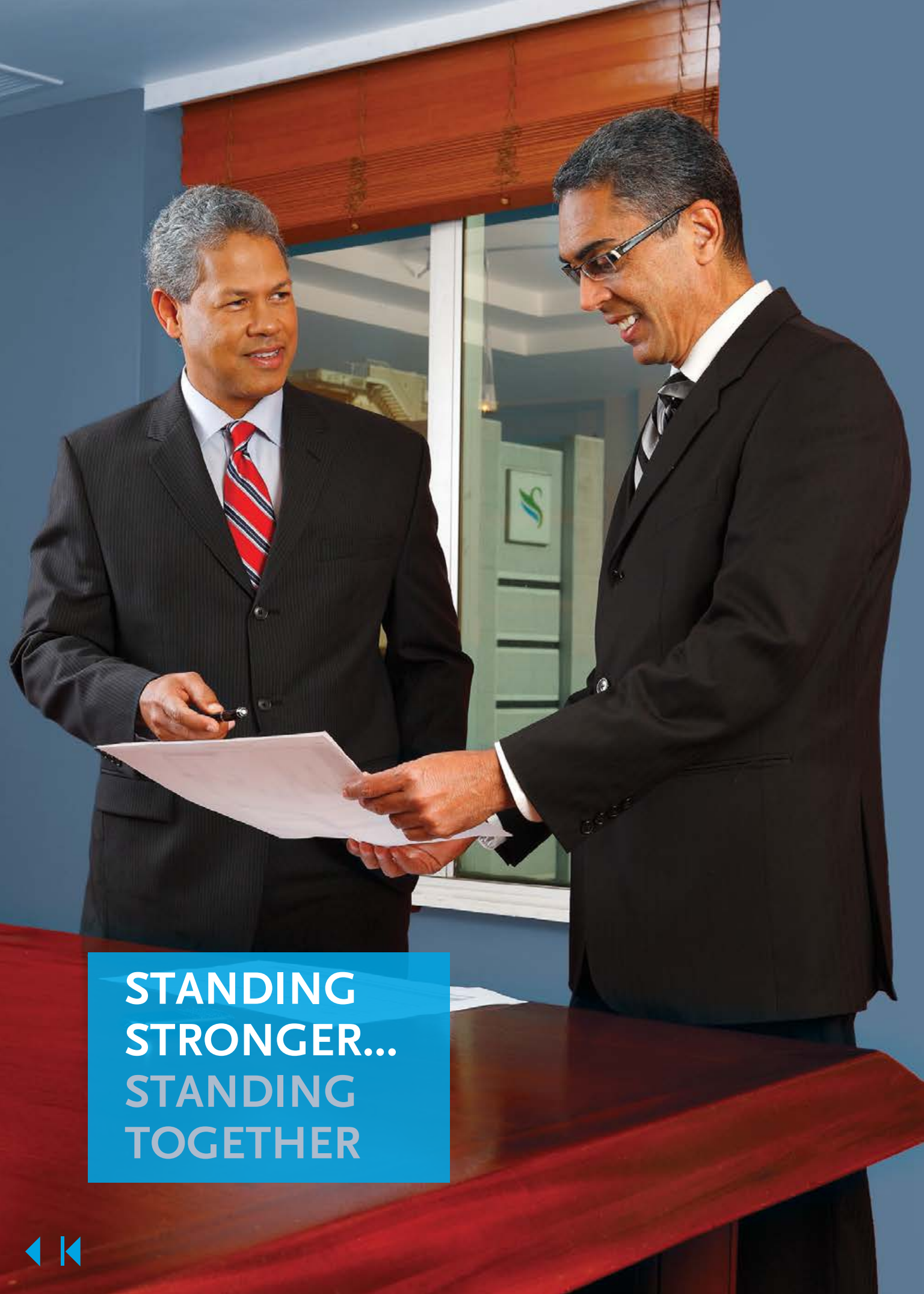
Visit us at
www.sagicorinvestmentsja.com



STANDING STRONGER... STANDING TOGETHER

STRENGTH
MOMENTUM
GROWTH

In Search of Growth - The Rationale Behind the Rebrand

The decision to further strengthen our affinity with Sagicor, as evidenced by our "A member of the Sagicor Group" declaration, to a full-scale rebranding of Sagicor's Banking Division was strongly influenced by four important factors. These factors support our goal of accelerating growth, through this highly respected brand that Sagicor represents across Jamaica:

1. Research arising from a strategic planning exercise, made a strong case for a single brand strategy for our financial services group in Jamaica.

2. Sagicor's brand awareness was much higher than "PanCaribbean" in broader market segments where we were under-represented, but had intentions to serve.

3. Sagicor Jamaica also has a significant customer base that is happy with its products and service standards.

4. We eliminated potential market confusion and reputation risk, surrounding the brand "PanCaribbean" as a result of a new entity operating in Jamaica under a similar name.

Welcome to the Sagicor Jamaica Group!

We are a full service financial institution offering a wide range of products and services. Our financial solutions are designed to meet your short and long-term Life & Health Insurance, Annuities, Pension, Investment and Banking needs.

Rebranding Ceremony

We are diverse in our lines of business

Sagicor Investments

- Asset Management
- Bond Trading
- Primary Dealer Services
- Stock Brokerage
- Cash Management

Sagicor Bank

- Savings Accounts
- Chequing Accounts
- Credit Facilities
- FX Trading
- Insurance Premium Financing

Sagicor Life

- Life Insurance
- Health Insurance
- Unit Trust
- Pension Fund Management
- Property Management & Development
- Asset Management

Sagicor Investments is well positioned to assist our clients, both Individual and Corporate, to respond to the growing challenges in the markets of 2013 and beyond.

1

Overview

HIGHLIGHTS 2012

$4,116M

Total Operating Income

Up 2.4% from $4,021M in the prior year, reflecting a 2.6% increase in Net Interest Income and 1.2% growth in Non-Interest Income.

Five-year CAGR: 10.0%

$1,453M

Net Income

Down 16% from $1,721M in the prior year as Operating Expense climbed 22% driven by asset tax and rebranding costs, while Operating Income rose by 2%.

Five-year CAGR: 3.7%

$2.63

Earnings per Share

Down 16% from $3.12 in the prior year, due to expenses increasing at a faster pace than income.

Five-year CAGR: 3.4%

SHAREHOLDERS' REPORT

In 2012, our results reflected the challenges experienced within our industry. Our Net Profit was $1.45 billion (2011: $1.72 billion), while Earnings per Share was $2.63 (2011: $3.12).

In the context of a highly challenging year, we continued to build the business with a long-term view in mind, and will elaborate more on our strategy to grow our banking business and refine its business model later in this report. We wish to highlight a number of key financial data for 2012:

- **Net Profit of $1.45 billion (down 16% from $1.72 billion in 2011)**
- **Ordinary Dividends of $725 million were paid (up 3% from $705 million)**
- **Earnings per Share of $2.63 (down 16% from $3.12 in 2011)**
- **Balance Sheet growth of 10% to $88.2 billion**
- **Stockholders' Equity rose 1% to $12.02 billion, the equivalent of US$129 million**

We are pleased to share with our shareholders throughout this report, the activities that reflect another year of steady progress for the Group. The results reported were achieved in what has become a remarkable constant for the past decade, a challenging environment, reflecting significant competition and a continuing marked degree of economic uncertainty. Having broken our string of 11 consecutive years of improved results, we face the challenge of resuming a positive profit growth trend in 2013.

During 2012, we executed a number of key activities that we expect will, over the medium term, have a material impact on our activities and market presence:

- **We successfully rebranded "PanCaribbean" to "Sagicor"**
- **We significantly upgraded three branches in our network – Montego Bay, Ocho Rios and Kingston, along with proprietary ABM machines**
- **We entered into an agreement with Sagicor Life Jamaica regarding the Sigma Unit Trust which we expect to drive and expand our Asset Management activities**
- **We developed and launched a number of new products and services and increased our sales force by 6% to drive new business**

$725M
Dividends Paid
Up 3% from $705M in the prior year.

Five-year CAGR: 8.2%.

$12,023M
Stockholders' Equity
Up 1% from $11,959M in the prior year, due to the distribution of 94% of comprehensive income.

Five-year CAGR: 9.8%

$88,234M
Balance Sheet
Up 10% from $80,204M in the prior year due to growth in our liabilities book and derivative products.

Five-year CAGR: 12.1%

SHAREHOLDERS' REPORT (CONT'D)

A more detailed analysis and related information is presented in our Management's Discussion and Analysis Report on pages 21 to 33. We have also included historical data on the company's financial trends over the last 10 years on pages 34 to 37.

OUR TEAM ACHIEVEMENTS

We are proud to also share with you a number of achievements, reflective of the quality and breadth of the institution.

Our Sigma Corporate Run, with patrons Her Excellency Lady Allen, Dr. The Hon. R. Danny Williams and Dr. The Hon. Usain Bolt, raised $33.18 million for the proposed new cardiac building at the Bustamante Hospital for Children and was spectacular with support from over 16,000 enthusiastic participants.

We did exceptionally well at the Jamaica Stock Exchange (JSE) annual Best Practice Awards in 2012 with five overall trophies - three first place awards, including Best Annual Report.

In conjunction with our parent, Sagicor Life Jamaica, we introduced five new Sigma portfolios. We returned to the position as the largest unit trust manager, with the distinction of having a number of the best performing unit trust funds for four of the last five years, including 2012.

We were also active in the Capital Markets for clients, raising $3 billion in new debt and equity to fund acquisitions and expansion plans for clients.

We were again, for the third time in the last five years, the number one stockbroker for 2012, with 27% market share.

2013 OUTLOOK AND INSIGHTS

At the end of 2012, we completed the first year of executing our three-year strategic plan and briefly summarise our progress for the year under review.

BRAND & IMAGE

- We re-branded to strengthen our affinity with Sagicor Life Jamaica.

SALES & DISTRIBUTION

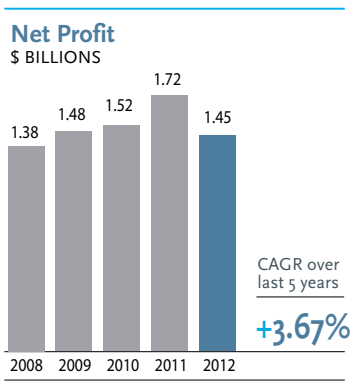
- We improved the scale and quality of our distribution channels.
- We expanded our sales capabilities across the island.
- We significantly increased our asset management products.
- We developed and successfully introduced new commercial banking products.

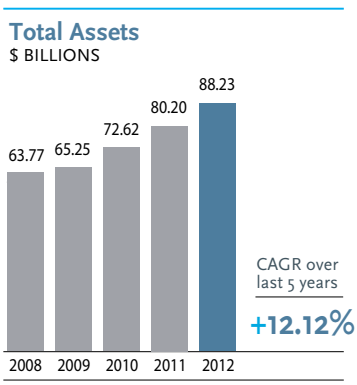
TEAM & LEADERSHIP

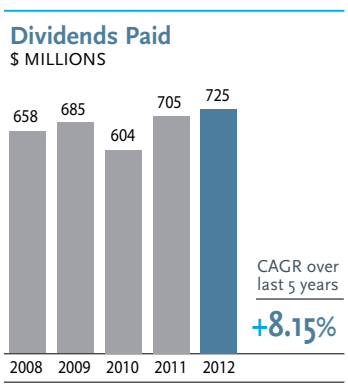
- We strengthened training and the development of our people.

PROCESS & TECHNOLOGY

- We focused on identifying efficiency gains in a number of key areas to support growth initiatives.







SHAREHOLDERS' REPORT (CONT'D)

2013 OUTLOOK

As we complete this 2012 report to our shareholders, we have agreed to participate in both phases of Jamaica's National Debt Exchange (NDX) announced in February 2013. This transaction will negatively impact interest rates on J$32 billion and US$77 million of our GOJ securities, resulting in a reduction of Gross Investment Income in 2013 by $566 million and $679 million in 2014 and beyond. Our Team will have the challenge of replacing these lost revenues as a result of NDX.

The GOJ, due to conditions precedent to the pending IMF Agreement, sought to cut its operating and capital expenditure budgets, restrain public sector wages, impose a raft of new taxes, eliminate waivers, renegotiate its debt with local holders, divest certain public assets, re-direct cash from government entities to the consolidated fund – all with the intention of reducing the fiscal deficit.

Although it is not our wish, these government decisions are likely to result in economic contraction, higher unemployment, labour restiveness and lower tax receipts. At Sagicor Investments, we see our role in this new environment as having three elements:

1. Continue to focus on building our business no matter what the challenge or environment.

2. Seek to foster a market environment that encourages economic expansion and growth through credit, IPOs, private equity opportunities and appropriate capital markets financing.

3. Encourage the Government to focus on activities and agendas that result in divestment of drains on the public purse, improve business efficiencies and promote sustainable growth prospects.

Our Gratitude

In recognising and thanking all stakeholders of our organisation, we start with sharing our sincere appreciation for the commitment demonstrated every day by our Team who serve and manage the financial affairs of our loyal and growing customers, taking care of their financial needs.

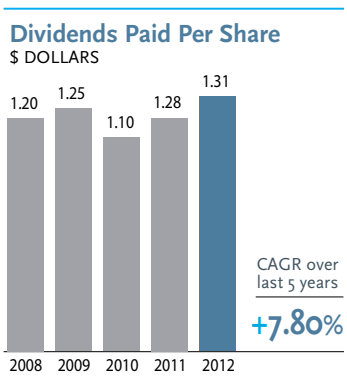
In 2012, we welcomed three new directors to the Board, Mr. Philip Armstrong, Mr. Peter Clarke and Mr. Paul Facey, who have added to the skill sets, strength and sage deliberations of our experienced Board.

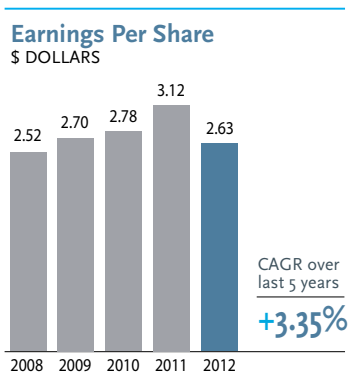
As an organisation, we continue to be supportive of our communities throughout Jamaica, and thank our business partners and all stakeholders who work and do business with us and participate in our activities - including participants and volunteers in the Sigma Corporate Run - for supporting a cause dedicated to a healthier Jamaica for all.

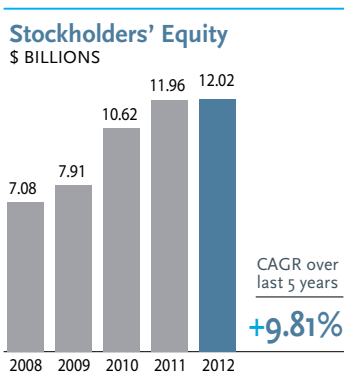
In closing, we note the passing, for the second year in a row, of one of our founding directors, and the first Chairman of Pan Caribbean Merchant Bank -Dr. the Hon. Maurice W. Facey, OJ, JP. He was bold and courageous, and we acknowledge him in a special tribute on pages 40 and 41.

Richard O. Byles
Chairman

Donovan H. Perkins
President & CEO







KEY PERFORMANCE INDICATORS

We track a number of financial and non-financial performance indicators to measure our performance and direction.

Financial KPIs	Purpose	Performance	2012	2011
1 Net-interest margin	> A measure of our effective management of interest spreads. We aim to achieve more than 4%.	>	3.92%	4.15%
2 Operating efficiency	> Measures our ability to manage our expenses relative to our operating income. Our target is under 45%.	>	50.60%	42.60%
3 Non-performing loans to total assets	> An important industry indicator of balance sheet quality. Our target is under 2%.	>	0.6%	0.6%
4 Profit per team member	> A measure of the relative contribution of each Team Member to overall profitability. Our target is $5 million.	>	$4.9M	$5.9M

Non-financial KPIs	Purpose	Performance	2012	2011
1 External survey of Team Members	> Trend analysis of key team member perceptions. We seek to improve our score each year, especially those below our benchmark of 70.	> Company image	84	87
		> Organisational commitment	75	72
		> Leadership	71	68
		> Communication	69	68
		> Job satisfaction	69	67
2 Net Promoter Score	> Independent market research specialist surveys individual customers to determine likelihood of referral. Our benchmark is 40.	>	43	57

A LOOK BACK AT THE HIGHLIGHTS FOR 2012

Gaining Recognition

- Gleaner Honour Awards Health & Wellness - Winner, Sagicor SIGMA Corporate Run
- Won Five JSE Best Practice Awards
  - Best Annual Report – 1st place
  - Highest Revenue Generation & Market Activity – 1st place
  - Best Investor Relations - 1st place
  - Best Corporate Disclosure & Investor Relations, Main Market – 1st Runner Up
  - PSOJ/JSE Corporate Governance Award – 2nd Runner-up

Improving our Customers' Experience

- Introduced new products
  - PriorityMe
  - Business Max
  - Easy Auto Loan
- Implemented easier and more efficient loan application and documentation processes
- Expanded New Kingston branch
- Convenient and expanded locations for Montego Bay and Ocho Rios branches

Growing our Business

- 55% increase in savings balances
- 21% increase in new bank accounts

Setting Higher Standards

- Sagicor SIGMA Funds - Largest unit trust in Jamaica
- SIGMA Corporate & SIGMA Liberty - Top performing unit trust portfolios in the industry
- SIGMA Corporate Run - Raised $33.18 million for charity
- $9.47B highest value traded on the Jamaica Stock Exchange

Sagicor SIGMA Funds
The power to earn more.

Kingston Live Entertainment

OVERSUBSCRIBED

IPO for $97M

Junior Stock Exchange
November 2012

Sagicor
Investment Banking

CHUKKA IT'S TIME TO PLAY!

SOLD

US$4M

in ordinary shares issued
May 2012

Sagicor
Investment Banking

PAN-JAMAICAN INVESTMENT TRUST

$2.5B

Structured Secured Notes
June 2012

Sagicor
Investment Banking

SHAREHOLDER INFORMATION

Sagicor Investments is committed to improving communication with our shareholders and identifying the issues which are important to you. In this section we have laid out stock trading highlights and key information to help you manage your shareholdings. After receiving shareholder approval on October 18, 2012, PanCaribbean Financial Services officially changed its name to Sagicor Investments Jamaica Limited on December 17, 2012.

Market for Sagicor Investments Stock

The ordinary stock of Sagicor Investments Jamaica Limited is traded on the Jamaica Stock Exchange only.

2011	
Financial Year End	December 31
Annual Report published	30 April 2012
Annual General Meeting	May 22, 2012
Final dividend paid	October 28
Interim results announced/ report published	9 May 2011 9 August 2011 10 November 2011

2012	
Financial Year End	December 31
Annual Report published	29 April 2013
Annual General Meeting	May 28, 2013
Final dividend paid	October 29
Interim results announced/ report published	10 May 2012 3 August 2012 8 November 2012

Symbol: S Stock Trading in 2012

	Closing Stock	High	Low	Volume
Ordinary Stock	$22.14	$29.00	$18.00	8,925,506

Team Member Stock Holding

As at the end of December 2012, 67 team members held 8,291,890 of the issued 552,145,844 stocks of the Company. The total number of full time Team Members was 272.

Dividend Paid in 2012 and for the last five years

ORDINARY SHARES	Units Issued
2012	552,145,844
2011	552,145,844
2010	549,536,153
2009	547,924,039
2008	547,924,039

Dividend Paid Per Share

2012	$1.313
2011	$1.28
2010	$1.10
2009	$1.25
2008	$1.20

Ordinary Dividend paid in 2012

Payment Dates	Dividend Rates
April 27, 2012	$0.743
October 29, 2012	$0.57

Frequently Asked Question

1. How do I transfer stock, change the name or change the address on my stock certificate?

(a) This can be done through your stockbroker if your stock is listed with the Jamaica Central Securities Depository (JCSD) or through the Registrar if the stock is still in certificate form. Using the latter, the individual executes a share transfer and has it assessed and stamped at the stamp office. The stamped transfer form along with the certificate covering the total to be transferred is then submitted to the registrar for processing. If the transfer is being done via the Stock Exchange through your stockbroker, the assessment will be done and cost determined and paid then.

(b) The stockholder can change his or her own name either by presentation of a birth certificate, a marriage certificate, a deed poll or declaration of identity in the event their name was incorrectly spelt and it must be certified by a Justice of the Peace or a Notary Public.

(c) Change of address can be submitted via your stockbroker or directly to the Registrar. Any change will require photo identification and your taxpayer registration card.

Contact Us: Sagicor Bank Jamaica Limited
The Registrar - Corporate Trust Division
Email: sbj_registrar@sagicorbankja.com
Toll free: 1-888-SAGICOR (724-4267)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 28th Annual General Meeting of SAGICOR INVESTMENTS JAMAICA LIMITED will be held in the Auditorium of Sagicor Life Jamaica Limited, 28-48 Barbados Avenue, Kingston 5 on Tuesday, May 28, 2013 at 10:00 a.m. for the following purposes:

RESOLUTION 1

1. To receive the Audited Accounts for the year ended December 31, 2012 and the Reports of the Directors and Auditors thereon.

To consider and (if thought fit) pass the following Resolution:

"THAT the Audited Accounts for the year ended December 31, 2012 with the Reports of Directors and Auditors thereon circulated with the Notice convening the meeting be and are hereby received and adopted"

RESOLUTION 2

2. Final Dividend

To declare the interim dividends of $1.313 paid during the year, as final dividend for the year ended December 31, 2012.

To consider and (if thought fit) pass the following Resolution:

"THAT the interim dividends of $0.743 per stock unit paid to stockholders on April 27, 2012 together with $0.57 per stock unit paid to stockholders on October 29, 2012 be declared as the final dividend for the year ended December 31, 2012".

RESOLUTION 3

3. To Elect Directors

(a) In accordance with Articles 92 and 93 of the Company's Articles of Incorporation, the Directors retiring by rotation are Messrs. Peter Melhado, Richard Byles and Mrs. Lisa A. Soares Lewis who being eligible, offer themselves for re-election.

To consider and (if thought fit) pass the following Resolutions: -

(i) "That Mr. Peter Melhado be and is hereby re-elected a Director of the company".

(ii) "That Mr. Richard Byles be and is hereby re-elected a Director of the company".

(iii) "That Mrs. Lisa A. Soares Lewis be and is hereby re-elected a Director of the company".

(b) In accordance with Article 98 of the Company's Articles of Incorporation, Mr. Peter Clarke and Mr. Paul Facey were appointed to the Board of Directors since the last Annual General Meeting and being eligible, offer themselves for election.

To consider and (if thought fit) pass the following Resolutions:-

(i) "THAT the retiring Director Mr. Peter Clarke be elected a Director of the Company."

(ii) "THAT the retiring Director Mr. Paul Facey be elected a Director of the Company."

RESOLUTION 4

4. Directors' Remuneration

To consider and (if thought fit) pass the following Resolutions: -

(i) "That the Directors be and are hereby empowered to fix the remuneration of the Directors".

(ii) "That the amount of $18,057,000.00 shown in the accounts of the company for the year ended December 31, 2012 for non-executive Directors' fees be and is hereby approved".

RESOLUTION 5

5. To fix the remuneration of PricewaterhouseCoopers as Auditors, and to determine the manner in which the Auditors' remuneration is to be fixed.

To consider and (if thought fit) pass the following Resolution: -

"THAT the Directors be and are hereby authorised to fix the remuneration of the Auditors at a figure to be agreed with them".

6. To consider any other business that may be conducted at an Annual General Meeting.

By Order of the Board

Gene M. Douglas
Company Secretary

Registered Office
The Sagicor Bank Building
60 Knutsford Boulevard
Kingston 5, Jamaica
March 28, 2013

Note:In accordance with section 131 of the Companies Act, 2004, a member entitled to attend and vote at the meeting is entitled to appoint a Proxy to attend and vote in his stead. A proxy need not be a member of the Company. A suitable Form of Proxy is enclosed. Forms of Proxy must be lodged at the Company's registered office at least forty-eight hours before the time appointed for holding the meeting. The Proxy Form should bear the stamp duty of $100 before being signed. The stamp duty may be paid by adhesive stamp(s) and are to be cancelled by the person executing the Proxy.

A corporate shareholder may (instead of appointing a proxy) appoint a representative in accordance with regulation 77 of the Company's Articles of Association. A copy of regulation 77 is outlined on the enclosed Proxy.

From this point:
FORWARD

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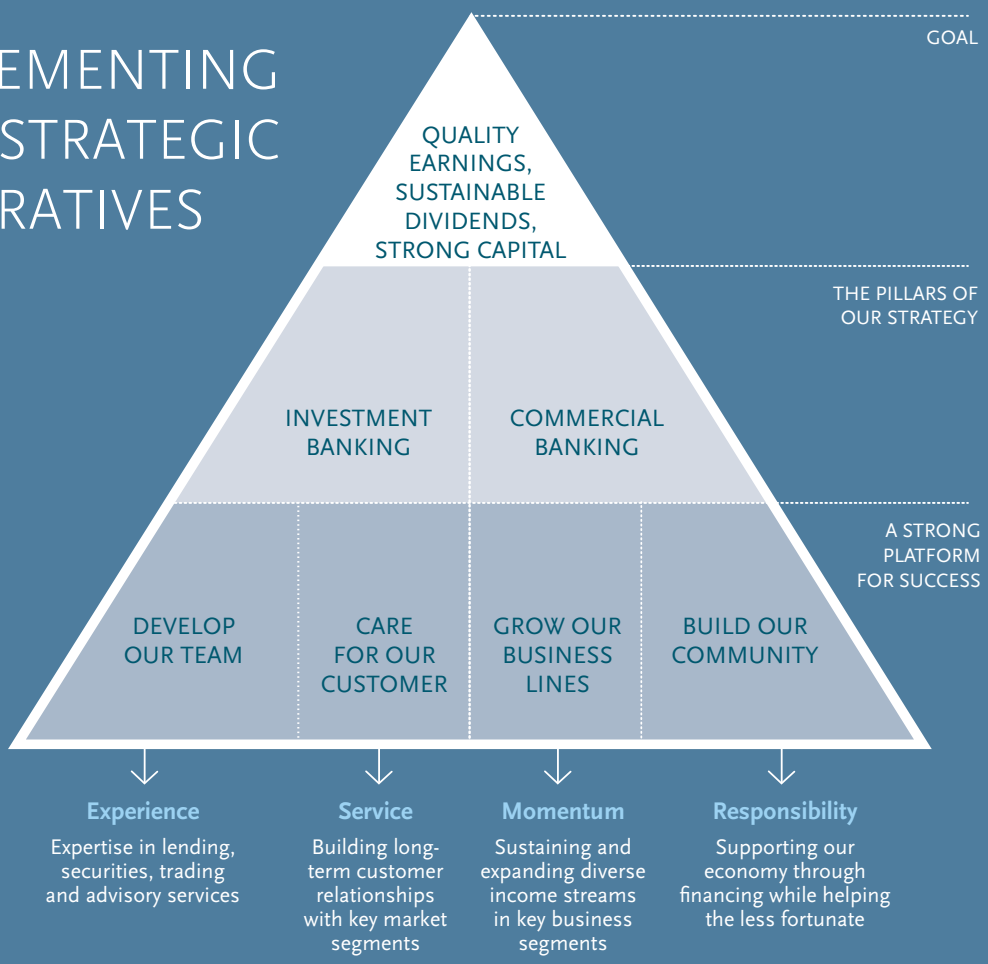
Strategy & Business Model

IMPLEMENTING OUR STRATEGIC IMPERATIVES



In 2012, we accelerated implementation of our three-year strategic plan. Here we provide you with a scorecard of our progress.

DEEPEN CUSTOMER LOYALTY

Our customer loyalty measures showed improvement as evidenced by a Net Promoter Score of 43, the growing number of clients who invest in two or more products, and the significant new business driven by client referrals. The recently located and expanded Ocho Rios and Montego Bay branches also serve to enhance the customer experience.

ACCELERATE PROFITABLE GROWTH

Within a challenging economic environment, Sagicor Bank grew its accounts by 21%, while Sagicor Investments experienced new unit trust account growth of 11% as well as a 19% increase in custody accounts. Our new commercial banking products, PriorityMe, Business Max and easy Auto Loan-attracted good business.

DEVELOP LEADERS AT EVERY LEVEL

"Service First" remains a priority at Sagicor Bank. Our team logged 8,366 hours of training (average of 28 hours per team member), to strengthen our technical, supervisory and leadership skills within the organisation. Each team member also participated in a two-day "Empowerment" workshop designed to instil confidence in making timely and effective decisions.

SERVE OUR COMMUNITIES BETTER

Our team members, both individually and as a team, engage in activities which serve to positively impact our communities. Through the support of various Health, Education and Sport-based initiatives, we have contributed significantly to improving the lives of our fellow Jamaicans, especially our children. Our signature fund-raiser Sigma Corporate Run, garnered the participation of 16,000 persons and raised $33.18 million to assist in the construction of a cardiac wing at the Bustamante Hospital for Children.

ECONOMIC REVIEW

In reviewing the prevailing economic environment throughout 2012, we have highlighted data and trends that helped to influence our decisions and impacted our business and the financial results. Understanding the potential effects of emerging economic trends – locally, regionally and internationally, is important in managing the performance of your financial institution over the short and medium term. Analysis of data and the insights provided help us to identify opportunities while preparing for potential shifts in the direction of investment and credit markets.

Changing Investment Climate

During 2012, the local economy faced a range of continuing challenges that saw an emerging and persistent diminution in confidence, particularly in the second half of the year. The economic data and its red flag impact on markets were stark and highlighted as follows:

During 2012, the local economy faced a range of continuing challenges that saw an emerging and persistent diminution in confidence, particularly in the second half of the year.

1. **Jamaica's fiscal deficit for April to December was 3.6% of GDP.**
2. **Jamaica's debt to GDP was around 140%.**
3. **Jamaica's significant persistent current account deficit for January to September was US$1.28 billion.**
4. **Jamaica's GDP growth averaged -1% over the last five years.**
5. **Jamaica's social environment - measured by crime and unemployment persisted at unacceptable levels.**
6. **Jamaica's energy cost at approximately US$0.40 per KWH remained a major economic retardant.**

These well-publicised statistics resulted in a slowdown in financing available to the government from the local markets as investors became more concerned about the country's future prospects. External financing was unavailable while subscription levels for new local debt offers were very weak. These conditions led to an active engagement between the GOJ and the IMF, as well as other international lending agencies, intended at arriving at an agreement to support the forging of a new path for Jamaica.

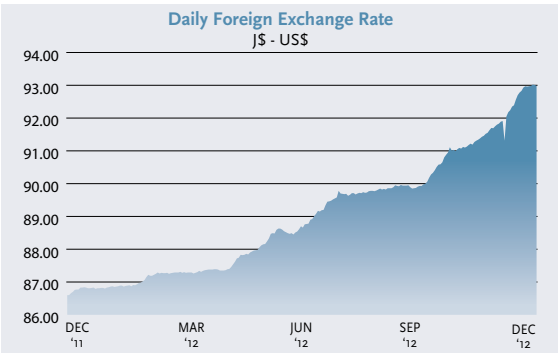
That path to stability is paved with significant prescriptions to eliminate the fiscal deficit and heavy indebtedness through new taxes, public sector reform, internal debt restructuring, divestment of government assets and other related economic reforms.

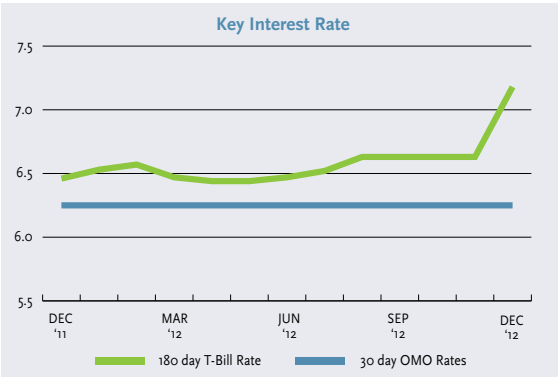
ECONOMIC REVIEW (Cont'd)

GOJ's Fiscal Performance: Apr - Dec 2012				
(in billions of Jamaican Dollars)				
	Apr - Dec 2012	Budget	Apr - Dec 2011	Change
Revenues	$240.4	$255.0	$231.4	Improved
Expenditure	$287.6	$300.4	$287.8	No change
Primary Surplus	$39.1	$45.8	$26.6	Improved
Fiscal Deficit	($47.19)	($45.42)	($56.34)	Improved

GOJ's Fiscal Performance

For the period April to December 2012, revenues under-performed the budget by $14.6 billion as declining corporate profits and shrinking consumption taxes reflected a broad contraction in economic activities; belts predictably tightened in reaction to the slowdown and uncertainty. Despite marginal improvements over 2011 as reflected in the table, deep concerns were widely expressed regarding the medium-term direction of the economy, even with the advent of an IMF agreement. The IMF required completion of certain key actions by the GOJ as conditions precedent to finalisation of a funding arrangement expected in 2013.





Production & Balance of Payments

The domestic economy contracted by 0.3% in 2012 as weak domestic demand and slower exports impacted performance. Forestry & Fishing (+2.9%), Hotels & Restaurants (+1.5% influenced by higher tourist arrivals) and Finance (+0.7% as commercial bank lending rose 15.6%) were the bright sparks during the year tempering the overall decline. Mining exports, a victim of expensive Jamaican energy, saw demand for alumina from Jamaica curtailed while Construction (-3.3%) and Manufacturing (-0.3%) also contracted. Overall 7 of 12 economic subsectors measured posted negative growth.

The current account deficit for January to September improved from -US$1.4 billion to -US$1.3 billion in 2012, but this was still a significant gap for a small economy like Jamaica. Despite this improvement, the NIR fell by US$841 million to US$1.1 billion, and remained on a continuing negative trend.

ECONOMIC REVIEW (Cont'd)

INDUSTRY PERFORMANCE		
INDUSTRY	**ESTIMATED OUTCOME**	**REASON**
		DECLINE ↓
Mining and Quarrying	-9.3%	Reduced demand from main source market
Transport, Storage & Communication	-1.8%	A decline in the air transport component and a downturn in the volume of cargo handled at the ports
Construction Industry	-3.3%	Due largely to a decline in building construction component of the industry
Manufacturing Industry	-0.3%	The food, beverage and tobacco component recorded lower output
		GROWTH ↑
Hotel & Restaurant Industry	1.5%	Increased tourism arrivals were recorded for the year
Agriculture, Forestry & Fishing Industry	2.9%	Improved production in the traditional export crop and other agriculture crops.
Finance and Insurance Industry	0.7%	Influenced largely by the increase in the stock of loan and advances outstanding at commercial banks

During 2012, interest rates on securities remained relatively stable with the BOJ maintaining its 30-day signal rate at 6.25% during the year.

The IMF estimated global economic growth for 2012 of 3.2% fell short of its initial forecast of 3.5%

Currency and Interest Rates

The JA$ depreciated 7.2% against the US$ in 2012, closing the year at $92.98, with most of that change occurring in the fourth quarter in response to the delay in finalising a new IMF Agreement as well as the significant decline in the NIR.

Inflation touched up from 6% in 2011 to 8% in 2012. Oil and energy-related prices pushed the CPI, despite improved domestic food production at very competitive prices, which helped to offset this imported inflation.

During 2012, interest rates on securities remained relatively stable with the BOJ maintaining its 30-day signal rate at 6.25% during the year. The 180-day T-Bill traded around a 6.5% yield for most of the year until year-end when yields rose to 7.18% on weak subscriptions.

ECONOMIC REVIEW (Cont'd)

International Developments

The IMF estimated global economic growth for 2012 of 3.2% fell short of its initial forecast of 3.5% as weaker growth in most developed countries and slowing economies among developing nations impacted output. The sovereign debt crisis in Europe, major policy differences within the U.S. political directorate and slowing economies in Asia, have investors cautious about expansion and new hiring across many markets. Employment growth, consumer spending and business investments improved but remained constrained.

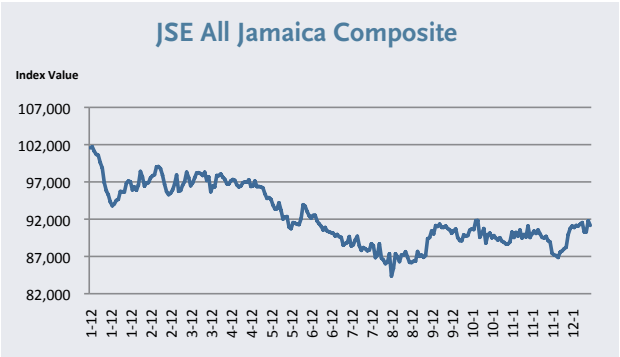
Measures of Wealth

Declining corporate earnings from 19 listed companies on the Main Market, along with other market uncertainties, pushed the Jamaican stock market downwards in 2012 as the All Jamaica Composite fell 11%. The market's performance was tempered by a raft of new taxes announced in the first half of 2012, negatively impacting the performance of the financial companies listed on the JSE. Speculation about the new IMF agreement and its impact on future GOJ budgets added to investor worries. The Junior Market was not immune to the concerns, pulling back 14% despite four new market listings in 2012.

The US stock market return, as measured by the broad S&P500 Index, improved during 2012, ending the year up, at a respectable 13%.

Jamaica's global bonds, the darling of many individual and institutional investment portfolios in recent years, saw a reversal in prices and an uptick in yields during 2012. Two benchmark bonds, the 2019's and 2039's, saw prices fall and yields rise. The 2039's price fell 4 points to 88.75 and its yield rose 0.45% to 9.20%, while the 2019's saw a more modest price decline due to its shorter maturity, moving from almost par at 99.25 to a price of 98. Its yield rose 0.32% to 8.47% at the end of 2012. The declines noted were also a reflection of the underlying uncertainty expressed throughout these discussions on the Jamaican economy.

We expect that local investors will begin to look for new asset classes for portfolio reallocation and diversification. Corporate bonds and interest-bearing preference shares issued by strong corporate entities will begin to find their way into more portfolios. Real estate is also likely to benefit from this shift away from GOJ bonds and we have already begun to see the signs of realignment. We have through our Sagicor Sigma funds, begun to identify new investment options for all classes of investors. In 2012, we created five new investment options as we seek to provide the market with products that will appeal to a wider audience.



Outlook

It is widely expected, despite the uncertainty, that an IMF agreement supplemented by support from other multilateral agencies will be completed. Many of the actions required by the IMF to fix the fiscal deficit will be severely contractionary. The challenge for the private sector and the government will be to identify prospects for investment and growth in an environment where the outlook is weak. These conditions require a degree of decisiveness, cooperation and mutual understanding if the country is to realise a positive outcome and improved circumstances after years of weak planning and execution.

MANAGEMENT'S DISCUSSION & ANALYSIS

"We are in a competitive marketplace where all players were affected by the asset tax of 2012 and other current developments. These have impacted our earnings and value, and will require some re-thinking of our organisational structure. This will not change our approach to understanding our customers' needs and offering the best combination of products, services and value, or our drive to generate solid returns for shareholders."

PETER KNIBB
CHIEF FINANCIAL OFFICER

STRONG FINANCIAL FOUNDATIONS

Sagicor Investments' performance as reported in our 2012 results reflects a business with diversified services that continues to demonstrate an ability to generate revenues and profits across most market segments and in varying market conditions. The diversity of our company is demonstrated in the following licences, memberships and designations that support our products and services offered to our customers.

	FINANCIAL SERVICES COMMISSION	BANK OF JAMAICA	JAMAICA STOCK EXCHANGE
SAGICOR INVESTMENTS JAMAICA LIMITED >>	LICENSED SECURITIES DEALER	PRIMARY DEALER	LISTED MEMBER
	LICENSED UNIT TRUST MANAGER		LICENSED STOCK BROKER
SAGICOR BANK JAMAICA LIMITED >>		LICENSED COMMERCIAL BANK	
		AUTHORISED FOREIGN EXCHANGE DEALER	

MANAGEMENT'S DISCUSSION & ANALYSIS (CONT'D)

PEER GROUP ANALYSIS

We thought it would be interesting before going through a detailed analysis, for shareholders to review our performance through an assessment of five key financial ratios that collectively capture the performance of Sagicor Investments relative to a local peer group and institutions in the USA. We found the results summarised below, useful in helping to highlight areas for improvement going forward.

Peer Group Analysis

Ratios	Sagicor Investments	Jamaica[1]	USA[2]
Net Interest Margin (Average Total Assets)	3.9%	5.5%	3.3%
Operating Efficiency	50.6%	59.0%	N/A
Non-Performing Loans / Loans	5.5%	6.8%[3]	3.6%
Return on Average Assets	1.7%	2.0%	1.0%
Return on Average Equity	12.1%	14.1%	8.6%

1. Peer group ratios represent the simple average of NCB Group, Scotia Group, Scotia Investments Ltd, JMMB, Mayberry and FCIB based on the most recently available audited financial statements and including Sagicor Investments.
2. USA data represents extracts from the USA Federal Deposit Insurance Corporation.
3. Data obtained from BOJ Prudential reports for December 2012.

GROUP PERFORMANCE

Net Profit after Taxation of $1.45 billion for the year ended December 31, 2012, a decrease of 16% over last year's $1.72 billion.

Sagicor Investments reported Net Profit after Taxation of $1.45 billion for the year ended December 31, 2012, a decrease of 16% compared to last year's $1.72 billion. Earnings per share declined 16% to $2.63 and return on opening Shareholders' Equity was 12.1% compared to 16.2% in 2011. Ordinary dividends paid during the year amounted to $725 million ($1.313 per share) compared to $705 million ($1.28 per share) distributed during the previous year. Our dividend payout ratio in 2012 was 50%, compared to 2011's distribution of 41% of Net Profit.

This performance was the result of a focus on three key areas: pursuit of strategies to deepen relationships with customers and appeal to and develop new market niches; a keen focus on risk management given our operating environment and external influences; and finally, strengthening our team approach at all levels in Sagicor Investments.

Our review begins with a high-level assessment of our Revenues and Expenses in the following table. It outlines the consolidated income and expense accounts as a percentage of total income for the last two financial years for comparative purposes and ease of assessment in identifying material changes.

MANAGEMENT'S DISCUSSION & ANALYSIS (CONT'D)

Income Statement	2012		2011	
	$'000	%	$'000	%
Operating Income				
Net interest income	3,017,034	73%	2,940,090	73%
Other income	1,099,350	27%	1,081,194	27%
	4,116,384	100%	4,021,284	100%
Operating Expenses				
Staff costs	1,121,711	27%	1,003,253	25%
Impairment reversal/charges	16,658	0%	(28,773)	-1%
Depreciation & Amortisation	77,543	2%	84,959	2%
Other expenses	865,339	21%	652,543	16%
	2,081,251	50%	1,711,982	42%
Profit before Taxation	2,035,133	50%	2,309,302	58%
Taxation	(582,457)	-14%	(588,646)	-15%
Net Profit	1,452,676	36%	1,720,656	43%

ANALYSIS OF INTEREST INCOME AND EXPENSE

Net Interest Income comprises income generated from our three asset portfolios - fixed income securities, loans and leases, less the funding cost of our liability funding - repurchase agreements, deposits and bank loans. In 2012, our Net Interest Income rose 3% to $3.02 billion from $2.94 billion.

Earning assets as the combined portfolios climbed 3% to $76.1 billion at year-end

Net Interest Income growth was generated primarily through an increase in earning assets as the combined portfolios climbed 3% to $76.1 billion at year-end versus $74.1 billion in 2011. Our securities portfolio rose by $5.3 billion to $70.9 billion at year-end while our Loan and Lease assets rose by $132 million to $9.4 billion. Our Net Interest Margin was 3.92% compared to 4.15% in 2011, reflecting the continuing downward trend in interest rates.

The average investment yield (interest income divided by average balances) for investments was 7.98% in 2012 versus 8.35% in 2011, while the average yield on loans was 9.61% in 2012 versus 10.58% in 2011. Our portfolios include significant US$-denominated components, influencing returns as foreign currency yields were less volatile. The average interest rate paid (interest expense divided by average balances) for deposit and repo liabilities was 4.66% in 2012 versus 4.89% in 2011.

MANAGEMENT'S DISCUSSION & ANALYSIS (CONT'D)

Analysis of Interest Income and Interest Expense

The following table outlines information relating to our interest-earning assets and interest-bearing liabilities for the periods indicated. All yield and rate information is calculated on an annualised basis by dividing the income or expense item for the period by the average balances during the period of the appropriate balance sheet item. Net Interest Margin is calculated by dividing Net Interest Income by average interest-earning assets. Net Interest Spread is the difference between the yield earned on average interest-earning assets and the rate paid on average on interest-bearing liabilities.

	2012			2011		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
	$'000	$'000	%	$'000	$'000	%
Interest-earning assets:						
Investment	67,725,035	5,405,555	7.98%	61,508,212	5,137,414	8.35%
Loans and leases	9,323,700	895,901	9.61%	9,379,383	992,666	10.58%
Total interest-earning assets	77,048,735	6,301,456		70,887,594	6,130,080	
Interest-bearing liabilities:						
Customer deposits and repos	69,022,346	3,219,102	4.66%	61,922,721	3,028,114	4.89%
Borrowed funds and preference shares	616,383	65,320	10.60%	1,276,766	161,876	12.68%
Total interest-bearing liabilities	69,638,729	3,284,422		63,199,487	3,189,990	
Excess of average interest-earning assets over average interest bearing liabilities	7,410,006			7,688,108		
Net interest income		3,017,034			2,940,090	
Net interest margin			3.92%			4.15%
Ratio of interest-earning assets over interest bearing liabilities	1.11 : 1			1.12 : 1		

Sagicor Investments : 3.9%

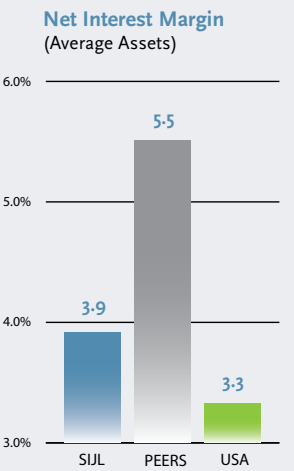
Peer Group : 5.5%

(Range : Low 2.8%, High 9.0%)

USA : 3.3%

The results for our peer include 3 commercial banking groups, which typically enjoy wider margins due to their ability to source lower cost saving and current accounts funding through their wide branch networks.

Another key ratio reflecting the efficiency of our Treasury Division's management of Sagicor Investments' balance sheet is the ratio of interest-earning assets to interest-bearing liabilities. This ratio declined marginally to 1.11: 1 at year-end (2011- 1.12:1).



MANAGEMENT'S DISCUSSION & ANALYSIS (CONT'D)

Non-Interest Income

Non-interest Income grew 2% from $1,081 million in 2011 to $1,099 million in 2012. These revenues are comprised primarily of securities trading gains, asset management fees, FX trading and translation gains and other fee-earning activities. The following table details our performance in a number of areas important to our profitability and in delivering value-added services to customers.

Non-interest income grew 2% from $1,081 million in 2011 to $1,099 million in 2012.

Non- Interest Income

	2012 $'000	2011 $'000	Change
Securities trading gains	462,386	493,194	-6%
Asset management fees	134,240	250,507	-46%
FX trading and translation gains	246,879	144,140	71%
Brokerage, dividend and equities income	46,468	49,389	-6%
Other income	104,880	48,511	116%
Trust fees	50,321	47,751	5%
Credit fees	38,313	42,203	-9%
Structured products	15,863	5,499	188%
	1,099,350	1,081,194	2%

Securities Trading Gains — Sagicor Investments is one of 11 BOJ Primary Dealers and is actively involved in both primary and secondary market trading, ensuring that our clients have access to liquidity and securities of their choice.

Asset Management Fees — Sagicor Investments derives fees primarily from its Unit Trust operations and contracts with a number of institutional investors.

Foreign Exchange Trading & Translation — Sagicor Bank ranked 3rd in FX trading with a 5% market share in 2012. This year we reported a translation gain of $138 million versus $17 millon in 2011 as the JA$ depreciated 7.2% in 2012 compared to 0.9% during the prior year.

Stockbroking — We executed 27% of the JSE market's trading value and was the top broker in 2012. We have consistently maintained a top 2 ranking since 2006. We also have a small but growing business in U.S. equities serving both individual and institutional investors.

We executed 27% of the JSE market's trading value and was the top broker in 2012. We have consistently maintained a top 2 ranking since 2006.

MANAGEMENT'S DISCUSSION & ANALYSIS (CONT'D)

Operating Expense

Operating costs increased 22% to $2,081 million, compared to $1,712 million for the prior year.

Operating costs increased 22% to $2,081 million, compared to $1,712 million for the prior year. Team member costs rose 12% as a result of annual salary adjustments and incentives. Our Impairment Charges reflect a charge of $17 million compared to a credit in the prior year of $29 million. Occupancy costs increased 20% from $127 million to $151 million influenced by costs associated with the relocation of our Montego Bay and Ocho Rios branches, contractual increases and higher energy-related costs. Other Expenses climbed largely due to an increase in the Asset Tax imposed for regulated financial companies, technology costs and higher marketing expenditure due to rebranding.

Our Operating Efficiency Ratio (Operating Expense / Operating Income) declined to 50.6% compared to 42.6% in 2011. This ratio was negatively impacted by the 2.4% growth in Operating Income which was significantly lower than the 21.6% growth in Operating Expenses.

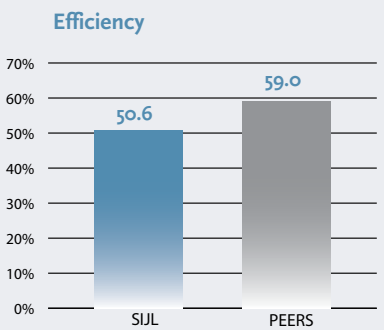
Operating Expenses

	2012 $'000		2011 $'000	
Staff costs	1,121,711	54%	1,003,253	59%
Impairment reversal/charges	16,658	1%	(28,773)	-2%
Occupancy costs	151,234	7%	126,522	7%
Other expenses	791,648	38%	610,980	36%
Total	2,081,251	100%	1,711,982	100%
Efficiency ratio	50.6%		42.6%	

Peer Group : 59.0%
(Range : Low 33.2%, High 99.3%)

Sagicor Investments : 50.6%

Sagicor Investments had the second best efficiency ratio for the period under review



MANAGEMENT'S DISCUSSION & ANALYSIS (CONT'D)

Taxation

The effective tax rate increased to 28.6% from the 25.5% reflected in 2011. This was largely due to the introduction of a new asset tax which was not an allowable expense for tax purposes. Tax on profits differs from the theoretical amount that would normally arise using the statutory rate of 33 1/3% as follows:

Taxation

	2012 $'000	2011 $'000
Profit before taxation	2,035,133	2,309,302
Tax calculated at 33 1/3%	678,378	769,767
Adjusted for the effect of:		
Income not subject to tax	(154,381)	(175,163)
Asset tax not deductible for taxation purposes	36,757	-
Prior year under/(over) provision	13,383	(127)
Net effect of other charges and allowances	8,320	(5,831)
Tax Expense	582,457	588,646
Effective tax rate	28.6%	25.5%

Summary of Quarterly Results

Highlighted below are our quarterly results for 2012 and the prior year. Brief comments below capture the main factors influencing the quarterly results during 2012, versus the prior year.

Summary of Quarterly Results

	2012				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net interest income ($M)	752	755	765	745	756	675	726	783
Non-interest income ($M)	337	186	248	328	304	292	305	180
Total operating income ($M)	1,090	942	1,012	1,072	1,060	967	1,030	964
Operating expenses ($M)	466	486	550	579	385	466	441	420
Net income ($M)	452	329	322	350	503	411	424	383
Earnings per share ($)	0.82	0.59	0.59	$0.63	0.92	0.74	0.77	0.69
Return on opening equity (%)	15.1%	11.0%	10.8%	11.7%	18.9%	15.5%	16.0%	14.4%
Dividends paid ($M)	410	-	315	-	341	-	364	-
Total assets ($M)	88,796	88,469	85,374	88,234	76,340	78,232	80,228	80,204
Stockholders' equity ($M)	11,981	12,287	11,946	12,023	11,197	12,099	11,713	11,959
Closing share price ($)	26.48	22.04	22.00	22.14	19.20	21.55	26.15	27.00

MANAGEMENT'S DISCUSSION & ANALYSIS (CONT'D)

Q1 – Net Income fell 10%. Despite a 10% growth in earning assets, interest margins contracted. Non-interest Expense also rose 21%, eroding improved trading gains, and ultimately biting into Q1 profits.

Q2 – Net Income contracted 20%. Net Interest Income jumped 12% but weak trading conditions and continued growth in costs, including an increased asset tax on the financial sector, impacted Q2 profits.

Q3 – Net Income dropped 24%. Net Interest Income continued to perform, but operating costs continue to rise as a faster pace with the increased software licensing costs, energy, and the build-out of two new branches and attendant costs. Market uncertainty also began to creep in, reducing trading and fee opportunities.

Q4 – Net Income declined 9%. Net Interest Income eroded marginally, and while trading and other income rose, rebranding expenses from "Pan Caribbean" to "Sagicor" along with the asset tax, ultimately hurt Q4 profits.

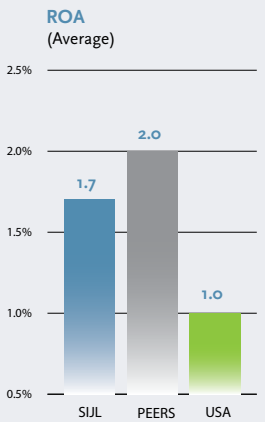
Balance Sheet & Asset Quality

The consolidated balance sheet grew 10% to $88.2 billion in Total Assets compared to $80.2 billion at December 2011. Our investment portfolio increased by 8% to $70.9 billion while Loans and Leases grew by 1% and $9.4 billion.

Peer Group : 2.0%
(Range : Low -0.2%, High 3.1%)

Sagicor Investments : 1.7%

USA : 1%



Credit Quality

Non-performing Loans as a percentage of Total Assets were stable at 0.6%, better than the industry average of 3.1%.

During 2012, we maintained our credit underwriting standards. Loan quality remains acceptable but reflected deterioration as we are not immune to our domestic environment. At year-end, Non-performing Loans and Leases were $548 million or 5.7% of the portfolio versus $445 million or 4.7% in 2011. While this compares favourably with the current industry average of 6.8%, we are determined to reverse this trend. Loan provisions were 90% of non-performing loan assets at year-end compared to the industry average of 93%. Sagicor Investments' Non-performing Loans as a percentage of Total Assets was stable at 0.6%, better than the industry average of 3.1%. (Industry source: BOJ Prudential Indicators, December 2012).

Liquidity

We maintained sufficient liquid assets to ensure the institution's ability to meet all payment obligations associated with financial liabilities and fulfil commitments to lend, fund operational needs and to take advantage of or respond to unexpected situations. At year-end, our liquidity stood at $5.1 billion, compared to $3.4 billion at December 2011.

MANAGEMENT'S DISCUSSION & ANALYSIS (CONT'D)

Investments and Securities Portfolio

The following table details the book values of our investments in Jamaican Dollars. The categories used are as follows:

- **Placements** - funds placed on a short-term basis with other financial institutions.
- **Trading securities** - investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price.
- **Reverse repurchase agreements** – securities purchased with the agreement to sell them at a higher price at a specific future date.
- **Available-for-sale investments** – investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates.
- **Held-to-maturity investments** – investments intended to be held to maturity.
- **Derivative financial instruments** - securities or contracts used to manage our credit, market, interest rate or currency risks, and also to provide risk management solutions for customers.
- **Pledged assets** - available-for-sale securities pledged, for which the transferee has a right by contract or custom to sell or re-pledge the collateral.

Investments & Securities

	2012		2011	
	$'000	%	$'000	%
Category				
Placements	355,970	0%	145,373	0%
Trading investments	4,495,432	6%	610,940	1%
Reverse repurchase agreements	1,783,514	3%	991,904	2%
Available-for-sale investments	54,610,762	76%	53,661,364	81%
Held-to-maturity investments	1,853,904	3%	1,715,800	3%
Derivative financial instruments	4,253,104	6%	839,420	1%
Pledged assets	3,943,434	6%	7,831,016	12%
	71,296,120	100%	65,795,817	100%
Currency				
Jamaican Dollar	33,769,702	47%	36,766,994	56%
United States Dollar	32,547,520	46%	27,856,040	42%
Euro	4,354,031	6%	752,545	1%
Great Britain Pound	624,867	1%	420,238	1%
Total Portfolio	71,296,120	100%	65,795,817	100%

MANAGEMENT'S DISCUSSION & ANALYSIS (CONT'D)

Credit Portfolio

At year-end, our Total Net Loan Portfolio, including finance leases, amounted to J$9.39 billion (2011 - J$9.26 billion), or 11% of our Total Assets.

Our lending activities are focused on meeting the needs of our customers in the Individual, SME and Corporate market segments, with an underwriting process that involves a thorough screening and credit analysis process. Our policy is to lend principally on an adequately secured basis. At year-end, our Total Net Loan Portfolio, including finance leases, amounted to J$9.39 billion (2011 - J$9.26 billion), or 11% of our Total Assets (2011 - 12%). The average interest rate received (interest income divided by average balances) for loans and leases were 9.61% (2011 - 10.58%). At December 31, 2012, 77% of our portfolio was US$-denominated.

The following table outlines our loans and leases portfolio classified by major industry and currency.

Loans & Leases Portfolio

	2012		2011	
	$'000		$'000	
Industry				
Professional and other services	1,523,018	16%	2,351,894	25%
Tourism, Entertainment	1,507,238	16%	1,764,268	19%
Distribution	2,438,196	25%	1,691,766	18%
Construction, Real Estate	1,506,634	16%	1,503,362	16%
Agriculture, Fishing, Mining	1,415,453	15%	1,229,995	13%
Personal	771,127	8%	653,923	7%
Manufacturing	86,772	1%	179,515	2%
Transport, Storage, Communication	284,268	3%	41,261	0%
Total	9,532,706	100%	9,415,984	100%
Provision	(239,926)		(250,979)	
Net	9,292,780		9,165,005	
Interest Receivable	96,743		92,875	
Total Portfolio	9,389,523		9,257,880	
Currency				
Jamaican Dollar	2,168,956	23%	2,517,094	27%
United States Dollar	7,220,567	77%	6,740,786	73%
Total Portfolio	9,389,523	100%	9,257,880	100%

MANAGEMENT'S DISCUSSION & ANALYSIS (CONT'D)

Risk Elements of our Credit Portfolio

We assess the probability of default of individual counterparties and segment them using five rating classes depending on their probability of default. The following Table shows the classification according to their internal rating class and reflects some improvement in the relative proportion of the portfolio when compared to the prior year.

Group's and Company's Rating

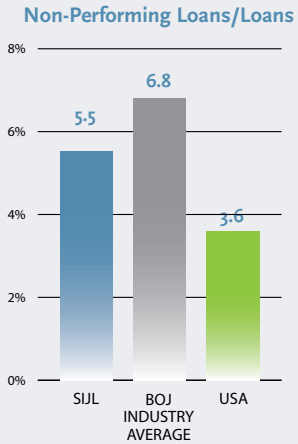
	2012		2011	
	$'000		$'000	
Rating Class				
Standard	8,663,076	91%	8,580,987	91%
Potential problem credit	273,082	3%	83,480	1%
Sub-standard	140,004	1%	303,314	3%
Doubtful	65,259	1%	135,110	2%
Loss	391,284	4%	313,093	3%
	9,532,705	100%	9,415,984	100%

BOJ Industry Average : 6.8%
(Peer Group Range : Low 3.7%, High 91.6%)

Sagicor Investments : 5.5%

USA : 3.6%

Sagicor Investments achieved the second best score in this category when compared to our peers.



Provisioning

Loans and leases that are past due for over 89 days are classified as non-accrual loans for regulatory reporting purposes. Loans may be placed on non-accrual earlier if full collection of principal and interest on the loan is in doubt. Exceptions to this non-accrual policy may be considered only if the loan is cash-secured and is in the process of collection.

At the balance sheet date total provisions amounted to $492 million (2011 - $500 million).

Regulatory provisioning and IFRS requirements are different, as IFRS requires provisions based on present value estimates of future cash flows. At balance sheet date IFRS provisions were $240 million (2011 - $251 million). Statutory or other regulatory loan loss reserves that differ from the IFRS provisions are dealt with in a non-distributable Loan Loss Reserve. At the balance sheet date the amount carried in the Loan Loss Reserve in Stockholders' Equity amounted to $252 million (2011 - $249 million).

MANAGEMENT'S DISCUSSION & ANALYSIS (CONT'D)

Summary of Loan Loss Experience

The following table summarises our Loan Loss Experience for the past two years.

Summary of Loan Loss Experience	2012 $'000	2011 $'000
Total provision at beginning of year	500,458	355,240
Retained earnings transfer	(8,102)	106,765
Currency revaluations and other adjustments	18,932	2,321
Provided during the year	79,242	40,664
Recoveries	(67,627)	(4,532)
Net charge/(credit) to the profit and loss account	11,615	36,132
Write-offs	(31,244)	-
Total provision at end of year	491,659	500,458
Non-performing Loans & Leases	547,800	444,932
Loan Loss Coverage	89.8%	112.5%

Interest-Bearing Liabilities

The Group's interest-bearing liabilities consist of repurchase agreements, deposits and other accounts and borrowed funds. At the year-end:

- Total securities sold under repurchase agreements of $57.60 billion (2011 - $54.61 billion), representing 76% of total liabilities (2011 - 80%)
- Customer deposits and other accounts were $11.22 billion (2011 - $10.60 billion), representing 15% of the Group's total liabilities (2011 - 16%)
- Total borrowings were $469 million (2011 - $764 Million), representing 1% of the Group's total liabilities (2011 - 1%)

Stockholders' Equity

Stockholders' Equity increased $64.13 million or 1% to $12.02 billion at the end of 2012.

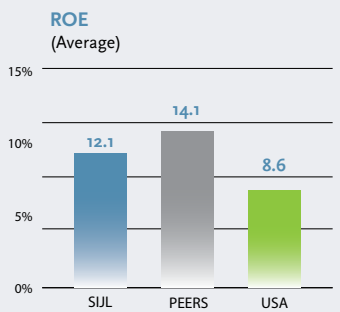
Stockholders' Equity increased $64.13 million or 1% to $12.02 billion at the end of 2012. This improvement was largely the result of comprehensive income of $772 million reported, less dividends of $725 million.

Peer Group : 14.1%
(Range : Low 1.1%, High 22.1%)

Sagicor Investments : 12.1%

USA : 8.6%

Sagicor Investments is ranked fifth in this category.



MANAGEMENT'S DISCUSSION & ANALYSIS (CONT'D)

Capital Adequacy

Under the Financial Services Commission's (FSC) and the Bank of Jamaica's (BOJ) regulatory framework, our securities and banking operations are required to maintain appropriate unconsolidated risk-weighted Capital Adequacy Ratios.

Sagicor Investments, our securities dealer, closed the year with its Capital Adequacy Ratio at 17% and Sagicor Bank, our commercial bank, was 21%. Both reported regulatory ratios exceed the minimum requirements of 10%.

Commencing June 2010, the BOJ and FSC required all regulated financial institutions to allocate capital with 100% credit risk weighting on GOJ foreign currency denominated instruments on a quarterly phased basis. This was fully implemented in June 2012. The FSC also required general and specific market risk charges on securities. Consequently, capital adequacy ratios have declined incrementally from previous levels as the companies adjusted to the new requirements.

Capital Adequacy Ratio of Sagicor Investments stood at 17% and Sagicor Bank at 21%, both exceed regulatory minimum requirement ratio of 10%.

Regulatory Capital

	2012			2011		
	Actual		Minimum	Actual		Minimum
	Ratio %	Amount $'000	Required $'000	Ratio %	Amount $'000	Required $'000
Sagicor Investments Jamaica Ltd	17%	8,852,888	5,157,277	21%	8,422,469	4,014,271
Sagicor Bank Jamaica Ltd	21%	3,151,221	1,486,036	26%	2,639,481	1,034,021

TEN-YEAR STATISTICAL REVIEW

	2012 $'000	2011 $'000	2010 $'000	2009 $'000
SELECTED BALANCE SHEET DATA				
Total Assets	88,234,184	80,203,936	72,622,161	65,245,567
Net Loans & Leases	9,389,523	9,257,880	9,500,885	8,686,218
Performing Loans & Leases	8,984,905	8,971,052	9,256,466	8,541,999
Non-performing Loans & Leases	547,800	444,932	369,003	231,482
Investments Repos & Other Earning Assets	70,940,150	65,650,444	58,371,887	50,364,131
Deposits	11,215,194	10,599,897	9,016,902	8,782,495
Securities Sold Under Repurchase Agreement	57,595,878	54,612,131	49,616,514	43,972,613
Stockholders' Equity	12,023,485	11,959,359	10,624,426	7,907,817
RATIOS				
Capital to Assets	13.6%	14.9%	14.6%	12.1%
Capital to Risk Weighted Assets - SIJL	17.0%	21.0%	47.0%	61.0%
Capital to Risk Weighted Assets - SBJ	21.0%	26.0%	32.0%	33.0%
Asset Growth (%)	10.0%	10.4%	11.3%	2.3%
Equity Growth (%)	0.5%	12.6%	34.4%	11.6%
Investment Securities to Total Assets	80.4%	81.9%	80.4%	77.2%
Interest-earning Assets to Interest-bearing Liabilities	1.16	1.14	1.12	1.06
Net Loans & Leases to Total Assets	10.6%	11.5%	13.1%	13.3%
Net Loans to Customer Deposits	83.7%	87.3%	105.4%	98.9%
Property, Plant & Equipment & Intangible Assets to Total Assets	1.3%	1.2%	1.3%	1.4%
CREDIT QUALITY RATIOS				
Non-performing Loans & Leases to Gross Loans & Leases	5.7%	4.7%	3.8%	2.6%
Non-performing Loans & Leases to Total Assets	0.6%	0.6%	0.5%	0.4%
Non-performing Loans to Net Worth	4.6%	3.7%	3.5%	2.9%
Loan Loss Coverage	89.8%	112.5%	96.3%	149.1%

2008 $'000	Restated 2007 $'000	2006 $'000	2005 $'000	Restated 2004 $'000	2003 $'000
63,772,864	49,797,164	44,739,722	39,946,362	40,873,827	18,338,291
8,441,873	7,157,701	5,527,280	5,019,159	3,822,919	1,142,496
8,235,511	7,028,666	5,406,302	4,902,026	3,669,446	1,034,805
234,114	157,092	157,145	162,286	224,866	223,038
50,195,320	39,888,715	36,580,548	32,343,101	34,590,993	15,500,287
7,457,170	5,489,757	4,476,805	4,203,475	3,422,977	724,892
42,040,112	34,656,325	31,028,959	27,775,290	29,018,610	13,718,164
7,084,189	7,530,930	7,204,134	6,148,806	5,687,489	1,504,537
11.1%	15.1%	16.1%	15.4%	13.9%	8.2%
51.0%	77.0%	79.0%			
16.0%	20.0%	23.0%			
28.1%	11.3%	12.0%	-2.3%	122.9%	31.4%
-5.9%	4.5%	17.2%	8.1%	278.0%	39.1%
78.7%	80.1%	81.8%	81.0%	84.6%	84.5%
1.12	1.13	1.14	1.12	1.13	1.06
13.2%	14.4%	12.4%	12.6%	9.4%	6.2%
113.2%	130.4%	123.5%	119.4%	111.7%	157.6%
1.6%	1.9%	2.0%	2.2%	2.1%	0.3%
2.8%	2.2%	2.8%	3.2%	5.8%	17.7%
0.4%	0.3%	0.4%	0.4%	0.6%	1.2%
3.3%	2.1%	2.2%	2.6%	4.0%	14.8%
99.3%	134.8%	125.2%	145.0%	123.1%	113.0%

TEN-YEAR STATISTICAL REVIEW (CONT'D)

SELECTED INCOME STATEMENT DATA	2012 $'000	2011 $'000	2010 $'000	2009 $'000
REVENUES/EXPENSES				
Gross Operating Income	7,400,806	7,211,274	7,434,840	9,231,105
Net Interest Income	3,017,034	2,940,090	2,746,797	2,620,899
Total Other Income	1,099,350	1,081,194	867,848	874,376
Fee & Commission Income	332,830	392,434	406,039	335,866
Net Trading Income	715,615	656,285	423,640	514,800
Total Operating Income	4,116,384	4,021,284	3,614,645	3,495,275
Total Operating Expenses	2,081,251	1,711,982	1,639,457	1,536,009
Staff Costs	1,121,711	1,003,253	912,537	758,104
Impairment Charges	16,658	(28,773)	101,819	169,484
Depreciation & Amortisation Expenses	77,543	84,959	96,945	110,164
Net Profit After Tax & Minority Interest	1,452,676	1,720,656	1,524,041	1,477,844
RATIOS				
Return on Opening Equity (%)	12.1%	16.2%	19.3%	20.9%
Return on Average Equity (%)	12.1%	15.2%	16.4%	19.7%
Return on Assets at Year End (%)	1.6%	2.1%	2.1%	2.3%
Net Profit Growth (%)	-15.6%	12.9%	3.1%	7.0%
Non-interest Income to Total Operating Income	26.7%	26.9%	24.0%	25.0%
Effective Tax Rate	28.6%	25.5%	22.8%	24.6%
Efficiency	50.6%	42.6%	45.4%	43.9%
SHARE STATISTICS				
Earnings per Share ($)	2.63	3.12	2.78	2.70
Book Value per Share ($)	21.78	21.66	19.33	14.43
Closing Share Price at Year End ($) Last Sale	22.14	27.00	19.50	20.00
Price Change From Last Year (%)	-18.0%	38.5%	-2.5%	66.7%
Change in JSE Index From Last Year (%)	-10.8%	26.5%	13.8%	-4.1%
Price Earnings Ratio	8.42	8.64	7.01	7.42
Market Capitalisation ($'000)	12,224,512	14,907,942	10,716,011	10,958,480
Dividends Paid, Gross ($'000)	724,967	704,884	603,921	684,905
Dividends Paid per Share ($)	1.313	1.28	1.10	1.25
Dividends Yield (%)	5.9%	4.7%	5.7%	6.3%
Dividend Payout Ratio (%)	49.9%	41.0%	39.6%	46.3%
Number of Stock Units at Year End ('000)	552,146	552,146	549,536	547,924
Number of Stockholders	1,605	1,634	1,654	1,627
OTHER DATA				
Number of Offices	5	5	5	5
Number of Team Members	297	292	285	282
Profit per Team Member ($'000)	4,891	5,893	5,348	5,241

2008 $'000	Restated 2007 $'000	2006 $'000	2005 $'000	Restated 2004 $'000	2003 $'000
7,267,325	6,029,013	5,448,793	5,185,343	5,721,057	3,034,553
1,938,913	1,712,179	1,470,305	1,303,060	1,315,045	278,578
1,128,753	849,167	805,328	753,434	446,593	233,617
347,490	323,778	264,709	238,655	128,532	33,248
676,254	519,613	508,300	470,869	245,161	196,679
3,067,666	2,561,346	2,275,633	2,056,494	1,761,638	512,195
1,232,837	886,610	779,511	691,212	618,048	174,582
720,957	468,841	441,552	400,288	275,099	92,785
1,518	11,572	(1,457)	(3,282)	(6,268)	(41,994)
94,980	69,474	51,647	43,279	75,512	6,421
1,380,932	1,212,994	1,112,670	1,031,936	841,692	342,170
18.3%	16.8%	18.1%	18.1%	55.9%	31.6%
18.9%	16.5%	16.7%	17.4%	23.4%	26.5%
2.2%	2.4%	2.5%	2.6%	2.1%	1.9%
13.8%	9.0%	7.8%	22.6%	146.0%	20.3%
36.8%	33.2%	35.4%	36.6%	25.4%	45.6%
24.7%	27.6%	25.6%	24.4%	26.4%	-1.3%
40.2%	34.6%	34.3%	33.6%	35.1%	34.1%
2.52	2.23	2.06	1.92	1.84	1.34
12.93	13.75	13.27	11.44	10.61	5.88
12.00	20.00	23.00	24.30	34.10	6.60
-40.0%	-13.0%	-5.3%	-28.7%	416.7%	15.8%
-30.7%	-0.4%	2.2%	-6.8%	66.7%	48.9%
4.76	8.96	11.14	12.65	18.50	4.93
6,575,088	10,953,320	12,486,148	13,066,304	18,277,293	1,687,363
657,509	490,010	368,225	236,495	-	44,230
1.20	0.90	0.68	0.44	-	0.17
10.0%	4.5%	3.0%	1.8%	0.0%	2.6%
47.6%	40.4%	33.1%	22.9%	0.0%	12.9%
547,924	547,666	542,876	537,708	535,991	255,661
1,621	1,640	1703	1776	1,570	1,213
5	5	5	5	5	1
264	227	219	213	205	69
5,231	5,344	5,081	4,845	4,106	4,959

"In December 2008, the Kingston Live Entertainment (KLE) Group opened its first venture – the Fiction Lounge. Following Fiction's success we had to decide whether we wanted to ride it through its natural life cycle or look at expanding with additional projects in the lifestyle and entertainment business.

That's how the idea of Usain Bolt's Tracks and Records was born. We needed approximately US$1.2 million to execute that venture. When the big banks turned us down, Sagicor Bank believed in us as a young company with a successful but short track record. Once we were able to demonstrate a well-thought out plan with strong financial projections, Sagicor financed US$400,000 and the rest came from the personal funds of the six partners and the profits of Fiction Lounge. Today, both Fiction and Tracks & Records are reporting operational profits.

When we again needed to expand, it was an easy decision to choose Sagicor to manage our Initial Public Offering (IPO) and listing on the Junior Stock Exchange. The Sagicor team executed a highly successful IPO which raised J$97 million within 1 hour of the offer being opened.

We are using the funds raised to cement our footprint in the lifestyle and entertainment arena and opening up more revenue streams. Odyssey Gaming Lounge – a collaboration with Supreme Ventures – opens in February 2013, and we are far advanced in the construction of FAMOUS Nightclub, a 12,000 square foot state-of-the-art nightclub in Portmore, St. Catherine. We are exploring franchising opportunities for Tracks and Records as well as executing further local expansion plans for the Tracks brand. We have also partnered with Sagicor Life Jamaica on a 45-villa luxury vacation property that we call Bessa. The planning stages of this project are well underway."

DEFINING How Entertainment SHOULD BE

Gary Matalon
Director & CEO, KLE Group

We continue to focus on risk management and the governance processes that support our strategy.

3

Governance

FAREWELL TO A VISIONARY, PIONEER AND FRIEND

Almost 30 years ago, a Jamaican visionary thought that the country needed local financial institutions that would help support its development and play a role in creating a wealthy nation.

Dr. the Hon Maurice W. Facey, O.J., J.P., was instrumental in the establishment of Pan Caribbean Merchant Bank and Trafalgar Development Bank in 1983. Both these institutions contributed significant components to what is today Sagicor Investments Jamaica Ltd, an important part of the Jamaican financial landscape.

Maurice William Facey was born on August 12, 1925 in Kingston. He was an avid sportsman and highly competitive athlete. A past student of Jamaica College, he loved to share stories about his schoolboy days at Hope Road where he picked and sold Bombay mangoes – perhaps developing his first taste of entrepreneurship and sales.

At the age of 18, he left Jamaica to serve in the Royal Air Force in England from 1942 to 1946. On his return home, he joined the family business, Cecil B. Facey Limited as a salesman. This successful business, which had been established and built by his father, was sold by Maurice, with his father's blessing in 1958, and the resources used to develop real estate projects, the younger Facey's emerging love.

Maurice Facey's entrepreneurial vision, courage and drive ultimately led to the construction of many of our modern-day landmark commercial and residential buildings in Downtown Kingston, New Kingston, Cross Roads and Manor Park. Under his dynamic and charismatic leadership, Pan-Jam became a catalyst and a significant contributor to diverse and important sectors of the Jamaican economy including Property Development and Management, Insurance, Banking, Manufacturing, Tourism, Agriculture and Trading.

He loved a good challenge, and his favourite battle was undoubtedly Pan-Jam's legendary acquisition in 1969 of Hardware and Lumber Limited. He was also an Investment Banker at heart.

Maurice Facey served on numerous boards in both the public and private sectors, and was a key founding director and past Vice President of the Private Sector Organisation of Jamaica. He had a love for Jamaica's wonderful heritage sites and tourism, which he felt was our most important industry. When enhanced by our culture and history, he believed tourism had the ability to address many of our challenges and lift Jamaica and its people. His opinion was confirmed by David Rockefeller, who shared the very same thoughts and vision on a visit to Jamaica in the 1980s.

A strong patron of the arts, Mr. Facey was founding chairman of the National Gallery of Jamaica. He served in that capacity from 1974 to 1992, and the extensive corporate art collection at Pan-Jam is clear testimony to his active support of local and regional artists. Many students have benefited from his support through scholarships to attend the Caribbean School of Architecture at the University of Technology and also the Edna Manley College of the Visual and Performing Arts. Through the Cecil Boswell Facey Foundation, named for his father, both shared genuine philanthropic genes, he was intimately involved in many activities to help the less fortunate. At the time of his passing, Mr. Facey was Chairman of both the Basic School and the All- Age School at Boys' Town.

Maurice Facey never took any credit for his successes, but often talked about the wonderful people who had supported him along the way, allowing him to be recognised with success that he felt deserved to be shared amongst those persons, including his loving wife, Valerie.

Richard Byles and Donovan Perkins were both hired by Maurice Facey in 1987 and 1993 respectively and rose to become directors of Pan-Jamaican, and remain so today. He was a mentor and a great friend, and they acknowledge and profoundly thank him for the invaluable role he has played in their professional careers.

OUR BOARD OF DIRECTORS

	Richard O. Byles BSc, MSc Chairman	**Donovan H. Perkins** BA (Hons.), MBA	**Philip W. Armstrong** BSc
Board Appointment	**1996**	**2001**	**2012**
Biography	Mr. Byles is the President & CEO of Sagicor Life Jamaica Limited (SLJL). His experience and expertise spans the financial industry to include Life, Health and General Insurance; Asset & Investment Management, Banking, Pension Administration and Re-Insurance Management. He is a member of the Executive Committee of Sagicor Financial Corporation, the parent company of SLJ.	Mr. Perkins has been President & CEO of Sagicor Investments Jamaica Limited since 1993. Prior to joining Sagicor Investments, he worked with Bank of America in Corporate Banking. Under his leadership, the company has grown through a series of mergers and acquisitions into a diversified financial services group today.	Mr. Armstrong is the Deputy CEO and Managing Director of Sagicor Bank Jamaica Limited. He joined the group in 2004 from Citibank locally where he was Resident Vice President. An engineer by training Philip brings over 18 years of securities, derivatives and financial expertise gained from New York and Jamaica.
External Activities	Richard is Chairman of Sagicor Life of Cayman Islands Limited and Desnoes & Geddes Limited. He is also a Director of Pan-Jamaican Investment Trust Limited and Sagicor Bank of Jamaica Limited. He is currently a Vice President of the Private Sector Organisation of Jamaica (PSOJ). He previously served as Chairman of the National Water Commission.	Donovan is Chairman of the Jamaica Stock Exchange, a director of Pan-Jamaican Investment Trust Limited and Jamaica Producers Group Limited. He previously served the public sector as Deputy Chairman of the National Water Commission and as a Director of Jamaica Social Investment Fund and the National Insurance Fund. He also served as Vice President of both the Jamaica Bankers Association and the PSOJ.	Philip is a graduate of Embry Riddle Aeronautical University and is currently the Treasurer of the Jamaica Bankers Association and a Director of British Caribbean Insurance Company.
Committee Membership	Human Resources & Compensation (Chairman)	Risk Management Committee	Risk Management Committee

Peter E. Clarke BA, LLB (Hons)

Jeffrey Cobham
BA (Hons.), Dip. Mgmt

Richard L. Downer CD, FCA

2012	2005	2008
Mr. Clarke is a financial consultant. He was appointed to the Board of Sagicor Investments Jamaica Limited in October, 2012. He is a director of Sagicor Financial Corporation and several other companies with the Group including Sagicor Life Inc., Sagicor Asset Management Trinidad and Tobago Ltd., and Sagicor Life Jamaica Ltd. He holds a Bachelor of Arts degree in History from Yale University and a law degree from Downing College, Cambridge University.	Mr. Cobham sits on the Boards of Sagicor Life Jamaica Limited, Sagicor Property Services Limited, Sagicor Life of the Cayman Islands and several other companies	Mr. Downer is a Director of Sagicor Life Jamaica Limited and chairs Sagicor's Investment and Risk Committee. He is also a Director of Sagicor Bank of Jamaica Limited.
Peter is a former Chairman of the Trinidad and Tobago Stock Exchange and a former director of the Trinidad and Tobago Chamber of Industry and Commerce.	Jeff chairs the Audit Committees of Sagicor Life Jamaica Limited, Salada Foods Limited and Pulse Investments Limited. He is on the board of The Development Bank of Jamaica, and chairs its Enterprise Risk Management Committee. He is the Chancellor's Representative to the UWI's Mona Campus Council and sits on its Finance & General Purposes and Audit Committees	Richard is a member of the Rating Committee of CariCRIS Limited and a Director of Dolphin Cove Limited. He has served on several boards in the public sector and was a former senior partner of PricewaterhouseCoopers in Jamaica
	Audit & Compliance	Audit & Compliance (Chairman)

OUR BOARD OF DIRECTORS (CONT'D)

	Paul A.B. Facey BSc, MBA	**Bruce R.V. James** BSc, MBA	**Peter K. Melhado** BSc, MBA
Board Appointment	**2012**	**2011**	**2004**
Biography	Mr. Facey is the Vice President of Investments for the Pan-Jamaican Group of Companies and has held that position since 2004. He brings to Sagicor Investments Board his substantial experience in Trading, Manufacturing and Finance.	Mr. James has over 15 years of experience in banking. He held many senior positions at Citibank N.A. Jamaica Branch including Vice President in charge of Corporate Banking and Relationship Management. His expertise includes Risk Management and Analysis, marketing of Credit products, Relationship Management and Leadership	Mr. Melhado is President & CEO of ICD Group Limited. He joined Manufacturers Group in 1993 and became its CEO in 1995 until its merger with PanCaribbean in 2004. In that time, he was responsible for the growth and development of Manufacturers leading to the merger with Sigma to create Manufacturers Sigma Merchant Bank, then one of the leading financial and asset management companies in Jamaica.
External Activities	Paul sits on the Boards of Pan-Jamaican Investment Trust Limited, Hardware & Lumber Limited and Sagicor Life Jamaica Limited. He is a member of the Investment and Audit Committees at Sagicor Life Jamaica Limited	Bruce is the President and co-founder of the MVP Track and Field Club and Manager of the Wolmer's Boys' School Track Team. Bruce is a professional track and field analyst across various media, including television and radio. He is also an international motivational speaker.	Peter currently serves as Chairman of Sagicor Bank Jamaica Limited, CGM Gallagher, Group, West Indies Home Contractors, American International School of Kingston,and Industrial Chemical Company. His current directorships include British Caribbean Insurance Company, Couples Resorts, Port Authority of Jamaica and Red Stripe. He is a former Vice President of the Private Sector Organisation of Jamaica.
Committee Membership	Human Resources & Compensation	Audit & Compliance; Risk Management	Corporate Governance, Ethics & Nomination; Risk Management (Chairman)

Dr. Dodridge D. Miller FCCA, MBA, LLM, LLD (Hons)	**Lisa A. Soares Lewis** BSc (Hons) MBA (Dist) SPHR	**Colin Steele** BBA, CPA, MBA
2005	**2005**	**2004**
Dr. Miller joined the Sagicor Group in 1989 and was appointed Group President and Chief Executive Officer of Sagicor Financial Corporation in July 2002. He is a Fellow of the Association of Chartered Accountants (FCCA) and has more than 25 years of experience in the financial services industry.	Mrs. Lewis is HR Director at Red Stripe (DIAGEO). She is an experienced business executive in Human Resources Management, Banking and General Management Consulting.	Mr. Steele is an entrepreneur in the retail business and a housing developer who began his career as a Certified Public Accountant. He is experienced in lending, capital markets and investment banking.
Dodridge is Chairman of the Board of Sagicor at Lloyd's and is a Director of Sagicor Life Inc, Sagicor USA, Sagicor Bank Jamaica Limited as well as a number of other subsidiaries within the Sagicor Group.	Lisa is a Director of Desnoes & Geddes Limited and has served as a board member and Pension Plan Trustee in the public and private sectors. She is a former Vice President of the Jamaica Employers' Federation and Private Sector Organisation of Jamaica.	Colin has served as a Director of several Government companies including the Port Authority of Jamaica and the University Hospital of the West Indies. He also served as Chairman of the Economic Policy Committee of the Private Sector Organisation of Jamaica.
	Corporate Governance, Ethics & Nomination (Chairman); Human Resources & Compensation	Audit & Compliance; Corporate Governance, Ethics & Nomination; Risk Management

REPORT OF THE DIRECTORS

The Directors hereby submit their report for the twelve months ended December 31, 2012 together with audited accounts for the year ended on that date.

	$'000
Group Profit before Tax	2,035,133
Tax	(582,457)
Profit after Tax	1,452,676
Adjustment between regulatory loan provisioning and IFRS	8,102
Transfer to banking reserves	(498,570)
Current year dividends paid	(724,967)
Unappropriated profits b/f	4,426,959
Unappropriated profits c/f	4,664,200

DIVIDENDS

During the year the Directors approved and paid interim ordinary dividends totalling $1.313 per stock unit. No further dividends have been recommended and the amounts paid will be declared as final.

DIRECTORS

Pursuant to Articles 92 and 93 of the Company's Articles of Incorporation, the Directors retiring by rotation are Messrs. Peter Melhado, Richard O. Byles and Mrs. Lisa A. Soares Lewis who, being eligible, offer themselves for re-election.

Mrs M. Patricia Downes Grant resigned from the board in October 2012 and Mr. Peter Clarke was appointed to replace her. Mr. Paul Facey was appointed to the Board on 1st December 2012. Mr. Clarke and Mr. Facey will retire at this Annual General Meeting and, being eligible, offer themselves for re-election.

AUDITORS

PricewaterhouseCoopers have expressed their willingness to continue in office in accordance with Section 153 of the Companies Act.

By Order of the Board

Gene M. Douglas
Company Secretary
Kingston, Jamaica
March 28, 2013

CORPORATE GOVERNANCE

"Now more than ever, directors and managers, especially of financial institutions, must ensure that an appropriate and robust governance architecture is in place to protect its depositors, customers and shareholders."

RICHARD O. BYLES
CHAIRMAN

HIGH STANDARDS IN ACCOUNTABLITY

"As Chairman, it is my responsibility to ensure that the Directors of Sagicor Investments and its subsidiary are fully committed and execute their responsibilities in such a way as to ensure the sound management of the business and its long-term success.

I am confident that this Board and the Executives charged with managing this institution are well-equipped and understand their roles and the importance of their responsibilities, not just to our shareholders, but to the wider communities where we conduct our business activities. After all, we cannot ultimately flourish if our communities and the wider economy do not."

Richard O. Byles - Chairman

Our Board's Role and its Expertise

The Board's core responsibilities revolve around oversight of the business and its strategy, ensuring that these are framed within acceptable risk parameters. The Board is expected to support the leadership of the organisation through the appointment of Directors with the requisite knowledge to guide the institution's Leadership Team, supporting yet challenging its Management in the drive to create shareholder value through its incentive and other appropriate policies. The Board also plays an important role in engaging and communicating material information to our shareholders in a timely manner. The Directors at Sagicor Investments are a diverse group of individuals who bring broad experiences, high levels of professionalism, expertise and candour to our deliberations. All Directors have been in leadership roles and successfully helped to guide, either as directors or executives, companies through difficult economic conditions. Some continue to do so in the present environment, and all have recently participated in formal Corporate Governance Training to further enhance their contributions. Our newest members, Mr. Philip Armstrong, Peter Clarke and Paul Facey all bring valuable experience to complement our board expertise.

CORPORATE GOVERNANCE (CONT'D)

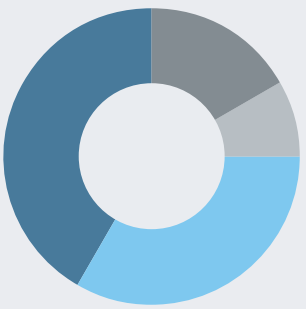
BUSINESS & STRATEGY	LEADERSHIP & COMPENSATION
• Strategic direction and focus • Capital and operating budgets • Financing, treasury and risk management decisions • Business development including acquisitions and divestments • Risk Management	• Appointment or removal of Directors • Communication and engagement with shareholders • Succession planning • Remuneration of Directors, Executive Management and their teams • Executive training and development

BOARD EXPERTISE

DIRECTOR	Corporate Governance	Human Resources & Compensation	Lending	Audit & Accounting	Capital Markets	Investment Banking
Richard O. Byles			•		•	•
Philip W. Armstrong			•		•	•
Peter E. Clarke	•				•	•
Jeffrey C. Cobham	•	•	•		•	
Richard L. Downer	•	•	•	•	•	•
Paul A. B. Facey				•	•	•
Bruce R. V. James			•		•	•
Peter K. Melhado			•		•	•
Dr. Dodridge D. Miller	•					
Donovan H. Perkins			•		•	•
Lisa A. Soares Lewis	•	•				
Colin T. Steele	•		•	•	•	•

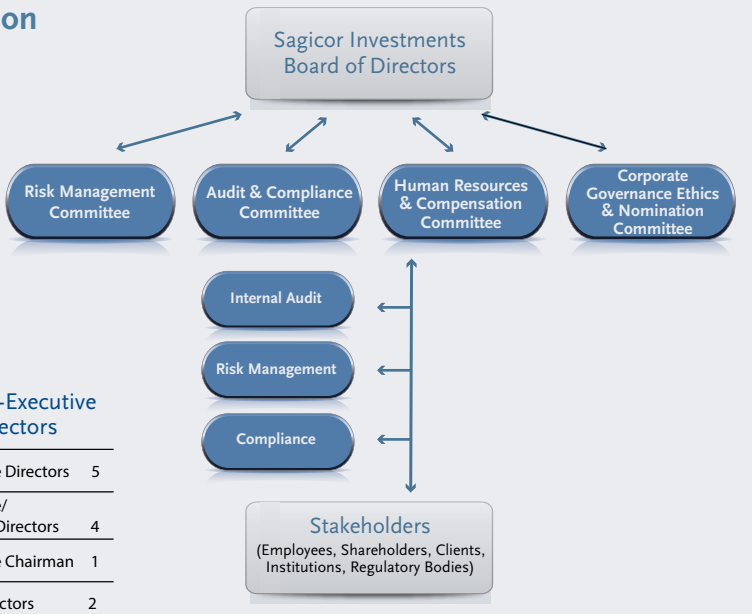
Board Committees and Composition

Our Corporate Governance Manual identifies the four relevant Committees, each with clearly defined terms of reference, procedures, responsibilities, powers and structure. All Committees require a number of Non-Executive Independent Directors. The membership and chairpersons are outlined below.



Balance of Non-Executive & Executive Directors

Non-Executive Directors	5
Non-Executive/ Independent Directors	4
Non-Executive Chairman	1
Executive Directors	2



CORPORATE GOVERNANCE (CONT'D)

BOARD SUB-COMMITTEES AND COMPOSITION

Names	Position (Executive/ Non-Executive / Independent)	Audit & Compliance	Corporate Governance Ethics & Nomination	Risk Management	Human Resources & Compensation
Richard L. Downer	NE	Chairman			
Lisa A. Soares Lewis	NE / I		Chairman		•
Peter K. Melhado	NE / I		•	Chairman	
Richard O. Byles	NE				Chairman
Jeffrey C. Cobham	NE	•			
Colin T. Steele	NE / I	•	•	•	
Donovan H. Perkins	E			•	
Bruce R. V. James	NE / I	•		•	
Philip W. Armstrong	E			•	
Paul A. B. Facey	NE				•
Peter E. Clarke	NE				
Dr. Dodridge D. Miller	NE				

E - Executive **NE** - Non-Executive **I** - Independent

Board's Report Card

During 2012, the Board and its Committees had scheduled meetings to execute their various mandates. We reported to shareholders on the financial results; reviewed and approved policies; discussed strategy and its implementation; and took decisions given our discussions on the business, our economy and prevailing market indicators.

BOARD ATTENDANCE

NAMES	Board	Audit & Compliance Committee	Human Resources & Compensation	Corporate Governance Ethics & Nomination	Risk Management	Annual General Meeting	Extra-Ordinary General Meeting
Total no. of Meetings Held	10	8	1	5	7	1	1
Richard O. Byles	10		1			1	1
Donovan H. Perkins	10				6	1	1
Philip W. Armstrong	10				7		1
Peter E. Clarke*	1						
Jeffrey C. Cobham	9	8				1	1
Richard L. Downer	9	8				1	1
Paul A. B. Facey**	1						
Bruce R. V. James	10	8			7	1	1
Peter K. Melhado	9			4	7	1	1
Dr. Dodridge D. Miller	4						
Lisa A. Soares Lewis	5		1	5			1
Colin T. Steele	10	6		4	7		

*Mr. Peter Clarke was appointed to the Board effective 30 October 2012. Attended 1 of 2 Board Meetings
**Mr. Paul Facey was appointed to the Board effective 1 December 2012. Attended 1 of 1 Board Meetings

CORPORATE GOVERNANCE (CONT'D)

In this section of our Report, we outline how our Corporate Governance Architecture works in practice to ensure compliance within our regulatory framework, establish authority, guide relationships with our stakeholders and monitor our risk appetite. We also summarise major deliberations and decisions made by our Board Committees during 2012.

BOARD COMPOSITION & MANDATE

1) Audit & Compliance Committee

The Audit & Compliance Committee consists of four members with the majority being Non-Executive, Independent Directors. The Board Chairman shall not be a member of the Committee and the Committee shall consist of not less than three members with the Company Secretary and will be responsible for Corporate Compliance. The Committee meets at least four times each year, within thirty days of the end of each quarter and at such other times as any member of the Committee or the external auditors may request. A number of Executives may attend by invitation.

The committee is responsible for ensuring:

- **The quality and integrity of the Company's accounting and reporting practices and controls and the completeness and accuracy of its financial statements and disclosures.**
- **The Company's compliance with legal and regulatory requirements.**
- **The qualifications and independence of the external auditor and the appropriateness of his methodology and accounting approach.**
- **The quality of internal controls as reported by the internal audit function and independent auditors.**

Activities

During 2012, the Audit & Compliance Committee met eight times. The principal activities undertaken were:

Review and approval (as applicable) of:

- Internal Audit Plan & Budget for the financial year
- Internal Audit reports with recommendations for corrective action and their timely implementation
- 2011 audited financial statements for the company and its subsidiaries
- Quarterly releases of financial statements with related commentary and analysis to shareholders via the Jamaica Stock Exchange
- Entity-level Risk Taxology for the top 20 Group risks and the internal audit assignments covering those risks
- External consultant's report on our Information Technology's control environment
- Regulatory compliance reports
- Disaster preparedness

Review and approval of revised policies related to:

- Anti-Money Laundering Policy
- Know Your Customer Policy
- Customer Due Diligence Policy

Meetings with the External Auditors to discuss:

- External Auditor's terms of reference for the financial year
- Internal Control Memorandum covering Information Technology & Accounting Reviews

CORPORATE GOVERNANCE (CONT'D)

2) Corporate Governance, Ethics & Nomination Committee

This Committee comprises three Non-Executive Directors. The Committee is responsible for keeping under review the composition of the Board and succession to it. It makes recommendations to the Board concerning appointments to the Board of Non-Executive Directors, having regard to the balance and structure of the Board and the required blend of skills and experience. The Committee is scheduled to meet twice per year and at such other times as any member of the Committee, the Chairman or CEO may request.

Sagicor has identified an extensive system of corporate governance structures and processes, which are documented in its Corporate Governance Manual. This policy document contains standards of behaviour for directors and management and performance evaluation is based on these standards.

Activities

During 2012, the Corporate Governance, Ethics & Nomination Committee met five times.

The principal activities undertaken were:

- Three candidates were reviewed, subsequently nominated and appointed to the Board.
- External Training on Corporate Governance for Directors and key executives of the institution.
- Compliance with our Code of Business Conduct and Ethics policy.
- Monitoring relevant Board processes to ensure good governance standards.
- Facilitated the annual Corporate Governance Evaluation Survey. This survey is a mandatory feature of our corporate governance. Its purpose is to assess the effectiveness of our current system of corporate governance for the purpose of identifying opportunities for improvements.

3) Risk Management Committee

This Committee comprises four Directors and, by invitation, six key management executives. The Committee meets at a minimum eight times per year or more frequently as necessary.

The committee is responsible for:

- **Fostering a strong risk management culture within the Group and to direct and oversee the management of risk. The Committee annually reviews the Group's significant risks within an enterprise risk management framework and assures itself that management has in place policies and processes to manage these risks, including statutory, legal and regulatory risks.**
- **The Group's appetite for risk is managed through the use of tolerances, limits and standards aligned to policy, which the Committee monitors on a regular basis. In particular, the Committee concerns itself with enterprise financial stability, which it routinely monitors. The Committee is also responsible for approving financial transactions outside of management's delegated authorities.**

Activities

During 2012, the Risk Management Committee met seven times

The principal activities undertaken were:

- Monitoring financial markets, the economic environment and its outlook
- Investment opportunities and currency strategy decisions
- Credit proposals and remedial action plans for addressing non-performing loans
- Update on the ongoing impact of the capital standards for the securities industry
- Investment policy changes
- FATCA status

Review of:

- Asset and Liability Management Reports
- Risk Management Reports
- Credit Reports
- Sigma Unit Trust Funds

Ratification of:

- Inter-meeting credit approvals
- Review of changes to approval authority limits

CORPORATE GOVERNANCE (CONT'D)

4) Human Resources & Compensation Committee	Activities
This Committee comprises a minimum of two Directors, and is chaired by a Non-executive Director with the majority being independent Directors. The Committee shall meet at least twice annually or more frequently as required to address matters that may arise. The CEO and Human Resources executives may attend by invitation. **The Committee oversees:** • **Senior management succession planning;** • **Identification and development of high potential people in the company;** • **Senior management performance plans and evaluation;** • **Setting executive compensation;** • **Aggregate performance and motivation of the company's Team: and,** • **Operation of the Company's pension plans.**	**During 2012, the Human Resources & Compensation Committee met once.** **The principal activities undertaken were:** • Discussed updated Succession and Management Development Plans • Reviewed the results of the Job Evaluation Exercise and approved its recommendations • Approved compensation, benefits and incentives including executive share options and grants for executives and share purchase scheme for non-executives

COMMITMENT TO CORPORATE GOVERNANCE BEST PRACTICES & DISCLOSURE

Sagicor Investments' business and affairs are managed by or under the direction of the Board. In its oversight of the institution's activities, the Board sets the tone for the highest ethical standard of performance for our Management and team-members. Our corporate governance practices are designed to align the interests of the Board and Management with those of our stockholders and to promote prudent management and integrity throughout our Company.

The Board is committed to disclosure and transparency. Disclosure of significant matters and developments concerning the organisation will be accurate, timely and balanced, to ensure that all investors and regulators have access to clear, factual information concerning Sagicor Investments.

Each Director is expected to commit sufficient time for preparing and attending meetings of the Board, its Committees and, if applicable, of the Independent Directors. Regular attendance at Board meetings is a prerequisite.

Because in-depth knowledge of the particulars of the Company's business is vital for each Director in making informed and objective decisions, Management is to facilitate direct involvement and review of business activities. Directors are encouraged to take advantage of such opportunities including direct access to the Leadership Team of the Company.

Access to outside advisors and funds

The Company will make resources available to the Board and in particular the Non-Executive Directors as is reasonably required for those Directors to objectively make decisions. This may include access to outside advisors and costs associated with travel and gathering relevant information.

Additional attendees to the Meetings

Furthermore, the Board encourages the CEO, where it helps the Board in executing their responsibilities, to bring Company Executives to present at Board meetings who: (a) can provide additional insight into the business or items being discussed because of responsibility for, or personal knowledge related to these areas, and/or (b) are Executives with future leadership potential that should be given exposure to Directors.

CORPORATE GOVERNANCE (CONT'D)

Annual Board Evaluation

The Board has an annual self-evaluation process that is intended to strengthen its overall performance. The process provides an opportunity to discuss matters related to its operation and effectiveness of the meetings and ensuing deliberations during the year. The self-evaluation survey is conducted confidentially with the Corporate Secretary receiving and summarising the results of the survey. The results are reviewed and recommendations arising from the feedback are discussed and implemented as appropriate. During the 2012 evaluation a few areas were identified for improvement.

The CEO also has a 360-degree evaluation from the Board and his Executive Management Team. The results are discussed by the Board and feedback provided through the Human Resources & Compensation Committee.

You may read the entire Corporate Governance Policy at www.sagicorjamaica.com

EXECUTIVE TEAM EXPERTISE

	Strategic Mgmt	Financial Reporting & Audit	Operational Risk	Lending & Commercial Banking	Sales & Marketing	Capital Markets	Accounting & Tax	Portfolio Mgmt	Technology	Human Resources
D. H. Perkins	•			•	•	•				•
P. Armstrong	•			•		•		•		
P. Knibb		•	•				•			
K. Vaz	•								•	
I. Card	•				•					
G. Crawford	•	•	•	•						
T. Nunes					•			•		
G. M. Douglas		•					•			
D. Scarlett			•	•		•		•		
S. Cooper				•	•			•		
T. Allgrove		•		•						
H. Wint			•			•	•	•		
C. Yearde-Williams		•	•				•			
M. Stuart		•	•				•			
K. Williams	•				•					•

CORPORATE GOVERNANCE (CONT'D)

JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE
Communicate to Directors and Senior Management the Black-out Period and period for trading in company's securities	Audit Committee reviewed the 2011 Audited Financial Statements	Declaration of Ordinary Dividend of $0.743 per share	Communicate to Directors and Senior Management the Black-out Period and period for trading in company's securities	Annual General Meeting held at Sagicor Life Jamaica's Head Office	
Assume the role of Registrar for Sagicor Life Jamaica Limited	Approval of 2011 Audited Financial Statements by the Board and release to the Jamaica Stock Exchange	Team members exercised option under Share Purchase Plan.	Team members offered shares under the Share Purchase Plan	Release of Q1 Unaudited Financial Statements - 31 March 2012	
	2012 Sigma Corporate Run - The company raised $33.18 million for Chain of Hope Jamaica in support of the Bustamante Hospital for Children's Cardiac Programme			Review of Communication and Social Media Policies	
	Appointment of Philip Armstrong to the Board of Directors				

CALENDAR OF EVENTS 2012

JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
Communicate to Directors and Senior Management the Black-out Period and period for trading in company's securities	Release of Q2 Unaudited Financial Statements - 30 June 2012	Declaration of Ordinary Dividend of $0.57 per share	Appointment of Peter Clarke to the Board of Directors	Commencement of re-branding exercise consequent on the name change	Appointment of Paul A.B. Facey to the Board of Directors
		Assume the role of Registrar for the K.L.E. Group Limited	Convening of Extraordinary General Meeting to effect the name change of the Company and adoption of new Articles of Incorporation	Release of Q3 Unaudited Financial Statements - 30 September 2012	Re-branding process completed with the re-dedication of the Sagicor Bank Building. All team members given branded umbrellas
		Montego Bay Branch relocated to bigger and better site with drive-in teller	Resignation of Director, Mrs. M. Patricia Downes-Grant		Relisting on the Jamaica Stock Exchange with the new symbol 'S'
			Communicate to Directors and Senior Management the Black-out Period and period for trading in company's securities		Relocation of the Ocho Rios Branch
			Launch of additional Sigma Funds, bringing the total funds under management to ten (10)		Winner of JSE Member Dealers' Awards for (1) Revenue Generation & Market Activity (2) Investor Relations (3) Best Annual Report
			Directors' Peer Review and Board Evaluation conducted		1st Runner Up - JSE Best Practices Award - Corporate Disclosure and Investor Relations
					2nd Runner Up - Certificate of Award - PSOJ/JSE Corporate Governance
					Approval of 2013 Budget

HOW WE MANAGE RISK

"We actively manage risks encountered in the daily operations of our diverse business activities by maintaining an appropriate risk-reward balance."

HOPE WINT
AVP GROUP RISK MANAGEMENT AND COMPLIANCE

PROACTIVE RISK MANAGEMENT

Our Risk Management Philosophy

Maintaining our fiduciary responsibility to shareholders, depositors and customers through the creation and protection of value is the primary objective of our risk management framework. Accordingly, we actively manage risks encountered in the daily operations of our diverse business activities by maintaining an appropriate risk-reward balance. We achieve this by aligning risk appetite with business strategy, diversifying risk, pricing appropriately for risk and mitigating risk through preventive and detective controls. We also promote the shared responsibility for risk management as business segments are responsible for active management of their risks, with direction and oversight provided by the Risk Management Committee.

Business decisions are also based on a clear understanding of the risk we face as we perform rigorous assessment of various types of risks inherent in our relationships, products, transactions and other business activities. A focus on our clients also reduces our risk by knowing our clients, understanding their activities and ensuring that the services we provide are suitable for and understood by them.

Our Group Risk Management

The Sagicor Investments' Group Risk Management & Compliance Division has the primary responsibility of ensuring the identification, assessment and measurement of risks related to our financing and investing activities, operational risks, as well as compliance with our external regulatory and internal policy framework. Accordingly, our Risk Division's Executive attends and participates actively in the Audit & Compliance and Risk Management Board Sub-Committees' meetings.

The Group utilises an integrated approach in managing its activities that includes management of liquidity, credit risk, market risk, operational risk and foreign currency exposure. In order to provide a rate of return to shareholders and protect our depositors and clients, the risks associated with our lines of business and activities are monitored and frequently assessed. This is achieved through a framework of simulations of market conditions, economic and market analyses, as well as other methods that require active and effective management oversight.

HOW WE MANAGE RISK (CONT'D)

MARKET RISKS

1. Liquidity Risk

Risk compared to previous year: ↑

Risk

The ability to plan and meet our obligations is critical to our prudent liquidity management strategy.

Liquidity Risk is the risk that we may not be able to meet our future payment obligations, resulting in a loss of confidence, diminished reputation, rising risk premium and asset sales at depressed prices.

Mitigation

Our strategy involves maintaining a prudent percentage of liquid assets in the form of:

- **Short-term Reverse Repurchase Agreements**
- **Marketable Securities**
- **Liquid Securities**

We actively seek to manage our funding liquidity risk by forecasting flows, stress testing, and ensuring that financial assets and liabilities are reasonably matched to manage significant cash outflows. Standby credit lines as well as highly liquid securities play a part in managing our funding liquidity risk.

Our liabilities are also segmented and analysed to monitor and reduce concentrations. Our Treasury Division monitors our daily, weekly and monthly liquidity positions and adheres to established liquidity policy ratios.

Commentary

2012 saw increased availability of liquid assets and tradable securities within the local market following the 2010 debt exchange. Consequently, we sought to acquire assets complementary to the composition of our liability base and reduced the duration of our assets to better match our liabilities.

However, uncertainty plagued the market following the 2011 General Elections and the subsequent delay in the signing of a new IMF agreement. This resulted in the conversion of investments to foreign currency and more off-shore investing.

2. Interest Rate Risk

Risk compared to previous year: →

Risk

Changes in market interest rates have significant impact on our core lending and investment management activities.

Interest Rate Risk is the risk of adverse changes in the value of an investment due to increases in the level of interest rates.

Mitigation

Managing Interest Rate Risk is critical to the viability of our business and maintaining shareholder value. The key strategies for managing this risk include:

- **Managing the duration on our asset portfolios**
- **Stress-testing our assets and liabilities given various interest rate scenarios**
- **Managing our portfolio structure of fixed and floating rate securities**
- **Managing the pricing structure of our lending activities to reflect credit quality cost of funds, tenor and other factors.**

Commentary

Our asset price sensitivity was not significantly impacted in 2012 as local interest rates remained relatively low and stable. We were also able to maintain an average low duration on our assets to reduce price risk. Continued growth in our Commercial Banking activities raised the level of stable and less rate-sensitive liabilities. A growing proportion of our credit activities are indexed to the "Prime" lending rate which floats and can therefore be adjusted to reflect market conditions.

Our interest rate sensitivity analysis is in Note 3(c)(ii) on page 142.

HOW WE MANAGE RISK (CONT'D)

3. Currency Exposure

Risk compared to previous year: ↑

Risk

As an Authorised Dealer with significant participation in the currency markets and actively growing our business by accepting deposit and investment account liabilities, we have consistent foreign exchange earnings which contribute to a positive currency position, primarily in US Dollars. These activities expose us to currency risk, which is actively managed.

Mitigation

We manage our market-making and currency trading exposures by dealing with pre-approved counterparties and adhering to established limits which are monitored daily by our Risk Management Unit. We also use appropriate hedging strategies to manage currency exposures, both for ourselves and customers.

Commentary

During 2012, the local currency saw significant depreciation against the US, Canadian and British currencies. We maintain a net positive US dollar currency position from our foreign exchange earning portfolio.

Our currency exposure details are in Note 3(c)(i) on pages 131-135.

CREDIT RISKS ↑

Risk

We are exposed to Credit Risk in both our lending and securities activities if and when our counterparties are unable to pay agreed amounts in full when due. Credit risk is inherent in financial products – loans, repurchase agreements and contracts to support counterparties' obligations to third parties such as guarantees and letters of credit. Positions in tradable securities such as bonds also carry credit risk.

Mitigation

We manage our credit risk exposure by:

- **Maintaining a robust credit review process; reviewing and monitoring the financial status of counterparties; and ensuring adequate and appropriate collateral**
- **Placing limits on the amount of exposure accepted in relation to one borrower, or groups of borrowers, and to industry segments**
- **Obtaining adequate collateral and guarantees as required after a thorough customer screening and credit analysis process. Assessing the market value of pledged assets and take appropriate margins**
- **Focusing our efforts on good quality loans, appropriately priced to reflect the risk assessed based on cash flows and collateral**
- **Conducting periodic reviews on existing counterparties to ensure no adverse changes**
- **Risk rating counterparties and monitoring exposure**

Commentary

During 2012, non-performing loans increased as the economy remained weak. We strengthened our recovery and rehabilitation activities with some success. Note 3(a) on pages 116-124 provides further details on our credit portfolio.

OPERATIONAL RISKS

1. Operations

Risk compared to previous year: ↑

Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Mitigation

We manage our operational risks to eliminate or minimise losses by ensuring:

- **clear lines of accountability**
- **separation of duties**
- **appropriate training for our team**
- **adherence to implemented policies**
- **effective internal audits and timely corrective action of weaknesses identified**
- **continued review and update of our policies**

Commentary

Our Audit and Compliance board Sub-Committee provides oversight to the timely responsiveness and implementation of Internal audit recommendations.
With the continued growth in our Commercial Banking activities in 2012 came the expected increase in Operational Risk exposures as transaction volumes increased. We however ensured continued diligence and monitoring to minimise the effects of such growth.

HOW WE MANAGE RISK (CONT'D)

2. Business Continuity

Risk compared to previous year: →

Risk

Exposure to internal and external threats or adverse conditions can impact our ability to maintain appropriate service levels to our valued customers. It is imperative that we continuously monitor the effectiveness of our plans to prevent disruptions to our operations and ensure our ability to speedily respond to any event, while maintaining our competitive position based on our systems' robustness and integrity.

Mitigation

Our Business Continuity Programme (BCP) identifies our exposure to threats and ensures that systems are in place so that our business activities can function in the event of any disruption. We focus on improving key processes that enhance our responses to this risk.

Commentary

In 2012, we obtained training and certification for twelve (12) team members as Certified Continuity Managers. These team members are highly important to the continued development and testing of the continuity plans of their respective business units. We also conducted key systems testing to ensure continuance in the event of disruptions.

OTHER RISKS

1. Regulatory

Risk compared to previous year: ↑

Risk

In our highly regulated sector, we are exposed to the risk sanctions imposed by financial sector regulators for non-compliance to relevant guidelines/laws. Additionally, our asset values could be adversely impacted by changes in regulatory requirements and laws.

Mitigation

Policies and guidelines are documented and implemented to provide guidance to our team members on various regulatory requirements. Appropriate training is also conducted and our Compliance team ensures adherence to policies and regulatory guidelines.

Our Internal Audit team also provides compliance reviews to ensure adherence to policy and regulatory requirements.

Commentary

During 2012, we maintained close and positive working relationships with our regulators – the Bank of Jamaica, the Financial Services Commission, the Jamaica Stock Exchange and the Jamaica Deposit Insurance Corporation.

2012 also saw the Foreign Asset Tax Compliance Act (FATCA) being passed by the US legislature, with an expected implementation date of by January 1, 2014. This Act, in its current form, is expected to have significant consequences on foreign financial institutions globally. The primary objective of FATCA is to prevent US citizens from concealing assets and income in non-US accounts, by forcing foreign financial institutions to work with the Internal Revenue Service (IRS) to identify those persons with accounts or interests in entities outside the US.

2. Capital Management

Risk compared to previous year: →

Risk

Failure to maintain an appropriate level of regulatory capital to cushion the risks involved in our business activities, could result in deterioration of our adequacy ratios.

Capital-at-risk refers to the amount of capital required to compensate for the combination of Market, Credit and Operational risks we face as a viable concern to ensure an acceptable level of solvency. Solvency is the risk of being unable to cover losses generated by the various types of risks faced the institution's available capital.

Mitigation

We quantify all relevant risks and assign capital based on a combination of regulatory and Basel II guidelines on capital adequacy, ensuring that all capital adequacy standards are exceeded.

We also ensure that the capital structure adequately supports our trading and investment activities.

Commentary

During 2012, our capital ratios remained stable and ahead of regulatory guidelines. See Note 3(d) on page 144 for capital adequacy details.

"My relationship with Sagicor Bank started several years ago. They offered a sweep facility that filled a void in my company as we were not large enough to support our own treasury management functions. Whatever interest we earned from it, offset the cost of operating the account.

Support like this has helped Paramount Trading grow from a Manufacturers' Representative and Commission Agent to a warehouser and distributor of a wide range of products, including the renowned SIKA line of construction products. Our product offerings cover food chemicals and additives such as flavour enhancers, baking powders, acidifiers, preservatives and artificial sweeteners; and industrial chemicals such as surfactants, water conditioners and various technical acids and bases.

We employ more than 50 Jamaicans directly and provide products to more than 800 companies island-wide including Red Stripe, Pepsi, Nestle, Coldfield Manufacturing, JPSCo, WINDALCO and JAMALCO. We play an active role in protecting our environment and recently set up our recycling plant which converts used chemical containers into plastic pellets for export. We also strongly believe in supporting the community in which we operate and host an annual treat for more than 1,300 community children and their families.

With rapid expansion and increased demand for our products, we quickly outgrew our facilities at Waltham Park Road. Sagicor Bank brokered the deal with the Development Bank of Jamaica (DBJ) that sealed our acquisition of the new business at 8 Bell Road East. This gave us expanded manufacturing capacity that will help us to achieve our goal of being hard-currency positive within 10 years."

BANKING IS Personal

Hugh Graham
Managing Director, Paramount Trading

Our Team's diverse and rich experience enables us to make solid strategic decisions and to win the confidence of our customers and stakeholders.

4

Leadership

Leadership Team

Peter Knibb

Ingrid Card

Karen Vaz

Karl Williams

Hope Wint Donovan H. Perkins Tara Nunes Gene M. Douglas

Leadership Team

Donovan H. Perkins, B.A., M.B.A.

President & Chief Executive Officer
Sagicor Investments Jamaica Limited

Mr. Perkins has been CEO of Sagicor Investments Jamaica Limited since 1993. Prior to joining Sagicor Investments, he worked with Bank of America in Corporate Banking. Under his leadership, the company has grown through a series of mergers and acquisitions into a diversified financial services group today.

Profile

Donovan is Chairman of the Jamaica Stock Exchange, a director of Pan-Jamaican Investment Trust Limited and Jamaica Producers Group Limited. He previously served the public sector as Deputy Chairman of the National Water Commission and as a Director of Jamaica Social Investment Fund and the National Insurance Fund. He also served as Vice President of both the Jamaica Bankers Association and the PSOJ.

Qualifications

BA (Hons), Finance - University of South Florida
MBA, concentrations in Finance & Marketing - The University of Virginia

Gene M. Douglas, F.C.I.S., M.B.A.

Vice President - Corporate Trust and Group Corporate Secretary
Sagicor Investments Jamaica Limited

Gene acts as Corporate Secretary for Sagicor Investments and other publicly traded companies and is Trustee for Sagicor Sigma Funds, among others. Gene works closely with other departments to ensure full adherence to Trust Deeds and Jamaica Stock Exchange rules. She is also responsible for co-ordinating the calculation of interest payments on a quarterly or semi-annual basis.

Profile

Gene has over 27 years' experience in Accounting and Corporate Secretarial practice. She is a member of the Optimist Club of North St. Andrew.

Qualifications

MBA – University of Manchester
FCIS – Fellow of the Institute of Chartered Secretaries and Administrators

Ingrid Card, B.Sc.

Assistant Vice President – Group Marketing
The Sagicor Jamaica Group

Ingrid is responsible for the development, implementation and support of the Sagicor Jamaica Group's marketing activities in order to maximise market share and build brand equity – this includes increasing brand visibility, cultivating brand loyalty, and also overseeing all of the Group's corporate social responsibility initiatives.

Profile

Ingrid has over 15 years of experience in Marketing and Public Relations. She joined Sagicor Life Jamaica Limited in August 2009 as the Marketing & Communications Manager. She previously served in a similar capacity at the Jamaica Observer, along with several positions in Marketing and Sales with CVM Television and Couples Sans Souci Resort & Spa.

Qualifications

B.Sc. - International Business (summa cum laude) - Everest University in Florida

Peter Knibb, C.A., M.B.A.

Vice President and Chief Financial Officer
Sagicor Investments Jamaica Limited

Peter is responsible for coordinating long-term fiscal planning and developing strategic financial services for the Group. He manages the integration of the overall fiscal management of the various components of the company and ensures consistency with the overall mission, goals and operating objectives.

Profile

Peter has over 27 years' experience as a Chartered Accountant and heads our Financial Control & Reporting Division. He is a Fellow of both the U.K. - based ACCA and our locally-based ICAJ. He also acquired an MBA in Finance from the University of Wales and serves on the Finance Committee of the Andrews Memorial Hospital.

Qualifications

MBA – Finance, University of Wales
Fellow Chartered Accountant, ACCA (UK), ICAJ (JA)

Tara Nunes, B.Sc.

Vice President, Sales and Investment Services
Sagicor Investments Jamaica Limited

Tara provides overall direction for the Sales and Investment Division as well as oversight for Customer Experience. Her role includes determining customer needs and the designing of products and services to meet those needs. Her mandate is to develop and monitor the implementation of sales strategies and plans to ensure that established quotas and targets are met. Tara also manages client relationships by ensuring prompt and efficient service to all customers.

Profile

Tara has over 13 years' experience in Private Banking and Investment Services.

She serves as Chair of the Finance Committee of the Women's Leadership Initiative, an affiliate of the United Way of Jamaica.

Qualifications

BSc (Hons.) – Economics & Management, University of the West Indies

Karl Williams, B.Sc., E.M.B.A.

Vice President, Group Human Resources
The Sagicor Jamaica Group

Karl is responsible for providing the leadership necessary for the effective management of the Human Resource function for the Sagicor Jamaica Group in keeping with the Company's strategic plan. Karl's mandate is to promote a high-performance culture by implementing strategies aligned with corporate objectives and that foster the development of a team that lives and values high performance.

Profile

Karl is a highly trained and experienced management executive with over twenty (20) years of successful leadership and managerial responsibilities in Marketing & Sales, Training & Development and Human Resource Management. He is the Chairman of the Insurance Association of Jamaica (IAJ) Human Resource Committee and a Past President of the Human Resource Management Association of Jamaica (HRMAJ).

Qualifications

B.Sc. – Economics and Management – University of the West Indies
Executive MBA – Florida International University

Karen Vaz, B.A., C.C.M.

Vice President – IT, Projects & New Product Development
Sagicor Investments Jamaica Limited

Karen provides strategic leadership for the design, development, and maintenance of the information technology infrastructure.

Karen leads the New Product Development process, in addition to managing all company-wide projects. Karen actively participates in strategic planning and the formulation of policies related to the organisation's information systems. She monitors the operation of multiple information and communication systems, including data and office automation, to ensure delivery of best practice standards, software and hardware infrastructure.

Profile

Karen has over 13 years of experience in Banking and Information Technology and also serves as a Director of eMedia Interactive Limited.

Qualifications

BA – Management Information Systems, University of South Florida
CCM - Certified Continuity Manager

Hope Wint, C.F.A., B.Sc., F.R.M.

Assistant Vice President - Group Risk Management and Compliance
Sagicor Investments Jamaica Limited

Hope's mandate is to develop and implement risk mitigation strategies, policies and standards to minimise inherent operational risks and ensures compliance with the relevant provisions of the regulators.

Profile

Over the last 18 years, Hope has honed her expertise in Treasury, Asset Management, Risk Management and Compliance. She is a member of the Association of Certified Anti-Money Laundering Specialists, CFA Institute, the CFA Society of Trinidad & Tobago and the Global Association of Risk Professionals.

Qualifications

BSc. - Management & Accounting, University of the West Indies
CFA - Certified Financial Analyst
FRM - Financial Risk Management

Leadership Team

Michael Stuart Sabrina Cooper Philip Armstrong Tanya Allgrove

Donette Scarlett Grace Crawford Colleen Yearde-Williams

Leadership Team

Philip Armstrong, B.Sc.

Managing Director
Sagicor Bank Jamaica Limited

Philip's core responsibilities are to plan, direct and control the operations of Sagicor Bank in accordance with agreed Board directives to ensure profitability, sustainability and to generate the required shareholder returns. This includes implementing SBJL business and strategic plans; establishing long and short-term strategic goals and objectives and monitoring progress towards their achievement. He is also charged with implementing systems to safeguard the company against possible risk parameters.

Profile

Philip brings over 18 years of securities, derivatives and financial management experience to Sagicor Bank. He is an ex-officio member of Sagicor Jamaica's Investment Committee, Treasurer of the Jamaica Bankers' Association and Director of British Caribbean Insurance Company.

Qualifications

BSc – Avionics Technology, Embry Riddle Aeronautical University

Sabrina Cooper, B.A.

Vice President - Relationship Banking
Sagicor Bank Jamaica Limited

Sabrina is responsible for promoting and growing our commercial banking business across the retail, corporate and SME segments, and building relationships with new and existing customers across the island. Her mandate also includes conducting continuous competitive surveys and analysis, in addition to recommending and implementing mitigating action plans. Sabrina develops sales targets, and strategies to ensure that budgeted financial goals are met.

Profile

She has over 12 years of experience in Investments and Financial Services, including 5 years international experience gained at Prudential Financial in Coral Gables, Florida. A magna cum laude graduate of Florida International University, Sabrina earned her Bachelor's degree in Finance and International business.

Qualifications

BA - Finance and International Business, Florida International University

Tanya Allgrove, B.Sc., M.B.A., C.P.A.

Assistant Vice President - Corporate Banking
Sagicor Bank Jamaica Limited

Tanya heads our Credit Business Division and is charged with developing and monitoring appropriate strategies to promote growth and maintain quality in our commercial and retail credit portfolios and drive income in keeping with the overall business and strategic plans of the Bank.

Profile

Tanya has over 16 years of experience in the financial services industry spanning a variety of areas including private equity, corporate finance advisory, strategic business development and insolvency, restructuring and turnaround work

Qualifications

BSc (Hons.)– Management Studies, University of the West Indies
MBA – Finance, City University Business School of London
CPA

Grace Crawford, B.Sc.

Assistant Vice President, Operations
Sagicor Bank Jamaica Limited

Grace's core mandate involves the planning and directing of all aspects of the Group's operational policies, objectives and initiatives. She oversees the smooth and effective daily operation of the Group and supports the strategic planning function through the formulation and documentation of organisational policies.

Profile

Grace is a seasoned banker with more than 29 years' experience in the field. She started her banking career as a Financial Analyst at the Bank of Jamaica. She later joined the staff of BNS and served in several positions including Branch Manager, Senior Audit Manager, Senior Manager-Commercial Credit and Acting General Manager Scotia DBG Merchant Bank Ltd.

Qualifications

B.Sc. - Accounting, University of the West Indies

Donnette Scarlett, B.Sc., C.F.A.

Vice President, Treasury
Sagicor Bank Jamaica Limited

Donnette's core responsibilities are to coordinate and monitor Treasury and trading-related activities including cash flow management, asset management, financial and operational activities. She is charged with maintaining the liquidity of the business and minimising currency risks in order to maximise return within approved risk limits based on business strategies and regional and global economic conditions.

Donnette's mandate includes identifying strategies and opportunities to attract and retain investor capital and to satisfy financial return requirements of investors.

Profile

Donnette has over 21 years of experience in the financial industry spanning both Operations and Treasury Management. She is a member of the CFA Institute and the CFA Society of Trinidad & Tobago.

Qualifications

BSc (Hons.)– Economics and Management, University of the West Indies
Chartered Financial Analyst (CFA)

Colleen Yearde-Williams, B.Sc., M.Sc., C.A.

Assistant Vice President - Financial Control
Sagicor Bank Jamaica Limited

Colleen's mandate is to coordinate and manage the development of the financial systems and business models for the commercial banking operation. She collaborates with the Vice President and Chief Financial Officer in planning and meeting the reporting requirements set out in the International Financial Reporting standards and local and regulatory bodies. She also oversees the daily operations of the department.

Profile

Colleen brings over 13 years of experience in the accounting profession. She is a fellow of both the U.K.-based ACCA and our locally-based ICAJ.

Qualifications

BSc, MSc – Accounting, University of the West Indies
Fellow Chartered Accountant, ACCA (UK), ICAJ (JA)

Michael Stuart, M.Sc., F.M.A.A.T., C.F.E.

Assistant Vice President - Internal Audit
Sagicor Bank Jamaica Limited

Michael's mandate includes assessing the risks and controls of the Bank and its subsidiaries, reviewing the reliability and integrity of financial and operating information, appraising the employing of resources and reviewing the means of safeguarding assets.

He is also responsible for reviewing the systems designed to ensure compliance with policies, procedures, plans, laws and regulations and provides direction and guidance to unit members during the execution of their duties.

Profile

Michael has over 20 years of experience in Accounting and Finance, Internal Auditing and Fraud Investigations.

Qualifications

MSc – Audit Management and Consultancy, University of Central England
Fellow Member of the Association of Accounting Technicians
Certified Fraud Examiner

DIVISIONAL REPORTS

Treasury Division

While 2012 was a challenging year, the Division delivered decent results. With responsibility for Funding, Trading and Cash Management, our operations were directly impacted by the uncertainty in both the local and international markets. Faced with waning market confidence, fuelled mainly by Government's delay in securing funding from the International Monetary Fund, the Treasury Division posted a marginal increase in Operating Income to J$4.1 billion.

Our Stockbrokerage unit was recognised for producing the highest revenues and for being the top broker at the annual Jamaica Stock Exchange Best Practice Awards. We also walked away with the top award for Best Investor Relations.

Market Performance:	2012	2011
Market Share Stockbrokerage (value traded)	27%	24%
Market Position: Stockbrokerage	#1	#2
Market Share: FX Trading (US$)	5%	6%
Market Position: FX Trading (US$)	#3	#4

• Corporate Finance

In 2012, we had success in transactional finance arranging three private placement deals. J$2.5 billion was raised for Pan-Jamaican Investment Trust, US$13.1 million for AIC (Barbados) Limited and US$4 million for Chukka Adventure Tours. These deals were followed by the successful Initial Public Offer for Kingston Live Entertainment (KLE) Group, which was oversubscribed within the first hour of the offer being opened, raising $97 million. KLE is the first lifestyle and entertainment brand listed on the Junior Stock Exchange. The Unit also developed two structured financial instruments for clients in excess of US$6 million, and provided a valuation of Advantage General Insurance Company, used as the basis for its sale.

Sagicor SIGMA Funds

Our Sagicor Sigma Funds increased its market share from 30% in 2011 to 45% at the end of 2012 and now comprises the largest unit trust in Jamaica with over $22 billion in managed assets. For four of the last five years, we have had the top performing funds in the market. In 2012, Sigma Corporate and Sigma Liberty posted returns of 10.28% and 8.52% respectively, clinching first and second positions in the market.

This growth has been achieved through our partnership with our parent, Sagicor Life Jamaica, which facilitated the introduction of five additional Sigma portfolios in 2012. These are Sigma Real Estate, Sigma Money Market. Sigma Real Growth, Sigma Global Equity and Sigma Diversified Investor. 2013 will see the focus on growing the Sagicor Sigma Funds portfolio and investors.

Corporate Trust Division

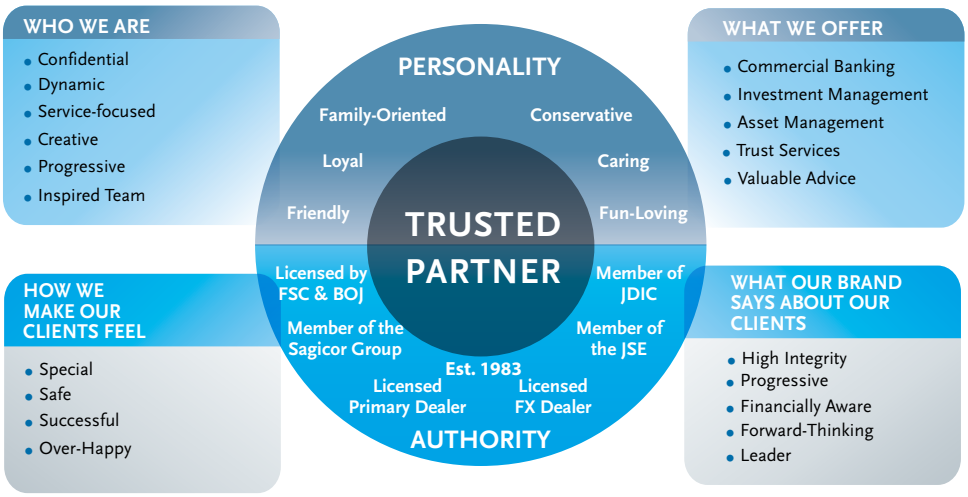
The Corporate Trust Division generated fees of $50.3 million for 2012. These revenues were derived from several streams including Registrar and Custodian Services for Unit Trusts and Mutual Funds, Trustee and Paying Agency services for Corporate Bond Issues and REITs. The Division also earned revenues by providing Corporate Secretarial Services and Registrar and Share Transfer Services to listed companies.

Group Marketing

Creating value for our customers continued to be the mantra for the Marketing Team in 2012. To this end, the team worked closely with our business leads to review, improve and develop new products and convenient services to improve the customer experience. We crafted communications and marketing materials to support the launch of five new Sagicor SIGMA Funds; a new business chequing

DIVISIONAL REPORTS (CONT'D)

Sagicor Investments Brand Essence Wheel



Integrity • Teamwork • Service

Sagicor Investments

product – Business Max, and an innovative savings programme branded PriorityMe. Communications for our easy Auto Loan were also updated to reflect its new features, which included premium financing and free vehicle tracking.

A new easy-to-navigate website was also launched to enhance our customer experience online. Through this medium our clients are able to easily find the information they need and conduct their transactions 24 hours per day at their convenience. The site features 'Live Chat', allowing our clients to speak to a representative online from 8:30 a.m. and 4:30 p.m. on weekdays.

As Jamaica celebrated its 50th anniversary of Independence, our Team organised a number of activities to commemorate this milestone including a flag-raising ceremony and Client Appreciation Days at all our branch locations.

Closing out 2012, the Team worked tirelessly to introduce our new brands, Sagicor Bank and Sagicor Investments. A full media campaign was launched to raise awareness of the new names and all branding and communication pieces were updated to reflect the changes. For 2013, the team will focus on increasing awareness of Sagicor Bank and Sagicor Investments, supporting new product launches and enhancing the customer experience at all contact points within and outside the branches.

DIVISIONAL REPORTS (CONT'D)

Internal Audit

Internal Audit provides independent, objective assurance and consulting services designed to add value and improve our operations by utilising the latest risk-based methodologies in the planning and execution of audits, focusing primarily on processes, risks and controls. Representing the Board of Directors, we examined accounting, financial, and other operations at appropriate intervals for the purpose of reviewing adherence to desired controls so that the board has confidence in the accuracy of financial information, the safety of assets, and the correction of errors in a timely manner.

During the year we conducted our annual audit plan, tested internal control checks quarterly and performed management project requests as well as IT implementation project reviews.

Information Technology Division

Our corporate vision of "Creating Value, Winning Customers for Life" was the key driver in defining the IT services, support, projects and product development which were conducted in 2012.

Continued investment in our Team and technology allowed us to improve our ability to meet evolving business needs and regulatory compliance, as well as deliver on customer service expectations and efficiency demands. We also increased our efforts in New Product Development and Process Re-engineering to improve our competitiveness and better capitalise on available market opportunities.

These efforts resulted in the expansion of our electronic channels, branch network and also the launch of four new banking products.

The Unit was also critical to the success of the "rebranding" exercise to Sagicor and worked tirelessly to ensure the smooth transition of our internal and customer facing systems.

In 2013, we reaffirm our efforts to "Build on the Success" of the past year as we position ourselves to develop new products, build out our Automated Banking Machines network, launch our Real Time Gross Settlement service through Internet Banking while benefiting from synergies within the Sagicor Jamaica Group.

Corporate & Retail Lending Division

For 2012, the Credit portfolio grew by 1% to $9.4 billion. We continued to support expansion activities in the economy across a variety of sectors, particularly to strong companies in the Manufacturing, Tourism, Entertainment and Distribution sectors. Our focus however remains on balancing growth while maintaining credit quality in a tight and weakened credit environment. To improve efficiency and facilitate processing of increased loan volumes, the Team developed and implemented more efficient loan documentation and revamped our car loan product, which generated 30% of new retail credit for the year, within three months of its re-launch.

Despite maintaining credit quality ratios ahead of industry, continued weaknesses in the credit environment resulted in deterioration of the portfolio quality. Non-performing loans grew from 4.8% of the total portfolio in 2011 to 5.8% ($548 million) in 2012. This compared to a Bank of Jamaica's industry average of 7.1% versus 4.7% in 2011. Loan Provisions were 90% of non-performing loan assets at year-end compared to the BOJ Industry average of 93%. For 2013, our focus remains on growing our loan portfolio with quality credit through the development of innovative products for both our retail and commercial clients.

Financial Control & Reporting Division

The Financial Control Team met all reporting deadlines both internally to our Management and Board as well as externally to our shareholders and regulators – The Bank of Jamaica, the Financial Services Commission and the Jamaica Stock Exchange. During the year, we also provided additional reports to our regulators as part of their enhanced financial reporting requirements in support of the continuing IMF negotiations.

Our Management Team relied on Financial Control to provide guidance on the treatment of various accounting transactions on a timely basis. We tracked business performance against targets, identified trends and produced accurate reports and analysis for better informed management decisions. We monitored International Financial Reporting Standards and kept our Team and Board aware of all new developments impacting our business decisions.

"Creating and maintaining an environment that is professional, fun and friendly is a promise we make to our team members."

KARL WILLIAMS
VP HUMAN RESOURCES

BUILDING A MOTIVATED TEAM

Human Resources Division

Reshaping our Structure

Our HR activities in the last financial year were focused on delivering high quality HR services under our new structure as an amalgamated team and contributing to a successful rebranding exercise. We continued to make progress on issues which we consider fundamental to ensuring the sustainability of our business which includes performance and talent management, team engagement, remuneration, team member communication and operating efficiencies.

Reviewing Our Strategy

We continue to develop our HR strategies to meet the three-year objectives set out in the company's strategic plan. In order to create a high performance culture and be a recognisable employment brand, we have developed and initiated the following:

- Implemented morale-building recognition and rewards programmes
- Conducted a robust & critical review of our compensation structure
- Ensured right fit for roles and responsibilities through the use of psychometric tests
- Formalised sustainable team-building exercises for Executive & Non-executives
- Enhanced our social programme for the team.

Team members participated in our Service Culture Transformation training initiative themed "Service First" and "Leading Empowered Teams" to improve our customers' experience. We will continue in 2013 with another training initiative themed "SPEED", which challenges the team to "Do it Fast, Do it Right and Do it NOW".

Our Team

We continue to develop a super-engaged team of professionals who are willing to grow with the company while contributing positively to our society. When reviewing talent, we look across our entire business with the aim of growing our own successors for key roles. We identify career development plans at an individual level to ensure we manage our talent pool effectively. As a result, twenty-four (24) team members were successfully reassigned to other areas within the organisation as we continue to provide career development opportunities. We continue to recognise team members who excelled in Sales & Service, demonstrate leadership and embody our core values. All our team members are assessed annually on the achievement of both financial and non-financial objectives. This assessment is taken into account in determining compensation.

Team Member Communication

Timely communication with our team members remains an important element of team member engagement and this year was no exception. Our channels of communications include our quarterly team meetings, weekly "Perk-Up" from our President & CEO, company intranet, email blast announcements and our internal e-zine which highlights the individual and collective achievements of our team. We continue to solicit feedback from our team through our annual team member satisfaction survey.

Highlights:

- The Middle Managers' Forum was formed as we recognised the impact this group has on Team member Engagement, Satisfaction, Retention and Productivity.
- There was an increase in team member satisfaction levels over 2011 arising from our annual employee engagement survey, with improvements in the factors of Rewards & Recognition, Corporate Values, Job Satisfaction and Organisational Commitment.

Environmental Policy

As we strive to move towards a greener organisation, our team participated in several environmental activities such as International Coastal Cleanup Day and Jamaica Environmental Trust's 19th Annual Beach Clean Up.

DIVISIONAL REPORTS (CONT'D)

TEAM MEMBER OF THE QUARTER

Quarter 1	Quarter 3
Alicia Taylor - Sales Jessica Wilson - Support Rockoney Thomas - Support	Davene Rowe - Support Carmeta Demetrius - Support
Quarter 2	**Quarter 4**
Kimberley Forbes-Martin - Sales James McNeil - Support Lorice Taylor - Support	Nicole Silvera - Sales Tanesha McLean - Support Andrea Chung - Support

SIJL TRAINING HOURS

2008	2009	2010	2011	2012
5,652	5,467	5,795	10,526	8,366

Average Training Hours per Team Member: **28.3**

International Standard – Training Hours per employee (North America): **27 - 29**

TEAM BUILDING/MOTIVATIONAL EVENTS - 2012

No. of Events: 3

- Sagicor Motivational Seminar
- Alvin Day's Sales Training
- Team Building Activities with New Generation

TEAM COMPLEMENT

2008	2009	2010	2011	2012
264	282	285	292	297

2011 PERMANENT TEAM MEMBERS
Age Demographics

Age	Team Members	Gender	
Yrs	#	Males	Females
47 - 65	31	6	25
31 - 46	130	34	96
18 - 30	107	32	75
TOTAL	**268**	**72**	**196**

2012 PERMANENT TEAM MEMBERS
Age Demographics

Age	Team Members	Gender	
Yrs	#	Males	Females
55 - 65	11	2	9
45 - 54	40	8	32
35 - 44	77	18	59
25 - 34	123	42	81
under 25	21	5	16
TOTAL	**272**	**75**	**197**

TEAM MEMBER OF THE YEAR

In the 10 years that I have been with Sagicor Bank, I have had the privilege of collaborating with some amazing people. The team members with whom I work, make me want to do things with and for them. I believe that I was awarded Team Member of the Year because I helped to create a great team that delivers and inspires.

My focus is on being a better person, learning new things and developing my skills. Sagicor supports this focus by providing me with many opportunities to learn, grow and hone my leadership skills.

I have always been driven to succeed and draw my inspiration from my daughter and knowing that I make a difference at home and at work every day. In the next 5 years I see myself making a difference in our country.

Andrea Chung
Senior Manager – Business Systems Solutions

WHY BANK WITH SAGICOR BANK?

Building on the Momentum

"In 2012, Sagicor Bank remained focused on our key objective of delivering a more convenient and rewarding banking experience. Since the Bank's launch five years ago, and with the recent rebranding to Sagicor Bank, expectations are high. The momentum continues to grow as we cross-sell more of our products to existing clients, as well as attract new ones.

With five years under our belt, the Sagicor Bank team is harmonising well, as is evidenced by the performance. Over the past 2 years we have seen continued growth of our client base, and a 47% growth in the number of accounts. Over the same period, balances have grown 28%, with customer satisfaction and referral rates remaining high.

In addition, the bank continues to launch new products and service offerings to satisfy the ever-changing needs of our customers. Two such notable products are PriorityMe, and our easy Auto Loan product. PriorityMe is an exciting new alternative to traditional savings plans, which encourages persons to pay themselves first. The product has been well received and allows our customers to save for their goals in a consistent and disciplined manner. Our easy Auto Loan offers an exciting all in one solution; vehicle financing, insurance discounts, premium financing and free vehicle tracking installation. This facility gives the customer the benefit of fast approval and turnaround times, all at competitive rates.

In 2012, the Bank continued to work on enhancing the customer experience by improving and expanding our branch network to meet the needs of our clients. Both Ocho Rios and Montego Bay benefited from new, bigger and more convenient locations, while the New Kingston Branch underwent an expansion to better manage the increasing customer base.

The knowledge and financial expertise of our TEAM and the guidance of our BOARD enable us to customise financial solutions and deliver them with personal care and more attention, giving our clients every ADVANTAGE!"

PHILIP ARMSTRONG
MANAGING DIRECTOR - SAGICOR BANK

CORPORATE DATA

Board of Directors

Richard O. Byles, B.Sc., M.Sc.
CHAIRMAN

Donovan H. Perkins, B.A.(Hons.), M.B.A.
PRESIDENT & CEO

Philip W. Armstrong, M.B.A.

Peter E. Clarke, B.A., LLB. (Hons.)

Jeffrey C. Cobham, B.A. (Hons.), Dip. Mgmt.

Richard L. Downer, C.D., F.C.A.

Paul A.B. Facey, B.Sc., M.B.A.

Bruce R. V. James, B.Sc, M.B.A.

Peter K. Melhado, B.Sc., M.B.A.

Dr. Dodridge D. Miller, F.C.C.A, M.B.A., L.L.M, L.L.D. (Hons.)

Lisa A. Soares Lewis, B.Sc. (Hons.), M.B.A. (Dist) SPHR

Colin T. Steele, B.B.A., C.P.A., M.B.A.

Corporate Secretary

Gene M. Douglas F.C.I.S., M.B.A.

Registered Office

The Sagicor Bank Building
60 Knutsford Boulevard
Kingston 5, Jamaica W.I.

Telecommunications

Telephone:	(876) 929-5583/4
	1-888-724-4267 (JAMAICA)
	1-800-947-7886 (CANADA)
	1-800-550-7886 (U.S.A.)
	1-800-895-903 (U.K.)
Fax:	(876) 926-4385
Website:	www.sagicorinvestmentsja.com
Email:	options@sagicor.com

Registrar & Transfer Agent

Sagicor Bank Jamaica Limited
Corporate Trust Division
60 Knutsford Boulevard
Kingston 5

Auditors

PricewaterhouseCoopers

Attorneys-at-Law

Patterson Mair Hamilton
Myers Fletcher & Gordon
Nunes Scholefield DeLeon
Andrew Foreman (In-house)

Bankers

Sagicor Bank Jamaica Limited
Citigroup N.A.
Bank of America N.A.

Subsidiary Companies

- **Sagicor Bank Jamaica Limited**

DIRECTORS
Peter K. Melhado - Chairman
Philip W. Armstrong - Managing Director
Richard O. Byles
Richard L. Downer
Bruce R. V. James
Dr. Dodridge D. Miller
Donovan H. Perkins

- **Manufacturers Investments Limited**

DIRECTORS
Richard O. Byles
Donovan H. Perkins

OUR BRANCHES

Kingston
(Head Office) The Sagicor Bank Building
60 Knutsford Boulevard, Kingston 5
Tel: (876) 929-5583-4
Fax: (876) 926-4385

Montego Bay
Shop B8, 21B Fairview Shopping Centre
Tel: (876) 684-9935
Fax: (876) 953-6373

Ocho Rios
Unit 5 & 6
Eight Rivers Towne Centre
Tel: (876) 974-8833
Fax: (876) 974-7991

Mandeville
3A Caledonia Road
Tel: (876) 961-1210-1/1608-9
Fax: (876) 961-2334

Savanna-La-Mar
Hendon Mall, Hendon Circle
Beckford Street
Tel: (876) 955-4135/4595; 918-0308
Fax: (876) 955-9423

"As I walk around my community, I see a lot of children suffering from facial deformities and disabilities. I want to become an Oral and Maxillofacial Surgeon to help reduce the number of children carrying these defects into adulthood. Getting my degree in Medical Dentistry-Dental Surgery is the first step toward realising my dream.

It wasn't easy finding my tuition fees. My mother is my sole source of funding and she is currently unemployed. I approached Sagicor for assistance after hearing from other students that Sagicor is well-known for helping tertiary level students achieve their true potential. Thanks to a scholarship from Sagicor, I am now in my second year of a five-year programme.

I have grown tremendously during this time and achieved much including serving as the Vice President of the Jamaica Association for Dental Surgery Students; the College Representative for the Joint Colleges of Medicine, Oral Health and Veterinary Sciences and as the National Scientific Officer for Jamaica under the Inter-National Association of Dental Students.

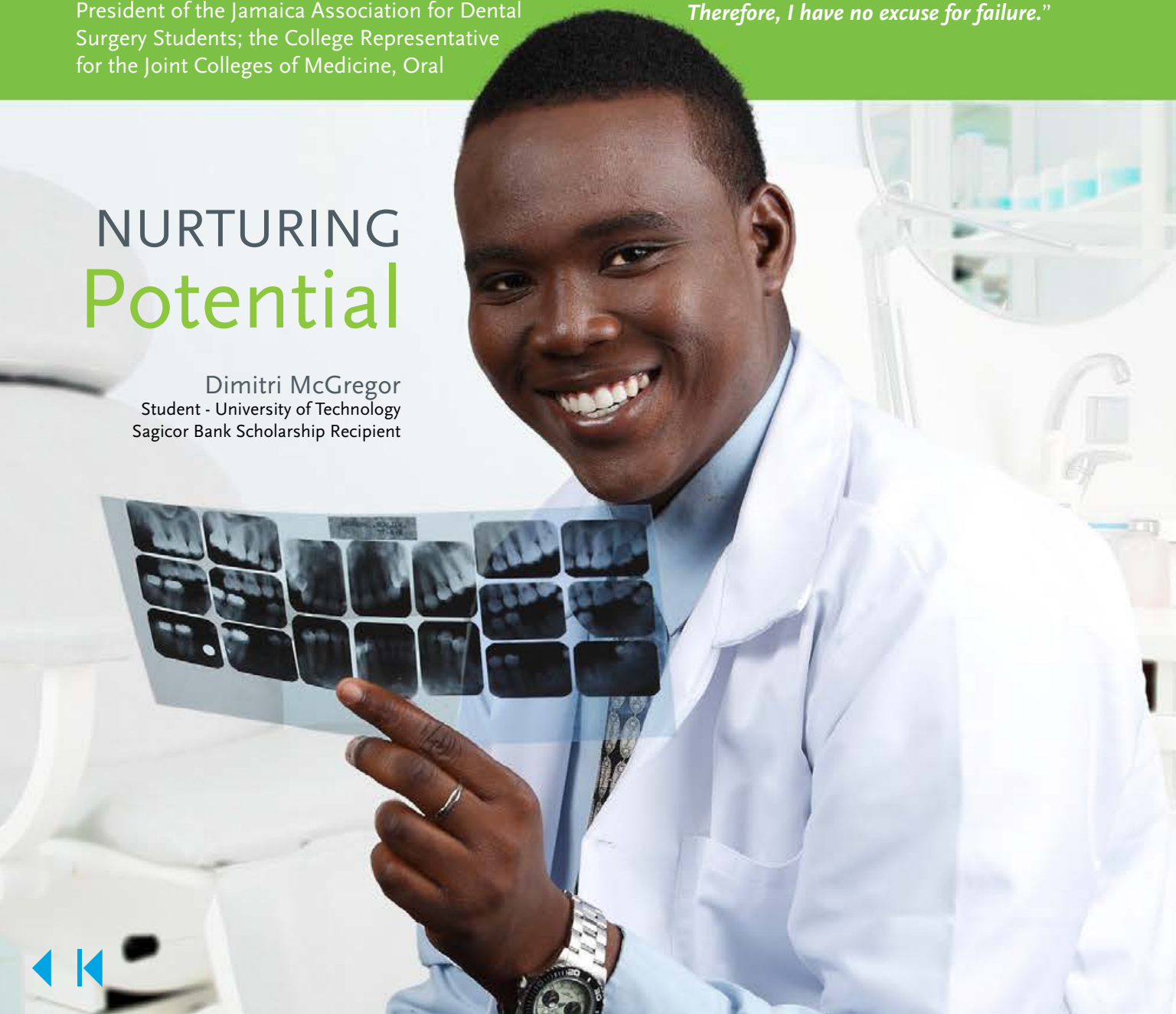
This success was not easy, however, I remain motivated by keeping in mind these two quotes: "Hardship often prepares ordinary people for an extraordinary destiny."(C.S. Lewis) and "People are always blaming their circumstances for what they are. I don't believe in circumstances. The people who get on in this world are the people who get up and look for the circumstances they want, and, if they can't find them, make them." (George Bernard Shaw).

Strong role models such as Donovan Perkins also push me to work harder at what I do. Donovan has worked hard and managed to become a successful businessman.

Therefore, I have no excuse for failure."

NURTURING Potential

Dimitri McGregor
Student - University of Technology
Sagicor Bank Scholarship Recipient



We recognise the mutual benefit of our community development activities. Our team members feel engaged and proud, our communities benefit and our brand reputation is enhanced.

5

Community

CORPORATE SOCIAL RESPONSIBILITY

OUR TEAM IN ACTION

"Our focus extends beyond just making sound business decisions to finding ways in which we may actively contribute to the well-being of our society." - Ingrid Card, AVP - Group Marketing

We maintain a presence in our local communities and continuously work to improve our society and develop the next generation of leaders through our donations, time and expertise. Our philosophy dictates that we continue to select charities that are aligned with our values and give priority to those projects that have long-lasting effect on our country.

Visit www.sagicorjamaica.com to read our Corporate Social Responsibility policy.

Our focus remains on Health, Education and Sports with special attention paid to assist predominantly youth-related programmes. Recognising that service and teamwork are core values that are deeply entrenched in Sagicor Investments, we draw on these values as we seek to

BUILDING OUR COMMUNITY.

Here are our highlights:

NURTURING Potential

Our annual Scholarship Programme is administered by the University of the West Indies and the University of Technology, and awards funding to second and third year students who demonstrate strong academic performance. Fourteen scholarships valued at $2.1 million were granted in 2012.

MAKING A Difference

Our philanthropic efforts extend across the island with each branch identifying and working with projects within their communities and environs.

In Kingston the team provided well-needed equipment and supplies to and spent time mentoring at the Mannings Hill Primary School, the Women Centre in Kingston and The Nest Children's Home.

1. *Visiting the Women's Centre of St. Ann's Bay.*
2. *The team at the Lion's Club of Mandeville's 'Men who Cook'*
3. *Teaching at the Bright Stars Academy.*
4. *The Savanna-la-Mar team supports the Llandilo School of Special Education.*
5. *Labour Day project at the Blossom Gardens Children's Home in Montego Bay.*

CORPORATE SOCIAL RESPONSIBILITY (CONT'D)

2


3

4


5

The Ocho Rios branch selected the Women Centre of St. Ann's Bay to donate fans and supplies to aid teenage mothers and their babies. The Pineapple Early Childhood Institution benefited from a cash donation and the Ocho Rios Basic School received toys for its students. The team continues to support the Ocho Rios leg of the Jamaica Cancer Society's Relay for Life through monetary donation and team participation.

SUPPORTING
A Cause

We willingly give our support to important causes.

The Mandeville team continues to support the Lions Club of Mandeville's annual "Men Who Cook" event, with the proceeds from this charity-based initiative benefiting the Mandeville Hospital.

Our Savanna-La-Mar team provided ongoing support for Bright Stars Academy and Llandilo School of Special Education. As one of the sponsors of the Reggae Marathon event in Negril, $250,000 was donated to the initiative which seeks to promote a healthy lifestyle and develop Jamaica's strength in middle and long-distance running. Sagicor donated computers to the top three performing schools of the Reggae Marathon's high school competition.

Our Montego Bay team volunteered at Blossom Gardens Children's Home in Montego Bay on Labour Day, providing much-needed infrastructural assistance. The team also participated in the CUMI Come Run, an annual 10K event in Montego Bay. Proceeds from this initiative support the Committee for the Upliftment of the Mentally Ill, which seeks to provide rehabilitation for persons with mental challenges.

COMMUNITY
Highlights

Sponsorship support was also granted to community-based programmes, Lego Yuh Mind, 1st Touch Football Camp, Stella Maris Foundation and the graduating class of the University of Technology.

PLAYING OUR PART

Saving Hearts

$33.18 million

Raised for Chain of Hope

1. *The Victoria Jubilee Hospital's Neo-Natal Unit benefits from equipment donated from the proceeds of the Sigma Corporate Run.*
2. *Donovan Perkins, President and CEO, Sagicor Investments (l), Dr. the Hon. Usain Bolt (3rd left) and Her Excellency Lady Patricia Allen (5th from left), both Patrons of the 2012 Sigma Run are flanked by Representatives from Chain of Hope before the start of the road race*

Sigma Corporate Run

"**The idea of the Sigma Corporate Run has its roots in the philosophy that says we can't be only about the financial side, we also need to care about our customers and their health. In doing so, our community benefits.**" Donovan H. Perkins

Since its inception fourteen years ago, the SIGMA Corporate Run has raised more than $103 million, contributed to many charities and impacted numerous lives. The race has built a reputation of not only being the largest 5K in the region, but also as a benchmark for true corporate citizenship.

Each year, all proceeds raised from our Corporate Run are donated to a charity focused on improving the well-being of our nation's children. This year, in honour of Jamaica's 50th Independence, the team sought to increase participation levels and funding, resulting in more than 16,000 participants walking, running and wheeling to raise $33.18 million for Chain of Hope – the 2012 beneficiary of the Sigma Corporate Run. This funding will assist in the construction of a state-of-the-art Cardiac Unit at the Bustamante Hospital for Children.

Equipment valued at over $12 million was also presented to the Victoria Jubilee Hospital's Neo Natal Unit acquired from the proceeds of Sigma Corporate Run 2011.

Sigma Corporate Run

	Funds Raised	Participants
2010	$11.19 million	11,185
2011	$15.20 million	14,728
2012	$33.18 million	16,017

Tennis

Sagicor Bank continues to contribute to the development of tennis among our nation's youth by providing sponsorship support of the Davis Cup and the All Jamaica Junior Tennis tournament in Kingston, as well as the Junior Classic Tournament in Tryall, Hanover. The tournaments and youth tennis support have grown significantly since Sagicor Bank's sponsorship started in 2009, with several participants moving on to represent themselves and Jamaica at both the regional and international levels.

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Year ended 31 December 2012

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Independent Auditors' Report

To the Members of

Sagicor Investments Jamaica Limited
(Formerly Pan Caribbean Financial Services Limited)

Report on the Consolidated and Company Stand Alone Financial Statements

We have audited the accompanying consolidated financial statements of Sagicor Investments Jamaica Limited and its subsidiaries, set out on pages 85 to 193, which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated income statement, consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and the accompanying financial statements of Sagicor Investments Jamaica Limited standing alone, which comprise the statement of financial position as at 31 December 2012 and the income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated and Company Stand Alone Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and company stand alone financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated and company stand alone financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated and company stand alone 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 consolidated and company stand alone 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 consolidated financial statements of Sagicor Investments Jamaica Limited and its subsidiaries, and the financial statements of Sagicor Investments Jamaica Limited standing alone give a true and fair view of the financial position of Sagicor Investments Jamaica Limited and its subsidiaries and Sagicor Investments Jamaica Limited standing alone as at 31 December 2012, and of their financial performance and cash flows for the year then ended, so far as concerns the members of Sagicor Investments Jamaica Limited, in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

Report on Other Legal and Regulatory Requirements

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

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

PricewaterhouseCoopers

Chartered Accountants
1 March 2013
Kingston, Jamaica

PricewaterhouseCoopers, Scotiabank Centre, Duke Street, Box 372, Kingston, Jamaica
T: (876) 922 6230, F: (876) 922 7581, www.pwc.com/jm

C.D.W. Maxwell P.W. Pearson E.A. Crawford J.W. Lee P.E. Williams G.L. Lewars L.A. McKnight L.E. Augier A.K. Jain B.L. Scott B.J. Denning
G.A. Reece P.A. Williams R.S. Nathan

Consolidated Income Statement

Year ended 31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 $'000	2011 $'000
Net Interest Income and Other Revenue			
Interest income from securities		5,401,488	5,136,317
Interest income from loans and leases		895,901	992,666
Other interest income		4,067	1,097
Total interest income		6,301,456	6,130,080
Interest expense	6	(3,284,422)	(3,189,990)
Net interest income		3,017,034	2,940,090
Fees and commission income	7	332,830	392,434
Net trading income	8	715,615	656,285
Other revenue	9	50,905	32,475
		1,099,350	1,081,194
		4,116,384	4,021,284
Operating Expenses			
Team member costs	10	1,121,711	1,003,253
Impairment charges/(reversals)	11	16,658	(28,773)
Occupancy costs		151,234	126,522
Other expenses	12	791,648	610,980
		2,081,251	1,711,982
Profit before Taxation		2,035,133	2,309,302
Taxation	13	(582,457)	(588,646)
Net Profit	14	1,452,676	1,720,656
EARNINGS PER STOCK UNIT			
Basic	16	$2.63	$3.12
Diluted	16	$2.61	$3.09

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

	2012 $'000	2011 $'000
Net Profit	1,452,676	1,720,656
Other comprehensive income -		
Available-for-sale investments -		
Unrealised (losses)/gains on available-for-sale investments	(362,835)	649,908
Gains reclassified and reported in profit	(277,503)	(390,990)
	(640,338)	258,918
Cash flow hedge -		
Gains reclassified and reported in profit	(39,897)	(7,762)
Total other comprehensive income, net of taxes	(680,235)	251,156
Total Comprehensive Income	772,441	1,971,812

Consolidated Statement of Financial Position

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 $'000	2011 $'000
ASSETS			
Cash and balances due from other financial institutions	17	4,085,785	2,227,484
Cash reserve at Bank of Jamaica	18	735,494	519,732
Trading securities	19	4,495,432	610,940
Securities purchased under agreements to resell	20	1,783,514	991,904
Investment securities	21	56,464,666	55,377,164
Derivative financial instruments	22	4,253,104	839,420
Loans, net of provision for credit losses	24	9,330,364	9,242,365
Lease receivables	25	59,159	15,515
Pledged assets	26	3,943,434	7,831,016
Due from related companies		48,496	8,527
Income tax recoverable		5,478	5,478
Intangible assets	28	807,576	781,300
Property, plant and equipment	29	309,739	168,691
Post-employment benefit assets	30	35,729	28,473
Other assets	31	1,876,214	1,555,927
		88,234,184	80,203,936
LIABILITIES			
Securities sold under agreements to repurchase		57,595,878	54,612,131
Customer deposits and other accounts		11,215,194	10,599,897
Structured products	32	854,100	274,913
Due to banks and other financial institutions	33	468,746	764,018
Derivative financial instruments	22	4,310,566	700,600
Due to related companies		105,512	52,351
Income tax payable		108,418	139,590
Deferred income tax liabilities	34	176,379	525,326
Post-employment benefit obligations	30	58,035	52,602
Other liabilities	35	1,317,871	523,149
		76,210,699	68,244,577
STOCKHOLDERS' EQUITY			
Share capital	36	3,195,565	3,195,565
Stock options reserve	37	58,089	51,793
Retained earnings reserve	38	2,036,596	1,536,596
Reserve fund	39	299,613	301,043
Loan loss reserve	40	251,733	249,479
Capital redemption reserve	41	1,264,324	1,264,324
Fair value reserve	42	253,365	933,600
Retained earnings	15	4,664,200	4,426,959
		12,023,485	11,959,359
		88,234,184	80,203,936

Approved for issue by the Board of Directors on 27 February 2013 and signed on its behalf by:

Richard O. Byles Director

Donovan H. Perkins Director

Consolidated Statement of Changes in Stockholders' Equity

Year ended 31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital $'000	Share Options Reserve $'000	Retained Earnings Reserve $'000	Reserve Fund $'000	Loan Loss Reserve $'000	Capital Redemption Reserve $'000	Fair Value Reserve $'000	Retained Earnings $'000	Total $'000
Balance at 1 January 2011		3,126,867	53,767	1,536,596	269,016	141,433	651,472	682,444	4,162,831	10,624,426
Net profit		-	-	-	-	-	-	-	1,720,656	1,720,656
Other comprehensive income		-	-	-	-	-	-	251,156	-	251,156
Total comprehensive income for 2011		-	-	-	-	-	-	251,156	1,720,656	1,971,812
Issue of ordinary stock units	36	46,236	-	-	-	-	-	-	-	46,236
Transfer of exercised options		22,462	(22,462)	-	-	-	-	-	-	-
Employee stock option scheme	37	-	20,488	-	-	-	-	-	-	20,488
Transfers to/(from) reserves	39,41	-	-	-	32,027	-	612,852	-	(644,879)	-
Currency revaluation and other adjustments		-	-	-	-	1,281	-	-	-	1,281
Adjustment between regulatory loan provisioning and IFRS	40	-	-	-	-	106,765	-	-	(106,765)	-
Dividends	43	-	-	-	-	-	-	-	(704,884)	(704,884)
Balance at 31 December 2011		3,195,565	51,793	1,536,596	301,043	249,479	1,264,324	933,600	4,426,959	11,959,359
Net profit		-	-	-	-	-	-	-	1,452,676	1,452,676
Other comprehensive income		-	-	-	-	-	-	(680,235)	-	(680,235)
Total comprehensive income for 2012		-	-	-	-	-	-	(680,235)	1,452,676	772,441
Employee stock option scheme	37	-	6,296	-	-	-	-	-	-	6,296
Transfers to/(from) reserves	38,39	-	-	500,000	(1,430)	-	-	-	(498,570)	-
Currency revaluation and other adjustments		-	-	-	-	10,356	-	-	-	10,356
Adjustment between regulatory loan provisioning and IFRS	40	-	-	-	-	(8,102)	-	-	8,102	-
Dividends	43	-	-	-	-	-	-	-	(724,967)	(724,967)
Balance at 31 December 2012		3,195,565	58,089	2,036,596	299,613	251,733	1,264,324	253,365	4,664,200	12,023,485

Consolidated Statement of Cash Flows

Year ended 31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 $'000	2011 $'000
Cash Flows from Operating Activities			
Net profit		1,452,676	1,720,656
Adjustments for:			
Interest income		(6,301,456)	(6,130,080)
Interest expense	6	3,284,422	3,189,990
Income tax charge	13	582,457	588,646
Fair value (gains)/loss on trading securities		(208,192)	603
Impairment charges	11	16,658	(4,098)
Amortisation of premiums/discounts		(5,953)	(144,635)
Amortisation of intangible assets	28	27,133	40,373
Depreciation of property, plant and equipment	29	50,410	44,586
Gain on sale of property, plant and equipment		(149)	(141)
Amortisation of hedging reserve		(59,846)	(11,643)
Changes in post-employment benefits and pension recharge		(1,823)	(13,739)
Stock options and grants expense		6,295	64,242
Foreign exchange gains on foreign assets and liabilities		(415,431)	(10,792)
		(1,572,799)	(666,032)
Changes in operating assets and liabilities -			
Statutory reserves at Bank of Jamaica		(207,119)	(59,087)
Trading securities		(3,536,483)	(561,918)
Securities purchased under agreements to resell		(301,853)	72,410
Investment securities		3,014,111	(7,540,449)
Derivative financial instruments		173,056	(6,403)
Loans		518,959	292,028
Lease receivables		(46,532)	3,501
Securities sold under agreements to repurchase		(749,354)	4,593,071
Structured products		611,125	(212,692)
Customer deposits and other accounts		95,031	1,532,397
Other assets		(550,014)	(808,286)
Other liabilities		823,939	125,426
		(1,727,933)	(3,236,034)
Interest received		6,310,770	6,207,840
Interest paid		(3,184,400)	(3,175,499)
Taxation		(385,917)	(165,538)
Net cash provided by/(used in) operating activities		1,012,520	(369,231)

Consolidated Statement of Cash Flows (Continued)

Year ended 31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 $'000	2011 $'000
Cash Flows from Operating Activities		1,012,520	(369,231)
Cash Flows from Investing Activities			
Purchase of intangible assets	28	(53,409)	(36,215)
Purchase of property, plant and equipment		(191,521)	(51,000)
Proceeds from disposal of property, plant and equipment		212	141
Net cash used in investing activities		(244,718)	(87,074)
Cash Flows from Financing Activities			
Proceeds from issue of ordinary stock units	37	-	18,483
Redemption of redeemable preference shares		-	(612,852)
Borrowings from banks and other financial institutions – long term		93,108	183,147
Repayment of amounts due to banks and other financial institutions – long term		(360,498)	(258,389)
Due from related parties		13,193	56,420
Dividends paid	43	(724,967)	(704,884)
Net cash used in financing activities		(979,164)	(1,318,075)
Effect of exchange rate changes on cash and cash equivalents		249,366	(10,637)
Net increase/(decrease) in cash and cash equivalents		38,004	(1,785,017)
Cash and cash equivalents at beginning of year		2,085,495	3,870,512
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	2,123,499	2,085,495

Company Income Statement

Year ended 31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 $'000	2011 $'000
Net Interest Income and Other Revenue			
Interest income from securities		4,772,272	4,673,480
Interest income from loans		193,052	222,887
Other interest income		2,211	624
Total interest income		4,967,535	4,896,991
Interest expense	6	(2,891,586)	(2,815,661)
Net interest income		2,075,949	2,081,330
Fees and commission income	7	278,664	341,102
Net trading income	8	469,639	489,781
Other revenue	9	20,119	8,627
		768,422	839,510
		2,844,371	2,920,840
Operating Expenses			
Team member costs	10	746,053	674,881
Impairment (reversal), net	11	(10,277)	(54,041)
Occupancy costs		55,977	45,513
Other expenses	12	478,023	346,487
		1,269,776	1,012,840
Profit before Taxation		1,574,595	1,908,000
Taxation	13	(429,257)	(499,782)
Net Profit	14	1,145,338	1,408,218

Company Statement of Comprehensive Income

Year ended 31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

	2012 $'000	2011 $'000
Net Profit	1,145,338	1,408,218
Other comprehensive income -		
Available-for-sale investments -		
Unrealised (losses)/gains on available-for-sale investments	(303,862)	537,049
Gains reclassified and reported in profit	(276,315)	(319,634)
	(580,177)	217,415
Cash flow hedge -		
Gains reclassified and reported in profit	(39,897)	(7,762)
Total other comprehensive income, net of taxes	(620,074)	209,653
Total Comprehensive Income	525,264	1,617,871

Company Statement of Financial Position

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 $'000	2011 $'000
ASSETS			
Cash and balances due from other financial institutions	17	2,967,036	1,717,979
Trading securities	19	4,495,432	610,940
Securities purchased under agreements to resell	20	2,357,012	308,074
Investment securities	21	48,442,927	48,834,393
Derivative financial instruments	22	4,253,104	839,420
Investment in subsidiaries		2,512,900	2,512,900
Loans, net of provision for credit losses	24	2,217,601	2,289,038
Pledged assets	26	3,657,204	7,831,016
Due from related companies		47,888	8,527
Intangible assets	28	206,936	169,810
Property, plant and equipment	29	99,815	121,831
Other assets	31	1,573,631	1,324,931
		72,831,486	66,568,859
LIABILITIES			
Securities sold under agreements to repurchase		56,839,727	54,630,650
Customer accounts		171,152	250,241
Structured products	32	854,100	274,913
Due to banks and other financial institutions	33	241,464	464,329
Derivative financial instruments	22	4,310,566	700,600
Due to related companies		150,122	99,409
Income tax payable		30,568	128,398
Deferred income tax liabilities	34	100,570	442,650
Other liabilities	35	989,124	248,627
		63,687,393	57,239,817
STOCKHOLDERS' EQUITY			
Share capital	36	3,195,565	3,195,565
Stock options reserve	37	58,089	51,793
Loan loss reserve	40	89,870	90,739
Capital redemption reserve	41	1,264,324	1,264,324
Fair value reserve	42	117,266	737,340
Retained earnings		4,418,979	3,989,281
		9,144,093	9,329,042
		72,831,486	66,568,859

Approved for issue by the Board of Directors on 27 February 2013 and signed on its behalf by:

Richard O. Byles Director

Donovan H. Perkins Director

Company Statement of Changes in Stockholders' Equity

Year ended 31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital $'000	Share Options Reserve $'000	Loan Loss Reserve $'000	Capital Redemption Reserve $'000	Fair Value Reserve $'000	Retained Earnings $'000	Total $'000
Balance at 1 January 2011		3,126,867	53,767	20,295	651,472	527,687	3,968,195	8,348,283
Net profit		-	-	-	-	-	1,408,218	1,408,218
Other comprehensive income		-	-	-	-	209,653	-	209,653
Total comprehensive income for 2011		-	-	-	-	209,653	1,408,218	1,617,871
Issue of ordinary stock units	36	46,236	-	-	-	-	-	46,236
Transfer of exercised options		22,462	(22,462)	-	-	-	-	-
Employee stock option scheme	37	-	20,488	-	-	-	-	20,488
Transfer to capital redemption reserve	41	-	-	-	612,852	-	(612,852)	-
Currency revaluation and other adjustments		-	-	1,048	-	-	-	1,048
Adjustment between regulatory loan provisioning and IFRS	40	-	-	69,396	-	-	(69,396)	-
Dividends	43	-	-	-	-	-	(704,884)	(704,884)
Balance at 31 December 2011		3,195,565	51,793	90,739	1,264,324	737,340	3,989,281	9,329,042
Net profit		-	-	-	-	-	1,145,338	1,145,338
Other comprehensive income		-	-	-	-	(620,074)		(620,074)
Total comprehensive income for 2012		-	-	-	-	(620,074)	1,145,338	525,264
Employee stock option scheme	37	-	6,296	-	-	-	-	6,296
Currency revaluation and other adjustments		-	-	8,458	-	-	-	8,458
Adjustment between regulatory loan provisioning and IFRS	40	-	-	(9,327)	-	-	9,327	-
Dividends	44	-	-	-	-	-	(724,967)	(724,967)
Balance at 31 December 2012		3,195,565	58,089	89,870	1,264,324	117,266	4,418,979	9,144,093

Company Statement of Cash Flows

Year ended 31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 $'000	2011 $'000
Cash Flows from Operating Activities			
Net profit		1,145,338	1,408,218
Adjustments for:			
Interest income		(4,967,535)	(4,896,991)
Interest expense	6	2,891,586	2,815,661
Income tax charge	13	429,257	499,782
Fair value (gains)/losses on trading securities		(208,192)	603
Impairment charges	11	(10,277)	(29,366)
Amortisation of premiums/discounts		33,395	(126,224)
Amortisation of intangible assets	28	16,282	8,455
Depreciation of property, plant and equipment	29	35,206	30,455
Loss/(gain) on sale of property, plant and equipment		26	(77)
Amortisation of hedging reserve		(59,846)	(11,643)
Stock options and grants expense		6,296	64,242
Foreign exchange (gains)/ losses on foreign assets and liabilities		(245,033)	140
		(933,497)	(236,745)
Changes in operating assets and liabilities -			
Trading securities		(3,536,483)	(561,918)
Securities purchased under agreements to resell		(313,477)	91,661
Investment securities		4,681,560	(5,063,355)
Derivative financial instruments		173,056	(12,453)
Loans		321,910	477,261
Securities sold under agreements to repurchase		(1,003,468)	4,593,629
Structured products		611,125	(212,692)
Customer accounts		(77,272)	(148,156)
Other assets		(474,280)	(720,103)
Other liabilities		740,481	72,604
		189,655	(1,720,267)
Interest received		4,942,892	5,023,487
Interest paid		(2,770,618)	(2,803,626)
Taxation paid		(322,587)	(124,324)
Net cash provided by operating activities		2,039,342	375,270

Company Statement of Cash Flows (Continued)

Year ended 31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 $'000	2011 $'000
Cash Flows from Operating Activities		2,039,342	375,270
Cash Flows from Investing Activities			
Purchase of intangible assets	28	(53,408)	(20,963)
Purchase of property, plant and equipment		(13,253)	(41,308)
Proceeds from disposal of property, plant and equipment		37	77
Net cash used in investing activities		(66,624)	(62,194)
Cash Flows from Financing Activities			
Proceeds from issue of ordinary stock units		-	18,483
Redemption of redeemable preference shares		-	(612,852)
Due to parent company and fellow subsidiaries		11,352	38,328
Borrowings from banks and other financial institutions – long term		73,108	50,500
Repayment of amounts due to banks and other financial institutions – long term		(273,370)	(156,032)
Dividends paid	43	(724,967)	(704,884)
Net cash used in financing activities		(913,877)	(1,366,457)
Effect of exchange rate changes on cash and cash equivalents		202,948	(6,703)
Net increase/(decrease) in cash and cash equivalents		1,261,789	(1,060,084)
Cash and cash equivalents at beginning of year		929,274	1,989,358
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	2,191,063	929,274

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

1. Identification, Regulation and Licence

Sagicor Investments Jamaica Limited (the company) is incorporated and domiciled in Jamaica. The company is listed on the Jamaica Stock Exchange (JSE). The principal activities of the company are the provision of investment, fund and unit trust management services and development banking. The company is a licensed securities dealer and has primary dealer status from the Bank of Jamaica (BOJ) and is also a member of the Jamaica Stock Exchange.The registered office of the company is located at 60 Knutsford Boulevard, Kingston 5.

The company changed its name from Pan Caribbean Financial Services Limited to Sagicor Investments Jamaica Limited with an effective date of 1 November 2012 having obtained the necessary approval from stockholders and regulators to re-name the company.

The company's subsidiaries, which are all incorporated and domiciled in Jamaica, are as follows:

Subsidiaries	Principal Activities	Holding	Financial Year End
Sagicor Bank Jamaica Limited (formerly PanCaribbeanBank Limited	Commercial banking	100%	31 December
Pan Caribbean Asset Management Limited	Inactive	100%	31 December
Manufacturers Investments Limited	Inactive	100%	31 December
Pan Caribbean Investments Limited	Inactive	100%	31 December
Pan Caribbean Securities Limited	Inactive	100%	31 December

The parent company, Sagicor Life Jamaica Limited is incorporated in Jamaica.

The ultimate parent company, Sagicor Financial Corporation (Sagicor) is incorporated in Barbados.

2 Summary of Significant Accounting Policies

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

(a) Basis of preparation

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities (including derivatives) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Amendment to published standard effective in current year that is relevant to the Group's operations

- Amendments to IFRS 7, 'Financial instruments: Disclosures' on transfers of assets (effective 1 July 2011). These amendments arise from the IASB's review of off-balance-sheet activities. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. There was no impact in the current year from adoption of this amendment.

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31 December 2012
(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, amendments and interpretations issued but not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2013, but the Group has not early adopted them.

- IFRS 9, Financial instruments: Classification and measurement (effective for annual periods beginning on or after 1 January 2015) was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

  Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

  An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

  All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

  Financial liabilities. Entities with financial liabilities designated FVTPL recognise changes in the fair value due to changes in the liability's credit risk directly in other comprehensive income (OCI). There is no subsequent recycling of the amounts in OCI to profit or loss, but accumulated gains or losses may be transferred within equity.

  While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted for financial assets without adopting the requirements for financial liabilities. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

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31 December 2012
(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, amendments and interpretations issued but not yet effective and have not been early adopted by the Group (continued)

- Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in Other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. This amendment is effective for annual periods beginning on or after 1 July 2012. The Group will apply this amendment from 1 January 2013, however, all the items in OCI are currently reclassifiable to profit or loss.

- IAS 19, 'Employee benefits' was amended in June 2011. The impact on the Group will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in OCI as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). This amendment is effective for annual periods beginning on or after 1 July 2012. The Group is yet to assess the full impact of the amendments.

- IFRS 10, 'Consolidated Financial Statements', (effective for annual periods beginning on or after 1 January 2013). IFRS 10 replaces all of the guidance on control and consolidation in *IAS 27,* 'Consolidated and Separate Financial Statements', and SIC-12, 'Consolidation − Special Purpose *Entities'*. IAS 27 (Revised) now renamed 'Separate Financial Statements'. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. This new standard might impact the entities that a group consolidates as its subsidiaries. The Group is assessing the impact of future adoption of the standard on its financial statements.

- IFRS 12, 'Disclosure of Interests in Other Entities', (effective for annual periods beginning on or after 1 January 2013). IFRS 12 requires entities to disclose information that helps financial statement users to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The Group is assessing the impact of future adoption of the standard on its financial statements.

- IFRS 13, 'Fair Value Measurement', (effective for annual periods beginning on or after 1 January 2013). IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The requirements are similar to those in *IFRS 7, 'Financial instruments: Disclosures'*, but apply to all assets and liabilities measured at fair value, not just financial assets and liabilities. The Group is assessing the impact of future adoption of the standard on its financial statements.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Notes to the Financial Statements

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(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(b) Consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

Inter-company 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. The accounting policies of subsidiaries are consistent with the policies adopted by the Group.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

(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 Board of Directors.

Notes to the Financial Statements

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(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

The consolidated financial statements are presented in Jamaican dollars, which is the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined. These rates represent the weighted average rates at which the company trades in foreign currency.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as gains or losses from qualifying cash flow hedging instruments.

All foreign exchange gains and losses recognised in the income statement are presented net in the income statement within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in the income statement, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in other comprehensive income.

Notes to the Financial Statements

31 December 2012
(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(e) Interest income and expenses

Interest income and expense are recognised in the income statement for all interest-bearing instruments using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets have been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

(f) Fee and commission income

Fees and commission income are recognised on an accrual basis when the service has been provided. Fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. Performance linked fees or fee components are recognised when the performance criteria are fulfilled.

(g) Net trading income

Net trading income includes all gains and losses from changes in fair value and related income or expense and dividends for financial assets and liabilities for instruments (including derivatives) held for trading. Net trading income also includes foreign exchange on translated assets and liabilities and net gains and loss on investment securities.

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(h) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(i) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including cash and non-restricted balances with BOJ, balances due from other banks, investment securities, reverse repurchase agreements, repurchase agreements with financial institutions and short term amounts due to banks and other financial institutions.

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(j) Sale and repurchase agreements

Securities purchased under agreements to resell (reverse repurchase agreements) and securities sold under agreements to repurchase (repurchase agreements) are treated as collateralised financing transactions and are recorded at the amount at which the securities were acquired or sold plus accrued interest.

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

(k) Financial assets

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

(i) Financial asset at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are initially recognised at fair value, which is the cash consideration to originate or purchase the loan including any transaction costs.

(iii) 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. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be re-classified as available-for-sale. Held-to-maturity investments are initially recognised at fair value, which is the cash consideration including any transaction costs.

(iv) Available-for-sale

Available-for-sale investments are non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Available-for-sale investments are initially recognised at fair value, which is the cash consideration including any transaction costs.

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(k) Financial assets (continued)

Purchases and sales of available-for-sale financial assets are recognised at the trade date – the date on which the Group commits the purchase or sell the asset. Loans and receivables are recognised when cash is advanced to the borrowers.

Subsequent to initial recognition at cost, financial assets at fair value through profit or loss and available-for-sale financial assets are carried at fair value. Loans and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in consolidated statement of comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in the consolidated statement of comprehensive income is recognised in profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. Unquoted securities are recorded initially at cost. They are subsequently measured at fair value. Where fair value cannot be measured reliably they are measured at cost less impairment.

Financial assets are derecognised when the right to received cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished, that is, when the obligation is discharged, cancelled or expires.

The Group may choose to reclassify a non-derivative financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification. Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

Notes to the Financial Statements

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2. Summary of Significant Accounting Policies (Continued)

(l) Derivative financial instruments and hedging accounting

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, bonds, interest rates, foreign exchange, credit spreads, commodities or other indices. Derivatives enable users to increase, reduce or alter exposure to credit or market risk. The Group transacts derivatives for three primary purposes: to create risk management solutions for customers, for proprietary trading purposes, and to manage its own exposure to credit and market risk.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into, and subsequently are re-measured at their fair value at each statement of financial position. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates its interest rate swap as a cash flow hedge. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

For cash flow hedges, the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in stockholders' equity are recycled to the income statement in the periods when the hedged item affects profit or loss. They are recorded in the revenue or expense lines in which associated with the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in stockholders' equity at that time remains in stockholders' equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in stockholders' equity is immediately transferred to the income statement within net trading income.

Notes to the Financial Statements

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(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(m) Impairment of financial assets

(i) Assets carried at amortised cost

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Notes to the Financial Statements

31 December 2012
(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(m) Impairment of financial assets (continued)

(i) Assets carried at amortised cost (continued)

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

For non-performing and impaired loans the accrual of interest income based on the original terms of the loan is discontinued. Jamaican banking regulations require that interest on non-performing loans be taken into account on the cash basis. IFRS require the increase in the present value of impaired loans due to the passage of time to be reported as interest income. The difference between the Jamaican regulatory basis and IFRS was assessed to be immaterial.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement in impairment charge for credit losses.

Statutory and other regulatory loan loss reserve requirements that are different from these amounts are dealt with in a non-distributable loan loss reserve as an adjustment to retained earnings.

(ii) Assets classified as available-for-sale

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from stockholders' equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale 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 through the income statement.

(iii) Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Notes to the Financial Statements

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2. Summary of Significant Accounting Policies (Continued)

(n) Leases

(i) As Lessee

The leases entered into by the Group are all operating leases. The total payments made under operating leases are charged to occupancy costs in the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(ii) As Lessor

When assets are held subject to 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 using the net investment method (before tax), which reflects a constant periodic rate of return.

(o) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

(ii) Computer software

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Group and that will probable generate economic benefits exceeding the cost beyond one year, are recognised as intangible assets.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as capital improvement and added to the original cost of the software. Computer software costs are amortised using the straight-line method over their useful lives.

Notes to the Financial Statements

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2. Summary of Significant Accounting Policies (Continued)

(p) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Depreciation is calculated on the straight-line basis at annual rates that will write off the carrying value of each asset over the period of its expected useful life. Estimated useful lives are as follows:

Leasehold improvements	10 years
Furniture and equipment	3-10 years
Motor vehicles	5 years
Computer equipment	3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains or losses on disposal of property, plant and equipment are determined by reference to their carrying amount. These are included in other expenses in the income statement.

Repairs and renewals are charged to the income statement when the expenditure is incurred.

(q) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Notes to the Financial Statements

31 December 2012
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2. Summary of Significant Accounting Policies (Continued)

(r) Employee benefits

(i) Pension obligations

The Group participates in two post-employment plans, the assets of which are generally held in separate trustee-administered funds. The pension plans are funded by payments from employees and by the Group, taking into account the recommendations of qualified actuaries. The Group has both defined benefit and defined contribution plans.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The asset or liability recognised in the statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets, together with adjustments for past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates 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.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

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

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate fund. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods.

For the defined contribution plan, the Group pays contributions to a privately administered pension insurance plan on a contractual basis. The Group has no further payment obligations once the contributions have been paid. The contributions are charged to the income statement in the period to which they relate.

Notes to the Financial Statements

31 December 2012
(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(r) Employee benefits (continued)

(ii) Other post-retirement obligations

The Group provides post-retirement health care benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. 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. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation, are charged or credited to income over the expected average remaining working lives of the related employees. These obligations are valued annually by independent qualified actuaries.

(iii) 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 date.

(iv) Productivity bonus plan

The Group recognises a liability and an expense for productivity bonuses as profit-sharing, paid to employees based on a formula that takes into consideration the profit attributable to the company's stockholders. The Group recognises a provision where contractually obliged or where past practice has created a constructive obligation.

(v) Share-based payments

The Group operates an equity-settled, share-based compensation plan.

Share options

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each statement of financial position date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to over the remaining vesting period. The proceeds received net of any directly attributable transaction costs, plus the fair value of the options is credited to share capital when the options are exercised.

Share grants

The market value of the shares issued at grant date is recognised as an expense when granted.

Share purchase plan

Employees of the company are also eligible to purchase shares in the company under a share purchase plan.

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(r) Employee benefits (continued)

(vi) Termination benefits

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

(s) Grants

Grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Grants relating to intangible assets are deducted in arriving at the carrying amount of the asset, and are credited to the income statement on a straight-line basis by way of a reduced amortisation change.

(t) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(u) Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

(v) Deposits

Deposits are recognised initially at the nominal amount when funds are received. Deposits are subsequently stated at amortised cost using the effective interest method.

Notes to the Financial Statements

31 December 2012
(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(w) Structured products

Structured products are recognised initially at the nominal amount when funds are received. Derivatives are separately accounted for at fair value through the income statement (Note 2(l)). The non-derivative elements are stated at amortised cost using the effective interest method.

(x) Share capital

(i) Share issuance cost
Incremental costs directly attributable to the issue of new shares or options are shown in stockholders' equity as a deduction from the proceeds.

(ii) Mandatorily redeemable preference shares are classified as liabilities (Note 2(u)).

(iii) Dividends on ordinary shares are recognised in stockholders' equity in the period in which they are approved by the company's stockholders.

Dividends for the year that are declared after the statement of financial position date are dealt with in the subsequent events note.

(y) Financial instruments

Financial instruments carried on the statement of financial position include cash resources, trading securities, securities purchased under agreements to resell, investment securities, loans, lease receivables, other assets excluding property, plant and equipment, deposits by customers and all other liabilities.

The fair values of the Group and company's financial instruments are discussed in Note 44.

(z) Fiduciary activities

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

Notes to the Financial Statements

31 December 2012
(Expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management

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

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 Group's risk management framework. The Board has established working groups for managing and monitoring risks, as follows:

(i) Asset, Liability, Credit and Investment Committee
The Asset, Liability, Credit and Investment Committee is responsible for the development of credit and investment policies and standards that conform to applicable law, regulations and corporate policies; approving credit proposal requests; reviewing and approving exceptions to core credit and investment policies that may represent unusual risk; and ensuring that aggregate credit risk exposure are within the Group's risk taking capacity. All credit facilities require the approval of at least 2 members of this Committee. This Committee is also responsible for formulating and monitoring investment portfolios and investment strategies for the Group. In addition, this Committee is responsible for approval and monitoring of appropriate trading limits, reports and compliance controls to ensure that the mandate is properly followed. The Committee's decisions receive final ratification at Board Meetings.

(ii) Audit and Compliance Committee
The Audit and Compliance Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit and Compliance Committee is assisted in its oversight role by the Internal Audit Department and the Risk Management and Compliance Unit. Internal Audit Department undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Compliance Committee. The Risk Management and Compliance Unit ensures adherence to internal policies and procedures, and regulatory rules and guidelines.

(iii) The Treasury Division
The Treasury Division is responsible for managing the Group's financial assets and liabilities and the overall financial structure. It is also primarily responsible for managing and maintaining appropriate funding and liquidity of the Group.

(iv) Risk Management Committee
The Risk Management Committee is responsible to monitor macroeconomic conditions in directing and overseeing credit and market-related risk management activities of the Group.

Notes to the Financial Statements

31 December 2012
(Expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

The disclosures provided are based on the Group's and company's investment portfolio at 31 December 2012. As described in Note 48, the Group and the company participated in the National Debt Exchange (NDX) which resulted in significant changes in the Group's and company's investment portfolio in February 2013.

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

(a) Credit risk

The Group takes on exposure to credit risk, which is the risk that its customers or counterparties will cause a financial loss for the Group by failing to discharge their contractual obligations. Credit risk is an important risk for the Group's business; management therefore carefully monitors its exposure to credit risk. Credit exposures arise principally in lending and investment activities. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty or groups of related counterparties and to geographical and industry segments.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitment risks arise from guarantees and letters of credit that may require payment on behalf of customers. Such payments are collected from customers based on the terms of the letters of credit, guarantees or undertakings. They expose the Group to similar risks to loans and the same control policies and processes mitigate these.

Credit review process

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

(i) Loans and leases

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

Group's internal rating scale:

Rating grades	Description of the grade
1	Standard
2	Potential problem credit
3	Sub-standard
4	Doubtful
5	Loss

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

(i) Loans and leases (continued)

The Group's loan portfolio is managed by focusing efforts on good quality loan that is achieved through a thorough screening and credit analysis process; these loans are appropriately priced to reflect the risk associated with the expected cash flows and the collateral provided. Credit risk is managed primarily by reviewing and monitoring the financial status of counterparties and the underlying collateral. The levels of credit risk undertaken is structured by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments; these are monitored on a periodic basis and subject to annual or more frequent reviews. Counterparty limits are established by the use of a credit classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risk to which it is exposed and take corrective action.

(ii) Investments

The Group limits its exposure to credit risk by investing in marketable securities, with counterparties that have acceptable credit quality and Government of Jamaica securities. As a result of the Central Securities Depository (CSD), all domestic Government of Jamaica securities have been dematerialised which has significantly reduced the settlement risk. The credit exposure is managed by establishing exposure limits after an internal analysis and approval. Actual exposures against limits are monitored frequently. It is also the Group's policy to obtain control or take possession of securities purchased under agreements to resell. Management assesses the market value of the underlying securities that collaterise the transactions and takes the appropriate margins required. Management actively seeks to transact with counterparties that demonstrate an ability to meet its obligations.

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are established regarding the acceptability of specific types of collateral.

The main types of collateral obtained are as follows:

Loans and leases – Cash and other near cash securities, mortgages over commercial and residential properties, charges over general business assets such as premises, equipment, inventory, accounts receivable, stocks and other securities and motor vehicles. Fair value of properties held as collateral is mainly based on obtained valuations from third parties.

Securities lending and reverse repurchase transactions – cash or Government of Jamaica securities.

The Group also seeks to obtain guarantees from parent companies for loans to their subsidiaries and personal guarantees for loans to private companies.

Management monitors the market value of collateral held and may request additional collateral in accordance with the underlying agreement.

Notes to the Financial Statements

31 December 2012
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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Impairment

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

The Group addresses impairment assessment by reviewing all loans and leases with risk ratings of 3 and above.

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

Commitments and guarantees

To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group.

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

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

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The impairment provision shown in the statement of financial position at year-end is derived from the internal rating grades of 3 and above. However, the majority of the impairment provision comes from the last rating class (loss).

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31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Group's and company's rating (continued)

The tables below show the Group's and company's gross loans and leases (excluding interest receivable) and the associated impairment provision for each internal rating class:

Group's and company's rating

	The Group			
	2012		2011	
	Loans and leases $'000	Impairment provision $'000	Loans and leases $'000	Impairment provision $'000
Standard	8,663,076	-	8,580,987	-
Potential problem credit	273,082	-	83,480	-
Sub-standard	140,004	43,699	303,314	46,162
Doubtful	65,259	13,837	135,110	34,673
Loss	391,284	182,390	313,093	170,144
	9,532,705	239,926	9,415,984	250,979

	The Company			
	2012		2011	
	Loans and leases $'000	Impairment provision $'000	Loans and leases $'000	Impairment provision $'000
Standard	1,922,312	-	1,904,010	-
Potential problem credit	108,956	-	64,814	-
Sub-standard	4,915	1,532	165,451	13,614
Doubtful	-	-	80,728	13,929
Loss	259,833	102,386	165,055	80,576
	2,296,016	103,918	2,380,058	108,119

Notes to the Financial Statements

31 December 2012
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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Maximum exposure to credit risk before collateral held or other credit enhancements

	Maximum exposure			
	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Credit risk exposures relating to assets on the statement of financial position are as follows:				
Cash and bank balances due from other financial institutions (excluding cash on hand)	3,861,148	2,064,285	2,967,036	1,717,979
Cash reserve at Bank of Jamaica	735,494	519,732	-	-
Trading securities	4,445,410	610,940	4,445,410	610,940
Securities purchased under agreements to resell	1,783,514	991,904	2,357,012	308,074
Investment securities	56,390,042	55,303,470	48,383,657	48,775,124
Derivative financial instruments	4,253,104	839,420	4,253,104	839,420
Loans, net of provision for credit losses	9,330,364	9,242,365	2,217,601	2,289,038
Lease receivables	59,159	15,515	-	-
Pledged assets	3,943,434	7,831,016	3,657,204	7,831,016
Due to related parties	48,496	8,527	47,888	8,527
Other assets	59,387	206,019	50,770	164,236
	84,909,552	77,633,193	68,379,682	62,544,354
Credit risk exposures relating to items not on the statement of financial position are as follows:				
Loan commitments	1,520,549	696,338	922,852	266,998
Guarantees and letters of credit	833,447	1,078,739	344,390	613,374
	2,353,996	1,775,077	1,267,242	880,372

The above table represents a worst-case scenario of credit risk exposure to the Group and company at 31 December 2012 and 2011, without taking account of any collateral held or other credit enhancements. The exposures set out above are based on net carrying amounts as reported in the statement of financial position.

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Loans and leases

(i) Credit quality of loans and leases are summarised as follows:

	The Group		The Company	
	2012 $'000	**2011 $'000**	**2012 $'000**	**2011 $'000**
Neither past due nor impaired -				
Standard	6,195,705	6,961,847	1,227,665	1,657,957
Past due but not impaired	2,740,453	1,702,620	803,603	310,867
Impaired	596,547	751,517	264,748	411,234
Gross	9,532,705	9,415,984	2,296,016	2,380,058
Less: Provision for credit losses	(239,926)	(250,979)	(103,918)	(108,119)
Net	9,292,779	9,165,005	2,192,098	2,271,939

Loans and leases become past due when payments are not received on contractual repayment dates. The majority of past due loans are not considered impaired.

(ii) Aging analysis of past due but not impaired loans and leases:

	The Group		The Company	
	2012 $'000	**2011 $'000**	**2012 $'000**	**2011 $'000**
Less than 30 days	628,366	1,225,853	167,804	308,094
31 to 60 days	1,675,961	395,040	532,391	984
61 to 90 days	436,126	81,727	103,408	1,789
	2,740,453	1,702,620	803,603	310,867

The Group and the company hold adequate collateral for past due but not impaired loans and leases.

There are no significant financial assets other than loans and leases that are past due.

Notes to the Financial Statements

31 December 2012
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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Loans and leases (continued)

(iii) Financial assets – individually impaired

Financial assets that are individually impaired before taking into consideration the cash flows from collateral held are as follows:

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Loans and leases	596,547	751,517	264,748	411,234

There are no financial assets other than loans and leases that were individually impaired.

(iv) Renegotiated loans and leases

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria, which, in the judgment of management, indicate that payment, will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans.

(v) Repossessed collateral

The Group and the company can obtain assets by taking possession of collateral held as security. Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness.

The Group is in the process of repossessing collateral totalling $13,300,000 (2011 – $8,800,000).

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Credit exposure

(i) Loans and leases

The following table summarises the Group's and company's credit exposure for loans and leases at their carrying amounts, as categorised by the industry sectors:

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Agriculture, fishing and mining	1,415,453	1,229,995	101,211	127,552
Construction and real estate	1,506,634	1,503,362	313,581	398,071
Distribution	2,438,196	1,691,766	983,768	441,532
Manufacturing	86,772	179,515	25,912	37,325
Personal	771,127	653,923	180,277	209,242
Professional and other services	1,523,018	2,351,894	463,977	846,633
Tourism and entertainment	1,507,238	1,764,268	206,212	307,641
Transportation, storage and communication	284,268	41,261	21,078	12,062
	9,532,706	9,415,984	2,296,016	2,380,058
Less: Provision for credit losses	(239,926)	(250,979)	(103,918)	(108,119)
	9,292,780	9,165,005	2,192,098	2,271,939
Interest receivable	96,743	92,875	25,503	17,099
	9,389,523	9,257,880	2,217,601	2,289,038

The majority of loans and leases are extended to customers in Jamaica.

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Credit exposure (continued)

(ii) Investments

The following table summarises the Group's and company's credit exposure for investments at their carrying amounts, as categorised by issuer:

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Government of Jamaica	51,805,317	51,015,793	46,614,615	45,574,495
Bank of Jamaica	116,413	605,388	35,427	505,045
Corporate	7,754,916	8,142,887	4,922,329	7,155,890
Financial institutions	5,921,307	4,816,082	6,494,443	4,132,546
Other sovereign debt	964,445	157,178	776,470	157,178
	66,562,398	64,737,328	58,843,284	57,525,154

(b) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

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

Liquidity risk management process

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

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

(ii) Maintaining assets than can readily be liquidated (T-Bills, BoJ CDs and secured secondary market repos) as protection against any unforeseen interruption to cash flow;

(iii) Maintaining stand-by credit lines;

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(b) Liquidity risk

Liquidity risk management process (continued)

(iv) Optimising cash returns on investment;

(v) Short-term liabilities are segmented and analysed to monitor and reduce concentrations.

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

(vii) Managing the concentration and profile of debt maturities.

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

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

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

Notes to the Financial Statements

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3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Financial assets and liabilities cash flows

The tables below present the contractual maturities of undiscounted cash flows (both interest and principal cash flows) of the Group's and company's financial assets and liabilities based on the remaining period.

	The Group					
	Within 1 Month	2 to 3 Months	4 to 12 Months	2 to 5 Years	Over 5 Years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
As at 31 December 2012:						
Financial Assets						
Cash and balances due from other financial institutions	4,085,815	-	-	-	-	4,085,815
Cash reserves at Bank of Jamaica	735,494	-	-	-	-	735,494
Trading securities	1,027	511,595	1,499,550	2,391,647	8,146	4,411,965
Securities purchased under agreements to resell	1,027,651	236,670	529,120	-	-	1,793,441
Investment securities and pledged assets	250,329	6,932,230	4,597,288	44,937,080	27,955,729	84,672,656
Derivative financial instruments	1,521	501,708	1,474,367	2,360,525	-	4,338,121
Loans, net provision for credit losses	2,742,299	1,227,702	2,142,667	3,922,731	762,195	10,797,594
Lease receivables	3,251	6,503	29,262	20,119	-	59,135
Other	55,007	-	32,426	-	-	87,433
Financial assets (contractual maturity dates)	8,902,394	9,416,408	10,304,680	53,632,102	28,726,070	110,981,654
Financial Liabilities						
Securities sold under agreements to repurchase	28,726,438	19,894,652	9,371,943	31,716	-	58,024,749
Customer deposits and other accounts	6,401,673	1,715,491	1,993,314	481,446	1,378,264	11,970,188
Due to banks and other financial institutions	5,298	38,747	186,112	309,606	1,601	541,364
Derivative financial instruments	1,521	511,596	1,498,532	2,383,501	-	4,395,150
Structured products	97,641	27,346	61,997	790,042	-	977,026
Other	1,054,483	114,709	16,000	-	-	1,185,192
Financial liabilities (contractual maturity dates)	36,287,054	22,302,541	13,127,898	3,996,311	1,379,865	77,093,669
Net Liquidity Gap	(27,384,660)	(12,886,133)	(2,823,218)	49,635,791	27,346,205	33,887,985
Cumulative Liquidity Gap	(27,384,660)	(40,270,793)	(43,094,011)	6,541,780	33,887,985	

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Financial assets and liabilities cash flows (continued)

	The Group					
	Within 1 Month $'000	2 to 3 Months $'000	4 to 12 Months $'000	2 to 5 Years $'000	Over 5 Years $'000	Total $'000
As at 31 December 2011:						
Financial Assets						
Cash and balances due from other financial institutions	2,228,462	-	-	-	-	2,228,462
Cash reserves at Bank of Jamaica	519,732	-	-	-	-	519,732
Trading securities	-	-	17,036	476,334	283,049	776,419
Securities purchased under agreements to resell	753,079	6,860	249,235	-	-	1,009,174
Investment securities and pledged assets	802,656	2,437,016	3,888,365	47,697,192	38,967,964	93,793,193
Derivative financial instruments	20,575	-	399,794	430,400	25,521	876,290
Loans, net provision for credit losses	2,366,726	1,288,092	2,905,190	2,920,741	930,679	10,411,428
Lease receivables	702	1,350	12,186	6,576	-	20,814
Other	214,328	-	-	-	-	214,328
Financial assets (contractual maturity dates)	6,906,260	3,733,318	7,471,806	51,531,243	40,207,213	109,849,840
Financial Liabilities						
Securities sold under agreements to repurchase	33,930,905	14,854,499	6,262,376	11,058	-	55,058,838
Customer deposits and other accounts	4,814,676	1,065,877	3,450,887	717,880	1,285,874	11,335,194
Due to banks and other financial institutions	75,138	20,814	231,910	488,333	42,409	858,604
Structured products	-	-	-	91,105	273,009	364,114
Derivative financial instruments	111,499	-	338,396	225,184	25,521	700,600
Other	575,500	-	-	-	-	575,500
Financial liabilities (contractual maturity dates)	39,507,718	15,941,190	10,283,569	1,533,560	1,626,813	68,892,850
Net Liquidity Gap	(32,601,458)	(12,207,872)	(2,811,763)	49,997,683	38,580,400	40,956,990
Cumulative Liquidity Gap	(32,601,458)	(44,809,330)	(47,621,093)	2,376,590	40,956,990	

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31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Financial assets and liabilities cash flows (continued)

	The Company					
	Within 1 Month $'000	2 to 3 Months $'000	4 to 12 Months $'000	2 to 5 Years $'000	Over 5 Years $'000	Total $'000
As at 31 December 2012:						
Financial Assets						
Cash and balances due from other financial institutions	2,967,040	-	-	-	-	2,967,040
Trading securities	1,027	511,595	1,499,550	2,391,647	8,146	4,411,965
Securities purchased under agreements to resell	1,617,247	226,536	533,853	-	-	2,377,636
Investment securities and pledged assets	122,178	5,552,765	3,408,759	38,561,438	23,919,444	71,564,584
Derivative financial instruments	1,521	501,708	1,474,367	2,360,525	-	4,338,121
Loans, net provision for credit losses	872,756	271,440	626,736	589,978	217,282	2,578,192
Other	66,231	-	32,426	-	-	98,657
Financial assets (contractual maturity dates)	5,648,000	7,064,044	7,575,691	43,903,588	24,144,872	88,336,195
Financial Liabilities						
Securities sold under agreements to repurchase	27,950,683	19,894,652	9,353,461	31,716	-	57,230,512
Customer accounts	7,252	13,641	50,425	109,781	-	181,099
Due to banks and other financial institutions	125	26,295	128,504	107,306	185	262,415
Derivative financial instruments	1,521	511,596	1,498,532	2,383,501	-	4,395,150
Structured products	97,641	27,346	61,997	790,042	-	977,026
Other	899,298	73,629	16,000	-	-	988,927
Financial liabilities (contractual maturity dates)	28,956,520	20,547,159	11,108,919	3,422,346	185	64,035,129
Net Liquidity Gap	(23,308,520)	(13,483,115)	(3,533,228)	40,481,242	24,144,687	24,301,066
Cumulative Liquidity Gap	(23,308,520)	(36,791,635)	(40,324,863)	156,379	24,301,066	-

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Financial assets and liabilities cash flows (continued)

	The Company					
	Within 1 Month $'000	2 to 3 Months $'000	4 to 12 Months $'000	2 to 5 Years $'000	Over 5 Years $'000	Total $'000
As at 31 December 2011:						
Financial Assets						
Cash and balances due from other financial institutions	1,717,979	-	-	-	-	1,717,979
Trading securities	-	-	17,036	476,334	283,049	776,419
Securities purchased under agreements to resell	77,364	-	249,235	-	-	326,599
Investment securities and pledged assets	685,441	1,943,427	3,442,924	43,027,955	34,595,467	83,695,214
Derivative financial instruments	20,575	-	399,794	430,400	25,521	876,290
Loans, net provision for credit losses	496,836	349,811	1,047,834	408,993	267,192	2,570,666
Other	172,763	-	-	-	-	172,763
Financial assets (contractual maturity dates)	3,170,958	2,293,238	5,156,823	44,343,682	35,171,229	90,135,930
Financial Liabilities						
Securities sold under agreements to repurchase	33,946,180	14,854,499	6,265,621	11,058	-	55,077,358
Customer accounts	13,054	15,454	61,060	177,182	-	266,750
Due to banks and other financial institutions	68,525	5,559	166,438	244,177	4,720	489,419
Derivative financial instruments	111,499	-	338,396	225,184	25,521	700,600
Structured products	-	-	-	91,105	273,009	364,114
Other	348,036	-	-	-	-	348,036
Financial liabilities (contractual maturity dates)	34,487,294	14,875,512	6,831,515	748,706	303,250	57,246,277
Net Liquidity Gap	(31,316,336)	(12,582,274)	(1,674,692)	43,594,976	34,867,979	32,889,653
Cumulative Liquidity Gap	(31,316,336)	(43,898,610)	(45,573,302)	(1,978,326)	32,889,653	

Source of funding available to meet all of the liabilities and to cover outstanding loan commitments include cash, central bank balances, items in the course of collection, investments, loans and advances to banks and loans and advances to customers. In the normal course of business, a proportion of customer loans will be extended beyond their due dates. The Group is also able to meet unexpected net cash outflows by selling securities and accessing additional funding sources from local and overseas financial institutions.

Notes to the Financial Statements

31 December 2012
(Expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rate, credit spreads, foreign exchange rates and equity prices. Market risk is monitored and reviewed by the Risk Management and periodically by the Risk Management Committee. The company monitors economic reports, local and international market conditions. Key market risk strategies include active monitoring of the market, portfolio sensitivity analysis, trading and position limits and liability management.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

(i) ***Currency risk***

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

Foreign exchange risk occurs when the Group takes on open position in a currency. To control this exchange risk the Risk Management Committee has approved limits for net open position in each currency for both intra-day and overnight position. This limit may vary from time to time as determined by Risk Management Unit assessment of the volatility in exchange rates and with the approval of the Risk Management Committee.

The Group also has transactional currency exposure. This exposure arises from having financial assets in currencies other than those in which financial liabilities are expected to settle. The Group ensures that its net exposure is kept at approved levels.

In addition, the Group has utilise derivatives to mitigate currency risk exposure as specified in Note 22.

Notes to the Financial Statements

31 December 2012
(Expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

Concentrations of currency risk

The tables below summarise the Group's and company's exposure to foreign currency exchange rate risk at 31 December.

	The Group					
	Jamaican$	US$	GBP	CAN$	EURO	Total
	J$'000	J$'000	J$'000	J$'000	J$'000	J$'000
At 31 December 2012:						
Assets						
Cash and balances due from other financial institutions and	390,622	3,225,497	230,033	96,824	142,809	4,085,785
Cash reserves at Bank of Jamaica	280,883	419,776	22,594	12,241	-	735,494
Trading securities	424,212	20,874	-	-	4,050,346	4,495,432
Securities purchased under agreements to resell	1,042,201	556,174	160,214	-	24,925	1,783,514
Investment securities and pledged assets	32,303,289	27,361,398	464,653	-	278,760	60,408,100
Derivative financial instruments	-	4,253,104	-	-	-	4,253,104
Loans, net of provision for credit losses	2,109,802	7,220,562	-	-	-	9,330,364
Lease receivables	59,154	5	-	-	-	59,159
Other	3,055,261	27,924	6	7	34	3,083,232
Total assets	39,665,424	43,085,314	877,500	109,072	4,496,874	88,234,184
Liabilities and Stockholders' Equity						
Securities sold under agreements to repurchase	26,225,012	30,378,355	922,337	-	70,174	57,595,878
Customer deposits and other accounts	2,104,692	8,919,558	41,422	142,685	6,837	11,215,194
Structured products	-	854,100	-	-	-	854,100
Derivative financial instruments	-	43,915	-	-	4,266,651	4,310,566
Due to banks and other financial institutions	426,997	41,749	-	-	-	468,746
Other liabilities	934,570	819,358	6,056	4,232	1,999	1,766,215
Stockholders' equity	12,023,485	-	-	-	-	12,023,485
Total liabilities and stockholders' equity	41,714,756	41,057,035	969,815	146,917	4,345,661	88,234,184
Net statement of financial position	(2,049,332)	2,028,279	(92,315)	(37,845)	151,213	-
Credit commitments	1,345,201	1,008,794	-	-	-	2,353,995

Notes to the Financial Statements

31 December 2012
(Expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

Concentrations of currency risk (continued)

	The Group					
	Jamaican$	US$	GBP	CAN$	EURO	Total
	J$'000	J$'000	J$'000	J$'000	J$'000	J$'000
At 31 December 2011:						
Assets						
Cash and balances due from other financial institutions and	324,452	1,400,578	298,000	83,228	121,226	2,227,484
Cash reserves at Bank of Jamaica	266,768	231,437	9,795	11,732	-	519,732
Trading securities	460,033	150,907	-	-	-	610,940
Securities purchased under agreements to resell	55,578	912,496	6,886	-	16,944	991,904
Investment securities and pledged assets	36,251,383	25,807,844	413,352	-	735,601	63,208,180
Derivative financial instruments	-	839,420	-	-	-	839,420
Loans, net of provision for credit losses	2,501,584	6,740,781	-	-	-	9,242,365
Lease receivables	15,510	5	-	-	-	15,515
Other	2,406,415	141,979	-	2	-	2,548,396
Total assets	42,281,723	36,225,447	728,033	94,962	873,771	80,203,936
Liabilities and Stockholders' Equity						
Securities sold under agreements to repurchase	29,132,140	24,676,595	763,507	-	39,889	54,612,131
Customer deposits and other accounts	2,841,699	7,563,549	61,672	130,396	2,581	10,599,897
Structured products	-	274,913	-	-	-	274,913
Derivative financial instruments	-	27,710	-	-	672,890	700,600
Due to banks and other financial institutions	703,630	60,326	-	-	62	764,018
Other liabilities	1,193,443	95,950	2,742	514	369	1,293,018
Stockholders' equity	11,959,359	-	-	-	-	11,959,359
Total liabilities and stockholders' equity	45,830,271	32,699,043	827,921	130,910	715,791	80,203,936
Net statement of financial position	(3,548,548)	3,526,404	(99,888)	(35,948)	157,980	-
Credit commitments	883,332	891,745	-	-	-	1,775,077

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

Concentrations of currency risk (continued)

	The Company					
	Jamaican$ J$'000	US$ J$'000	GBP J$'000	CA$ J$'000	EURO J$'000	Total J$'000
At 31 December 2012:						
Assets						
Cash and balances due from other financial institutions	98,592	2,579,191	166,668	49	122,536	2,967,036
Trading securities	424,213	20,874	-	-	4,050,345	4,495,432
Securities purchased under agreements to resell	1,251,878	927,912	152,297	-	24,925	2,357,012
Investment securities and pledged assets	29,195,270	22,161,448	464,654	-	278,759	52,100,131
Derivative financial instruments	-	4,253,104	-	-	-	4,253,104
Loans, net of provision for credit losses	652,408	1,565,193	-	-	-	2,217,601
Other	4,413,412	27,724	-	-	34	4,441,170
Total assets	36,035,773	31,535,446	783,619	49	4,476,599	72,831,486
Liabilities and Stockholders' Equity						
Securities sold under agreements to repurchase	26,243,378	29,603,838	922,337	-	70,174	56,839,727
Customer accounts	171,152	-	-	-	-	171,152
Structured products	-	854,100	-	-	-	854,100
Due to banks and other financial institutions	199,715	41,749	-	-	-	241,464
Derivative financial instruments	-	43,915	-	-	4,266,651	4,310,566
Other	545,688	723,104	-	-	1,592	1,270,384
Stockholders' equity	9,144,093	-	-	-	-	9,144,093
Total liabilities and stockholders' equity	36,304,026	31,266,706	922,337	-	4,338,417	72,831,486
Net statement of financial position	(268,253)	268,740	(138,718)	49	138,182	-
Credit commitments	999,118	268,124	-	-	-	1,267,242

Notes to the Financial Statements

31 December 2012
(Expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

Concentrations of currency risk (continued)

	The Company				
	Jamaican$	US$	GBP	EURO	Total
	J$'000	J$'000	J$'000	J$'000	J$'000
At 31 December 2011:					
Assets					
Cash and balances due from other financial institutions	507,834	879,487	212,118	118,540	1,717,979
Trading securities	460,032	150,907	-	-	610,939
Securities purchased under agreements to resell	55,283	252,791	-	-	308,074
Investment securities and pledged assets	32,453,792	23,062,664	413,352	735,601	56,665,409
Derivative financial instruments	-	839,420	-	-	839,420
Loans, net of provision for credit losses	1,015,558	1,273,480	-	-	2,289,038
Other	4,029,827	108,173	-	-	4,138,000
Total assets	38,522,326	26,566,922	625,470	854,141	66,568,859
Liabilities and Stockholders' Equity					
Securities sold under agreements to repurchase	29,150,576	24,676,678	763,507	39,889	54,630,650
Customer accounts	250,241	-	-	-	250,241
Structured products	-	274,913	-	-	274,913
Due to banks and other financial institutions	403,941	60,326	-	62	464,329
Derivative financial instruments	-	27,710	-	672,890	700,600
Other liabilities	884,293	34,621	170	-	919,084
Stockholders' equity	9,329,042	-	-	-	9,329,042
Total liabilities and stockholders' equity	40,018,093	25,074,248	763,677	712,841	66,568,859
Net statement of financial position	(1,495,767)	1,492,674	(138,207)	141,300	-
Credit commitments	497,231	383,141	-	-	880,372

Notes to the Financial Statements

31 December 2012
(Expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

Foreign currency sensitivity

The following tables indicate the currencies to which the Group and company had significant exposure on its monetary assets and liabilities and its forecast cash flows. The change in currency rate below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation at the year end based on a change in foreign currency rates as noted below. The sensitivity analysis on pre-tax profit is based on foreign currency denominated monetary items at the year end. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variable, variables had to be on an individual basis.

	The Group			
	Change in Currency Rate	Effect on Pre-tax Profit	Change in Currency Rate	Effect on Pre-tax Profit
	2012 %	2012 $'000	2011 %	2011 $'000
Currency:				
USD	+1	20,389	+1	35,156
EUR	+1	1,528	+1	1,580
GBP	+1	(925)	+1	(979)
USD	-10	(203,886)	-1	(35,156)
EUR	-10	(15,277)	-1	(1,580)
GBP	-10	9,245	-1	979

	The Company			
	Change in Currency Rate	Effect on Pre-tax Profit	Change in Currency Rate	Effect on Pre-tax Profit
	2012 %	2012 $'000	2011 %	2011 $'000
Currency:				
USD	+1	2,062	+1	14,948
EUR	+1	1,381	+1	1,413
GBP	+1	(1,387)	+1	(1,382)
USD	-10	(20,621)	-1	(14,948)
EUR	-10	(13,818)	-1	(1,413)
GBP	-10	13,872	-1	1,382

Notes to the Financial Statements

31 December 2012
(Expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk

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

Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

The Group's interest rate risk resides primarily in its Jamaican dollar liability portfolio. Accordingly, the Group manages interest rate risk by holding a high proportion of variable rate Jamaican dollar securities linked to Treasury bill yields. There is a growing proportion of the Group's portfolio tied to their prime lending rate which is reviewed periodically based on market conditions. The interest rate risk policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities. Macaulay and Effective Duration analysis is also conducted on the financial assets of the Group to determine the impact of changes in interest rates. Macaulay duration is the weighted average term to maturity of a bond's cash flows, while Effective duration is the change in the value of the portfolio in response to a change in interest rates. The Duration Gap is also assessed. This is the difference between the Macaulay duration of assets and the duration of liabilities. It measures how well the average timings of cash inflows are matched to cash outflows.

The following tables summarise the Group's and the company's exposure to interest rate risk. It includes the Group and company financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

In addition, the Group and company has an interest rate swap on which interest rate risk arises as set out in Note 22.

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	The Group						
	Within 1 Month	2 to 3 Months	4 to 12 Months	2 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 31 December 2012:							
Assets							
Cash and balances due from other financial institutions	3,861,147	-	-	-	-	224,638	4,085,785
Cash reserve at Bank of Jamaica	735,494	-	-	-	-	-	735,494
Trading securities	-	-	-	4,026,553	19,624	449,255	4,495,432
Securities purchased under agreements to resell	1,024,638	232,802	520,704	-	-	5,370	1,783,514
Investment securities and pledged assets	3,293,395	25,735,067	2,383,269	21,078,226	6,540,959	1,377,184	60,408,100
Derivative financial instruments	-	-	-	3,933,704	-	319,400	4,253,104
Loans, net of provision for credit losses	1,746,790	763,024	1,724,819	3,128,512	1,871,199	96,020	9,330,364
Leases receivables	-	-	-	58,434	-	725	59,159
Other	-	-	-	-	-	3,083,232	3,083,232
Total assets	10,661,464	26,730,893	4,628,792	32,225,429	8,431,782	5,555,824	88,234,184
Liabilities							
Securities sold under agreements to repurchase	28,486,179	19,583,818	9,043,450	29,460	-	452,971	57,595,878
Customer deposits and other accounts	6,398,394	1,689,104	1,907,618	420,575	737,732	61,771	11,215,194
Structured products	-	-	-	528,953	-	325,147	854,100
Derivative financial instruments	-	-	-	3,998,369	-	312,197	4,310,566
Due to banks and other financial institutions	-	32	32,000	384,216	51,077	1,421	468,746
Other	-	-	-	-	-	1,766,215	1,766,215
Total liabilities	34,884,573	21,272,954	10,983,068	5,361,573	788,809	2,919,722	76,210,699
Total interest repricing gap	(24,223,109)	5,457,939	(6,354,276)	26,863,856	7,642,973	2,636,102	12,023,485
Cumulative repricing gap	(24,223,109)	(18,765,170)	(25,119,446)	1,744,410	9,387,383	12,023,485	

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	The Group						
	Within 1 Month	2 to 3 Months	4 to 12 Months	2 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 31 December 2011:							
Assets							
Cash and balances due from other financial institutions	2,139,652	-	-	-	-	87,832	2,227,484
Cash reserve at Bank of Jamaica	519,732	-	-	-	-	-	519,732
Trading securities	-	-	-	-	200,876	410,064	610,940
Securities purchased under agreements to resell	752,807	6,859	226,980	-	-	5,258	991,904
Investment securities and pledged assets	748,453	22,713,598	421,239	25,009,555	12,917,059	1,398,276	63,208,180
Derivative financial instruments	244,228	-	-	-	-	595,192	839,420
Loans, net of provision for credit losses	1,710,764	471,978	2,675,624	2,747,059	1,544,319	92,621	9,242,365
Leases receivables	-	-	-	15,261	-	254	15,515
Other	-	-	-	-	-	2,548,396	2,548,396
Total assets	6,115,636	23,192,435	3,323,843	27,771,875	14,662,254	5,137,893	80,203,936
Liabilities							
Securities sold under agreements to repurchase	33,609,653	14,607,593	6,056,655	9,955	-	328,275	54,612,131
Customer deposits and other accounts	4,812,665	1,044,156	3,369,539	611,857	688,353	73,327	10,599,897
Structured products	-	-	-	-	-	274,913	274,913
Derivative financial instruments	-	-	-	-	-	700,600	700,600
Due to banks and other financial institutions	5,270	3,244	48,256	485,295	125,648	96,305	764,018
Other	-	-	-	-	-	1,293,018	1,293,018
Total liabilities	38,427,588	15,654,993	9,474,450	1,107,107	814,001	2,766,438	68,244,577
Total interest repricing gap	(32,311,952)	7,537,442	(6,150,607)	26,664,768	13,848,253	2,371,455	11,959,359
Cumulative repricing gap	(32,311,952)	(24,774,510)	(30,925,117)	(4,260,349)	9,587,904	11,950,359	

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	The Company						
	Within 1 Month	2 to 3 Months	4 to 12 Months	2 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 31 December 2012:							
Assets							
Cash and balances due from other financial institutions	2,967,036	-	-	-	-	-	2,967,036
Trading securities	-	-	-	4,026,553	19,624	449,255	4,495,432
Securities purchased under agreements to resell	1,606,021	224,917	520,705	-	-	5,369	2,357,012
Investment securities and pledged assets	3,239,396	23,290,944	2,383,269	16,715,712	5,261,334	1,209,476	52,100,131
Derivative financial instruments	-	-	-	3,933,704	-	314,400	4,248,104
Loans, net of provision for credit losses	584,045	50,600	713,108	601,176	243,169	25,503	2,217,601
Other	-	-	-	-	-	4,441,170	4,441,170
Total assets	8,396,498	23,566,461	3,617,082	25,277,145	5,524,127	6,445,173	72,826,486
Liabilities							
Securities sold under agreements to repurchase	27,736,004	19,583,818	9,043,450	29,460	-	446,995	56,839,727
Customer accounts	4,265	13,563	49,382	100,966	-	2,976	171,152
Structured products	-	-	-	528,953	-	325,147	854,100
Due to banks and other financial institutions	5,842	-	32,000	201,183	1,077	1,362	241,464
Derivative financial instruments	-	-	-	3,998,369	-	312,197	4,310,566
Other	-	-	-	-	-	1,270,384	1,270,384
Total liabilities	27,746,111	19,597,381	9,124,832	4,858,931	1,077	2,359,061	63,687,393
Total interest repricing gap	(19,349,613)	3,969,080	(5,507,750)	20,418,214	5,523,050	4,086,112	9,139,093
Cumulative repricing gap	(19,349,613)	(15,380,533)	(20,888,283)	(470,069)	5,052,981	9,139,093	

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	The Company						
	Within 1 Month	2 to 3 Months	4 to 12 Months	2 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 31 December 2011:							
Assets							
Cash and balances due from other financial institutions	1,717,979	-	-	-	-	-	1,717,979
Trading securities	-	-	-	-	200,876	410,064	610,940
Securities purchased under agreements to resell	76,817	-	226,980	-	-	4,276	308,073
Investment securities and pledged assets	522,454	21,511,630	421,239	22,291,338	10,677,513	1,241,235	56,665,409
Derivative financial instruments	244,228	-	-	-	-	595,192	839,420
Loans, net of provision for credit losses	353,958	86,214	974,961	640,445	216,362	17,099	2,289,039
Other	-	-	-	-	-	4,137,999	4,137,999
Total assets	2,915,436	21,597,844	1,623,180	22,931,783	11,094,751	6,405,865	66,568,859
Liabilities							
Securities sold under agreements to repurchase	33,628,173	14,607,593	6,056,655	9,955	-	328,274	54,630,650
Customer accounts	12,219	14,131	54,790	164,310	-	4,791	250,241
Structured products	-	-	-	-	-	274,913	274,913
Due to banks and other financial institutions	5,775	192	48,000	300,986	13,148	96,228	464,329
Derivative financial instruments	-	-	-	-	-	700,600	700,600
Other	-	-	-	-	-	919,085	919,085
Total liabilities	33,646,167	14,621,916	6,159,445	475,251	13,148	2,323,891	57,239,818
Total interest repricing gap	(30,730,731)	6,975,928	(4,536,265)	22,456,532	11,081,603	4,081,974	9,329,041
Cumulative repricing gap	(30,730,731)	(23,754,803)	(28,291,068)	(5,834,536)	5,247,067	9,329,041	

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

The tables below summarise the effective interest rate by major currencies for financial instruments of the Group and the company.

	The Group					The Company				
	J $	US $	CAN $	GBP £	EURO €	J $	US $	CAN $	GBP £	EURO €
	%	%	%	%	%	%	%	%	%	%
	2012									
Assets										
Cash and balances due from other financial institutions	0.11	0.01	-	0.12	0.05	0.01	0.01	-	0.12	0.05
Cash reserves at Bank of Jamaica	-	0.01	0.35	0.05	-	-	-	-	-	-
Trading securities	-	11.00	-	-	5.00	-	11.00	-	-	5.00
Securities purchased under agreements to resell	4.86	4.02	-	2.70	3.00	4.71	4.02	-	2.70	3.00
Investment securities – debt securities	9.14	7.15	-	7.50	10.5	9.05	7.46	-	7.50	10.50
Loans, net of provision for credit losses	13.01	8.73	-	-	-	12.67	8.82	-	-	-
Lease receivables	16.00	-	-	-	-	-	-	-	-	-
Liabilities										
Securities sold under agreements to repurchase	6.13	3.76	-	2.64	2.20	6.13	3.76	-	2.64	2.20
Customer deposits and other accounts	1.50	1.36	1.17	0.76	0.24	3.31	-	-	-	-
Structured products	-	6.8%	-	-	-	-	6.8%	-	-	-
Due to banks and other financial institutions	9.21	4.94	-	-	-	9.41	6.00	-	-	-
	2011									
Assets										
Cash and balances due from other financial institutions	0.22	0.13	-	0.01	0.05	0.22	0.13	-	0.01	0.05
Cash reserves at Bank of Jamaica	-	0.01	0.35	0.05	-	-	-	-	-	-
Trading securities	8.75	8.14	-	-	-	8.75	8.14	-	-	-
Securities purchased under agreements to resell	-	4.40	-	3.00	3.28	4.02	4.83	-	-	-
Investment securities – debt securities	9.39	7.79	-	7.50	10.27	9.65	7.57	-	7.50	10.32
Loans, net of provision for credit losses	16.09	10.04	-	-	-	13.87	9.07	-	-	-
Lease receivables	18.31	-	-	-	-	-	-	-	-	-
Liabilities										
Securities sold under agreements to repurchase	5.92	3.66	-	2.85	1.92	5.92	3.66	-	2.85	1.92
Customer deposits and other accounts	3.64	2.96	1.20	1.79	0.05	3.83	-	-	-	-
Due to banks and other financial institutions	9.41	7.32	-	-	-	9.82	7.32	-	-	-

Notes to the Financial Statements

31 December 2012
(Expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate sensitivity

The following tables indicate the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on the Group's and company's income statement and stockholders' equity.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on pre-tax profit or loss based on floating rate debt securities and financial liabilities. The sensitivity of stockholders' equity is calculated by revaluing fixed rate available-for-sale financial assets for the effects of the assumed changes in interest rates. The correlation of a number of variables will have an impact on market risk. It should be noted that movements in these variables are non-linear and are assessed individually.

	The Group			
	2012		2011	
	Effect on Pre-tax Profit	Effect on Other components of Equity	Effect on Pre-tax Profit	Effect on Other components of Equity
	$'000	$'000	$'000	$'000
Change in basis points				
J$ -100, US$ - 50 (2011 J$ -100, US$ -50)	(271,477)	529,347	(218,789)	753,395
J$ +400, US$ +250 (2011 - J$ +100, US$ +50)	1,149,154	(1,470,312)	218,789	(783,088)

	The Company			
	2012		2011	
	Effect on Pre-tax Profit	Effect on Other components of Equity	Effect on Pre-tax Profit	Effect on Other components of Equity
	$'000	$'000	$'000	$'000
Change in basis points				
J$ -100, US$ - 50 (2011 J$ -100, US$ -50)	(258,738)	481,302	(208,329)	653,932
J$ +400, US$ +250 (2011 - J$ +100, US$ +50)	1,098,194	(1,302,921)	208,329	(644,399)

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(d) Capital management

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

(i) To comply with the capital requirements set by the regulators of the financial markets where the entities within the Group operate;

(ii) To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for stockholders and benefits for other stakeholders; and

(iii) To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored monthly by the Group's management employing techniques based on the guidelines developed by the Financial Services Commission (FSC), the Bank of Jamaica (BOJ), Basel II and the Risk Management and Compliance Unit. The required information is filed with the respective Regulatory Authorities at stipulated intervals.

The BOJ and the FSC require each regulated entity to:

(i) Hold the minimum level of the regulatory capital; and

(ii) Maintain a minimum ratio of total regulatory capital to the risk-weighted assets.

The Group's regulatory capital is divided into two tiers:

(i) Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and

(ii) Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and revaluation on property, plant and equipment.

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

The table below summarises the composition of regulatory capital and the ratios of the regulated companies within the Group for the years ended 31 December 2012 and 2011. During those two years, the individual entities within the Group complied with all of the externally imposed capital requirements to which they are subject.

The regulated companies that are operating within the Group are Sagicor Investments Jamaica Limited and Sagicor Bank Jamaica Limited.

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(d) Capital management (continued)

	Sagicor Investments Jamaica Limited		Sagicor Bank Jamaica Limited	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Tier 1 capital	7,463,231	7,041,585	3,077,292	2,567,871
Tier 2 capital	1,389,657	1,380,884	73,929	71,610
Total regulatory capital	8,852,888	8,422,469	3,151,221	2,639,481
Total required capital	5,157,277	4,014,271	1,486,036	1,034,021
Risk-weighted assets:				
On-statement of financial position	15,232,982	10,542,524	11,018,083	7,725,499
Off-statement of financial position	-	-	1,219,130	894,705
Foreign exchange exposure	421,074	1,292,447	2,623,142	1,720,001
Total risk-weighted assets	15,654,056	11,834,971	14,860,355	10,340,205
Market Risk	35,918,713	28,307,740	-	-
Total Risk	51,572,769	40,142,711	14,860,355	10,340,205
Actual capital base to risk	17%	21%	21%	26%
Required capital base to risk	10%	10%	10%	10%

(e) Derivative products

The Group's derivative activities give rise to open positions in portfolios of derivatives. These positions are managed constantly to ensure that they remain within acceptable risk levels, with matching deals being utilised to achieve this where necessary. When entering into derivative transactions, the Group employs the same credit risk management procedures to assess and approve potential credit exposures that are used for traditional lending.

Notes to the Financial Statements

31 December 2012
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4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following significant judgements regarding the amounts recognised in the financial statements:

Held to maturity investments

The Group follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

If the Group fails to keep these investments to maturity other than specific circumstances explained in IAS 39, it will be required to reclassify the whole class as available-for-sale. The investments would therefore be measured at fair value not amortised cost. The fair value would increase by $169,631,000 (2011 – $249,348,000) with a corresponding entry in the fair value reserve in stockholders' equity.

(b) Key sources of estimation uncertainty

The Group makes estimates and assumptions that affect the reported assets and liabilities within the next financial year. The resulting accounting estimates will, by definition, seldom equal the related actual results. Areas of key sources of estimation uncertainty include the following:

(i) Income taxes

Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for possible tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were originally recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(ii) Impairment losses on loans and leases

Loans and leases are evaluated for impairment on a basis described in Note 2(m)(i).

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. Were the net present value of estimated cash flows to differ by +/-5%, the impairment loss is estimated to be $135,613,000 and $64,954,000 for the Group and company (2011 - $72,794,000 and $58,829,000) higher or lower.

Notes to the Financial Statements

31 December 2012
(Expressed in Jamaican dollars unless otherwise indicated)

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

(b) Key sources of estimation uncertainty (continued)

(iii) Fair value of securities not quoted in an active market

The fair value of such securities not quoted in an active market may be determined using reputable pricing sources (such as pricing agencies) or indicative prices from bond/debt market makers. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. The Group exercises judgement and estimates on the quantity and quality of pricing sources used. Where no market data is available, the Group may value positions using its own models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. The inputs into these models are primarily discounted cash flows. The models used to determine fair values are periodically reviewed by experienced personnel. The models used for debt securities are based on net present value of estimated future cash flows, adjusted as appropriate for liquidity, and credit and market risk factors.

5. Segment Reporting

Management has determined the operating segment based on the reports reviewed by the Board of Directors that are used to make strategic decisions. The Group is organised and managed in five main reportable operating segments based on its business activities. The designated segments are as follows:

(a) Treasury Management– this incorporates the Primary Dealer Unit, Cash Management Services and currency exposure.

(b) Corporate and Retail Credit – this incorporates the Group's loan and leasing activities.

(c) Asset Management – this incorporates the administration of the unit trust and other fund management activities.

(d) Trading – this incorporates foreign currency trading, bond trading, equity trading and stock brokerage.

(e) Corporate Trust – this incorporates corporate trust, share register and paying agency services.

The Group measures the performance of its operating segments through a measure of segment profit or loss which is profit before taxation.

A measure of segment assets is only required to be disclosed if the measure is regularly provided to the chief operating decision-maker. Segment assets include interest-bearing assets. No other information is reported to or used by the CODM in order to assess performance and allocate resources.

Segment liabilities that are reviewed by the CODM include interest-bearing liabilities.

Transactions between the operating segments are on normal commercial terms and conditions. There has been no change in the basis of the pricing of transactions over the prior year.

Net interest income is reported as the CODM relies primarily on the net interest income in assessing segment performance.

The Group's operations are located in Jamaica.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2012 or 2011

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

5. Segment Reporting (Continued)

	The Group						
	Year ended 31 December 2012						
	Treasury Management	Corporate & Retail Credit	Asset Management	Trading	Corporate Trust	Eliminations	Group
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Gross external revenues	5,601,542	934,214	160,641	646,088	58,321	-	7,400,806
Revenues/expenses from other segments	29,040	-	-	-	-	(29,040)	-
Total gross revenues	5,630,582	934,214	160,641	646,088	58,321	(29,040)	7,400,806
Total expenses	(4,041,169)	(855,844)	(155,052)	(271,327)	(71,321)	29,040	(5,365,673)
Profit before tax	1,589,413	78,370	5,589	374,761	(13,000)	-	2,035,133
Tax expense							(582,457)
Net profit							1,452,676
Segment assets	66,444,718	9,389,523	-	4,495,432	-	-	80,329,673
Unallocated assets							7,904,511
Total Assets							88,234,184
Segment liabilities	73,975,738	468,746	-	-	-	-	74,444,484
Unallocated liabilities							1,766,215
Total Liabilities							76,210,699
Other segment items -							
Net interest income	2,510,470	506,564	-	-	-	-	3,017,034
Impairment charges	-	16,658	-	-	-	-	16,658
Capital expenditure	66,662	178,268	-	-	-	-	244,930
Depreciation	35,206	15,204	-	-	-	-	50,410
Amortisation charges	16,282	10,851	-	-	-	-	27,133

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

5. Segment Reporting (Continued)

	The Group						
	Year ended 31 December 2011						
	Treasury Management	Corporate & Retail Credit	Asset Management	Trading	Corporate Trust	Eliminations	Group
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Gross external revenues	5,186,932	1,034,869	252,006	686,716	50,751	-	7,211,274
Revenues/expenses from other segments	19,419	-	-	-	-	(19,419)	-
Total gross revenues	5,206,351	1,034,869	252,006	686,716	50,751	(19,419)	7,211,274
Total expenses	(3,848,663)	(791,796)	(56,111)	(135,353)	(89,468)	19,419	(4,901,972)
Profit before tax	1,357,688	243,073	195,895	551,363	(38,717)	-	2,309,302
Tax expense							(588,646)
Net profit							1,720,656
Segment assets	65,039,506	9,257,881	-	610,940	-	-	74,908,327
Unallocated assets							5,295,609
Total Assets							80,203,936
Segment liabilities	66,187,540	764,019	-	-	-	-	66,951,559
Unallocated liabilities							1,293,018
Total Liabilities							68,244,577
Other segment items -							
Net Interest income	2,477,085	463,005	-	-	-	-	2,940,090
Impairment charges	-	23,278	-	-	-	-	23,278
Impairment reversal	(52,051)	-	-	-	-	-	(52,051)
Capital expenditure	11,132	76,083	-	-	-	-	87,215
Depreciation	30,455	14,131	-	-	-	-	44,586
Amortisation charges	8,455	31,918	-	-	-	-	40,373

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

6. Interest Expense

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Customer deposits, repurchase liabilities and other accounts	3,037,736	3,028,114	2,678,857	2,688,421
Due to banks and other financial institutions	65,320	84,976	31,363	50,340
Cross currency swap (Note 22)	181,366	-	181,366	-
Redeemable preference shares	-	76,900	-	76,900
	3,284,422	3,189,990	2,891,586	2,815,661

7. Fees and Commission Income

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Asset management fees	134,240	250,507	134,240	250,507
Credit related fees	32,933	36,155	19,072	16,668
Stock brokerage fees	40,118	30,438	40,117	30,438
Trust fees	50,321	47,751	22,585	24,388
Corporate finance fees	44,314	-	44,314	-
Wholesale banking fees	5,380	6,048	5,380	6,048
Treasury fees	19,388	20,190	6,820	11,708
Other	6,136	1,345	6,136	1,345
	332,830	392,434	278,664	341,102

8. Net Trading Income

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Foreign exchange trading and translation gains	246,879	144,140	18,391	25,406
Equities trading gains and dividends	6,350	18,951	561	18,951
Securities trading gains/(losses) -				
Available-for-sale investment securities	289,951	495,528	278,252	447,754
Trading securities	216,821	(13,916)	216,821	(13,916)
Derivative financial instruments	(44,386)	11,582	(44,386)	11,586
	715,615	656,285	469,639	489,781

Gains or losses on currency derivatives are included in foreign exchange trading and translation gains.

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Notes to the Financial Statements

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(Expressed in Jamaican dollars unless otherwise indicated)

9. Other Revenue

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Structured products	15,863	5,499	15,863	5,499
Service fees	32,838	23,599	-	-
Other	2,204	3,377	4,256	3,128
	50,905	32,475	20,119	8,627

10. Team Member Costs

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Wages and salaries	869,998	777,405	560,829	497,097
Statutory contributions	81,603	73,811	52,491	48,189
Pension costs – Defined contribution scheme (Note 30)	10,316	-	5,180	-
Pension costs - Defined benefit scheme (Note 30)	23,828	2,814	-	-
Other post-employment benefits (Note 30)	5,433	14,734	-	-
Other team member benefits	99,500	70,247	96,521	65,353
Stock options expense (Note 37)	6,296	20,488	6,295	20,488
Share grant expense	24,737	43,754	24,737	43,754
	1,121,711	1,003,253	746,053	674,881

The number of persons employed at the end of the year :

	The Group		The Company	
	2012 No.	2011 No.	2012 No.	2011 No.
Full-time	272	268	135	129
Part-time	25	24	20	20
	297	292	155	149

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11. Impairment Charges/(Reversals)

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Investment securities	-	(52,051)	-	(52,051)
Loans	8,255	34,378	(11,174)	13,515
Lease receivables	3,360	1,754	-	-
Other	5,043	(12,854)	897	(15,505)
	16,658	(28,773)	(10,277)	(54,041)

12. Other Expenses

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Amortisation (Note 28)	27,133	40,373	16,282	8,455
Asset tax expense	110,271	126	84,301	35
Audit fees -				
Current	12,360	11,212	6,530	5,935
Prior	635	1,400	761	1,335
Automated banking fees	9,614	7,129	-	-
Bank charges	32,194	26,070	12,640	9,512
Commissions and fees	28,217	28,388	17,015	18,321
Consultancy fees	7,807	3,734	-	-
Depreciation (Note 29)	50,410	44,586	35,206	30,455
Donations	1,618	915	1,206	775
Insurance	30,801	31,908	6,159	7,927
Investment management expense	2,213	45,000	2,212	45,000
Irrecoverable General Consumption Tax	69,796	52,396	33,007	21,172
Legal and professional fees	24,533	13,044	17,188	9,938
Licensing fees	32,048	29,093	10,180	9,919
Miscellaneous	10,545	5,079	5,349	1,825
Motor vehicle expense	7,642	8,588	2,781	3,947
Office expenses	7,000	9,302	1,875	3,682
Printing and stationery	11,418	7,153	2,655	2,145
Promotion and advertising	136,118	85,195	80,346	43,183
Repairs and maintenance	11,680	9,659	5,103	1,639
Security	14,006	9,989	787	244
Stamp duty	263	983	258	978
Technology project expense	119,470	103,714	119,470	103,714
Telephone and postage	24,515	21,520	12,608	9,169
Travelling and entertainment	9,341	14,424	4,104	7,182
	791,648	610,980	478,023	346,487

During the year the asset tax regime was substantially amended for specified regulated entities with the tax being calculated provisionally at a rate of 0.14% of adjusted asset values at year end.

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13. Taxation

(a) Income tax is computed on the profit for the years adjusted for tax purposes. The charge for taxation comprises income tax at 33⅓%:

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Current tax	566,044	564,298	439,650	470,639
Prior year under/(over) provision	13,383	(127)	9,790	14,378
Deferred tax (Note 34)	3,030	24,475	(20,183)	14,765
	582,457	588,646	429,257	499,782

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

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Profit before taxation	2,035,133	2,309,302	1,574,595	1,908,000
Tax calculated at 33⅓%	678,378	769,767	524,865	636,000
Adjusted for the effects of:				
Income not subject to tax	(154,381)	(175,163)	(123,046)	(144,933)
Asset tax not deductible for taxation purposes	36,757	-	28,100	-
Prior year under/(over)provision	13,383	(127)	9,790	14,378
Net effect of other charges and allowances	8,320	(5,831)	(10,542)	(5,663)
	582,457	588,646	429,257	499,782

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13. Taxation (Continued)

(c) The deferred tax credit/(charge), relating to components of other comprehensive income, are as follows:

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Arising on losses/(gains) recognised in other comprehensive income -				
Available-for-sale investments	193,276	(308,633)	163,791	(254,101)
Reclassifications from other comprehensive income to income statement -				
Available-for-sale investments	138,752	193,598	138,157	159,817
Cash flow hedge (Note 22)	19,949	3,881	19,949	3,881
	158,701	197,479	158,106	163,698
	351,977	(111,154)	321,897	(90,403)

14. Net Profit

	2012 $'000	2011 $'000
Dealt with in the financial statements of:		
The company	1,145,338	1,408,218
The subsidiaries	307,338	312,438
	1,452,676	1,720,656

15. Retained Earnings

	2012 $'000	2011 $'000
Reflected in the financial statements of:		
The company	4,418,979	3,989,281
The subsidiaries	245,221	437,678
	4,664,200	4,426,959

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16. Earnings per Stock Unit

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

	2012	2011
Net profit attributable to stockholders ($'000)	1,452,676	1,720,656
Weighted average number of ordinary stock units in issue ('000)	552,146	550,737
Basic earnings per stock unit ($)	2.63	3.12

(ii) Diluted earnings per stock unit is calculated by dividing the net profit attributable to stockholders by the weighted average number of ordinary stock units, as adjusted for the effects of potential dilutive effect of the stock options.

	2012	2011
Net profit attributable to stockholders ($'000)	1,452,676	1,720,656
Weighted average number of ordinary stock units in issue ('000)	555,556	554,418
Diluted earnings per stock unit ($)	2.61	3.09

(iii) The weighted average number of ordinary stock units used in the basic and diluted earnings per stock unit computations may be reconciled as follows:

	2012 '000	2011 '000
Weighted average number of ordinary stock units for the purposes of the computation of basic earnings per stock unit	552,146	550,737
Effect of dilutive potential ordinary stock units – stock options	3,410	3,681
Weighted average number of ordinary stock units for the purposes of the computation of diluted earnings per stock unit	555,556	554,418

17. Cash and Balances Due from Other Financial Institutions

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Placements with other financial institutions	355,970	145,373	230,989	145,373
Items in the course of collection	154,475	98,292	-	-
Cash in hand and at bank	3,575,340	1,983,819	2,736,047	1,572,606
	4,085,785	2,227,484	2,967,036	1,717,979

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17. Cash and Balances Due from Other Financial Institutions (Continued)

Included in cash and balances due from other financial institutions are the following amounts, which are regarded as cash equivalents for purposes of the statement of cash flows:

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Cash and balances due from other financial institutions (Note 23)	3,854,796	2,082,111	2,736,047	1,572,606

18. Cash Reserve at Bank of Jamaica

A prescribed minimum of 26% (2011 - 26%) of deposit liabilities are required to be maintained by the banking subsidiary in liquid assets, of which 12% (2011 - 12%) must be maintained as cash reserve with the Bank of Jamaica for Jamaican dollar currency and 9% (2011 – 9%) for the relevant foreign currency. The cash reserve is not available for investment, lending or other use by the Group.

19. Trading Securities

	The Group and Company	
	2012 $'000	2011 $'000
Debt securities -		
Government of Jamaica	4,026,553	137,103
Corporate bonds	19,623	63,774
Unquoted preference shares	374,413	408,188
Quoted equity security	50,022	-
	4,470,611	609,065
Interest receivable	24,821	1,875
	4,495,432	610,940

Included in Government of Jamaica debt securities is a Euro dollar promissory note which has been designated as financial asset at fair value through profit or loss. The company has also entered into a cross currency swap to mitigate the currency risk associated with this security (Note 22).

Preference shares consist of Equity Linked (ELP) and Dividend linked (DLP) preference shares. The ELP will provide returns based on the capital gains/loss from movement in the price of a listed stock and the DLP will provide returns based on the dividend income of the same stock. The terms of the preference shares provide for ELPs to receive twice the capital gain or loss from movement in the price of the underlying listed stock while the DLPs receive none of the capital gains or loss.

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20. Securities Purchased Under Agreements to Resell

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Principal	1,778,058	986,684	2,351,642	303,798
Interest receivable	5,456	5,220	5,370	4,276
	1,783,514	991,904	2,357,012	308,074

The Group and the company entered into reverse repurchase agreements collateralised by Government of Jamaica securities. These agreements may result in credit exposure in the event that the counterparty to the transaction is unable to fulfil its contractual obligation.

As at 31 December 2012, the Group held $2,078,780,000 (2011 - $987,272,000) of securities, mainly representing Government of Jamaica debt securities, as collateral for reverse repurchase agreements.

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Securities purchased under agreement to resell with an original maturity of less than 90 days (Note 23)	1,227,608	742,384	1,809,291	77,028

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21. Investment Securities

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Available-for-sale securities -				
Debt securities -				
Government of Jamaica	46,840,407	49,913,831	41,756,094	44,591,905
Corporate bonds	7,267,996	7,570,523	4,477,407	6,606,717
Credit linked notes	2,100,136	1,925,171	2,100,136	1,925,171
Bank of Jamaica Certificates of Deposit	115,000	602,500	35,000	502,500
Other sovereign debt	930,066	153,564	744,707	153,564
	57,253,605	60,165,589	49,113,344	53,779,857
Unit Trust -				
Quoted – at fair value	178,680	169,740	178,680	169,740
	178,680	169,740	178,680	169,740
Equity securities -				
Unquoted – at cost	115,817	114,888	100,461	100,461
	115,817	114,888	100,461	100,461
	57,548,102	60,450,217	49,392,485	54,050,058
Held-to-maturity investments -				
Credit linked notes	1,777,293	1,644,317	1,777,293	1,644,317
	59,325,395	62,094,534	51,169,778	55,694,375
Less: Pledged assets (Note 26)	(3,943,434)	(7,831,016)	(3,657,204)	(7,831,016)
	55,381,961	54,263,518	47,512,574	47,863,359
Less: Impairment charges	(41,192)	(41,192)	(41,192)	(41,192)
	55,340,769	54,222,326	47,471,382	47,822,167
Interest receivable	1,123,897	1,154,838	971,545	1,012,226
	56,464,666	55,377,164	48,442,927	48,834,393

During 2011, an impairment charge previously recognised on a debt security was reversed due to payments received (Note 11).

Credit linked notes are structured securities with embedded credit swaps allowing the issuer to transfer specific credit risks to the holder. The coupon or price of these note are linked to the performance of a specific Government of Jamaica security. Investors in these instruments are given higher yields for accepting exposure to specified credit events.

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21. Investment Securities (Continued)

Included in investment securities are the following amounts, which are regarded as cash equivalents for purposes of the statement of cash flows:

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Debt securities with an original maturity of less than 90 days (Note 23)	-	605,079	-	505,045

During 2008, the Group and the Company reclassified certain financial assets out of available-for-sale category into the held-to-maturity category. The Group and the company have the intention and ability to hold these reclassified investments for the foreseeable future or until maturity. As at 31 December 2012, the fair values and carrying values of financial assets reclassified is $2,023,535,000 (2011 - $1,879,981,000) and $1,853,904,000 (2011 - $1,715,800,000). The effective interest rate on these instruments ranges from 12.7% to 12.9%.

The fair value gain that would have been recognised in other comprehensive income for the Group and Company if these investment securities had not been reclassified is $169,631,000 (2011 – $249,348,000).

There was no reclassification of financial assets during the year.

The following are included in the income statement for investment securities reclassified in 2008:

	The Group and The Company	
	2012 $'000	2011 $'000
Interest income	202,281	186,065
Foreign exchange gain	146,660	14,769
	348,941	200,834

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22. Derivative Financial Instruments and Hedging Activity

Derivatives are at fair value and carried in the statement of financial position as separate assets and liabilities. Asset values represent the cost to the Group of replacing all transactions with a fair value in the Group's favour assuming that all relevant counterparties default at the same time, and that transactions can be replaced instantaneously. Liability values represent the cost to the Group counterparties of replacing all their transactions with the Group with a fair value in their favour if the Group were to default. Derivative assets and liabilities on different transactions are only set off if the transactions are with the same counterparty, a legal right of set-off exists and the cash flows are intended to be settled on a net basis.

The fair values are set out below –

	The Group and Company			
	Assets		Liabilities	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
(i) Currency forwards	257,187	567,482	245,055	561,392
(ii) Cross currency swap	3,952,001	-	4,021,595	-
(iii) Exchange traded funds – short sale	-	-	-	111,498
(iv) Equity indexed options	43,916	27,710	43,916	27,710
(v) Interest rate swap	-	244,228	-	-
	4,253,104	839,420	4,310,566	700,600

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22. Derivative Financial Instruments and Hedging Activity (Continued)

(i) Currency forwards
The company has entered into currency forwards to buy US dollars and sell Euro dollars totalling €2,000,000 (2011 - €5,035,000) to be settled on a gross basis at a future date at a specified price. The credit risk is evaluated for each contract and is collateralised where deemed necessary. The currency forward contracts are settled on a gross basis. The contract expires in November 2014.

(ii) Cross currency swap
The company entered into a currency swap with an initial notional principal amount of €45 million maturing in February 2015. Under the terms of this swap, the company pays euro at a rate of 5% and receives 4.26% in US dollars on the notional principal amount.

The company obtains principal and interest receipts in euros on a promissory note included in Note 19.

(iii) Exchange traded funds – short sale
During 2009, the company entered into transactions to sell euro currencies that were borrowed from a broker. The company benefits if there is a decline in the asset price between the sale and repurchase date. The contract was closed in August 2012.

(iv) Equity indexed options
These derivative instruments give the holder the ability to participate in the upward movement of an equity index while protecting from downward risk and form part of certain structured product contracts with customers (Note 32). The Group is exposed to credit risk on purchased options only, and only to the extent of the carrying amount, which is their fair value.

(v) Interest rate swap and hedging activity – cash flow hedge

In 2010, hedge accounting was discontinued as the hedge relationship was no longer effective.

The notional principal amount of the interest rate swap contract was US$20M. The fixed interest rate was 10.201% and the floating rate was based on USD-LIBOR-BBA.

The contract was closed in February 2012. Accordingly, the remaining unamortised gains included in the fair value reserve were reclassified to the net trading income. The amount reclassified, net of deferred taxation, was $39,897,000 (2011 - $7,762,000).

(vi) OTC currency put options
Foreign currency put options are contractual agreements under which the seller grants the purchaser the right but not the obligation to sell at a set date, a specified amount of a foreign currency at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange risk.

The company has entered into a currency option with its parent company (Sagicor Life Jamaica Limited) to purchase a set amount of United States dollars at an agreed price if the closing Bank of Jamaica weighted average selling rate for the United States Dollar is less than the stated amount. The expiration date of this contract is 2039. The fair value of this option was $Nil at the year end.

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23. Cash and Cash Equivalents

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Cash and balances due from other financial institutions (Note 17)	3,854,797	2,082,111	2,736,047	1,572,606
Securities purchased under agreements to resell (Note 20)	1,227,608	742,384	1,809,291	77,028
Investment securities (Note 21)	-	605,079	-	505,045
Repurchase agreements with financial institutions	(2,868,944)	(1,221,303)	(2,348,433)	(1,221,303)
Items in the course of payment (Note 35)	(89,962)	(119,179)	-	-
Short term loan (Note 33)	-	(3,597)	(5,842)	(4,102)
	2,123,499	2,085,495	2,191,063	929,274

24. Loans, Net of Provision for Credit Losses

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Gross loans and advances	9,450,247	9,380,059	2,296,016	2,380,058
Less: Provision for credit losses	(215,902)	(230,315)	(103,918)	(108,119)
	9,234,345	9,149,744	2,192,098	2,271,939
Loan interest receivable	96,019	92,621	25,503	17,099
	9,330,364	9,242,365	2,217,601	2,289,038

The aggregate amount of non-performing loans on which interest was not being accrued is as follows:

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Total non-performing loans	517,556	417,188	264,748	247,521

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24. Loans, Net of Provision for Credit Losses (Continued)

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

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Balance at beginning of year	230,315	194,897	108,119	93,781
Provided during the year	75,882	38,910	12,958	18,047
Recoveries	(67,627)	(4,532)	(24,132)	(4,532)
Net charge to the income statement (Note 11)	8,255	34,378	(11,174)	13,515
Write-offs	(31,244)	-	-	-
Currency revaluation adjustment	8,576	1,040	6,973	823
Balance at end of year	215,902	230,315	103,918	108,119

25. Lease Receivables

	The Group	
	2012 $'000	2011 $'000
Gross investment in finance leases -		
Not later than one year	81,790	25,907
Later than one year and not later than five years	21,890	17,404
	103,680	43,311
Unearned finance income	(21,222)	(7,386)
Net investment in finance leases	82,458	35,925
Net investment in finance leases -		
Not later than one year	67,289	20,434
Later than one year and not later than five years	15,169	15,491
	82,458	35,925
Less Provision for credit losses	(24,024)	(20,664)
	58,434	15,261
Interest receivable	725	254
	59,159	15,515

The aggregate amount of non-performing lease receivables on which interest was not being accrued is $30,244,000 (2011 - $27,744,000).

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26. Pledged Assets

Assets are pledged as collateral under repurchase agreements with customers and other financial institutions and for security relating to overdraft and other facilities with other financial institutions and with the Bank of Jamaica.

	The Group			
	Asset		Related liability	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Investment securities and securities purchased under resale agreements	59,007,906	55,928,848	58,295,132	54,630,650

	The Company			
	Asset		Related liability	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Investment securities and securities purchased under resale agreements	57,891,569	55,928,848	56,839,727	54,630,650

Of the assets pledged as security, the following represents the total for those assets pledged for which the transferee has the right by contract or custom to sell or repledge the collateral.

	The Group		The Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Investment securities (Note 21)	3,943,434	7,831,016	3,657,204	7,831,016

27. Related Party Transactions and Balances

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions. There were no related party transactions with the ultimate parent company.

Related companies include ultimate parent company, parent company, fellow subsidiaries and associated company. Related parties include directors, key management and companies for which the Group and its parent company provide management services.

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27. Related Party Transactions and Balances (Continued)

(i) The following transactions were carried out with related parties and companies:

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
With parent company -				
Management fees earned	152	141,950	152	141,950
Interest and other income earned	52,985	4,856	45,438	4,856
Interest and other expenses paid	(210,924)	(91,697)	(192,482)	(91,697)
Investment management fees paid	-	(45,000)	-	(45,000)
Rent and net lease recoveries paid to related party	(5,743)	(6,805)	(1,869)	(1,729)
With fellow subsidiaries -				
Interest income earned	18,343	-	18,343	3,129
Interest expense paid	(18,943)	(14,329)	(18,863)	(30,446)
Commission earned	-	4,856	-	4,856
Pension expense recharge	-	-	-	9,145
With directors and key management -				
Interest expense paid	(6,940)	(5,909)	(6,565)	(5,613)
Interest income earned	2,728	2,390	517	176
Post-employment benefits	2,265	-	-	-
Share based payments	36,165	55,182	36,165	55,182
Salaries and other short-term benefits	224,254	203,389	135,548	124,726
Party with significant influence over party company				
Fee income earned	32,500	-	32,500	-
Rent and net lease	(117,894)	(103,956)	(46,424)	(43,324)
Interest expense paid	(9,092)	(3,496)	(9,092)	(3,496)
Interest income earned	3,157	801	-	-
With managed funds -				
Management fees earned	109,817	86,958	109,817	86,958
Interest expense paid	(42,697)	(40,671)	(42,697)	(40,671)
Directors' emoluments -				
Fees	18,057	16,731	12,995	12,631
Other	77,782	79,564	77,782	53,777
	95,839	96,295	90,777	66,408

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27. Related Party Transactions and Balances (Continued)

(ii) Year-end balances with related companies and parties are as follows:

	The Group		The Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
With ultimate parent company -				
Balances due from ultimate parent company	609	-	-	-
With parent company -				
Customer deposits	(144,566)	(164,607)	-	-
Customer deposits – managed funds	(124,247)	(185,800)	-	-
Securities sold under agreements to repurchase	(1,431,568)	(405,626)	(1,431,568)	(405,626)
Securities sold under agreements to repurchase - managed funds	(3,349,004)	(2,624,007)	(3,349,004)	(2,624,007)
Balances due to parent company	(36,588)	(45,097)	(36,588)	(45,097)
With fellow subsidiaries -				
Cash and bank balances	-	-	330,080	787,763
Securities purchased under agreement to resell	-	-	681,674	-
Customer deposits	(196,225)	(140,580)	-	-
Securities sold under agreements to repurchase	(260,826)	(665,390)	(260,844)	(683,910)
Securities sold under agreements to repurchase - managed funds	(185,864)	(93,123)	(185,864)	(93,123)
Due to banks and other financial institutions	-	-	(5,482)	(505)
Balances due to fellow subsidiaries	(9,028)	(7,254)	(53,638)	(54,312)
Party with significant influence over party company				
Securities sold under agreements to repurchase	(514,559)	(270,631)	(514,559)	(270,631)
Customer deposits	(80,230)	(57,609)	-	-
Loans	23,471	17,855	-	-

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27. Related Party Transactions and Balances (Continued)

(ii) Year-end balances with related companies and parties are as follows (continued):

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
With directors and key management personnel -				
Loans	20,494	20,234	2,058	753
Customer deposits and other accounts	(28,578)	(37,414)	-	-
Securities sold under agreements to repurchase	(86,949)	(127,814)	(86,949)	(127,814)
With managed funds -				
Loans	6,361	7,741	-	-
Customers deposits	(12,130)	(372,731)	-	-
Securities sold under agreements to repurchase	(742,346)	(2,929,155)	(742,346)	(2,929,155)
Balances due from related parties	47,887	8,527	47,887	8,527
Balances due to related parties	(59,896)	-	(59,896)	-

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28. Intangible Assets

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Computer software	73,826	47,550	63,673	26,547
Goodwill	733,750	733,750	143,263	143,263
	807,576	781,300	206,936	169,810

Computer software

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Opening net book value	47,550	51,708	26,547	14,039
Additions	53,409	36,215	53,408	20,963
Amortisation	(27,133)	(40,373)	(16,282)	(8,455)
	73,826	47,550	63,673	26,547
Cost, net of grant	409,859	356,450	199,115	145,707
Accumulated amortisation	(336,033)	(308,900)	(135,442)	(119,160)
	73,826	47,550	63,673	26,547

The intangible assets have finite useful lives and are amortised over three years. The amortisation of computer software is included in other expenses in the income statement.

Goodwill

Impairment test for goodwill
Goodwill is allocated to the Group's cash generating units (CGUs) identified according to the lines of business.

The impairment test is carried out by comparing the recoverable amount of the Group's cash generating units (CGUs) to which goodwill has been allocated to the carrying amount of those CGUs plus goodwill. For the purposes of the impairment assessment, goodwill has been allocated to the Group's cash generating units as follows:

	2012 $'000	2011 $'000
Asset Management	54,604	54,604
Credit	75,417	75,417
Treasury, PDU & Investment Services	443,992	443,992
Trading & Brokerage	152,437	152,437
Trust Services	7,300	7,300
	733,750	733,750

The recoverable amount is based on its fair value less costs to sell, as estimated on the basis of the price/earnings ratios of similar businesses. Observable market prices are used.

There was no impairment of any of the Group's CGUs.

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29. Property, Plant and Equipment

	Leasehold Improvement	Furniture and Equipment	Motor Vehicles	Computer Equipment	Total
	$'000	$'000	$'000	$'000	$'000
			The Group		
Cost					
At 1 January 2011	150,718	136,011	11,057	168,657	466,443
Additions	12,576	26,420	2,159	11,195	52,350
Disposals	-	(133)	(1,062)	(194)	(1,389)
At 31 December 2011	163,294	162,298	12,154	179,658	517,404
Additions	137,535	37,567	9,402	7,017	191,521
Disposals	-	(1,111)	(315)	(92)	(1,518)
At 31 December 2012	300,829	198,754	21,241	186,583	707,407
Accumulated Depreciation					
At 1 January 2011	57,251	112,661	2,660	132,944	305,516
Charge for the year	15,348	14,762	2,129	12,347	44,586
Disposals	-	(133)	(1,062)	(194)	(1,389)
At 31 December 2011	72,599	127,290	3,727	145,097	348,713
Charge for the year	18,436	17,414	3,371	11,189	50,410
Disposals	-	(1,111)	(315)	(29)	(1,455)
At 31 December 2012	91,035	143,593	6,783	156,257	397,668
Net Book Value					
At 31 December 2012	209,794	55,161	14,458	30,326	309,739
At 31 December 2011	90,695	35,008	8,427	34,561	168,691
			The Company		
Cost					
At 1 January 2011	99,670	55,151	9,289	95,567	259,677
Additions	12,345	20,214	1,350	8,749	42,658
Disposals	-	-	(175)	(194)	(369)
At 31 December 2011	112,015	75,365	10,464	104,122	301,966
Additions	255	7,352	1,404	4,242	13,253
Disposals	-	-	-	(92)	(92)
At 31 December 2012	112,270	82,717	11,868	108,272	315,127
Accumulated Depreciation					
At 1 January 2011	35,324	34,140	1,294	79,291	150,049
Charge for the year	10,816	8,705	1,935	8,999	30,455
Disposals	-	-	(175)	(194)	(369)
At 31 December 2011	46,140	42,845	3,054	88,096	180,135
Charge for the year	11,214	12,866	2,297	8,829	35,206
Disposals	-	-	-	(29)	(29)
At 31 December 2012	57,354	55,711	5,351	96,896	215,312
Net Book Value					
At 31 December 2012	54,916	27,006	6,517	11,376	99,815
At 31 December 2011	65,875	32,520	7,410	16,026	121,831

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30. Post-employment Benefits

(a) Pension schemes

The Group has established two pension schemes covering all permanent employees, a defined benefit plan and a defined contribution plan. The assets of the funded plans are held independently of the Group's assets in separate trustee administered funds.

Defined contribution plan

The Defined contribution plan received regulatory approval during 2012. All new employees will be included in this plan.

Defined benefit plan

The Defined benefit plan is valued by independent actuaries annually using the Projected Unit Credit Method. The latest actuarial valuation was carried out as at 31 December 2012. The plan provides benefits to members based on the average earnings over the 5 years immediately prior to exit.

The rate of contribution of the company for the defined benefit plan is 8.6% of pensionable salary. Any plan surplus or funding deficiency is absorbed by a subsidiary company, Sagicor Bank Jamaica Limited (formerly PanCaribbeanBank Limited). Accordingly, no pension assets or obligations were recorded for the company in these financial statements.

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

	The Group	
	2012 $'000	**2011 $'000**
Present value of funded obligations	441,435	387,321
Fair value of plan assets	(477,164)	(415,794)
	(35,729)	(28,473)
Unrecognised actuarial loss	(56,930)	(56,941)
Limitation of asset due to uncertainty of obtaining economic benefits	56,930	56,941
Asset in the statement of financial position	(35,729)	(28,473)

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30. Post-employment Benefits (Continued)

(a) Pension schemes (continued)

The movement in the present value of defined obligations over the year is as follows:

	The Group	
	2012 $'000	2011 $'000
Balance at beginning of year	387,321	366,972
Current service cost	16,961	27,174
Interest cost	34,025	35,567
Members' contributions	22,315	22,169
Benefits paid	(20,796)	(23,155)
Purchased annuities	1,854	7,582
Actuarial gain on obligation	(245)	(48,988)
Balance at end of year	441,435	387,321

The movement in the fair value of plan assets during the year is as follows:

	The Group	
	2012 $'000	2011 $'000
Balance at beginning of year	415,794	337,276
Members' contributions	22,315	22,169
Employer's contribution	31,084	31,287
Expected return on plan assets	28,329	28,171
Benefits paid	(20,796)	(23,155)
Purchased annuities	1,854	7,582
Actuarial (loss)/gain	(1,416)	12,464
Balance at end of year	477,164	415,794

Plan assets are comprised as follows:

	The Group			
	2012		2011	
	$'000	%	$'000	%
Debt securities	400,458	84	355,795	85
Real estate	28,405	6	23,469	6
Equity securities	15,491	3	15,425	4
Other	32,810	7	21,105	5
	477,164	100	415,794	100

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30. Post-employment Benefits (Continued)

(a) Pension schemes (continued)
The amounts recognised in the income statement are as follows:

	The Group	
	2012	**2011**
	$'000	**$'000**
Current service cost	16,961	27,174
Interest cost	34,025	35,567
Expected return on plan assets	(28,329)	(28,171)
Recognised actuarial loss	1,182	6,808
Change in unrecognised assets	(11)	(38,564)
Total, included in team member costs (Note 10)	23,828	2,814

The actual return on plan assets was $34,397,000 (2011 – $48,030,000). The expected rate of return is derived from investing the plan assets net of administration expenses and taxes.

Expected contributions to post-employment plan for the year ending 31 December 2013 are $31,938,000.

Movements in the amounts recognised in the statement of financial position:

	The Group	
	2012	**2011**
	$'000	**$'000**
Asset at beginning of year	(28,473)	-
Amounts recognised in the income statement (Note 10)	23,828	2,814
Contributions paid	(31,084)	(31,287)
Asset at end of year	(35,729)	(28,473)

The expected return on plan assets is based on market expectation of inflation plus a margin for real returns on a balanced portfolio.

	The Group				
	2012	**2011**	**2010**	**2009**	**2008**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
As at 31 December					
Present value of defined benefit obligation	441,435	387,321	366,972	203,413	160,949
Fair value of plan assets	(477,164)	(415,794)	(337,276)	(261,288)	(182,657)
(Surplus)/deficit	(35,729)	(28,473)	29,696	(57,875)	(21,708)
Experience adjustments on plan liabilities	(245)	(48,988)	109,868	(9,422)	4,904
Experience adjustments on plan assets	1,416	(12,464)	(4,310)	(3,900)	39,965

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30. Post-employment Benefits (Continued)

(a) Pension schemes (continued)

The principal actuarial assumptions used were as follows:

	The Group	
	2012	**2011**
Discount rate	10.5%	10%
Expected return of plan assets	9.5%	6.5%
Future salary increases	8%	7.5%
Expected pension increase	0%	0%
Average expected remaining working lives (years)	13	13

(b) Other post-retirement benefits
In addition to pension benefits, the Group offers retirees medical and life insurance benefits that contribute to the health care and life insurance coverage of employees and beneficiaries after retirement. The method of accounting and frequency of valuations are similar to those used for defined benefit pension schemes.

In addition to the assumptions used for pension schemes, the main actuarial assumption is a long-term increase in health cost of 9% (2011 – 8%) per annum.

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

	The Group	
	2012 $'000	**2011 $'000**
Present value of unfunded obligations	39,936	34,147
Unrecognised actuarial gain	18,099	18,455
Liability in the statement of financial position	58,035	52,602

The movement in the present value of unfunded obligations defined benefit obligation over the year is as follows:

	The Group	
	2012 $'000	**2011 $'000**
Balance at beginning of year	34,147	58,235
Current service cost	3,371	7,331
Interest cost	3,406	6,400
Benefits paid	(187)	(116)
Actuarial gain on obligation	(801)	(37,703)
Balance at end of year	39,936	34,147

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30. Post-employment Benefits (Continued)

(b) Other post-retirement benefits (continued)

The amounts recognised in the income statement are as follows:

	The Group	
	2012 $'000	2011 $'000
Current service cost	3,371	7,331
Interest cost	3,406	6,400
Benefits paid	(187)	(116)
Recognised (gain)/loss	(1,157)	1,119
Total, included in team member costs (Note 10)	5,433	14,734

Movement in the amounts recognised in the statement of financial position:

	The Group	
	2012 $'000	2011 $'000
Liability at beginning of year	52,602	37,868
Amounts recognised in the income statement (Note 10)	5,433	14,734
Liability at end of year	58,035	52,602

The effects of a 1 percentage point movement in the assumed medical cost trend rate were as follows:

	The Group 2012 $'000	
	Decrease	Increase
Effect on the aggregate of current service cost	2,664	4,311
Effect on the aggregate of interest cost	2,777	4,227
Effect on the defined benefit obligation	32,333	49,886

	The Group 2011 $'000	
	Decrease	Increase
Effect on the aggregate of current service cost	5,663	9,590
Effect on the aggregate of interest cost	5,049	8,201
Effect on the defined benefit obligation	27,857	42,364

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31. Other Assets

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Withholding tax recoverable from Government of Jamaica	1,705,512	1,341,653	1,433,846	1,153,448
Customer settlement accounts	18,585	149,758	18,343	120,333
Prepayments	23,794	5,961	23,794	5,961
Staff receivables	58,396	29,627	58,396	29,627
Property, plant and equipment deposits	15,574	2,426	7,461	1,419
Other	54,353	26,502	31,791	14,143
	1,876,214	1,555,927	1,573,631	1,324,931

32. Structured Products

	The Group and The Company	
	2012 $'000	2011 $'000
Principal protected notes -		
With no interest guaranteed	315,566	274,913
With interest guaranteed	386,051	-
7.15% U.S. Dollar amortising notes	142,902	-
	844,519	274,913
Interest payable	9,581	-
	854,100	274,913

Principal protected notes
Principal protected notes comprise a fixed income element with or without an interest guarantee (included above) and an equity indexed option element disclosed in Note 22. These notes entitle the holders to participate in any positive returns on the equity indexed options and they also include a principal protection feature. If the return on the index is negative, the holder will obtain the principal invested for notes with no interest guarantee and principal invested plus 5% interest for notes with an interest guarantee. The maturity of these notes ranges from 2013 and 2017.

U.S. Dollar Amortising Notes
The 7.15% US dollar amortising notes are structured securities whereby the principal is amortising quarterly with final repayment by February 2015.

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33. Due to Banks and Other Financial Institutions

	Currency	Rate %	The Group 2012 $'000	The Group 2011 $'000	The Company 2012 $'000	The Company 2011 $'000
Long Term Loans -						
The National Export Import Bank of Jamaica						
Repayable in 2 installments in March 2013 and April 2013	J$	8.00	32,000	48,000	32,000	48,000
Development Bank of Jamaica Limited -						
Repayable over varying periods from 24 to 96 months	J$	various	28,265	57,315	28,265	57,315
Repayable over varying periods from 48 to 96 months	US$	various	-	1,865	-	1,865
European Investment Bank -						
Repayable in 7 equal annual installments commencing on 5 December 2008 and ending 2014	J$	various	132,430	264,860	132,430	264,860
Repayable in 7 equal annual installments commencing on 5 December 2008 and ending 2014	US$	various	41,565	58,174	41,565	58,174
Development Bank of Jamaica Limited (DBJ)						
Repayable over varying periods from 6 months to 92 months	J$	7 & 10.00	187,475	234,867	-	-
The National Export-Import Bank of Jamaica Limited -						
Repayable over varying periods from 6 months to 108 months	J$	13.00/ 9.00	45,591	65,249	-	-
			467,326	730,330	234,260	430,214
Bank overdrafts-						
Bank of Jamaica	J$		-	3,597	-	3,597
Sagicor Bank Jamaica Limited	J$		-	-	5,842	505
			-	3,597	5,842	4,102
			467,326	733,927	240,102	434,316
Interest payable			1,420	30,091	1,362	30,013
			468,746	764,018	241,464	464,329

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33. Due to Banks and Other Financial Institutions (Continued)

(a) Development Bank of Jamaica Limited (DBJ)

The agreement with the Development Bank of Jamaica Limited allows DBJ, at its absolute discretion, to approve financing to the company for on-lending to customers for development projects which meet the criteria of DBJ and on such terms and conditions as DBJ may stipulate.

Funds disbursed to the company bear interest at DBJ's lending rate prevailing at the date of approval of each disbursement unless otherwise varied by DBJ and are extended to the clients at a maximum spread as stipulated by DBJ.

(b) European Investment Bank (EIB)

A facility was established in the amount of €4,000,000 on 20 December 2002 for the provision of financing to small and medium sized projects in the productive and related service sectors in Jamaica. The loan is disbursed to the company in tranches. The draw downs may be done in US$ or J$. The loan is repayable in the Euro equivalent of the outstanding loan balance by 7 equal instalments commencing 5 December 2008.

(c) The National Export-Import Bank of Jamaica Limited (EXIM)

The company and its subsidiary Sagicor Bank Jamaica Limited (SBJ) are approved financial institutions of the National Export-Import Bank of Jamaica (EXIM). Through this partnership financing is provided, which is utilised to finance customers with viable projects within EXIM's guidelines.

Trade credit, short and medium term loans are offered to customers engaged in manufacturing, agriculture, tourism and export trading. The loans to customers are for varying terms and at a maximum spread as stipulated by EXIM.

(d) Bank Overdrafts

The bank overdraft balances represented book overdrafts. The actual balance at the bank was positive at year end.

The Group has not had any defaults of principal, interest or other breaches with respect to its liabilities during the year.

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34. Deferred Income Taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 33⅓% for the company and the subsidiaries. Deferred tax liabilities recognised on the statement of financial position are as follows:

	The Group		The Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Net deferred income tax liability	(176,379)	(525,326)	(100,570)	(442,650)

The movement in the net deferred income tax balance is as follows:

	The Group		The Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Balance at beginning of year	(525,326)	(389,697)	(442,650)	(337,482)
(Charged)/credited to the income statement (Note 13)	(3,030)	(24,475)	20,183	(14,765)
Tax credited/(charged) relating to components in other comprehensive income (Note 13)	351,977	(111,154)	321,897	(90,403)
Balance at end of year	(176,379)	(525,326)	(100,570)	(442,650)

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34. Deferred Income Taxes (Continued)

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

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Deferred income tax assets -				
Property, plant and equipment	1,470	3,788	1,470	1,519
Trading securities	-	201	-	201
Cross currency swap	21,555	-	21,555	-
Post-employment benefit obligations	19,345	8,043	-	-
Other	11,595	7,303	5,000	4,814
	53,965	19,335	28,025	6,534
Deferred income tax liabilities -				
Property, plant and equipment	21,385	-	-	-
Investment securities	76,437	415,363	37,291	346,136
Trading securities	69,393	-	69,393	-
Interest rate swap	-	81,409	-	81,409
Loan loss provision	51,219	47,889	21,911	21,639
Post-employment benefit assets	11,910	-	-	-
	230,344	544,661	128,595	449,184
Net deferred tax liability	(176,379)	(525,326)	(100,570)	(442,650)

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34. Deferred Income Taxes (Continued)

The movement in deferred tax assets and liabilities is as follows:

	The Group					
	Accelerated tax depreciated $'000	Fair value gains $'000	Loan loss provision $'000	Post-employment benefits $'000	Other $'000	Total $'000
At 1 January 2011	334	(396,171)	(13,075)	12,623	6,592	(389,697)
Credited/(charged) to income statement	3,454	9,994	(37,607)	(4,580)	4,264	(24,475)
Charged to other comprehensive income	-	(111,154)	-	-	-	(111,154)
At 31 December 2011	3,788	(497,331)	(50,682)	8,043	10,856	(525,326)
Charged/(credited) to income statement	(23,700)	20,069	3,250	(608)	(2,041)	(3,030)
Credited to other comprehensive income	-	351,977	-	-	-	351,977
At 31 December 2012	(19,912)	(125,285)	(47,432)	7,435	8,815	(176,379)

	The Company				
	Accelerated tax depreciated $'000	Fair value gains $'000	Loan loss provision $'000	Other $'000	Total $'000
At 1 January 2011	1,200	(346,935)	4,012	4,241	(337,482)
Credited/(charged) to income statement	319	9,994	(25,651)	573	(14,765)
Charged to other comprehensive income	-	(90,403)	-	-	(90,403)
At 31 December 2011	1,519	(427,344)	(21,639)	4,814	(442,650)
Charged/(credited) to income statement	(49)	20,070	(272)	434	20,183
Credited to other comprehensive income	-	321,897	-	-	321,897
At 31 December 2012	1,470	(85,377)	(21,911)	5,248	(100,570)

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35. Other Liabilities

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Accruals	81,345	98,480	46,466	71,830
Asset tax	110,271	-	84,301	-
Customer settlement accounts	752,796	91,425	704,735	32,644
Items in the course of payment	89,962	119,179	-	-
Staff related payables	161,284	128,123	111,037	87,280
Stale dated cheques	90,794	50,625	29,631	25,966
Other	31,419	35,317	12,954	30,907
	1,317,871	523,149	989,124	248,627

36. Share Capital

The total authorised number of ordinary stock units is 675,613,376 (2011 - 675,613,376), of which 552,145,844 (2011 – 552,145,844) was issued and fully paid.

The movement on share capital is as follows:

	2012 $'000	2011 $'000
Issued and Fully Paid -		
Share capital at the beginning of the year – 552,145,844 (2011 – 549,536,153) ordinary stock units	3,195,565	3,126,867
Stocks units issued during the year – Nil (2011 – 2,609,691) ordinary stock units	-	46,236
Transfer from stock options reserve (Note 38)	-	22,462
	3,195,565	3,195,565

The stock units in 2012 and 2011 are stated in these financial statements without a nominal or par value.

Stock units issued during the year comprise Nil (2011 - 1,255,860) ordinary stock units issued under the company's stock options scheme at prices varying from $12.20 to $20.50 per stock unit and Nil (2011 - 1,353,831) ordinary stock unit grants at $20.50.

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37. Stock Options Reserve

The company offers stock options to employees who have completed the minimum eligibility period of employment. Options are conditional on the employee completing a minimum service period of one year (the eligibility period). Options are forfeited if the employee leaves the Group before the options vest. Options were granted as follows:

(i) 4,074,246 stock options on 1 April 2007. These options expire on 31 March 2014. The exercise price for the options is $18.00. These options vest over four years – 25% each anniversary date of the grant. 174,242 stock units have been taken up during the year (485,791 to date). Contracts for 927,116 of these stocks units were forfeited to date.

(ii) 3,100,273 stock options on 1 April 2008. These options expire on 31 March 2015. The exercise price for the options is $20.50. These options vest over four years – 25% each anniversary date of the grant. 347,356 stock units have been taken up during the year (470,347 to date). Contracts for 335,358 of these stock units were forfeited to date.

(iii) 5,785,288 stock options on 1 April 2009. These options expire on 31 March 2016. The exercise price for the options is $12.20. These options vest over four years – 25% each anniversary date of the grant. 810,335 stock units have been taken up during the year (1,785,676 to date). Contracts for 578,137 of these stock units were forfeited to date.

(iv) 3,137,791 stock option on 1 April 2010. These options expire on 31 March 2017. The exercise price for the option is $18.00. These options vest over four years – 25% each anniversary date of the grant. 186,606 stock units have been taken up during the year (244,044 to date). Contracts for 184,222 of these stock units were forfeited to date.

(v) 2,635,606 stock option on 1 April 2011. These options expire on 31 March 2018. The exercise price for the option is $19.20. These options vest over four years – 25% each anniversary date of the grant. 86,528 stock units have been taken up during the year and to date. Contracts for 259,586 of these stock units were forfeited to date.

(vi) 1,172,441 stock option on 1 April 2012. These options expire on 31 March 2019. The exercise price for the option is $26.48. These options vest over four years – 25% each anniversary date of the grant. Contracts for 70,617 of these stock units were forfeited to date.

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

37. Stock Options Reserve (Continued)

Details of the stock options outstanding are as follows:

	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
	2012	2012	2011	2011
	'000	$	'000	$
Balance at beginning of year	12,956	16.54	11,393	16.01
Granted	3,808	21.44	3,138	18.00
Exercised	(1,605)	15.68	(1,275)	14.68
Lapsed/forfeited	(680)	17.92	(300)	21.75
	14,479	17.76	12,956	16.54
Exercisable at the end of the year	8,384	17.36	6,935	17.41

Stock options outstanding at the end of the year for the company have the following expiry date and exercise price:

Expiry date	Exercise price	No. of stock options	
		2012	2011
31 March 2014	$18.00	2,661,339	2,835,581
31 March 2015	$20.50	2,294,568	2,641,924
31 March 2016	$12.20	3,421,475	4,397,815
31 March 2017	$18.00	2,709,525	3,080,353
31 March 2018	$19.20	2,289,492	-
31 March 2019	$26.48	1,101,824	-
		14,478,223	12,955,673

For options outstanding at the end of the year, the exercise price ranges from $12.20 to $26.48 (2011 - $12.20 to $20.50). The weighted average remaining contractual term to expiry is 3 years (2011 – 3 years).

Options for 1,605,067 stock units were exercised during the current year (2011 – 1,274,942). The weighted average stock unit price at the date of exercise for options exercised during the year was $21.65 (2011 - $14.72).

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

37. Stock Options Reserve (Continued)

The stock options reserve balance at the year end represents the accumulated fair value of services provided by employees in consideration for shares, as measured by reference to the fair value of the shares for outstanding options. The fair value of the options at the year end is measured at the grant date using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the instruments were granted. The services received and a liability to pay for those services is recognised over the expected vesting period. The significant inputs into the model were weighted average stock unit prices at the grant date, exercise price shown above; standard deviation of expected share price returns, option life disclosed above, and annual average risk free interest rate. The expected volatility is based on statistical analysis of daily stock unit prices over one year.

The company recognised cumulative expenses of $80,551,000 (2011 - $74,255,000) as stock options expense of which $6,296,000 (2011 - $20,488,000) was recognised in the income statement during the year.

During 2011, the company transferred $22,462,000 of the share option reserve balance to share capital. This transfer related to the fair value of the options exercised up to 2011. No transfers were done in 2012.

The company provides share grants to executives based on the performance of the Group. Shares granted during the year were 427,756 and were provided at an average fair value of $26.48 (2011 – 1,353,831, average fair value of $27). The prices are based on the trading price on the Jamaica Stock Exchange.

38. Retained Earnings Reserve

Section 2 of the Banking Act of 1992 permits the transfer of any portion of the Bank's net profit to a retained earnings reserve. This reserve constitutes a part of the capital base for the purpose of determining the maximum level of deposit liabilities and lending to customers. Transfers to the retained earnings reserve are made at the discretion of the Board; such transfers must be notified to the Bank of Jamaica.

Transfers to the retained earnings reserve are made at the discretion of the subsidiary's Board of Directors; such transfers must be notified to the Bank of Jamaica.

39. Reserve Fund

This fund is maintained in accordance with the Banking Act 1992 which requires that a minimum of 15% of the net profit of the banking subsidiary as defined by the Act be transferred annually to the reserve fund until the amount of the fund is 50% of the paid-up share capital of the subsidiary, and thereafter 10% of the net profit until the amount of the fund is equal to the paid-up capital of the subsidiary.

The deposit liabilities of the company and other indebtedness for borrowed money together with all interest accrued should not exceed twenty times its capital base.

Notes to the Financial Statements

31 December 2012
(Expressed in Jamaican dollars unless otherwise indicated)

40. Loan Loss Reserve

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

The loss loan reserve is determined as follows:

	The Group		The Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Provision for credit losses determined under IFRS -				
Loans (Note 24)	215,902	230,315	103,918	108,119
Lease receivables (Note 25)	24,024	20,664	-	-
	239,926	250,979	103,918	108,119
The provision for credit losses determined under regulatory requirements -				
Specific provision	393,593	403,025	169,650	173,034
General provision	98,066	97,433	24,138	25,824
	491,659	500,458	193,788	198,858
Excess of regulatory provision over IFRS provision reflected in a non distributable loan loss reserve	251,733	249,479	89,870	90,739

41. Capital Redemption Reserve

The capital redemption reserve was created on the redemption of preference shares in conformity with the provisions of the Jamaican Companies Act. The preference shares were fully redeemed in 2011.

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

42. Fair Value Reserve

This represents the unrealised surplus or deficit on the revaluation of available-for-sale investments and the unamortised gain relating to securities reclassified to held-to-maturity in current year. The interest rate swap was closed during the year and the related hedging reserve was transferred to the income statement.

	The Group		The Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Available-for-sale investments	184,012	814,978	47,913	618,718
Unamortised gain - hedging reserve (Note 22)	-	39,897	-	39,897
Unamortised gain - reclassified investments (Note 21)	69,353	78,725	69,353	78,725
	253,365	933,600	117,266	737,340

43. Dividends

	The Group and The Company	
	2012	2011
	$'000	$'000
First interim dividend – 74.3 cents (2011 – 62 cents)	410,244	340,713
Second interim dividend – 57 cents (2011 - 66 cents)	314,723	364,171
	724,967	704,884

The dividends declared for 2012 and 2011 represented a dividend per stock unit of $1.313 and $1.28, respectively.

Notes to the Financial Statements

31 December 2012
(Expressed in Jamaican dollars unless otherwise indicated)

44. Fair Value of Financial Instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market price is used to determine fair value where an active market (such as a recognised stock exchange) exists as it is the best evidence of the fair value of a financial instrument. However, market prices are not available for a significant number of the financial assets and liabilities held and issued by the Group. Therefore, for financial instruments where 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 statement of financial position 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) Investment securities at fair value through profit or loss are measured at fair value by reference to quoted prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models, or discounted cash flows. Fair value is equal to the carrying amount of these items;

(ii) Investment securities classified as available-for-sale are measured at fair value by reference to quoted market prices or dealer quotes when available. If quoted market prices are not available, then fair values are based on pricing models or other recognised valuation techniques. Investments in unit trusts are based on prices quoted by the fund managers.

(iii) The fair value of the interest rate swap is calculated as the present value of the estimated future cash flows. The fair value of currency forward contracts is determined using quoted forward exchange rates. The fair value of the equity indexed options and the exchange traded funds that are shorted are based on quoted prices. The fair value of the cross currency swap is based on the present value of the net future cash payments and receipts, which fluctuate based on changes in market interest rates and the euro/U.S. dollar exchange rate.

(iv) The fair value of demand deposits and customer accounts with no specific maturity is assumed to be the amount payable on demand at the statement of financial position date. The estimated fair value of fixed interest bearing deposits, disclosed below, is based on discounted cash flows using interest rates for new deposits.

(v) The fair value of variable rate financial instruments is assumed to approximate their carrying amounts;

(vi) Loans are net of provision for impairment. The estimated fair value of loans, disclosed below, represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value; and

(vii) Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment.

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

44. Fair Value of Financial Instruments (Continued)

The table below summaries the carrying amount and fair value of financial assets and financial liabilities not presented on the Group and company's statement of financial position at their fair value:

	The Group			
	Carrying Value 2012 $'000	Fair Value 2012 $'000	Carrying Value 2011 $'000	Fair Value 2011 $'000
Financial Assets				
Investment securities – held-to-maturity	1,853,904	2,023,535	1,715,800	1,879,981
Loans, net of provision for credit losses	9,330,364	10,123,910	9,242,365	9,424,309
Financial Liabilities				
Securities sold under agreements to repurchase	57,595,878	57,650,536	54,612,131	55,064,909
Customer deposits and other accounts	11,215,194	12,347,688	10,599,897	10,061,772
Due to banks and other financial institutions	468,746	480,614	764,018	789,400

	The Company			
	Carrying Value 2012 $'000	Fair Value 2012 $'000	Carrying Value 2011 $'000	Fair Value 2011 $'000
Financial Assets				
Investment securities – held-to-maturity	1,853,904	2,023,535	1,715,800	1,879,981
Loans, net of provision for credit losses	2,217,601	2,322,354	2,289,038	2,382,115
Financial Liabilities				
Securities sold under agreements to repurchase	56,839,727	56,834,221	54,630,650	55,083,471
Customer accounts	171,152	178,611	250,241	295,740
Due to banks and other financial institutions	241,464	236,345	464,329	450,425

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

44. Fair Value of Financial Instruments (Continued)

The following table provides an analysis of financial instruments that are measured in the statement of financial position at fair value at 31 December 2012, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

(i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

(ii) Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

(iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	The Group			
	2012			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Assets				
Trading securities	50,022	4,070,997	374,413	4,495,432
Investment securities	-	50,724,835	2,606,904	53,331,739
Derivative financial instruments	-	4,253,104	-	4,253,104
Pledged assets	-	3,943,434	-	3,943,434
	50,022	62,992,370	2,981,317	66,023,709
Financial Liabilities				
Derivative financial instruments	-	4,310,566	-	4,310,566

	The Group			
	2011			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Assets				
Trading securities	-	202,752	408,188	610,940
Investment securities	-	50,559,331	2,423,257	52,982,588
Derivative financial instruments	-	595,192	244,228	839,420
Pledged assets	-	7,831,016	-	7,831,016
	-	59,188,291	3,075,673	62,263,964
Financial Liabilities				
Derivative financial instruments	111,498	589,102	-	700,600

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

44. Fair Value of Financial Instruments (Continued)

	The Company			
	2012			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Assets				
Trading securities	50,002	4,070,997	374,413	4,495,412
Investment securities	-	43,887,424	2,606,904	46,494,328
Derivative financial instruments	-	4,253,104	-	4,253,104
Pledged assets	-	3,657,204	-	3,657,204
	50,002	55,868,729	2,981,317	58,900,048
Financial Liabilities				
Derivative financial instruments	-	4,310,566	-	4,310,566

	The Company			
	2011			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Assets				
Trading securities	-	202,752	408,188	610,940
Investment securities	-	44,633,519	2,423,257	47,056,776
Derivative financial instruments	-	595,192	244,228	839,420
Pledged assets	-	7,831,016	-	7,831,016
	-	53,262,479	3,075,673	56,338,152
Financial Liabilities				
Derivative financial instruments	111,498	589,102	-	700,600

There were no transfers between Level 1 and 2 in the year.

Notes to the Financial Statements

31 December 2012
(Expressed in Jamaican dollars unless otherwise indicated)

44. Fair Value of Financial Instruments (Continued)

Reconciliation of level 3 items -

	The Group		The Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Balance at beginning of year	3,075,673	2,782,072	3,075,673	2,782,072
Total gain - other comprehensive income	2,452	57,138	2,452	57,138
Total gain – income statement	221,935	110,971	221,935	110,971
Acquisitions	-	473,801	-	473,801
Disposals	(318,743)	(348,309)	(318,743)	(348,309)
Balance at end of year	2,981,317	3,075,673	2,981,317	3,075,673

The gains or losses recorded in the profit or loss are included in Note 8.

45. Assets Under Administration

The Group and the company provide custody, trustee, corporate administration, investment management or advisory services to third parties which involve these subsidiaries making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets are not included in these financial statements. As at 31 December 2012, the Group and the company had financial assets under administration of approximately $40,683,377,000 (2011 - $22,303,873,000) and $40,317,544,000 (2011 - $21,925,817,000) respectively.

46. Contingent Liabilities and Commitments

(a) Legal proceedings

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

In respect of claims asserted against the Group which have not been provided for, management is of the opinion that such claims are either without merit and can be successfully defended; the total of these claims is US$9,500,000.

(b) Commitments

The tables below show the contractual expiry by maturity of the Group's and company's contingent liabilities and commitments.

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

46. Contingent Liabilities and Commitments (Continued)

(b) Commitments (continued)

	The Group			
At 31 December 2012	**No later than 1 year $'000**	**1 to 5 years $'000**	**Over 5 years $'000**	**Total $'000**
Loan commitments	160,938	1,282,141	77,470	1,520,549
Guarantees, acceptances and other financial facilities	382,971	417,594	32,882	833,447
Operating lease commitments	120,935	403,373	60,955	585,263
	664,844	2,103,108	171,307	2,939,259
At 31 December 2011				
Loan commitments	312,961	284,572	98,805	696,338
Guarantees, acceptances and other financial facilities	628,241	417,099	33,399	1,078,739
Operating lease commitments	110,415	348,232	39,967	498,614
	1,051,617	1,049,903	172,171	2,273,691

	The Company			
At 31 December 2012	**No later than 1 year $'000**	**1 to 5 years $'000**	**Over 5 years $'000**	**Total $'000**
Loan commitments	40,001	882,851	-	922,852
Guarantees, acceptances and other financial facilities	293,317	29,758	21,315	344,390
Operating lease commitment	49,755	177,044	-	226,799
	383,073	1,089,653	21,315	1,494,041
At 31 December 2011				
Loan commitments	27,821	231,145	8,032	266,998
Guarantees, acceptances and other financial facilities	545,276	43,946	24,152	613,374
Operating lease commitment	47,082	165,858	-	212,940
	620,179	440,949	32,184	1,093,312

Lease payments, including maintenance, for Group during the year were $112,975,000 (2011 - $97,978,000).

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

47. Maturity Analysis of Assets and Liabilities

The tables below show an analysis of assets and liabilities according to when they are expected to be recovered or settled. The financial statement areas shown below only reflect assets and liabilities that combine current and non-current balances.

	2012					
	The Group			The Company		
ASSETS	**Current**	**Non-Current**	**Total**	**Current**	**Non-Current**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Trading securities	2,238,835	2,256,597	4,495,432	2,238,834	2,256,598	4,495,432
Investment securities and pledged assets	8,937,924	51,470,176	60,408,100	6,862,452	45,237,679	52,100,131
Derivative financial instruments	1,913,200	2,339,904	4,253,104	1,913,200	2,339,904	4,253,104
Loans, net of provision for credit losses	5,531,947	3,798,417	9,330,364	1,634,098	583,503	2,217,601
Lease receivables	34,923	24,236	59,159	-	-	-
Deferred income tax assets	11,595	42,370	53,965	5,000	23,025	28,025

	The Group			The Company		
LIABILITIES	**Current**	**Non-Current**	**Total**	**Current**	**Non-Current**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Securities sold under agreements to repurchase	57,566,418	29,460	57,595,878	56,810,267	29,460	56,839,727
Customer deposits and other accounts	10,424,324	790,870	11,215,194	70,186	100,966	171,152
Structured products	106,775	747,325	854,100	106,775	747,325	854,100
Due to banks and other financial institutions	199,775	268,971	468,746	142,096	99,368	241,464
Derivative financial instruments	2,376,749	1,933,817	4,310,566	2,376,749	1,933,817	4,310,566
Deferred income tax liabilities	-	230,344	230,344	-	128,595	128,595

Notes to the Financial Statements

31 December 2012

(Expressed in Jamaican dollars unless otherwise indicated)

47. Maturity Analysis of Assets and Liabilities (Continued)

	2011					
	The Group			The Company		
ASSETS	**Current**	**Non-Current**	**Total**	**Current**	**Non-Current**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Trading securities	-	610,940	610,940	-	610,940	610,940
Investment securities and pledged assets	3,143,800	60,064,380	63,208,180	2,634,674	54,030,734	56,665,408
Derivative financial instruments	340,791	498,629	839,420	340,791	498,629	839,420
Loans, net of provision for credit losses	4,950,987	4,291,378	9,242,365	1,432,231	856,807	2,289,038
Lease receivables	254	15,261	15,515	-	-	-
Deferred income tax assets	7,504	11,831	19,335	5,015	1,519	6,534

	The Group			The Company		
LIABILITIES	**Current**	**Non-Current**	**Total**	**Current**	**Non-Current**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Securities sold under agreements to repurchase	54,602,176	9,955	54,612,131	54,620,696	9,955	54,630,651
Customer deposits and other accounts	9,299,024	1,300,873	10,599,897	85,932	164,310	250,242
Structured products	-	274,913	274,913	-	274,913	274,913
Due to banks and other financial institutions	153,581	610,437	764,018	150,195	314,134	464,329
Derivative financial instruments	449,895	250,705	700,600	449,895	250,705	700,600
Deferred income tax liabilities	-	544,661	544,661	-	449,184	449,184

48. Subsequent Event

On 12 February 2013 the Government of Jamaica (GOJ) announced a public invitation to participate in its National Debt Exchange (NDX) programme in respect of specific domestic debt instruments. The NDX involves the voluntary exchange of the majority of the GOJ's existing domestic debt instruments for new debt instruments having longer maturities and lower coupon interest rates. The Group has agreed to participate in the programme.

The par value of Jamaican dollar securities exchanged was $29,881,206,000. The par value of United States dollar securities exchanged was US$77,463,000. The average coupon interest rate is expected to decrease by 0.7% on the J$ portfolio and by 1.8% on the US$ portfolio. The duration is expected to increase by 0.8 years on the J$ portfolio and by 4.3 years on the US$ portfolio. The duration is determined using the maturity date for fixed rate instruments and the repricing date for variable rate instruments.

The financial impact of the exchange on stockholders' equity is dependent on how the market prices the new notes. Assuming the fair value of the new notes is at par, the impact on stockholders' equity would be a 4.9% reduction.

DISCLOSURE OF SHAREHOLDINGS

AS AT 31 DECEMBER 2012

MAJOR STOCKHOLDERS

		Shares Held	Percentage
1	Sagicor Life Jamaica Limited	471,788,545	85.45%
2	National Insurance Fund	6,774,911	1.23%
3	Perkins, Donovan and Michele et al	5,697,845	1.03%
4	ATL Group Pension Fund Trustees Nom. Ltd.	5,297,100	0.96%
5	Mayberry West Indies Limited	4,831,912	0.88%
6	JCSD Trustee Services Ltd A/c 76579-02	4,029,811	0.73%
7	MF&G Trust & Finance Ltd. A/C #528	3,359,006	0.61%
8	JPS Employees Superannuation Fund	2,757,475	0.50%
9	JN Fund Managers Ltd. - Investment Managers	1,929,352	0.35%
10	Mayberry Managed Clients Account	1,772,940	0.32%
	Total	508,238,897	92.06%
	Others	43,906,947	7.94%

Total ordinary stocks in issue - 552,145,844

Total no. of stockholders - 1,605

DISCLOSURE OF SHAREHOLDINGS (CONT'D)

STOCKHOLDINGS OF DIRECTORS AND CONNECTED PERSONS

DIRECTORS	STOCKHOLDING	CONNECTED PERSONS	STOCKHOLDING
Philip Armstrong		& Trevor & Nicola Armstrong	912,476
Richard O. Byles		& Jacinth Byles	1,168,116
Peter Clarke	Nil	Nil	Nil
Jeffrey Cobham	Nil	Nil	Nil
Richard Downer	50,000	Nil	Nil
Paul Facey	Nil	Nil	Nil
Bruce James	Nil	Nil	Nil
Peter Melhado	Nil	Nil	Nil
Dodridge Miller	Nil	Nil	Nil
Lisa Soares Lewis	10,000	Nil	Nil
Donovan H. Perkins		& Michele & Alexander & Jessica Perkins	5,697,845
Colin Steele	Nil	Nil	Nil

STOCKHOLDINGS OF SENIOR MANAGEMENT AND CONNECTED PERSONS

MANAGERS	STOCKHOLDING	CONNECTED PERSONS	STOCKHOLDING
Tanya Allgrove	Nil	Nil	Nil
Philip Armstrong		& Trevor & Nicola Armstrong	912,476
Ingrid Card	Nil	Nil	Nil
Grace Crawford	Nil	Nil	Nil
Sabrina DeLeon Cooper		& Samantha DeLeon	1,250
Gene M. Douglas	563,743	Nil	Nil
Peter Knibb	2,500	& Elizabeth Knibb	22,815
Tara Nunes		& Kelly & Brooke Nunes	140,000
Donovan H. Perkins		& Michelle & Alexander & Jessica Perkins	5,697,845
Donnette Scarlett		& Merrick & Monique Scarlett	88,822
Michael Stuart	Nil	Nil	Nil
Karen Vaz	Nil	Nil	Nil
Karl Williams	Nil	Nil	Nil
Hope Wint		& Roslyn McKenzie	2,612
Colleen Yearde-Williams		& Frederick Williams	67,936

NOTES

PROXY

Sagicor Investments

I/We.....of..... being a member/members of SAGICOR INVESTMENTS

JAMAICA LIMITED hereby appoint.....of.....

or failing him/her.....of.....as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on Tuesday, May 28, 2013 and at any adjournment thereof.

Signed this_____day of_____2013.

Signature_____

Please indicate with an "X" in the spaces below how you wish your Proxy to vote on the resolutions referred to. Unless otherwise instructed, the Proxy will vote as he thinks fit.

RESOLUTIONS			For	Against
RESOLUTION 1:		Approve Audited Accounts		
RESOLUTION 2:		Final Dividend		
RESOLUTION 3: (a)	(i)	Mr. Peter Melhado		
RESOLUTION 3:	(ii)	Mr. Richard Byles		
RESOLUTION 3:	(iii)	Mrs. Lisa A. Soares Lewis		
RESOLUTION 3: (b)	(i)	Mr. Peter Clarke		
RESOLUTION 3:	(ii)	Mr. Paul Facey		
RESOLUTION 4:	(i)	To fix the Directors' remuneration		
RESOLUTION 4:	(ii)	To approve Non-executive Directors' remuneration		
RESOLUTION 5:		Auditors' remuneration		

Notes

A member is entitled to appoint a Proxy of his choice.

If the appointer is a corporation, this form must be under its common seal and under the hand of an officer of the corporation duly authorised on its behalf.

In the case of joint holders, the signature of any holder is sufficient, but the names of all joint holders should be stated.

To be valid, this form must be completed and deposited with the Secretary, Sagicor Investments Jamaica Limited, The Sagicor Bank Building, 60 Knutsford Boulevard, Kingston 5, at least 48 hours before the time appointed for the meeting or adjourned meeting.

An adhesive stamp of One Hundred Dollars must be affixed to the Form and cancelled by the appointer at the time of signing.

CORPORATION ACTING BY REPRESENTATIVES AT MEETING

Regulation 77 of the Articles of Association

Any corporation which is a member of the Company may by resolution of its Directors or other governing body authorise such person as it thinks fit to act as its representative at any meeting of the company or of any class of members of the company, and the person so authorised shall be entitled to exercise the same powers on behalf of the corporation which he represents as that corporation could exercise if it were an individual member of the Company.

Let's Keep in Touch!

With the use of our website, Facebook and Twitter account, we are finding new ways to market our Company and converse with our customers. We value your comments, concerns and questions so we utilise existing and new channels to keep you up-to-date on company business. Let's keep in touch!

Shareholders	Contact Details
Contact our Registrar for: Dividends Change in share registration and address Lost certificates Estate transfers Duplicate mailing	Email: sbj_registrar@sagicorbankja.com Call: (876) 929-5583 ext. 2805-10 Call: (876) 764-0356 Fax: (876) 968-5714
For all other Shareholder information	Email: options@sagicorbankja.com Call: 1-888-SAGICOR (724-4267)
General To obtain additional printed copies of the Annual Report or make enquiries about company news and initiatives:	Email: Investor Relations sbj_InvestorRelations@sagicorbankja.com Call: (876) 929-5583
Customers Ask us about the company's activities, policies, products and services. We will respond on or before the next working day:	Email: Client Relations Options@sagicor.com Call: 1-888-SAGICOR (724-4267)
If you have an email indemnity agreement in place, email us your instructions. Transactions will be executed by the next business day:	transact@sagicorbankja.com Call: 1-888-SAGICOR (724-4267)
To receive the latest company news or learn more about Sagicor Investments:	Email: Public Relations slj_publicrelations@sagicor.com
To contact any of our Branches:	Call: Kingston (876) 929-5583 Montego Bay (876) 684-9935 Ocho Rios (876) 974-8833 Mandeville (876) 961-1210-1 Savanna-la-mar (876) 955-4135
Our toll free numbers are:	1-888-724-4267 (from Jamaica) 1-800-947-7886 (from CANADA) 1-800-550-7886 (from U.S.A.) 1-800-895-903 (from U.K.)

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