

Annual Report
2011 – 2012



FACILITATING GROWTH





VISION

In 2020, DBJ, a world-class development bank and catalyst for economic growth and development, has facilitated J\$20 billion of investment resulting in 10,000 new jobs and an improved quality of life for all Jamaicans.



MISSION

To facilitate and promote economic growth, national development and an enabling economic environment by providing businesses and government with appropriate financing, privatization and technical support solutions.



CORE VALUES

- Professionalism
- Integrity
- Accountability
- Innovation

The Development Bank of Jamaica was established in April 2000, the outcome of a merger between two wholly owned Government of Jamaica institutions, the Agricultural Credit Bank of Jamaica Limited and the National Development Bank of Jamaica Limited.

In September 2006, the operations of the National Investment Bank of Jamaica were merged with the DBJ.

The Ministry of Finance and Planning has portfolio responsibility for the DBJ.



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Joseph Matalon
Chairman



Milverton Reynolds
Managing Director

BOARD OF DIRECTORS



MANAGEMENT TEAM

Back Row, standing

Yvonne Lewars, General Manager, Institutional Strengthening & Research; Claudine Tracey, General Manager, Risk & Strategy Management; Denise Arana, General Manager, Privatisation Services; Claudette White, Manager, Communication & Marketing; Edison Galbraith, General Manager, Loan Origination & Portfolio Management; Yvonne Williams, General Manager, Human Resource & Administration; Cleveland Malcolm, General Manager, Management Information Systems.

Front Row, seated

Dorothea Simpson, General Manager, Finance & Treasury; Pearline Miller, General Manager, Auditing Services; Milverton Reynolds, Managing Director; Sheron Henry, General Manager, Legal Counsel & Company secretary.



CHAIRMAN & MANAGING DIRECTOR'S REPORT



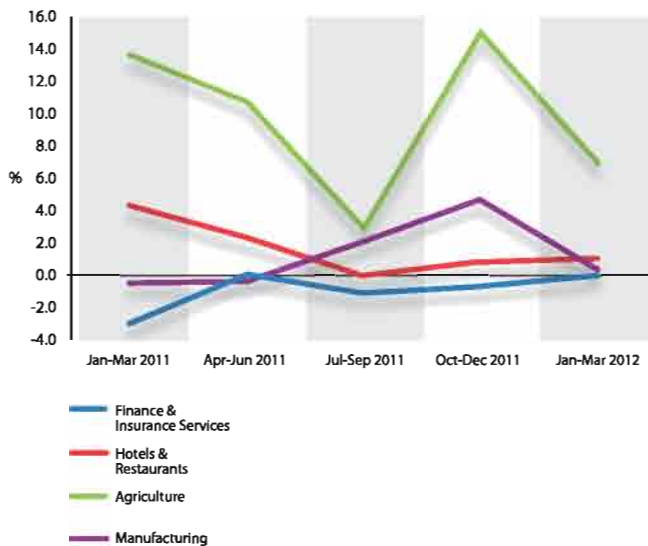
The year under review represented another period of strong performance for the Development Bank of Jamaica in spite of a fragile global economy, challenging local economic conditions, political uncertainty, high levels of non-performing loans in the financial sector, and low interest rates.

Nevertheless, the DBJ was able to deliver on its mission to “To facilitate and promote economic growth, national development and an enabling economic environment by providing businesses and government with appropriate financing, privatisation and technical support solutions”, thereby meeting and exceeding all of its major targets and resulting in the facilitation of billions in investments and thousands jobs.

But Jamaica did not totally escape the effects of the economic shocks of 2011. The financial markets operated in an environment of tight monetary policy, high unemployment, an intensified sovereign debt crisis in Europe and the downgrading of the United States economy. The result was a slow pace of global economic recovery evidenced by 3.8 per cent growth in 2011. Jamaica’s vulnerable tradable sectors therefore experienced slower than expected growth as observed in Tourism, Manufacturing and Agriculture, Forestry and Fishing.

Performance in the Finance & Insurance Services industry was also weak, recording a decline of 0.5 per cent. This

Real Value Added Growth in selected Industries (%)



resulted from lower net interest income arising from the Jamaica Debt Exchange programme, a reduction in the real rate of growth in the stock of loans and advances and increased non-performing loans in deposit-taking institutions. Financial institutions responded by relying on other income streams, mainly fees and commissions.

Despite the challenges faced in the Finance & Insurance Services industry, lending remained buoyant via the DBJ's network of Approved Financial Institutions (AFI) - comprising commercial and merchant banks, credit unions, the National People's Co-operative Bank (NPCB), and Micro Finance Institutions (MFI).

There were also positive economic indicators experienced in 2011/12.

Despite the slump in business confidence for the better part of 2011, the Jamaican economy took steps in the right direction and towards macro-economic stability, supported by real GDP growth, relatively low interest rates and stability in the foreign exchange market.

Business confidence improved significantly in the January-March quarter of 2012 predicated on the change in government policy relating to a focus on employment that was expected to result in increased demand for goods and services.

Despite expectations for economic growth as well as profits, investment plans remained cautious as businesses and entrepreneurs waited to see improvements in the economy. Additionally, investors were uneasy

about the uncertainty regarding the measures that might be announced in the 2012/13 fiscal budget presentation and the timing and terms of a new agreement between the International Monetary Fund and the Government of Jamaica.

It is within this socio-economic environment that the DBJ continued to deliver strong financial results and provide access to affordable development financing to every level of the national economy – from micro, small and medium-sized enterprises (MSME) to large businesses across the productive sectors covering agriculture, agro-processing, information technology, manufacturing, mining, services and tourism.

The Bank's strategic focus during the year yielded tremendous success, allowing the Bank to increase, by over 70 per cent, its prior year lending and surpassing the loan impact targets established at the start of the year. This resulted in a revision of the DBJ's loan impact targets upwards, based on the September 2011 mid-year budget review.

The DBJ's impact on new investments and job creation was facilitated through the approval of 7,197 new loans with a total value of \$4.6 billion. This value of loan approvals was 73 per cent above approvals for the previous year, 92 per cent above the initial target of \$2.4 billion, and fell within 5 per cent of the revised



Workers at the Sweet River Abattoir that is currently under construction in Westmoreland.

budget of \$4.86 billion set in September 2011.

During the same period, the Bank disbursed 7,218 loans amounting to J\$45 billion, approximately 99 per cent above disbursements for the previous year, 97 per cent above the initial target of \$2.3 billion, and with-in 3 per cent of the revised budget of \$46 billion set in September 2011.

Focus on MSME

The Bank's continued strategic focus on MSMEs as an engine of economic growth and job creation remained in alignment with the Government's economic policies. However, MSMEs have struggled with issues relating to technical and capacity gaps in their business operations for many years, creating impediments that

restrict the ability of many small and micro entrepreneurs to access debt and/or equity financing.

The DBJ has historically implemented projects and programmes geared towards addressing these needs and, during the 2011/12 financial year, was able to identify and meet the MSMEs' need of creating and expanding businesses not only by providing access to financing for capital and operating expenditure but also for technical support and capacity building.

This has resulted in improved business management, governance and operational efficiency among MSMEs.

The DBJ has also expanded access to credit by increasing the number of accredited MFIs which on-lend the

Bank's funds, allowing many more micro and small businesses to access credit to establish, maintain and grow their businesses.

To further broaden the options available for MSME financing, the DBJ also began the process of establishing the Jamaica Venture Capital programme for which a comprehensive multi-dimensional strategy and plan have been designed and subsequently approved by the Government.

Since the inception of the micro finance facility in 2009, DBJ has approved and disbursed a total of \$1.094 billion representing 17,634 micro loans in various sectors with the largest contribution of \$600.68 million or 55 per cent flowing to the distribution/trading sector.

MSME loans approved for 2012 amounted to \$1,127 million. Of this amount, \$176 million went to AFIs, \$460 million to the NPCB and \$491 million to MFIs.

Assistance for Energy

Another area in which the DBJ gave considerable assistance to entrepreneurs was Energy. More than 90 per cent of energy used in Jamaica comes from abroad and in 2011, the country's oil import bill reached US\$2.4 billion. This means that next to debt servicing, energy consumes the largest portion of the nation's foreign exchange earnings.

The DBJ is committed to energy efficiency, conservation and sustainable energy to reduce this crippling cost of energy to Jamaica, and in alignment with the Government's commitment to easing the pain of high energy costs to all citizens, the DBJ is

providing energy loans to both businesses and households.

Additionally, the Bank's partnership continues with the Inter-American Development Bank for a \$72-million (US\$807,000) public education programme to increase awareness of the importance of energy conservation and renewable energy. The project supports the operation of the DBJ's Energy Fund, by demonstrating the benefits of energy efficiency measures mainly within small and medium-sized enterprises in Jamaica.

During the financial year, the Bank approved loans with a value of \$174.5 million for five Energy projects, bringing the total amount of Energy loans approved by the DBJ since September 2009 to \$301.6 million for 16 projects in various sectors.

In November 2011, the DBJ further reduced the interest rate on SME en-

ergy loans funded by the PetroCaribe Development Energy Fund from 9.5 per cent to 8.0 per cent.

Privatisation and Public-Private Partnership (PPP)

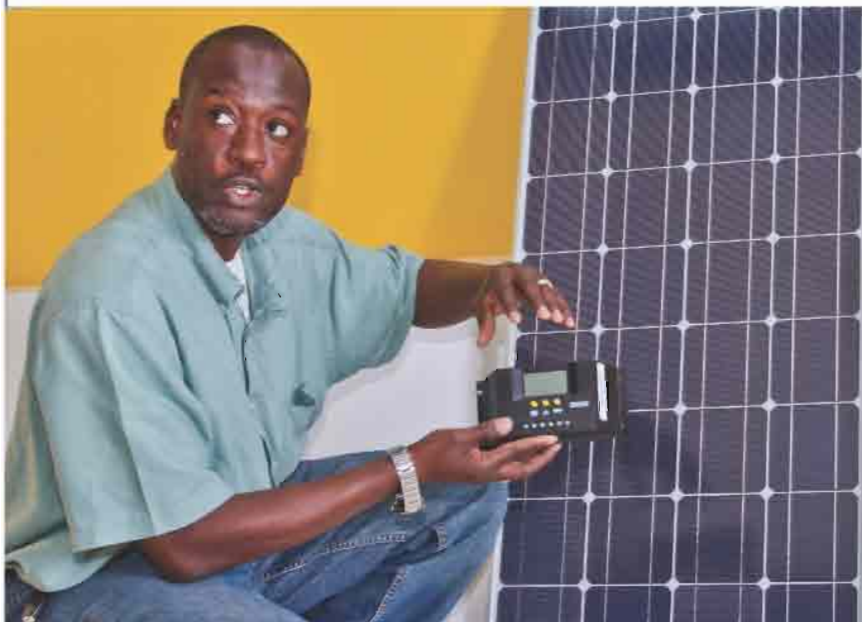
The DBJ has also continued to fulfill its role as the Government's lead privatisation agency. This was strengthened in two main ways during 2011/12. First, a new Privatisation Policy, governing all aspects of the divestment programme was approved and the assets of the Mavis Bank Coffee Factory (MBCF) Limited were privatised with a total transaction value of US\$3.8M, with several other privatisation transactions at advanced stages of execution.

Secondly, the DBJ was designated as the Public-Private Partnership (PPP) Unit with responsibility for managing and executing the Government's PPP programme. A PPP Policy was formulated during this period and will be submitted to Cabinet for approval in the 2012/13 financial year.

Strategic Realignment

Operationally, the Bank restructured its departments in 2011/12 to achieve its strategic objective of making the organization more responsive to the needs of the Jamaican population. Several targets were set resulting in the establishment of three new departments:

An engineer at Fosrich Co. Ltd. explains the benefits of the photovoltaic (solar) panels.



- a) Loan Origination and Portfolio Management (LOPM) that consolidated and focused the Bank's loan origination and loan management functions which were previously carried out in three separate areas;
- b) Institutional Strengthening and Research (ISR) which held responsibility for capacity building initiatives; and
- c) Risk and Strategy Management, which provides a formal institutional focus on enterprise risk management.

With the Bank's new structure in place, several critical milestones were met and significant achievements made in the 2011/12 financial year. This allowed the DBJ to meet its major targets, contributing to the organisation's 12th consecutive year of profitability with net profits of \$691.7 million, total assets of \$22,625.3 million and a net worth of \$10,645.6 million.

Caribbean Information and Credit Ratings Services Limited (CariCRIS) Credit Rating

For the third consecutive financial year, the Caribbean Information and Credit Ratings Services Limited (CariCRIS) has assessed the overall performance of the DBJ and assigned to it ratings of CariBBB (Foreign Currency Rating) and CariBBB+ (Local Currency Rating) on the regional rating scale and jAAA- on the Jamaica national scale to the debt issue (notional) of US\$5 million.

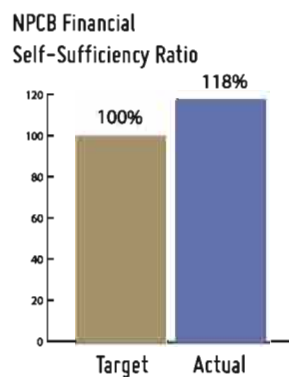
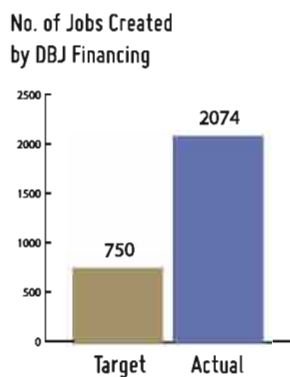
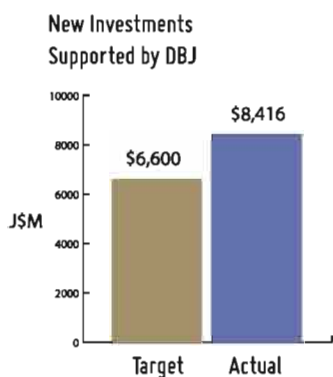
CariCRIS states "These ratings continue to reflect the Bank's strategic importance to the Jamaican Government and the level of support that the DBJ enjoys via loan guarantees and its tax-exempt status. Its relatively low credit risk profile is underpinned by its lending via a wholesale window and the stable, highly experienced and well-qualified senior management team, supported by a reputable Board of Directors. These

business strengths continue to be reflected in a strong capitalization, positive liquidity gaps and moderate levels of profitability. The recent institutional focus on risk management also supports the ratings."

CariCRIS affirmed the good financial performance of the Bank as reflected in moderate levels of profitability, strong capitalization and positive liquidity gaps. They observed that DBJ's efficiency ratio of 34.4 per cent remains low, and is among the lowest of financial institutions in the region.

Despite this achievement, CariCRIS went on to say "... *Tempering these ratings is the fact that DBJ operates exclusively in an economy constrained by persistently low growth, an unsustainable debt burden and limited fiscal flexibility...*"

CariCRIS has stated that based on their analysis, it is expected that the financial performance of the DBJ will remain good over the next year.



DBJ FINANCIAL HIGHLIGHTS

The DBJ recorded a net profit of J\$691.7 million, total assets of J\$22,635.3 million and net worth of J\$10,645.6 million for the financial year ended 31 March 2012. The results, which indicate that the financial performance and condition of the Bank remained strong, were driven by strategic management of the organisation's objectives, proactive and effective management of its risks and expert liquidity management.

PERFORMANCE HIGHLIGHTS, 2007-2012

Year Ended March 31	2012	2011	2010	2009	2008	2007
	J\$M	J\$M	J\$M	J\$M	J\$M	J\$M
Total Income	2,728.5	4,413.2	4,175.5	3,901.2	3,772.2	2,710.2
Total Interest Income	1,752.7	3,688.5	3,792.9	3,393.7	3,142.9	2,110.4
Total Interest Expense	1,053.5	2,889.5	2,992.2	2,500.6	2,184.7	1,537.6
Net Interest Income	699.2	799.0	800.7	893.1	958.2	572.8
Non-Interest/Other Income	975.8	724.7	382.6	507.5	629.3	599.8
Non-Interest Expense	962.6	805.8	705.3	890.9	973.9	1,154.6
Net Profit	691.7	723.5	316.4	417.4	371.9	391.0
Total Assets	22,635.3	48,928.0	49,686.2	46,414.5	46,262.7	38,520.3
Total Equity	10,645.6	9,978.7	9,536.1	8,921.9	6,359.6	6,029.6
Loans Payable	11,491.2	38,597.9	39,851.5	37,134.5	34,324.3	26,530.6
Regular Loan Portfolio	9,418.3	9,060.9	12,239.9	10,605.8	8,101.2	8,768.0
GOJ Infrastructural Loan Programmes	181.5	25,156.5	25,521.9	24,846.8	24,618.6	2,489.6

The year was a very good one for the DBJ with a number of significant milestones achieved. These included:

- The repayment of the Government infrastructural loan of EURO 204.4 million with the attached currency swap transaction being fully repaid and the swap negated. From the table below, this item resulted in a significant reduction in both DBJ's Total Assets and Loans payable;
- The settlement by way of a debt exchange amounting to J\$1,687.5 million between the Government and the Bank.
- The signing of a Government of Jamaica/Sugar Assumptive agreement where the DBJ will be repaid outstanding Sugar loans, semi-annually over a 10-year period interest free.

The Bank's strong Asset and Equity bases enabled it to play a pivotal and proactive role in the development of

the Jamaican economy as the Bank continued to implement initiatives to assist in the financing of projects.

Income

The DBJ's operating income of J\$2,728.5 million for the financial year ended 31 March 2012 indicates a reduction of 50 per cent below the previous financial year and was mainly due to the repayment of the Government Infrastructural Loan of EURO 204.4 million which accounted for interest income of J\$2,320.3 million or 47 per cent of the income earned in the previous financial year.

Interest Income

Interest Income amounted to \$1,752.7 million for the financial year 2011/12, representing a decrease of 52 per cent or \$1,935.84 million below the previous financial year and was directly related to a reduction of interest earned on the Government of Jamaica infrastructural loan that was repaid during the financial year under review.

The DBJ ceased to recognize interest income on loans in arrears over 90 days, thus J\$149 million was not recognized in the Statement of Comprehensive Income as at March 31, 2012. During the year the Bank offered reduced interest rates to borrowers and implemented several initiatives to ensure that projects, especially those in the agriculture sector, remained viable.

- Interest income from loans to Approved Financial Institutions, the National People's Co-operative Bank, Micro Finance Institutions and direct lending operations reflected a decrease of 18 per cent below the previous year and is directly related to the reduction in interest rate and the policy of not recognizing in the Statement of Comprehensive Income interest on loans 90 days and over.
- During the financial year, interest income on EURO Loan of 204.4 million was reduced by 76 per cent as this loan was repaid during the year.
- Recoverables from the Government of Jamaica reduced from J\$2,247.2 million at the beginning of the year to J\$588.4 million at March 31, 2012, after recording a debt exchange between the Bank and the Government of Jamaica. This transaction will enhance the Bank's future performance as the receivable from the Government did not attract interest, unlike the Bank's liability.

Other Income

The DBJ's non-interest income mainly comprises fees, rental income, net foreign exchange gains/(losses) arising on the translation of Assets/Liabilities, gains from investment activities and income representing the future discounted cash flows on outstanding sugar loans to



A gardener tends to plants at G.C. Orchids Ltd., a DBJ-funded plant nursery in Robin's Bay, St. Mary.

be repaid by the Government of Jamaica under an assumptive agreement (see above). This non-interest income increased by 35 per cent or J\$251.1 million in the 2011/12 financial year when compared to the previous financial year. This increase was due mainly to income recorded of J\$561.1 million, being the future discounted cash flows on outstanding sugar loans to be repaid by the Government of Jamaica under an assumptive agreement.

The DBJ provided funding to Muffetta Enterprises, a manufacturer of herbal household products that are gentle on the environment, people and pets.



Net Profit

The Bank recorded a net profit of J\$691.7 million for the year, moving from a net profit of J\$723.5 million in the previous financial year, a decrease of J\$31.8 million or 4 per cent. As mentioned in the previous paragraph, this decrease was attributable mainly to impairment losses of J\$407.5 million recorded for the year 2011/12 as against an amount of J\$279.1 million in the previous year.

Return on Assets increased from 1.5 per cent to 3 per cent over the period, with return on equity decreasing from 7.25 per cent to 6.4 per cent. This reflects the adoption of the IFRS for loan loss provisioning and the policy adopted of not recognizing in the Accounts interest on Loans with arrears 90 days and over.

Interest Expenses

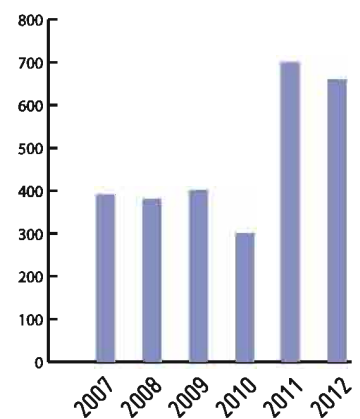
Interest expenses for the financial year under review amounted to J\$1,053.5 million, a 64 per cent decrease below the previous year's total of J\$2,889.5 million and was directly related to a reduction of interest payable under the EURO \$204 million loan which was repaid during the financial year under review.

Non-Interest Expenses

Administrative and other operating costs showed an increase of 19.4 per cent above those of the previous financial year. This increase was

mainly due to impairment losses of J\$407.5 million recorded for the year 2011/12 as against an amount of J\$279.1 million in the previous year. Staff costs which increased by 8 per cent, as the Bank paid retroactive salary to employees and ex-employees in keeping with guidelines issued by the Ministry of Finance and Planning. Utilities increased by 17 per cent above the amount incurred for the previous financial year and this increase was attributable to high electricity costs caused in part by the high oil bills experienced worldwide.

Net Profit 2007-2012



ASSET & EQUITY BASES

Asset Base

The DBJ's asset base stood at \$22,635.3 million as at 31 March 2012, a decrease of 55.7 per cent below the previous year's figure of \$49,928.0 million. This decrease was mainly due to the repayment of the Government Infrastructural loan of EURO 204.4 million during the year. The loan portfolio showed an increase of J\$357.4 million or 4 per cent above the previous financial year, and a decrease of 30 per cent below the loan portfolio in Financial Year 2009/10. This decrease was mainly due to the recovery of previous impairment provisions relating to our investment in Ackendown Newtown Development Company (ANDCO) and loans secured by a mortgage over the Sandals Whitehouse Hotel Property being transferred from Direct Loan to Other Loan Receivable.

Equity Base

At the end of the Financial Year 2011/12 the Bank reported shareholder's equity of J\$10,645.6 million, a 6.6 per cent growth above the previous year, mainly due to increases in retained earnings.

Solvency

At the end of the period under review, the Bank reported a debt/equity ratio of 1.02:1, an improvement over the ratio of 3.9:1 at the end of March 2011. This ratio remains within the guidelines stipulated by multilateral lending agencies of between 4:1 and 6:1. The DBJ's strong Asset and Equity bases will enable the Bank to attract additional funding and successfully undertake its mandate of assisting in the economic development of the Jamaican economy.

FUNDING

Funding to meet the Bank's loan disbursements and debt obligations during the year came principally from loan reflows and internally-generated cash provided from operations, as well as a loan of US\$5 million from the China Development Bank.

FUNDS MANAGEMENT

As part of its overall functions the DBJ manages the following funds:

1. Capital Development Fund
2. Private Sector Energy Fund
3. Intech Fund
4. IDB Liquidity Programme
5. Credit Enhancement Facility
6. PetroCaribe Development Fund

The Bank also provides accounting services to National Road Operating and Constructing Company Ltd., Harmonisation Ltd. and Silver Sands Estates Ltd.

"At the end of the Financial Year 2011/12 the Bank reported shareholder's equity of J\$10,645.6 million, a 6.6 per cent growth above the previous year..."

LOAN ORIGATION & PORTFOLIO MANAGEMENT

During the year, the Bank's lending operations continued to provide strong support to the national development initiatives. In this regard, increased emphasis was placed on the creation of new jobs and the stimulation of new investments while increasing access to affordable financing for micro, small and medium-sized enterprises.

The Bank continued to make loans available at preferred rates of interest and on flexible terms to MSMEs through its network of Approved Financial Institutions and Micro Finance Institutions as well as to larger businesses. The Bank's loans are available under various lines of credit to support new investments in agriculture, agro-processing, manufacturing, mining, tourism, technology, services and, most recently, energy efficiency and renewable energy.

Toward the achievement of its mission to have "facilitated J\$10 Billion of investment resulting in 5,000 new jobs" in the year 2015, the Bank adopted the following impact targets for its lending activities for the financial year 2011-12:

Impact targets for lending 2011-12

Total investments supported by DBJ financing	\$4.6 billion
Total number of jobs created by DBJ financing	750
Value of new loans approved	\$2.4 billion
Value of new loans disbursed	\$2.3 billion
Percentage of loan arrears over 90 days	5.0 per cent overall and 2.0 per cent excluding specified projects undergoing recovery proceedings

INITIATIVES UNDERTAKEN THIS YEAR

At the start of the year, the Bank's Loan Origination team set out to understand and address the factors impacting the demand for DBJ loans through intermediaries while deliberately targeting sectors with potential growth in loan demand and that would generate new investment and jobs.

At the same time, the Portfolio Management team increased its emphasis on enforcing compliance and initiating recovery activities to minimize arrears and improve the quality of the Bank's loan portfolio.

In addition to reviewing its products, the Bank undertook an aggressive

marketing initiative involving three deliberate strategies:

1. Each AFI and MFI was reviewed to determine and understand their relative appetites for development and DBJ loans with the relationships managed to achieve mutual benefit.
2. Investors and sector groups that showed potential for growth in investment and job creation were identified and DBJ met with them to understand their needs, inform them about the benefits of DBJ's products and how these could be accessed through the intermediaries, while encouraging them to visit their AFI and "ask for a DBJ loan".
3. Meetings were facilitated between potential sub-borrowers and their AFI or MFI to ensure effective communication of the benefits of and the requirements to access DBJ loans.

REVIEW OF LENDING ACTIVITIES

The Bank's strategic focus during the year yielded tremendous success, allowing the Bank to double its prior year lending and surpass the loan impact targets established at the start of the year. As a result, the Bank revised its loan impact targets upwards based on the September 2011 mid-year budget review.

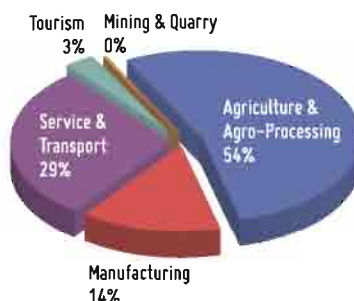
During the year, the Bank's lending activities facilitated overall new investments of \$7,394 million and the creation of 2,099 new jobs while maintaining 8,345 existing jobs. This reflects an improvement on the 860 new jobs and estimated 6,800 jobs maintained in 2010/11. The loans approved, investments supported and new jobs created for 2011/12 were distributed by sector as at right.

Sector	Loan Approval (J\$)	%	Investment (J\$)	%	New Jobs	%
Agriculture & Agro-Processing	2,497,730,517	54.2%	4,456,262,574	60.0%	1,829	87.1%
Manufacturing	658,770,300	14.3%	771,177,033	10.4%	23	1.1%
Mining & Quarry	1,696,000	0.0%	2,120,000	0.0%	2	0.1%
Service & Transport	1,321,420,036	28.7%	2,006,480,527	27.0%	229	10.9%
Tourism	124,793,120	2.7%	190,930,853	2.6%	16	0.8%
	4,604,409,973	100%	7,426,970,987	100%	2,099	100%

Investment Facilitated by DBJ Loans - YE 2012



Value of DBJ Loans Approved by Sector - YE 2012



Domestic Currency Approvals

Local currency loan approvals for the year amounted to \$2,640.7 million reflecting an increase of \$615.1 million or 30 per cent above the prior year and \$190.8 million or 8 per cent above the revised budget of \$2,450.0 million. These loans were distributed as follows:

- Approved Financial Institutions - J\$1,272.5 million or 48.2 per cent
- National People's Co-operative Bank - J\$462.2 million or 17.5 per cent
- Micro Finance Institutions - J\$491.5 million or 18.6 per cent
- Direct Lending - J\$414.5 million or 15.7 per cent

LOAN APPROVALS

The achievement of DBJ's impact on new investments and job creation was facilitated through the approval of 7,197 new loans with a total value of \$4,604 million. This value of loan approvals was 73 per cent above approvals for the previous year, 92 per cent above the initial target of \$2,400 million, and fell within 5 per cent of the revised budget of J\$4,858.0 million set in September 2011.

DBJ's loan approvals were distributed to various sectors and through the following channels as below:

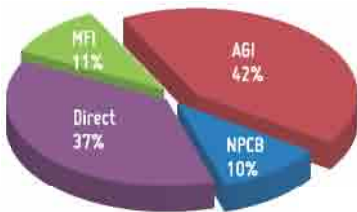
Channel	# of Loans	Loan Approval (\$J)	%
NPCB	159	462.19	10%
AFI	34	1,941.61	42.2%
MFI	6995	491.44	10.7%
Direct	9	1,709.37	37.1%
TOTAL J\$	7,197	4,604.60	100.0%

Foreign Currency Approvals

Foreign currency loan approvals for the year amounted to US\$22.6 million reflecting an increase of US\$15.1 million or 203 per cent above the previous year and were distributed as follows:

- Approved Financial Institutions - US\$7.7 million or 34.1 per cent
- Direct Lending - US\$14.9 million or 65.9 per cent

DBJ Loan Approval by Channel - YE 2012



LOAN DISBURSEMENTS

During the year the Bank disbursed 7,218 loans amounting to J\$4,462.0 million. The year to date value of disbursements was 99 per cent above disbursements for the previous year, 97 per cent above the initial target of \$2,300.0 million, and fell within 3 per cent of the revised budget of J\$4,594.4 million set in September 2011.

Local Currency Disbursements

Local currency disbursements for the year amounted to \$2,416.2 million reflecting an increase of \$779.3 mil-

lion or 48 per cent above the prior year and \$14.8 million or 1 per cent above the revised budget of \$2,401.4 million. These loans were distributed as follows:

- Approved Financial Institutions - J\$1,350.9 million or 55.9 per cent
- National People's Co-operative Bank - J\$414.2 million or 17.1 per cent
- Micro Finance Institutions - J\$491.4 million or 20.3 per cent
- Direct Lending - J\$159.7 million or 6.6 per cent

Foreign Currency Disbursements

Foreign currency disbursements for the year amounted to US\$23.5 million compared to US\$7.1 million the previous year and distributed as follows:

- Approved Financial Institutions - US\$7.5 million or 32 per cent
- Direct Lending - US\$16.0 million or 68 per cent

REVIEW OF LENDING PROGRAMMES

DBJ's Lending through Approved Financial Institutions (AFI)

DBJ's primary channel for lending to the productive sector remains the extensive branch networks of its 13 Approved Financial Institutions (AFIs) which includes all com-

mercial banks and credit unions as well as other financial institutions. In this regard DBJ makes lines of credit available to the AFIs and works with them to introduce development products such as SME and Energy financing.

During the year, reduced yields on fixed income securities saw increased liquidity and competition among AFIs leading to lower interest rates for borrowers. These benefits, however, were more pronounced for larger clients than for small and medium sized enterprises.

During the year local currency loans through AFIs increased moderately with 28 loans totaling J\$1,272.5 million and reflecting an increase of \$166.7 million or 15 per cent above the prior year and \$92.7 million or 8 per cent above the revised budget of \$1,184.8 million. Disbursements through AFIs were made on 30 loans totaling J\$1,350.9 million reflecting an increase of \$732.5 million or 118 per cent above the prior year and \$269.8 million or 25 per cent above the revised budget of \$1,081.3 million. Approved Financial Institutions accounted for five US-dollar loans totaling US\$7.7 million compared to US\$0.6 million the previous year. Of this amount US\$5.8 million represented one loan made through an AFI to support the retooling of a private sector owned sugar factory. Disbursements through AFIs accounted for six loans totaling US\$7.5 million.



Personnel at Pioneer Meat Products Limited examine a cold storage room compressor fitted with a timer that automatically shuts down the cold storage room during peak hours as a method of energy conservation, helping the company to reduce its energy rates.

DBJ's Lending to Micro, Small and Medium-sized Enterprises

During the year the Bank provided strong support to initiatives for increasing access to affordable credit for micro, small and medium-sized enterprises. In this regard DBJ facilitated the approval of 7,171 loans with a value of J\$1,129.7 million through its intermediaries for MSME sub-borrowers in 2011/12. Of this total, the vast majority - 6,995 loans totaling J\$491.5 million were facilitated through the Micro Finance Institutions, while 159 loans valued J\$462.2 million went through the National Peoples Co-operative Bank, and 17 loans valued at J\$176 million were facilitated by Approved Financial Institutions to SMEs.

Microfinance Lending Window

DBJ's Microfinance Lending Window was established in 2009 to improve access to credit for micro entrepreneurs who generally are unable to secure financing for their business ventures through the AFIs. DBJ provides loans through its nine (9) accredited Micro Finance Institutions two (2) of which secured accreditation in 2011/12.

During the year, DBJ's lending to Micro Finance Institutions saw tremendous growth with 6,995 loans totaling J\$491.4 million reflecting an increase of \$262.9 million or 115 per cent above the prior year. This level of approvals was also \$161.5 million or 49 per cent above the revised budget of \$330.0 million. Disbursements at J\$491.4 million reflected an increase of \$262.8 million or 100 per

cent above the prior year and \$161.4 million or 49 per cent above the revised budget of \$330.0 million.

DBJ's lending through MFIs preserved the livelihoods of 6,446 persons while creating five new jobs. The majority or some 51 per cent or \$250.3 million of DBJ's lending to MFIs during the year supported 3,897 borrowers in the distribution and trading sector, while 30 per cent or \$147.6 million supported to 1,791 borrowers in the service sector.

Since inception of the Microfinance facility in 2009, DBJ has approved and disbursed \$1,094 million on 17,634 loans to various sectors. Distribution and trading accounts for 55 per cent or \$600.7 million of the MFI lending with 10,436 loans, while services accounted for 24 per cent with \$259.9 million represented by 3,721 loans.

“...the Bank continued to provide strong support to the Government’s initiatives in Agriculture and Agro-processing industries and the national food security efforts of small farmers.”

AFI SME Lending Window

DBJ’s SME Lending Window was established in 2009 to improve access to affordable credit through the AFIs by small and medium sized enterprises and continues to generate positive results. Loans to SMEs are available at preferred interest rates made possible by funding provided by the PetroCaribe Development Fund and the Caribbean Development Bank.

During the year, DBJ’s loans to the SME sector supported new investments of J\$930 million and 337 new jobs, while maintaining 7,086 existing jobs. DBJ’s SME loans through the NPCB supported J\$713 million in new investments while creating 275 new jobs and maintaining 42B. SME loans through AFIs supported new investments of J\$217 million, while creating 57 new jobs and maintaining 212.

In November 2011, DBJ further reduced the interest rates at which SMEs access DBJ loans from a high of 11.0 per cent to 9.5 per cent and with a special interest rate of 8.0 per cent

for SMEs in all sectors implementing Energy efficiency projects.

National People’s Co-operative Bank

The National People’s Co-operative Bank (NPCB) continues to be a critical channel for ensuring access to financing for small and medium sized farmers and enterprises in the wider rural economy. During the year, DBJ’s lending through the NPCB expanded significantly with 107 loans totaling J\$462.2 million reflecting an increase of \$110.9 million or 32 per cent above the prior year but fell \$52.9 million or 10 per cent short of the revised budget of \$515.2 million owing to the decommitment of \$200 million that had been approved earlier in the year. Disbursements through the NPCB accounted for 152 loans totaling J\$414.2 million reflecting an increase of \$74.0 million or 21 per cent above the prior year but falling 13 per cent below the revised budget of \$474.2 million.

DBJ’s Lending to Small Farmers

In 2011/12 the Bank continued to provide strong support to the Government’s initiatives in Agriculture and Agro-processing industries and the national food security efforts of small farmers. In this regard 988 local currency loans were approved at a value of \$663.9 million of which 9 loans valued \$187.5 million were for Agro-processing. Of the amount approved for lending to Agriculture, 845 loans totaling \$56.8 million were issued to small farmers through the Micro Finance Institutions, while the National Peoples Co-operative Bank facilitated 136 loans to farmers with a value \$310.7 million to support investments in various crops and livestock.

During the year DBJ met with farmers groups and associations in various sub-sectors. This support for domestic production saw 21 loans valued \$157.2 million being approved for pig farmers, with 17 loans valued \$121.1 million approved for poultry farmers. In addition, the Bank at the request of the Ministry of Agriculture and Fisher-



Country Farmhouse Soya Products Limited manufactures and distributes natural food products from its factory in Kingston.

\$5 million or 50 per cent of the loan being considered for a prospective SME borrower.

During the year CEF guarantees totaling \$10.75 million were issued allowing three additional SMEs to access \$34.1 million in AFI loans for their businesses facilitating an overall investment of \$62.6 million and the creation of 40 new jobs.

The businesses that benefitted were: an agro-processor that created eight new jobs while maintaining 16 in St. Elizabeth; a resort patio furniture manufacturer that created 20 new jobs in St. James; and a digital animation outsourcing-company that created 12 new jobs in St. Andrew creating content for the international market.

Since inception, the CEF has assisted 10 SME borrowers gain access to J\$74.9 million in loan financing, backed by guarantees totaling J\$23.2 million.

The Bank is reviewing the operation the CEF to facilitate increased access to financing for viable SME projects. In this regard modifications to the terms of the facility are being considered to make it more attractive to both SMEs and AFIs as well as to provide support for SME investments in Energy projects and other sectors where the collateral is not readily accepted by AFIs.

ies approved a \$250 million line of credit through the NPCB to expand the production of Irish potato and onion. Of this amount \$50 million was disbursed to the NPCB for 48 farmers, while the balance of \$200 million was subsequently de-committed due to reduced demand.

SME Credit Enhancement Facility

The Credit Enhancement Facility (CEF) was established in July 2009 to increase access to financing for SME borrowers by partially underwriting the credit risk for viable SME projects that an AFI may not otherwise have considered. The DBJ set aside \$250 million under this programme to provide partial credit guarantees to AFIs for a maximum guarantee of

Rio Tinto Alcan Legacy Fund for Jamaica (RTALF) – Loan Guarantee Fund Programme

In 2011 DBJ was appointed Trustee and Administrator of the Rio Tinto Alcan Legacy Loan Guarantee Fund of an initial US\$1.8 million. Income from the fund will establish a Loan Guarantee Fund to support micro enterprise loans to small farmers in Manchester, St Ann and St Catherine through approved MFIs, credit unions and the NPCB, as well as to fund the Rio Tinto Alcan Agriculture Scholarships being administered by the Jamaica 4H Clubs. These programmes are due to commence in 2012/13.

DBJ's Lending for Energy Conservation, Efficiency and Renewable Energy

During the year, the Bank continued to support the national efforts toward Energy Conservation, Energy Efficiency and the adoption Renewable Energy solutions by providing and promoting financing for Energy investments through its AFIs and MFIs. DBJ loan financing for Energy projects while focused on MSMEs is available to all businesses and is not restricted to business in the productive sector. The Bank also provides loans for training and conducting energy audits, as well as for suppliers of energy equipment.

During the year the Bank approved Energy loans with a value of \$174.5



Workers load blocks manufactured at the Manchester-based May Day Block Factory Trucking Construction & Development Limited.

million for five (5) additional Energy projects, bringing the total amount of Energy loans approved by DBJ since September 2009 to \$301.6 million for 16 projects in various sectors.

In November 2011, DBJ further reduced the interest rate on SME Energy loans funded by the PetroCaribe Development Energy Fund from 9.5 per cent to 8.0 per cent.

US\$4.6 Million World Bank Energy Loan Facility

The loan agreement between the Government of Jamaica and the International Bank for Reconstruction and Development (IBRD/World Bank) for the Jamaica Energy Security & Efficiency Enhancement

Project became effective in August 2011. Under this programme DBJ, in 2012/13, will access US\$4.6 million at a preferred interest rate for on-lending through AFIs to facilitate additional investments by SMEs in Energy projects.

\$100 Million Residential Energy Loan Facility

In March 2012, to further encourage the adoption of energy efficiency, DBJ launched a new \$100 million facility allowing householders to access up to \$2 million through AFIs and MFIs at 9.5 per cent for five (5) years to install renewable energy solutions on their homes.

IDB Liquidity Programme for Growth and Sustainability

DBJ was appointed the agent of the Government of Jamaica for the IDB's Liquidity Programme for Growth and Sustainability in 2009. Under the programme four banks were able to borrow US\$95 million to support 77 borrowers in various sectors that faced challenges brought on by the global recession. The programme was successfully completed in January 2012 with all Banks making their final payments as scheduled.

Direct Lending

During the year direct lending continued to be restricted with only four pre-existing projects receiving

additional local currency loans totaling J\$414.5 million. This reflected an increase of \$74.6 million or 22 per cent above the prior year and fell 1 per cent short of the revised budget of \$420.0 million. Disbursements totaling J\$159.7 million were made on eight projects and reflected a decline of \$285.6 million or 64 per cent from the prior year.

Two foreign currency loans totaling US\$14.9 million were approved and disbursed during the year with overall disbursements of US\$16.3 million on four (4) loans.

US\$20 million ICT/BPO Loan Facility

In November 2011, DBJ in conjunction with the PetroCaribe Development Fund, the Ministry of Industry Investment and Commerce and JAMPRO launched a US\$20 million line of credit that will provide direct loans for the construction of Information Communication Technology/Business Processing Outsourcing facilities to capitalize on Jamaica's attractiveness as a destination. The loan facility is intended to provide loans at 4.5 per cent for 12 years to construct a minimum of four large centres of 40,000 square feet each, thereby facilitating 4,000 additional seats and up to 10,000 new jobs.

LOAN PORTFOLIO

At the end of the financial year March 2012, the total outstanding loan portfolio of the Bank stood at J\$9.7 billion reflecting a modest 5 per cent growth over the J\$9.1 billion for the financial year ended 31 March 2011. The distribution of the outstanding loan portfolio at the end of March 2012 is shown as follows:-

DBJ's Loan Channels	Loan Portfolio (j\$)	%
Loans to NPCB	1,110,379,352	11.5%
Loans to AFIs	4,849,994,433	50.1%
Loans to MFIs	449,990,555	4.6%
Loans to Direct Clients	3,272,181,271	33.8%
	9,682,545,611	100.0%

LOAN PORTFOLIO QUALITY

The Bank also achieved its portfolio quality targets by intensifying its focus on compliance by borrowers with loan terms and initiating recovery measures as required. As a result principal arrears over 90 days at 4.59 per cent of the J\$9.6 billion loan portfolio was within the 5.0 per cent target set for March 2012 and reflected an improvement on the 5.6 per cent recorded at the end of March 2011.

The overall arrears position is skewed by over 90-day arrears on the direct portfolio, which stood at \$434 million. These pre-2011 non-performing loans are the subject of recovery proceedings. It is expected that the majority of these accounts will be resolved during the next financial year.

When the accounts listed above are excluded from the calculation, 90-day arrears amount to \$7.7 million or 0.09 per cent of the adjusted \$8.2 billion overall portfolio value and falls well within the adjusted 2 per cent target set for March 2012.

DBJ Loan Portfolio Distribution by Channel – YE 2012



PORTFOLIO MANAGEMENT

During the year, the responsibilities of the Portfolio Management team were expanded beyond direct loans to ensuring the quality of the Bank's overall loan portfolio. This included monitoring and ensuring compliance by all borrowers including direct borrowers, AFIs and MFIs. The Portfolio Management team continued to undertake



In the last financial year, the DBJ provided funding to BKPR Meats in Longville Park, Clarendon.

the evaluation and recommendation of new direct loans for Board approval, managing disbursement and implementation of direct loans and investments as well as the provision of support to the boards of DBJ's subsidiaries and associated companies.

At the end of the year:

- The direct debt and equity portfolio stood at J\$4.80 billion
- Loan and investments in tourism at J\$3.55 billion accounted for 74.0 per cent of the portfolio.
- J\$3.69 billion or 76.9 per cent of the portfolio is denominated in US dollars.
- J\$2.98 billion or 62.1 per cent of the portfolio is made up of debt instruments
- Principal and interest/dividend arrears at J\$823.40 million and

J\$377.12 million were 17.1 per cent and 7.9 per cent of the portfolio respectively.

Portfolio Management also has responsibility for management of various funds including the Recoveries portfolio.

RECOVERIES

Since September 2006, DBJ has achieved J\$973.9 million collections on the then J\$3.7 billion NIBJ/DBJ Recoveries portfolio as below. Of the \$973.9 million, 23 accounts were closed realising \$940.3M against book values of \$1.09B, and reflecting a recovery rate of 86 per cent. This was achieved through negotiated settlements, disposal of assets and litigation. The \$659 million recorded in 2011/12 reflects the present value of payments due under an assumptive agreement with the Government of Jamaica.

SUMMARY OF COLLECTIONS TO DATE (J\$)

Sep-06 to Mar-07	4,368,213
Apr-07 to Mar-08	50,550,869
Apr-08 to Mar-09	136,711,517
Apr-09 to Mar-10	66,897,750
Apr-10 to Mar-11	56,311,786
Apr-11 to Mar-12	659,112,536
	973,952,671

The remaining portfolio with accruals amounts to \$3.4 billion and comprises a mixture of equity investments and loans with limited prospects for recovery. Collections on these accounts to date have only amounted to \$41.8 million, with additional recoveries on these accounts projected at \$159.2 million. It is anticipated that the remaining accounts will be resolved and the Recoveries portfolio closed by the end of 2012/13.

SNAPSHOTS

of SME projects
funded in 2011/12



Concrete Blocks

May Day Block Factory Trucking Construction & Development Limited, which has been in operation for approximately 15 years, manufactures building blocks, curb blocks, balusters and concrete fencing. It also sells decorative blocks, windows and hardware items such as sand, marl, cement, steel, fixtures and fittings. The company also does construction of buildings, the development and paving of roads, as well as trucking. The company, located in May Day, Manchester, markets not only to buyers in its local environs but also in the parishes of St. Ann, Trelawny, St. Elizabeth and Clarendon. May Day Block Factory received a \$10 million loan from the DBJ to expand the organisation in order to meet the increased demand for hardware supplies. This also allowed the company to create four new jobs and maintain 30 existing ones.



Horticulture

G. C. Orchids Limited, a plant nursery, is owned and operated in Robin's Bay, St. Mary, by Lloyd and Shanet Pringle since 2007. The nursery comprises cut flower houses on three acres of land leased from Green Castle Estate and is centred on the sale of potted orchids and orchid blooms. These are sold to flower shops, wedding coordinators and events planners island-wide. Of the total project cost of \$3.5M, the DBJ provided \$935,000 to assist with the expansion of the plant nursery. This new loan has created three new jobs and maintained eight existing jobs.



Cleaning Supplies

Muffetta Enterprises Limited, located in Mineral heights, Clarendon, manufactures herbal household cleaners using non-toxic, biodegradable ingredients. The products are made from natural ingredients that are gentle on the environment, people and pets. No artificial colours, dyes, ammonia or petroleum-based products are added, and there is no sticky residue or overpowering scent to contend with. The product line includes an all-purpose cleaner, a glass cleaner, a kitchen-and-bath powder scrub, a disinfectant cleaner, a natural garden spray, a natural vegetable and fruit wash, insect spray, ant powder, mosquito and room spray – all made from biodegradable and natural ingredients.

Honey Production

Mr. Elton Cawley is a Bee Farmer who has been registered with the Ministry of Agriculture through the Rural Agriculture Development Authority (RADA) since 1988. The business has evolved into a commercial entity with over 1,000 colonies of bees. The hives are located in White House, Westmoreland; and in Black River, White Hall and Y.S. In St Elizabeth. Mr. Cawley borrowed \$2 million to expand the hives and upgrade the operation which currently produces over 4,000 gallons (4,000) of honey per year. The company employs 11 persons.

Ginger Production

Mr. Everette Bonnick, an active farmer for the last 20 years, has taken a loan of \$1.15 million to begin production of ginger in Portland. Ginger is in high demand and will be planted and the export division of the Ministry of Agriculture has guaranteed purchase of the crop. Six persons will be employed to implement the project with technical assistance from RADA on a regular basis to enhance the productivity of the farm.

Country Farmhouse

Since the early 1990s, Country Farmhouse Soya Products Limited has been manufacturing and distributing natural food products. They include soya-based products such as tofu, soy cream, vegetable middles, grains, flour, oats, bulgar, roots wine and packaged products. The company is located in Kingston. Among its principals are Marlon D'Aguilar and Winston D'Aguilar who borrowed \$3.5 million to expand the factory, purchase equipment and provide working capital. Country Farmhouse employs over 20 persons.





Hose Assembly & Supply Limited was founded by Managing Director Mr. Vivian Grant, the Company was incorporated in March 1987 with operations being carried out at 37 Molyneux Road in Kingston with a staff complement of two. Mr. Grant's first focus of sale was automotive hoses and fittings for which he fast became the major distributor for Aeroquip and Dana World Trade Corporation. This relationship led to other beneficial alliances with other major multinational organizations over the years. Over time, the company branched off into tools, couplings, lubrication and hydraulic lifting equipment and is now the major suppliers of hydraulic and industrial hoses and fittings in Jamaica. Now with a workforce of over 62, H.A.S. Indus-

trial serves the eastern and western ends of the island through three offices in Kingston and Montego Bay.

H.A.S. Industrial is the leader in the provision of industrial tools, welding and battery-charging equipment. It has cemented its position as the main distributor for international companies such as Eaton-Weatherhead, Milton, Lincoln, Avenger, Civacon, Intertraco, Norco and Gray Tools among others and has provided support to many vital industries including mining, manufacturing, farming and construction.

The company has been instrumental in the Mount Rosser project to which it supplies supply tools and equipment to the construction staff. This is supported through the company's two fully equipped mobile workshops which are always ready to work in the field.

H.A.S. takes pride in deciphering hydraulic malfunctions and reassembling hydraulic systems which are done to the customer's specifications.

"In keeping with our motto **Equipping Jamaica for Success**, we aim at selling affordable tools and equipment to every technical institution, apprentice, hardware dealer, auto dealer, garage and home owner across the island," says Mr. Grant. "We provide qualified technicians who will visit your site to provide direct assistance, consultation or advice on your technical queries. At the end of each day, we believe that a satisfied customer is a customer for life."

PRIVATISATION SERVICES

During the financial year in review, the assets of the Mavis Bank Coffee Factory (MBCF) Limited were privatised with a total transaction value of US\$3.8 million and committed investments of US\$4.5 million in expansion and upgrade of facilities.

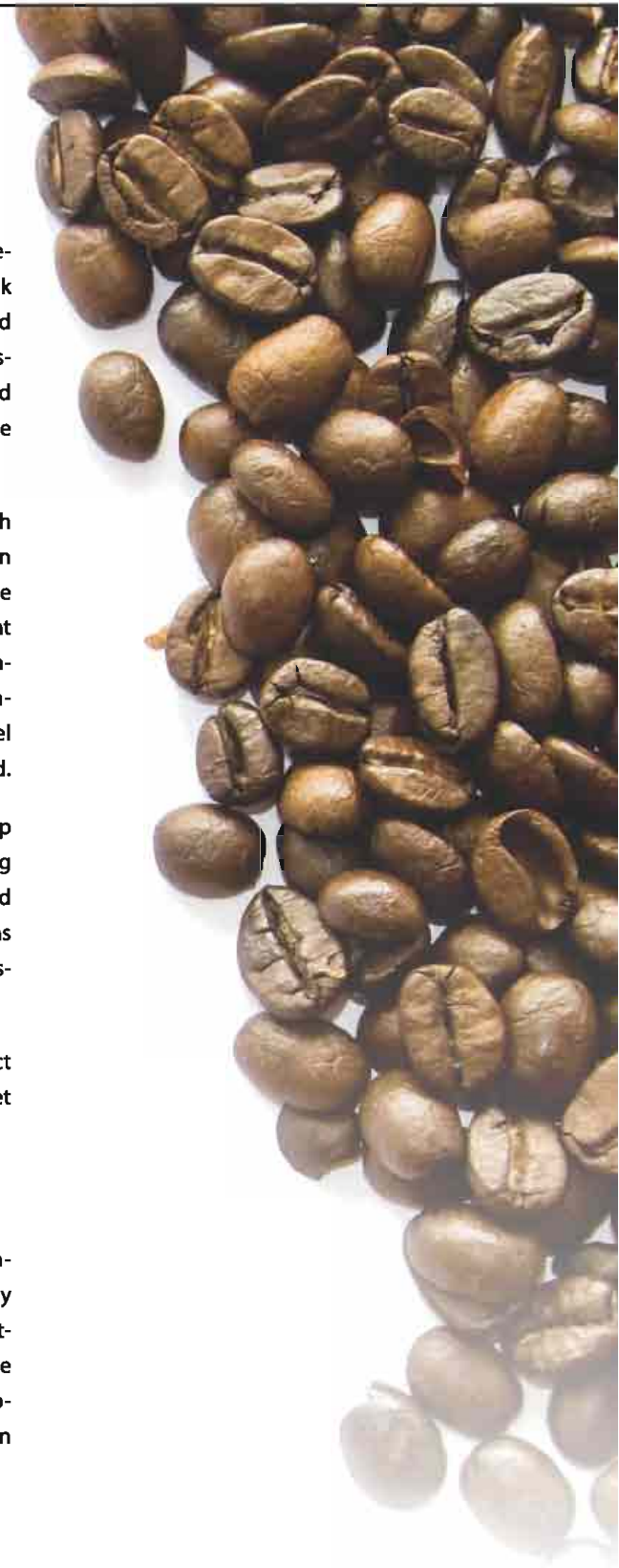
As at 31 March 2012 several other privatisation transactions which were targeted for completion by the financial year-end, were at an advanced stage of execution, with expected completion during the next financial year. These were the sale of: (i) residential lands at Montpelier in St. James; (ii) 18-acre property in Spring Plains, Clarendon, formerly operated as the Farm Machinery Centre; (iii) Government of Jamaica's (GOJ) 50 per cent shareholding in Bloody Bay Hotel Developments Limited; and (iv) Wallenford Coffee Company Limited.

In the year, the DBJ was designated as the Public Private Partnership (PPP) Unit which will have responsibility for managing and executing the Government of Jamaica's PPP programme. This will be facilitated by an expansion of the existing Privatisation Division. The DBJ was integrally involved in finalizing a draft PPP Policy which was commissioned by the GOJ through assistance from the IDB.

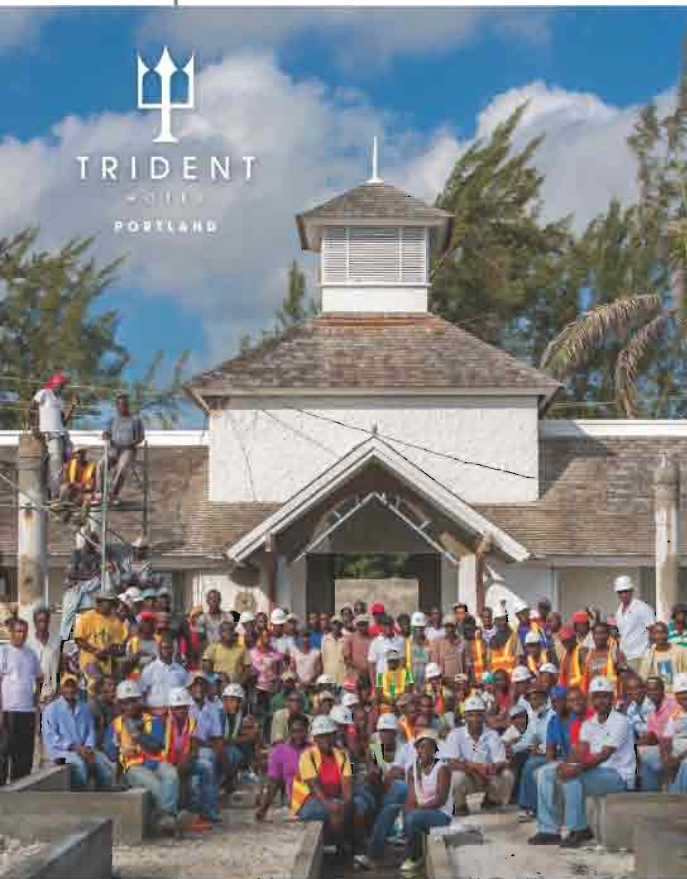
The draft Privatisation Policy was approved in October 2011 subject to the inclusion of specific amendments. It is expected that Cabinet will approve same in the first half of the next financial year.

COMPLETED PRIVATISATION

The Asset Purchase Agreement for the sale of the assets of the Mavis Bank Coffee Factory Ltd was executed on 14 October 2011 by the Jamaica Producers Group Ltd (JPGL) and Pan Jamaican Investment Trust Ltd, (PJIT) - joint owners of Orchard Plantation Coffee Factory Ltd (OPCF), and the GOJ. The total transaction value is approximately US\$3.8M with committed investments of US\$4.5M in expansion and upgrade of facilities.



Workers at the DBJ-funded Trident Hotel in Portland



TRANSACTIONS AT ADVANCED STAGE OF COMPLETION

As at year end, there were four transactions at advanced stages of execution. These transactions, based on preliminary information, have an aggregate indicative transaction value of US\$89.7M, which includes potential sales proceeds of US\$23.7 million and proposed investment commitments of US\$66 million. Completion is anticipated during the next financial year.

- **Montpellier Citrus Company Ltd (MCCL):** In January 2012, the DBJ advertised 375 acres of residential lands and a commercial property located in Montpellier, St. James, owned by the MCCL. This is the third attempt to divest lands at Montpellier, which were previously advertised in 2008 and 2010. One bid was received for the residential lands, and was evaluated. The terms of sale are to be finalized and approved by Cabinet.

- **Bloody Bay Hotel Developments Limited:** As at year end, the divestment of the GOJ's 50 per cent shareholding in Bloody Bay Hotel Developments Limited was at an advanced stage. Cabinet's approval of the terms is to be sought early in the coming financial year.

- **Wallenford Coffee Company Limited:** Two bid proposals were received at the tender opening in November 2011. Evaluation of the bids was in progress as at year end. Finalization of the process to approve the Preferred Bidder awaits further directive from the Ministry of Agriculture and Fisheries.

- **Farm Machinery Centre/RYCO Jamaica Ltd:** The DBJ formally offered the Farm Machinery property for sale to RYCO Jamaica

Limited, the Lessee, based on an option to purchase in the lease agreement. It is anticipated that negotiations will conclude early in the coming financial year.

NEW BUSINESS

During the year, the DBJ entered into discussions regarding the possible provision of transaction advisory services and Secretariat support on several new privatisation transactions including: Cocoa Industry Board, Jamaica Mortgage Bank, WINDALCO, Jamaica Exotic Flavours & Essences Co. Ltd., Braco Hotel & Resorts and Nutrition Products Limited.

ONGOING DIVESTMENTS

As at year end, the major privatisation transactions in progress included:

- **Norman Manley International Airport:** International Finance Corporation (IFC) was engaged by the GOJ to be the lead advisors in the privatisation of NMIA and select GOJ-owned aerodromes. After an international competitive tender was completed, the IFC contracted a technical consultant for this transaction to conduct preliminary due diligence. As at year end the GOJ requested the consultant to conduct additional due diligence which would facilitate the GOJ's

decision on the privatisation strategy. The DBJ received grant funding of US\$550,000 from the IDB to pay for the technical consultant's fees.

- **Urban Development Corporation (UDC) Beaches:** PricewaterhouseCoopers (PwC) is the consultant engaged to package the privatisation transaction. PwC's marketing campaign is to commence following the UDC's public sensitization programme regarding the privatisation.
- **UDC Attractions:** In December 2011 Deloitte Touche Tohmatsu (DTT) was engaged as the consultant to package the privatisation transaction. As at year end, the transaction was at the consultant's due diligence stage. The UDC is to embark on a public sensitization programme regarding the privatisation.
- **Braco Resorts Hotel:** Cabinet had approved the sale of the National Insurance Fund-owned 250-room Braco Resort in Trelawny (formerly Breezes Rio Bueno). A Braco Divestment Team was established and the DBJ commenced the preliminary due diligence process on the entity. As at year end, the DBJ awaited directive from the Ministry of Labour and Social Security in relation to the privatisation strategy.

- **Sugar Privatisation:** The DBJ received the balance of funds from Complant for the privatisation of estates at Monymusk, Frome and Bernard Lodge. Post-divestment activities were progressing at the close of the financial year. Legal due diligence also continued, including the verification and resolution of legal and environmental matters.

- **Cocoa Industry Board (CIB):** The privatisation of the commercial assets of the CIB commenced in April 2011 when the DBJ was formally advised by the Ministry of Agriculture and Fisheries of the appointment of an Enterprise Team. The privatisation consultant was selected however the engagement process was in progress as at year-end.

PRIVATISATION POLICY

In March 2012, the Ministry of Finance and Planning (MOFP) advised the DBJ that the privatisation policy (including the establishment of the Privatisation Committee of Cabinet) was approved by Cabinet on 3 October 2011, subject to inclusion of certain recommendations. The DBJ is in the process of amending the policy and anticipates resubmission to Cabinet for approval in the first half of the new financial year.

PUBLIC-PRIVATE PARTNERSHIPS (PPP) POLICY AND INSTITUTIONAL FRAMEWORK

During the year the Privatisation Services Division was advised that it would be required to assume responsibility for the management and execution of the GOJ's Public-Private Partnership (PPP) unit in collaboration with the Ministry of Finance, as recommended by CASTALIA Strategic Advisors, the consultants engaged by the IDB to prepare a draft PPP policy and institutional framework.

This expansion of the DBJ's duties will entail oversight of the GOJ's PPP programme. The DBJ's responsibilities will include ensuring process compliance with the approved GOJ policy guidelines, performing preliminary analyses to determine suitability of projects as PPPs, identifying and prioritizing existing PPP projects and development of PPP projects for the GOJ.

At the end of the financial year, the DBJ was preparing to host public sector and private sector stakeholder consultation sessions on the PPP policy. In addition, the DBJ commenced work on compiling a privatisation list and a PPP opportunities list; and consulted with the relevant Government ministries and agencies in that regard. The list is to be finalized for submission to Cabinet for approval in the coming financial year.

INSTITUTIONAL STRENGTHENING & RESEARCH

The role of the Institutional Strengthening & Research Department (IS&R) is to drive investments and job creation by increasing the capacity of financial and non-financial intermediaries and investors and providing research services to internal and external customers. It does this by providing institutional strengthening and/or technical assistance to entities at their request, as well as making interventions into emerging sectors such as energy efficiency and conservation and Micro finance.

The ISR's objective is to ensure targeted and sustainable interventions in the following sectors and institutions which are important for economic growth and national development:

- Micro, Small and Medium-sized Enterprises (MSMEs)
- Financial institutions such as the DBJ's network of approved financial institutions, micro finance institutions (MFIs) and the National People's Co-operative Bank
- Non-financial intermediaries, including the National Development Foundation of Jamaica, Private Sector Organization of Jamaica,



In 2011/12, the DBJ invested in Fosrich Company Limited which provides renewable energy products.

Jamaica Business Development Company (JBDC), Small Business Association of Jamaica

- Energy sub-sector by facilitating the establishment of Energy Service Companies (ESCO) and undertaking projects such as the DBJ Energy Grant Project

IDB/DBJ SUPPORT TO PROMOTE ENERGY EFFICIENCY, CONSERVATION AND SUSTAINABLE ENERGY

The IDB/DBJ Energy Project was established in 2010 when both institutions signed an agreement for an IDB grant in the amount of US\$593,000 (J\$53 million) to support the promotion of energy efficiency, energy conservation and alternative sources of sustainable energy in Jamaica. The DBJ contributed US\$214,000 (\$19 million) to the total project cost of US\$807,000 (\$72-million). The project also supports the operation of the DBJ's Energy Fund, by demonstrating the benefits of energy efficiency measures mainly within SMEs.

The three components to the IDB Project plan are:

1. The demand study to assess the demand for energy efficiency / conservation and alternative sources of energy.
2. A training programme for Certified Energy Auditors/Managers
3. Public education through the use of demonstration projects at selected SMEs in various sectors.

At the completion of the project it is expected that there will be an increase in the uptake of financing and implementation of energy-saving measures within the SME sector, and also an increase in the number of energy auditors/managers available to support the utilization of the Energy Fund.

I. Demand Study

The aim of the programme is to expand the use of energy efficiency practices and technologies by SMEs, after assessing their demand

for investments in these areas. The study targets three separate and diverse but interconnected groups, namely, SMEs, Energy Equipment Suppliers and AFIs. This research will be a milestone for different stakeholders including policy and decision-makers who are or will be interested in developing or improving energy use and conservation in Jamaica.

The SME population of interest was drawn from the following industry segments:

- Agriculture
- Agro-Processing
- Hotel & Tourism
- Manufacturing
- Services (including Distribution, Professional Services)
- Mining & Quarrying

The final report, completed in November 2011, showed that there is need for improvement in the knowledge of SMEs, energy equipment suppliers and AFIs about general energy information, energy-saving techniques outside of lighting and air conditioning units, effective energy management technologies that may be beneficial to SMEs and the importance and benefits to SMEs of conducting energy audits.

The report also pointed to the low level of enquiries from SMEs for energy loans from AFIs. Suggested

explanations for this included a lack of collateral, a weak financial track record, insufficient documentation to support loan applications and the presumed viability of the business. The two most affected sectors were agro-processing and agriculture.

II. Certified Energy Auditors/Managers

The local curriculum for the Certified Energy Manager (CEM) programme was completed and endorsed by the Association of Energy Engineers as a supplemental programme to the CEM. It will be called the Jamaica Energy Management Programme.

The Jamaica Society of Energy Engineers (JSEE) trained 10 students for the CEM certification in November 2011. The course has seen six successful candidates, which increases our list of CEMs to 20 professionals.

III. Demonstration Projects and Public Education

Eight energy audit reports were received and implementation of demonstration projects began in February. The Marketing Campaign will showcase these projects and create awareness about energy management.

The Educational Workshops are scheduled to be held across the country, targeting SMEs in the productive sectors to build their

capacity in energy conservation, energy auditing, renewable energy and energy management. These workshops will also showcase the results from the demonstration projects.

MULTILATERAL INVESTMENT FUND (MIF) KNOWLEDGE TRANSFER PROGRAMME

The DBJ submitted an application, prepared with Fundacion Chile, to the Inter-American Development Bank (IDB) to participate in the Multilateral Investment Fund's (MIF's) knowledge transfer programme, with respect to Fundacion Chile's experience in the development of the ESCO industry in Chile. The objectives of the knowledge transfer project are to provide information through workshops, seminars and documentation to key stakeholders in order to facilitate the growth of the ESCO industry in Jamaica. The knowledge products (websites, case studies and tools) which are now only available in Spanish will be translated into English. Representatives of Fundacion Chile will also visit Jamaica to make presentations on the project to the DBJ and other relevant stakeholders in the emergent Jamaican ESCO industry.

MICROINSURANCE

The DBJ hosted two one-day workshops on 'Climate Risk Insurance in the Caribbean', for a team from the Munich Climate Insurance Initiative, the Caribbean Catastrophe Risk Insurance Facility, MicroEnsure and Munich Re. The main objective of the workshops was to present the project ideas and gather feedback on products from the various stakeholders. The products developed for the 2012 hurricane season were the Livelihood Protection Policy for low-income earners and the Loan Portfolio Cover for MSME loans exposed to weather risks.

A Micro-insurance project proposal was submitted by the DBJ to the World Bank for funding.

MOBILE MONEY

Micro finance, the provision of financial services for small businesses and micro-entrepreneurs, is widely viewed as a potent instrument for reducing poverty, enabling the poor to accumulate assets and reducing their vulnerability to economic shocks.

The DBJ has been designated as the Government of Jamaica's lead agency for making interventions in the microfinance sector.

Jamaica has a nascent microfinance industry primarily focused on providing microloans. One of the major challenges the industry

faces is the cost of disbursing loans and collecting loan payments. This is consistent with the experience of MFIs in other countries. More significantly, it is the single greatest obstacle to MFIs lowering the comparatively high interest rates they charge on microloans. Another hurdle to the widespread adoption of microfinance is the difficulty in accessing rural populations. Mobile Money is the potential solution to both problems.

Mobile Money refers to a range of monetary transactions carried out using mobile phones and the mobile phone network and has been included in the DBJ's current strategic plan as one of the main interventions in the sector.

The DBJ in collaboration with technology partners Transcel Ltd. has developed a Mobile Money for Microfinance Pilot Project and is awaiting the Bank of Jamaica's non-objection to proceed with the project.

PETROLEUM CORPORATION OF JAMAICA - CENTRE OF EXCELLENCE FOR SUSTAINABLE ENERGY DEVELOPMENT

The Centre is embarking on a Solar Market Survey to determine the stock of solar equipment and accessories in the country. They have requested that a representative of the IS&R Department serve on its evaluation committee. During the year under review, the first meet-

ing was held to assess Terms of Reference, Evaluation Criteria, Budget and Timeline for the survey. It is anticipated that the survey will take approximately four months, excluding procurement of the consultant.

PSOJ'S FAMBIZ

A representative of the DBJ's IS&R Department sits on PSOJ/IDB-sponsored FAMBiz Steering Committee. The Technical Assistance approved by IDB for the project is US\$526,050 over a 36-month period and its purpose is to improve the competitiveness of family businesses through corporate governance. The goal is to contribute to increasing the competitiveness and sustainability of family controlled MSMEs. The parallel purpose is to incorporate corporate governance and other sound managerial practices in selected MSMEs in Jamaica. Ten Jamaican family businesses are to benefit under the programme which is divided into four components which include training and technical assistance on family business governance and strategies; facilitation of external resources for family business; and the dissemination of outcomes.

PSOJ - ETHICS IN BUSINESS

The DBJ provided funding of \$240,000 for technical assistance to the PSOJ towards the hosting



A worker at Hose Assembly & Supply Limited which provides industrial tools, welding and battery-charging equipment.

of a four-day workshop on Ethics in Business. The PSOJ targeted 30 SMEs for the workshops which were held in September and October 2011 and in which the DBJ and six of its clients (three MFIs and three SMEs) participated.

JAMPRO'S EXPORT MAX

The DBJ, along with the National Export-Import Bank of Jamaica (EXIM Bank), the Bureau of Standards and National Continental Baking Company, supported JAMPRO's New Enterprises Export Development Programme (EXPORTMAX). Under the project, 15 companies will be provided with valued-added services and technical assistance. German consultants identified specific needs and developed an Enterprise Plan for each company. Direct intervention and implementation/execution will follow over a two-year period.

MSME ALLIANCE

On June 9, 2010, the Institute of Law & Economics (ILE), the DBJ and The MSME Alliance signed a Memorandum of Understanding (MOU) to provide entrepreneurial training to MSMEs. Following the successful execution of the first phase, the level of support from the DBJ was increased to \$7 million making it possible to train 350 persons instead of the initial 150. The training is geared towards assisting MSMEs in formalizing their business activities and to achieve minimum business standards in key areas, including legal compliance, taxation, book-keeping & accounting, business planning and management, financial literacy, computer literacy.

The training programme, in addition to business support services, referred to as the Business Entrepreneurial Empowerment Pro-

gramme (BEEP), will assist MSMEs in improving their Business Risk Rating and will facilitate their access to financing under preferential arrangements. The programme provides participants with 24 hours of training and is organized in response to demand, mainly (but not exclusively) from members of The MSME Alliance.

THE JAMAICA PRODUCTIVITY CENTRE

The GOJ and the European Commission (EC) have signed an agreement to implement a project titled 'Developing an Energy Services Company (ESCO) Industry in Jamaica'.

The total cost of the project signed by the PCJ, PSOJ, DBJ, is EURO 576,574 and is financed by the 10th European Development Fund. The EU undertakes to finance a maximum of EURO 431,854. The GOJ partnerships will finance equally the difference of EURO 144,720. The project commenced on 1 March 2012 with an implementation period of 36 months.

The contracting authority and supervisor for the project is the Planning Institute of Jamaica (PIOJ). The Jamaica Productivity Centre (JPC), a Department of the Ministry of Labour and Social Security is responsible for overall technical supervision and execution of the project. The Project Steering Committee also includes representa-

tives from the Ministry of Science, Technology Energy and Mining, DBJ, Petroleum Corporation of Jamaica and the PSOJ.

JAMAICA BUSINESS DEVELOPMENT CORPORATION

In February 2012 the Board of Directors approved a grant of \$15.440 million to the JBDC from the Special Reserve-Technical Assistance facility for four projects to strengthen the MSME sector in craft production, distribution and energy efficiency and conservation. The arrangements are to be finalized in a Memorandum of Understanding (MOU).

ASSISTANCE TO THE NPCB

During the year the Department assisted the NPCB in developing their three-year Strategic Plan 2011-2013. A Management Audit and Loan Process Review were also conducted. The Bank used the recommendations of the audit to strengthen and streamline its management, which saw the hiring of a new General Manager for the NPCB, as well as a Credit Manager.

The recommendations of the loan process review were used to establish and strengthen its central loan processing and collections department. As a result, the processing time between loan application and disbursement has been reduced

from 13 weeks to six weeks. The target is a maximum of five weeks. Overall, NPCB is on target to make a profit for the first time in December 2012.

Arising from the strategic plan, several projects were identified to achieve the goals which were set. A project management office was set up, led by PricewaterhouseCoopers (PWC), to manage all the projects. Senior management staff attended a two-day project management seminar which was conducted by PWC so that the project management office could then be handed over to the management of the NPCB in December 2011.

The NPCB was also assisted with a grant to conduct a Feasibility Study of the Branch Network. PWC was hired to conduct this study and made several recommendations on how to improve the viability of the branches. These recommendations will be acted upon during 2011 -2013.

The DBJ further assisted by acting as the recipient for grant funds from CDB to conduct a study of the online banking requirements of the NPCB. Counterpart funding of US\$8,300 was also pledged to this project, which will allow the branches to be connected to a network and customers will be able to do transactions from any branch across the island.

Some training needs were also identified in the Management Audit, therefore, a plan for training the Board of Directors, senior management and staff was developed. This included training in corporate governance to the national Board of Directors and all parish board members across the island; a two-day comprehensive workshop for the national board in October 2011, while workshops were conducted for eastern parishes in January, central parishes in February and for western parishes in March.

WORKSHOPS

Several workshops were conducted on topics relevant to the development of the MSME sector such as ESCO development, credit appraisal for agricultural loans and the Proceeds of Crime Act. Grants were also made to sponsor participation in other activities such as the Commercial Alternative Dispute Resolution Centre.

ADOPT-A-SCHOOL

In an effort to promote and develop excellence in agriculture among youths the DBJ assists secondary schools with grants and technical assistance in what is called the Adopt-A-School programme. Between 2006 and 2011 the Bank's investment in the programme stood at \$12 million. In 2011-12, \$2 million was disbursed to five schools for a variety of projects including construction of poultry houses and production of seedlings. The programme is to be expanded to include funding for initiatives in science, technology and energy efficiency.



Under the Adopt-a-School programme, the DBJ funds a greenhouse on the farm at Manning's School in Westmoreland. The main crops are tomato, sweet pepper, pak choy and cucumber.

THE ADOPT-A-SCHOOL PROGRAMME

SCHOOLS ASSISTED	AMOUNT \$ APPROVED	AMOUNT \$ DISBURSED	PROJECT	USE OF FUNDS
St. Catherine High School, St. Catherine	500,000	500,000	Poultry	Construction of layer unit; purchase of chicken home picker
Ministry of Agriculture & Fisheries/4H Clubs	250,000	250,000	Shade House	Vegetable garden; production & supply of seedlings
Orange Bay Primary School, Portland	482,083	482,083	Poultry	Construction, purchase of stock, fencing
Rhodes Hall High School, Hanover	371,000	371,000	Poultry	Construction of poultry unit
Airy Castle Primary School, St. Thomas	396,840	396,840	Poultry	Construction of poultry and slaughter houses, purchase of feed equipment
TOTAL	1,999,923	1,999,923		

APPENDIX 1

DIRECTORS' COMPENSATION

For year ended 31 March 2012

Position of Director	Fees (\$)		Motor Vehicle Upkeep/ Travelling or Value of Assigned Motor Vehicle (\$)	Honoraria (\$)	All Other Compensation including Non-Cash Benefits as applicable (\$)	Total (\$)
	Board Meetings	Committee Meetings				
CHAIRMAN	128,000.00	17,500.00	N/A	N/A	N/A	145,500
BOARD MEMBER 2	59,500	7,000	"	"	"	66,500
BOARD MEMBER 3	77,000	7,000	"	"	"	84,000
BOARD MEMBER 4	51,000	3,500	"	"	"	54,500
BOARD MEMBER 5	76,500	14,000	"	"	"	90,500
BOARD MEMBER 6	76,500	21,000	"	"	"	97,500
BOARD MEMBER 7	68,000	42,000	"	"	"	110,000
BOARD MEMBER 8	51,000	-	"	"	"	51,000
BOARD MEMBER 9	67,000	7,000	"	"	"	74,000
BOARD MEMBER 10	59,500	10,500	"	"	"	70,000
BOARD MEMBER 11	68,000	3,500	"	"	"	71,500
BOARD MEMBER 12	76,500	7,000	"	"	"	83,500
BOARD MEMBER 13	42,500	-	"	"	"	42,500
TOTALS	901,000	140,000				1,041,000

APPENDIX 2

SENIOR EXECUTIVE COMPENSATION

For year ended 31 March 2012

Position of Senior Executive	Year	Salary (\$)	Performance Incentive (\$)	Travelling Allowance or Value of Assigned Motor Vehicle (\$)	Other Allowances (Clothing) (\$)	Total (\$)
MANAGING DIRECTOR	2011/2012	10,336,200	723,534	120,000 (See Note 2)	N/A	11,179,734
GM 1	"	5,730,131	458,410	900,000	65,000	7,153,541
GM 2	"	5,358,828	428,706	900,000	65,000	6,752,534
GM 3	"	5,343,422	427,474	900,000	65,000	6,735,896
GM 4**	"	5,372,240	429,779	900,000	65,000	6,767,019
GM 5	"	5,168,100	361,767	900,000	65,000	6,494,867
GM 6	"	5,031,145	352,180	900,000	65,000	6,348,325
GM 7**	"	2,064,394	0	371,591	65,000	2,500,985
GM 8	"	4,001,800	280,126	900,000	65,000	5,246,926
GM 9	"	4,119,099	288,337	900,000	65,000	5,372,436
Totals		52,525,359	3,750,313	7,691,591	585,000	64,552,263

NB. GM — General Manager

Notes

1. The Managing Director, and 2 General Managers (**) being contract officers whose positions do not fall under the company's pension scheme, receive gratuity of 25% on their compensation packages.
2. The amount shown for the Managing Director relates to the Value for which taxes are paid on Assigned Motor Vehicle.
3. Performance Incentive is approved by the Ministry of Finance and is paid based on performance (both Company and individual) for the preceding financial year. Maximum possible is 8% of basic.

GLOSSARY OF ACRONYMS

Below is a list of acronyms and their meanings as they appear in the DBJ's 2011–12 Annual Report:

AEE – Association of Energy Engineers

AFI – Approved Financial Institutions

CariCRIS – Caribbean Information and Credit Ratings Services Limited

CDB – Caribbean Development Bank

CEM – Certified Energy Manager

CIB – Cocoa Industry Board

CDBC – China Development Bank Corporation Limited

EXIM – National Export-Import Bank of Jamaica Limited

EU – European Union

GOJ – Government of Jamaica

IDB – Inter-American Development Bank

JBDC – Jamaica Business Development Corporation

JSEE – Jamaica Society of Energy Engineers

MFI – Micro Finance Institutions

MSME – Micro, Small and Medium-sized Enterprises

NMIA – Norman Manley International Airport

NPCB – National People's Co-operative Bank

NROCC – National Road Operating and Constructing Company Limited

PCJ – Petroleum Corporation of Jamaica

SME – Small and Medium-sized Enterprises

UDC – Urban Development Corporation

AUDITED ACCOUNTS 2011-2012

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INDEPENDENT AUDITORS' REPORT

To the Members of
DEVELOPMENT BANK OF JAMAICA LIMITED

Report on the Financial Statements

We have audited the financial statements of Development Bank of Jamaica Limited ("the company") set out on pages 45 to 109, which comprise the statement of financial position as at March 31, 2012, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

KPMG, a Jamaican partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Elizabeth A. Jones
R. Tarun Handa
Patrick A. Chin
Patricia O. Dailey-Smith
Linroy J. Marshall

Cynthia L. Lawrence
Rajan Trehan
Norman O. Rainford
Nigel R. Chambers



To the Members of
DEVELOPMENT BANK OF JAMAICA LIMITED

Report on the Financial Statements, cont'd

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as at March 31, 2012, and of its financial performance, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Jamaican Companies Act.

Report on additional matters as required by the Jamaican Companies Act

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

Chartered Accountants
Kingston, Jamaica

June 21, 2012

Statement of Comprehensive Income – Year ended March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

	Notes	2012 \$'000	2011 \$'000
Net interest and other income			
Interest income		1,752,658	3,688,523
Interest expense		(1,053,466)	(2,889,502)
Net interest income	7	699,192	799,021
Other income	8	<u>975,799</u>	<u>724,715</u>
		<u>1,674,991</u>	<u>1,523,736</u>
Operating expenses			
Staff costs	9	343,418	316,938
Other operating expenses		223,855	209,831
Impairment losses on:			
Loans, net of recoveries	18(c)	393,092	121,767
Investment securities		14,377	18,779
Interest discount	15	(12,145)	(27,775)
Interest in associated companies	15	<u>-</u>	<u>166,304</u>
	10	<u>962,597</u>	<u>805,844</u>
Profit from operating activities		712,394	717,892
Share of losses of associated companies	15	(46,208)	(27,890)
Profit from Credit Enhancement Facility Fund	23	<u>25,492</u>	<u>33,544</u>
Profit for the year		<u>691,678</u>	<u>723,546</u>
Other comprehensive income			
Net change in fair value of available-for-sale investments	32(a)	34,713	103,515
Foreign exchange translation differences	32(b)	-	(374,373)
Amortisation of grants	31(e)	(410)	(2,116)
Other comprehensive income/(expense) for the year		<u>34,303</u>	<u>(272,974)</u>
Total comprehensive income for the year		<u><u>725,981</u></u>	<u><u>450,572</u></u>


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

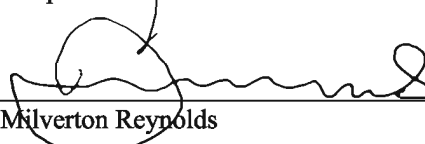
Statement of Financial Position – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

	Notes	2012 \$'000	2011 \$'000
ASSETS			
Cash and cash equivalents	11	794,361	586,229
Resale agreements	12	1,946,502	1,690,329
Investment securities	13	3,686,405	4,585,980
Investment properties	14	315,207	315,204
Interest in associated companies	15	825,829	849,512
Loans receivable, net of impairment allowance:			
Direct loans	16	2,967,363	3,210,272
Financial and agricultural institutions loans	17	6,450,964	5,850,714
Government of Jamaica infrastructural programmes	19	181,467	25,156,498
Other	20	2,529,947	2,775,393
Due from Government of Jamaica – Privatisation	21	28,289	2,641
– Note receivable	22	561,066	-
– Other	22	588,418	2,247,182
Income tax recoverable		339,824	330,853
Due from Credit Enhancement Facility Fund	23	335,313	309,567
Other receivables	24	108,693	109,394
Employee benefit asset	25	262,614	243,821
Intangible assets	26	639	386
Property and equipment	27	712,442	664,071
		<u>22,635,343</u>	<u>48,928,046</u>
LIABILITIES			
Loans payable	28	11,491,213	38,597,917
Other	29	498,529	351,470
		<u>11,989,742</u>	<u>38,949,387</u>
EQUITY			
Share capital	30 (a)	1,757,539	1,757,539
Share premium	30 (b)	98,856	98,856
Capitalisation reserve	31	1,419,338	1,419,748
Other reserves	32	5,112,054	4,424,403
Retained earnings		<u>2,257,814</u>	<u>2,278,113</u>
		<u>10,645,601</u>	<u>9,978,659</u>
		<u>22,635,343</u>	<u>48,928,046</u>

The financial statements on pages 45 to 109 were approved for issue by the Board of Directors on June 21, 2012 and signed on its behalf by:


 _____ Chairman
 Joseph Matalon


 _____ Managing Director
 Milverton Reynolds

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

DEVELOPMENT BANK OF JAMAICA LIMITED

Statement of Changes in Equity – Year ended March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

	Notes	Share capital \$'000	Share premium \$'000	Capital reserves \$'000	Other reserves \$'000	Retained earnings \$'000	Total \$'000
Balances at March 31, 2010		<u>1,757,539</u>	<u>98,856</u>	<u>1,421,864</u>	<u>4,669,570</u>	<u>1,588,260</u>	<u>9,536,089</u>
Total comprehensive income for the year:							
Profit for the year		-	-	-	-	723,546	723,546
Other comprehensive income							
Net change in fair value of available-for-sale investments	32(a)	-	-	-	103,515	-	103,515
Foreign exchange translation differences	32(b)	-	-	-	(374,373)	-	(374,373)
Amortisation of grants	31(e)	-	-	(2,116)	-	-	(2,116)
Total other comprehensive income for the year		-	-	(2,116)	(270,858)	-	(272,974)
Total comprehensive income for the year		<u>-</u>	<u>-</u>	<u>(2,116)</u>	<u>(270,858)</u>	<u>723,546</u>	<u>450,572</u>
Transfers							
Transfer to special reserves	32(d)	-	-	-	(7,853)	(149)	(8,002)
Transfer of profit on CEF	32(f)	-	-	-	33,544	(33,544)	-
		-	-	-	25,691	(33,693)	(8,002)
Balances at March 31, 2011		<u>1,757,539</u>	<u>98,856</u>	<u>1,419,748</u>	<u>4,424,403</u>	<u>2,278,113</u>	<u>9,978,659</u>
Total comprehensive income for the year:							
Profit for the year		-	-	-	-	691,678	691,678
Other comprehensive income							
Net change in fair value of available-for-sale investments	32(a)	-	-	-	34,713	-	34,713
Amortisation of grants	31(e)	-	-	(410)	-	-	(410)
Total other comprehensive income for the year		-	-	(410)	34,713	-	34,303
Total comprehensive income for the year		<u>-</u>	<u>-</u>	<u>(410)</u>	<u>34,713</u>	<u>691,678</u>	<u>725,981</u>
Transfers							
Transfer to special reserves	32(d)	-	-	-	(26,220)	-	(26,220)
Transfer of profit on CEF	32(f)	-	-	-	25,492	(25,492)	-
Transfer to technical reserve	32(g)	-	-	-	653,666	(661,485)	(7,819)
		-	-	-	652,938	(686,977)	(34,039)
Transactions with owners, recorded directly in equity							
Dividend	33	-	-	-	-	(25,000)	(25,000)
Balances at March 31, 2012		<u>1,757,539</u>	<u>98,856</u>	<u>1,419,338</u>	<u>5,112,054</u>	<u>2,257,814</u>	<u>10,645,601</u>

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

Statement of Cash Flows – Year ended March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

	<u>Notes</u>	2012 \$'000	2011 \$'000
Cash flows from operating activities			
Profit for the year		691,678	723,546
Adjustments for:			
Amortisation	26	489	896
Depreciation	27	39,313	40,641
Interest income		(1,752,658)	(3,688,523)
Interest expense		1,053,466	2,889,502
Allowance for impairment losses		400,157	(384,058)
Change in employee benefits asset		(18,793)	(13,064)
Share of loss in associated company	15	46,208	27,890
Loss/(gain) on disposal of property and equipment		22	(19)
Surplus on revaluation of investment properties, net		(3)	(1,010)
Amortisation of grants	31(e)	(410)	(2,116)
Interest discount	15	(12,145)	(27,775)
Surplus on revaluation of property and equipment	27	(76,407)	-
		370,917	(434,090)
Changes in operating assets and liabilities:			
Government of Jamaica – privatisation recoverables		2,218,893	4,772
Loans to financial and agricultural institutions		(599,275)	632,018
Direct borrowers		(156,805)	2,227,039
Government of Jamaica infrastructural loan programmes		24,852,725	(337,550)
Due from Government of Jamaica		(585,777)	31,661
Income tax recoverable		(8,974)	(51,865)
Credit Enhancement Fund		(25,746)	(37,403)
Other receivables		(560,365)	(2,756,948)
Other liabilities		147,059	52,817
		25,652,652	(669,549)
Interest received		2,011,700	4,348,771
Interest paid		(1,824,908)	(3,071,285)
Net cash provided by operating activities		<u>25,839,444</u>	<u>607,937</u>
Cash flows from investing activities			
Resale agreements		(259,869)	(226,707)
Investment securities, net		909,293	(147,061)
Investment in associated companies		(10,380)	857,141
Purchase of intangible assets	26	(742)	(403)
Purchase of property and equipment	27	(11,299)	(22,614)
Proceeds of disposal of property and equipment		-	101
Net cash provided by investing activities		<u>619,003</u>	<u>460,457</u>

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

Statement of Cash Flows (continued) – Year ended March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

	<u>Notes</u>	2012 \$'000	2011 \$'000
Cash flows from financing activities			
Loans drawn		427,506	430,346
Loans repaid		(26,901,293)	(1,265,381)
Dividend paid	33	(25,000)	-
Net cash used by financing activities		(26,498,787)	(835,035)
Net increase in cash and cash equivalents		(40,340)	233,359
Effect of exchange rate fluctuations on cash and cash equivalents		248,472	(50,040)
Cash and cash equivalents at beginning of year		<u>586,229</u>	<u>402,910</u>
Cash and cash equivalents at end of the year	11	<u><u>794,361</u></u>	<u><u>586,229</u></u>
Represented by:			
Demand and savings deposits		789,943	581,977
Fixed-term deposits		4,377	4,210
Interest receivable		<u>41</u>	<u>42</u>
		<u><u>794,361</u></u>	<u><u>586,229</u></u>

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

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

1. Identification and principal activities

- (a) (i) Development Bank of Jamaica Limited (“the company”) was established on April 1, 2000, when the operations and certain assets and liabilities of National Development Bank of Jamaica Limited (NDB), a company incorporated in Jamaica, were merged with those of the Agricultural Credit Bank of Jamaica Limited (ACB), also incorporated in Jamaica. Thereafter, the name of ACB was changed to Development Bank of Jamaica Limited. The company is domiciled in Jamaica and its registered office is located at 11A Oxford Road, Kingston 5, Jamaica.
- (ii) With effect from September 1, 2006, the company, under the terms of Cabinet decision # 26/06, dated July 24, 2006, took over the operations and certain assets and liabilities of National Investment Bank of Jamaica Limited (NIBJ). This resulted in the company acquiring net identifiable assets, amounting to \$1,727,539,000. On July 24, 2009, the company issued shares to the Accountant General, in trust for the Capital Development Fund, as compensation for this amount. Certain non-performing assets were retained by NIBJ which continues to operate for the purpose of pursuing efforts to realise those assets.
- (b) The company’s mission is to facilitate economic growth and development by providing:
- Appropriate financing solutions through alliances with Approved Financial Institutions (AFIs) and other financiers
 - Direct lending for large projects in strategic areas
 - Management and privatisation of national assets
- (c) The company is exempt from income tax under Section 12(b) of the Income Tax Act.
- (d) The company has interests in the following associated companies [see note 3(a)], all of which are incorporated and domiciled in Jamaica:

<u>Name of Investee</u>	<u>Principal Activities</u>	<u>Percentage Holding by</u>		<u>Financial Year End</u>
		<u>Company</u>	<u>Other</u>	
Ackendown Newtown Development Company Ltd	Owner and Lessor of hotel property	33%		March 31
Harmonisation Limited and (i) its 100% subsidiary:	Property development	50%		March 31
• Silver Sands Estate Limited	Rental of resort accommodation		100%	March 31
(ii) its 49% associated company: Harmony Cove Limited	Property development		49%	March 31

The company has 33% share in Ackendown Newton Development Company Limited. However, as indicated in note 15(b), with effect from March 31, 2011, ANDCo had no assets or liabilities. The other shareholders of Ackendown Newtown Development Company Limited are Urban Development Corporation (37%), a body owned by the Government of Jamaica, and Gorstew Limited (30%), a non-governmental private company.

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

1. Identification and principal activities (cont'd)

(d) (Cont'd)

The other 50% of Harmonisation Limited (“Harmonisation”) is owned by the National Housing Trust, a statutory body.

Harmonisation entered into a Joint Venture Agreement and a Members’ Agreement with Tavistock Group Inc. to develop lands owned by Harmonisation in Trelawny, Jamaica. The development will be done through Harmony Cove Limited (“Harmony”), of whose ordinary share capital Tavistock Group Inc. owns 51%, with Harmonisation owning the remaining 49%. The lands owned by Harmonisation were valued at US\$45,000,000 for the purpose of their transfer to Harmony under the Joint Venture Agreement, dated September 28, 2006.

The joint venture agreement with Tavistock Group Inc. was amended on February 3, 2009 to reflect contribution by Harmonisation, through its subsidiary, Silver Sands Estate Limited, of additional parcels of lands. In consideration of the lands, Harmonisation shall be deemed to have subscribed for cumulative preference shares to be issued by Tavistock Group Inc. in the amount of US\$6,662,460.

2. Basis of preparation

(a) Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and comply with the relevant provisions of the Jamaican Companies Act.

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

Certain new, revised and amended standards and interpretations came into effect during the financial year under review. Based on the company’s current operations, none of them had any significant effect on the amounts and disclosures in the financial statements, except that the amendment to IFRS 7, Financial Instruments: Disclosures, led to some changes in the qualitative and quantitative disclosures relating to credit risk. The changes are reflected in note 5 to these financial statements, viz:

- (i) Disclosure of the amount of the company’s ‘maximum exposure to credit risk without considering any collateral held’ is now made only if the carrying amount of the financial asset does not already reflect such exposure.
- (ii) Previously, the company disclosed the existence and nature of collateral held as security and other credit enhancements in respect of a financial instrument. As required by the amendment, it now, in addition, discloses the financial effect of such collateral.
- (iii) The disclosure of the nature and carrying amount of collateral obtained by the company as a result of a debtor’s default (a foreclosure), including policies for using the financial and non-financial assets that cannot be converted into cash immediately, is now required to be made only for collateral obtained and still held at the end of the reporting period.

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

2. Basis of preparation

(a) Statement of compliance (cont'd)

New, revised and amended standards and interpretations that became effective during the year (cont'd)

- (iv) Where the terms of a financial asset that was not past due and not impaired were renegotiated, the carrying amount was disclosed; this is no longer required.
- (v) The disclosure of the description of collateral held as security and other credit enhancements in respect of financial assets that are past due or impaired, including an estimate of their fair value, is no longer required. The collateral for all, not just past due or impaired, financial assets held is disclosed. [See (ii) above].

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

At the date of approval of the financial statements, certain new, revised and amended standards and interpretations were in issue but were not yet effective and had not been early-adopted. The company has assessed them with respect to its operations and has concluded that the following may be relevant:

- IFRS 7, *Financial Instruments: Disclosures*, has been amended by the issue of “Amendment to IFRS 7, Disclosures – Transfer of Financial Assets”, which is effective for annual reporting periods beginning on or after July 1, 2011. The amendment requires disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities and to evaluate the nature of and risks associated with the entity’s continuing involvement in these derecognised assets.
- IAS 1, *Presentation of Financial Statements*, has been amended by the issue of a document entitled *Presentation of Items of Other Comprehensive Income*, effective for annual reporting periods beginning on or after July 1, 2012, to require a reporting entity to present separately the items of other comprehensive income (OCI) that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. Consequently an entity that presents items of OCI before related tax effects will also have to allocate the aggregated tax amount between these sections. The existing option to present the profit or loss and other comprehensive income in two statements has not changed. The title of the statement has changed from ‘Statement of Comprehensive Income’ to ‘Statement of Profit or Loss and Other Comprehensive Income’. However, an entity is still allowed to use other titles.

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

2. Basis of preparation (cont'd)

(a) Statement of compliance (cont'd)

New, revised and amended standards and interpretations that are not yet effective (cont'd)

- IFRS 13, *Fair Value Measurement*, which is effective for annual reporting periods beginning on or after January 1, 2013, defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value and is applicable to assets, liabilities and an entity's own equity instruments that, under other IFRSs, are required or permitted to be measured at fair value or when disclosure of fair values is provided. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.
- IFRS 9, *Financial Instruments*, which is effective for annual reporting periods beginning on or after January 1, 2015 (previously January 1, 2013), retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. It also includes guidance on classification and measurement of financial liabilities designated as at fair value through profit or loss and incorporates certain existing requirements of IAS 39, *Financial Instruments: Recognition and Measurement*, on the recognition and de-recognition of financial assets and financial liabilities.
- IAS 19, *Employee Benefits*, has been amended, effective for annual reporting periods beginning on or after January 1, 2013, to require all actuarial gains and losses to be recognised immediately in other comprehensive income. This change will remove the corridor method and eliminate the ability of entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss. The expected return on plan assets recognised in profit or loss is to be calculated based on the rate used to discount the defined benefit obligation. The amendment also includes changes to the definitions and disclosure requirements in the current standard.

The company is assessing the impact, if any, that these new, revised and amended standards and interpretations will, when they become effective, have on its future financial statements.

(b) Basis of measurement

These financial statements are prepared on the historical cost basis, modified for the measurement of available-for-sale investment securities, investment properties and certain property and equipment at fair value.

(c) Functional and presentation currency

The financial statements are presented in Jamaica dollars, which is the company's functional currency.

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

2. Basis of preparation (cont'd)

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the company's accounting policies. These judgements, estimates and assumptions affect the reported amounts of, and disclosures relating to, assets, liabilities, income, expenses, contingent assets and contingent liabilities. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements and, therefore, have a significant risk of material adjustment in the next year are disclosed in note 4.

3. Significant accounting policies

(a) Associates

Associates are those entities over which the company has significant influence, but not control, over the financial and operating policies. The financial statements include the company's share of profit or loss of associates on the equity basis, after adjustments to align the accounting policies with those of the company, where practicable, from the date that significant influence commences until the date that significant influence ceases. When the company's share of losses exceeds its interest in an associate, the carrying amount of the investment in that associate is reduced to \$Nil and recognition of further losses is discontinued, except to the extent that the company has incurred legal or constructive obligations or made payments on behalf of an associate. If the associate subsequently reports profits, the company resumes recognising its share of those profits only after its share of profits equals the share of losses not recognised.

(b) Foreign currency translation

- (i) Foreign currency transactions are accounted for at the exchange rates prevailing at the dates of the transactions.
- (ii) Monetary assets and liabilities denominated in foreign currencies are translated into Jamaica dollars using the closing exchange rate. The foreign currency gain or loss on the translation of monetary items is the difference between amortised cost in the functional currency, i.e., Jamaica dollars, at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. The foreign currency gain or loss arising on settlement of monetary items or on reporting the company's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, is recognised in profit or loss in the period in which it arises.

3. Significant accounting policies (cont'd)

(b) Foreign currency translation (cont'd)

- (iii) Non-monetary assets and liabilities that are denominated in foreign currencies and are carried at historical cost are converted at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities that are denominated in foreign currencies and are carried at fair value are translated to the functional currency at the foreign exchange rates ruling at the dates that the fair values were determined. Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, which are recognised directly in other comprehensive income.
- (iv) Those foreign currency loans which were negotiated by the Government of Jamaica and on-lent to the company by the Ministry of Finance and the Public Service (MOFPS) in Jamaica dollars [see note 28 (xv), (xvi)], are stated in Jamaica dollars at the exchange rate prevailing at the date of disbursement, as the Government has agreed to bear the exchange risk.

Exchange losses (net of gains) arising on other foreign currency loans are included in profit or loss.

(c) Interest income and expense

Interest income and expense are recognised in profit or loss for all interest-bearing instruments on the accrual basis using the effective yield method. Interest income includes coupons earned on fixed income investments.

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. However, such amounts as would have been determined in this way under IFRS are considered to be immaterial.

(d) Fee and commission income

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

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

3. Significant accounting policies (cont'd)

(e) Cash and cash equivalents

Cash comprises cash in hand and demand and call deposits with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. These include fixed deposits and investment balances maturing within 90 days of the date of acquisition.

Cash and cash equivalents are carried at cost.

(f) Resale agreements

Resale agreements are short-term contracts under which the company buys securities and simultaneously agrees to resell them on a specified date and at a specified price. Resale agreements are accounted for as short-term collateralised lending – i.e., the securities purchased are reported not as securities but as receivables, and are carried in the statement of financial position at amortised cost.

The difference between the purchase and resale considerations is recognised on the accrual basis over the period of the agreements, using the effective yield method, and is included in interest income.

(g) Investment securities

Investments are classified as held-to-maturity, loans and receivables and available-for-sale securities. Management determines the appropriate classification of investments at the time of purchase.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Were the company to sell other than an insignificant amount of held-to-maturity assets, the entire category would be compromised and reclassified as available-for-sale, and the company would not be permitted to classify any securities as held-to-maturity for a period of two years.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the company does not intend to sell immediately or in the near term. Loans and receivables are initially measured at fair value plus incremental transaction costs, and subsequently measured at amortised cost using the effective interest method.

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

3. Significant accounting policies (cont'd)

(g) Investment securities (cont'd)

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

Purchases and sales of investments are recognised on the settlement date - the date on which an asset is delivered to or by the company. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Available-for-sale financial assets are subsequently carried at fair value. Held-to-maturity investments are carried at amortised cost using the effective interest method.

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

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss as 'gains and losses on investment securities'. Interest on available-for-sale securities, calculated using the effective interest method, is recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the company's right to receive payments is established.

The fair values of quoted investments are based on current quoted bid prices. Unquoted securities are recorded at cost because management is unable to determine the fair value.

The company assesses, at each financial year-end, whether there is objective evidence that a financial asset or a group of financial assets is impaired.

(h) Loans and allowance for impairment losses

Loans are stated net of unearned income and allowance for impairment losses. Loans are recognised when cash is advanced to borrowers. They are initially recorded at cost, which is the cash given to originate the loan, including any transaction costs, and are subsequently measured at amortised cost using the effective interest method.

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

3. Significant accounting policies (cont'd)

(h) Loans and allowance for impairment losses (cont'd)

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

The allowance for impairment also covers situations where there is objective evidence that probable losses are present in components of the loan portfolio at the financial year-end date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers, and the current economic climate in which the borrowers operate.

A loan is classified as impaired when, in management's opinion, there has been deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of the full amount of principal and interest.

For impaired loans the accrual of interest income based on the original terms of the loan is discontinued. The increase in the present value of impaired loans over time is reported as interest income.

Write-offs are made when all or part of a loan is deemed uncollectible or where the debt is forgiven. Write-offs are charged against the previously established impairment allowance and reduce the principal amount of a loan. Recoveries in part or in full of amounts previously written off are credited to impairment expense in the statement of comprehensive income.

(i) Employee benefits

(i) General benefits:

Employee benefits that are earned as a result of past or current service are recognised in the following manner: Short-term employee benefits are recognised as a liability, net of payments made, and are expensed as the related service is provided. The expected cost of vacation leave that accumulates is recognised when the employee becomes entitled to the leave. Post employment benefits which comprise pensions and health care, are accounted for as described in paragraphs (ii) and (iii) below. Other long-term benefits, including termination benefits, which arise when either: (1) the employer decides to terminate an employee's employment before the normal retirement date, or (2) an employee decides to accept voluntary redundancy in exchange for termination benefits, are accrued as they are earned during service and charged as an expense, unless not considered material, in which case they are charged when they fall due for actual payment.

The company has established a defined-benefit pension plan to provide post-employment pensions (see note 25).

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

3. Significant accounting policies (cont'd)

(i) Employee benefits (cont'd)

(ii) Defined benefit pension plan

In respect of defined-benefit arrangements, employee benefits, and obligations included in the financial statements are determined by a qualified independent actuary, appointed by management. The appointed actuary's report outlines the scope of the valuation and the actuary's opinion. The actuarial valuations are conducted in accordance with IAS 19, and the financial statements reflect the company's post-employment benefit asset and obligation as computed by the actuary. In carrying out their audit, the auditors rely on the work of the actuary and the actuary's report.

The company's net obligation under its defined-benefit pension plan is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; that value is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is determined by reference to the yield at the reporting date on long-term government securities with maturities approximating the terms of the company's obligation. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of the plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are vested immediately, the expense is recognised immediately in profit or loss.

To the extent that any cumulative unrecognised gain or loss exceeds ten (10) percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the statement of comprehensive income over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised. Where the calculation results in a benefit to the company, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

(j) Intangible assets

Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful life of two years. Costs associated with developing or maintaining computer software programs are recognised as expenses as incurred.

(k) Property and equipment

Freehold land and buildings are stated at their fair values based on triennial valuations by external valuers, less subsequent depreciation for buildings. Land is not depreciated. All other property and equipment are stated at historical cost less accumulated depreciation and, if any, impairment losses.

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

3. Significant accounting policies (cont'd)

(k) Property and equipment (cont'd)

Increases in the carrying amounts arising from the revaluation of freehold land and buildings are included in revaluation reserve. Decreases that offset previous increases of the same asset are charged against the revaluation reserve. All other reductions are taken directly to profit or loss.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components of property and equipment).

Depreciation is calculated on the straight-line basis at rates estimated to write down the cost of the assets to their residual values over their expected useful lives. Annual depreciation rates are as follows:

Buildings and signs	2½%
Furniture, fixtures and equipment	10% - 20%
Computer equipment	20% - 25%
Motor vehicles	20%

Property and equipment are reviewed periodically for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The depreciation methods, expected useful lives and estimated residual values are assessed at each reporting date.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining results for the year. Repairs and renewals are charged to profit or loss when the expenditure is incurred. On disposal of revalued assets, the revaluation amounts in reserves are transferred to retained earnings.

(l) Investment properties

Investment properties, comprising residential apartments and commercial office space, are held for long-term rental yields and capital gain.

Investment properties are initially recognised at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are carried at fair value.

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

3. Significant accounting policies (cont'd)

(l) Investment properties (cont'd)

Fair value is determined every five years by an independent registered valuer, and in each of the four intervening years by the directors. Fair value is based on current prices in an active market for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in profit or loss.

(m) Leased assets

Assets leased out under operating leases are included in investment properties in the statement of financial position. Rental income is recognised on the straight-line basis over the lease term.

(n) Government grants

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

Government grants related to the purchase of property and equipment are recorded in the statement of financial position as capitalisation reserve [note 31(d)] and are credited to profit or loss on the straight-line basis over the expected useful lives of the related assets.

(o) Borrowings

Borrowings, including those arising under securitisation arrangements, are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method. Any difference between proceeds, net of transaction costs, and the redemption value is recognised in profit or loss over the period of the borrowings.

(p) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial instruments carried in the statement of financial position comprise cash and cash equivalents, resale agreements, investment securities, loans, GOJ receivables, due from Credit Enhancement Facility Fund, other receivables, loans payable and other liabilities.

The fair values of the company's financial instruments are discussed in note 6.

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

3. Significant accounting policies (cont'd)

(q) Impairment:

The carrying amounts of the company's assets are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such evidence exists, the asset's recoverable amount is estimated at each reporting date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

(i) Calculation of recoverable amount:

The recoverable amount of loans receivable is determined as indicated in accounting policy 3(h). The recoverable amount of the company's investment securities and other assets is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset.

The recoverable amount of assets other than loans or receivables is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment:

An impairment loss in respect of a loan or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an equity instrument classified as available-for-sale is not reversed through profit or loss if the fair value of a debt instrument 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 shall be reversed, with the amount of the reversal recognised in profit or loss.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

4. Critical accounting judgements and key sources of estimation uncertainty

Judgements and estimates 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 company's accounting policies

The company's accounting policies provide scope for financial assets and liabilities to be designated on inception into different categories in certain circumstances.

In classifying financial assets as held-to-maturity, the company has determined that it has both the positive intention and ability to hold the assets until maturity date as required by accounting policy 3(g).

(b) Key sources of estimation uncertainty

(i) Allowances for credit losses:

Assets accounted for at amortised cost are evaluated for impairment on a pre-established basis.

The component of the total allowance for impairment that is specific applies to assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about the counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

(ii) Determination of fair values:

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in note 6. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(iii) Pension benefits:

The amounts recognised in the statement of financial position and profit or loss for defined pension benefits are determined actuarially using several assumptions. The primary assumptions used in determining the amounts recognised include expected long-term return on plan assets and the discount rate used to determine the present value of estimated future cash flows required to settle the pension obligations.

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

4. Critical accounting judgements and key sources of estimation uncertainty (cont'd)

(b) Key sources of estimation uncertainty (cont'd)

(iii) Pension benefits (cont'd):

The expected return on plan assets is assumed considering the long-term historical returns, asset allocation and future estimates of long-term investment returns. The discount rate is determined based on the estimate of yield on long-term government securities that have maturity dates approximating the terms of the company's obligations. In the absence of such instruments in Jamaica, it has been necessary to estimate the rate by extrapolating from the longest-tenor security on the market. Any changes in these assumptions will impact the amounts recorded in the financial statements for these obligations.

(iv) Residual value and expected useful life of property and equipment:

The residual value and the expected useful life of an asset are reviewed at least at each reporting date, and if expectations differ from previous estimates, the change is accounted for. The useful life of an asset is defined in terms of the asset's expected utility to the company.

It is possible that outcomes in the next financial year that are different from these assumptions could require a material adjustment to the carrying amounts reflected in the financial statements.

5. Financial instrument risk management

(a) Overview

The company's activities expose it to the following risks:

- Market risk
- Credit risk
- Liquidity risk
- Operational risk

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the company's risk management framework. The company's overall risk management approach focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance through policies approved by its Board of Directors and implemented by management.

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

5. Financial instrument risk management (cont'd)

(a) Overview (cont'd)

Risk management framework (cont'd)

The Board has established committees with responsibility for developing and monitoring the company's risk management policies in their specified areas. All Board committees report regularly to the Board of Directors on their activities. The Board committees and their activities are as follows:

(i) Investment, Finance and Loans Committee

This committee is responsible for monitoring market risks that affect the company's investment portfolio; approving credit requests above certain amounts; ensuring that all credit facilities conform to standards agreed by the Board; and approving the mix of the company's investment portfolio. The committee is also responsible for approving credit write-offs, specific provisions against financial assets and the terms for any renegotiated loans.

(ii) Audit and Conduct Review Committee

The Audit and Conduct Review Committee is responsible for monitoring compliance with the company's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to risks faced by the company. This committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and *ad-hoc* reviews of risk management controls and procedures, the results of which are reported to the Audit and Conduct Review Committee.

(iii) Compensation Committee

The Compensation Committee aims to develop a disciplined and motivated staff complement through the company's human resource policies. The committee ensures that staff is remunerated at competitive rates and that employees are properly trained to perform their duties in such a manner as to reduce the risk of fraud and errors.

(b) Market risk

Market risk is the risk that changes in market prices, such as foreign currency, interest rate and security prices, will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk. The overall responsibility for market risk resides with the Investment, Finance and Loans Committee. Market risk exposures are measured using sensitivity analysis.

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

5. Financial instrument risk management (cont'd)**(b) Market risk (cont'd)**

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

(i) Foreign currency risk

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

The company takes on exposure to address the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The company has special arrangements with the Bank of Jamaica to facilitate the expeditious liquidation of foreign liabilities.

The company is exposed to foreign currency risk on transactions that are denominated in currencies other than the Jamaica dollar. The main currencies giving rise to this risk are the US Dollar, Euro and Pound Sterling. The company has no significant exposure to foreign currency risk.

At the reporting date, the foreign currency assets and liabilities, by currency, was as follows:

	2012	
	US \$'000	Euro \$'000
Cash and cash equivalent	3,623	-
Reverse repurchase agreements	16,822	-
Investments	39,245	-
Mortgage receivable	29,041	-
Loans, net of impairment losses	<u>28,784</u>	<u>-</u>
Total assets	<u>117,515</u>	<u>-</u>
Short term loans	(32,050)	(64)
Long term loans	(64,472)	(905)
Other liabilities	(1,553)	-
Total liabilities	<u>(98,075)</u>	<u>(969)</u>
Net foreign currency asset/(liabilities)	<u>19,440</u>	<u>(969)</u>

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

5. Financial instrument risk management (cont'd)

(b) Market risk (cont'd)

(i) Foreign currency risk (cont'd)

	2011	
	US \$'000	Euro \$'000
Cash and cash equivalent	4,873	-
Reverse repurchase agreements	15,618	-
Investments	50,470	-
Investments in associated companies	2,034	-
Loans, net of impairment losses	24,676	-
Government of Jamaica Loan Programme	-	291,954
Other assets	<u>32,548</u>	<u>-</u>
Total assets	<u>130,219</u>	<u>291,954</u>
Long term loans	(116,821)	(207,996)
Other liabilities	<u>(542)</u>	<u>-</u>
Total liabilities	<u>(117,363)</u>	<u>(207,996)</u>
Net foreign currency asset/(liabilities)	<u>12,856</u>	<u>83,958</u>

Sensitivity to foreign exchange rate movements:

A 1 percent (2011: 1 percent) strengthening of the Jamaica dollar against the following currencies at March 31 would have (decreased)/increased profit by the amounts shown in the table below. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011.

	2012 \$'000	2011 \$'000
United States dollar	16,936	11,304
Euros	<u>(1,121)</u>	<u>(1,245)</u>
	<u>15,815</u>	<u>10,059</u>

A 1 percent (2011: 1 percent) weakening of the Jamaica dollar against these currencies at March 31 would have had the equal but opposite effect, on the basis that all other variables remain constant.

(ii) Interest rate risk

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

Variable rate instruments expose the company to a loss of future cash flow, while fixed rate instruments expose the company to loss in fair value. Interest rate risk is managed by holding primarily fixed rate financial instruments which form the majority of the company's financial assets.

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

5. Financial instrument risk management (cont'd)

(b) Market risk (cont'd)

(ii) Interest rate risk (cont'd)

The following tables summarise the company's exposure to interest rate risk. Included in the table are the company's assets and liabilities at carrying amounts to arrive at the company's interest rate gap, categorised by the earlier of contractual repricing and maturity dates.

	Immediately rate sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2012							
Assets							
Cash and cash equivalents	-	4,377	-	-	7,065	782,919	794,361
Resale agreements	-	1,395,706	542,604	-	-	8,192	1,946,502
Investment securities	-	-	336	532,951	2,738,447	414,671	3,686,405
Interest in associated companies	-	-	-	-	212,712	613,117	825,829
Loan term receivables	-	-	-	2,517,360	-	12,587	2,529,947
Loans, net of impairment losses	-	-	-	8,821,641	-	778,153	9,599,794
Recoverables from Government of Jamaica	-	-	-	-	-	1,177,713	1,177,773
Due from Credit Enhancement Facility Fund	-	-	-	-	-	335,313	335,313
Employee benefits asset	-	-	-	-	-	262,614	262,614
Other assets	-	-	-	-	-	1,476,805	1,476,805
Total assets	-	1,400,083	542,940	11,871,952	2,958,224	5,862,084	22,635,343
Liabilities							
Loans payable	-	2,557,776	3,170,907	2,175,516	2,134,980	1,452,034	11,491,213
Other liabilities	-	-	-	-	-	498,529	498,529
Total liabilities	-	2,557,776	3,170,907	2,175,516	2,134,980	1,950,563	11,989,742
Equity	-	-	-	-	-	10,645,601	10,645,601
	-	2,557,776	3,170,907	2,175,516	2,134,980	12,596,164	22,635,343
Interest rate sensitivity gap	-	(1,157,693)	(2,627,967)	9,696,436	823,244	6,734,020	-
Cumulative interest sensitivity gap	-	(1,157,693)	(3,785,660)	5,910,776	6,734,020	-	-
2011							
Total assets	729,795	749,300	1,742,713	3,061,155	32,600,611	10,044,472	48,928,046
Total liabilities and equity	-	-	-	34,132,993	2,148,891	12,646,162	48,928,046
Interest rate sensitivity gap	729,795	749,300	1,742,713	(31,071,838)	30,451,720	2,601,690	-
Cumulative interest sensitivity gap	729,795	1,479,095	3,221,808	(27,850,030)	2,601,690	-	-

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

5. Financial instrument risk management (cont'd)

(b) Market risk (cont'd)

(ii) Interest rate risk (cont'd)

Sensitivity to interest rate movements:

Most of the company's financial instruments are fixed rate investments. Changes in interest rates will only affect the company's variable rate instruments. An increase of 100 basis points in interest rates would increase profit for the year by \$ 11,576,921 (2011: \$29,372,000). A decrease of 100 basis would have the same, but opposite effect on profit.

The analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2011.

(c) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The main financial assets giving rise to credit risk are loans, investment securities, Government of Jamaica recoverables, due from Credit Enhancement Facility Fund, resale agreements and cash and cash equivalents.

(i) Exposure to credit risk

Current credit exposure is the amount of loss that the company would suffer if all counterparties to which the company was exposed were to default at once; this is represented substantially by the carrying amount of financial assets shown in the statement of financial position, without taking account of the value of any collateral held.

There has been no change to the nature of the company's exposure to credit risk or the manner in which it measures and manages the risk.

(1) *Maximum exposure to credit risk before collateral held or other credit enhancements*

The maximum exposure to credit risk before taking account of collateral held and other credit enhancements is as follows:

- Credit risk exposures relating to items recognised:

This exposure is the carrying amounts stated in the statement of financial position of financial assets that are subject to credit risk.

- Credit risk exposures relating to items not recognised

	Maximum exposure	
	2012	2011
	\$'000	\$'000
Loan commitments	1,178	470,336
Guarantees	37,000	-
	<u>38,178</u>	<u>470,336</u>

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

5. Financial instrument risk management (cont'd)

(c) Credit risk (cont'd)

(i) Exposure to credit risk (cont'd)

(2) Concentration of credit risk

	2012									
	Cash and cash equivalents \$'000	Mortgage \$'000	Loans \$'000	Guarantees \$'000	Investment securities \$'000	Resale agreements \$'000	Recoverables from Govt. of Jamaica \$'000	Other receivables \$'000	Total	
Carrying amounts	794,361	2,529,947	9,599,794	36,840	3,686,405	1,946,502	588,418	1,511,732	20,693,999	
Concentration by Sector:										
Financial institutions	794,361	-	-	-	1,910,154	1,946,502	-	-	4,651,017	
Agriculture, fishing and mining	-	-	3,354,831	-	-	-	-	-	3,354,831	
Government and public entities	-	-	181,467	-	-	-	588,418	1,191,814	1,961,699	
Manufacturing	-	-	1,259,303	36,840	-	-	-	-	1,296,143	
Professional and other services	-	-	2,394,758	-	-	-	-	-	2,394,758	
Tourism and entertainment	-	2,517,360	2,664,169	-	1,819,191	-	-	-	7,000,720	
Transportation, storage and communication	-	-	61,953	-	-	-	-	-	61,953	
Interest receivable	794,361	2,517,360	9,916,481	36,840	3,729,345	1,946,502	588,418	1,191,814	20,721,121	
	-	12,587	510,643	-	374,255	-	-	319,918	1,217,403	
	794,361	2,529,947	10,427,124	36,840	4,103,600	1,946,502	588,418	1,511,732	21,938,524	
Less: Impairment losses	-	-	(827,330)	-	(417,195)	-	-	-	(1,244,525)	
	794,361	2,529,947	9,599,794	36,840	3,686,405	1,946,502	588,418	1,511,732	20,693,999	
Concentration by location										
Jamaica	478,746	2,529,947	9,599,794	36,840	2,275,705	1,946,502	588,418	1,511,732	18,967,684	
United States of America	315,615	-	-	-	1,406,354	-	-	-	1,721,969	
Barbados	-	-	-	-	4,346	-	-	-	4,346	
	794,361	2,529,947	9,599,794	36,840	3,686,405	1,946,502	588,418	1,511,732	20,693,999	

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

5. Financial instrument risk management (cont'd)

(c) Credit risk (cont'd)

(i) Exposure to credit risk (cont'd)

(2) Concentration of credit risk (cont'd)

	2011							Total \$'000
	Cash and cash equivalents \$'000	Loans receivable \$'000	Guarantees \$'000	Investment securities \$'000	Resale agreements \$'000	Due from Govt. of Jamaica \$'000	Other receivables \$'000	
Carrying amounts	586,229	34,217,484	-	2,775,393	4,585,980	1,690,329	2,249,823	961,547
Financial institutions	586,187	-	-	2,775,393	2,813,349	1,678,441	-	-
Agriculture, fishing and mining	-	2,956,675	-	-	-	-	-	7,853,370
Government and public entities	-	22,890,943	-	-	-	-	2,249,823	2,956,675
Manufacturing	-	1,176,624	-	-	-	-	-	26,102,313
Professional and other services	-	1,942,315	-	-	-	-	-	1,176,624
Tourism and entertainment	-	4,656,044	-	-	1,787,969	-	-	1,942,315
Transportation, storage and communication	-	70,567	-	-	-	-	-	6,444,013
Interest receivable	586,187	33,693,168	-	2,775,393	4,601,318	1,678,441	2,249,823	70,567
	42	965,865	-	-	387,481	11,888	-	46,545,877
Less: Impairment losses	-	(441,549)	-	-	(402,819)	-	-	1,365,276
	586,229	34,217,484	-	2,775,393	4,585,980	1,690,329	2,249,823	47,911,153
	586,229	34,217,484	-	2,775,393	4,585,980	1,690,329	2,249,823	(844,368)
	581,369	34,217,484	-	2,775,393	3,685,069	1,690,329	2,249,823	47,066,785
Concentration by location:	4,835	-	-	-	900,911	-	-	43,385,621
Jamaica	25	-	-	-	-	-	-	905,746
United States of America	-	-	-	-	-	-	-	-
United Kingdom	-	-	-	-	-	-	-	25
	586,229	34,217,484	-	2,775,393	4,585,980	1,690,329	2,249,823	961,547
	586,229	34,217,484	-	2,775,393	4,585,980	1,690,329	2,249,823	47,066,785

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

5. Financial instrument risk management (cont'd)**(c) Credit risk (cont'd)****(i) Exposure to credit risk (cont'd)****(3) Credit quality of loans**

The credit quality of loans is summarised as follows:

	<u>2012</u> \$'000	<u>2011</u> \$'000
Neither past due nor impaired	9,418,519	32,648,698
Past due but not impaired:		
1 to 3 months	566,726	768,508
3 to 6 months	16,534	34,903
6 to 12 months	33,068	70,824
Over 12 months	392,277	433,166
Past due and impaired	<u>-</u>	<u>702,934</u>
	10,427,124	34,659,033
Less allowance for loan losses	(827,330)	(441,549)
	<u>9,599,794</u>	<u>34,217,484</u>

(4) Renegotiated loans

The carrying amount of renegotiated loans at the financial year-end was \$159,761,000 (2010: \$216,193,000).

(ii) Management of credit risk

The company manages its credit risk primarily by review of the financial status of each counter party, and structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or group of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review. The exposure to any one borrower, including banks and brokers, is restricted by limits covering on and off-statement of financial position exposures. Actual exposures against limits are monitored daily. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest payment and principal repayment obligations, obtaining collateral, corporate and personal guarantees, and by changing lending limits where appropriate.

Credit risk is managed for specific financial assets in ways that include the following:

(1) Cash and cash equivalents

Cash and cash equivalents are held in financial institutions which management regards as strong and there is no significant concentration. The strength of these financial institutions is continually reviewed by management and the Investment, Finance and Loans Committee.

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

5. Financial instrument risk management (cont'd)

(c) Credit risk (cont'd)

(ii) Management of credit risk (cont'd)

Credit risk is managed for specific financial assets in ways that include the following (continued):

(2) Investment securities and resale agreements

The company limits its exposure to credit risk for these assets by investing only with counterparties that have high credit ratings. Therefore, management's expectation of defaults by any counterparty is low.

The company has documented investment policies, which serve as a guide in managing credit risk on investment securities and resale agreements. The company's exposure and the credit ratings of its counterparties are continually monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

(3) Balances with Government of Jamaica

Balances with Government of Jamaica are regarded as sovereign debts and risk free investment by the regulators. The default risk of government is low and, therefore, the company does not anticipate any default on the recovery of these balances.

(4) Loans

The management of credit risk in respect of loans is executed by the management of the company. The Investment, Finance and Loans Committee of the Board of Directors is responsible for the oversight of the company's credit risk and the development of credit policies. There is a documented credit policy in place, which guides the company's credit process.

(iii) Impairment

Impaired financial assets are assets for which the company determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms. In assessing the impairment of loans receivable, the main considerations are arrears of principal and interest for more than 90 days known difficulties in the cash flows of the counterparty, and infringement of the original terms of the loan agreement.

Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the financial year-end 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.

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

5. Financial instrument risk management (cont'd)

(c) Credit risk (cont'd)

(iv) Past due but not impaired loans

These are loans where contractual interest or principal payments are past due but the company believes that impairment is not appropriate based on the quality and value of security available or the stage of collection of amounts owed to the company.

(v) Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the company has made concessions that it would not otherwise consider. Once the loan is restructured, it is classified and monitored.

(vi) Write-off policy

The company writes off a loan (and any related allowances for impairment losses) when it determines that the loan is uncollectible. This determination is usually made after considering information such as changes in the borrower's financial position, or that proceeds from collateral will not be sufficient to pay back the entire exposure. Loans for write-off must be submitted to the Investment, Finance and Loans Committee for approval.

(vii) Collateral and other credit enhancements held against financial assets

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The company has guidelines that set out the acceptability of different types of collateral. The types of collateral held by the company are as follows:

- Loans Mortgages over properties, liens over motor vehicles, other registered securities, hypothecation of shares, promissory notes and guarantees.
- Resale agreements Government of Jamaica securities.

Collateral generally is not held over balances with banks or broker/dealers, except when securities are held under resale agreements. Collateral is generally not held against investment securities, and no such collateral was held at the reporting date (2011: no collateral held).

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

5. Financial instrument risk management (cont'd)

(c) Credit risk (cont'd)

The fair value of collateral held against loans to borrowers and other financial assets exposed to credit risk is shown below:

	Loans Receivable		Other receivable		Resale agreement	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Against neither past due nor impaired financial assets:						
Property (land and buildings)	5,396,562	8,003,124	10,000	-	-	-
Debt Securities	-	-	-	-	4,065,982	2,264,858
Motor Vehicles	-	-	10,000	-	-	-
Other	-	-	16,600	-	-	-
Against past due but not impaired financial assets:						
Property (land and buildings)	1,428,257	53,244,108	-	-	-	-
Against past due and impaired financial assets:						
Property (land and buildings)	<u>2,559,491</u>	<u>1,322,925</u>	-	-	-	-

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

5. Financial instrument risk management (cont'd)

(d) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. 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 company and its exposure to changes in interest rates and exchange rates.

The Company's approach to managing liquidity is to ensure as far as possible, that it has sufficient funding to meet its liabilities when due. A report comparing monthly projected disbursements with expected inflows is maintained and monitored to achieve maximum efficiency without incurring unacceptable losses.

The company's investment securities are considered readily realisable as they are Government securities. The company also has the ability to borrow in the short term at reasonable interest rates to cover any shortfall that may arise from its operations.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Investment, Finance and Loans Committee. Daily reports covering the liquidity position of the company, including any exceptions, and remedial action taken, are submitted regularly to the Managing Director and detailed investments schedules are presented monthly to the Investment Finance and Loans Committee.

The company is not subject to any externally imposed liquidity limit.

The following table presents the undiscounted contractual maturities of financial liabilities, including interest payments, on the basis of their earliest possible contractual maturity.

	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	No specific maturity	Total cash flows	Carrying amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2012							
Liabilities							
Loans payable	695,450	3,354,390	3,798,994	2,069,373	2,334,088	12,252,295	11,491,213
Other liabilities	<u>79,924</u>	<u>22,966</u>	<u>134,942</u>	<u>-</u>	<u>261,456</u>	<u>499,288</u>	<u>498,529</u>
	<u>775,374</u>	<u>3,377,356</u>	<u>3,933,936</u>	<u>2,069,373</u>	<u>2,595,545</u>	<u>12,751,583</u>	<u>11,989,742</u>
2011							
Liabilities							
Loans payable	555,895	986,677	2,298,682	31,341,807	3,414,856	38,597,917	38,597,917
Other liabilities	<u>28,300</u>	<u>54,403</u>	<u>267,239</u>	<u>-</u>	<u>1,528</u>	<u>351,470</u>	<u>351,470</u>
	<u>584,195</u>	<u>1,041,080</u>	<u>2,565,921</u>	<u>31,341,807</u>	<u>3,416,384</u>	<u>38,949,387</u>	<u>38,949,387</u>

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

5. Financial instrument risk management (cont'd)

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the company's operations.

The company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirement for appropriate segregation of duties, including the independent authorisation of transactions;
- requirement for the reconciliation and monitoring of transactions;
- compliance with legal requirements;

- documentation of controls and procedures;
- requirement for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirement for the reporting of operational losses and proposed remedial actions;
- development of contingency plans;
- risk mitigation, including insurance where this is effective.

Compliance with the company's standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit and Conduct Review Committee which reports its findings to the Board of Directors.

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

5. Financial instrument risk management (cont'd)

(f) Capital management

The company is not a regulated entity and, therefore, has no externally imposed capital requirements. However, the company seeks to maintain a minimum capital to safeguard its ability to continue as a going concern, so that it can continue to provide benefits to its stakeholders and to maintain the capital base necessary to support the development of its business. The company defines its capital base as share capital, capital and other reserves and retained earnings. The Board's determination of what constitutes a sound capital position is informed by the mission of the company [note 1(b)] and the fact of its government ownership. The Board's policy is to maintain a balance between a sound capital position, the shareholder's demand for dividends, and the risks associated with borrowing to finance its activities. The policies in respect of capital management are reviewed from time to time by the Board of Directors.

There were no changes in the company's approach to capital management during the year.

6. Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the financial year-end. The quoted market price that is required by IFRS to be used for financial assets held by the company is the bid price at the reporting date.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The company uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. 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:

- (a) Investment securities classified as available-for-sale are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques.
- (b) The fair value of liquid assets and other assets and liabilities maturing within one year is considered to approximate their carrying amount.
- (c) The fair value of variable rate financial instruments is considered to approximate their carrying amounts.
- (d) The fair value of fixed rate loans is estimated by discounting the expected future cash flows using the market rates of interest for similar loans at the reporting date. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values as the impact of credit risk is recognised separately by deducting the amount of the allowance for credit losses from both book and fair values.

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

6. Fair value estimation (cont'd)

The following tables present the fair value of financial instruments based on the preceding valuation methods and assumptions. The instruments shown are those whose fair values are different from the carrying amounts.

	2012		2011	
	Carrying	Fair	Carrying	Fair
	Amount	Value	Amount	Value
	\$'000	\$'000	\$'000	\$'000
Financial assets				
Investment securities	<u>2,680,743</u>	<u>2,814,780</u>	<u>2,338,017</u>	<u>2,856,841</u>
Financial liabilities				
Long-term loans	<u>11,491,213</u>	<u>12,065,773</u>	<u>38,597,917</u>	<u>39,958,652</u>

Investment securities classified as available-for-sale include Government of Jamaica instruments and unquoted equities.

Government of Jamaica securities are valued using pricing inputs and yields from an acceptable broker yield curve. Unquoted equities are not fair valued as there are no comparable securities against which they may be benchmarked.

Fair value hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: 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)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
	\$'000	\$'000	\$'000
March 31, 2012			
Available-for-sale financial assets	<u>1,422,521</u>	<u>336</u>	<u>1,422,857</u>
March 31, 2011			
Available-for-sale financial assets	<u>-</u>	<u>2,263,301</u>	<u>2,263,301</u>

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

7. Net interest income

	2012 \$'000	2011 \$'000
Interest income		
Cash and cash equivalents	25,566	27,241
Resale agreements	122,787	117,294
Investment securities	119,159	120,696
Loans	1,485,146	3,423,292
Total interest income	<u>1,752,658</u>	<u>3,688,523</u>
Interest expense		
Long-term loans	(546,734)	(2,855,388)
Short-term loans	(506,732)	(34,114)
Total interest expense	<u>(1,053,466)</u>	<u>(2,889,502)</u>
Net interest income	<u>699,192</u>	<u>799,021</u>

8. Other income

	2012 \$'000	2011 \$'000
Gain on disposal of interest in associated company (note 15)	-	488,039
Administrative fees	96,208	95,716
Commitment fees	28,244	28,077
Gain on disposal of property and equipment	483	19
Rental income	78,652	89,792
Dividends	3	108
Foreign exchange gains	82,584	1,432
Bad debt recoveries	661,484	-
Depreciation in fair value of investments	(2,396)	-
Miscellaneous	<u>30,537</u>	<u>21,532</u>
	<u>975,799</u>	<u>724,715</u>

9. Staff costs and number of persons employed

	2012 \$'000	2011 \$'000
Salaries and wages	270,234	246,447
Performance incentive bonus	16,273	15,294
Statutory payroll contributions	17,151	15,883
Pension costs – defined benefit plan [note 25(b)(vi)]	(7,153)	(2,432)
Redundancy costs	4,492	-
Staff training	5,130	4,410
Staff welfare	335	336
Other	<u>36,956</u>	<u>37,000</u>
	<u>343,418</u>	<u>316,938</u>

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

9. Staff costs and number of persons employed (cont'd)

The number of persons employed at the end of the year was as follows:

	2012	2011
	No.	No.
Full – time	106	106
Temporary	1	2
Contract	<u>7</u>	<u>5</u>
	<u>114</u>	<u>113</u>

10. Operating expenses by nature

	2012	2011
	\$'000	\$'000
Amortisation (note 26)	489	896
Advertising and public relations	9,659	10,071
Assistance to projects	25,521	32,678
Auditors' remuneration	4,060	4,060
Depreciation (note 27)	39,313	40,641
Directors' fees	1,041	1,361
Legal and other professional fees	14,706	6,361
Motor vehicle expenses	7,534	8,360
Occupancy costs – insurance, utilities, repairs, etc.	102,649	91,641
Net impairment loss on financial assets	395,324	279,075
Staff costs (note 9)	343,418	316,938
Travelling	6,218	5,229
Other operating expenses	<u>12,665</u>	<u>8,533</u>
	<u>962,597</u>	<u>805,844</u>

11. Cash and cash equivalents

	2012	2011
	\$'000	\$'000
Cash	70	50
Demand and savings deposits	789,873	581,927
Fixed term deposits	4,377	4,210
Interest receivable	<u>41</u>	<u>42</u>
	<u>794,361</u>	<u>586,229</u>

Cash and cash equivalents include interest-bearing balances totalling \$5,392,000 (2011: \$160,766,000) that are not available in the company's day to day operations. These comprise \$Nil (2011: \$158,444,000) which represents funds held on behalf of the Hillside Farmers Support Project, transferred to fixed deposit at the request of the Bank of Jamaica, and \$5,392,000 (2011: \$6,888,000) which represents funds with a financial institution for the purpose of securing loans by that institution to employees of the company.

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

12. Resale agreements

Resale agreements result in credit exposure in that the counterparty to the transaction maybe unable to fulfil its contractual obligation. At the reporting date, all agreements were collateralised by Government of Jamaica securities.

Included in resale agreements is interest receivable of \$8,192,000 (2011: \$11,888,000).

13. Investment securities

	Remaining term to maturity				Carrying value \$'000 2012	Carrying value \$'000 2011
	Within 3 Month \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000		
Held to maturity:						
Government of Jamaica	<u>336</u>	<u>150,000</u>	<u>312,951</u>	<u>29,012</u>	<u>492,299</u>	<u>550,048</u>
Loans and receivables:						
Preference shares					806,301	792,954
Preferred equity interests					<u>1,012,890</u>	<u>995,015</u>
					<u>1,819,191</u>	<u>1,787,969</u>
Available-for-sale :						
Units in unit trust					4,224	3,899
Government of Jamaica bonds	<u>-</u>	<u>-</u>	<u>53,907</u>	<u>1,327,878</u>	<u>1,381,785</u>	<u>2,259,402</u>
					<u>1,386,009</u>	<u>2,263,301</u>
Interest receivable					<u>406,100</u>	<u>387,481</u>
					4,103,599	4,988,799
Allowance for impairment					(417,194)	(402,819)
					<u>3,686,405</u>	<u>4,585,980</u>

Investment securities include \$Nil (2011: \$868,218,943) used as collateral against a margin account.

14. Investment properties

	2012 \$'000	2011 \$'000
Land at Drax Hall, St. Ann, held for capital appreciation	13,207	6,520
Rented residential property, Manor Park Apartment	12,000	10,900
Rented office complex, at 21 Dominica Drive, Kingston	<u>290,000</u>	<u>297,784</u>
Fair value of investment properties	<u>315,207</u>	<u>315,204</u>
Income earned from properties	38,705	49,537
Expenses incurred by properties	(8,911)	(9,552)

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

14. Investment properties (cont'd)

The carrying amount of investment properties is the fair value of the properties as determined by a directors' valuation, having regard to the latest valuation by recognised professional real estate appraisers.

15. Interest in associated companies**(a) Composition of balance**

	2012	2011
	\$'000	\$'000
Ordinary shares, at cost	250	250
Advances and interest receivable thereon (see note 1 below)	<u>869,546</u>	<u>859,166</u>
	<u>869,796</u>	<u>859,416</u>
Valuation adjustments:		
Discounting adjustment		
At beginning of year	(166,813)	(194,588)
Credit for the year	<u>12,145</u>	<u>27,775</u>
At end of year	<u>(154,668)</u>	<u>(166,813)</u>
Allowance for impairment		
At beginning of year	-	(516,870)
Charge for the year	-	(166,304)
Write off	<u>-</u>	<u>683,174</u>
At end of year	<u>-</u>	<u>-</u>
Total valuation adjustments	<u>(154,668)</u>	<u>(166,813)</u>
Share of losses:		
At beginning of year	156,909	(234,796)
Write-off	-	419,595
Recognised during year	<u>(46,208)</u>	<u>(27,890)</u>
At end of year	<u>110,701</u>	<u>156,909</u>
Carrying value	<u>825,829</u>	<u>849,512</u>

Note 1: In 2009, the shareholders of Harmonisation Limited entered a new agreement between themselves to cease charging interest on the advances and to issue preference shares to the existing shareholders in the ratio of their outstanding advances. Advances are unsecured with no fixed repayment terms.

At the reporting date the preference shares had not been issued. They will be issued when the Joint Venture and Members Agreements come into force.

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

15. Interest in associated companies (cont'd)

(a) Composition of balance (cont'd)

Summary financial information on associated companies:

	2012	2011
	\$'000	\$'000
Assets	2,495,891	2,560,291
Liabilities	2,490,340	2,461,587
Revenue for the year	11,445	18,075
Loss for the year	<u>(91,324)</u>	<u>(59,415)</u>

(b) Changes to interest in ANDCo

During the year, the company and the other shareholders in its associated company, Ackendown Newtown Development Company Limited (ANDCo), and the directors of ANDCo, by resolution, agreed to sell the hotel property, which was ANDCo's primary operating asset, and took other steps to dispose of the other assets and settle or otherwise dispose of the liabilities of ANDCo, to the end that, as of March 31, 2011, ANDCo had neither assets nor liabilities. In connection with the disposal of the hotel property, ANDCo granted a vendor's mortgage in the amount of US\$32,500,000 to the purchaser. Under the terms of a deed of assignment dated March 18, 2011, ANDCo assigned all future instalments of principal and interest due under the vendor's mortgage to the company, and further agreed to, subsequent to the reporting date, transfer all rights under the mortgage to the company, which would then be registered as the mortgagee.

The assignment of the rights under the mortgage was accepted by the company in settlement of amounts due to the company.

The foregoing transactions and events had the following effect on the company's interest in, and loans and related interest receivable from, ANDCo:

	2012	2011
	\$'000	\$'000
Ordinary shares	-	540,762
Impairment provision	<u>-</u>	<u>(683,174)</u>
Net	-	(142,412)
Preference shares	-	641,858
Loans receivable	-	1,823,304
Accrued interest receivable	<u>-</u>	<u>384,199</u>
	-	2,207,503
Effect of exchange rate changes on US\$ denominated shares	-	(311,822)
Cumulative translation reserve	-	311,822
Cumulative share of losses	-	(419,595)
Other receivable (pending registration of mortgage) (US\$32,500,000)	<u>-</u>	<u>(2,775,393)</u>
Net credit, included in other income	<u>-</u>	<u>(488,039)</u>

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

16. Direct loans

	Remaining Term to Maturity				Carrying value 2012	Carrying value 2011
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years		
	\$'000	\$'000	\$'000	\$'000		
Loans receivable	755,763	513,736	400,197	1,618,892	3,288,588	3,131,782
Interest receivable					496,894	502,792
					3,785,482	3,634,574
Less impairment allowance [note 18(a)]					(818,119)	(424,302)
					<u>2,967,363</u>	<u>3,210,272</u>

The loans bear interest at rates ranging from 4% - 13% (2011: 4% -14%) per annum and repayment terms range from three to twelve years, in some cases subject to an initial moratorium on principal repayment for a period not exceeding three years.

17. Loans to financial and agricultural institutions

- (a) These represent balances outstanding on loans to financial institutions and People's Co-operative Banks for on-lending to projects, and are secured.

	Interest rate %	2012 \$'000	2011 \$'000
Loans to financial institutions	4% - 10%	5,284,732	4,574,498
Loans to People's Co-operative Banks	1% - 10%	<u>1,161,695</u>	<u>1,272,652</u>
		<u>6,446,427</u>	<u>5,847,150</u>
Interest receivable from financial institutions		13,575	8,161
Interest receivable from People's Co-operative Banks		<u>173</u>	<u>12,650</u>
		<u>13,748</u>	<u>20,811</u>
		6,460,175	5,867,961
Less impairment losses on loans [note 18(a)]		(9,211)	(17,247)
		<u>6,450,964</u>	<u>5,850,714</u>

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

17. Loans to financial and agricultural institutions (cont'd)

(b) Loans and interest receivable are repayable as follows:

	Remaining Term to Maturity					
	Within 3	3 to 12	1 to 5	Over 5	Carrying	Carrying
	Months	Months	Years	Years	value	value
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
				2012	2011	
Loans:						
Financial institutions	344,466	1,531,646	2,711,779	696,842	5,284,732	4,574,498
People's Co-operative Banks	90,009	338,374	697,003	36,309	1,161,695	1,272,652
					<u>6,446,427</u>	<u>5,847,150</u>
Interest receivable:						
Financial institutions					13,575	8,161
People's Co-operative Banks					173	12,650
					<u>13,748</u>	<u>20,811</u>
					<u>6,460,175</u>	<u>5,867,961</u>

18. Allowance for impairment of direct loans and loans to financial and agricultural institutions

(a) Summary of impairment losses on loans

	2012	2011
	\$'000	\$'000
Loans to direct borrowers (note 16)	818,119	424,302
Loans to financial and agricultural institutions [note 17(a)]	<u>9,211</u>	<u>17,247</u>
	<u>827,330</u>	<u>441,549</u>

A specific allowance has been made for impairment losses.

The aggregate amount of non-performing loans on which interest was not being accrued amounted to \$60 million (2011: \$60 million).

(b) The movement in the allowance for impairment losses is as follows:

	2012	2011
	\$'000	\$'000
Allowance at beginning of year	441,549	319,782
Loans written-off during the year	(7,311)	-
Additions to, less reversal of, allowance for doubtful debts	397,901	121,767
Allowance no longer required	(1,489)	-
Bad debt recovered	(3,320)	-
At end of year	<u>827,330</u>	<u>441,549</u>

Notes to the Financial Statements – March 31, 2012

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18. Allowance for impairment of direct loans and loans to financial and agricultural institutions (cont'd)

(c) Impairment losses recognised in profit or loss:

	2012 \$'000	2011 \$'000
Additions to/(reversal of) allowance for doubtful debts	<u>393,092</u>	<u>121,767</u>

19. Government of Jamaica Infrastructure Loan Programmes

	2012 \$'000	2011 \$'000
National Road Operating and Constructing Company Limited	36	24,714,236
Interest receivable	<u>181,431</u>	<u>442,262</u>
	<u>181,467</u>	<u>25,156,498</u>

This was a loan to National Road Operating and Constructing Company Limited (NROCC) [see note 28(xxi)] for the establishment, development, financing, operation and maintenance of a tolled highway. Cabinet, by Decision No. 37/08, dated November 3, 2008, approved the issue of a Government of Jamaica (GOJ) Guarantee for the loan to the extent of €204.4 million with effect from April 1, 2009. The loan was repaid during the year

20. Loan receivable

The amount of \$2,529,947,000 (2011:\$2,775,393,000) represents the outstanding principal amount of a mortgage loan, the future instalments of principal and interest under which were assigned to the company under an agreement dated 20 September, 2011 (see note 15). The loan is receivable in 30 quarterly instalments of US\$1,353,273.62 of principal and interest, the final instalment being due Sept 1, 2018, and bears interest at 6% per annum.

21. Due from Government of Jamaica - Privatisation

This balance represents amounts advanced by the company in the process of divesting assets on behalf of the Government of Jamaica (GOJ) net of the proceeds of the divestments.

	Amount advanced \$'000	Proceeds collected \$'000	Net recoverable /(payable)	
			\$'000 2012	\$'000 2011
Projects in progress	88,515	(46)	88,469	88,469
Projects completed	359	(53,461)	(53,102)	(53,471)
Others	<u>26,341</u>	<u>(33,419)</u>	<u>(7,078)</u>	<u>(32,357)</u>
	<u>115,215</u>	<u>(86,926)</u>	<u>28,289</u>	<u>2,641</u>

Notes to the Financial Statements – March 31, 2012

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22. Due from Government of Jamaica – other

(a) Note receivable:

During the year the Government of Jamaica (GOJ) signed an agreement with the company under which GOJ assumed certain loans owed to the company by three GOJ-owned sugar companies. GOJ issued a promissory note to the company in the amount of J\$1,004,168,000 repayable over a ten-year period commencing April 1, 2011 and ending March 31, 2021 in semi-annual instalments, interest free. The carrying amount is made up as follows:

	2012 \$'000	2011 \$'000
Face value of 10-year interest-free note	1,004,168	-
Imputed interest	(345,056)	-
Fair value at date of issue	659,112	-
Principal repaid in instalments	(98,046)	-
Carrying amount	<u>561,066</u>	<u>-</u>
	2012 \$'000	2011 \$'000
(b) Exchange losses on loans:		
(i) Caribbean Development Bank loans [note 3(b)(iv) and note 27(xv)]:		
Unrealised	80,790	109,174
Realised	<u>333,325</u>	<u>1,373,646</u>
	<u>414,115</u>	<u>1,482,820</u>
(ii) European Investment Bank loans [notes 3(b)(iv) and note 27(xvi)]:		
Realised	<u>140,140</u>	<u>717,062</u>
(iii) Other loans [note 3(b)(iv)]:		
Unrealised	<u>34,163</u>	<u>47,300</u>
	<u>588,418</u>	<u>2,247,182</u>

23. Credit Enhancement Facility Fund

The Credit Enhancement Facility (CEF or the Fund), which was established with effect from July 2009, is an arrangement between the Approved Financial Institutions (AFI) and the company, which is aimed at providing partial collateral guarantees to AFIs for loans to Small and Medium-sized Enterprises (SMEs) which do not meet the full collateral requirements. Losses arising from these guaranteed loans are shared on a *pari-passu* basis between the company and the AFIs.

The company indemnifies the AFIs for any losses incurred on loans made, with the indemnity maximised at \$5 million or 50 per cent of the value of the loan, whichever is less. The company has transferred \$250 million from its investments and placed it in a Trust managed by a Board of Trustees.

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23. Credit Enhancement Facility Fund (cont'd)

Under the arrangements governing the CEF, its profit or loss is to be accounted for in the company any balance in the fund is to be returned to the company on termination of the facility.

The financial position and performance of the Fund during the year are detailed below:

Financial position

	2012	2011
	\$'000	\$'000
Assets:		
Investments	250,000	250,000
Receivables	<u>85,313</u>	<u>59,567</u>
Total assets	<u>335,313</u>	<u>309,567</u>
Fund capital, reserve and liability:		
Fund capital	250,000	250,000
Accumulated profit	<u>78,878</u>	<u>53,386</u>
Total fund capital and reserve	328,878	303,386
Payables	<u>6,435</u>	<u>6,181</u>
Total fund capital, reserve and liability	<u>335,313</u>	<u>309,567</u>

Financial performance

Income	25,767	37,409
Expenses	(275)	(3,865)
Profit for the year	<u>25,492</u>	<u>33,544</u>

24. Other receivables

	2012	2011
	\$'000	\$'000
Prepayments	2,323	2,764
Staff receivables (a)	68,646	78,461
Recoveries, net	533,276	1,192,388
Provision for recoveries (b)	(533,276)	(1,192,388)
Sundry	<u>37,724</u>	<u>28,169</u>
	<u>\$108,693</u>	<u>109,394</u>

- (a) The company has a policy whereby each staff member can borrow up to twice his/her annual salary, subject to ability to repay. The tenure of loans ranges from one year to seven years and interest is charged at a rate of 5% per annum. All loans are fully secured.

Included in staff receivables are loans to senior managers amounting to \$10,751,000(2011: \$16,646,000).

- (b) The amount due to the company in respect of the non-performing loans transferred to NIBJ Recoveries account is impaired; accordingly, it has been fully provided for.

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25. Employee benefit asset

- (a) The company operates a defined-contribution pension scheme for the former employees of National Development Bank of Jamaica Limited which is administered by an insurance company. Benefits to retired members are based on employee and employer contributions, bonuses and interest credited. The assets of the scheme are held independently of the company's assets in separate trustee administered funds. The scheme is subject to triennial actuarial funding valuations, the most recent valuation being at December 31, 2001, which revealed a past service surplus of \$40,171,000. No recent valuation has been done as the Trustees are in the process of winding up the Scheme.
- (b) As a result of the merger of The National Investment Bank of Jamaica Limited (NIBJ) and the DBJ on September 1, 2006, the employees of NIBJ were transferred to DBJ and became members of the DBJ Pension Scheme. Permission was sought from, and granted, by the FSC for the transfer of the plan assets and benefit obligations of the NIBJ Scheme and the subsequent winding up of that Scheme, effective as of the merger date. This process has not yet been completed.
- (c) Effective January 1999, the company took over the administration of the Agricultural Credit Bank of Jamaica Limited's superannuation scheme from the National Commercial Bank Trustee Department. This is a defined-benefit scheme, which is administered by Trustees appointed by the company and an employee appointed trustee. The scheme, which is open to all full time permanent employees, is funded by employer and employee contributions of 6.9% and 5% of pensionable salaries, respectively. In addition, the employee may voluntarily contribute a further 5% of pensionable salaries. The pensionable amount of annual pension on retirement at normal retirement date shall be that pension equal to 2% of the member's final pensionable salary multiplied by his years of pensionable service, plus such amount as may be determined by the actuary to be the pension equivalent of any voluntary contributions, accumulated with interest computed to the date of retirement, standing to the credit of the member on the date the pension is to commence. The funding valuation of the scheme as at December 31, 2009 had a past service surplus of \$130,345,000.

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

	2012	2011
	\$'000	\$'000
Present value of funded obligations	(519,214)	(449,642)
Fair value of plan assets	<u>770,853</u>	<u>684,101</u>
	251,639	234,459
Unrecognised actuarial gains	9,483	7,571
Limitations on recognition of surplus due to uncertainty of future benefits	<u>1,492</u>	<u>1,791</u>
Asset in the statement of financial position	<u>262,614</u>	<u>243,821</u>

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25. Employee benefit asset (cont'd)

(b) (cont'd)

(ii) Movement in the asset recognised in the statement of financial position:

	2012	2011
	\$'000	\$'000
At beginning of year	243,821	230,757
Total income – (v) below	7,153	2,432
Contributions paid	<u>11,640</u>	<u>10,632</u>
At end of year	<u>262,614</u>	<u>243,821</u>

(iii) Movement in present value of funded obligations:

	2012	2011
	\$'000	\$'000
Present value of funded obligation at beginning of year	449,642	307,686
Interest cost	48,973	38,496
Current service cost	21,001	16,677
Voluntary contributions	5,669	4,598
Past service cost - non-vested benefits	-	2,089
Past service cost - vested benefits	-	13,858
Benefits paid	(14,129)	(15,730)
Actuarial loss on obligation	<u>8,058</u>	<u>81,968</u>
Balance at end of year	<u>519,214</u>	<u>449,642</u>

(iv) Movement in plan assets:

	2012	2011
	\$'000	\$'000
Fair value of plan assets at beginning of year	684,101	578,730
Expected return on plan assets	68,991	64,057
Contributions	25,744	22,934
Benefits paid during the year	(14,129)	(15,730)
Actuarial gain on plan assets	<u>6,146</u>	<u>34,110</u>
Fair value of plan assets at end of year	<u>770,853</u>	<u>684,101</u>

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

25. Employee benefit asset (cont'd)

(b) (cont'd)

(v) Plan assets consist of the following:

	2012 \$'000	2011 \$'000
Equities	109,967	80,362
Government of Jamaica securities	516,535	510,307
Resale agreements	-	41,424
Preference shares	-	7
Unitised investments	22,001	2,813
Bond	70,108	-
Real estate	39,866	39,866
Net current assets	<u>12,376</u>	<u>9,322</u>
	<u>770,853</u>	<u>684,101</u>

(vi) The amounts recognised in profit are as follows:

	2012 \$'000	2011 \$'000
Current service cost	12,566	8,973
Interest cost	48,973	38,496
Expected return on plan assets	(68,991)	(64,057)
Past service costs – non-vested benefits	299	298
Past service costs – vested benefits	<u>-</u>	<u>13,858</u>
Total, included in staff costs (note 9)	<u>(7,153)</u>	<u>(2,432)</u>
Actual return on plan assets	<u>9.75%</u>	<u>14.35%</u>

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

	2012	2011
Discount rate	10.00%	10.50%
Expected return on plan assets	10.00%	10.00%
Future salary increases	6.00%	7.50%
Future pension increases	2.00%	2.00%
Remaining working lives	<u>11 years</u>	<u>12 years</u>

- Assumptions regarding future mortality are based on PA(90) tables for pensioners with ages rated down by six years.
- The overall expected long-term rate of return of assets is 10%. The expected long-term rate of return is determined by combining the real return on planned assets and an assumed long-term rate of inflation.

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

25. Employee benefit asset (cont'd)

(b) (cont'd)

(viii) Historical information – Pension Plan

Year ended March 31	2012	2011	2010	2009	2008
	\$Mn	\$Mn	\$Mn	\$Mn	\$Mn
Present value of defined benefit obligation	(519.2)	(449.6)	(307.7)	(210.9)	(197.8)
Plan assets	770.9	684.1	578.7	472.5	406.7
Surplus	251.6	234.5	271.0	261.7	208.9
Experience adjustment on plan liabilities	(6.0)	(4.5)	11.9	(21.8)	(5.6)
Experience adjustment on plan assets	<u>6.1</u>	<u>34.1</u>	<u>21.4</u>	<u>(5.6)</u>	<u>(3.5)</u>

(ix) The estimated pension contributions expected to be paid into the plan during the next financial year is \$25,744,000 (2011: \$22,934,000).

26. Intangible assets

	Computer software \$'000
Cost:	
March 31, 2010	4,860
Additions	<u>403</u>
March 31, 2011	5,263
Additions	<u>742</u>
March 31, 2012	<u>6,005</u>
Amortisation:	
March 31, 2010	3,981
Charged during the year	<u>896</u>
March 31, 2011	4,877
Charged during the year	<u>489</u>
March 31, 2012	<u>5,366</u>
Net book values:	
March 31, 2012	<u>639</u>
March 31, 2011	<u>386</u>
March 31, 2010	<u>879</u>

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

27. Property and equipment

	Freehold land, buildings & signs \$'000	Furniture, fixtures, plant & equipment \$'000	Computer equipment \$'000	Motor vehicles \$'000	Total \$'000
Cost or valuation:					
March 31, 2010	583,059	181,515	22,652	43,900	831,126
Additions	4,259	14,931	3,368	56	22,614
Disposals	-	(269)	(77)	(2,887)	(3,233)
March 31, 2011	587,318	196,177	25,943	41,069	850,507
Additions		1,669	5,292	4,338	11,299
Disposals		(45)	(3,451)	(7,483)	(10,979)
Increase on revaluation	<u>76,407</u>	-	-	-	<u>76,407</u>
March 31, 2012	<u>663,725</u>	<u>197,801</u>	<u>27,784</u>	<u>37,924</u>	<u>927,234</u>
Depreciation:					
March 31, 2010	36,787	57,162	19,496	35,501	148,946
Charge for the year	12,635	22,013	3,595	2,398	40,641
Disposals	-	(216)	(49)	(2,886)	(3,151)
March 31, 2011	49,422	78,959	23,042	35,013	186,436
Charge for the year	12,076	22,487	2,212	2,538	39,313
Disposals	-	(23)	(3,451)	(7,483)	(10,957)
March 31, 2012	<u>61,498</u>	<u>101,423</u>	<u>21,803</u>	<u>30,068</u>	<u>214,792</u>
Net book values:					
March 31, 2012	<u>602,227</u>	<u>96,378</u>	<u>5,981</u>	<u>7,856</u>	<u>712,442</u>
March 31, 2011	<u>537,896</u>	<u>117,218</u>	<u>2,901</u>	<u>6,056</u>	<u>664,071</u>
March 31, 2010	<u>546,272</u>	<u>124,353</u>	<u>3,156</u>	<u>8,399</u>	<u>682,180</u>

The company's freehold land and buildings, at cost of \$94,572,000 (2011: \$94,572,000), were last revalued in December 2011 at \$626,317,690 on the basis of an open market valuation, by independent professional valuers. The excess of valuation over the carrying value of freehold land and buildings of \$76,406,860 has been credited to the revaluation reserve within shareholders' equity [note 32(e)].

Included in property and equipment are furniture, fittings and equipment received from the Government of the Netherlands, under the Hillside Farmers' Support Project and the Rural Financial Service Project [note 31(d)].

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

28. Loans payable

	Interest Rate %	March 31, 2011 \$'000	New loans/ Adjustments \$'000	Transaction Cost/ Repaid \$'000	Exchange Differences /Interest Capitalised \$'000	March 31, 2012 \$'000
(a) Government of Jamaica (GOJ)						
(i) Ministry of Mining and Energy	-	120	-	-	-	120
(ii) Ministry of Finance and the Public Service:						
(1) Caribbean Basin Initiative Loan 1993/2003	3.00	3,333	-	-	-	3,333
(2) International Fund for Agricultural Development 1988/2002	4.00	3,021	-	-	-	3,021
(3) Inter-American Development Bank 1991/2018	4.00	31,750	-	-	-	31,750
(4) Inter-American Development Bank 1991/2007	7.00	22,614	-	(22,614)	-	-
(5) International Bank for Reconstruction and Development 1994/2001	2.82	843,836	-	-	15,267	859,103
(iii) International Fund for Agricultural Development Hillside Credit 1998/2002	4.00	113,486	-	-	-	113,486
(iv) Rural Financial Services IFAD – 294- JA	8.00	58,425	-	(58,425)	-	-
(v) United States Agency for International Development Energy Credit Fund	3.00	5,013	-	-	-	5,013
(vi) MOF – Dairy Sector	-	81,916	-	-	-	81,916
(vii) MOF – US\$30.33M	6.00	3,461,290	-	(860,956)	47,614	2,647,948
(viii) MOF Advance	-	1,945	-	-	-	1,945
(ix) GOJ – Citrus Growers	6.00	60,000	-	-	-	60,000
(x) GOJ – YEP Programmes	-	2,595	-	-	-	2,595
	-	<u>4,689,344</u>	<u>-</u>	<u>(941,995)</u>	<u>62,881</u>	<u>3,810,230</u>
(b) Direct Borrowing						
(xi) Micro Investment Development Agency		491	-	-	-	491
(xii) IBRD US\$ P.I.E.D. Line of Credit	2.82	53,064	-	-	960	54,024
(xiii) OFID	6.35	350,607	-	(78,473)	5,639	277,773
(xiv) (1) China Development Bank	3.7156	745,435	-	(213,667)	10,570	542,338
(2) China Development Bank	4.5483	<u>425,424</u>	<u>427,506</u>	<u>(215,132)</u>	<u>14,518</u>	<u>652,316</u>
		<u>1,575,021</u>	<u>427,506</u>	<u>(507,272)</u>	<u>31,687</u>	<u>1,526,942</u>

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

28. Loans payable (cont'd)

	Interest rate %	March 31 2011 \$'000	New loans/ adjustments \$'000	Transaction cost/ Repaid \$'000	Exchange differences /Interest capitalised \$'000	March 31 2012 \$'000
(b) Direct Borrowing (cont'd)						
Balance b/f		<u>1,575,021</u>	<u>427,506</u>	<u>(507,272)</u>	<u>31,687</u>	<u>1,526,942</u>
(xv) Caribbean Development Bank 1987/2005:						
8SFR J	3.84	38,598	-	(12,945)	545	26,198
17OR J	3.84	33,892	-	(34,031)	139	-
18OR J	3.84	115,802	-	(42,370)	1,593	75,025
26OR J	3.84	1,740,654	-	(145,951)	29,765	1,624,468
11SFR/ORJ	3.84	130,057	-	-	2,353	132,410
20SFR/ORJ	2.50	222,946	-	-	4,033	226,980
(xvi) European Community	1.00	124,469	-	(7,248)	(5,082)	112,139
(xvii) Jamaica Development Bank						
- Loan I	10.00	6,738	-	-	-	6,738
- Loan II	8.00	138,876	-	-	-	138,876
(xviii) BNS Hurricane Fund	9.50	21,250	-	(21,250)	-	-
(xix) BNS Productive Sector	9.50	16,250	-	(16,250)	-	-
(xx) BNS Tourism/Agri Sector	8.00 and 7.625	299,988	-	(100,004)	-	199,984
(xxi) Venezuelan Loan	8.29	24,705,996	-	(24,705,996)	-	-
(xxii) NHT Surehop Loan		84,280	-	(6,500)	-	77,780
(xxiii) GOJ NIF Loan	4.0	157,683	-	(89,259)	-	68,424
(xxiv) PetroCaribe Loan:						
(1) US\$8.6M loan	3.0	618,496	-	(47,858)	10,611	581,249
(2) J\$1.7bn loan	4.0	<u>1,530,395</u>	-	<u>(222,364)</u>	-	<u>1,308,031</u>
		<u>29,986,370</u>	-	<u>(25,452,026)</u>	<u>43,957</u>	<u>4,578,302</u>
(c) Other						
(xxv) Jamaica Development Bank	8 - 10	<u>262,496</u>	-	-	-	<u>262,496</u>
Total loans payable		<u>36,513,231</u>	<u>427,506</u>	<u>(26,901,293)</u>	<u>138,525</u>	<u>10,177,971</u>
Interest payable		<u>2,084,686</u>				<u>1,313,242</u>
		<u>38,597,917</u>				<u>11,491,213</u>

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

28. Loans payable (cont'd)

In a letter dated January 31, 1985, the Government of Jamaica agreed to bear the exchange risk on loans negotiated and on-lent to the company by the MOF&P. The loans which are covered by the agreement are on-lent to the company and are repayable to the Government in Jamaica dollars. Usually loans to the Jamaica government are repaid via an exchange of debt.

- (i) This represents funds received for lending via the People's Co-operative Banks to establish a Biogas Programme.
- (ii) These loans represent the Government of Jamaica contribution to the company in accordance with certain agreements. Regarding loan (a)(ii)(5), the International Bank for Reconstruction and Development (IBRD) agreement recommends that the debt/equity ratio does not exceed four times its equity. At March 31, 2012, the financial position of the company disclosed a ratio of 1.1:1 (2011: 3.9:1).
- (iii) This represents Government of Jamaica's advances to the Hillside Credit Programme. The loan was granted to:
 - (a) encourage coffee and cocoa development;
 - (b) provide credit to small scale rural enterprises; and
 - (c) provide for the introduction of perennial crops.

Included in this programme is a grant from the Government of the Netherlands.

- (iv) Loan No. 294-JA, which was negotiated by the Government of Jamaica from the International Fund for Agricultural Development (IFAD), is repayable over a period of 18 years and has a moratorium of 3 years. During the year this amount was be settled as part of the debt exchange, amounting to \$1.6 billion, between the company and the GOJ.
- (v) The Energy Credit Fund (ECF) is sponsored jointly by the Government of Jamaica (GOJ) and the United States Agency for International Development (USAID) and is managed by the company. GOJ's contribution represents counterpart funds to those provided by USAID for the ECF. Contributions to date by the sponsors are as follows:

	2012 \$'000	2011 \$'000
Government of Jamaica	3,904	3,904
USAID funds on-lent by GOJ	<u>1,109</u>	<u>1,109</u>
Total financing for Energy Credit Fund	<u>5,013</u>	<u>5,013</u>

The Government's contribution bears interest at a rate of 2% per annum for 10 years which commenced in March 1984, and 3% thereafter. It is repayable in twenty-one equal semi-annual instalments and will be included in the exchange of debt between the Company and the MOF&P.

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

28. Loans payable (cont'd)

(v) (cont'd)

USAID's contribution bears interest at 2% per annum for 10 years, which commenced in January 1986, and 3% thereafter. It is repayable in twenty-one equal semi-annual instalments which should have commenced January 1996. This amount will be included in the debt exchange between the Company and the MOF&P.

(vi) This is a loan from the Ministry of Agriculture (MOA) which was on-lent to the National Peoples Cooperative Bank (NPCB) for on-lending at 1% to the Dairy Sector. The company does not pay interest on the loan, and does not charge interest on the amount on-lent.

(vii) This loan was made by the Ministry of Finance to NIBJ to facilitate investment in the development of Jamaica's South Coast through Ackendown Newtown Development Company Limited (ANDCO). The loan bears interest at a rate of 6% per annum and is to be repaid in 20 equal instalments on June 30 and December 31 each year. During the year, J\$860,956,000 was repaid as part of the debt exchange between the company and the GOJ.

(viii) These advances from the GOJ are interest free with no stated repayment dates.

(ix) This loan was obtained from GOJ to be used for working capital purposes by the Jamaica Citrus Growers Limited. The principal amount is to be repaid in monthly instalments after 3 months moratorium on the loan. Interest rate is fixed at 6%. No interest is charged by the company.

(x) This amount represents funds received from the GOJ for the Young Entrepreneurs Programme, which is an initiative of the GOJ to provide training and funding for school leavers at high and tertiary levels to develop small businesses. No interest is charged by the company on the amounts on-lent.

(xi) This loan represents sums received under an agency agreement between Micro Investment Development Agency Limited (MIDA) and the company. The loan has no fixed repayment date but is repaid based on collections from PC Banks. No interest is charged by the company on the amount on-lent.

(xii) This represents funds borrowed by Government of Jamaica under the International Bank for Reconstruction & Development (IBRD) US dollar Private Investment and Export Development (PIED) Line of Credit and on-lent to the company for on-lending to private enterprises to support the development of export of goods and services. It bears interest at the rate of 2.82% per annum and this amount will be settled as part of the next debt exchange between the company and the MOF&P.

Notes to the Financial Statements – March 31, 2012

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28. Loans payable (cont'd)

- (xiii) This loan represents funds borrowed from OFID to on-lend to foreign-exchange-earning projects through Approved Financial Institutions. This loan is being repaid semi-annually with final payment May 2013. It bears interest at the rate of 6.35% per annum and is guaranteed by the Government of Jamaica.
- (xiv) (1) This is a loan from China Development Bank, which is to be on-lent to projects enhancing economic development. The loan is for 5 years with a moratorium of one year on principal, repayment of which commenced October 19, 2010, and bears interest at a rate of 6 month - Libor plus 310 basis points.

(2) During 2011, a further loan of US\$5 million was drawn down and is repayable in December 2014. This loan bears interest at a rate of 6 month Libor plus 380 basis points.
- (xv) These loans, negotiated by the company, are denominated in United States dollars and are repayable in 2020. The Government of Jamaica has undertaken to bear the exchange risk associated with the CDB loans except for the 26 ORJ loan, the exchange risk on which is borne by the company. The 17 – ORJ Loan was repaid during the year.
- (xvi) This represents the balance of Euro 1,629,099 drawn down under an ECU 1.86 million line of credit granted under a Financing Contract dated April 2, 1986, between the company and the European Community. The loan bears interest at the rate of 1% per annum, and is repayable in 60 semi-annual instalments, the first of which was due on October 1, 1995. The loan is guaranteed by the Government of Jamaica.
- (xvii) Loan I is unsecured, bears interest at 10% per annum, and is repayable on demand.

Loan II is also unsecured, bears interest at 8% per annum and is payable on demand.
- (xviii) This represents balances on amounts drawn down under a \$300,000,000 credit facility which was obtained to provide relief to agricultural operations in need of rebuilding due to Hurricane Ivan. The principal was repayable in 24 quarterly instalments of \$12,500,000, which commenced January 1, 2006. The applicable rate of interest was 9.5% per annum. This Loan was repaid during the year.
- (xix) This represents loan of \$110,000,000, on-lent to the productive sector. The principal is repayable in 24 quarterly instalments of \$4,583,334, which commenced July 1, 2007. The applicable rate of interest is 9.5% per annum. The loan was secured by a promissory note of \$110,000,000. This Loan was repaid during the year.

Notes to the Financial Statements – March 31, 2012

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28. Loans payable (cont'd)

(xx) This is the balance on a \$600,000,000 special purpose loan from BNS. Of this:

- (1) An amount of \$350,000,000 was for on-lending to Eligible Beneficiaries within the Tourism sector. The loan is for seven years, inclusive of a one year moratorium on principal from the date of the first advance, with the final instalment being due March 2013. The interest rate is 8% per annum.
- (2) An amount of \$250,000,000 was for on-lending to the Agricultural Sector through the People's Co-operative Banks to assist Small Farmers. The loan is for seven years, inclusive of a one year moratorium on principal, from the date of the first advance, the final instalment being due March 2013. The interest rate is 7.625% per annum.

(xxi) This is the Jamaica dollar equivalent of €204.4 million which was on-lent to National Road Operating and Constructing Company Limited ("NROCC") [note 19(b)] to facilitate the refinancing of high cost debts, thus enabling highways to be constructed at a lower cost. Principal was to have been repaid in a single payment in the year 2026. The company effected a currency swap on the interest coupons. This transaction was done at a spot rate of Euro 1: US\$1.5240 and Euro coupons at 7.5% were swapped for US\$ coupon at 7.75%, later amended to 8.35% then 8.29%. This loan was converted to a global note and offered on the market, administered by Deutsche Bank – London, with the company thereby becoming indebted to those who held an interest in the global note. The Government of Jamaica had issued a Parliamentary Guarantee to the company in respect of (1) the loan of €204.4 million from the company to NROCC, and (2) the company's satisfaction of certain conditions required by Citibank under the terms of the cross-currency swap entered into on March 1, 2008, to cover the amount of the maximum mark-to-market exposure of the transaction (estimated at a maximum of US\$79 million). The company earned an interest spread of 0.25% on the loan. During the year, the currency swap contract was terminated and the loan was repaid.

(xxii) This represents the balance of amounts drawn down, together with interest capitalized, from National Housing Trust (NHT). The amount has been on-lent to sugar workers for the development of three hundred and ninety five (395) housing benefits under the Sugar Housing Redundancy Programme. The loan has no fixed repayment date and interest is no longer charged thereon, with effect from February 28, 2007.

Under the terms of the loan agreement, NHT is to provide mortgages to all purchases of lots who qualify for loans in accordance with the requirements of NHT. The loan financing, together with interest accrued, is to be converted to mortgages to the extent that the purchasers qualify for same.

NHT is also to purchase from NIBJ the lots not taken up by sugar workers. The proceeds of the mortgages and the sale of lots to NHT are to be applied to reduce the loan amounts. Any amount of the loan remaining thereafter is to be converted to a mortgage to be repaid by the company. During the year title to some lots were transferred to the NHT, thus reducing the debt by \$6.5million.

Notes to the Financial Statements – March 31, 2012

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28. Loans payable (cont'd)

- (xxiii) This amount represents the balance of amounts drawn down under a loan facility of \$225 million received from the National Insurance Fund (NIF) for on-lending to small and medium enterprises (SME). The loan bears interest at a rate of 4% p.a., and is repayable in March 2014.
- (xxiv) (1) This represents the balance under amounts drawn down under a US\$ loan from the PetroCaribe Development Fund to provide financing to the productive sector. Interest is payable semi-annually at a rate of 5% per annum. During the year the rate was reduced to 3% per annum, and the loan matures in December 2023.
- (2) This represents amounts drawn under a loan from PetroCaribe Development Fund to provide financing to Small and Medium Enterprises (SME) and the energy sector. Interest is payable semi-annually at a rate of 6% per annum. During the year the interest rate was reduced to 4% per annum. The loan matures in December 2023.
- (xxv) This loan is denominated in Jamaica dollars and is payable on demand. Part of this loan was obtained by the company at the instance of the Government of Jamaica and on-lent to Sugar Company of Jamaica Limited for support to the sugar industry. It is evidenced by promissory notes, and a Budgetary provision by the GOJ and bears interest at rates ranging from 8% to 10% per annum.

29. Other liabilities

	2012 \$'000	2011 \$'000
Due to related entities	355,614	218,749
Accruals	62,350	45,014
Statutory payroll liabilities	2,714	5,778
Other	<u>77,851</u>	<u>81,929</u>
	<u>498,529</u>	<u>351,470</u>

30. Share capital and share premium**(a) Share capital:**

Authorised:

1,757,539,000 (2010: 1,757,539,000) ordinary shares at
no par value

	2012 \$'000	2011 \$'000
Stated capital [note 30(b)]		
Issued and fully paid:		
1,757,539,000 (2010: 1,757,539,000) ordinary shares	<u>1,757,539</u>	<u>1,757,539</u>

Each ordinary share entitles the holder to the dividend per share declared from time to time and to the right to attend and vote at meetings of members of the company.

All issued shares are held by or on behalf of the Government of Jamaica.

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

30. Share capital and share premium (cont'd)**(b) Share premium:**

In accordance with Section 39(7) of the Jamaican Companies Act, 2004, share premium is not included in the company's stated capital [note 30(a)].

31. Capital reserves

		2012	2011
		\$'000	\$'000
Funds for capital	[see (a)]	1,179,817	1,179,817
Government subvention	[see (b)]	83,180	83,180
Self-Supporting Farmers Development Programme	[see (c)]	15,941	15,941
IDB grants	[see (d)]	1,064	1,474
Capital reserves – NIBJ	[see (e)]	<u>139,336</u>	<u>139,336</u>
		<u>1,419,338</u>	<u>1,419,748</u>

(a) Funds for capital

This includes amounts totalling \$450 million and \$500 million received during the years ended March 31, 1999, and March 31, 2009, respectively, from the Government of Jamaica through the Capital Development Fund as equity injections to finance the company's lending programmes.

(b) Government subvention

This represents the Government of Jamaica contribution to the company, of funds received from the Canadian International Development Agency.

(c) Self-Supporting Farmers Development Programme

This represents the balance of amounts recovered by the company and capitalised as equity under the terms of the agency agreement.

Under the terms of an Agency Agreement, dated 27 May 1982, between the company and the Government of Jamaica in relation to the Self-Supporting Farmers Development Programme (SSFDP), it was agreed that:

- (i) All assets be transferred to the company.
- (ii) The portfolio be analysed and administered by the company. Reasonable steps should be taken to recover loans determined to be doubtful.
- (iii) All loan recoveries be utilised to assist in the capitalisation of the company and such recoveries be employed in carrying out the functions of the company including the granting of loans direct to farmers for agricultural purposes only.

The portfolio of SSFDP previously administered by the company was transferred to the People's Co-operative Banks in 1997 as a contribution to the equity of those banks. This balance represents collections under the SSFDP portfolio prior to the portfolio being transferred to the PC in 1997.

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31. Capital reserves (cont'd)**(d) Other capital reserves – NIBJ**

This represents gains on the sale of investments and rights issue, as well as capital grants, transferred from NIBJ.

(e) Capital grants

	2012	2011
	\$'000	\$'000
At beginning of year	1,474	3,590
Less: Amortised during the year	(410)	(2,116)
At end of year	<u>1,064</u>	<u>1,474</u>

These represent the cost of furniture and equipment received from the Government of the Netherlands, under the Hillside Farmers' Support Project and the Rural Financial Services Project. The grants are being amortised over the life of the assets. These furniture and equipment have been included in property and equipment (note 26).

32. Other reserves

		2012	2011
		\$'000	\$'000
Fair value reserves	[see (a)]	(77,262)	120,057
General reserve – Equalisation Fund	[see (b)]	957,596	957,596
Revenue reserve	[see (c)]	2,539,391	2,539,391
Special reserves	[see (d)]	30,962	57,182
Revaluation reserve	[see (e)]	678,823	446,791
Credit Enhancement Facility Fund reserve	[see (f)]	328,878	303,386
Technical assistance reserve	[see (g)]	<u>653,666</u>	<u>-</u>
		<u>5,112,054</u>	<u>4,424,403</u>

(a) Fair value reserves

This represents unrealised (loss)/gain in fair value of available-for-sale securities.

(b) General reserve - Equalisation Fund

This reserve was established to absorb exchange losses on loans denominated in foreign currency which were negotiated directly by the company. A minimum of 20% of profit for the year (after crediting exchange gains but before crediting profits from other transfers) was transferred to the reserve. No transfer was made during the year as the loan to which the requirement for this transfer applies has been repaid.

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

32. Other reserves (cont'd)**(c) Revenue reserve**

This represents an accumulation of a minimum of 40% of profits transferred over the years (after other transfers) to this reserve.

	2012	2011
	\$'000	\$'000
At beginning and end of year	<u>2,539,391</u>	<u>2,539,391</u>

The company transferred \$250 million to the Credit Enhancement Facility Fund during 2010, which was used as start up capital for the fund (note 22).

(d) Special reserves

	<u>Technical Assistance</u>		<u>Exchange Equalisation</u>		<u>Total</u>	
	2012	2011	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at beginning of year	54,059	61,912	3,123	3,123	57,182	65,035
Transfers from retained earnings	(26,220)	(7,853)	-	-	(26,220)	(7,853)
Balance at end of year	<u>27,839</u>	<u>54,059</u>	<u>3,123</u>	<u>3,123</u>	<u>30,962</u>	<u>57,182</u>

(i) Technical assistance

The maintenance of this reserve is a requirement of a lending agreement between the company and the European Investment Bank [note 27 (xvii)], which provides, during the period of the lending agreement, for the annual transfer of a portion of the interest differential on loans funded from the loan proceeds of the lending agreement.

It is to be applied by the company on a discretionary basis to provide technical assistance to entrepreneurs who do not otherwise qualify for financial support from the company, and for sectoral and market studies.

(ii) Exchange equalisation

The maintenance of this reserve is a requirement of a lending agreement between the company and the European Investment Bank [note 27 (xvii)] which provides, during the period of the lending agreement, for the annual transfer to the exchange equalisation account of a portion of the interest differential on loans funded from the proceeds of the loan received under the lending agreement.

Notes to the Financial Statements – March 31, 2012

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32. Other reserves (cont'd)**(e) Revaluation reserve**

This represents unrealised surplus on the revaluation of land and buildings, as well as Wachovia investments.

(f) Credit Enhancement Facility Fund reserve

This represents funds transferred from revenue reserve [note 32(c)] to be used as start up capital for the fund, plus accumulated profit or loss from the fund (note 23), and is made up as follows:

	2012	2011
	\$'000	\$'000
Fund capital	<u>250,000</u>	<u>250,000</u>
Accumulated profit transferred - at beginning of year	53,386	19,842
- for the year	<u>25,492</u>	<u>33,544</u>
- at end of year	<u>78,878</u>	<u>53,386</u>
Total	<u><u>328,878</u></u>	<u><u>303,386</u></u>

(g) Technical assistance reserve

This represents the transfer from retained earnings of an amount equivalent to the discounted present value of the non-interest-bearing, 10-year note issued by GOJ consequent on its assumption of the loans due from three GOJ-owned sugar companies and previously written-off by the company, as set out in note 22(a). The Board of Directors has decided that, together with certain funds from multilateral agencies, the cash received from GOJ under the note will be used as seed funding to strengthen various institutions. This will be monitored by the Institutional Strengthening and Research Division.

	2012	2011
	\$'000	\$'000
Transfer retained earnings	661,485	-
Utilised	<u>(7,819)</u>	<u>-</u>
Total	<u><u>653,666</u></u>	<u><u>-</u></u>

33. Dividend paid

A dividend of \$25 million was declared by the Board of Directors on November 24, 2011, and paid on February 24, 2012, (2011: \$Nil).

34. Related party transactions and balances

A related party is person or entity that is related to the entity that is preparing its financial statements (in IAS 24, *Related Parties Disclosures* referred to as the 'reporting entity', in this case, the company).

Notes to the Financial Statements – March 31, 2012

(Expressed in Jamaica dollars unless otherwise noted)

34. Related party transactions and balances (cont'd)

- (a) A person or a close member of that person's family is related to the company if that person:
- (i) has control or joint control over the company;
 - (ii) has significant influence over the company; or
 - (iii) is a member of the key management personnel of the company or of a parent of the company.
- (b) An entity is related to the company if any of the following conditions applies:
- (i) the entity and the company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) one entity is an associates or joint venture of the other entity (or an associate of joint venture of a member of a group of which the other entity is member);
 - (iii) both entities are joint venture of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity or an associates of third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a) and;
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent entity).

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

(a) Related party transactions

The following transactions were carried out with government related entities and associated companies:

	2012 \$'000	2011 \$'000
(i) Interest and other income:		
Interest income - Government related entities	<u>563,222</u>	<u>2,320,254</u>
Other income - rental: Government related entities	<u>75,396</u>	<u>75,883</u>

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34. Related party transactions and balances (cont'd)**(a) Related party transactions (continued)****(ii) Interest and other expenses:**

Interest expense - Government related entities	<u>546,734</u>	<u>2,258,475</u>
Administrative fees - Government related entities	<u>96,208</u>	<u>82,263</u>

(b) Key management personnel compensation

Key management personnel comprise those persons having authority and responsibility for planning, directing and controlling the activities of the company, directly or indirectly, including the directors and the member of the senior or executive management of the company.

	2012 \$'000	2011 \$'000
Salaries and other short-term employee benefits	72,614	63,280
Statutory payroll contributions	4,297	3,563
Pension benefits	<u>2,668</u>	<u>2,078</u>
	<u>79,579</u>	<u>68,921</u>
Directors' emoluments -		
Fees	1,041	1,362
Management remuneration (included above)	<u>11,574</u>	<u>17,381</u>

(c) Related party balances**(i) Receivable from related parties:**

	2012 \$'000	2011 \$'000
(1) Loans:		
Government related entities	36	24,714,236
Associated companies	<u>549,630</u>	<u>539,248</u>
(2) Interest receivable:		
Government related entities	<u>181,431</u>	<u>442,262</u>
Associated companies	<u>319,918</u>	<u>319,918</u>
(3) Staff loan receivable	<u>10,751</u>	<u>16,646</u>

(ii) Payable to related parties:

	2012 \$'000	2011 \$'000
(1) Loans: Government related entities	<u>-</u>	<u>4,689,344</u>
(2) Interest payable: Government related entities	<u>-</u>	<u>1,494,197</u>

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35. Commitments

- (a) As at March 31, 2012, there were outstanding commitments to disburse loans totalling approximately J\$770 million and US\$.2 million (2011: J\$11,206 million and US\$NIL).
- (b) The company had capital commitments, in respect of projects being undertaken, totalling approximately \$88 million (2011: \$118.6 million).
- (c) As lessee, the company had lease commitments under a non-cancellable operating lease for which the future minimum lease payments were, in relation to the reporting date, as follows:

	2012 \$'000	2011 \$'000
Not later than one year	288	288
Later than one year and not later than five years	1,152	1,152
Later than five years	<u>25,920</u>	<u>25,920</u>
	<u>27,360</u>	<u>27,360</u>

36. Contingencies

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

The company has not provided for those claims against it in respect of which management and legal counsel are of the opinion that they are without merit, can be successfully defended or will not result in material exposure to its financial position.

The significant claims are listed below:

- (a) An action seeking damages for negligence and/or breach of contract has been brought against the company and others.

In 1996, National Development Bank of Jamaica Limited had agreed to on-lend, through National Commercial Bank Jamaica Limited, the sum of US\$600,000 to the plaintiff. This sum was never disbursed because the company contends that the plaintiff failed to satisfy the conditions precedent for the disbursement of the said loan.

The plaintiff is now contending that the failure to disburse the sum was in breach of contract and/or negligence and consequently the plaintiff has suffered loss and damage which exceeds US\$600,000. A defense has been filed on behalf of the company and the matter is now awaiting trial. Management is confident in its defense but, should it be unsuccessful, it would not materially affect its financial condition.

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36. Contingencies (cont'd)

- (b) A suit was brought by The Fishing Company Limited against DBJ and the other defendants for breaches to the terms of a lease agreement entered into between it and the Commissioner of Lands. The Fishing Company is seeking to enforce an option to purchase the leased property and damages of an unspecified amount for negligence. The DBJ has filed a defence denying liability and it has a reasonable prospect of successfully defending the claim. The parties are awaiting the mandatory referral to mediation, which is the next step in the proceedings.

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DEVELOPMENT BANK OF JAMAICA LIMITED

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