CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

YEAR ENDED DECEMBER 31, 2009

CONTENTS

Deloitte.

Deloitte & Touche
Chartered Accountants
7 West Avenue
Kingston Gardens
P.O. Box 13 Kingston 4
Jamaica, W.I.

Tel: (876) 922 6825-7
Fax: (876) 922 7673
http://www.deloitte.com.jm

42B & 42C Union Street
Montego Bay
Jamaica, W.I.

Tel: (876) 952 4713-4
Fax: (876) 979 0246

INDEPENDENT AUDITORS' REPORT

To the members of

CAPITAL & CREDIT MERCHANT BANK LIMITED

Report on the Financial Statements

We have audited the financial statements of Capital & Credit Merchant Bank Limited (the Bank) and the consolidated financial statements of the Bank and its subsidiaries (the Group), set out on pages 2 to 82, which comprise the Group's and the Bank's balance sheets as at December 31, 2009, and the Group's and the Bank's profit and loss accounts, statement of comprehensive income, statements of changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal 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.

Report on the financial statements (Cont'd)

Opinion

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

Report on additional requirements of the Jamaican Companies Act

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

In our opinion, proper accounting records have been maintained and the financial statements are in agreement therewith and give the information required in the manner so required by the Jamaican Companies Act.

Deloitte & Touche

Chartered Accountants

Kingston, Jamaica,
February 26, 2010

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2009

	Notes	2009 $'000	2008 $'000
ASSETS			
Cash resources	5	2,219,763	1,072,080
Investment in securities	6	10,755,360	11,008,285
Pledged assets	7	21,699,958	24,768,278
Investment in associate		-	3,282
Other investment	8	15,000	15,000
Loans (after provision for loan losses)	9	6,957,451	7,557,891
Accounts receivable	10, 36	637,786	675,480
Income tax recoverable		47,770	87,142
Intangible assets	11	321,954	388,208
Property and equipment	12	102,143	119,512
Deferred tax assets	13, 36	511,708	549,246
Customers' liability under acceptances, guarantees and letters of credit as per contra		405,970	590,346
Total assets		43,674,863	46,834,750

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2009

	Notes	2009 $'000	2008 $'000
LIABILITIES			
Securities sold under repurchase agreements	14	27,441,392	29,756,252
Deposits	15	8,336,639	9,378,051
Due to other financial institutions		920,435	791,962
Loan participation	16	737,098	814,790
Accounts payable	17	117,820	368,186
Preference shares	18	89,660	88,796
Liabilities under acceptances, guarantees and letters of credit as per contra		405,970	590,346
		38,049,014	41,788,383
STOCKHOLDERS' EQUITY			
Share capital	18	1,732,888	1,732,888
Statutory reserve fund	19, 36	493,110	453,940
Retained earnings reserve	20	1,515,442	1,515,442
Fair value reserve	21	(1,083,302)	(1,317,487)
Loan loss reserve	9	336,854	207,538
Unappropriated profits	36	2,595,148	2,429,527
Attributable to stockholders of the Bank		5,590,140	5,021,848
Non-controlling interest		35,709	24,519
		5,625,849	5,046,367
Total liabilities and stockholders' equity		43,674,863	46,834,750

The Notes on Pages 12 to 82 form an integral part of the Financial Statements.

The financial statements on Pages 2 to 82 were approved and authorised for issue by the Directors on February 26, 2010 and are signed on its behalf by:

Ryland T. Campbell
Chairman

Curtis A. Martin
President & CEO

Andrew B. Cocking
Director

Kelvin St. C. Roberts
Director

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT

YEAR ENDED DECEMBER 31, 2009

	Notes	2009 $'000	2008 $'000
NET INTEREST INCOME AND OTHER REVENUE			
Interest on investments		4,143,220	4,145,176
Interest on loans		1,358,646	1,030,070
Total interest income		5,501,866	5,175,246
Interest expense		4,231,769	3,954,752
Net interest income	22	1,270,097	1,220,494
Commission and fee income	23	73,541	101,015
Net (losses)/gains on securities trading		(87,849)	65,413
Foreign exchange trading and translation		440,387	218,206
Dividend income		60,792	88,484
Other income		70,311	18,644
Total other operating income		557,182	491,762
Share of loss of associate company		(3,282)	-
Net interest income and other revenue		1,827,279	1,712,256
NON-INTEREST EXPENSES			
Staff costs	24	581,007	597,817
Loan loss expense, less recovery	9	313,524	50,656
Bank charges		39,522	37,291
Property expense		106,308	78,653
Depreciation and amortisation		107,517	99,120
Information technology costs		59,593	41,448
Marketing and corporate affairs		74,470	69,475
Professional fees		62,431	48,324
Regulatory costs		28,285	31,035
Irrecoverable General Consumption Tax		40,645	36,197
Other operating expenses		62,933	104,957
Total non-interest expenses		1,476,235	1,194,973
PROFIT BEFORE TAXATION		347,762	517,283
Taxation	25, 36	5,056	63,881
NET PROFIT	26, 36	342,706	453,402
Attributable to:			
Stockholders of the Bank		334,107	446,303
Non-controlling interest		8,599	7,099
		342,706	453,402
Earnings per stock unit	27, 36	52¢	70¢

The Notes on Pages 12 to 82 form an integral part of the Financial Statements.

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31, 2009

	Note	2009 $'000	2008 $'000
NET PROFIT		342,706	453,402
OTHER COMPREHENSIVE INCOME			
Available-for-sale financial assets			
Net gains/(losses) arising on revaluation of available-for-sale financial assets during the year		258,935	(1,573,554)
Reclassification adjustments relating to available-for-sale financial assets disposed of in the year	21	85,391	(80,335)
		344,326	(1,653,889)
Income tax relating to components of other comprehensive income	13	(107,550)	551,653
Other comprehensive income for the year (net of tax)		236,776	(1,102,236)
Total comprehensive income for the year		579,482	(648,834)
Total comprehensive income attributable to:			
Stockholders of the Bank		568,292	(654,668)
Non-controlling interest		11,190	5,834
		579,482	(648,834)

The Notes on Pages 12 to 82 form an integral part of the Financial Statements.

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED DECEMBER 31, 2009

	Notes	Share Capital $'000	Statutory Reserve Fund $'000	Retained Earnings Reserve $'000	Fair Value Reserve $'000	Loan Loss Reserve $'000	Unappropriated Profits $'000	Attributable to equity holders of the Parent $'000	Non-controlling Interest $'000	Total $'000
Balance at December 31, 2007		1,732,888	408,601	1,515,442	(216,516)	74,611	2,246,978	5,762,004	18,685	5,780,689
Net profit for the year	36	-	-	-	-	-	446,303	446,303	7,099	453,402
Other comprehensive income for the year		-	-	-	(1,100,971)	-	-	(1,100,971)	(1,265)	(1,102,236)
Total comprehensive income for the year		-	-	-	(1,100,971)	-	446,303	(654,668)	5,834	(648,834)
Bonus issue of preference shares	18	-	-	-	-	-	(85,488)	(85,488)	-	(85,488)
Transfer to loan loss reserve	9	-	-	-	-	132,927	(132,927)	-	-	-
Transfer to statutory reserve fund	19, 36	-	45,339	-	-	-	(45,339)	-	-	-
Balance at December 31, 2008	36	1,732,888	453,940	1,515,442	(1,317,487)	207,538	2,429,527	5,021,848	24,519	5,046,367
Net profit for the year		-	-	-	-	-	334,107	334,107	8,599	342,706
Other comprehensive income for the year		-	-	-	234,185	-	-	234,185	2,591	236,776
Total comprehensive income for the year		-	-	-	234,185	-	334,107	568,292	11,190	579,482
Transfer to loan loss reserve	9	-	-	-	-	129,316	(129,316)	-	-	-
Transfer to statutory reserve fund	19	-	39,170	-	-	-	(39,170)	-	-	-
Balance at December 31, 2009		1,732,888	493,110	1,515,442	(1,083,302)	336,854	2,595,148	5,590,140	35,709	5,625,849

The Notes on Pages 12 to 82 form an integral part of the Financial Statements.

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2009

	Notes	2009 $'000	2008 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		342,706	453,402
Interest income		(5,501,866)	(5,175,246)
Interest expense		4,231,769	3,954,752
Loan loss expense	9	325,610	55,492
Depreciation and amortisation		107,517	99,120
Gain on disposal of property & equipment		(8)	-
Taxation		5,056	63,881
		(489,216)	(548,599)
Movement in working capital			
Accounts receivable		37,726	(56,145)
Loans receivable		383,005	(1,115,001)
Accounts payable		(250,367)	181,282
Cash used in operations		(318,852)	(1,538,463)
Interest paid		(4,359,425)	(3,893,420)
Income tax paid		(36,219)	(25,610)
Net cash used in operating activities		(4,714,496)	(5,457,493)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on disposal of property and equipment		44	-
Acquisition of intangible assets	11	-	(12,344)
Acquisition of property and equipment	12	(23,930)	(45,995)
Interest received		5,593,913	4,928,037
Decrease in investments		2,690,745	6,572,332
Net cash provided by investing activities		8,260,772	11,442,030
CASH FLOWS FROM FINANCING ACTIVITIES			
Deposits		(1,038,320)	1,667,988
Securities sold under repurchase agreements		(2,204,553)	(7,427,018)
Loan participation		(69,878)	(1,139,895)
Due to other financial institutions		135,780	(401,361)
Net cash used in financing activities		(3,176,971)	(7,300,286)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		369,305	(1,315,749)
OPENING CASH AND CASH EQUIVALENTS		360,953	1,641,145
Effects of foreign exchange rate changes		14,117	35,557
CLOSING CASH AND CASH EQUIVALENTS	28	744,375	360,953

Prior year items for net profit, taxation and accounts receivable have been restated to conform to the note 36 adjustments.

The Notes on Pages 12 to 82 form an integral part of the Financial Statements.

CAPITAL & CREDIT MERCHANT BANK LIMITED

BALANCE SHEET AT DECEMBER 31, 2009

	Notes	2009 $'000	2008 $'000
ASSETS			
Cash resources	5	1,853,457	934,784
Investment in securities	6	3,139,010	4,689,294
Securities purchased under resale agreements		1,585,543	1,125,493
Pledged assets	7	12,122,794	9,816,338
Investment in subsidiaries (shares at cost)		305,406	305,406
Investment in associate		3,282	3,282
Loans (after provision for loan losses)	9	6,957,451	7,557,891
Accounts receivable	10, 36	206,535	316,394
Income tax recoverable		85,229	109,446
Intangible assets	11	181,808	248,062
Property and equipment	12	55,787	69,577
Deferred tax assets	13, 36	393,070	424,236
Customers' liabilities under acceptances, guarantees and letters of credit as per contra		405,970	590,346
Total assets		27,295,342	26,190,549

CAPITAL & CREDIT MERCHANT BANK LIMITED

BALANCE SHEET AT DECEMBER 31, 2009

	Notes	2009 $'000	2008 $'000
LIABILITIES			
Securities sold under repurchase agreements	14	12,619,609	10,691,434
Deposits	15	8,417,125	9,378,051
Due to other financial institutions		920,435	791,962
Loan participation	16	737,098	814,790
Accounts payable	17	67,066	222,741
Preference shares	18	89,660	88,796
Liabilities under acceptances, guarantees and letters of credit as per contra		405,970	590,346
Total liabilities		23,256,963	22,578,120
STOCKHOLDERS' EQUITY			
Share capital	18	1,732,888	1,732,888
Statutory reserve fund	19, 36	493,110	453,940
Retained earnings reserve	20	1,515,442	1,515,442
Fair value reserve	21	(789,284)	(954,103)
Loan loss reserve	9	336,854	207,538
Unappropriated profits	36	749,369	656,724
		4,038,379	3,612,429
Total liabilities and stockholders' equity		27,295,342	26,190,549

The Notes on Pages 12 to 82 form an integral part of the Financial Statements.

The financial statements on Pages 2 to 82 were approved and authorised for issue by the Directors on February 26, 2010 and are signed on its behalf by:

Ryland T. Campbell
Chairman

Curtis A. Martin
President & CEO

Andrew B. Cocking
Director

Kelvin St. C. Roberts
Director

CAPITAL & CREDIT MERCHANT BANK LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED DECEMBER 31, 2009

	Notes	2009 $'000	2008 $'000
NET INTEREST INCOME AND OTHER REVENUE			
Interest on investments		1,425,753	1,242,205
Interest on loans		1,349,472	1,030,070
Total interest income		2,775,225	2,272,275
Interest expense		2,004,358	1,482,623
Net interest income	22	770,867	789,652
Commission and fee income	23	23,045	40,713
Net (losses)/gains on securities trading		(12,450)	66,695
Foreign exchange trading and translation		397,518	154,614
Dividend income		74,851	76,728
Other income		49,324	7,273
Total other operating income		532,288	346,023
Net interest income and other revenue		1,303,155	1,135,675
NON-INTEREST EXPENSES			
Staff costs	24	370,810	350,920
Loan loss expense, less recovery	9	313,524	50,656
Bank charges		32,517	28,700
Property expenses		51,156	43,969
Depreciation and amortisation		84,174	82,971
Information technology costs		51,563	31,053
Marketing and corporate affairs		50,084	34,920
Professional fees		49,308	42,434
Regulatory costs		22,769	25,183
Irrecoverable General Consumption Tax		27,156	25,120
Other operating expenses		40,207	91,971
Total non-interest expenses		1,093,268	807,897
PROFIT BEFORE TAXATION		209,887	327,778
Taxation	25, 36	(51,244)	25,519
NET PROFIT	26, 36	261,131	302,259

The Notes on Pages 12 to 82 form an integral part of the Financial Statements.

CAPITAL & CREDIT MERCHANT BANK LIMITED

STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31, 2009

	Notes	2009 $'000	2008 $'000
NET PROFIT		261,131	302,259
OTHER COMPREHENSIVE INCOME			
Available-for-sale financial assets			
Net gain/(losses) arising on revaluation of available-for-sale financial assets during the year		234,779	(1,195,446)
Reclassification adjustments relating to available-for-sale financial assets disposed of in the year	21	12,450	(66,695)
		247,229	(1,262,141)
Income tax relating to components of other comprehensive income	13	(82,410)	420,714
Other comprehensive income for the year (net of tax)		164,819	(841,427)
Total comprehensive income for the year		425,950	(539,168)

The Notes on Pages 12 to 82 form an integral part of the Financial Statements.

CAPITAL & CREDIT MERCHANT BANK LIMITED

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED DECEMBER 31, 2009

	Notes	Share Capital $'000	Statutory Reserve Fund $'000	Retained Earnings Reserve $'000	Fair Value Reserve $'000	Loan Loss Reserve $'000	Unappropriated Profits $'000	Total $'000
Balance at December 31, 2007		1,732,888	408,601	1,515,442	(112,676)	74,611	618,219	4,237,085
Net profit for the year	36	-	-	-	-	-	302,259	302,259
Other comprehensive income for the year		-	-	-	(841,427)	-	-	(841,427)
Total comprehensive income for the year		-	-	-	(841,427)	-	302,259	(539,168)
Bonus issue of preference shares	18	-	-	-	-	-	(85,488)	(85,488)
Transfer to loan loss reserve	9	-	-	-	-	132,927	(132,927)	-
Transfer to statutory reserve fund	19, 36	-	45,339	-	-	-	(45,339)	-
Balance at December 31, 2008	36	1,732,888	453,940	1,515,442	(954,103)	207,538	656,724	3,612,429
Net profit for the year		-	-	-	-	-	261,131	261,131
Other comprehensive income for the year		-	-	-	164,819	-	-	164,819
Total comprehensive income for the year		-	-	-	164,819	-	261,131	425,950
Transfer to loan loss reserve	9	-	-	-	-	129,316	(129,316)	-
Transfer to statutory reserve fund	19	-	39,170	-	-	-	(39,170)	-
Balance at December 31, 2009		1,732,888	493,110	1,515,442	(789,284)	336,854	749,369	4,038,379

The Notes on Pages 12 to 82 form an integral part of the Financial Statements.

CAPITAL & CREDIT MERCHANT BANK LIMITED

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2009

	Notes	2009 $'000	2008 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		261,131	302,259
Interest income		(2,775,225)	(2,272,275)
Interest expense		2,004,358	1,482,623
Loan loss expense	9	325,610	55,492
Depreciation and amortisation		84,174	82,971
Loss on disposal of property and equipment		17	-
Taxation		(51,244)	25,519
		(151,179)	(323,411)
Movements in working capital			
Accounts receivable		109,860	(3,506)
Loans receivable		383,005	(1,115,001)
Accounts payable		(155,675)	73,989
Cash provided by/ (used in) operations		186,011	(1,367,929)
Interest paid		(1,998,377)	(1,622,568)
Income tax paid		24,218	(24,218)
Net cash used in operating activities		(1,788,148)	(3,014,715)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on disposal of property and equipment		19	-
Acquisition of intangible asset	11	-	(12,344)
Acquisition of property and equipment	12	(4,164)	(34,309)
Interest received		2,646,731	2,175,899
(Increase)/decrease in investments		(1,127,075)	4,915,286
Securities purchased under resale agreements		126,973	(632,577)
Net cash provided by investing activities		1,642,484	6,411,955
CASH FLOWS FROM FINANCING ACTIVITIES			
Deposits		(958,820)	1,663,542
Securities sold under repurchase agreements		1,905,833	(5,399,991)
Loan participation		(69,879)	(1,139,895)
Due to other financial institutions		135,780	(401,361)
Net cash provided by/(used in) financing activities		1,012,914	(5,277,705)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		867,250	(1,880,465)
OPENING CASH AND CASH EQUIVALENTS		659,087	2,515,448
Effect of foreign exchange rate changes		(124,793)	24,104
CLOSING CASH AND CASH EQUIVALENTS	28	1,401,544	659,087

Prior year items for net profit, taxation and accounts receivable have been restated to conform to the note 36 adjustments.

The Notes on Pages 12 to 82 form an integral part of the Financial Statements

1 GROUP IDENTIFICATION

1.1 Composition of the Group

Capital & Credit Merchant Bank Limited (“the Bank”) is incorporated in Jamaica and is a 100% subsidiary of Capital & Credit Financial Group Limited (CCFG), which is also incorporated in Jamaica. The registered office of the Bank is 6 – 8 Grenada Way, Kingston 5.

The Bank became a 100% subsidiary of CCFG effective March 31, 2008 resulting from the exchange of CCFG’s shares for the Bank’s ordinary shares held by the non-controlling shareholders (see also Note 18).

Effective May 15, 2008, the Bank’s ordinary shares which were previously listed on both the Jamaica Stock Exchange and the Trinidad and Tobago Stock Exchange were de-listed.

As part of the restructuring of the Bank’s ownership, preference shares were issued to its shareholders (see also Note 18). The preference shares were then listed on the Jamaica Stock Exchange and the Trinidad and Tobago Stock Exchange effective May 15, 2008.

As indicated in Note 18, at the extraordinary meeting of the Shareholders of the Bank held on March 31, 2008, the Scheme of Arrangement that was approved required the Bank to transfer its shareholdings in its wholly-owned subsidiary, Capital & Credit Securities Limited (CCSL) and its 70% owned subsidiary, Capital & Credit Fund Managers Limited (CCFM) to its parent company, Capital & Credit Financial Group Limited (CCFG).

Subsequent to the approval by the Shareholders, issues arose in relation to the sale consideration and the tax consequences for the transfer of the shareholdings in CCSL and CCFM to finalize the reorganisation of the Group of Companies as intended.

As a result, the directors on November 7, 2008 approved that the aspect of the reorganisation relating to the transfer of CCMB’s shareholding in the two subsidiaries be rescinded. The restoration of the ownership of the companies to CCMB would not in any way, affect the control of the said companies, as wholly-owned by CCFG.

The Group comprises the Bank and its subsidiaries, Capital & Credit Securities Limited and Capital & Credit Fund Managers Limited. Both subsidiaries are incorporated and domiciled in Jamaica.

1.2 Principal activities

The Bank’s main business is that of taking deposits, granting loans and trading in foreign currencies.

Subsidiaries	Place of incorporation and operation	Proportion of direct ownership interest	Proportion of voting power held	Principal Activities
Capital & Credit Securities Limited	Jamaica	100%	100%	Dealing in securities, stockbroking, portfolio planning, pension fund management and investment advisory services
Capital & Credit Fund Managers Limited	Jamaica	69.85%	69.85%	Management of Jamaica Investment Fund and the selling of units to the public on its behalf

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

1 GROUP IDENTIFICATION (Cont'd)

1.3 Regulation and licence

i) The Bank is licensed under the Financial Institutions Act and the Securities Act and regulated by the Bank of Jamaica (the Supervisor) and the Financial Services Commission.

ii) Capital & Credit Securities Limited is licensed under the Securities Act and is regulated by the Financial Services Commission and the Jamaica Stock Exchange as a stockbroker.

iii) Capital & Credit Fund Managers Limited is licensed under the Unit Trust Act and regulated by the Financial Services Commission.

1.4 Associate company

Associate	Place of incorporation and operation	Proportion of ownership interest	Proportion of voting power held	Principal Activities
Capital & Credit Holding Inc.	United States of America	20%	20%	Investment in Capital & Credit International Inc., an investment banking entity in the USA.

2 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

2.1 *Standards and Interpretations affecting presentation and disclosures*

The following new and revised Standards and interpretations have been adopted in the current period and the effects are detailed below. Details of other Standards and Interpretations adopted in these financial statements but have had no effect on the amounts reported are set out in Note 2.2.

Standards affecting presentation and disclosure

- IAS 1(as revised in 2007): Presentation of Financial Statements. The main objective of the revision in IAS 1 was to aggregate information in financial statements on the basis of shared characteristics. Adoption of IAS 1 affected Group's presentation of owner changes in equity and of non-owner changes in equity (comprehensive income). The revision required the presentation of comprehensive income in one or two statements and the Group has adopted the two statement method to present the comprehensive income. Presentation of Group's statement of changes in equity has also been amended to comply with the revisions. In addition, the revised Standard requires presentation of a third statement of financial position (balance sheet) at January 1, 2008 when applying policy changes retrospectively. However the Group has not presented a third statement for the reason described below under the caption IFRS 8.

- IFRS 7: Financial Instruments – Improving Disclosures about financial instruments. The amendments to IFRS 7 expanded the disclosure required in respect of fair value measurements and liquidity risk. In particular, the amendment requires the disclosure of fair value measurements by level of a fair value hierarchy. The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional relief offered in the amendments.

- IFRS 8: Operating Segments. IFRS 8 is a disclosure Standard and has replaced IAS 14. The new Standard requires a 'management approach' under which segment information is presented on the same basis as that used for internal purposes. Adoption of IFRS 8 has not resulted in the basis on which segment information is presented in comparison to previous years and has not resulted in a change in the financial performance and positions reported for the current and prior accounting periods. Therefore the Group has not presented a third statement of financial position (balance sheet) at January 1, 2008. (See also note 30)

2 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Cont'd)

2.2 ***Standards and Interpretations adopted with no effect on the financial statements***

- *IAS* 23 *(Revised)* - *Borrowing Costs* - The revision removes the option of either capitalising borrowing costs relating to qualifying assets or expensing these borrowing costs. The revised standard requires management to capitalise borrowing costs attributable to qualifying assets. Qualifying assets are assets that take a substantial time to get ready for their intended use or sale.

- *IAS 28 (Revised) Investments in Associates* – effective January 1, 2009. The amendment addresses Impairment of investments in associates as it gives clarification that an investment in an associate is treated as a single asset for impairment testing. Therefore, an impairment loss recorded by an investor after applying the equity method is not allocated against any goodwill included in the equity accounted investment balance. Such an impairment loss should be reversed in a subsequent period to the extent that the recoverable amount of the associate increases.

- *Under the amendments to IAS* 32 (Revised) *Financial instruments: Presentation* – effective January 1, 2009. *Puttable Instruments and Obligations Arising on Liquidation,* certain financial instruments that currently meet the definition of a financial liability will be classified as equity because they represent the residual interest in the net assets of the entity.

- *Under the amendments to IFRS 2 (Revised) Share-based payment* – effective January 1, 2009. V*esting Conditions and Cancellations,* the terms 'vesting conditions' and 'cancellations' were clarified as follows. Vesting conditions are service and performance conditions only. Features of a share-based payment that are not vesting conditions should be included in the grant date fair value of the share-based payment. A cancellation of equity instruments is accounted for as an acceleration of the vesting period.

- *IFRIC 13 Customer Loyalty Programmes* - effective July 1 2008. This Interpretation addresses the accounting by entities that provide their customers with incentives to buy goods or services by providing awards (called 'award credits') as part of a sales transaction. IFRIC 13 requires the entity that grants the awards to account for the sales transaction that gives rise to the award credits as a 'multiple-element revenue transaction' and to allocate the fair value of the consideration received or receivable between the award credits granted and the other components of the revenue transaction. This treatment applies irrespective of whether the entity supplies the awards (the discounted goods or services) or whether a third party supplies them. For arrangements falling within its scope, IFRIC 13 explicitly prohibits the alternative treatment of recognising the full consideration received as revenue, with a separate liability for the cost of supplying the awards.

- *IFRIC 15 Agreements for the Construction of Real Estate* - effective January 1, 2009. The Interpretation addresses how entities should determine whether an agreement for the construction of real estate is within the scope of IAS 11 *Construction Contracts* or IAS 18 *Revenue* and when revenue from the construction of real estate should be recognised.

- *IFRIC 16 Hedges of a Net Investment in a Foreign Operation* – effective October 1, 2008. The Interpretation provides guidance on the detailed requirements for net investment hedging for certain hedge accounting designations.

2 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Cont'd)

2.2 *Standards and Interpretations adopted with no effect on the financial statements (Cont'd)*

- *IFRIC 18 Transfers of Assets from Customers* (effective for transfers made on or after 1 July 2009). The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit recognised as revenue in accordance with IAS 18 *Revenue*.

2.3 *Standards and Interpretations in issue not yet adopted*

At the date of authorisation of these financial statements, the following new Standards and Interpretations and amendments to those in issue were not yet effective or early adopted for the financial period being reported upon:

		Effective for annual periods beginning on or after
IAS 1, 7, 17, 36, 39, IFRS 5 and 8 (Revised)	Amendments arising from April 2009 Annual Improvements to IFRS	January 1, 2010
IAS 24 (Revised)	Related Party Disclosures – Revised definition of related parties	January 1, 2011
IAS 27 (Revised)	Consolidated and Separate Financial Statements - Consequential amendments arising from amendments to IFRS 3	July 1, 2009
IAS 28 (Revised)	Investments in Associates - Consequential amendments arising from amendments to IFRS 3	July 1, 2009
IAS 31 (Revised)	Interests in Joint Ventures - Consequential amendments arising from amendments to IFRS 3	July 1, 2009
IAS 32 (Revised)	Financial Instruments: Presentation - Amendments relating to classification of rights issues	February1, 2010
IAS 38 (Revised)	Intangible assets – Amendments arising from April 2009 Annual Improvements to IFRS	July 1, 2009
IAS 39 (Revised)	Financial Instruments: Recognition and Measurement - Amendments to clarify Eligible Hedged Items - Amendments for embedded derivatives when reclassifying financial instruments.	July 1, 2009 June 30, 2009
IFRS 1 (Revised)	First-time Adoption of International Financial Reporting Standards: - Amendment relating to oil and gas assets and determining whether an arrangement contains a lease	January 1, 2010

2 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Cont'd)

2.3 *Standards and interpretations in issue not yet adopted (Cont'd)*

		Effective for annual periods beginning on or after
IFRS 2 (Revised)	Share-based Payment: - Amendments arising from April 2009 Annual Improvements to IFRS - Amendments relating to Group cash-settled share-based payment transactions	 July 1, 2009 January 1, 2010
IFRS 3 (Revised)	Business Combinations - Comprehensive revision on applying the acquisition method	July 1, 2009
IFRS 5 (Revised)	Non-current Assets Held for Sale and Discontinued Operations - Amendment relating to Plans to sell the controlling interest in a subsidiary	July 1, 2009
IFRS 8 (Revised)	Operating Segments - Amendments resulting from April 2009 Annual Improvements to IFRS	January 1, 2010
IFRS 9 (new)	Financial Instruments – Classification and Measurement	January 1, 2013
IFRIC 9 (Revised)	Reassessment of Embedded Derivatives – Amendments arising from April 2009 Annual Improvements to IFRS	July 1, 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation - Amendment to the restriction on the entity the entity that can hold hedging instruments	July 1, 2009
IFRIC 17	Distributions of Non-cash Assets to Owners	July 1, 2009
IFRIC 19	Extinguishing Financial Liabilities with Equity	July 1, 2010

Except as noted below, the Board of Directors and management anticipate that the adoption of these standards and interpretations in the future periods at their effective dates will not be relevant to the financial statements of the Group in the periods of initial application.

- IAS 24 (revised): Related Party Disclosures *Effective 1 January 2011*. The amendments to standard simplify the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government (referred to as government-related entities) and clarify the definition of a related party. The standard is not expected to have any significant impact on the Group's financial results and will only have an impact on the disclosures in the financial statements.

- *IAS 27 (Revised) - Consolidated and Separate Financial Statement,* under the amendments, the increases or decreases in a parent's ownership interest that do not result in a loss of control, is accounted for as equity transactions of the consolidated entity. No gain or loss is recognised on such transactions and goodwill is not re-measured. Any difference between the change in the non-controlling investment and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent. Where there is loss of control of a subsidiary, any retained non-controlling investment at the date control is lost is re-measured to fair value. Losses of the acquired entities are allocated to the non-controlling interest even if they exceed the non-controlling interest's share of equity in the subsidiary. The adoption of the revised standard is not expected to have any significant impact on the consolidated financial statements of the Group.

2 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Cont'd)

2.3 Standards and interpretations in issue not yet adopted (Cont'd)

- The amendments to *IFRS 2: Share-based Payment* – effective January 1, 2010, provide additional guidance on the accounting for share-based payment transactions among group entities. The revised Standard states explicitly that the entity receiving the goods or services will recognise the transaction as an equity-settled share-based payment transaction only if; the awards granted are its own equity instruments; or it has no obligation to settle the transaction. In all other circumstances, the entity will measure the transaction as a cash-settled share-based payment. The standard is not expected to have any significant impact on the Group's financial statements.

- *IFRS* 3 *(Revised) Business Combinations - The revision to IFRS 3 and the consequential amendments to IAS* 27 *Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures,* remove the scope exclusions for business combinations involving two or more mutual entities and business combinations in which separate entities are brought together to form a reporting entity by contract alone without the obtaining of an ownership interest. The standard is not expected to have any significant impact on the Group's financial statements.

- *IFRS* 9 *Financial Instruments -* The Standard introduces new requirements for the classification and measurement of financial assets and is effective from January 1, 2013 with early adoption permitted. Under the new standards all recognised financial assets that are currently in the scope of IAS 39 will be measured at either amortised cost or fair value. A debt instrument (e.g. loan receivable) that (1) is held within a business model whose objective is to collect the contractual cash flows and (2) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding generally must be measured at amortised cost. All other debt instruments must be measured at fair value through profit or loss (FVTPL). A fair value option is available (provided that certain specified conditions are met) as an alternative to amortised cost measurement. For debt instruments not designated at FVTPL under the fair value option, reclassification is required between FVTPL and amortised cost, or vice versa, if the entity's business model objective for its financial assets changes so that its previous model no longer applies.

  The new requirements for classification and measurement of financial liabilities, derecognition of financial instruments, impairment and hedge accounting are expected to be added to IFRS 9 in 2010. As a result, IFRS 9 will eventually be a complete replacement for IAS 39 and IFRS 7. An early adoption of IFRS 9 will require the continued application of IAS 39 for other accounting requirements for financial instruments within its scope that are not covered by IFRS 9 (e.g. classification and measurement of financial liabilities, recognition and derecognition of financial assets and financial liabilities, impairment of financial assets, hedge accounting, etc.).

  The standard is likely to have a significant impact on the Group's financial results as gain or loss on a financial asset or financial liability that is measured at fair value and is not part of a hedging relationship shall be presented in profit or loss unless the financial asset is an investment in an equity instrument and the entity elects to present gains and losses on that investment in other comprehensive income.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of compliance

The Group's financial statements have been prepared in accordance, and comply with, International Financial Reporting Standards (IFRS) and the Jamaican Companies Act.

3.2 Basis of preparation

3.2.1 Basis of measurement

The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.2 Basis of preparation (Cont'd)

The principal accounting policies are set out below.

3.2.2 Functional and presentation currency

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates ("its functional currency"). For the purpose of the consolidated financial statements the results and financial position of each group entity are expressed in Jamaican dollars which is the Group's functional currency and the presentation currency for the consolidated financial statements.

3.2.3 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interest in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of changes in equity since the date of the combination. Losses applicable to the non-controlling interest in excess of their interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

3.4 Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held-for-sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

The interest of the non-controlling shareholders in the acquiree is initially measured at the non-controlling interest's proportions of the net fair value of the assets, liabilities and contingent liabilities recognised.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.5 Investment in subsidiaries

Subsidiary companies are those in which the Group has power to govern the financial and operating policies so as to obtain benefits from their activities.

Investment in subsidiaries is carried in the financial statements at cost less any recognised impairment losses.

3.6 Investment in associate

An associate is an entity over which the Group has significant influence and is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not provide control or joint control over those policies.

Investment in associate is stated at cost adjusted for changes in the Group's share of the net assets of the associate, if any, less any impairment in the value of the investment.

3.7 Goodwill

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

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

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

3.8 Financial Instruments

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

A financial asset is any asset that is:

(a) cash
(b) an equity instrument of another entity
(c) a contractual right:

- (i) to receive cash or another financial asset from another entity; or
- (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the Group; or

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.8 Financial Instruments (Cont'd)

(d) a contract that will or may be settled in the Group's own equity instruments and is:

(i) a non-derivative for which the Group is or may be obliged to receive a variable number of the Group's own equity instruments; or
(ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments. For this purpose the Group's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the Group's own equity instruments.

A financial liability is any liability that is:

(a) a contractual obligation:

(i) to deliver cash or another financial asset to another entity; or
(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group; or

(b) a contract that will or may be settled in the Group's own equity instruments and is:

(i) a non-derivative for which the Group is or may be obliged to deliver a variable number of the Group's own equity instruments; or
(ii) a derivative that will be or may be settled other than by the exchange of a fixed amount of cash or another financial asset for fixed number of the Group's own equity instruments. For this purpose the Group's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the Group's own equity instruments.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

The Group recognises financial assets or financial liabilities on its balance sheet only when the Group becomes a party to the contractual provisions of the instruments.

3.8.1 Financial assets

Financial assets are recognised and derecognised using trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the asset within the timeframe established by the market and are initially measured at fair value plus transaction cost, except for those financial assets classified at fair value through profit or loss, which are initially measured at fair value.

The financial assets of the Group include cash resources, investment in securities, securities purchased under resale agreements, loans and accounts receivable.

Financial assets are classified into the following categories:

- Financial assets at fair value through profit or loss
- Held to maturity investments
- Available for sale financial assets, and
- Loans and receivables

The classification depends on the nature and purpose of the financial assets and is determined at the time of acquisition.

3.8.1.1 Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss where the financial asset is either held for trading or is designated at fair value through profit or loss.

3 **SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

3.8 **Financial Instruments (Cont'd)**

3.8.1 Financial assets (Cont'd)

3.8.1.1 Financial assets at fair value through profit or loss (Cont'd)

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the bank manages together and has a recent actual pattern of short-term profit taking.

A financial asset other than a financial asset held for trading may be designated at fair value through profit or loss upon initial recognition if:

- such a designation eliminates or significantly reduces a measurement or inconsistency that would arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and the information about the grouping is provided internally on that basis.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial assets. Fair value is determined in the manner described in Note 33.

3.8.1.2 Held-to-maturity investments

Securities with fixed or determinable payments and fixed maturity dates that the Group has the positive ability to hold to maturity are classified as held to maturity investments. These investments are recorded at amortised cost using the effective interest rate method less any impairment, with revenue recognised on an effective yield basis. Were the Group to sell, other than an insignificant amount of held-to-maturity securities (in comparison to the remaining balance in the category) the entire category would be compromised and reclassified as available-for-sale.

3.8.1.3 Available-for-sale financial assets

Listed securities held by the Group that are traded in an active market and unlisted shares are classified as being available for sale and are stated at fair value. Fair value is determined in the manner described in Note 33. Gains and losses arising from changes in fair value are recognised in other comprehensive income and are accumulated in the fair value reserve with the exception of impairment losses. Interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the fair value reserve is included in the profit or loss for the period.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's rights to receive the dividends are established.

The fair value of available-for-sale monetary assets denominated in foreign currency is determined in that currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to the translation differences that result from a change in amortised cost of the assets is recognised in profit or loss, and the other changes are recognised in equity.

3.8.1.4 Loans and receivables

Loans and receivable that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.8 Financial Instruments (Cont'd)

3.8.1 Financial assets (Cont'd)

3.8.1.4 Loans and receivables (Cont'd)

Interest income is recognised by applying the effective interest rate except for short term receivables, when the recognition of interest would be immaterial.

3.8.1.5 Loans and provisions for credit losses

Loans are recognised when cash is advanced to borrowers. They are initially recorded at cost which is the cash given to originate the loan including any transaction costs and subsequently measured at amortised cost using the effective interest rate method.

A loan is classified as non-performing 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.

Loans are classified as non-accrual if they are non-performing in excess of ninety days. When a loan is classified as non-accrual, recognition of interest in accordance with the terms of the original loan ceases, and interest is taken into account on a cash basis by regulation.

A provision for credit losses is established if there is objective evidence that a loan is impaired. A loan is considered impaired when management determines that it is probable that all amounts due according to the original contractual terms will not be collected. When a loan has been identified as impaired, the carrying amount of the loan is reduced by recording specific provisions for credit losses to reduce it to its estimated recoverable amount, which is the present value of expected future cash flows including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loan.

General provisions for doubtful credits are established against the loan portfolio where a prudent assessment by the Group of adverse economic trends suggests that losses may occur, but where such losses cannot yet be determined on an item-by-item basis. The Supervisor requires that such a provision should not be less than 0.5% for certain residential mortgages and not less than 1% for all other loans. If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited as a reduction of the provision for loan losses.

Statutory and other regulatory loan loss reserve requirements that exceed the provision required under IAS 39 (Financial Instruments) are dealt with in a non-distributable loan loss reserve as a transfer from unappropriated profits.

Write-offs are made when all or part of a loan is deemed uncollectible. Write-offs are charged against previously established provisions for credit losses and reduce the principal amount of a loan. Recoveries in part or in full of amounts previously written-off are credited to loan loss expense in the profit and loss account.

3.8.1.6 Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a financial asset and allocating interest income over the relevant period. The effective interest rate is the rate that exactly discount estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction cost and all other premiums or discounts) through the expected life of the financial asset, or where appropriate, a shorter period to the net carrying amount of the financial asset.

Income is recognised on an effective interest rate basis for the instruments other than those financial assets designated at fair value through profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.8 Financial Instruments (Cont'd)

3.8.1 Financial assets (Cont'd)

3.8.1.7 Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition of the financial asset, the estimated future cash flow has been impacted.

For available-for-sale equity securities a significant or prolonged decline in the fair value of the security below its cost is considered to be the objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- delayed payment past the due date.

For certain categories of financial assets, such as accounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception for loans receivable and accounts receivable, where the carrying amount is reduced through the use of an allowance account. When receivable is considered uncollectible, it is written off against the allowance. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to the profit and loss account in the period.

With the exception of available-for-sale equity securities, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date impairment is reversed, does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity securities, impairment losses previously recognised to profit or loss are not reversed through profit or loss. Any increase in the fair value subsequent to an impairment loss is recognised in other comprehensive income..

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.8 Financial Instruments (Cont'd)

3.8.1 Financial assets (Cont'd)

3.8.1.8 De-recognition of financial assets

The Group de-recognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risk and rewards to the ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risk and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and the associated liability for the amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises the collateralized borrowing for the proceeds received.

3.8.2 Financial liabilities and equity instruments issued by the Group

3.8.2.1 Financial liabilities

Financial liabilities are classified at fair value through profit or loss or other liabilities. The Group currently has no financial liabilities classified at fair value through profit or loss. Other financial liabilities of the Group are securities sold under repurchase agreements, customer deposits, due to other financial institutions, loan participation and accounts payable.

Other financial liabilities are initially measured at fair value, net of transaction cost and subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised on an effective yield basis.

The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the financial liability. Interest expense is recognised in profit or loss for the period.

3.8.2.2 De-recognition of financial liabilities

The Group de-recognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

3.8.2.3 Equity instruments

Equity instruments issued by the Group are recorded as proceeds received, net of direct issue costs.

3.8.2.4 Sale and repurchase agreements

Securities purchased under agreement to resell (reverse repurchase agreements) and securities sold under agreements to repurchase (repurchase agreements) are treated as collaterised financing transactions and are recorded at the amount at which the securities were acquired or sold plus accrued interest, using the effective interest rate method.

Securities sold subject to repurchase agreements ('repos') are stated as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral.

3.8.3 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand and in banks and investments in money market instruments net of outstanding bank overdrafts. These assets comprise balances with less than three months maturity from the date of inception.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.9 Property and equipment

Property and equipment held for use in the provision or supply of services, or for administrative purposes, are recorded at historical cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property and equipment in the course of construction for production, rental or administrative purpose or for purposes not yet determined are carried at cost (including professional fees), less any recognised impairment loss. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

Depreciation is charged on a straight-line basis so as to allocate the cost of the assets to their residual values over their estimated useful lives.

Land is not depreciated.

The estimated useful lives, residual values and depreciation method are reviewed each year with the effect of any change in estimate being accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit and loss account.

Repairs and renewals are charged to the profit and loss account when the expenditure is incurred.

3.10 Intangible assets

3.10.1 Computer software costs

Direct costs that are associated with identifiable and unique software products controlled by the Group that are expected to generate economic benefits beyond one year, are recognised as assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads. Costs associated with maintaining computer software programmes are recognised as an expense over the expected period of usage (not expected to exceed 12 months).

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the software. Computer software costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of 5 years.

3.10.2 Goodwill

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised at the date of acquisition and is subsequently measured at cost less any accumulated impairment losses. If after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the profit and loss account.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.11 Impairment of tangible and intangible assets

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

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

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

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

3.12 Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

3.12.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from the net profit as reported in the profit and loss account because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted at balance sheet date.

3.12.2 Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognised if the temporary differences arise from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.12 Taxation (Cont'd)

3.12.2 Deferred tax (Cont'd)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3.12.3 Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in the profit and loss account, except when they relate to items credited or debited directly to other comprehensive income, in which case the tax is also recognised in other comprehensive income.

3.13 Acceptances

The Group's potential liability under acceptances is recorded as a liability. The Group's recourse against its customers in the event of a call on these commitments is reported as an asset.

3.14 Revenue recognition

3.14.1 Interest income

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

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

3.14.2 Fees and commission

Fees and commission are recognised on the accrual basis when service has been provided. Loan origination fees for loans which are likely to be drawn down are deferred, together with related direct costs, and recognised as an adjustment to the effective yield on the loan. Also included is sale of services which is recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Management participation fees and preliminary charges are recognised monthly by applying the appropriate percentage as stipulated by the trust deed to the value of the deposited property of the fund at the end of each month.

3 **SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

3.14 **Revenue recognition (Cont'd)**

3.14.3 Dividend income

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

3.15 **Related party transactions and balances**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related party transactions and balances are recognised and disclosed for the following:

3.15.1 Enterprises and individuals owning directly or indirectly an interest in the voting power of the entity that gives significant influence over the entity's affairs and close members of the families of these individuals.

3.15.2 Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, including directors, officers and close members of the families of these individuals.

3.16 **Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

3.16.1 Group as the lessee

The leases entered into by the Group are operating leases as a significant portion of the risks and reward of ownership are retained by the lessor. The total payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

3.16.2 Group as the lessor

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

3.17 **Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amounts of the obligation.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.18 Employee benefits

3.18.1 Pension obligations

The Group pays fixed contributions into a defined contribution Superannuation Fund and has no legal or constructive obligations to pay further pension benefits.

The regular contributions constitute costs for the year in which they are due and are included in staff costs.

3.18.2 Employee Share Ownership Plan

The Bank's parent company, Capital & Credit Financial Group Limited (CCFG) has an Employee Share Ownership Plan (ESOP) for eligible employees of the Capital & Credit Financial Group Limited group of companies. When the options are exercised, the market value of the shares is credited to share capital in the accounts of the parent company. The difference between the market value and the option price is included in staff costs in the accounts of the respective subsidiary. Market value is the lower of bid and last sale price on the Jamaica Stock Exchange at the effective date of the option.

3.18.3 Leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave for services rendered by employees up to the balance sheet date.

3.18.4 Termination benefits

The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

3.19 Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the Group acts in a fiduciary capacity such as nominee, trustee or agent.

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from the sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 ***Critical judgments in applying accounting policies***

The following is a critical judgment, apart from those involving estimations (see 4.2 below) that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Reclassification of Financial Assets

During 2008, the Group reclassified certain financial assets which meet the definition of loans and receivables and held to maturity out of the available-for-sale category to these categories (see Note 35). The Group believed that the deterioration of the world's financial markets that occurred during the third quarter of 2008 represented a rare circumstance that allowed such a reclassification. The Group had the intention and ability to hold these reclassified loans and receivables for the foreseeable future or until maturity at the date of reclassification.

Ability to hold is usually demonstrated if the entity has the financial resources to continue to finance the investment to maturity or is not subject to any legal or other constraint that could frustrate its intention to hold the asset to maturity. The highly unusual situation in the market made it difficult to assess ability to hold. However, the Group's access to deposit funding, interbank funding, and liquidity provided by the Group's loan portfolio, indicated access to sufficient financial resources to continue financing these assets. (See Note 35).

Held-to-Maturity Investments

In accordance with IAS 39 guidance in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity, the Group reclassified certain investment securities in 2008 that met the definition of held-to-maturity investments out of the available-for-sale category to the held to maturity category. This reclassification required judgment and in making this judgment, the Group evaluated its intention and ability to hold these investments to maturity. If the Group fails to keep these investments to maturity other than in specific permissible circumstances such as selling an insignificant amount close to maturity, it will be required to reclassify the entire class as available-for-sale. The investment therefore would be measured at fair value, not amortised cost. If the entire class of held-to-maturity investments is compromised, the carrying value which is at amortised cost would be increased by $5.9 million (2008: decreased by $10.1 million) for the Group, with a corresponding adjustment in the fair value reserve in shareholders' equity. For the Bank there are no held-to-maturity investments.

4.2 ***Key sources of estimation uncertainties***

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities.

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

4.2 *Key sources of estimation uncertainties (Cont'd)*

Fair value of financial assets

As described in Note 33, the management uses its judgment in selecting appropriate valuation techniques to determine fair values of financial assets. Valuation techniques commonly used by market practitioners supported by appropriate assumptions are applied by the Group. The financial assets of the Group at the balance sheet date recorded at fair value amount to $11.2 billion (2008: $12.6 billion) and of the Bank $2.1 billion (2008: $2.7 billion).

Income taxes

Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made (see Note 25).

Impairment losses on loans and advances

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

To the extent that the net present value of estimated cash flows changed adversely by 2 percent, the provision as estimated would be increased from $385.3 million to $518.2 million (2008: from $97.2 million to $147.0 million) for the Group and the Bank.

5 CASH RESOURCES

Cash resources include $699.6 million (2008: Nil) held by an investment broker as security for funding provided on certain investment securities, and also $775.8 million (2008: $711.1 million) held under Section 14(i) of the Financial Institutions Act, at the Bank of Jamaica as a Cash Reserve. Accordingly, these amounts are not available for investment or other use by the Group.

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

6 INVESTMENT IN SECURITIES

	The Group		The Bank	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Financial assets at fair value through profit or loss:				
Equity securities	23,000	40,808	-	-
Securities available-for-sale				
Government of Jamaica securities	9,032,654	9,330,764	1,186,002	1,791,125
US Government agencies	37,136	69,082	-	69,082
Equity investments	747,420	710,269	706,073	651,206
Bank of Jamaica certificates of deposit	731,005	2,015,497	-	-
Other securities	188,071	98,002	160,000	94,664
	10,736,286	12,223,614	2,052,075	2,606,077
Loans and Receivables Securities: (see Note 35)				
Government of Jamaica securities	14,064,561	13,243,809	10,647,543	9,565,767
Other securities	4,140,222	3,576,113	2,279,734	2,072,678
	18,204,783	16,819,922	12,927,277	11,638,445
Held to Maturity Securities: (see Note 35)				
Government of Jamaica securities	1,196,158	752,989	-	-
US Government agencies	1,480,510	1,740,970	-	-
Bank of Jamaica certificates of deposit	26,666	3,011,704	-	-
Other securities	-	198,388	-	-
	2,703,334	5,704,051	-	-
Total AFS, LR and HTM securities	31,644,403	34,747,587	14,979,352	14,244,522
Pledged assets (See Note 7)	(21,699,958)	(24,768,278)	(12,122,794)	(9,816,338)
	9,944,445	9,979,309	2,856,558	4,428,184
	9,967,445	10,020,117	2,856,558	4,428,184
Interest receivable	787,915	988,168	282,452	261,110
	10,755,360	11,008,285	3,139,010	4,689,294

The interest rates of a significant portion of Government of Jamaica Local Registered Stocks are adjusted on interest payment dates by reference to the existing six months Treasury bill rate which is the primary reference point for interest rates in the economy. The securities classified as available-for-sale have been valued at market value. Market value is computed using the current market quotations for similar securities derived from accumulation of data for the market and the compilation of a monthly yield curve.

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

6 INVESTMENT IN SECURITIES (Cont'd)

Government securities totalling $71.4 million (2008: $71.4 million) are held by the Bank of Jamaica, of which $70.4 million (2008: $70.4 million) are held as security in the event of an overdraft on the Bank's and subsidiary's primary dealer accounts, and $1.0 million (2008: $1.0 million) to facilitate stockbroking activities of the subsidiary.

Gross losses of $85.4 million for the Group and $12.5 million for the Bank (2008: Gross gains of $80.3 million for the Group and $67.0 million for the Bank) were realised during the year on sale of securities available-for-sale.

7 PLEDGED ASSETS

The Group enters into collateralized repurchase agreements and as at the balance sheet date, investment securities amounting to $21.7 billion (2008: $24.8 billion) of the Group and $12.1 billion (2008: $9.8 billion) of the Bank were pledged as collateral for repurchase agreements which represents the total of those assets pledged for which the transferee has the right by contract or custom to sell or repledge the collateral.

8 OTHER INVESTMENT

This represents qualifying shares held in the Jamaica Stock Exchange Limited (JSE) at cost. The qualifying shares entitle Capital & Credit Securities Limited, a subsidiary, to operate as a broker/dealer and be a member of the Council of the JSE.

9 LOANS (AFTER PROVISION FOR LOAN LOSSES)

	The Group and the Bank	
	2009	2008
	$'000	$'000
Corporate	5,111,177	5,089,359
Individuals	1,917,042	2,359,346
	7,028,219	7,448,705
Less provision	385,334	97,206
	6,642,885	7,351,499
Interest receivable	314,566	206,392
	6,957,451	7,557,891

	The Group and the Bank					
	Remaining Term to Maturity					
	Under 3 months	3 to 12 Months	1 to 5 Years	Over 5 Years	Carrying Value 2009	Carrying Value 2008
	$'000	$'000	$'000	$'000	$'000	$'000
Corporate	713,726	884,008	2,446,076	1,067,367	5,111,177	5,089,359
Individuals	360,229	263,633	916,162	377,018	1,917,042	2,359,346
	1,073,955	1,147,641	3,362,238	1,444,385	7,028,219	7,448,705

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

9 LOANS (AFTER PROVISION FOR LOAN LOSSES) (Cont'd)

(a) The loan balance includes an amount of $87.2 million (2008: $97.2 million) receivable from the bank's employees.

(b) The aggregate amount of non-performing loans on which interest is not being accrued is $704.3 million (2008: $550.9 million).

(c) The movements in the provisions for loan losses are as follows:

	2009 $'000	2008 $'000
Specific provision		
Provision at January 1	97,206	46,550
Write-offs	(25,396)	-
	71,810	46,550
Charged to profit and loss	325,610	55,492
Recoveries during the year	(12,086)	(4,836)
	313,524	50,656
Balance at December 31	385,334	97,206
General provision		
Provision at January 1	207,538	74,611
Charged to equity	129,316	132,927
Balance at December 31	336,854	207,538
Total allowance for impairment	722,188	304,744

Total allowances for loan losses is made up as follows:

	2009 $'000	2008 $'000
Allowance based on accounting standards - (IAS 39 see (i) below)	385,334	97,206
Additional allowance based on Bank of Jamaica regulations (see (ii) below)	336,854	207,538
	722,188	304,744

(i) This is the requirement based on IAS 39, Financial Instruments, Recognition and Measurement.

(ii) This is the allowance based on the regulations issued by the banking supervisor, the Bank of Jamaica. It represents the additional allowance required to meet the Bank of Jamaica loan loss provision requirements. A non-distributable loan loss reserve was established to represent the excess of the bank's provision over the IAS 39 requirements.

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

10 ACCOUNTS RECEIVABLE

	The Group		The Bank	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Broker receivable	3,080	13,867	3,080	13,867
Withholding tax recoverable	376,972	243,830	23,855	-
Owed by parent company	696	53,772	696	53,772
Owed by wholly-owned subsidiary	-	-	-	2,463
Owed by fellow subsidiary	2,403	63,929	2,403	63,929
Other receivables	254,635	300,082	176,501	182,363
	637,786	675,480	206,535	316,394

See also Note 36 for details of prior year restatement.

11 INTANGIBLE ASSETS

	The Group			The Bank
	Computer Software	Goodwill	Total	Computer Software
	$'000	$'000	$'000	$'000
Cost				
Balance at December 31, 2007	320,269	140,146	460,415	320,269
Additions	12,344	-	12,344	12,344
Transfer (see Note 12)	(1,523)	-	(1,523)	(1,523)
Balance at December 31, 2008 and 2009	331,090	140,146	471,236	331,090
Amortisation				
Balance at December 31, 2007	15,946	-	15,946	15,946
Charge for the year	67,082	-	67,082	67,082
Balance at December 31, 2008	83,028	-	83,028	83,028
Charge for the year	66,254	-	66,254	66,254
Balance at December 31, 2009	149,282	-	149,282	149,282
Carrying amount				
December 31, 2009	181,808	140,146	321,954	181,808
December 31, 2008	248,062	140,146	388,208	248,062

The transfer relates to an item of computer equipment recorded as intangible asset in the previous period.

Computer software is amortised at a rate of 20% per annum.

Goodwill is reviewed annually for impairment at balance sheet date and management's determination is that the carrying value of goodwill is not impaired.

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

12 PROPERTY AND EQUIPMENT

	The Group						
	Land	Building	Furniture, Fixtures and Equipment	Paintings and Artwork	Leasehold Improvements	Motor Vehicles	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At cost							
Balance at December 31, 2007	2,968	20,391	195,516	11,836	54,242	4,730	289,683
Additions	-	-	22,499	-	10,205	13,291	45,995
Transfer (see Note 11)	-	-	3,740	(2,217)	-	-	1,523
Balance at December 31, 2008	2,968	20,391	221,755	9,619	64,447	18,021	337,201
Additions	-	-	6,894	-	17,036	-	23,930
Disposal	-	-	(111)	-	-	-	(111)
Balance at December 31, 2009	2,968	20,391	228,538	9,619	81,483	18,021	361.020
Depreciation							
Balance at December 31, 2007	-	2,021	129,500	-	51,879	2,251	185,651
Charge for year	-	527	26,853	-	1,540	3,118	32,038
Balance at December 31, 2008	-	2,548	156,353	-	53,419	5,369	217,689
Charge for year	-	525	30,831	-	6,077	3,830	41,263
On disposal	-	-	(75)	-	-	-	(75)
Balance at December 31, 2009	-	3,073	187,109	-	59,496	9,199	258,877
Net book value							
December 31, 2009	2,968	17,318	41,429	9,619	21,987	8,822	102,143
December 31, 2008	2,968	17,843	65,402	9,619	11,028	12,652	119,512

Depreciation is charged on a straight-line basis so as to allocate the cost of the assets to their residual values over their estimated useful lives. Annual depreciation rates are based on the following estimated useful lives:

Building	-	40 years
Furniture, fixtures and equipment	-	5 years
Computer equipment	-	3 years
Leasehold improvements	-	3 – 5 years
Motor vehicles	-	5 years

No depreciation is provided on land, paintings and artwork.

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

12 **PROPERTY AND EQUIPMENT (Cont'd)**

	The Bank						
	Land	Building	Furniture, Fixtures and Equipment	Paintings and Artwork	Leasehold Improvements	Motor Vehicles	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At cost							
Balance at December 31, 2007	2,968	20,391	105,088	11,075	53,725	4,730	197,977
Additions	-	-	16,263	-	4,755	13,291	34,309
Transfer (Note 11)	-	-	3,740	(2,217)	-	-	1,523
Balance at December 31, 2008	2,968	20,391	125,091	8,858	58,480	18,021	233,809
Additions	-	-	4,164	-	-	-	4,164
Disposals	-	-	(42)	-	-	-	(42)
Balance at December 31, 2009	2,968	20,391	129,213	8,858	58,480	18,021	237,931
Depreciation							
Balance at December 31, 2007	-	2,021	92,709	-	51,362	2,251	148,343
Charge for year	-	527	11,119	-	1,125	3,118	15,889
Balance at December 31, 2008	-	2,548	103,828	-	52,487	5,369	164,232
Charge released on disposal	-	-	(6)	-	-	-	(6)
Charge for year	-	525	12,359	-	1,204	3,830	17,918
Balance at December 31, 2009	-	3,073	116,181	-	53,691	9,199	182,144
Net book value							
December 31, 2009	2,968	17,318	13,032	8,858	4,789	8,822	55,787
December 31, 2008	2,968	17,843	21,263	8,858	5,993	12,652	69,577

Depreciation is charged on a straight-line basis so as to allocate the cost of the assets to their residual values over their estimated useful lives. Annual depreciation rates are based on the following estimated useful lives:

Building	-	40 years
Furniture, fixtures and equipment	-	5 years
Computer equipment	-	3 years
Leasehold improvements	-	3 – 5 years
Motor vehicles	-	5 years

No depreciation is provided on land, paintings and artwork.

13 **DEFERRED TAXATION**

(a) Deferred taxes are calculated on all temporary differences under the balance sheet liability method using the current tax rate of 33⅓%.

	The Group		The Bank	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Analysis for financial reporting purposes				
Deferred tax assets (see Note 36)	947,531	1,010,409	652,519	638,776
Deferred tax liabilities	(435,823)	(461,163)	(259,449)	(214,540)
Net assets	511,708	549,246	393,070	424,236

(b) The movement for the year and prior reporting period on the Group and the Bank net of deferred tax position is as follows:

	The Group		The Bank	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Net assets at January 1	549,246	7,465	424,236	29,041
Credited/(charged) to income (see Notes 25 and 36)	70,012	(9,872)	51,244	(25,519)
(Charged)/credited to other comprehensive income	(107,550)	551,653	(82,410)	420,714
Net assets at December 31	511,708	549,246	393,070	424,236

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

13 **DEFERRED TAXATION (Cont'd)**

(c) The following are the main deferred tax assets and liabilities recognised by the Group and the Bank and the movements thereon, during the current and prior reporting periods:

(i) Deferred tax assets

	The Group							
	Tax Losses $'000	Securities Trading $'000	Available-for-sale Investment Revaluation $'000	Interest Payable $'000	Accrued Vacation $'000	Tax Credit $'000	Other $'000	Total $'000
At December 31, 2007	34,620	5,412	96,358	243,593	-	1,000	601	381,584
Credited/(charged) to income for the year (see Note 36)	47,315	7,582	-	20,444	1,944	-	(113)	77,172
Credited to other comprehensive income for the year	-	-	551,653	-	-	-	-	551,653
At December 31, 2008	81,935	12,994	648,011	264,037	1,944	1,000	488	1,010,409
Credited/(charged) to income for the year	90,022	(7,630)	-	(36,041)	(1,191)	-	(488)	44,672
Charged to other comprehensive income for the year	-	-	(107,550)	-	-	-	-	(107,550)
At December 31, 2009	171,957	5,364	540,461	227,996	753	1,000	-	947,531

	The Bank					
	Tax Losses $'000	Available-for-sale Investment Revaluation $'000	Interest Payable $'000	Tax Credit $'000	Accrued Vacation $'000	Total $'000
At December 31, 2007	19,313	56,338	129,217	1,000	-	205,868
Credited/(charged) to income for the year (see Note 36)	58,842	-	(46,648)	-	-	12,194
Credited to other comprehensive income for the year	-	420,714	-	-	-	420,714
At December 31, 2008	78,155	477,052	82,569	1,000	-	638,776
Credited to income for the year	93,802	-	1,993	-	358	96,153
Charged to other comprehensive income for the year	-	(82,410)	-	-	-	(82,410)
At December 31, 2009	171,957	394,642	84,562	1,000	358	652,519

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

13 **DEFERRED TAXATION (Cont'd)**

(c) Cont'd

(ii) Deferred tax liabilities

	The Group			
	Capital Allowances in excess of Deprecation Charges	Interest Receivable	Other	Total
	$'000	$'000	$'000	$'000
At December 31, 2007	(44,573)	(329,546)	-	(374,119)
Charged to income for the year	(4,641)	(82,403)	-	(87,044)
At December 31, 2008	(49,214)	(411,949)	-	(461,163)
Credited /(charged) to income for the year	956	24,492	(108)	25,340
At December 31, 2009	(48,258)	(387,457)	(108)	(435,823)

	The Bank		
	Capital Allowances in excess of Depreciation Charges	Interest Receivable	Total
	$'000	$'000	$'000
At December 31, 2007	(39,305)	(137,522)	(176,827)
Charged to income for the year	(5,588)	(32,125)	(37,713)
At December 31, 2008	(44,893)	(169,647)	(214,540)
Charged to income for the year	(2,077)	(42,832)	(44,909)
At December 31, 2009	(46,970)	(212,479)	(259,449)

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

13 DEFERRED TAXATION (Cont'd)

Deferred income taxes are recognised for the tax loss carried forward only to the extent that realisation of the related tax benefit is probable. The Group has tax losses, subject to agreement with the Commissioner, Taxpayer Audit and Assessment, amounting to $515.9 million (2008: $245.8 million) available for indefinite carry forward and off set against future taxable income. Deferred tax assets have been recognised in respect of these amounts.

14 SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

	The Group					
	Remaining Term to Maturity					
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Carrying Value 2009	Carrying Value 2008
	$'000	$'000	$'000	$'000	$'000	$'000
Total	24,905,139	2,518,098	17,928	227	27,441,392	29,756,252
Personal					3,687,936	3,285,833
Financial institutions					16,126,738	17,269,300
Commercial and business enterprises					7,183,143	8,647,237
					26,997,817	29,202,370
Interest payable					443,575	553,882
					27,441,392	29,756,252

	The Bank			
	Remaining Term to Maturity			
	Within 3 months	3 to 12 Months	Carrying Value 2009	Carrying Value 2008
	$'000	$'000	$'000	$'000
Total	12,056,323	563,286	12,619,609	10,691,434
Personal			55,870	-
Financial institutions			11,047,538	9,654,809
Commercial and business enterprises			1,443,090	985,856
			12,546,498	10,640,665
Interest payable			73,111	50,769
			12,619,609	10,691,434

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

15 **DEPOSITS**

	The Group				
	Remaining Term to Maturity				
	Within 3 months	3 to 12 Months	1 to 5 Years	Carrying Value 2009	Carrying Value 2008
	$'000	$'000	$'000	$'000	$'000
Total	5,181,624	3,152,561	2,454	8,336,639	9,378,051
Personal				4,553,945	3,140,821
Financial institutions				1,560,844	1,329,994
Commercial and business enterprises				2,065,018	4,747,312
				8,179,807	9,218,127
Interest payable				156,832	159,924
				8,336,639	9,378,051

	The Bank				
	Remaining Term to Maturity				
	Within 3 months	3 to 12 Months	1 to 5 Years	Carrying Value 2009	Carrying Value 2008
	$'000	$'000	$'000	$'000	$'000
Total	5,262,110	3,152,561	2,454	8,417,125	9,378,051
Personal				4,553,945	3,140,821
Financial institutions				1,640,344	1,329,994
Commercial and business enterprises				2,065,018	4,747,312
				8,259,307	9,218,127
Interest payable				157,818	159,924
				8,417,125	9,378,051

16 **LOAN PARTICIPATION**

	The Group and the Bank				
	Remaining Term to Maturity				
	Within 3 months	3 to 12 Months	1 to 5 years	Carrying Value 2009	Carrying Value 2008
	$'000	$'000	$'000	$'000	$'000
Total	671,677	65,396	25	737,098	814,790
Personal				143,721	301,703
Financial institutions				140,329	58,712
Commercial and business enterprises				446,668	440,181
				730,718	800,596
Interest payable				6,380	14,194
				737,098	814,790

17 ACCOUNTS PAYABLE

	The Group		The Bank	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Withholding tax	-	125,880	-	125,880
Prime accounts	8,089	3,832	-	-
Payroll taxes	16,207	29,342	16,207	29,342
Other payable	93,524	209,132	50,859	67,519
	117,820	368,186	67,066	222,741

18 SHARE CAPITAL

	Number of units	
	2009	2008
	'000	'000
Authorised:		
- Ordinary shares - no par value	800,000	800,000
- Cumulative redeemable preference shares - no par value	100,000	100,000
	2009	2008
	$'000	$'000
Issued and fully paid:		
- 641,159,682 ordinary shares – no par value	1,732,888	1,732,888
- 42,743,979 cumulative redeemable preference shares	85,488	85,488
	1,818,376	1,818,376
Less: Redeemable preference shares classified as liabilities as required by IFRS	(85,488)	(85,488)
Stated Capital	1,732,888	1,732,888

In respect of a Scheme of Arrangement between the Bank and its stockholders, the Supreme Court of Jamaica on February 14, 2008 as varied by an order made on February 19, 2008, ordered that a meeting of the stockholders, other than the Bank's parent company, Capital & Credit Financial Group Limited (CCFG), be convened in accordance with the Articles of Incorporation of the Bank for the purpose of considering and, if thought fit to approve with or without modification, a Scheme of Arrangement.

At the extraordinary meeting that was convened on March 31, 2008, the scheme of arrangement was approved by the shareholders, other than the parent company. As a consequence:

- CCFG allotted to stockholders of the Bank, other than CCFG, six (6) ordinary shares issued by CCFG in exchange for every five (5) ordinary shares held by stockholders, such shares to rank equally with the existing issued ordinary shares of CCFG.
- The Bank allotted, credited as fully paid to stockholders, a bonus issue of 42,743,979 redeemable cumulative preference shares to be issued by the Bank with a value of $2.00 per share by capitalising the sum of $85.488 million, being part of the amount standing to the credit of the Bank's unappropriated profits.
- The bonus issue was made to stockholders of the Bank at the ratio of one preference share for every fifteen (15) ordinary shares held in the Bank.

18 SHARE CAPITAL (Cont'd)

- The preference shares pay a variable cumulative preferential dividend every six (6) months based on the most recent Bank of Jamaica 180 day weighted average Jamaica Treasury Bill yield payable before the payment of each dividend payment. In the event that a 180 day Treasury Bill is not in issue on the market, the 90 day Treasury Bill yield will apply. The said preference shares shall be redeemable on the third anniversary of the issue subject to the Bank's right to redeem at an earlier date upon 90 days notice of such redemption. Partial redemption may be made by the Bank but must be done on a pro rata basis.

- Holders of preference shares will not have the right to convert to ordinary shares.

Consequent on the approval by the stockholders, the following occurred simultaneously on May 15, 2008:

- The Bank delisted its ordinary shares which were listed on the Jamaica Stock Exchange (JSE) and Trinidad & Tobago Stock Exchange (TTSE).

- CCFG listed its ordinary shares on the JSE and TTSE.

- The Bank listed the preference shares issued to its stockholders on the JSE and TTSE.

The outstanding liability in respect of the preference shareholding is as follows:

	2009 $'000	2008 $'000
Redeemable Preference Shares	85,488	85,488
Interest accrued thereon	4,172	3,308
	89,660	88,796

19 STATUTORY RESERVE FUND

Under the Financial Institutions Act (1992) the Bank is required to transfer to a reserve fund a minimum of 15% of the net profit each year until the amount to the credit of the reserve fund is equal to 50% of the Bank's paid up capital. Thereafter, 10% of the net profit each year is to be transferred to the reserve fund until the amount at the credit of the reserve fund is equal to the Bank's paid up capital. The transfer for the year was at the prescribed rate of 15% (2008: 15%).

20 RETAINED EARNINGS RESERVE

The Financial Institutions Act permits the transfer of net profits to a retained earnings reserve. Such transfers are made at the discretion of the Bank's Directors and must be notified to the Bank of Jamaica.

21 FAIR VALUE RESERVE

Fair value reserve represents the excess or shortfall of the market value of securities available for sale at the year end and the amortised cost net of the deferred tax effect.

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

21 FAIR VALUE RESERVE (Cont'd)

Movement in fair value reserve is as follows:

	The Group		The Bank	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Balance at January 1	(1,317,487)	(216,516)	(954,103)	(112,676)
Unrealised gains/(losses) on available-for-sale Investments	256,344	(1,572,289)	234,779	(1,195,446)
Deferred tax on unrealised (gains)/ losses	(79,086)	524,875	(78,260)	398,482
Realised losses /(gains) on sale of available-for-sale investments transferred to profit and loss	85,391	(80,335)	12,450	(66,695)
Deferred tax on realised (losses)/gains	(28,464)	26,778	(4,150)	22,232
	234,185	(1,100,971)	164,819	(841,427)
Balance at December 31	(1,083,302)	(1,317,487)	(789,284)	(954,103)

22 INVESTMENT REVENUE

(a) ***Net Interest Income***

	The Group		The Bank	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Interest income				
Government of Jamaica securities	3,484,712	2,964,669	1,216,313	821,926
US Government agencies	2,288	134,930	24	115,793
Other securities	192,573	231,054	209,416	304,486
Bank of Jamaica certificates of deposits	472,821	814,523	-	-
Loans	1,349,472	1,030,070	1,349,472	1,030,070
	5,501,866	5,175,246	2,775,225	2,272,275
Interest expenses				
Securities sold under repurchase agreements	3,252,459	3,179,750	1,025,049	707,621
Deposits	851,728	661,742	851,728	661,742
Other	127,582	113,260	127,581	113,260
	4,231,769	3,954,752	2,004,358	1,482,623
Net Interest Income	1,270,097	1,220,494	770,867	789,652

(b) ***Revenue from Financial Assets***

	The Group		The Bank	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Interest revenue:				
Securities available-for-sale	1,981,256	2,321,813	330,488	415,719
Loans and Receivables Securities	1,489,611	1,147,328	1,095,265	826,486
Held-to-maturity Securities	498,630	527,223	-	-
Loans	1,349,472	1,030,070	1,349,472	1,030,070
Other financial assets	182,897	148,812	-	-
	5,501,866	5,175,246	2,775,225	2,272,275

22 INVESTMENT REVENUE (Cont'd)

(b) ***Revenue from Financial Assets (Cont'd)***

	The Group		The Bank	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Other revenue:				
Dividends	60,792	88,484	55,651	76,728
(Losses)/gains on disposal of available-for-sale investments	(85,391)	80,335	(12,450)	66,695
(Losses)/gains on disposal of financial assets classified as held for trading	(21,785)	3,875	-	-
Net foreign exchange gains	156,427	129,724	113,537	66,132
Unrealised gains/(losses) arising on financial assets classified as held for trading	19,327	(24,151)	-	-
Other income	83	5,597	-	-
	129,453	283,864	156,738	209,555

The following is an analysis of investment revenue earned on financial assets by category of asset.

	The Group		The Bank	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Investments in securities				
- Available-for-sale investments	1,956,657	2,490,873	373,689	559,142
- Loans and receivables	1,603,148	1,213,460	1,208,802	892,618
- Held to maturity	498,630	527,223	-	-
Loans and other receivables (including cash and cash equivalents)	1,575,321	1,247,829	1,349,472	1,030,070
Total income for financial assets not classified as held for trading	5,633,756	5,479,385	2,931,963	2,481,830

Non-interest revenues relating to Loans are included in 'Commission and fee income' in note 23.

23 COMMISSION AND FEE INCOME

	The Group		The Bank	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Loan processing fees	23,045	40,713	23,045	40,713
Commission - Government of Jamaica	2,849	456	-	-
Commission - equity trading	1,471	5,757	-	-
Fund management and registrar fees	46,176	54,089	-	-
	73,541	101,015	23,045	40,713

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

24 STAFF COSTS

	The Group		The Bank	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Staff costs incurred during the year in respect of employees were:				
Salaries and wages	415,278	426,987	256,562	241,268
Statutory contributions	43,489	43,635	27,449	24,692
Pension contributions	18,337	16,718	11,159	9,230
Termination costs	-	11,826	-	9,450
Other staff benefits	103,903	98,651	75,640	66,280
	581,007	597,817	370,810	350,920

25 TAXATION

(a) Total charge for the year comprises:

	The Group		The Bank	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Income tax at 33⅓% of taxable income	78,137	54,009	-	-
Prior year over provision	(3,069)	-	-	-
Deferred tax (see Notes 13 and 36)	(70,012)	9,872	(51,244)	25,519
	5,056	63,881	(51,244)	25,519

(b) Subject to agreement of the Commissioner, Taxpayer Audit and Assessment, at balance sheet date the Group had tax losses of approximately $515.9 million (2008: $245.8 million) available for set-off against future taxable profits. A deferred tax asset has been recognised in respect of these losses.

(c) The total charge for the year is reconciled to the accounting profit as follows:

	The Group	
	2009	2008
	$'000	$'000
Profit before tax	347,762	517,283
Tax at the domestic income tax rate	115,921	172,428
Tax effect of:		
Expenses not deductible in determining taxable profit	44,141	431
Non-taxable income	(155,195)	(110,442)
Prior year over provision	(3,069)	-
Other adjustments	3,258	1,464
Income tax expense recognised in the consolidated profit and loss account	5,056	63,881

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

25 **TAXATION (Cont'd)**

(c) (Continued)

	The Bank	
	2009	2008
	$'000	$'000
Profit before tax	209,887	327,778
Tax at the domestic income tax rate	69,962	109,259
Tax effect of:		
Expenses not deductible in determining taxable profit	22,660	50
Non-taxable income	(144,823)	(85,318)
Other adjustments	957	1,528
Income tax (credit)/expense recognised in profit and loss account	(51,244)	25,519

26 **NET PROFIT**

(a) Dealt with in the accounts of:

	2009	2008
	$'000	$'000
The Bank	261,131	302,259
The Subsidiaries	84,857	151,143
The Associate	(3,282)	-
	342,706	453,402

See also Note 36 for details of prior year restatement.

(b) The net profit is stated after taking account of the following items:

	The Group		The Bank	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Directors' emoluments				
- Fees	10,239	8,320	10,119	8,185
- Management	49,547	36,909	28,737	19,426
Audit fees - current year	10,855	10,060	5,335	4,860
- prior year	164	217	132	138
Depreciation and amortisation	107,517	99,120	84,174	82,971

27 **EARNINGS PER STOCK UNIT**

Earnings per stock unit is calculated by dividing the net profit attributable to stockholders of the Bank of $334.1 million (2008: $446.3 million) by 641,159,682 ordinary stock units in issue during the two years.

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

28 CASH AND CASH EQUIVALENTS

	The Group		The Bank	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Cash and balances with banks including Bank of Jamaica	2,219,763	1,072,080	1,853,457	934,784
Securities purchased under resale agreements	-	-	1,023,475	435,430
Less: Statutory cash reserves (see Note 5)	(775,819)	(711,127)	(775,819)	(711,127)
Cash deposit held by Investment broker (see Note 5)	(699,569)	-	(699,569)	-
	744,375	360,953	1,401,544	659,087

29 FUND MANAGEMENT

The Group provides corporate administration, investment management and advisory services to third parties which involve the Group making allocation, purchase and sales decisions in relation to a wide range of financial instruments. Those assets are held in a fiduciary capacity and are not included in these financial statements. At December 31, 2009, the Group had financial assets under administration of approximately $3.2 billion (2008: $3.2 billion).

30 SEGMENTAL FINANCIAL INFORMATION

The Group has adopted IFRS 8 *Operating Segments* with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (IAS 14 *Segment Reporting*) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity's 'system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments.

Following the adoption of IFRS 8, the identification of the Group's reportable segments has not changed, as the primary and secondary segments previously disclosed under IAS 14, form the basis on which the internal reports are reviewed by the chief operating decision maker. The Group therefore maintains its prior period reporting segments which is organised into two main business segments:

a) Banking and related services which include taking deposits, granting loans and other credit facilities and foreign currency trading.

b) Financial and related services which include securities trading, stock broking, portfolio planning, funds management and investment advisory services.

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

The Group's customer base currently spans several geographical countries, however, all its segment's operations are from the same country of domicile and as such all its revenues generated from external customers and non-current assets are attributed to the same geographical area.

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

30 **SEGMENTAL FINANCIAL INFORMATION (Cont'd)**

Included in revenues arising from Banking & related services of $3.3 billion (2008: $2.6 billion) and Financial & related services of $3.2 billion (2008: $3.2 billion) (see table below) are revenues of approximately $3.5 billion (2008: $3.0 billion) which arose from transactions with the Group's largest customer.

	2009			
	Banking & Related Services $'000	Financial & Related Services $'000	Eliminations $'000	Group $'000
External revenue	3,100,418	2,958,630	-	6,059,048
Inter-segment revenue	207,096	201,656	(408,752)	-
Total revenue	3,307,514	3,160,286	(408,752)	6,059,048
Net interest income	770,867	499,230	-	1,270,097
Segment result				
Profit before taxation	209,887	137,875	-	347,762
Taxation	51,244	(56,300)	-	(5,056)
Profit for the year	261,131	81,575	-	342,706
Balance sheet				
Assets				
Segment assets	27,295,342	20,200,689	(3,821,168)	43,674,863
Consolidated total assets				43,674,863
Liabilities				
Segment liabilities	23,256,963	18,444,745	(3,652,694)	38,049,014
Consolidated total liabilities				38,049,014
Other information				
Capital additions	4,164	19,766	-	23,930
Depreciation and amortisation	84,174	23,343	-	107,517
Loan loss expense, less recovery	313,524	-	-	313,524

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

30 SEGMENTAL FINANCIAL INFORMATION (Cont'd)

	2008			
	Banking & Related Services $'000	Financial & Related Services $'000	Eliminations $'000	Group $'000
External revenue	2,497,387	3,169,621	-	5,667,008
Inter-segment revenue	120,911	46,339	(167,250)	-
Total revenue	2,618,298	3,215,960	(167,250)	5,667,008
Net interest income	789,652	430,842	-	1,220,494
Segment result (see note 36)				
Profit before taxation	327,778	203,374	(13,869)	517,283
Taxation	(25,519)	(38,362)	-	(63,881)
Profit for the year	302,259	165,012	(13,869)	453,402
Balance sheet				
Assets				
Segment assets (see note 36)	26,190,549	22,506,523	(1,862,322)	46,834,750
Consolidated total assets				46,834,750
Liabilities				
Segment liabilities	22,578,120	20,907,327	(1,697,064)	41,788,383
Consolidated total liabilities				41,788,383
Other information				
Capital additions	46,653	11,686	-	58,339
Depreciation and amortisation	82,971	16,149	-	99,120
Loan loss expense, less recovery	50,656	-	-	50,656

31 PENSION FUND

A defined contribution superannuation fund ("The Fund") was established for the purpose of securing pensions on retirement for the qualified present and future employees of the Group. Employees who are members of the Fund contribute 5% of earnings (as defined), as a basic contribution and have the option to contribute an additional amount of 10%. The Group contributes at a rate of 5% of members' earnings (as defined). (See Note 24).

Retirement benefits payable by the Fund will be based on the contributions made to the Fund together with investment earnings thereon.

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

32 RELATED PARTY TRANSACTIONS AND BALANCES

(a) The following transactions were carried out with related parties comprising the Bank's subsidiaries, associate company, fellow subsidiary and parent company:

	The Group		The Bank	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Interest income				
Parent company	21,678	-	21,678	-
Wholly-owned subsidiary	-	-	187,896	104,219
Fellow subsidiary	4,312	-	4,312	-
Associate	5,943	15	5,943	15
	31,933	15	219,829	104,234
Preference dividends received				
Wholly-owned subsidiary	-	-	19,200	13,869
Management fees paid				
Parent company	24,000	24,000	24,000	24,000
Interest expense				
Parent company	46	1,575	21	1,562
Subsidiaries	-	-	189,193	42,882
Fellow subsidiary	305	16,287	-	12,855
Associate	-	393	-	393
	351	18,255	189,214	57,692
Securities sold under repurchase agreement				
Parent company	363	132	-	132
Subsidiaries	-	-	1,945,923	527,854
Fellow subsidiary	158	1,201,464	-	1,201,464
	521	1,201,596	1,945,923	1,729,450
Securities purchased under resale agreement				
Parent company	-	239	-	-
Wholly-owned subsidiary	-	-	1,585,543	1,125,493
Fellow subsidiary	-	20,429	-	-
	-	20,668	1,585,543	1,125,493
Deposits				
Parent company	8,986	-	8,986	-
Subsidiary	-	-	80,486	-
Fellow subsidiary	125	2,277	125	2,277
Associate	675	58,899	675	58,899
	9,786	61,176	90,272	61,176

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

32 **RELATED PARTY TRANSACTIONS AND BALANCES (Cont'd)**

(a) (Continued)

	The Group		The Bank	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Loans (Unsecured)				
Parent company	134,015	-	134,015	-
Fellow subsidiary	29,439	-	29,439	-
Associate	30,083	-	30,083	-
	193,537	-	193,537	-
Other receivables				
Parent company	696	53,772	696	53,772
Wholly-owned subsidiary	-	-	-	2,463
Fellow subsidiary	2,403	63,929	2,403	63,929
	3,099	117,701	3,099	120,164

These transactions occurred in the ordinary course of business.

(b) The following transactions were carried out with related parties comprising Directors, key management personnel and their close family members and entities connected by virtue of common directorship or trusteeship.

	The Group		The Bank	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Salaries, Fee and other short term benefits				
Directors	59,786	45,229	38,856	27,611
Management personnel	88,887	75,628	52,390	45,594
	148,673	120,857	91,246	73,205
Interest expense				
Securities sold under repurchase agreements				
Directors	10,976	10,293	-	-
Management personnel	431	612	-	-
Other related party	5,193	23,021	824	-
	16,600	33,926	824	-
Deposits				
Directors	4,347	2,894	4,347	2,894
Management personnel	561	427	561	427
	4,908	3,321	4,908	3,321
Interest income				
Loans				
Directors	275	1,259	275	1,228
Management personnel	4,735	3,159	4,205	2,738
Other related party	-	19	-	-
	5,010	4,437	4,480	3,966

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

32 RELATED PARTY TRANSACTIONS AND BALANCES (Cont'd)

(b) (Continued)

Year end balances with related parties are as follows:

	The Group		The Bank	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Deposits				
Directors	27,322	30,476	27,322	30,476
Management personnel	13,952	15,282	13,952	15,282
	41,274	45,758	41,274	45,758
Loans				
Directors	1,510	16,390	1,510	13,175
Management personnel	51,129	46,653	43,840	37,904
	52,639	63,043	45,350	51,079
Securities sold under repurchase agreements				
Directors	108,132	144,813	-	-
Management personnel	1,808	5,186	-	-
Other related party	25,797	-	706	-
	135,737	149,999	706	-

33 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT

33.1 Significant accounting policies

Details of the significant accounting policies and methods adopted including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial assets, financial liabilities and equity instruments are disclosed in Note 3 to the financial statements.

33.2 Categories of financial instruments

	The Group		The Bank	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Financial assets				
Investments in securities				
- Held-for-trading	23,000	40,808	-	-
- Available-for-sale	11,132,903	12,582,516	2,081,012	2,662,626
- Loans and receivables	18,543,902	17,100,938	13,180,792	11,843,006
- Held to maturity	2,755,513	6,052,301	-	-
Loans and other receivables (including cash and cash equivalents)	9,453,028	9,076,621	10,579,131	9,934,562
	41,908,346	44,853,184	25,840,935	24,440,194
Financial liabilities				
Other financial liabilities at amortised cost	37,644,345	41,198,037	22,850,993	21,987,774

33 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

33.3 Financial risk management objectives

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

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up to date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practices.

The Group's activities result in principal exposure to credit, market, liquidity and operational risks. An enterprise-wide risk management approach is adopted which involves employees on all levels. This framework is supported by sound risk management practices which include the establishment of enterprise wide policies, procedures and limits, monitoring and measurement of exposure against established limits, ongoing re-alignment of business strategies and activities and the reporting of significant exposures to senior management and the Board of Directors.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board's risk management mandate is principally carried out through the Conduct Review and Risk Policy Committee, the Credit and Investment Committee, the Audit Committee, the Asset & Liability Committee, the Internal Audit Department and the Risk & Compliance Department.

Conduct Review and Risk Policy Committee

Conduct Review and Risk Policy Committee has responsibility to ensure that risk policies, processes and controls are in place to manage significant risks and the activities of the Group are carried out in accordance with these risk policies.

Credit & Investment Committee

Credit & Investment Committee has responsibility for the oversight and management of credit risk and ensures adherence to sound credit risk management policies and practices. This Committee plays an integral role in the credit approval process and provides guidance and direction in the management of significant credit risk exposure.

Audit Committee

Audit Committee has oversight for the integrity of the financial statements and reviews the adequacy and effectiveness of internal controls and risk management procedures.

Asset & Liability Committee

This management committee has direct responsibility for the management of balance sheet risk which includes liquidity, interest rate and foreign currency risks.

Internal Audit Department

The Internal Audit Department has responsibility for ensuring the effectiveness and adequacy of risk management controls and procedures and conducts both ad hoc and regular reviews. The Internal Audit Department reports the results of all findings to the Audit Committee.

Risk & Compliance Department

The Risk & Compliance Department has responsibility for ensuring compliance with internal and regulatory policies, identifying, monitoring, measuring and reporting significant risk exposures and making recommendations in relation to their management. The Risk & Compliance Department supports the role of the Conduct Review & Risk Policy Committee, the Credit & Investment Committee and the Asset & Liability Committee.

33 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

33.4 Credit risk management

33.4.1 Credit risk

The Group is exposed to credit risk, which is the risk that its customers or counterparties will cause a financial loss for the Group by failing to discharge their contractual obligations. Credit risk is the most important risk for the Group's business and management therefore carefully manages its exposure to credit risk. Credit exposure of the Group arises mainly in lending and investment activities. The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty or groups of related counterparties and to an industry segment. Credit-related commitment risks arise from guarantees which may require payment on behalf of customers. Such payments are collected from customers based on the terms of the letters of credit, guarantees or undertakings. These expose the Group to similar risks to loans and these are mitigated by the same control policies and process.

33.4.2 Credit review process

The Group's credit risk is managed through a framework which incorporates the following:

(a) Investments

The Group invests primarily in Government of Jamaica securities, US Government agencies, Bank of Jamaica certificate of deposits, securities purchased under resale agreements and equity securities. The Group manages its exposure through the establishment of counterparty and concentration limits and policies which provide guidelines as to the minimum investment grade acceptable for investment in financial instruments. The Credit & Investment Committee also provides oversight for the management of the credit risk practices for the Group.

(b) Loans

i. The Group establishes policies and procedures which govern standards for granting credit and the process of continuous monitoring and measurement in relation to credit quality through industry and customer limits, portfolio diversification, delinquency and debt recovery management.

The loan portfolio is separated into two categories: corporate and retail loans, each with specified approval and credit granting criteria. All corporate loans are approved by the Credit & Investment Committee based on recommendation from the Risk and Compliance Department – Credit risk unit. Retail loans are approved in accordance with an authorisation structure supported by credit scoring systems and analyses. Retail loans granted are reviewed by the Credit & Investment Committee on a monthly basis.

ii. All loans are assigned to relationship officers who are responsible for the monitoring and management of the loan facility.

iii. The Group assesses the probability of default through a credit review process using an internal risk rating system which classifies loan in accordance with the following:

Risk Rating Scale		Description
Class	1	Standard
Class	11	Special Mention
Class	111	Substandard
Class	1V	Doubtful
Class	V	Loss

33 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

33.4 Credit risk management (Cont'd)

33.4.3 Collateral and other credit enhancement

Collateral

The taking of collateral (including guarantees) for funds advanced is dependent on the assessment of the credit risk of the counterparty. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation.

The principal collateral types for loans and advances are:

- Mortgages over commercial and residential properties;
- Charges over business assets such as premises, equipment, motor vehicles, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities;
- Cash and other near cash securities.

The Group's policy requires the review of loans and advances at least annually or more regularly when individual circumstances require. In order to minimise the credit loss, the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

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

33 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

33.4 Credit risk management (Cont'd)

33.4.4 Impairment

The Risk and Compliance department – Credit Risk Unit conducts quarterly assessment of the loan portfolio to determine whether there is a requirement for provision due to impairment. To determine whether impairment has occurred, the following circumstances are reviewed:

(i) whether payments of principal or interest on a loan is contractually past due for more than 90 days;
(ii) whether there are known difficulties that may affect a borrower's ability to service the facility going forward; and
(iii) credit rating downgrades or other default events that may impact collectability of the facility or loan.

Loans impacted by any of the conditions highlighted are individually reviewed and the level of impairment or provision determined based on the expected cash flows from the liquidation of collateral or other sources. The expected cash flows are discounted based on the timing of cash inflows and outflows and the average loan rate.

33.4.5 The Group's loan portfolio is rated as follows:

	Loans	
	2009	2008
	$'000	$'000
Standard	3,753,256	5,391,624
Special mention	939,265	1,506,174
Sub-standard	1,085,023	152,679
Doubtful	1,207,164	347,870
Loss	43,511	50,358
	7,028,219	7,448,705

33.4.6 Maximum exposure to credit risk before collateral and other credit enhancement:

	The Group		The Bank	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Cash resources (excluding cash on hand)	2,154,521	985,393	1,814,711	893,086
Investment in securities	10,755,360	11,008,285	3,139,010	4,689,294
Securities purchased under resale agreements	-	-	1,585,543	1,125,493
Pledged assets	21,699,958	24,768,278	12,122,794	9,816,338
Loans (after provision for loan losses)	6,957,451	7,557,891	6,957,451	7,557,891
Accounts receivable	637,787	670,480	206,535	316,394
	42,205,077	44,990,327	25,826,044	24,398,496

33 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

33.4 Credit risk management (Cont'd)

33.4.7 Credit quality

	2009 $'000	2008 $'000
Neither past due nor impaired – standard	4,281,613	3,782,062
Past due but not impaired	1,649,074	3,378,648
Impaired	1,097,532	287,995
Gross	7,028,219	7,448,705
Less: provision for credit loss	385,334	97,206
Net	6,642,885	7,351,499

The Group and the Bank held collaterals in respect of Loans that are individually impaired, as per the table above excluding unsecured loans, amounting to $1.2 billion at their fair value. There were no other financial assets that were individually impaired.

The aging of the Group's loan at the reporting date is as follows:

	2009			2008		
	Gross $'000	Loan Provisions $'000	Net $'000	Gross $'000	Loan Provisions $'000	Net $'000
Current loans	4,281,613	-	4,281,613	3,782,062	-	3,782,062
Past due 1 - 30 days	621,901	-	621,901	1,036,126	-	1,036,126
Past due 31– 60 days	1,101,061	-	1,101,061	1,061,364	-	1,061,364
Past due 61 – 90 days	319,361	-	319,361	1,018,245	-	1,018,245
More than 90 days	704,283	385,334	318,949	550,908	97,206	453,702
	7,028,219	385,334	6,642,885	7,448,705	97,206	7,351,499

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

The fair value of collateral on the aggregate amount of loans past due but not impaired, excluding unsecured loans, that the Group and the Bank held were $4.4 billion.

33.4.8 Renegotiated loans and leases

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

The carrying value of the loans that would otherwise be past due or impaired and whose terms have been negotiated amounted to $3.3 billion (2008: $1.3 billion).

33 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

33.4 Credit risk management (Cont'd)

33.4.9 Repossessed collateral

The Group can obtain assets by taking possession of collateral held as security.

Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. In general, the Group does not occupy repossessed properties for business use.

The Group repossessed a total of 19 motor vehicles and 12 properties aggregating $23.7 million and $1.2 billion respectively (2008: 32 motor vehicles aggregating $26.1 million) held as security against loans categorized as past due but not impaired. Of this amount 14 motor vehicles and 1 property (2008: 18 motor vehicles) have been sold as at year end and the remaining 5 motor vehicles and 11 properties (2008: 14 motor vehicles) are in the process of being sold, the proceeds of which will be used to cover the outstanding indebtedness.

The carrying value of the loans on which the collateral was repossessed during the year is $358.5 million (2008: $30.5 million).

33.4.10 Loans

The following table summarises the Group's credit exposure for loans at their carrying amounts categorised by the industry sector:

	2009 $'000	2008 $'000
Construction, land development and real estate acquisition	1,715,159	1,960,906
Distribution	783,615	885,844
Financial institutions	451,117	567,922
Government and public entities	119,107	120,323
Manufacturing & utilities	102,755	314,622
Personal	1,656,667	1,995,131
Professional and other services	1,765,460	1,332,067
Tourism and entertainment	321,260	105,412
Transport, storage and communication	106,043	166,478
Agriculture	7,036	-
Total	7,028,219	7,448,705
Less: Provisions	385,334	97,206
	6,642,885	7,351,499
Interest receivable	314,566	206,392
	6,957,451	7,557,891

33 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

33.4 Credit risk management (Cont'd)

33.4.11 Investments

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

	The Group		The Bank	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Government of Jamaica	24,293,373	22,019,013	11,833,545	11,356,892
US Government agencies	1,517,646	3,213,265	-	69,082
Bank of Jamaica	757,671	5,027,201	-	-
Corporate	798,491	751,799	706,073	2,167,342
Other	4,300,222	3,777,117	2,439,734	651,206
	31,667,403	34,788,395	14,979,352	14,244,522
Interest receivable	787,915	988,168	282,452	261,110
	32,455,318	35,776,563	15,261,804	14,505,632

33.5 Liquidity risk

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

The Group is exposed to calls on its available cash resources from overnight deposits, maturing deposits, loan draw downs and guarantees. The Group does not maintain cash resources to meet all of these needs as experience shows that a level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board of Directors approves the Group's liquidity and funding management policies and establishes limits to control risk.

33.5.1 Management of Liquidity Risk

The Treasury units within the Group have direct responsibility for the management of the day to day liquidity for each entity within the Group. The Asset and Liability Committee (ALCO) provides senior management oversight of the Group's liquidity risk exposure, within policy and limit framework established by the Board.

The management of liquidity risk is carried out through various methods which include:

- Day to day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature.
- Establishment of committed lines and mismatch limits.
- Diversification of funding sources.
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow within the local and international markets.
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements.
- Maintenance of liquidity and funding contingency plans.

33 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

33.5 Liquidity risk (Cont'd)

33.5.1 Management of Liquidity Risk (Cont'd)

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

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities are fundamental to the management of the Group. It is unusual for financial institutions ever to be completely matched since business transacted is often of uncertain terms and of different types.

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

Sources of liquidity are regularly reviewed by the Treasury and Investment Department and ALCO to maintain a wide diversification by products and terms.

33.5.2 The following table presents the cash flow payable by the Group under non derivative financial assets and liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash flows.

**CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES**

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

33 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

33.5 Liquidity risk (Cont'd)

33.5.2 (Cont'd)

	The Group				
	2009				
	Remaining Term to Maturity				
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
	$'000	$'000	$'000	$'000	$'000
Financial assets					
Cash resources	2,219,763	-	-	-	2,219,763
Investment in securities	2,217,389	5,913,099	15,035,739	45,056,368	68,222,595
Loans after provision for loan losses	1,815,446	2,012,190	4,597,209	865,288	9,290,133
Accounts receivable	216,276	35,970	6,356	25,150	283,752
	6,468,874	7,961,259	19,639,304	45,946,806	80,016,243
Non-financial assets	376,972	47,770	511,708	424,097	1,360,547
Total assets (contractual maturity dates)	6,845,846	8.009,029	20,151,012	46,370,903	81,376,790
Financial liabilities					
Deposits	5,220,942	3,310,004	2,807	-	8,533,753
Securities sold under repurchase agreements	23,472,410	2,672,382	21,777	577	26.167,146
Loan participation	675,395	70,753	26	-	746,174
Due to other financial institutions	307,583	11,430	92,453	879,205	1,290,671
Preference shares	-	-	14,362	92,649	107,011
Other liabilities	117,887	-	-	-	117,887
	29,794,217	6,064,569	131,425	972,431	36,962,642
Non-financial liabilities	-	-	-	-	-
Total liabilities (contractual maturity dates)	29,794,217	6,064,569	131,425	972,431	36,962,642
Net liquidity gap	(22,948,371)	1,944,460	20,019,587	45,398,472	44,414,148
Cumulative liquidity gap	(22,948,371)	(21,003,911)	(984,324)	44,414,148	-
2008					
Liquidity Gap	(25,038,831)	(343,246)	22,146,820	44,902,710	41,667,453
Cumulative liquidity Gap	(25,038,831)	(25,382,077)	(3,235,257)	41,667,453	-

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

33 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

33.5 Liquidity risk (Cont'd)

33.5.2 (Cont'd)

	The Bank				
	2009				
	Remaining Term to Maturity				
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
	$'000	$'000	$'000	$'000	$'000
Financial assets					
Cash Resources	1,853,457	-	-	-	1,853,457
Investment in securities	345,445	1,644,591	5,208,508	29,566,705	36,765,249
Securities purchased under resale agreements	1,596,347	-	-	-	1,596,347
Loans after provision for loan losses	1,815,446	2,012,190	4,597,209	865,288	9,290,133
Accounts receivable	182,680	-	-	-	182,680
	5,793,375	3,656,781	9,805,717	30,431,993	49,687,866
Non-financial assets	23,855	85,229	393,070	546,283	1,048,437
Total assets (contractual maturity dates)	5,817,230	3,742,010	10,198,787	30,978,276	50,736,303
Financial liabilities					
Deposits	5,301,559	3,310,004	2,807	-	8,614,370
Securities sold under repurchase agreements	12,095,332	597,595	-	-	12,692,927
Loan participation	675,395	70,753	26	-	746,174
Due to other financial institutions	307,583	11,430	92,453	879,205	1,290,671
Preference shares	-	-	14,362	92,649	107,011
Other liabilities	67,066	-	-	-	67,066
	18,446,935	3,989,782	109,648	971,854	23,518,219
Non-financial liabilities	-	-	-	-	-
Total liabilities (contractual maturity dates)	18,446,935	3,989,782	109,648	971,854	23,518,219
Net liquidity gap	(12,629,705)	(247,772)	10,089,139	30,006,422	27,218,084
Cumulative liquidity gap	(12,629,705)	(12,877,477)	(2,788,338)	27,218,084	
2008					
Liquidity gap	(11,196,865)	(1,918,388)	9,572,438	29,279,011	25,736,196
Cumulative liquidity gap	(11,196,865)	(13,115,253)	(3,542,815)	25,736,196	

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

33 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

33.5 Liquidity risk (Cont'd)

33.5.3 The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments.

At December 31, 2009

	No later Than 1 year $'000	1 to 5 Years $'000	Over 5 years $'000	Total $'000
Loan commitments	121,208	-	-	121,208
Guarantees, acceptances and other financial liabilities	342,402	32,568	31,000	405,970
	463,610	32,568	31,000	527,178

At December 31, 2008

	No later Than 1 year $'000	1 to 5 Years $'000	Over 5 years $'000	Total $'000
Loan commitments	729,548	-	-	729,548
Guarantees, acceptances and other financial liabilities	329,710	229,636	31,000	590,346
	1,059,258	229,636	31,000	1,319,894

33.6 Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security, its issuer or factors affecting all securities traded in the market. Market risk results primarily from changes in interest rates, foreign exchange rates and equity prices.

Management of Market Risk

The Asset & Liability Committee has responsibility for the management of balance sheet risks and employs various methods and financial instruments that provide suitable hedge against specified exposures where required. This management committee monitors and measures market risk exposure through gap analysis, sensitivity analysis, stress testing within the policy and limit framework established by the Board.

Sensitivity analysis is a widely used risk measurement tool that allows management to make judgments regarding the potential loss in future earnings, fair values and cash flows on market sensitive instruments resulting from one or more hypothetical changes in interest rate, foreign currency exchange rates and other relevant market rates or prices over a selected period of time.

Market information and additional analysis is also used to manage risk exposure and mitigate the limitation of sensitivity analysis.

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

33 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

33.6 Market risk (Cont'd)

The exposure to market risk includes foreign currency and interest rate risks that are managed as follows:

33.6.1 Foreign currency risk

Foreign currency risk is the risk of loss arising from adverse movements in foreign exchange rates.

The Group is exposed to foreign currency risk as a result of transactions that are denominated in a currency other than the Jamaican dollar. The main currencies giving rise to the exposure are the United States Dollar, Canadian Dollar, the British Pound and the Euro. The Group manages foreign currency risk through the establishment of limits for net open positions and matching foreign assets and liabilities as far as possible.

Foreign currency risk management

The Group faces exposure to the effect of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets the limits on the exposure by currency and on aggregate, which are monitored daily. This limit may vary from time to time as determined by the Risk and Compliance department's assessment of volatility in exchange rates and with the approval of the Asset and Liability Committee.

The Group's net foreign currency balances as at year-end, incurred in the normal course of business, were as follows:

	The Group							
	2009							
	USD		CDN		GBP		EUR	
	US$ '000	J$ Equiv. '000	Cdn$ '000	J$ Equiv. '000	£ '000	J$ Equiv. '000	€ '000	J$ Equiv. '000
Total assets	282,164	25,205,685	1,948	163,457	894	127,493	97	12,219
Total liabilities	(249,879)	(22,321,691)	(1,878)	(157,583)	(1,017)	(145,034)	(314)	(39,555)
Net exposure	32,285	2,883,994	70	5,874	(123)	(17,541)	(217)	(27,336)

	2008							
	USD		CDN		GBP		EUR	
	US$ '000	J$ Equiv. '000	Cdn$ '000	J$ Equiv. '000	£ '000	J$ Equiv. '000	€ '000	J$ Equiv. '000
Total assets	312,942	25,102,643	787	50,762	779	90,084	100	11,165
Total liabilities	(312,351)	(25,055,198)	(1,153)	(74,369)	(855)	(98,872)	(148)	(16,524)
Net exposure	591	47,445	(366)	(23,607)	(76)	(8,788)	(48)	(5,359)

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

33 **FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)**

33.6 Market risk (Cont'd)

33.6.1 Foreign currency risk (Cont'd)

	The Bank							
	2009							
	USD		CDN		GBP		EUR	
	US$ '000	J$ Equiv. '000	Cdn$ '000	J$ Equiv. '000	£ '000	J$ Equiv. '000	€ '000	J$ Equiv. '000
Total assets	196,292	17,534,764	1,948	163,457	894	127,493	89	11,211
Total liabilities	(166,570)	(14,879,698	(1,878)	(157,583)	(1,017)	(145,034)	(314)	(39,555)
Net exposure	29,722	2,655,066	70	5,874	(123)	(17,541)	(225)	(28,344)
	2008							
	USD		CDN		GBP		EUR	
	US$ '000	J$ Equiv. '000	Cdn$ '000	J$ Equiv. '000	£ '000	J$ Equiv. '000	€ '000	J$ Equiv. '000
Total assets	222,090	17,814,949	787	50,762	779	90,084	81	9,044
Total liabilities	(229,869)	(18,438,942)	(1,153)	(74,369)	(855)	(98,872)	(148)	(16,524)
Net exposure	(7,779)	(623,993)	(366)	(23,607)	(76)	(8,788)	(67)	(7,480)

33.6.2 Foreign currency sensitivity

The following tables indicate the currencies to which the Group and the Bank had significant exposure on its monetary assets and liabilities and its forecast cash flows. The sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 2% appreciation or a 5% depreciation (2008: 5% change) in foreign currency rates. 2% appreciation or a 5% depreciation is the sensitivity rate used when reporting foreign currency risk internally to the Board and the relevant committees of the Board and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes liabilities under repurchase agreement and investment securities. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variable, variables had to be on an individual basis. It should be noted that movements in these variables are non-linear.

	The Group			
	2009		2008	
	Change in Currency Rates %	Effect on Net Profit $'000	Change in Currency Rates %	Effect on Net Profit $'000
Currency:				
USD	2% Appreciation	(57,680)	5	2,372
	5% Depreciation	144,200		
CDN	2% Appreciation	(118)	5	1,180
	5% Depreciation	294		
GBP	2% Appreciation	351	5	439
	5% Depreciation	(877)		
EURO	2% Appreciation	547	5	268
	5% Depreciation	(1,367)		

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

33 **FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)**

33.6 Market risk (Cont'd)

33.6.2 Foreign currency sensitivity (Cont'd)

	The Bank			
	2009		2008	
	Change in Currency Rates %	Effect on Net Profit $'000	Change in Currency Rates %	Effect on Net Profit $'000
Currency:				
USD	2% Appreciation	(53,101)	5	31,200
	5% Depreciation	132,753		
CDN	2% Appreciation	(117)	5	1,180
	5% Depreciation	294		
GBP	2% Appreciation	351	5	439
	5% Depreciation	(877)		
EURO	2% Appreciation	567	5	374
	5% Depreciation	(1,417)		

33.6.3 Interest rate risk

Interest rate risk is the risk of loss due to adverse changes in interest rates. The risk of loss may arise from a decline in the market value of financial assets due to interest rate increases. The Group and the Bank are exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Mismatch of positions between assets and liabilities in periods of rising or declining interest rates may also result in loss of earnings. Management sets limits on the level of mismatch of interest rate repricing that may be undertaken. This is monitored on a periodic basis.

Management of interest rate risk

Interest rate risk exposure is measured using gap analysis and sensitivity analysis. Interest rate risk is managed by utilising derivative instruments where necessary and maintaining an appropriate mix of variable and fixed rate instruments.

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

33 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

33.6 Market risk (Cont'd)

33.6.3 Interest rate risk (Cont'd)

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

	The Group						
	2009						
	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Securities	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Assets							
Cash resources	2,219,763	-	-	-	-	-	2,219,763
Investment in securities							
- Trading securities	-	-	-	-	-	23,000	23,000
- Available-for-sale	96,726	652,477	2,225,409	4,329,305	2,658,469	1,170,518	11,132,904
- Loans & Receivables	-	-	-	129,056	18,075,726	339,119	18,543,901
- Held to maturity	-	252,537	1,420,575	731,695	298,527	52,179	2,755,513
Loans after provision for loan losses	279,156	409,465	1,147,642	3,362,238	1,444,384	314,566	6,957,451
Deferred tax assets	-	-	-	-	-	511,708	511,708
Other assets	2,919	6,611	32,380	4,900	7,102	1,476,711	1,530,623
Total	2,598,564	1,321,090	4,826,006	8,557,194	22,484,208	3,887,801	43,674,863
Liabilities							
Securities sold under repurchase agreements	19,485,355	5,117,604	2,377,618	17,040	200	443,575	27,441,392
Deposits	3,044,492	2,053,718	3,079,351	2,246	-	156,832	8,336,639
Loan participation	579,663	89,488	61,543	24	-	6,380	737,098
Due to other financial institutions	297,767	-	10,766	70,565	529,132	12,205	920,435
Preference shares	-	-	-	85,488	-	4,172	89,660
Other liabilities	8,087	-	-	-	-	515,703	523,790
Stockholders' equity	-	-	-	-	-	5,625,849	5,625,849
Total	23,415,364	7,260,810	5,529,278	175,363	529,332	6,764,716	43,674,863
Interest sensitivity gap	(20,816,800)	(5,939,720)	(703,272)	8,381,831	21,954,876	(2,876,915)	-
Cumulative interest sensitivity gap	(20,816,800)	(26,756,520)	(27,459,792)	(19,077,961)	2,876,915	-	
2008							
Interest sensitivity gap	(13,723,687)	(4,016,402)	(4,229,550)	5,665,497	18,661,719	(2,357,577)	
Cumulative interest sensitivity gap	(13,723,687)	(17,740,089)	(21,969,639)	(16,304,142)	2,357,577	-	

CAPITAL & CREDIT MERCHANT BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

33 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

33.6 Market risk (Cont'd)

33.6.3 Interest rate risk (Cont'd)

	The Bank						
	2009						
	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Securities	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Assets							
Cash resources	1,853,457	-	-	-	-	-	1,853,457
Investment in securities							
- Available-for-sale	3,578	9,233	727,629	333,617	271,946	735,010	2,081,013
- Loans & Receivables	-	-	-	117,724	12,809,552	253,515	13,180,791
Securities purchased under resale agreements	1,470,124	75,000	-	-	-	40,419	1,585,543
Investment in subsidiaries	-	-	-	-	-	305,406	305,406
Investment in associate	-	-	-	-	-	3,282	3,282
Loans after provision for losses	279,155	409,465	1,147,642	3,362,238	1,444,385	314,566	6,957,451
Deferred tax assets	-	-	-	-	-	393,070	393,070
Other assets	-	-	-	-	-	935,329	935,329
Total	3,606,314	493,698	1,875,271	3,813,579	14,525,883	2,980,597	27,295,342
Liabilities and Stockholders' equity							
Securities sold under repurchase agreements	11,065,643	936,993	543,862	-	-	73,111	12,619,609
Deposits	3,123,992	2,053,718	3,079,351	2,246	-	157,818	8,417,125
Loan participation	579,663	89,488	61,543	24	-	6,380	737,098
Due to other financial institutions	297,767	-	10,766	70,565	529,132	12,205	920,435
Preference shares	-	-	-	85,488	-	4,172	89,660
Other liabilities	-	-	-	-	-	473,036	473,036
Stockholders' equity	-	-	-	-	-	4,038,379	4,038,379
Total	15,067,065	3,080,199	3,695,522	158,323	529,132	4,765,101	27,295,342
Interest sensitivity gap	(11,460,751)	(2,586,501)	(1,820,251)	3,655,256	13,996,751	(1,784,504)	-
Cumulative interest sensitivity gap	(11,460,751)	(14,047,252)	(15,867,503)	(12,212,247)	1,784,504	-	
2008							
Interest sensitivity gap	(7,736,624)	(4,200,757)	(3,582,237)	3,827,602	13,096,644	(1,404,628)	-
Cumulative interest sensitivity gap	(7,736,624)	(11,937,381)	(15,519,618)	(11,692,016)	1,404,628	-	

33 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

33.6 Market risk (Cont'd)

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

	The Group					
	2009					
	Immediately Rate Sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Average
	%	%	%	%	%	%
Cash resources	0.01	-	-	-	-	0.01
Investment in securities (1)						
- Trading securities	10.39	14.50	16.75	-	-	11.46
- Available-for-sale	36.50	20.42	15.47	18.23	18.16	16.03
- Loans & Receivables	-	-	-	10.00	8.00	8.34
- Held to maturity	-	10.81	8.07	12.30	13.17	10.26
Loans (2)	24.37	21.14	15.58	18.42	18.00	18.59
Other assets	13.79	11.59	17.59	7.80	7.50	14.43
Deposits (3)	9.40	8.54	8.53	15.42	-	8.86
Securities sold under repurchase agreements	10.05	13.02	17.57	13.04	-	11.09
Loan participation	6.65	11.90	16.28	2.00	-	8.10
Due to other financial institutions	6.36	-	9.29	8.11	8.55	7.81
Other liabilities	6.68	-	-	-	-	6.68

	2008					
	Immediately Rate Sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Average
	%	%	%	%	%	%
Cash resources	2.91	-	-	-	-	2.61
Investment in securities (1)						
- Trading securities	9.97	17.05	-	-	-	10.49
- Available-for-sale	16.94	18.38	16.53	8.24	14.95	14.95
- Loans & Receivables	-	-	-	10.00	9.00	8.41
- Held to maturity	14.01	15.03	15.88	9.18	13.45	12.50
Loans (2)	19.88	15.26	16.80	17.05	18.17	17.09
Deposits (3)	9.84	8.81	7.41	7.87	-	8.55
Securities sold under repurchase agreements	12.82	10.33	15.79	11.19	-	12.08
Loan participation	10.64	11.07	10.88	-	-	10.78
Due to other financial institutions	6.30	4.00	6.44	11.12	-	4.38
Other liabilities	8.64	-	-	-	-	8.64

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

33 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

33.6 Market risk (Cont'd)

33.6.4 Average effective yields by the earlier of the contractual repricing or maturity dates: (Cont'd)

	The Bank					
	2009					
	Immediately Rate Sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Average
	%	%	%	%	%	%
Cash resources	0.01	-	-	-	-	0.01
Investment in securities (1)						
- Available-for-sale	10.13	13.75	9.83	11.78	15.23	11.54
- Loans & receivables	-	-	-	9.38	8.42	8.42
Securities purchased under resale agreements	10.09	24.00	-	-	-	10.77
Loans (2)	24.37	21.14	15.58	18.42	18.00	18.59
Deposits (3)	9.40	8.54	8.53	15.42	-	8.86
Securities sold under repurchase agreements	7.21	12.81	15.80	-	-	8.00
Loan participation	6.65	11.90	16.28	2.00	-	8.10
Due to other financial institutions	6.36	-	9.29	8.11	8.55	7.81
Preference shares	-	-	-	16.80	-	16.80

	2008					
	Immediately Rate Sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Average
	%	%	%	%	%	%
Cash resources	3.00	-	-	-	-	3.00
Investment in securities (1)						
- Available-for-sale	13.00	15.33	9.05	8.22	14.95	9.60
- Loans & receivables	-	-	-	9.38	8.47	8.48
Securities purchased under resale agreements	9.82	12.30	14.82	-	-	11.12
Loans (2)	19.88	15.26	16.80	17.05	18.17	17.09
Deposits (3)	9.84	8.81	7.41	7.87	-	8.55
Securities sold under repurchase agreements	8.97	5.32	17.80	-	-	7.30
Loan participation	10.64	11.07	10.88	-	-	10.78
Due to other financial institutions	6.30	4.00	6.44	11.12	-	4.38
Preference shares	-	-	-	24.45	-	24.45

(1) Yields are based on book values and contractual interest adjusted for amortisation of premiums and discounts. Yields on tax-exempt investments have not been computed on a taxable equivalent basis.
(2) Yields are based on book values, net of allowance for credit losses and contractual interest rates.
(3) Yields are based on contractual interest rates.

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

33 **FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)**

33.6 Market risk (Cont'd)

33.6.5 Interest rate sensitivity risk

The following tables indicate the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on the Group's and the Bank's profit and loss account and gains recognised in other comprehensive income.

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

The Group					
2009			2008		
	Effect on Net Profit $'000	Effect on other comprehensive income $'000		Effect on Net Profit $'000	Effect on other comprehensive income $'000
Change in interest rate			**Change in interest rate**		
-6%	(470,581)	165,498	-2%	(315,214)	69,536
+2%	194,604	(46,530)	+2%	315,214	(62,829)

The Bank					
2009			2008		
	Effect on Net Profit $'000	Effect on other comprehensive income $'000		Effect on Net Profit $'000	Effect on other comprehensive income $'000
Change in interest rate			**Change in interest rate**		
-6%	(133,104)	132,723	-2%	(105,205)	69,536
+2%	82,111	(35,957)	+2%	105,205	(62,829)

33 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

33.6 Market risk (Cont'd)

33.6.6 Equity risk

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

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

Equity price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If equity prices had been 20% higher/lower (2008: 5% higher/lower):

- net profit for the year ended December 31, 2009, would have increased/decreased by $4.6 million (2008: $2.1 million) for the Group as a result of equity investments classified at fair value through profit or loss (Bank: Nil);
- other comprehensive income would have increased/decreased by $134.7 million (2008: $28.5 million) for the Group and $126.4 million (2008: $26.7 million) for the Bank as a result of the changes in fair value of available-for-sale equities.

33.7 Capital management

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

(i) To comply with the capital requirements set by the regulators;
(ii) To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for stockholders and benefits for other stakeholders; and
(iii) To maintain a strong capital base to support the development of its business.

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

The BOJ and the FSC require each regulated entity to:

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

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

33 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

33.7 Capital management (Cont'd)

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

(i) Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill and any net loss position arising from fair value accounting are deducted in arriving at Tier 1 capital; and

(ii) Tier 2 capital: capital reserve, provisions for losses on assets less investments in subsidiaries and connected entities.

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

The table below summarises the composition of regulatory capital and the ratios of the regulated entities within the Group for the years ended December 31, 2009 and 2008. During those two years, the individual entities within the Group complied with all of the externally imposed capital requirements to which they are subject.

The regulated entities within the Group are Capital & Credit Merchant Bank Limited (CCMB), Capital & Credit Securities Limited (CCSL) and Capital & Credit Fund Managers Limited (CCFM).

	CCMB		CCSL		CCFM	
	2009	2008	2009	2008	2009	2008
	$'000	$'000	$'000	$'000	$'000	$'000
Tier 1 capital	3,701,525	3,404,891	1,399,564	1,279,873	111,415	81,323
Tier 2 capital	76,646	(211,482)	238,000	238,000	-	-
Total regulatory capital	3,778,171	3,193,409	1,637,564	1,517,873	111,415	81,323
Total required capital	1,447,356	1,406,833	203,037	208,048	8,891	6,319
Risk-weighted assets:						
On balance sheet	10,972,379	12,134,377	1,802,255	1,409,158	64,639	47,448
Off balance sheet	527,179	1,319,894	-	-	-	-
Foreign exchange exposure	2,974,000	614,054	228,113	671,319	-	-
Total risk weighted assets	14,473,558	14,068,325	2,030,368	2,080,477	64,639	47,448
Actual capital base to risk weighted assets	26%	23%	81%	73%	172%	171%
Required capital base to risk weighted assets	10%	10%	10%	10%	13%	13%

The change of the regulatory capital in 2009 is mainly due to the contribution of the current year profit or loss and the movement in the fair value reserve.

33 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

33.8 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. A market price, where an active market (such as a recognised stock exchange) exists, is the best evidence of the fair value of a financial instrument. Market prices are not available for some of the financial assets and liabilities of the Group. Fair values in the financial statements have therefore been estimated using present values or other estimation and valuation techniques based on market conditions existing at balance sheet date. Generally, considerable judgment is necessarily required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented in these financial statements are not necessarily indicative of the amounts that the Group would realise in a current market exchange.

The following methods and assumptions have been used:

(i) investment in securities classified as trading or available-for-sale are measured at fair value by reference to quoted market prices where available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques;

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

(iii) the fair value of variable rate financial instruments is assumed to approximate their carrying amounts;

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

(v) the fair value of demand deposits and other accounts with no specific maturity is assumed to be the amount payable on demand at the balance sheet date; and

(vi) the fair values of deposits and other liabilities having specific maturity after one year, are determined by discounting future cash flows using balance sheet date yields of similar instruments.

33.8.1 Fair value measurements recognised in the Balance Sheet

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

33 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

33.8.1 Fair value measurements recognised in the Balance Sheet (Cont'd)

	The Group			
	2009			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial assets at fair value through profit or loss:				
Equity securities	23,000	-	-	23,000
Securities available-for-sale				
Government of Jamaica securities	1,116	9,031,538	-	9,032,654
US Government agencies	-	37,136	-	37,136
Equity investments	741,215	8,933	-	750,148
Bank of Jamaica certificates of deposit	-	731,005	-	731,005
Other securities	-	185,342	-	185,342
	742,331	9,993,954	-	10,736,285
Total	765,331	9,993,954	-	10,759,285

	The Bank			
	2009			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Securities available-for-sale				
Government of Jamaica securities	-	1,186,002	-	1,186,002
Equity investments	697,140	8,933	-	706,073
Other securities	-	160,000	-	160,000
Total	697,140	1,346,002	-	2,052,075

There were no transfers between Level 1, Level 2 and Level 3 in the period.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily equity investments classified as trading securities or available-for-sale.

33 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

33.8.1 Fair value measurements recognised in the Balance Sheet (Cont'd)

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

All gains and losses included in other comprehensive income relate to Securities available-for-sale held at the end of the reporting period and are reported as changes of 'Fair value reserve' (see note 21).

34 CONTINGENCIES AND COMMITMENTS

(a) Litigation

The Group and its subsidiaries are subject to claims, disputes and legal proceedings in the normal course of business. Provision is made for such matters when in the opinion of management and together with legal advice it is probable that a payment will be made and the amount can be reasonably estimated. No provisions have been made as there are no pending litigations or claims at the balance sheet date.

(b) Capital Commitments

There were no capital expenditure authorised or contracted for as at December 31, 2009 and 2008.

(c) Operating Leases

The Group has entered into lease agreements for office space expiring between March 2012 and August 2014. The amount charged to profit and loss account for the Group was $61.3 million (2008: $40.1 million) and for the Bank $19.7 million (2008: $18.8 million).

The total annual rentals to be paid are as follows:

	The Group	The Bank
	$'000	$'000
2010	52,826	26,289
2011	52,009	28,484
2012	54,553	31,377
2013	59,438	35,432
2014	38,534	23,869

(d) Maintenance contract

The Group has entered into a maintenance agreement for the computer software for a period of five years expiring July 2010. The amount allocated and charged in the profit and loss account in respect of the Group and the Bank was $28.1 million (2008: $18.3 million).

(e) Credit

Commitments to extend credit on term to maturity of no more than one year amounted to $121.2 million (2008: $729.5 million).

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

35 RECLASSIFICATION OF FINANCIAL ASSETS

Consequent on the melt-down in the financial sector worldwide in 2008 and the demise of certain broker/dealers which were significantly involved in the marketing of Global Bonds issued by the Government of Jamaica (GOJ), the Group reclassified certain investments included in investment securities from available-for-sale to the held to maturity and loans and receivables categories in accordance with amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7– Financial Instruments: Disclosures which were effected in October 2008 as follows:

	The Group			
Securities:	2009		2008	
	Carrying Value $'000	Fair value $'000	Carrying Value $'000	Fair value $'000
Transferred to loans and receivables				
GOJ US$ Fixed rate Global Bonds	14,064,561	10,741,523	13,243,809	11,581,364
Other Corporate Bonds	4,140,222	3,173,382	3,576,113	3,776,746
	18,204,783	13,914,905	16,819,922	15,358,110
Transferred to held to maturity				
Government of Jamaica securities	1,196,158	1,205,203	752,989	774,825
US Government agencies	1,480,510	1,454,109	1,740,970	1,731,365
Bank of Jamaica certificates of deposit	26,666	49,882	3,011,704	2,990,904
Other securities	-	-	198,388	196,085
	2,703,334	2,709,194	5,704,051	5,693,179

	The Bank			
Securities:	2009		2008	
	Carrying Value $'000	Fair value $'000	Carrying Value $'000	Fair value $'000
Transferred to loans and receivables				
GOJ US$ Fixed rate Global Bonds	10,647,543	8,105,041	9,565,767	8,723,125
Other Corporate Bonds	2,279,734	1,873,518	2,072,678	2,105,063
	12,927,277	9,978,559	11,638,445	10,828,188

(a) In 2008 fair value losses, exclusive of deferred taxation, of $1.9 billion for the Group and for the Bank $896.6 million, were recognised in equity in relation to the above investments, using the fair value as at September 30, 2008. At December 31, 2009 the fair value losses in equity relating to these investments were reduced to $1.5 billion, exclusive of deferred taxation, mainly as a result of instruments maturing during the year.

(b) Fair value losses, in relation to the above investments, of $5.9 billion (2008: $3.3 billion) for the Group and for the Bank $4.0 billion (2008: $1.7 billion), exclusive of deferred taxation, would have been included in equity at the end of the year had the investments not been reclassified. This amount was determined by reference to a discounted cash flow model using indicative market yields as at year end. Management does not believe that this price is necessarily indicative of the amount that would have been valued if an active market for the securities actually existed at that date.

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

35 **RECLASSIFICATION OF FINANCIAL ASSETS (Cont'd)**

(c) The weighted average effective interest rate of the investments at the date of reclassification was 9.5%. The undiscounted cash flows to be recovered from the investment reclassified by the Group is $50.4 billion (2008: $51.1 billion) and for the Bank $33.6 billion (2008: $31.0 billion).

36 **PRIOR YEAR RESTATEMENT**

An adjustment was made to broker receivable in the prior year as a detailed reconciliation and review of broker positions indicated that a previously recorded asset arising from a transfer between brokers could not be adequately substantiated. Consequently, management took the decision to have the asset written off.

36.1

		The Group		
		2008		
Consolidated Balance Sheet at December 31	Notes	Previously Reported $'000	Adjustments $'000	Restated $'000
ASSETS				
Accounts receivable	1	725,302	(49,822)	675,480
Deferred tax assets	2	532,563	16,683	549,246
Other assets		45,610,024	-	45,610,024
Total assets		46,867,889	(33,139)	46,834,750
LIABILITIES				
Total liabilities		41,788,383	-	41,788,383
Stockholders' Equity				
Share capital		1,732,888	-	1,732,888
Statutory reserve fund	3	458,911	4,971	453,940
Other reserves		430,012	-	430,012
Unappropriated profits	4	2,457,695	28,168	2,429,527
		5,079,506	33,139	5,046,367
Total liabilities and stockholders' equity		46,867,889	33,139	46,834,750
Consolidated Profit and Loss Account				
Net interest income and other revenues		1,712,256	-	1,712,256
NON-INTEREST EXPENSE				
Total non-interest expenses	1	1,145,151	49,822	1,194,973
Profit before taxation		567,105	49,822	517,283
Taxation	2	80,564	(16,683)	63,881
NET PROFIT		486,541	33,139	453,402
Attributable to:				
Stockholders of the parent company		479,442	33,139	446,303
Non-controlling interest		7,099	-	7,099
		486,541	33,139	453,402
Earnings per stock unit		75¢		70¢

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

36 PRIOR YEAR RESTATEMENT (Cont'd)

36.2

		The Bank		
		2008		
		Previously Reported	Adjustments	Restated
Balance Sheet at December 31	Notes	$'000	$'000	$'000
ASSETS				
Accounts receivable	1	366,216	(49,822)	316,394
Deferred tax assets	2	407,553	16,683	424,236
Other assets		25,449,919	-	25,449,919
Total assets		26,223,688	(33,139)	26,190,549
LIABILITIES				
Total liabilities		22,578,120	-	22,578,120
Stockholders' Equity				
Share capital		1,732,888	-	1,732,888
Statutory reserve fund	3	458,911	4,971	453,940
Other reserves		768,877	-	768,877
Unappropriated profits	4	684,892	28,168	656,724
		3,645,568	33,139	3,612,429
Total liabilities and stockholders' equity		26,223,688	33,139	26,190,549
Profit and Loss Account				
Net interest income and other revenues		1,135,675	-	1,135,675
NON-INTEREST EXPENSE				
Total non-interest expenses	1	758,075	49,822	807,897
Profit before taxation		377,600	49,822	327,778
Taxation	2	42,202	(16,683)	25,519
NET PROFIT		335,398	33,139	302,259

Notes

1. This represents the derecognition of an asset on broker receivable recorded in 2008 but now found to be unidentifiable and for which no collection is possible.

2. The deferred tax effect of increasing tax losses carried forward at December 31, 2008 arising from the restatement at note 1.

3. The effect on revising downward the required statutory reserve fund at 15% of restated net profit arising from adjustment note 1 and 2.

4. The effect on unappropriated profits carried forward at December 31, 2008 arising from combined adjustments for items 1 to 3 above.

37 SUBSEQUENT EVENT

On January 14, 2010 the Government of Jamaica (GOJ) invited holders of certain domestic debt instruments to voluntarily participate in the Jamaica Debt Exchange (JDX) programme. The stated objectives of the programme are to reduce the cost, as well as lengthen maturity profile, of the GOJ's domestic debt portfolio. Under the JDX, GOJ intends to retire certain existing debt instruments and issue new debt instruments with an increased maturity profile and at rates of interest lower than the rates of interest on the existing debt instruments.

At December 31, 2009, the Group's investment portfolio included investments in GOJ debt instruments that qualify for the JDX programme, with nominal values totaling $11.61 billion for the Group and for the Bank $1.12 billion.

These are stated in the balance sheet as follows:

	The Group	The Bank
	$'000	$'000
Available-for-sale	8,778,074	1,070,050
Held-to-maturity	2,643,656	-
	11,421,730	1,070,050

The Group accepted the invitation for the exchange which was concluded on February 24, 2010. The Group will derecognise its holdings of the existing debt instruments at a consideration equivalent to the fair value of the new instruments acquired. The gain or loss on disposal, which will also include any unamortised discounts or premiums as at the settlement date, will be recognised in the profit and loss account for year ending December 31, 2010.

Preliminary assessment by the management reveals that there is minimal impact on the balance sheet and on fair values assuming a pricing of the instruments at par. However, the Directors and management have indicated that the full impact of the transaction will be known when the new instruments are available and their fair values determined by the market.