CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

YEAR ENDED DECEMBER 31, 2011

CONTENTS

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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 88, which comprise the Group's and the Bank's Statement of Financial Position as at December 31, 2011, and the Group's and the Bank's profit and loss accounts, statements of comprehensive income, the statements of changes in equity and the statement of 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 of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the Companies Act, 2004 of Jamaica and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 auditor's 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 auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Deloitte.

Report on the financial statements (Cont'd)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Bank as at December 31, 2011 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 Companies Act, 2004 of Jamaica

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.

Deloitte & Touche

Chartered Accountants

Kingston, Jamaica,
February 27, 2012

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2011

	Notes	2011 $'000	2010 $'000
ASSETS			
Cash resources	5	1,377,113	1,513,433
Investment in securities	6	6,582,641	10,241,404
Pledged assets	7	17,304,800	19,539,466
Other investment	8	15,000	15,000
Loans (after provision for loan losses)	10	6,194,889	6,444,061
Accounts receivable	11	866,510	1,081,782
Income tax recoverable		36,636	52,462
Intangible assets	12	189,712	255,736
Property and equipment	13	64,449	90,192
Deferred tax assets	14	102,192	60,738
Customers' liability under acceptances, guarantees and letters of credit as per contra		157,274	196,140
Total assets		32,891,216	39,490,414

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2011

	Notes	2011 $'000	2010 $'000
LIABILITIES			
Securities sold under repurchase agreements	15	18,753,184	23,627,821
Deposits	16	5,577,042	7,338,785
Due to other financial institutions	17	696,369	714,998
Loan participation	18	458,348	681,621
Accounts payable	19	291,329	195,638
Preference shares	20	-	86,778
Liabilities under acceptances, guarantees and letters of credit as per contra		157,274	196,140
		25,933,546	32,841,781
STOCKHOLDERS' EQUITY			
Share capital	20	1,732,888	1,732,888
Statutory reserve fund	21	532,023	516,541
Retained earnings reserve	22	505,842	1,215,442
Capital redemption reserve	23	85,488	-
Fair value reserve	24	(443,435)	(405,093)
Loan loss reserve	10	2,096,416	1,004,907
Unappropriated profits		2,395,448	2,539,344
Attributable to stockholders of the Bank		6,904,670	6,604,029
Non-controlling interest		53,000	44,604
		6,957,670	6,648,633
Total liabilities and stockholders' equity		32,891,216	39,490,414

The Notes on Pages 12 to 88 form an integral part of the Financial Statements.

The financial statements on Pages 2 to 88 were approved and authorised for issue by the Directors on February 27, 2012 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, 2011

	Notes	2011 $'000	2010 $'000
NET INTEREST INCOME AND OTHER REVENUE			
Interest on investments		2,113,521	2,826,333
Interest on loans		495,885	1,002,491
Total interest income		2,609,406	3,828,824
Interest expense		1,611,371	2,497,427
Net interest income	25	998,035	1,331,397
Commission and fee income	26	106,490	85,912
Net gains on securities trading		433,450	193,300
Foreign exchange trading and translation		65,429	61,713
Dividend income		34,166	53,036
Other income		11,645	18,295
Total other operating income		651,180	412,256
Net interest income and other revenue		1,649,215	1,743,653
NON-INTEREST EXPENSES			
Staff costs	27	627,889	568,693
Loan loss and bad debt expense, less recovery	10,11	(13,078)	80,528
Property expense		99,750	94,932
Information technology costs		51,834	49,236
Marketing and corporate affairs		70,108	63,963
Professional fees		81,469	52,291
Bank charges		44,660	39,262
Depreciation and amortisation	12,13	100,999	99,929
Regulatory costs		28,490	32,827
Irrecoverable General Consumption Tax		46,331	42,341
Other operating expenses		54,326	64,430
Total non-interest expenses		1,192,778	1,188,432
PROFIT BEFORE TAXATION		456,437	555,221
Taxation	28	110,197	211,162
NET PROFIT	29	346,240	344,059
Attributable to:			
Stockholders of the Bank		338,983	335,680
Non-controlling interest		7,257	8,379
		346,240	344,059
Earnings per stock unit	30	53¢	52¢

The Notes on Pages 12 to 88 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, 2011

	Notes	2011 $'000	2010 $'000
NET PROFIT		346,240	344,059
OTHER COMPREHENSIVE INCOME			
Available-for-sale financial assets			
Net gains arising on revaluation of available-for-sale financial assets during the year		349,878	1,203,148
Reclassification adjustments relating to available-for-sale financial assets disposed of in the year	24	(406,666)	(185,725)
		(56,788)	1,017,423
Income tax relating to components of other comprehensive income	14	19,585	(338,698)
Other comprehensive income for the year (net of tax)		(37,203)	678,725
Total comprehensive income for the year		309,037	1,022,784
Total comprehensive income attributable to:			
Stockholders of the Bank		300,641	1,013,889
Non-controlling interest		8,396	8,895
		309,037	1,022,784

The Notes on Pages 12 to 88 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, 2011

	Notes	Share Capital $'000	Statutory Reserve Fund $'000	Retained Earnings Reserve $'000	Capital Redemption 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, 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
Net profit for the year		-	-	-	-	-	-	335,680	335,680	8,379	344,059
Other comprehensive income for the year		-	-	-	-	678,209	-	-	678,209	516	678,725
Total comprehensive income for the year		-	-	-	-	678,209	-	335,680	1,013,889	8,895	1,022,784
Transfer to loan loss reserve	10,22	-	-	(300,000)	-	-	668,053	(368,053)	-	-	-
Transfer to statutory reserve fund	21	-	23,431	-	-	-	-	(23,431)	-	-	-
Balance at December 31, 2010		1,732,888	516,541	1,215,442	-	(405,093)	1,004,907	2,539,344	6,604,029	44,604	6,648,633
Net profit for the year		-	-	-	-	-	-	338,983	338,983	7,257	346,240
Other comprehensive income for the year		-	-	-	-	(38,342)	-	-	(38,342)	1,139	(37,203)
Total comprehensive income for the year		-	-	-	-	(38,342)	-	338,983	300,641	8,396	309,037
Transfer to loan loss reserve	10,22	-	-	(709,600)	-	-	1,091,509	(381,909)	-	-	-
Transfer to statutory reserve fund	21	-	15,482	-	-	-	-	(15,482)	-	-	-
Transfer to capital redemption reserve	23	-	-	-	85,488	-	-	(85,488)	-	-	-
Balance at December 31, 2011		1,732,888	532,023	505,842	85,488	(443,435)	2,096,416	2,395,448	6,904,670	53,000	6,957,670

The Notes on Pages 12 to 88 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, 2011

	Notes	2011 $'000	2010 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		346,240	344,059
Interest income		(2,609,406)	(3,828,824)
Interest expense		1,611,371	2,497,427
Loan loss and bad debt expense		65,799	100,864
Depreciation and amortisation	12,13	100,999	99,929
Gain on disposal of property and equipment		(77)	(953)
Taxation		110,197	211,162
		(374,877)	(576,336)
Movement in working capital			
Accounts receivable		192,404	(443,293)
Loans receivable		164,388	307,189
Accounts payable		95,691	77,818
Cash generated by (used in) operations		77,606	(634,622)
Interest paid		(1,727,566)	(2,751,465)
Income tax paid		(116,240)	(103,582)
Net cash used in operating activities		(1,766,200)	(3,489,669)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on disposal of property and equipment		84	4,892
Acquisition of property and equipment	13	(9,239)	(25,699)
Interest received		2,794,758	4,187,809
Decrease in investments		5,856,370	4,268,117
Net cash provided by investing activities		8,641,973	8,435,119
CASH FLOWS FROM FINANCING ACTIVITIES			
Deposits		(1,731,660)	(915,845)
Securities sold under repurchase agreements		(4,789,901)	(3,661,708)
Preference shares redeemed		(85,488)	-
Loan participation		(223,213)	(50,234)
Due to other financial institutions		(18,603)	(193,396)
Net cash used in financing activities		(6,848,865)	(4,821,183)
INCREASE IN CASH AND CASH EQUIVALENTS		26,908	124,267
OPENING CASH AND CASH EQUIVALENTS		823,199	744,375
Effects of foreign exchange rate changes		(44,984)	(45,443)
CLOSING CASH AND CASH EQUIVALENTS	31	805,123	823,199

The Notes on Pages 12 to 88 form an integral part of the Financial Statements.

CAPITAL & CREDIT MERCHANT BANK LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2011

	Notes	2011 $'000	2010 $'000
ASSETS			
Cash resources	5	1,004,713	1,224,884
Investment in securities	6	2,040,522	4,952,993
Securities purchased under resale agreements		1,165,474	470,542
Pledged assets	7	8,756,743	8,528,689
Investment in subsidiaries (shares at cost)		305,406	305,406
Investment in associate	9	-	3,282
Loans (after provision for loan losses)	10	6,194,889	6,444,061
Accounts receivable	11	372,393	507,369
Income tax recoverable		84,039	85,229
Intangible asset	12	49,566	115,590
Property and equipment	13	55,860	64,569
Deferred tax assets	14	109,648	168,308
Customers' liabilities under acceptances, guarantees and letters of credit as per contra		157,274	196,140
Total assets		20,296,527	23,067,062

CAPITAL & CREDIT MERCHANT BANK LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2011

	Notes	2011 $'000	2010 $'000
LIABILITIES			
Securities sold under repurchase agreements	15	8,420,504	9,397,026
Deposits	16	5,650,058	7,382,616
Due to other financial institutions	17	696,369	714,998
Loan participation	18	458,348	681,621
Accounts payable	19	210,891	145,729
Preference shares	20	-	86,778
Liabilities under acceptances, guarantees and letters of credit as per contra		157,274	196,140
Total liabilities		15,593,444	18,604,908
STOCKHOLDERS' EQUITY			
Share capital	20	1,732,888	1,732,888
Statutory reserve fund	21	532,023	516,541
Retained earnings reserve	22	505,842	1,215,442
Capital Redemption Reserve	23	85,488	-
Fair value reserve	24	(383,998)	(521,717)
Loan loss reserve	10	2,096,416	1,004,907
Unappropriated profits		134,424	514,093
		4,703,083	4,462,154
Total liabilities and stockholders' equity		20,296,527	23,067,062

The Notes on Pages 12 to 88 form an integral part of the Financial Statements.

The financial statements on Pages 2 to 88 were approved and authorised for issue by the Directors on February 27, 2012 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, 2011

	Notes	2011 $'000	2010 $'000
NET INTEREST INCOME AND OTHER REVENUE			
Interest on investments		919,245	1,149,264
Interest on loans		480,449	985,959
Total interest income		1,399,694	2,135,223
Interest expense		922,709	1,390,136
Net interest income	25	476,985	745,087
Commission and fee income	26	23,880	21,934
Net gains on securities trading		105,230	125,572
Foreign exchange trading and translation		60,157	66,306
Dividend income		34,727	59,243
Other income		76,953	22,904
Total other operating income		300,947	295,959
Net interest income and other revenue		777,932	1,041,046
NON-INTEREST EXPENSES			
Staff costs	27	337,940	341,232
Loan loss and bad debt expense, less recovery	10,11	(13,078)	80,528
Impairment loss on investment in associate		3,282	-
Bank charges		37,872	31,935
Property expenses		62,268	55,582
Depreciation and amortisation	12,13	83,077	80,728
Information technology costs		17,954	33,321
Marketing and corporate affairs		32,266	38,305
Professional fees		30,930	33,444
Regulatory costs		20,792	25,560
Irrecoverable General Consumption Tax		30,442	28,961
Other operating expenses		39,988	44,264
Total non-interest expenses		683,733	793,860
PROFIT BEFORE TAXATION		94,199	247,186
Taxation	28	(9,011)	90,978
NET PROFIT	29	103,210	156,208

The Notes on Pages 12 to 88 form an integral part of the Financial Statements.

CAPITAL & CREDIT MERCHANT BANK LIMITED

STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31, 2011

	Notes	2011 $'000	2010 $'000
NET PROFIT		103,210	156,208
OTHER COMPREHENSIVE INCOME			
Available-for-sale financial assets			
Net gains arising on revaluation of available-for-sale financial assets during the year	24	311,809	526,923
Reclassification adjustments relating to available-for-sale financial assets disposed of in the year	24	(105,230)	(125,572)
		206,579	401,351
Income tax relating to components of other comprehensive income	14	(68,860)	(133,784)
Other comprehensive income for the year (net of tax)	24	137,719	267,567
Total comprehensive income for the year		240,929	423,775

The Notes on Pages 12 to 88 form an integral part of the Financial Statements.

CAPITAL & CREDIT MERCHANT BANK LIMITED

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED DECEMBER 31, 2011

	Notes	Share Capital $'000	Statutory Reserve Fund $'000	Retained Earnings Reserve $'000	Capital Redemption Reserve $'000	Fair Value Reserve $'000	Loan Loss Reserve $'000	Unappropriated Profits $'000	Total $'000
Balance at December 31, 2009		1,732,888	493,110	1,515,442	-	(789,284)	336,854	749,369	4,038,379
Net profit for the year		-	-	-	-			156,208	156,208
Other comprehensive income for the year		-	-	-	-	267,567	-	-	267,567
Total comprehensive income for the year		-	-	-	-	267,567	-	156,208	423,775
Transfer to loan loss reserve	10,22	-	-	(300,000)	-	-	668,053	(368,053)	-
Transfer to statutory reserve fund	21	-	23,431	-	-	-	-	(23,431)	-
Balance at December 31, 2010		1,732,888	516,541	1,215,442	-	(521,717)	1,004,907	514,093	4,462,154
Net profit for the year		-	-	-	-	-	-	103,210	103,210
Other comprehensive income for the year		-	-	-	-	137,719	-	-	137,719
Total comprehensive income for the year		-	-	-	-	137,719	-	103,210	240,929
Transfer to loan loss reserve	10,22	-	-	(709,600)	-	-	1,091,509	(381,909)	-
Transfer to statutory reserve fund	21	-	15,482	-	-	-	-	(15,482)	-
Transfer to capital redemption reserve fund	23	-	-	-	85,488	-	-	(85,488)	-
Balance at December 31, 2011		1,732,888	532,023	505,842	85,488	(383,998)	2,096,416	134,424	4,703,083

The Notes on Pages 12 to 88 form an integral part of the Financial Statements.

CAPITAL & CREDIT MERCHANT BANK LIMITED

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2011

	Notes	2011 $'000	2010 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		103,210	156,208
Interest Income		(1,399,694)	(2,135,223)
Interest expense		922,709	1,390,136
Loan loss expense		65,799	100,864
Impairment loss on investment in associate		3,282	-
Depreciation and amortisation	12,13	83,077	80,728
Gain on sale of property and equipment		(77)	(440)
Taxation		(9,011)	90,978
		(230,705)	(316,749)
Movement in working capital			
Accounts receivable		111,476	(300,836)
Loans receivable		164,388	307,189
Accounts payable		65,162	78,663
Cash generated by (used in) operations		110,321	(231,733)
Interest paid		(1,001,038)	(1,371,106)
Net cash used in operating activities		(890,717)	(1,602,839)
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds on sale of property and equipment		84	603
Acquisition of property and equipment	13	(8,351)	(23,455)
Interest received		1,504,315	2,280,202
Decrease in investments		2,996,033	2,973,528
Securities purchased under resale agreements		13,270	76,530
Cash provided by investing activities		4,505,351	5,307,408
CASH FLOW FROM FINANCING ACTIVITIES			
Deposits		(1,702,705)	(951,514)
Securities sold under repurchase agreement		(929,423)	(3,344,773)
Preference shares redeemed		(85,488)	-
Loan participation		(223,213)	(50,234)
Due to other financial institutions		(18,603)	(193,396)
Cash used in financing activities		(2,959,432)	(4,539,917)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		655,202	(835,348)
OPENING CASH AND CASH EQUIVALENTS		524,650	1,401,544
Effects of foreign exchange rate changes		(37,618)	(41,546)
CLOSING CASH AND CASH EQUIVALENTS	29	1,142,234	524,650

The Notes on Pages 12 to 88 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 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. Listed below are the details of the Bank's subsidiaries:

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

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 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

2.1 ***New and revised IFRSs*** **affecting the reported financial performance and/or financial position or disclosure and presentation of the financial statements**

There were no standards or interpretations effective in the current year that affected the presentations or disclosures in the financial statements or the reported financial performance or position. Details of new and revised IFRSs and Interpretations applied in these financial statements but which had no effect on the amounts reported are set out in Note 2.2.

2.2 ***New and revised IFRSs and Interpretations applied with no material effect on the financial statements***

- Amendments to *IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010) -* The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. No note was used for the items of other comprehensive income as the information was included in the statement of changes in equity.

- *IAS 24 Related Party Disclosures* - The amendments to the standard clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The application of the amendments had no effect on the Group's financial statements.

- *IAS 27 Consolidated and Separate Financial Statements* – The amendment clarifies that the amendments made to IAS 21 The Effects of Changes in Foreign Rates, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures as a result of IAS 27(2008) should be applied prospectively (with the exception of paragraph 35 of IAS 28 and paragraph 46 of IAS 31, which should be applied retrospectively). The application of the amendments had no effect on the Group’s financial statements.

- Amendments to *IAS 32 Classification of Rights Issues* - The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to IAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application.

  The application of the amendments has had no effect on the amounts reported in the current and prior years because the Group has not issued instruments of this nature.

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

2.2 New and revised IFRSs and Interpretations applied with no material effect on the financial statements (Cont'd)

- Amendments to *IFRS 3 Business Combinations* - As part of *Improvements to IFRSs* issued in 2010, IFRS 3 was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards. In addition, IFRS 3 was amended to provide more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date ('market-based measure'). The application of this amendment has not resulted in any change in the financial statements of the Group.

- *IFRS 7 Financial Instruments: Disclosures* – The amendment encourages qualitative disclosures in the context of the quantitative disclosure required to help users to form an overall picture of the nature and extent of risks arising from financial instruments. It also clarifies the required level of disclosure around credit risk and collateral held and provides relief from disclosure of renegotiated loans. The application of the amendments has not had material effect on the Group's financial statements.

- *Improvements to IFRSs* issued in 2010 - the application of *Improvements to IFRSs* issued in 2010 had no effect on amounts reported in the consolidated financial statements.

- *IFRIC 13 Customer Loyalty Programmes* – The amendment Clarifies that the 'fair value' of award credits should take into account the amount of discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale and any expected forfeitures. The application of the amendments had no effect on the Group's financial statements.

- Amendments to *IFRIC 14 Prepayments of a Minimum Funding Requirement* - IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions. The application of the amendments had no effect on the Group's financial statements.

- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*. The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognised in profit or loss.

  The application of IFRIC 19 had no effect on the amounts reported in the current and prior years because the Group has not entered into any transactions of this nature.

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

2.3 *New and revised IFRSs and Interpretations in issue but not yet effective*

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 (Revised)	Presentation of Financial Statements - Amendments to revise the way other comprehensive income is presented	July 1, 2012
IAS 12 (Revised)	Income taxes – Limited scope amendment (recovery of underlying assets)	January 1, 2012
IAS 19 (Revised)	Employee Benefits - Amended Standard resulting from the Post-Employment Benefits and Termination Benefits projects	January 1, 2013
IAS 27 (Revised)	Consolidated and Separate Financial Statements - Reissued as IAS 27 *Separate Financial Statements*	January 1, 2013
IAS 28 (Revised)	Investments in Associates - Reissued as IAS 28 *Investments in Associates and Joint Ventures*	January 1, 2013
IAS 32 (Revised)	Financial Instruments: Presentation - Amendments to application guidance on the offsetting of financial assets and financial liabilities	January 1, 2014
IFRS 1 (Revised)	First-time Adoption of International Financial Reporting Standards: – Replacement of "fixed dates" for certain exceptions with the "date of transition to IFRS"	July 1, 2011
	– Additional exception for entities ceasing to suffer from severe hyperinflation	July 1, 2011
IFRS 7 (Revised)	Financial Instruments: Disclosures - Amendments enhancing disclosures about transfers of financial assets	July 1, 2011
	- Amendments requiring disclosures about the initial application of IFRS 9	(i)
	- Amendments enhancing disclosures about offsetting of financial assets and financial liabilities	(ii)
IFRS 9 (New)	Financial Instruments - Classification and Measurement of financial assets	January 1, 2015
	- Accounting for financial liabilities and derecognition	January 1, 2015

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

2.3 *New and revised IFRSs and Interpretations in issue but not yet effective (Cont'd)*

		Effective for annual periods beginning on or after
IFRS 10 (New)	Consolidated Financial Statements	January 1, 2013
IFRS 11 (New)	Joint Arrangements	January 1, 2013
IFRS 12 (New)	Disclosures of Interests in Other Entities	January 1, 2013
IFRS 13 (New)	Fair Value Measurement	January 1, 2013
IFRIC 20 (New)	Stripping Costs in the Production Phase of a Surface Mine	January 1, 2013

(i) Annual periods beginning on or after 1 January 2015 (or otherwise when IFRS 9 is first applied)

(ii) Annual periods beginning on or after 1 January 2013 and interim periods within those periods

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.

- The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

  The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

- IAS 27 Separate Financial Statements (2011) - Amended version of IAS 27 which now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27 *Consolidated and Separate Financial Statements*. Requirements for consolidated financial statements are now contained in IFRS 10 *Consolidated Financial Statements*. The Standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9 *Financial Instruments*. The Standard also deals with the recognition of dividends, certain group reorganisations and includes a number of disclosure requirements. This standard is applicable to annual reporting periods beginning on or after January 1, 2013. The Board of Directors and management anticipate that the application of this amendment to the standard is not likely to compact the financial results or disclosures.

- IAS 28 Investments in Associates and Joint Ventures (2011) - This Standard supersedes IAS 28 *Investments in Associates* and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The Standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment. This standard is applicable to annual reporting periods beginning on or after January 1, 2013. The Board of Directors and management anticipate that the application of this amendment to the standard is not likely to compact the financial results or disclosures.

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

2.3 *New and revised IFRSs and Interpretations in issue but not yet effective (Cont'd)*

- *Amendment to IFRS 7 – Enhanced Derecognition Disclosure Requirements* – The IASB introduced enhanced disclosure requirements to IFRS 7 as part of its comprehensive review of off-balance sheet activities. The amendments are designed to ensure that users of financial statements are able to more readily understand transactions involving the transfer of financial assets (for example, securitisations), including the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. Disclosures are not required for comparative periods before the date of initial application of the amendments. The application of the amendment will result in enhanced disclosures in the financial statements to the extent applicable.

- IFRS 9 issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

(i) IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

(ii) The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

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.

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including *IFRS 10, IFRS 11, IFRS 12, IAS 27* (as revised in 2011) and *IAS 28* (as revised in 2011). These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time. However, entities are permitted to incorporate any of the disclosure requirements in *IFRS 12 Disclosure of Interests in Other Entities* into their financial statements without technically early applying the provisions of IFRS 12.

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

2.3 *New and revised IFRSs and Interpretations in issue but not yet effective (Cont'd)*

- IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities has been withdrawn upon the issuance of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios. This standard is applicable to annual reporting periods beginning on or after January 1, 2013.

- IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

- IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 *Financial Instruments: Disclosures* will be extended by IFRS 13 to cover all assets and liabilities within its scope.

  IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

  The directors anticipate that IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning January 1, 2013 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of compliance

The Group's financial statements have been prepared in accordance, and comply with, the requirements of International Financial Reporting Standards (IFRS) and the Companies Act, 2004 0f Jamaica.

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.

The principal accounting policies are set out below.

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

3.2 **Basis of preparation (Cont'd)**

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. At the end of each reporting period monetary items denominated in foreign currencies are translated at rates prevailing at that date. 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.

3.2.4 Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities using exchange rates prevailing at the end of the reporting period.
- Income and expense items at the average rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used.
- Exchange differences arising from the above translation as well as from the differences on monetary items receivable from or payable to a foreign operations for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operations) are recognised in other comprehensive income.
- When a foreign operation is sold, the component of other comprehensive income relating to that particular foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

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 and statement of other comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of bank and to the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.3 Basis of consolidation (Cont'd)

3.3.1 Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Bank.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

3.4 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively*;*

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and

- 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* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.4 Business combinations (Cont'd)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Business combinations that took place prior to January 1, 2010 were accounted for in accordance with the previous version of IFRS 3.

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 that 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 is not control or joint control over those policies.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.6 Investment in associate (Cont'd)

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of interest in an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

3.7 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see 3.4 above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

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

3.7 **Goodwill (Cont'd)**

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, 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 based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated profit and loss account. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described at Note 3.6 above.

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

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

    (i) a non-derivative instrument 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 instrument 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.8 Financial Instruments (Cont'd)

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 statement of financial position 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, with any transaction cost recognised immediately in profit or loss.

The financial assets of the Group include cash resources, investment in securities, securities purchased under resale agreements, pledged assets, investments in subsidiaries, investment in associates, loans and accounts receivable, except prepayments.

Financial assets are classified into the following categories:

- Financial assets at fair value through profit or loss
- 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.

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
- on initial recognition 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 recognition 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 36.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.8 Financial Instruments (Cont'd)

3.8.1 Financial assets (Cont'd)

3.8.1.2 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. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of fair value reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to 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 reclassified to 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 financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

3.8.1.3 Loans and receivables

Loans and accounts receivable that are non-derivative and 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.

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

3.8.1.4 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 discounts 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 on initial recognition.

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.

3.8.1.5 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.8 Financial Instruments (Cont'd)

3.8.1 Financial assets (Cont'd)

3.8.1.5 Loans and provisions for credit losses (Cont'd)

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. During the current and previous year the regulator approved transfers from retained earnings reserve to loan loss reserve.

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 Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. 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-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.8 Financial Instruments (Cont'd)

3.8.1 Financial assets (Cont'd)

3.8.1.6 Impairment of Financial Assets (Cont'd)

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 recognised 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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.

3.8.1.7 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 risks and rewards to the ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks 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.

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in 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 De-recognition of financial assets (Cont'd)

On de-recognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

3.8.2 Financial liabilities and equity instruments issued by the Group

Debt and equity instruments issued by the Group are classified as other financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

3.8.2.1 Financial liabilities

Financial liabilities are classified as 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 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 on initial recognition. 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. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognised in profit or loss.

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 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.8 Financial Instruments (Cont'd)

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.

3.9 Intangible assets

3.9.1 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.

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.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

3.10 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. Historical cost includes expenditure that is directly attributable to the acquisition of these items.

Property and equipment in the course of construction for production, rental or administrative purposes 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. 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.

Land, painting and artwork is not depreciated.

An item of property and equipment is derecognised upon disposal of when no future economic benefits are expected to arise from the continued used of the asset. 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 profit or loss.

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.11 Impairment of tangible and intangible assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets 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 profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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 profit or loss unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

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 consolidated profit and loss account because of items of income or expenses that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted at the reporting date.

3.12.2 Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. 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 goodwill or from the initial recognition (other than in a business combination) 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)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The principal temporary differences arise from depreciation on property and equipment, tax losses, interest payable, interest receivable and revaluation adjustments on available-for-sale investments.

The carrying amount of deferred tax assets is reviewed at each reporting 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 reporting 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 in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

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 Related party transactions and balances

A party is related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party:
  - controls, is controlled by, or is under common control with, the Group (this includes parent, subsidiaries and fellow subsidiaries);
  - has an interest in the entity that gives it significant influence over the Group; or
  - has joint control over the Group;

(ii) the party is an associate of the Group;
(iii) the party is a joint venture in which the Group is a venturer;
(iv) the party is a member of the key management personnel of the Group;
(v) the party is a close member of the family of any individual referred to in (i) or (iv);
(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.14 Related party transactions and balances (Cont'd)

Related party transactions and balances are recognised and disclosed in the financial statements.

Transactions with related parties are recorded in accordance with the normal policies of the Group at transaction dates.

3.15 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 reporting date and are discounted to present value.

3.16 Revenue recognition

3.16.1 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.

3.16.2 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.

3.16.3 Dividend income

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

3.17 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.

3.17.1 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 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.17 Leases (Cont'd)

3.17.2 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.

3.18 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 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 reporting date.

3.18.3 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 directors are of the opinion that, apart from those involving estimations (see below) there are no critical judgements made in the process of applying the Group's accounting policies that have a significant n effect on the amounts recognised in the financial statements.

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

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 reporting date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities.

4.2.1 Fair value of financial assets

As described in Note 36, 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 end of the reporting period stated at fair value determined in this manner amounted to $18.6 billion (2010: $23.6 billion) and for the Bank $10.3 billion (2010: $12.7 billion).

Had the fair value of these securities been 5% higher or lower, profit for the Group would increase/decrease by $5.7 million (2010: $0.514 million) and $Nil for the Bank, while other comprehensive income would increase/decrease by $929 million for the Group and $502.2 million for the Bank (2010: $1.2 billion for the Group and $661.2 million for the Bank).

4.2.2 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 Notes 14 and 28).

4.2.3 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 profit or loss, 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 $336.8 million to $457.4 million (2010: from $364.7 million to $489.4 million) for the Group and the Bank.

5 CASH RESOURCES

Cash resources include $572.0 million (2010: $700.2 million) held under Section 14(i) of the Financial Institutions Act, at the Bank of Jamaica as a Cash Reserve. This amount is not available for investment or other use by the Group or the Bank.

CAPITAL & CREDIT MERCHANT BANK LIMITED

AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

6 INVESTMENT IN SECURITIES

	The Group		The Bank	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Financial assets at fair value through profit or loss:				
Equity securities	41,527	34,589	-	-
Securities available-for-sale				
Government of Jamaica securities	15,107,354	19,657,272	6,953,451	9,240,420
US Treasury Bills	376,333	786,875	376,333	786,875
Equity securities	334,003	596,924	465,000	514,968
Bank of Jamaica certificates of deposit	469,014	946,000	282,464	645,000
Other securities	2,578,335	2,193,242	2,523,035	2,036,612
	18,865,039	24,180,313	10,600,283	13,223,875
Loans and Receivables Securities: (see Note 36)				
Government of Jamaica securities	2,871,608	3,209,239	-	-
Securities purchased under resale agreements	479	10,000	-	-
Other securities	1,718,722	1,813,165	-	-
	4,590,809	5,032,404	-	-
Total AFS and LR securities	23,455,848	29,212,717	10,600,283	13,223,875
Pledged assets (See Note 7)	(17,304,800)	(19,539,466)	(8,756,743)	(8,528,689)
	6,151,048	9,673,251	1,843,540	4,695,186
	6,192,575	9,707,840	1,843,540	4,695,186
Interest receivable	390,066	533,564	196,982	257,807
	6,582,641	10,241,404	2,040,522	4,952,993

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.

6 INVESTMENT IN SECURITIES (Cont'd)

In 2010, the Bank of Jamaica (BOJ) implemented the Central Securities Depository and the Real Time Gross Settlement system. As a result, the Bank is no longer required to pledge assets to the BOJ to cover possible shortfalls in the company's primary dealer account. .

Gross gains of $406.7 million for the Group and $105.2 million for the Bank (2010: Gross gains of $185.7 million for the Group and of $125.6 million for the Bank) were realised during the year on sale of securities available-for-sale.

In February 2010, all domestic Government of Jamaica securities held were effectively "matured", and all of the new securities purchased were classified as available-for-sale on the date of acquisition.

7 PLEDGED ASSETS

The Group enters into collateralised repurchase agreements and as at the reporting date, investment securities amounting to $17.3 billion (2010: $19.5 billion) of the Group and $8.8 billion (2010: $8.5 billion) (note 6) 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 INVESTMENT IN ASSOCIATE

	2011	2010
	$'000	$'000
Shares at cost	3,282	3,282
Less: Impairment loss	(3,282)	-
Total investment in associate	-	3,282

Summarised financial information of the Group's associate is set out below:

	2011	2010
	$'000	$'000
Total assets	4,369	10,696
Total liabilities	3,904	4,618
Net assets	465	6,078
Group's share of net assets of associate	93	1,216

9 INVESTMENT IN ASSOCIATE (Cont'd)

	2011 $'000	2010 $'000
Total revenue	-	32,732
Total loss for the year	(13,041)	(8,732)
Group's share of losses (Restricted to the Bank's investment in associate)	-	-
Group's share of other comprehensive income	-	-

10 LOANS (AFTER PROVISION FOR LOAN LOSSES)

	The Group and the Bank	
	2011 $'000	2010 $'000
Corporate	4,901,459	4,673,248
Individuals	1,463,492	1,926,318
	6,364,951	6,599,566
Less provision	336,802	364,733
	6,028,149	6,234,833
Interest receivable	166,740	209,228
	6,194,889	6,444,061

(a) The loan balance includes an amount of $91.8 million (2010: $101.1 million) receivable from employees.

(b) The aggregate amount of non-performing loans on which interest is not being accrued is $3.2 billion (2010: $2.9 billion). The majority of the non-performing loans are not considered impaired (see Note 36.4.7).

10 **LOANS (AFTER PROVISION FOR LOAN LOSSES) (Cont'd)**

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

	The Group and the Bank	
	2011	2010
	$'000	$'000
Provision for loan losses under IFRS		
Provision at January 1	364,733	385,334
Write-offs	(1,965)	(101,129)
Recovery of amounts previously written-off	10,614	-
	373,382	284,205
Charged to profit and loss	52,012	100,864
Recoveries during the year	(78,877)	(20,336)
Transfer (See note 11)	(9,715)	-
	(36,580)	80,528
Balance at December 31	336,802	364,733
Regulatory provision (In excess of IFRS requirements)		
Provision at January 1	1,004,907	336,854
Charged to equity	1,091,509	668,053
Balance at December 31	2,096,416	1,004,907
Total allowance for impairment	2,433,218	1,369,640

Total allowances for loan losses are made up as follows:

	2011	2010
	$'000	$'000
Allowance based on accounting standards - (IAS 39 see (i) below)	336,802	364,733
Additional allowance based on Bank of Jamaica regulations (see (ii) below)	2,096,416	1,004,907
	2,433,218	1,369,640

(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.

11 ACCOUNTS RECEIVABLE

	The Group		The Bank	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Broker receivable	1,285	119,755	1,285	119,755
Withholding tax recoverable	307,129	379,914	46,229	35,071
Owed by parent company	40,800	41,187	-	1,187
Owed by wholly-owned subsidiary	-	-	191	2,843
Owed by fellow subsidiary	25,049	25,000	5	-
Liquid and staff loans	134,440	147,578	-	-
Recoverable expenses	302,669	266,948	302,669	266,948
Other receivables	78,640	101,400	45,516	81,565
	890,012	1,081,782	395,895	507,369
Less: Provision (including transfer from loan provision)	23,502	-	23,502	-
	866,510	1,081,782	372,393	507,369

Ageing of past due but not impaired accounts receivable

	The Group and the Bank	
	2011	2010
	$'000	$'000
90 – 180 days	25,275	58,096
181 – 360 days	10,446	82,925
Over 360 days	243,446	125,948
	279,167	266,969

Ageing of impaired accounts receivable

	The Group and the Bank	
	2011	2010
	$'000	$'000
Over 180 days	23,502	-

Movement in provision for doubtful debts

	The Group and the Bank	
	2011	2010
	$'000	$'000
Balance at January 1	-	-
Transferred from loans (Note 10)	9,715	-
Charged to profit or loss	13,787	-
Balance at end of year	23,502	-

12 INTANGIBLE ASSETS

	The Group			The Bank
	Computer Software $'000	Goodwill $'000	Total $'000	Computer Software $'000
Cost				
Balance at December 31, 2009, 2010 and 2011	331,090	140,146	471,236	331,090
Amortisation				
Balance at December 31, 2009	149,282	-	149,282	149,282
Charge for the year	66,218	-	66,218	66,218
Balance at December 31, 2010	215,500	-	215,500	215,500
Charge for the year	66,024	-	66,024	66,024
Balance at December 31, 2011	281,524	-	281,524	281,524
Carrying amount				
December 31, 2011	49,566	140,146	189,712	49,566
December 31, 2010	115,590	140,146	255,736	115,590

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

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

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13 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, 2009	2,968	20,391	228,517	9,619	81,504	18,021	361,020
Additions	-	-	22,042	-	3,657	-	25,699
Disposal	-	-	(3,413)	-	(3,312)	(1,972)	(8,697)
Balance at December 31, 2010	2,968	20,391	247,146	9,619	81,849	16,049	378,022
Additions	-	-	9,239	-	-	-	9,239
Disposal	-	-	(121)	-	-	-	(121)
Balance at December 31, 2011	2,968	20,391	256,264	9,619	81,849	16,049	387,140
Depreciation							
Balance at December 31, 2009	-	3,073	187,109	-	59,496	9,199	258,877
Charge for year	-	495	21,862	-	8,682	2,672	33,711
On disposal	-	-	(1,475)	-	(1,470)	(1,813)	(4,758)
Balance at December 31, 2010	-	3,568	207,496	-	66,708	10,058	287,830
Charge for year	-	510	23,767	-	7,564	3,134	34,975
On disposal	-	-	(114)	-	-	-	(114)
Balance at December 31, 2011	-	4,078	231,149	-	74,272	13,192	322,691
Net book value							
December 31, 2011	2,968	16,313	25,115	9,619	7,577	2,857	64,449
December 31, 2010	2,968	16,823	39,650	9,619	15,141	5,991	90,192

Annual depreciation rates are based on the following estimated useful lives:

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

No depreciation is provided on land, paintings and artwork.

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13 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, 2009	2,968	20,391	129,213	8,858	58,480	18,021	237,931
Additions	-	-	21,255	-	2,200	-	23,455
Disposals	-	-	(7)	-	-	(1,972)	(1,979)
Balance at December 31, 2010	2,968	20,391	150,461	8,858	60,680	16,049	259,407
Additions	-	-	8,351	-	-	-	8,351
Disposals	-	-	(121)	-	-	-	(121)
Balance at December 31, 2011	2,968	20,391	158,691	8,858	60,680	16,049	267,637
Depreciation							
Balance at December 31, 2009	-	3,073	116,181	-	53,691	9,199	182,144
Charge released on disposal	-	-	(3)	-	-	(1,813)	(1,816)
Charge for year	-	495	8,790	-	2,553	2,672	14,510
Balance at December 31, 2010	-	3,568	124,968	-	56,244	10,058	194,838
Charge released on disposal	-	-	(114)	-	-	-	(114)
Charge for year	-	510	11,830	-	1,579	3,134	17,053
Balance at December 31, 2011	-	4,078	136,684	-	57,823	13,192	211,777
Carrying amount							
December 31, 2011	2,968	16,313	22,007	8,858	2,857	2,857	55,860
December 31, 2010	2,968	16,823	25,493	8,858	4,436	5,991	64,569

Annual depreciation rates are based on the following estimated useful lives:

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

No depreciation is provided on land, paintings and artwork.

14 DEFERRED TAXATION

(a) The following is the analysis of deferred tax assets/liabilities presented in the statement of financial position:

	The Group		The Bank	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Analysis for financial reporting Purposes				
Deferred tax assets	315,388	361,879	257,885	378,526
Deferred tax liabilities	(213,196)	(301,141)	(148,237)	(210,218)
Net assets	102,192	60,738	109,648	168,308

(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	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Net assets at January 1	60,738	511,708	168,308	393,070
Credited/(Charged) to income for the year (see Note 28)	21,869	(112,272)	10,200	(90,978)
Credited/(Charged) to other comprehensive income (see Note 24)	19,585	(338,698)	(68,860)	(133,784)
Net assets at December 31	102,192	60,738	109,648	168,308

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14 **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	Total $'000
At December 31, 2009	171,957	5,364	540,461	227,996	753	1,000	947,531
Charged to income for the year	(146,413)	(4,059)	-	(96,131)	(351)	-	(246,954)
Charged to other comprehensive income for the year	-	-	(338,698)	-	-	-	(338,698)
At December 31, 2010	25,544	1,305	201,763	131,865	402	1,000	361,879
Charged to income for the year	(25,544)	(1,305)	-	(39,139)	(88)	-	(66,076)
Credited to other comprehensive income for the year	-	-	19,585	-	-	-	19,585
At December 31, 2011	-	-	221,348	92,726	314	1,000	315,388

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

(c) (Cont'd)

(i) Deferred tax assets (Cont'd)

	The Bank					
	Tax Losses $'000	Revaluation on Available-for-sale Investments $'000	Interest Payable $'000	Tax Credit $'000	Accrued Vacation $'000	Total $'000
At December 31, 2009	171,957	394,642	84,562	1,000	358	652,519
(Charged)/credited to income for for the year	(146,413)	-	6,343	-	(139)	(140,209)
Charged to other comprehensive income for the year	-	(133,784)	-	-	-	(133,784)
At December 31, 2010	25,544	260,858	90,905	1,000	219	378,526
Charged to income for the year	(25,544)	-	(26,110)	-	(127)	(51,781)
Charged to other comprehensive income for the year	-	(68,860)	-	-	-	(68,860)
At December 31, 2011	-	191,998	64,795	1,000	92	257,885

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

(c) Cont'd

(ii) Deferred tax liabilities

	The Group					
	Capital Allowances in excess of Deprecation Charges	Interest Receivable	Unrealised Gains	Securities Trading Revaluation	Other	Total
	$'000	$'000	$'000	$'000	$'000	$'000
At December 31, 2009	(48,258)	(387,457)	-	-	(108)	(435,823)
Credited (Charged) to income for the year	8,447	130,662	(4,527)	-	100	134,682
At December 31, 2010	(39,811)	(256,795)	(4,527)		(8)	(301,141)
Credited/(Charged) to income for the year	25,533	62,169	4,527	(4,292)	8	87,945
At December 31, 2011	(14,278)	(194,626)	-	(4,292)	-	(213,196)

	The Bank			
	Capital Allowances in excess of Depreciation Charges	Interest Receivable	Unrealised Gains	Total
	$'000	$'000	$'000	$'000
At December 31, 2009	(46,970)	(212,479)	-	(259,449)
Credited/(Charged) to income for the year	5,431	48,327	(4,527)	49,231
At December 31, 2010	(41,539)	(164,152)	(4,527)	(210,218)
Credited to income for the year	22,580	34,874	4,527	61,981
At December 31, 2011	(18,959)	(129,278)	-	(148,237)

14 DEFERRED TAXATION (Cont'd)

Deferred income taxes are recognised for loss carried forward only to the extent that realisation of the related tax benefit is probable. At the end of the reporting period the Group had no tax losses (2010: $76.6 million) available for carry forward and off-set against future taxable income. Deferred tax asset was recognised in respect of the 2010 tax losses.

15 SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

	The Group		The Bank	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Personal	3,025,427	3,667,440	37	238
Financial institutions	10,111,728	13,035,094	6,596,413	7,105,115
Commercial and business enterprises	5,409,055	6,633,575	1,675,851	2,096,372
	18,546,210	23,336,109	8,272,301	9,201,725
Interest payable	206,974	291,712	148,203	195,301
	18,753,184	23,627,821	8,420,504	9,397,026

16 DEPOSITS

	The Group		The Bank	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Personal	3,242,510	3,965,534	3,242,510	3,965,534
Financial institutions	56,768	85,945	129,555	129,776
Commercial and business enterprises	2,233,024	3,212,483	2,233,024	3,212,483
	5,532,302	7,263,962	5,605,089	7,307,793
Interest payable	44,740	74,823	44,969	74,823
	5,577,042	7,338,785	5,650,058	7,382,616

17 DUE TO OTHER FINANCIAL INSTITUTIONS

	The Group and the Bank	
	2011	2010
	$'000	$'000
Principal	696,231	714,834
Interest payable	138	164
	696,369	714,998

The above balance consists of US$ 4.1 million and J$340.6 million (2010: US$ 4.4 million and J$338.9 million) due to the Development Bank of Jamaica (DBJ), at interest rates of 4.50% to10.00% per annum for periods up to10 years (2010: 4.25% to10.00% per annum for periods up to 9 years). Loans are repayable in monthly installments. The loans are for on-lending to customers to finance development and agricultural projects within the terms and conditions of the DBJ.

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18 LOAN PARTICIPATION

	The Group and the Bank	
	2011	2010
	$'000	$'000
Personal	69,108	163,376
Financial institutions	5,229	79,359
Commercial and business enterprises	382,934	437,749
	457,271	680,484
Interest payable	1,077	1,137
	458,348	681,621

19 ACCOUNTS PAYABLE

	The Group		The Bank	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Prime accounts	16,828	7,810	-	-
Owed to fellow subsidiary	313	148	313	148
Payroll taxes	22,417	24,498	22,417	24,498
Deferred income	56,461	21,584	56,461	21,584
GCT payable	1,035	2,054	385	964
Other payable	194,274	139,544	131,315	98,535
	291,329	195,638	210,891	145,729

20 SHARE CAPITAL

	Number of units	
	2011	2010
	'000	'000
Authorised:		
- Ordinary shares - no par value, January 1 and December 31	800,000	800,000
- Cumulative redeemable preference shares - no par value, January 1 and December 31	100,000	100,000
	2011	2010
	$'000	$'000
Issued and fully paid:		
- 641,159,682 ordinary shares, January 1 and December 31	1,732,888	1,732,888
- 42,743,979 cumulative redeemable preference shares, January 1 and December 31	-	85,488
	1,732,888	1,818,376
Less: Redeemable preference shares classified as liabilities as required by IFRS	-	(85,488)
Stated Capital	1,732,888	1,732,888

The Bank's 42,743 979 cumulative redeemable preference shares valued at $85.5 million were redeemed on April 1, 2011 (See Note 23)

20 SHARE CAPITAL (Cont'd)

The preference shares paid 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 would apply.

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

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

	2011 $'000	2010 $'000
Redeemable Preference Shares	-	85,488
Interest accrued thereon	-	1,290
	-	86,778

21 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% (2010: 15%).

22 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.

The Bank of Jamaica has been notified of the $709.6 million (2010:$300 million) transfer from retained earnings reserve to loan loss reserve.

23 CAPITAL REDEMPTION RESERVE

A capital redemption reserve was created during the year on the redemption of 42,743,979 cumulative redeemable preference shares at a value of $85.488 million in conformity with the provisions of the Jamaica Companies Act. An amount equal to the value of the preference shares redeemed was transferred from unappropriated profits to the Capital Redemption Reserve.

	2011 $'000	2010 $'000
Balance, January 1	-	-
Transfer during the year	85,488	-
	85,488	-

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24 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.

Movement in fair value reserve is as follows:

	The Group		The Bank	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Balance at January 1	(405,093)	(1,083,302)	(521,717)	(789,284)
Unrealised gains on available-for-sale Investments	349,878	1,203,148	311,809	526,923
Deferred tax on unrealised gains	(115,969)	(400,606)	(103,937)	(175,641)
Realised gains on sale of available-for-sale investments transferred to profit and loss	(406,666)	(185,725)	(105,230)	(125,572)
Deferred tax on realized gains	135,554	61,908	35,077	41,857
	(37,203)	678,725	137,719	267,567
Attributable to non-controlling interest	(1,139)	(516)	-	-
Balance at December 31	(443,435)	(405,093)	(383,998)	(521,717)

25 INVESTMENT REVENUE

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

	The Group		The Bank	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Interest income				
Government of Jamaica securities	1,962,430	2,572,582	727,569	863,131
US Treasury Bills	2,383	1,701	1,947	1,558
Other securities	136,548	190,151	188,706	282,556
Bank of Jamaica certificates of deposits	3,151	59,880	-	-
Loans and other receivables (including cash and cash equivalents)	504,894	1,004,510	481,472	987,978
	2,609,406	3,828,824	1,399,694	2,135,223
Interest expenses				
Securities sold under repurchase agreements	1,236,790	1,764,592	544,271	651,999
Deposits	299,059	633,086	302,916	638,388
Other	75,522	99,749	75,522	99,749
	1,611,371	2,497,427	922,709	1,390,136
Net Interest Income	998,035	1,331,397	476,985	745,087

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25 **INVESTMENT REVENUE (Cont'd)**

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

	The Group		The Bank	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Interest revenue:				
Securities available-for-sale	1,566,853	1,257,934	918,222	257,115
Loans and Receivables Securities	537,659	1,563,866	-	890,130
Held-to-maturity Securities	-	2,514	-	-
Loans and other receivables (including cash and cash equivalents)	504,894	1,004,510	481,472	987,978
	2,609,406	3,828,824	1,399,694	2,135,223
Other revenue:				
Dividends	34,166	53,036	34,727	59,243
Gains on disposal of available-for-sale investments	406,666	189,384	105,230	125,572
Gains on disposal of financial assets classified as held for trading	13,907	-	-	-
Net foreign exchange gains	65,429	61,713	60,517	66,306
Unrealised gains arising on financial assets classified as held for trading	12,877	3,916	-	-
	533,045	308,049	200,114	251,121

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

	The Group		The Bank	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Investments in securities				
- Financial assets at fair value through profit or loss	26,784	3,916	-	-
- Available-for-sale investments	2,007,685	1,500,354	1,058,179	441,930
- Loans and receivables	537,659	1,563,866	-	890,130
- Held to maturity	-	2,514	-	-
Loans and other receivables (including cash and cash equivalents)	570,323	1,066,223	541,629	1,054,284
Total income for financial assets	3,142,451	4,136,873	1,599,808	2,386,344

Non-interest revenues relating to Loans are included in 'Commission and fee income' in Note 26.

26 COMMISSION AND FEE INCOME

	The Group		The Bank	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Loan processing fees	23,880	21,934	23,880	21,934
Commission - Government of Jamaica	3,542	3,767	-	-
Commission - equity trading	5,447	2,844	-	-
Fund management and registrar fees	67,726	57,367	-	-
Other fee income	5,895	-	-	-
	106,490	85,912	23,880	21,934

27 STAFF COSTS

	The Group		The Bank	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Staff costs incurred during the year were:				
Salaries and wages	464,707	410,356	240,197	247,264
Statutory contributions	45,715	41,745	24,800	24,830
Pension contributions	18,103	16,529	9,946	9,988
Termination costs	-	6,685	-	4,440
Other staff benefits	99,364	93,378	62,997	54,710
	627,889	568,693	337,940	341,232

28 TAXATION

(a) The charge/(credit) for the year comprises:

	The Group		The Bank	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Income tax at 33⅓% of taxable income	132,066	98,890	1,189	-
Deferred tax (see Note 14)	(21,869)	112,272	(10,200)	90,978
	110,197	211,162	(9,011)	90,978

(b) Subject to agreement of the Commissioner, Taxpayer Audit and Assessment, at the end of the reporting period the Group and the Bank had no tax losses (2010: $76.6 million) available for set-off against future taxable profits. A deferred tax asset was recognised in respect of the 2010 tax losses.

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28 **TAXATION (Cont'd)**

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

	The Group	
	2011	2010
	$'000	$'000
Profit before tax	456,437	555,221
Tax at the domestic income tax rate	152,146	185,073
Tax effect of:		
Expenses not deductible in determining taxable profit	14,764	84,874
Non-taxable income	(57,708)	(60,585)
Other adjustments	995	1,800
Taxation recognised in the consolidated profit and loss account	110,197	211,162

	The Bank	
	2011	2010
	$'000	$'000
Profit before tax	97,481	247,186
Tax at the domestic income tax rate	32,494	82,395
Tax effect of:		
Expenses not deductible in determining taxable profit	9,997	65,991
Non-taxable income	(52,424)	(58,913)
Other adjustments	922	1,505
Taxation recognised in the profit and loss account	(9,011)	90,978

29 **NET PROFIT**

(a) Dealt with in the accounts of:

	2011	2010
	$'000	$'000
The Bank	103,210	156,208
The Subsidiaries	243,030	187,851
	346,240	344,059

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

	The Group		The Bank	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Directors' emoluments				
- Fees	5,985	5,885	5,910	5,750
- Management	45,564	49,388	22,782	28,645
Audit fees - current year	12,514	11,681	6,300	5,901
- prior year	168	65	160	-
Depreciation and amortisation	100,999	99,929	83,077	80,728

30 EARNINGS PER STOCK UNIT

Earnings per stock unit is calculated by dividing the net profit attributable to stockholders of the Bank of $338.9 million (2010: $335.7 million) by 641,159,682 ordinary stock units in issue.

31 CASH AND CASH EQUIVALENTS

	The Group		The Bank	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Cash and balances with banks including Bank of Jamaica	1,377,113	1,513,433	1,004,713	1,224,884
Securities purchased under resale agreements	-	10,000	709,511	-
Less: Statutory cash reserves (see Note 5)	(571,990)	(700,234)	(571,990)	(700,234)
	805,123	823,199	1,142,234	524,650

32 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, 2011, the Group had financial assets under administration of approximately $4.4 billion (2010: $3.6 billion).

33 SEGMENTAL FINANCIAL INFORMATION

The Group's activities are 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 segments' 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.

Included in revenues of $3.4 billion (2010: $4.5 billion) arising from Banking and related services of $1.7 billion (2010: $2.4 billion) and Financial and related services of $1.7 billion (2010: $2.1 billion) (see table below) are revenues of approximately $2.0 billion (2010: $2.6 billion) which arose from transactions with the Group's largest customer.

33 SEGMENTAL FINANCIAL INFORMATION (Cont'd)

	2011			
	Banking & Related Services $'000	Financial & Related Services $'000	Eliminations $'000	Group $'000
Segment Revenue				
External revenue	1,572,769	1,687,817	-	3,260,586
Inter-segment revenue	127,872	36,483	(164,355)	-
Total revenue	1,700,641	1,724,300	(164,355)	3,260,586
Net interest income	476,985	521,050	-	998,035
Segment result				
Profit before taxation	94,199	358,956	3,282	456,437
Taxation	(9,011)	119,208	-	110,197
Profit for the year	103,210	239,748	3,282	346,240
Statement of Financial Position				
Assets				
Segment assets	20,296,527	14,357,176	(1,762,487)	32,891,216
Consolidated total assets				32,891,216
Liabilities				
Segment liabilities	15,593,444	11,937,537	(1,597,435)	25,933,546
Consolidated total liabilities				25,933,546
Other information				
Capital additions	8,351	888	-	9,239
Depreciation and amortisation	83,077	17,922	-	100,999
Loan loss expense, less recovery	(13,078)	-	-	(13,078)

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

	2010			
	Banking & Related Services $'000	Financial & Related Services $'000	Eliminations $'000	Group $'000
Segment Revenue				
External revenue	2,303,603	1,937,477	-	4,241,080
Inter-segment revenue	127,579	115,424	(243,003)	-
Total revenue	2,431,182	2,052,901	(243,003)	4,241,080
Net interest income	745,088	586,309	-	1,331,397
Segment result				
Profit before taxation	247,186	308,035	-	555,221
Taxation	90,978	120,184	-	211,162
Profit for the year	156,208	187,851	-	344,059
Statement of Financial Position				
Assets				
Segment assets	23,067,062	17,642,999	(1,219,647)	39,490,414
Consolidated total assets				39,490,414
Liabilities				
Segment liabilities	18,604,908	15,438,727	(1,201,854)	32,841,781
Consolidated total liabilities				32,841,781
Other information				
Capital additions	23,455	2,244	-	25,699
Depreciation and amortisation	80,728	19,201	-	99,929
Loan loss and bad debt expense, less recovery	80,528	-	-	80,528

34 **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 27).

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

35 **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	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Interest income				
Parent company	14,181	29,473	14,181	29,473
Wholly-owned subsidiary	-	-	55,134	98,650
Fellow subsidiary	13,129	11,835	5,329	6,695
	27,310	41,308	74,644	134,818
Preference dividend received				
Wholly-owned subsidiary	-	-	6,520	10,565
Management fees paid				
Parent company	36,000	36,000	6,000	24,000
Interest expense				
Parent company	-	5	-	-
Subsidiaries	-	-	33,584	113,649
Fellow subsidiary	91	26	-	-
Preference dividend paid – parent	1,147	5,865	1,147	5,865
	1,238	5,896	34,731	119,514
Year end balances with related parties are as follows:				
Securities sold under repurchase agreements				
Parent company	15	98	15	97
Fellow subsidiary	3,963	413	-	-
Subsidiaries	-	-	301,480	568,429
	3,978	511	301,495	568,526
Securities purchased under resale agreements				
Wholly-owned subsidiary	-	-	1,165,474	445,120
Deposits				
Subsidiary	-	-	73,016	43,633
Fellow subsidiary	66	127	66	127
	66	127	73,082	43,760

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

(a) (Cont'd)

	The Group		The Bank	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Loans (Unsecured)				
Parent company	60,450	108,235	60,450	108,235
Fellow subsidiary	28,815	28,815	28,815	28,815
	89,265	137,050	89,265	137,050
Other receivables				
Parent company	40,800	41,187	-	1,187
Wholly-owned subsidiary	-	-	191	2,843
Fellow subsidiary	23,849	25,000	5	-
	64,649	66,187	196	4,030
Other payables				
Fellow subsidiary	313	148	313	148

The 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	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Salaries, fees and other short term benefits				
Directors	51,549	55,273	28,692	34,395
Management personnel	108,551	102,887	49,749	58,285
	160,100	158,160	78,441	92,680
Interest expense				
Securities sold under repurchase agreements				
Directors	8,659	8,477	-	-
Management personnel	241	170	-	-
Other related parties	1,328	1,644	-	-
	10,228	10,291	-	-
Deposits				
Directors	2,390	2,390	1,857	2,390
Management personnel	398	398	75	398
Other related parties	27	27	38	27
	2,815	2,815	1,970	2,815

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NOTES TO THE FINANCIAL STATEMENTS

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

(b) (Cont'd)

	The Group		The Bank	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Interest income				
Loans				
Directors	5,182	3,922	3,522	2,853
Management personnel	4,777	3,420	4,385	2,919
	9,959	7,342	7,907	5,772
Other income				
Other related parties	49,173	40,592	-	-

Year end balances with related parties are as follows:

	The Group		The Bank	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Deposits				
Directors	33,092	34,452	33,092	34,452
Management personnel	4,225	11,989	4,225	11,989
Other related parties	2,435	218	2,435	218
	39,752	46,659	39,752	46,659
Loans				
Directors	50,685	52,058	32,775	34,148
Management personnel	53,370	60,136	46,808	53,574
	104,055	112,194	79,583	87,722
Securities sold under repurchase agreements				
Directors	130,638	150,296	-	-
Management personnel	75	4,341	-	-
Other related parties	128,967	33,200	17	-
	259,680	187,837	17	-
Other receivables				
Other related parties	12,815	545	-	-

The loans to the directors and management are secured. There are no irrecoverable debts in respect of amounts owed by related parties. Consequently no expense has been recognised in the period.

The transactions occurred in the normal course of business.

36 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT

36.1 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.

36.2 Categories of financial instruments

	The Group		The Bank	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Financial assets				
Investments in securities				
- Held-for-trading at fair value	41,527	34,589	-	-
- Available-for-sale at fair value	19,183,473	24,638,055	10,797,265	13,481,682
- Loans and receivables at amortised cost	4,662,441	5,108,226	-	-
Loans and other receivables (including cash and cash equivalents) at amortised cost	8,113,335	8,643,063	8,968,488	8,896,503
	32,000,776	38,423,933	19,765,753	22,378,185
Financial liabilities				
Other financial liabilities at amortised cost	25,755,127	32,625,376	15,427,542	18,399,994

36.3 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.

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

36.3 Financial risk management objectives (Cont'd)

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 risks on the statement of financial position 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.

36.4 Credit risk management

36.4.1 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.

36.4.2 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, securities from US Treasury Bills, 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.

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

36.4 Credit risk management (Cont'd)

36.4.2 Credit review process (Cont'd)

(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	I	Standard
Class	II	Special Mention
Class	III	Substandard
Class	IV	Doubtful
Class	V	Loss

36.4.3 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.

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

36.4 Credit risk management (Cont'd)

36.4.3 Collateral and other credit enhancement (Cont'd)

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 Bank 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 Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

36.4.4 Impairment

The Risk and Compliance department - Credit Risk Unit conducts quarterly assessments 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.

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

	Loans	
	2011	2010
	$'000	$'000
Standard	2,135,108	2,495,197
Special mention	995,218	941,021
Sub-standard	72,581	407,973
Doubtful	2,216,466	1,563,363
Loss	945,578	1,192,012
	6,364,951	6,599,566

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

36.4 Credit risk management (Cont'd)

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

	The Group		The Bank	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Cash resources (excluding cash on hand)	1,257,979	1,396,086	949,296	1,150,873
Investment in securities	6,582,641	10,241,404	2,040,522	4,952,993
Securities purchased under resale agreements	-	-	1,165,474	470,542
Pledged assets	17,304,800	19,539,466	8,756,743	8,528,689
Loans (after provision for loan losses)	6,194,889	6,444,061	6,194,889	6,444,061
Accounts receivable	530,582	670,570	298,006	448,327
	31,870,891	38,291,587	19,404,930	21,995,485

36.4.7 Credit quality

	The Group and the Bank	
	2011	2010
	$'000	$'000
Neither past due nor impaired - standard	1,735,527	2,617,847
Past due but not impaired	3,668,384	3,078,834
Impaired	961,040	902,885
Gross	6,364,951	6,599,566
Less: provision for credit loss	336,802	364,733
Net	6,028,149	6,234,833

The Group and the Bank held collateral in respect of loans that are individually impaired, as per the table above excluding unsecured loans, amounting to $981.1 million (2010: $869.3 million) at their fair value. There were no other financial assets that were individually impaired.

The aging of the Group's past due loans at the reporting date is as follows:

	2011	2010
	$'000	$'000
Past due but not impaired		
Past due 1 - 30 days	1,144,687	510,544
Past due 31– 60 days	194,825	304,405
Past due 61 – 90 days	118,605	300,738
More than 90 days	2,210,267	1,963,147
	3,668,384	3,078,834

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 $6.3 billion (2010:$ 6.6 billion).

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

36.4 Credit risk management (Cont'd)

36.4.7 Credit quality (Cont'd)

Aging of impaired loans

The analysis below is done based on the number of days since impairment:

	The Group and the Bank	
	2011	2010
	$'000	$'000
Current	1,199	565,298
1 - 30 days	-	1,840
31 - 60 days	1,237	3,014
61- 90 days	1,204	-
90 - 120 days	3,032	6,762
120 – 360 days	583,069	29,956
Over 360 days	371,299	296,015
	961,040	902,885

36.4.8 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, whose terms have been negotiated, amounted to $172.9 million (2010: $2.4 billion).

36.4.9 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 7 motor vehicles and 3 properties aggregating $9.4 million and $154.5 million respectively (2010: 15 motor vehicles and 6 properties aggregating $15.8 million and $231.5 million respectively) held as security against loans categorized as past due but not impaired. Of this amount 6 motor vehicles (2010: 12 motor vehicles and 2 properties) have been sold as at year end and the remaining motor vehicle and 3 properties (2010: 3 motor vehicles and 4 properties) 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 $44.7 million (2010: $87.7 million).

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

36.4 Credit risk management (Cont'd)

36.4.10 Loans

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

	2011 $'000	2010 $'000
Construction, land development and real estate acquisition	2,270,803	2,083,195
Distribution	223,969	375,292
Financial institutions	87,234	259,368
Government and public entities	-	99,867
Manufacturing and utilities	130,481	231,296
Personal	1,642,780	1,697,217
Professional and other services	1,669,752	1,508,658
Tourism and entertainment	312,721	301,168
Transport, storage and communication	7,551	18,525
Agriculture	19,660	24,980
Total	6,364,951	6,599,566
Less: Provisions	336,802	364,733
	6,028,149	6,234,833
Interest receivable	166,740	209,228
	6,194,889	6,444,061

36.4.11 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	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Government of Jamaica	17,978,962	22,866,511	6,953,451	9,240,420
US Treasury Bills	376,333	786,875	376,333	786,875
Bank of Jamaica certificates of deposit	469,014	946,000	465,000	645,000
Financial Institutions	479	10,000	-	-
Corporate	375,530	631,862	2,523,035	514,968
Other	4,297,057	4,006,058	282,464	2,036,612
	23,497,375	29,247,306	10,600,283	13,223,875
Interest receivable	390,066	533,564	196,982	257,807
	23,887,441	29,780,870	10,797,265	13,481,682

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

36.5 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.

36.5.1 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 liquidity ratios on the statement of financial position against internal and regulatory requirements.
- Maintenance of liquidity and funding contingency plans.

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.

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

36.5 Liquidity risk (Cont'd)

36.5.2 The following table presents the cash flow payable by the Group under non derivative financial assets and liabilities by remaining contractual maturities at the reporting 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.

	The Group					
	2011					
	Remaining Term to Maturity					
	Within 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	No fixed maturity $'000	Total $'000
Financial assets						
Cash Resources	1,377,113	-	-	-	-	1,377,113
Investment in Securities	1,199,412	1,727,586	12,828,801	29,656,096	375,530	45,787,425
Loans after provision for loan losses	2,990,185	721,315	3,453,827	1,716,368	-	8,881,695
Other assets	396,099	124,510	15,557	-	15,000	551,166
Total Financial Assets (contractual maturity dates)	5,962,809	2,573,411	16,298,185	31,372,464	390,530	56,597,399
Financial Liabilities						
Deposits	4,055,884	1,581,011	3,911	-	-	5,640,806
Securities sold under repurchase agreements	17,907,165	946,232	60,029	308	-	18,913,734
Loan Participation	441,287	18,257	-	-	-	459,544
Due to other financial institutions	138	427	194,966	798,939	-	994,470
Other liabilities	270,194	-	-	-	-	270,194
Total Financial liabilities (contractual maturity dates)	22,674,668	2,545,927	258,906	799,247	-	26,277,748
Net liquidity gap	(16,711,859)	27,484	16,039,279	30,573,217	390,530	30,318,651
Cumulative liquidity gap	(16,711,859)	(16,684,375)	(645,096)	29,928,121	30,318,651	-

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

36.5 Liquidity risk (Cont'd)

	The Group					
	2010					
	Remaining Term to Maturity					
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	No fixed maturity	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets						
Cash resources	1,513,432	-	-	-		1,513,432
Investment in securities	7,324,317	1,482,979	8,981,791	22,729,756	631,513	41,150,356
Loans after provision for loan losses	1,725,988	1,884,632	3,696,789	1,228,597	-	8,536,006
Accounts receivable	533,527	134,291	16,383	-	15,000	699,201
Total Financial assets (contractual maturity dates)	11,097,264	3,501,902	12,694,963	23,958,353	646,513	51,898,995
Financial liabilities						
Deposits	5,116,694	2,319,460	6,998	-	-	7,443,152
Securities sold under repurchase agreements	21,103,912	2,680,549	13,391	308	-	23,798,160
Loan participation	674,270	9,393	452	-	-	684,115
Due to other financial institutions	792	-	129,492	936,045	-	1,066,329
Preference shares	-	88,098	-	-	-	88,098
Other liabilities	175,372	-	-	-	-	175,372
Total Financial liabilities (contractual maturity dates)	27,071,040	5,097,500	150,333	936,353	-	33,255,226
Net liquidity gap	(15,973,776)	(1,595,598)	12,544,630	23,022,000	646,513	18,634,769
Cumulative liquidity gap	(15,973,776)	(17,569,374)	(5,024,744)	17,997,256	18,643,769	-

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

36.5 Liquidity risk (Cont'd)

36.5.2 (Cont'd)

	The Bank					
	2011					
	Remaining Term to Maturity					
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	No fixed Maturity	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets						
Cash resources	1,004,713	-	-	-	-	1,004,713
Investment in securities	787,855	927,425	4,693,584	16,507,047	282,464	23,198,375
Securities purchased under resale agreements	1,171,388	-	-	-	-	1,171,388
Loans after provision for loan losses	2,990,184	721,315	3,453,827	1,716,368	-	8,881,694
Other assets	298,006	-	-	-	305,406	603,412
Total financial assets (contractual maturity dates)	6,252,146	1,648,740	8,147,411	18,223,415	587,870	34,859,582
Financial liabilities						
Securities sold under repurchase agreements	8,360,427	58,315	38,536	-	-	8,457,278
Deposits	4,128,920	1,581,011	3,911	-	-	5,713,842
Due to other financial institutions	138	427	194,966	798,939	-	994,470
Loan participation	441,287	18,257	-	-	-	459,544
Other liabilities	202,262	-	-	-	-	202,262
Total financial liabilities (contractual maturity dates)	13,133,034	1,658,010	237,413	798,939	-	15,827,396
Net liquidity gap	(6,880,888)	(9,270)	7,909,998	17,424,476	587,870	19,032,186
Cumulative liquidity gap	(6,880,888)	(6,890,158)	1,019,840	18,444,316	19,032,186	-

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

36.5 Liquidity risk (Cont'd)

36.5.2 (Cont'd)

	The Bank					
	2010					
	Remaining Term to Maturity					
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	No fixed maturity	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets						
Cash resources	1,224,884	-	-	-	-	1,224,884
Investment in securities	298,696	647,147	3,568,993	12,260,778	514,968	17,290,582
Securities purchased under resale agreements	455,929	18,490	-	-	-	474,419
Loans after provision for loan losses	1,725,988	1,884,632	3,696,789	1,228,597	-	8,536,006
Other assets	449,277	-	-	-	308,688	757,965
Total Financial assets (contractual maturity dates)	4,154,774	2,550,269	7,265,782	13,489,375	823,656	28,283,856
Financial liabilities						
Securities sold under repurchase agreements	7,809,404	1,664,793	-	-	-	9,474,197
Deposits	5,160,624	2,319,460	6,998	-	-	7,487,082
Due to other financial institutions	792	-	129,492	936,045	-	1,066,329
Loan participation	674,270	9,393	452	-	-	684,115
Preference shares	-	88,098	-	-	-	88,098
Other liabilities	136,955	-	-	-	-	136,955
Total Financial liabilities (contractual maturity dates)	13,782,045	4,081,744	136,942	936,045	-	18,936,776
Net liquidity gap	(9,627,271)	(1,531,475)	7,128,840	12,553,330	823,656	9,347,080
Cumulative liquidity gap	(9,627,271)	(11,158,746)	(4,029,906)	8,523,424	9,347,080	-

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

36.5 Liquidity risk (Cont'd)

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

At December 31, 2011

	No later Than 1 year $'000	1 to 5 Years $'000	Over 5 years $'000	Total $'000
Loan commitments	115,233	-	-	115,233
Guarantees, acceptances and other financial liabilities	147,029	10,195	50	157,274
	262,262	10,195	50	272,507

At December 31, 2010

	No later Than 1 year $'000	1 to 5 Years $'000	Over 5 years $'000	Total $'000
Loan commitments	263,468	-	3,972	267,440
Guarantees, acceptances and other financial liabilities	162,412	2,728	31,000	196,140
	425,880	2,728	34,972	463,580

36.6 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 risks on the statement of financial position 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.

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

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

36.6 Market risk (Cont'd)

36.6.1 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							
	2011							
	USD		CDN		GBP		EUR	
	US$ '000	J$ Equiv. '000	Cdn$ '000	J$ Equiv. '000	£ '000	J$ Equiv. '000	€ '000	J$ Equiv. '000
Total assets	221,462	19,127,650	272	22,739	945	126,488	112	12,322
Total liabilities	(178,590)	(15,424,780)	(469)	(39,208)	(806)	(107,883)	(130)	(14,303)
Net exposure	42,872	3,702,870	(197)	(16,469)	139	18,605	(18)	(1,981)
	2010							
	USD		CDN		GBP		EUR	
	US$ '000	J$ Equiv. '000	Cdn$ '000	J$ Equiv. '000	£ '000	J$ Equiv. '000	€ '000	J$ Equiv. '000
Total assets	254,445	21,780,465	565	47,652	1,740	230,167	258	28,948
Total liabilities	(219,035)	(18,749,396)	(1,733)	(146,161)	(1,479)	(195,642)	(166)	(18,625)
Net exposure	35,410	3,031,069	(1,168)	(98,509)	261	34,525	92	10,323

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

36.6 Market risk (Cont'd)

36.6.1 Foreign currency risk (Cont'd)

	The Bank							
	2011							
	USD		CDN		GBP		EUR	
	US$ '000	J$ Equiv. '000	Cdn$ '000	J$ Equiv. '000	£ '000	J$ Equiv. '000	€ '000	J$ Equiv. '000
Total assets	152,140	13,140,332	272	22,739	945	126,488	109	11,992
Total liabilities	(117,675)	(10,163,590)	(469)	(39,208)	(806)	(107,883)	(130)	(14,303)
Net exposure	34,465	2,976,742	(197)	(16,469)	139	18,605	(21)	(2,311)

	2010							
	USD		CDN		GBP		EUR	
	US$ '000	J$ Equiv. '000	Cdn$ '000	J$ Equiv. '000	£ '000	J$ Equiv. '000	€ '000	J$ Equiv. '000
Total assets	172,257	14,745,199	565	47,652	1,740	230,159	251	28,162
Total liabilities	(142,780)	(12,221,968)	(1,733)	(146,161)	(1,479)	(195,635)	(166)	(18,625)
Net exposure	29,477	2,523,231	(1,168)	(98,509)	261	34,524	85	9,537

36.6.2 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 1% appreciation or depreciation (2010: 2% appreciation or a 5% depreciation) of the Jamaican dollar against the relevant foreign currency rates. A 1% appreciation or 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			
	2011		2010	
	Change in Currency Rates %	Effect on Net Profit $'000	Change in Currency Rates %	Effect on Net Profit $'000
Currency:				
USD	1% Appreciation	(37,029)	2% Appreciation	(60,621)
	1% Depreciation	37,029	5% Depreciation	151,553
CDN	1% Appreciation	165	2% Appreciation	1,970
	1% Depreciation	(165)	5% Depreciation	(4,925)
GBP	1% Appreciation	(186)	2% Appreciation	(691)
	1% Depreciation	186	5% Depreciation	1,726
EURO	1% Appreciation	20	2% Appreciation	(206)
	1% Depreciation	(20)	5% Depreciation	516

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

36.6 Market risk (Cont'd)

36.6.2 Foreign currency sensitivity (Cont'd)

	The Bank			
	2011		2010	
	Change in Currency Rates %	Effect on Net Profit $'000	Change in Currency Rates %	Effect on Net Profit $'000
Currency:				
USD	1% Appreciation	(29,768)	2% Appreciation	(50,465)
	1% Depreciation	29,768	5% Depreciation	126,162
CDN	1% Appreciation	165	2% Appreciation	1,970
	1% Depreciation	(165)	5% Depreciation	(4,925)
GBP	1% Appreciation	(186)	2% Appreciation	(691)
	1% Depreciation	186	5% Depreciation	1,726
EURO	1% Appreciation	23	2% Appreciation	(191)
	1% Depreciation	(23)	5% Depreciation	477

36.6.3 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.

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

36.6 Market risk (Cont'd)

36.6.3 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						
	2011						
	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Bearing Securities	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial Assets							
Cash resources	1,377,113	-	-	-	-	-	1,377,113
Investment in securities							-
- Trading Securities	-	-	-	-	-	41,527	41,527
- Available-for-sale Securities	469,014	178,188	376,333	4,868,856	12,630,425	660,657	19,183,473
- Loans & Receivables	49,387	33,895	29,496	1,645,627	2,832,404	71,632	4,662,441
Loans after provision for losses	1,447,837	123,438	109,647	2,373,720	1,973,507	166,740	6,194,889
Other assets	5,358	63,142	116,615	12,547	-	343,671	541,333
Total Financial Assets	**3,348,709**	**398,663**	**632,091**	**8,900,750**	**17,436,336**	**1,284,227**	**32,000,776**
Financial Liabilities							
Securities sold under repurchase agreements	13,422,413	4,153,016	914,096	56,584	100	206,974	18,753,183
Deposits	2,619,287	1,398,697	1,510,805	3,513	-	44,739	5,577,041
Loan participation	406,441	33,440	17,390	-	-	1,077	458,348
Due to other financial institutions	-	-	417	158,191	537,623	138	696,369
Other liabilities	16,827	-	-	-	-	253,359	270,186
Total Financial Liabilities	**16,464,968**	**5,585,153**	**2,442,708**	**218,288**	**537,723**	**506,287**	**25,755,127**
Interest sensitivity gap	**(13,116,259)**	**(5,186,490)**	**(1,810,617)**	**8,682,462**	**16,898,613**	**770,940**	**6,245,649**
Cumulative interest sensitivity gap	**(13,116,259)**	**(18,302,749)**	**(20,113,366)**	**(11,430,904)**	**5,467,709**	**6,245,649**	-

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

36.6 Market risk (Cont'd)

36.6.3 Interest rate risk (Cont'd)

	The Group						
	2010						
	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Bearing Securities	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial Assets							
Cash resources	1,513,432	-	-	-	-	-	1,513,432
Investment in securities							
- Trading securities	-	-	-	-	-	34,589	34,589
- Available-for-sale	896,084	7,015,144	156,630	4,371,740	11,143,792	1,054,665	24,638,055
- Loans and receivables	278	10,000	10,993	194,944	4,816,188	75,823	5,108,226
Loans after provision for loan losses	622,195	59,264	1,326,601	3,016,691	1,210,083	209,227	6,444,061
Other assets	2,101	71,170	125,419	12,744	-	474,136	685,570
Total Financial assets	3,034,090	7,155,578	1,619,643	7,596,119	17,170,063	1,848,440	38,423,933
Financial Liabilities							
Securities sold under repurchase agreements	17,538,396	3,487,429	2,289,078	18,805	78	294,035	23,627,821
Deposits	3,152,033	1,904,147	2,201,497	6,483	-	74,625	7,338,785
Loan participation	561,552	109,417	9,094	421	-	1,137	681,621
Due to other financial institutions	-	618	-	103,337	610,879	164	714,998
Preference shares	-	85,488	-	-	-	1,290	86,778
Other liabilities	7,810	-	-	-	-	167,562	175,372
Total Financial liabilities	21,259,791	5,587,099	4,499,669	129,046	610,957	538,813	32,625,375
Interest sensitivity gap	(18,225,701)	1,568,479	(2,880,026)	7,467,073	16,559,106	(1,309,627)	5,798,558
Cumulative interest sensitivity gap	(18,225,701)	(16,657,222)	(19,537,248)	(12,070,175)	4,488,931	5,798,558	-

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

36.6 Market risk (Cont'd)

36.6.3 Interest rate risk (Cont'd)

	The Bank						
	2011						
	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non- Interest Bearing Securities	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial Assets							
Cash resources	1,004,713	-	-	-	-	-	1,004,713
Investment in securities - Available-for-sale	465,000	136,785	376,333	1,932,400	7,399,081	487,666	10,797,265
Securities purchased under resale agreements	1,085,220	56,141	-	-	-	24,113	1,165,474
Investment in subsidiaries	-	-	-	-	-	305,406	305,406
Loans after provision for losses	1,447,837	123,438	109,647	2,373,720	1,973,507	166,740	6,194,889
Other assets	-	-	-	-	-	298,006	298,006
Total Financial Assets	4,002,770	316,364	485,980	4,306,120	9,372,588	1,281,931	19,765,753
Financial Liabilities							
Securities sold under repurchase agreements	7,761,450	418,944	55,911	35,996	-	148,203	8,420,504
Deposits	2,686,507	1,404,264	1,510,805	3,513	-	44,969	5,650,058
Due to other financial institutions	-	-	417	158,191	537,623	138	696,369
Loan participation	406,441	33,440	17,390	-	-	1,077	458,348
Other liabilities	-	-	-	-	-	202,263	202,263
Total Financial Liabilities	10,854,398	1,856,648	1,584,523	197,700	537,623	396,650	15,427,542
Interest sensitivity gap	(6,851,628)	(1,540,284)	(1,098,543)	4,108,420	8,834,965	885,281	4,338,211
Cumulative interest sensitivity gap	(6,851,628)	(8,391,912)	(9,490,455)	(5,382,035)	3,452,930	4,338,211	-

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

36.6 Market risk (Cont'd)

36.6.3 Interest rate risk (Cont'd)

	The Bank						
	2010						
	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Bearing Securities	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial Assets							
Cash resources	1,224,884	-	-	-	-	-	1,224,884
Investment in securities							
- Available-for-sale	595,086	614,454	-	1,663,636	9,835,732	772,774	13,481,682
Securities purchased							
under resale agreements	28,000	-	17,120	-	-	25,422	470,542
Investment in subsidiaries	-	-	-	-	-	305,406	305,406
Investment in associate	-	-	-	-	-	3,282	3,282
Loans after provision for							
losses	622,195	59,264	1,326,601	3,016,691	1,210,083	209,227	6,444,061
Other assets	-	-	-	-	-	448,328	448,328
Total Financial Asset	2,870,165	673,718	1,343,721	4,680,327	11,045,815	1,764,439	22,378,185
Financial Liabilities							
Securities sold under							
repurchase agreements	5,641,827	1,946,132	1,613,765	-	-	195,302	9,397,026
Deposits	3,195,666	1,904,147	2,201,497	6,483	-	74,823	7,382,616
Due to other financial							
institutions	-	618	-	103,337	610,879	164	714,998
Loan participation	561,552	109,417	9,094	421	-	1,137	681,621
Preference shares	-	85,488	-	-	-	1,290	86,778
Other liabilities	-	-	-	-	-	136,955	136,955
Total Financial Liabilities	9,399,045	4,045,802	3,824,356	110,241	610,879	409,671	18,399,994
Interest sensitivity gap	(6,528,880)	(3,372,084)	(2,480,635)	4,570,086	10,434,936	1,354,768	3,978,191
Cumulative interest							
sensitivity gap	(6,528,880)	(9,900,964)	(12,381,599)	(7,811,513)	2,623,423	3,978,191	-

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

36.6 Market risk (Cont'd)

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

	The Group 2011					
	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						
- Available-for-sale Securities	6.25	12.19	0.05	6.98	8.42	7.85
- Loans & Receivables	6.31	12.00	6.31	8.60	8.85	8.74
Loans (2)	17.45	10.65	16.94	11.88	13.09	13.74
Other assets	11.53	11.75	11.23	6.80	-	11.12
Deposits (3)	3.17	4.17	5.28	5.71	-	4.00
Securities sold under repurchase agreements	5.62	5.37	5.10	5.88	-	5.54
Loan participation	3.39	4.49	5.37	-	-	3.54
Due to other financial institutions	-	-	10.00	6.45	7.47	7.24
Other liabilities	3.04	-	-	-	-	3.04

	The Group 2010					
	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	7.58	9.86	20.95	8.75	8.81	9.15
- Loans and Receivables	7.49	8.00	11.75	9.00	8.71	8.73
- Held to maturity						
Loans (2)	18.25	15.58	16.31	13.09	14.56	14.80
Other assets	17.61	17.83	13.37	6.65	-	15.01
Deposits (3)	4.20	5.30	6.16	5.97	-	5.08
Securities sold under repurchase agreements	7.16	5.63	4.10	7.19	-	6.63
Loan participation	4.04	6.18	4.41	6.75	-	4.39
Due to other financial institutions	-	10.00	-	6.82	8.09	7.91
Preference Shares	-	7.48	-	-	-	7.48
Other liabilities	4.05	-	-	-	-	4.05

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

36.6 Market risk (Cont'd)

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

	The Bank					
	2011					
	Immediately Rate Sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Average
	%	%	%	%	%	%
Cash resources	0.00	-	-	-	-	0.00
Investment in securities (1)	6.25	12.00	0.05	5.25	8.52	7.66
Securities purchased under resale agreements	8.06	4.40	-	-	-	7.88
Loans (2)	17.45	10.65	16.94	11.88	13.09	13.74
Deposits (3)	3.24	4.18	5.28	5.71	-	4.03
Securities sold under repurchase agreements	6.33	5.60	6.01	7.00	-	6.30
Loan participation	3.39	4.49	5.37	-	-	3.54
Due to other financial institutions	-	-	10.00	6.45	7.47	7.24

	The Bank					
	2010					
	Immediately Rate Sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Average
	%	%	%	%	%	%
Cash resources	0.00	-	-	-	-	0.00
Investment in securities (1)	7.50	2.39	-	7.83	8.46	8.04
Securities purchased under resale agreements	12.23	-	0.31	-	-	12.54
Loans (2)	18.25	15.58	16.31	13.09	14.56	14.80
Deposits (3)	4.20	5.30	6.16	5.97	-	5.08
Securities sold under repurchase agreements	8.33	5.08	3.31	-	-	6.76
Loan participation	4.04	6.18	4.41	6.75	-	4.39
Due to other financial institutions	-	10.00	-	6.82	8.09	7.91
Preference shares	-	7.48	-	-	-	7.48

(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.

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

36.6 Market risk (Cont'd)

36.6.5 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					
	2011			2010	
	Effect on Net Profit	Effect on other comprehensive income		Effect on Net Profit	Effect on other comprehensive income
	$'000	$'000		$'000	$'000
Change in interest rate			**Change in interest rate**		
-1%	(62,480)	788,278	-6%	(471,115)	1,371,585
+1%	62,570	(715,290)	+2%	157,038	(555,110)

The Bank					
	2011			2010	
	Effect on Net Profit	Effect on other comprehensive Income		Effect on Net Profit	Effect on other comprehensive income
	$'000	$'000		$'000	$'000
Change in interest rate			**Change in interest rate**		
-1%	(23,408)	700,578	-6%	(163,789)	565,877
+1%	23,408	(632,446)	+2%	54,596	(137,007)

36.6.6 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.

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

36.6 Market risk (Cont'd)

36.6.6 Equity risk (Cont'd)

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 15% higher/lower (2010: 20% higher/lower):

- net profit for the year ended December 31, 2011, would have increased/decreased by $6.2 million (2010: $10.8 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 $43.4 million (2010: $80.62 million) for the Group and $41.1 million (2010: $75.96 million) for the Bank as a result of the changes in fair value of available-for-sale equities.

36.7 Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of the Statement of Financial Position 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.

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 less any net loss position arising from fair value accounting, the book value of goodwill, and any other intangible asset.
(ii) Tier 2 capital: capital reserve, provisions for losses on assets less investments in subsidiaries and connected entities.
(iii) Prescribed deductions: investments in subsidiaries and share of results of 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-the statement of financial position exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios of the regulated entities within the Group for the years ended December 31, 2011 and 2010. 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).

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

36.7 Capital management (Cont'd)

	CCMB		CCSL		CCFM	
	2011	2010	2011	2010	2011	2010
	$'000	$'000	$'000	$'000	$'000	$'000
Tier 1 capital	2,337,188	2,827,564	2,061,071	1,851,183	162,605	139,207
Tier 2 capital	31,716	35,844	238,000	238,000	-	-
Prescribed deductions	(305,406)	(308,688)	-	-	-	-
Total regulatory capital	2,063,498	2,554,720	2,299,071	2,089,183	162,605	139,207
Total required capital	1,698,042	1,555,214	580,906	458,642	11,900	11,177
Risk-weighted assets:						
On statement of financial position	13,823,761	12,340,526	4,970,050	4,079,531	138,025	127,249
Off statement of financial position	161,309	433,148	-	-	-	-
Foreign exchange exposure	2,995,347	2,778,467	839,008	506,891	-	-
Total risk weighted assets	16,980,417	15,552,141	5,809,058	4,586,422	138,025	127,249
Actual capital base to risk weighted assets	12%	16%	40%	46%	118%	109%
Required capital base to risk weighted assets	10%	10%	10%	10%	14%	13%

The change of the regulatory capital in 2011 is mainly due to the contribution of the current year profit and the movement in the fair value reserve.

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

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

36.8 Fair value of financial instruments (Cont'd)

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

(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 reporting 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 reporting date yields of similar instruments.

36.8.1 Fair value measurements recognised in the statement of financial position

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).

	The Group			
	2011			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial assets at fair value through profit or loss:				
Equity securities	41,527	-	-	41,527
Securities available-for-sale				
Government of Jamaica securities	-	15,162,653	-	15,162,653
US Treasury Bills	-	376,333	-	376,333
Equity investments	294,230	39,773	-	334,003
Bank of Jamaica certificates of deposit	-	469,014	-	469,014
Other securities	-	2,523,035	-	2,523,035
	294,230	18,570,809	-	18,865,038
Total	335,757	18,570,809	-	18,906,565

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

36.8 Fair value of financial instruments (Cont'd)

36.8.1 Fair value measurements recognised in the statement of financial position (Cont'd)

	The Group			
	2010			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial assets at fair value through profit or loss:				
Equity securities	34,589	-	-	34,589
Securities available-for-sale				
Government of Jamaica securities	-	19,657,272	-	19,657,272
US Treasury Bills	-	786,875	-	786,875
Equity investments	562,689	34,235	-	596,924
Bank of Jamaica certificates of deposit	-	946,000	-	946,000
Other securities	-	2,203,520	-	2,203,520
	562,689	23,627,902	-	24,190,591
Total	597,278	23,627,902	-	24,225,180

	The Bank			
	2011			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Securities available-for-sale				
Government of Jamaica securities	-	6,953,451	-	6,953,451
Equity investments	273,827	8,637	-	282,464
US Treasury Bills	-	376,333	-	376,333
Bank of Jamaica certificates of deposit	-	465,000	-	465,000
Other securities	-	2,523,035	-	2,523,035
Total	273,827	10,326,456	-	10,600,283

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

36.8 Fair value of financial instruments (Cont'd)

36.8.1 Fair value measurements recognised in the statement of financial position (Cont'd)

	The Bank			
	2010			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Securities available-for-sale				
Government of Jamaica securities	-	9,240,420	-	9,240,420
Equity investments	506,408	8,560	-	514,968
US Treasury Bills	-	786,875	-	786,875
Bank of Jamaica certificates of deposit	-	645,000	-	645,000
Other securities	-	2,036,612	-	2,036,612
Total	506,408	12,717,467	-	13,223,875

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

37 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 reporting date.

(b) Capital Commitments

There were no capital expenditure authorised or contracted for as at December 31, 2011 and 2010.

(c) Operating Leases

The Group has entered into lease agreements for office space expiring between May 2012 and August 2014. The amount charged to profit and loss account for the Group was $53.0 million (2010: $45 million) and for the Bank $32.4 million (2010: $23.7 million).

The total annual rentals to be paid are as follows:

	The Group	The Bank
	$'000	$'000
2012	54,519	31,377
2013	59,438	35,432
2014	38,534	23,869

37 CONTINGENCIES AND COMMITMENTS (Cont'd)

(d) Maintenance contract

The Group has entered into a maintenance agreement for the computer software for a period of ten years expiring July 2015. The amount allocated and charged in the profit and loss account in respect of the Group is $25.0 million (2010: $14.6 million) and for the Bank is $2.5 million (2010: $14.6 million).

(e) Credit

Commitments to extend credit on term to maturity of no more than one year amounted to $115.2 million (2010: $267.4 million).

38 POTIENTIAL CHANGES IN OWNERSHIP

On August 10, 2011 The Bank's parent company, Capital & Credit Financial Group Limited (CCFG) and Jamaica Money Market Brokers Limited (JMMB) issued a joint statement to their stakeholders relating to the interest that JMMB has in acquiring up to 100% of the shares of CCFG. JMMB has taken the preliminary step of securing the formal undertaking of some of CCFG's shareholders, who together account for over 50% of the issued ordinary share capital of CCFG, to accept JMMB's offer to purchase their shares, if and when the offer is made.

Such a transaction would require approval of the Minister of Finance and Planning of Jamaica. As at February 27, 2012, no approval has been received.

39 RECLASSIFICATION OF FINANCIAL ASSETS

Consequent to 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 company 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.

Securities:	2011		2010	
	Carrying Value	Fair value	Carrying Value	Fair value
	$'000	$'000	$'000	$'000
Transferred to Loans and Receivables				
GOJ US$ Fixed rate Global Bond	2,663,706	3,229,161	2,973,572	3,131,819
Other securities	1,710,126	1,869,376	1,786,041	1,746,013
	4,373,832	5,098,537	4,759,613	4,877,832

(a) Fair value losses, in relation to the above investments, of $248.5 million (2010: $245.4 million), 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.

(b) The weighted average effective interest rate of the investments at the date of reclassification was 8.57%. The undiscounted cash flows to be recovered from the investments reclassified is $9.79 billion (2010: $10.9 billion).