CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

YEAR ENDED DECEMBER 31, 2010

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 82, which comprise the Group's and the Bank's Statement of Financial Position as at December 31, 2010, and the Group's and the Bank's profit and loss accounts, statement of comprehensive income, statements of changes in equity and statements 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 and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the Companies Act, 2004 of Jamaica. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and consistently applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Carey O. Metz, Audley L. Gordon, Anura Jayatillake, Winston G. Robinson, Fagan E. Calvert, Gihan C. deMel

Consultants: T. Sydney Fernando, Donald S. Reynolds.

Member of
Deloitte Touche Tohmatsu Limited

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, 2010 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 25, 2011

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2010

	Notes	2010 $'000	2009 $'000
ASSETS			
Cash resources	5	1,513,433	2,219,763
Investment in securities	6	10,241,404	10,755,360
Pledged assets	7	19,539,466	21,699,958
Other investment	8	15,000	15,000
Loans (after provision for loan losses)	10	6,444,061	6,957,451
Accounts receivable	11	1,081,782	637,786
Income tax recoverable		52,462	47,770
Intangible assets	12	255,736	321,954
Property and equipment	13	90,192	102,143
Deferred tax assets	14	60,738	511,708
Customers' liability under acceptances, guarantees and letters of credit as per contra		196,140	405,970
Total assets		39,490,414	43,674,863

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2010

	Notes	2010 $'000	2009 $'000
LIABILITIES			
Securities sold under repurchase agreements	15	23,627,821	27,441,392
Deposits	16	7,338,785	8,336,639
Due to other financial institutions		714,998	920,435
Loan participation	17	681,621	737,098
Accounts payable	18	195,638	117,820
Preference shares	19	86,778	89,660
Liabilities under acceptances, guarantees and letters of credit as per contra		196,140	405,970
		32,841,781	38,049,014
STOCKHOLDERS' EQUITY			
Share capital	19	1,732,888	1,732,888
Statutory reserve fund	20	516,541	493,110
Retained earnings reserve	21	1,215,442	1,515,442
Fair value reserve	22	(405,093)	(1,083,302)
Loan loss reserve	10	1,004,907	336,854
Unappropriated profits		2,539,344	2,595,148
Attributable to stockholders of the Bank		6,604,029	5,590,140
Non-controlling interest		44,604	35,709
		6,648,633	5,625,849
Total liabilities and stockholders' equity		39,490,414	43,674,863

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

The financial statements on Pages 2 to 82 were approved and authorised for issue by the Directors on February 25, 2011 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, 2010

	Notes	2010 $'000	2009 $'000
NET INTEREST INCOME AND OTHER REVENUE			
Interest on investments		2,826,333	4,143,220
Interest on loans		1,002,491	1,358,646
Total interest income		3,828,824	5,501,866
Interest expense		2,497,427	4,231,769
Net interest income	23	1,331,397	1,270,097
Commission and fee income	24	85,912	73,541
Net gains (losses) on securities trading		193,300	(87,849)
Foreign exchange trading and translation		61,713	440,387
Dividend income		53,036	60,792
Other income		18,295	70,311
Total other operating income		412,256	557,182
Share of loss of associate company		-	(3,282)
Net interest income and other revenue		1,743,653	1,823,997
NON-INTEREST EXPENSES			
Staff costs	25	568,693	581,007
Loan loss expense, less recovery	10	80,528	313,524
Property expense		94,932	106,308
Information technology costs		49,236	59,593
Marketing and corporate affairs		63,963	74,470
Professional fees		52,291	52,192
Bank charges		39,262	39,522
Depreciation and amortisation		99,929	107,517
Regulatory costs		32,827	28,285
Irrecoverable General Consumption Tax		42,341	40,645
Other operating expenses		64,430	73,172
Total non-interest expenses		1,188,432	1,476,235
PROFIT BEFORE TAXATION		555,221	347,762
Taxation	26	211,162	5,056
NET PROFIT	27	344,059	342,706
Attributable to:			
Stockholders of the Bank		335,680	334,107
Non-controlling interest		8,379	8,599
		344,059	342,706
Earnings per stock unit	28	52¢	52¢

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

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31, 2010

	Notes	2010 $'000	2009 $'000
NET PROFIT		344,059	342,706
OTHER COMPREHENSIVE INCOME			
Available-for-sale financial assets			
Net gains arising on revaluation of available-for-sale financial assets during the year		1,203,148	258,935
Reclassification adjustments relating to available-for-sale financial assets disposed of in the year	22	(185,725)	85,391
		1,017,423	344,326
Income tax relating to components of other comprehensive income	14	(338,698)	(107,550)
Other comprehensive income for the year (net of tax)		678,725	236,776
Total comprehensive income for the year		1,022,784	579,482
Total comprehensive income attributable to:			
Stockholders of the Bank		1,013,889	568,292
Non-controlling interest		8,895	11,190
		1,022,784	579,482

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

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED DECEMBER 31, 2010

	Notes	Share Capital $'000	Statutory Reserve Fund $'000	Retained Earnings Reserve $'000	Fair Value Reserve $'000	Loan Loss Reserve $'000	Unappropriated Profits $'000	Attributable to equity holders of the Parent $'000	Non-controlling Interest $'000	Total $'000
Balance at December 31, 2008		1,732,888	453,940	1,515,442	(1,317,487)	207,538	2,429,527	5,021,848	24,519	5,046,367
Net profit for the year		-	-	-	-	-	334,107	334,107	8,599	342,706
Other comprehensive income for the year		-	-	-	234,185	-	-	234,185	2,591	236,776
Total comprehensive income for the year		-	-	-	234,185	-	334,107	568,292	11,190	579,482
Transfer to loan loss reserve	10	-	-	-	-	129,316	(129,316)	-	-	-
Transfer to statutory reserve fund	20	-	39,170	-	-	-	(39,170)	-	-	-
Balance at December 31, 2009		1,732,888	493,110	1,515,442	(1,083,302)	336,854	2,595,148	5,590,140	35,709	5,625,849
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	10,21	-	-	(300,000)	-	668,053	(368,053)	-	-	-
Transfer to statutory reserve fund	20	-	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

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

CAPITAL & CREDIT MERCHANT BANK LIMITED
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2010

	Notes	2010 $'000	2009 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		344,059	342,706
Interest income		(3,828,824)	(5,501,866)
Interest expense		2,497,427	4,231,769
Loan loss expense, less recovery	10	100,864	325,610
Depreciation and amortisation		99,929	107,517
Gain on disposal of property and equipment		(953)	(8)
Taxation		211,162	5,056
		(576,336)	(489,216)
Movement in working capital			
Accounts receivable		(443,293)	37,726
Loans receivable		307,189	383,005
Accounts payable		77,818	(250,367)
Cash used in operations		(634,622)	(318,852)
Interest paid		(2,751,465)	(4,359,425)
Income tax paid		(103,582)	(36,219)
Net cash used in operating activities		(3,489,669)	(4,714,496)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on disposal of property and equipment		4,892	44
Acquisition of property and equipment	13	(25,699)	(23,930)
Interest received		4,187,809	5,593,913
Decrease in investments		4,268,117	2,690,745
Net cash provided by investing activities		8,435,119	8,260,772
CASH FLOWS FROM FINANCING ACTIVITIES			
Deposits		(915,845)	(1,038,320)
Securities sold under repurchase agreements		(3,661,708)	(2,204,553)
Loan participation		(50,234)	(69,878)
Due to other financial institutions		(193,396)	135,780
Net cash used in financing activities		(4,821,183)	(3,176,971)
INCREASE IN CASH AND CASH EQUIVALENTS		124,267	369,305
OPENING CASH AND CASH EQUIVALENTS		744,375	360,953
Effects of foreign exchange rate changes		(45,443)	14,117
CLOSING CASH AND CASH EQUIVALENTS	29	823,199	744,375

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

CAPITAL & CREDIT MERCHANT BANK LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2010

	Notes	2010 $'000	2009 $'000
ASSETS			
Cash resources	5	1,224,884	1,853,457
Investment in securities	6	4,952,993	3,139,010
Securities purchased under resale agreements		470,542	1,585,543
Pledged assets	7	8,528,689	12,122,794
Investment in subsidiaries (shares at cost)		305,406	305,406
Investment in associate	9	3,282	3,282
Loans (after provision for loan losses)	10	6,444,061	6,957,451
Accounts receivable	11	507,369	206,535
Income tax recoverable		85,229	85,229
Intangible asset	12	115,590	181,808
Property and equipment	13	64,569	55,787
Deferred tax assets	14	168,308	393,070
Customers' liabilities under acceptances, guarantees and letters of credit as per contra		196,140	405,970
Total assets		23,067,062	27,295,342

CAPITAL & CREDIT MERCHANT BANK LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2010

	Notes	2010 $'000	2009 $'000
LIABILITIES			
Securities sold under repurchase agreements	15	9,397,026	12,619,609
Deposits	16	7,382,616	8,417,125
Due to other financial institutions		714,998	920,435
Loan participation	17	681,621	737,098
Accounts payable	18	145,729	67,066
Preference shares	19	86,778	89,660
Liabilities under acceptances, guarantees and letters of credit as per contra		196,140	405,970
Total liabilities		18,604,908	23,256,963
STOCKHOLDERS' EQUITY			
Share capital	19	1,732,888	1,732,888
Statutory reserve fund	20	516,541	493,110
Retained earnings reserve	21	1,215,442	1,515,442
Fair value reserve	22	(521,717)	(789,284)
Loan loss reserve	10	1,004,907	336,854
Unappropriated profits		514,093	749,369
		4,462,154	4,038,379
Total liabilities and stockholders' equity		23,067,062	27,295,342

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

The financial statements on Pages 2 to 82 were approved and authorised for issue by the Directors on February 25, 2011 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, 2010

	Notes	2010 $'000	2009 $'000
NET INTEREST INCOME AND OTHER REVENUE			
Interest on investments		1,149,264	1,425,753
Interest on loans		985,959	1,349,472
Total interest income		2,135,223	2,775,225
Interest expense		1,390,136	2,004,358
Net interest income	23	745,087	770,867
Commission and fee income	24	21,934	23,045
Net gains/(losses) on securities trading		125,572	(12,450)
Foreign exchange trading and translation		66,306	397,518
Dividend income		59,243	74,851
Other income		22,904	49,324
Total other operating income		295,959	532,288
Net interest income and other revenue		1,041,046	1,303,155
NON-INTEREST EXPENSES			
Staff costs	25	341,232	370,810
Loan loss expense, less recovery	10	80,528	313,524
Bank charges		31,935	32,517
Property expenses		55,582	51,156
Depreciation and amortisation		80,728	84,174
Information technology costs		33,321	51,563
Marketing and corporate affairs		38,305	50,084
Professional fees		33,444	39,189
Regulatory costs		25,560	22,769
Irrecoverable General Consumption Tax		28,961	27,156
Other operating expenses		44,264	50,326
Total non-interest expenses		793,860	1,093,268
PROFIT BEFORE TAXATION		247,186	209,887
Taxation	26	90,978	(51,244)
NET PROFIT	27	156,208	261,131

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

CAPITAL & CREDIT MERCHANT BANK LIMITED

STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31, 2010

	Notes	2010 $'000	2009 $'000
NET PROFIT		156,208	261,131
OTHER COMPREHENSIVE INCOME			
Available-for-sale financial assets			
Net gains arising on revaluation of available-for-sale financial assets during the year		526,923	234,779
Reclassification adjustments relating to available-for-sale financial assets disposed of in the year	22	(125,572)	12,450
		401,351	247,229
Income tax relating to components of other comprehensive income	14	(133,784)	(82,410)
Other comprehensive income for the year (net of tax)	22	267,567	164,819
Total comprehensive income for the year		423,775	425,950

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

CAPITAL & CREDIT MERCHANT BANK LIMITED

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED DECEMBER 31, 2010

	Notes	Share Capital $'000	Statutory Reserve Fund $'000	Retained Earnings Reserve $'000	Fair Value Reserve $'000	Loan Loss Reserve $'000	Unappropriated Profits $'000	Total $'000
Balance at December 31, 2008		1,732,888	453,940	1,515,442	(954,103)	207,538	656,724	3,612,429
Net profit for the year		-	-	-	-	-	261,131	261,131
Other comprehensive income for the year		-	-	-	164,819	-	-	164,819
Total comprehensive income for the year		-	-	-	164,819	-	261,131	425,950
Transfer to loan loss reserve	10	-	-	-	-	129,316	(129,316)	-
Transfer to statutory reserve fund	20	-	39,170	-	-	-	(39,170)	-
Balance at December 31, 2009		1,732,888	493,110	1,515,442	(789,284)	336,854	749,369	4,038,379
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	10,21	-	-	(300,000)	-	668,053	(368,053)	-
Transfer to statutory reserve fund	20	-	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

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

CAPITAL & CREDIT MERCHANT BANK LIMITED

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2010

	Notes	2010 $'000	2009 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		156,208	261,131
Interest income		(2,135,223)	(2,775,225)
Interest expense		1,390,136	2,004,358
Loan loss expense	10	100,864	325,610
Depreciation and amortisation		80,728	84,174
(Gain)/loss on disposal of property and equipment		(440)	17
Taxation		90,978	(51,244)
		(316,749)	(151,179)
Movements in working capital			
Accounts receivable		(300,836)	109,860
Loans receivable		307,189	383,005
Accounts payable		78,663	(155,675)
Cash (used in)/provided by operations		(231,733)	186,011
Interest paid		(1,371,106)	(1,998,377)
Income tax paid		-	24,218
Net cash used in operating activities		(1,602,839)	(1,788,148)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on disposal of property and equipment		603	19
Acquisition of property and equipment	13	(23,455)	(4,164)
Interest received		2,280,202	2,646,731
Decrease in investments		2,973,528	(1,127,075)
Securities purchased under resale agreements		76,530	126,973
Net cash provided by investing activities		5,307,408	1,642,484
CASH FLOWS FROM FINANCING ACTIVITIES			
Deposits		(951,514)	(958,820)
Securities sold under repurchase agreements		(3,344,773)	1,905,833
Loan participation		(50,234)	(69,879)
Due to other financial institutions		(193,396)	135,780
Net cash (used in)/provided by financing activities		(4,539,917)	1,012,914
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(835,348)	867,250
OPENING CASH AND CASH EQUIVALENTS		1,401,544	659,087
Effect of foreign exchange rate changes		(41,546)	(124,793)
CLOSING CASH AND CASH EQUIVALENTS	29	524,650	1,401,544

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

1 GROUP IDENTIFICATION

1.1 Composition of the Group

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

The Bank's preference shares are listed on the Jamaica Stock Exchange and the Trinidad and Tobago Stock Exchange.

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

2.1 Standards and Interpretations affecting presentation and disclosures

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

Standards affecting presentation and disclosure

There were no standards or interpretations effective in the current period that affected the presentations or disclosures in the financial statements.

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

- *IAS 1 (Revised) – Presentation of Financial Statements:* Amendments as part of Improvements to IFRS issued in 2009 (effective for annual periods beginning on or after January 1, 2010) clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or noncurrent.

- *IAS 7 (Revised), Statement of Cash Flows:* Amendments as part of Improvements to IFRS issued in 2009 (effective for annual periods beginning on or after January 1, 2010) specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows.

- *IAS 17 (Revised), Leases:* Amendments as part of Improvements to IFRS issued in 2009 (effective for annual periods beginning on or after January 1, 2010) reflected the deletion of specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating using the general principles of IAS 17.

- *IAS 36 (Revised), Impairment of Assets:* Amendments as part of Improvements to IFRS issued in 2009 (effective for annual periods beginning on or after January 1, 2010) clarify that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment as defined by paragraph 5 of IFRS 8 Operating Segments (i.e. before the aggregation of segments with similar economic characteristics permitted by IFRS 8.12).

- *IAS 38 (Revised), Intangible Assets:* Amendments resulting from April 2009 Annual Improvements to IFRS (effective for annual periods beginning on or after July 1, 2009). Consequential amendments arising from IFRS 3 (2008) to clarify the requirements under IFRS 3 (2008) regarding accounting for intangible assets acquired in a business combination.

- *IAS 38 (Revised), Intangible Assets:* Amendments resulting from April 2009 Annual Improvements to IFRS (effective for annual periods beginning on or after January 1, 2010). Amendments to clarify the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets.

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

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

- *IAS 39 (Revised), Financial Instruments - Recognition and Measurement:* (effective for annual periods beginning on or after January 1, 2010):

  - Amendments for embedded derivatives when reclassifying financial instruments provided clarification that prepayment options, the exercise price of which compensates the lender for loss of interest by reducing the economic loss from reinvestment risk, should be considered closely related to the host debt contract.
  - Amendments to scope exemption for business combination contracts.
  - Amendment to clarify when to recognise gains or losses on hedging instruments as a reclassification adjustment in a cash flow hedge of a forecast transaction that results subsequently in the recognition of a financial instrument and
  - Amendment to clarify that entities should no longer use hedge accounting for transactions between segments in their separate financial statements.

- *IFRS 1 (Revised November 2008), First-time Adoption of International Financial Reporting Standards:* Revised and restructured (effective for annual periods beginning on or after July 1, 2009).

- *IFRS 1 (Revised), First-time Adoption of International Financial Reporting Standards: Amendments relating to oil and gas assets and determining whether an arrangement contains a lease (effective for annual periods beginning on or after January 1, 2010).*

- *IFRS 2 (Revised) Share-based payment:* Amendments resulting from April 2009 Annual Improvements to IFRS (effective for annual periods beginning on or after July 1, 2009) to confirm that, in addition to business combinations as defined by IFRS 3 (2008) Business Combinations, contributions of a business on formation of a joint venture and common control transactions are excluded from the scope of IFRS 2 Share-based Payment.

- *IFRS 2 (Revised), Share-based payment:* Amendment relating to group cash-settled share-based payment transactions (effective for annual periods beginning on or after January 1, 2010).

- *IFRS 3 (Revised), Business Combinations:* Comprehensive revision on applying the acquisition method (effective for annual periods beginning on or after July 1, 2009).

- *IFRS 5 (Revised), Non-current assets held for sale and discontinued operations:* Amendments resulting from May 2008 Annual Improvements to IFRS (effective for annual periods beginning on or after July 1, 2009) provided clarification that assets and liabilities of a subsidiary should be classified as held for sale if the parent is committed to a plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest after the sale.

- *IFRS 5 (Revised), Non-current assets held for sale and discontinued operations:* Amendments resulting from April 2009 Annual Improvements to IFRS (effective for annual periods beginning on or after January 1, 2010) to clarify that IFRS 5 Non-current Assets Held for Sale and Discontinued Operations specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations.

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

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

- *IFRS 8 (Revised), Operating Segments:* Amendments resulting from April 2009 Annual Improvements to IFRS (effective for annual periods beginning on or after January 1, 2010) reflected minor textual amendment to the Standard, and amendment to the Basis for Conclusions, to clarify that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision maker.

- *IFRIC 9 (Revised), Reassessment of Embedded Derivatives:* Amendments arising from April 2009 Annual Improvements to IFRS (effective for annual periods beginning on or after July 1, 2009) to confirm that, in addition to business combinations as defined by IFRS 3 (2008), derivatives acquired in the formation of a joint venture and in common control transactions are outside the scope of IFRIC 9.

- *IFRIC 16 Hedges of a Net Investment in a Foreign Operation:* amendments effective July 1, 2009, to clarify that hedging instruments may be held by any entity or entities within the group. This includes a foreign operation that itself is being hedged.

- *IFRIC 17, Distributions of Non-cash Assets to Owners* (effective for annual periods beginning on or after July 1, 2009). The interpretation applies to the entity making the distribution, not to the recipient. It applies when non-cash assets are distributed to owners or when the owner is given a choice of taking cash in lieu of the non-cash assets.

- *IFRIC 18 Transfers of Assets from Customers* (effective for transfers received on or after July 1, 2009). The Interpretation clarifies the requirements of IFRS for agreements in which an entity receives from a customer an item of property, plant, and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).

2.3 *Standards and Interpretations in issue not yet adopted*

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

		Effective for annual periods beginning on or after
IAS 1, 34, IFRS 1, 3 and 7 (Revised)	Amendments arising from May 2010 Annual Improvements to IFRS	January 1, 2011
IAS 12 (Revised)	Income taxes – Limited scope amendment (recovery of underlying assets	January 1, 2012
IAS 24 (Revised)	Related Party Disclosures – Revised definition of related parties	January 1, 2011
IAS 27 (Revised)	Consolidated and Separate Financial Statements - Amendments resulting from May 2010 Annual Improvements to IFRS	July 1, 2010

CAPITAL & CREDIT MERCHANT BANK LIMITED

AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

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

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

		Effective for annual periods beginning on or after
IAS 32 (Revised)	Financial Instruments: Presentation - Amendments relating to classification of rights issues	February 1, 2010
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 exemption for entities ceasing to suffer from severe hyperinflation	July 1, 2011
	- Limited exemptions from comparative IFRS 7 disclosure for first-time adopters	July 1, 2010
IFRS 3 (Revised)	Business Combinations - Amendments resulting from May 2010 Annual Improvements to IFRS	July 1, 2010
IFRS 7 (Revised)	Financial Instruments: Disclosures - Amendments enhancing disclosures about transfers of financial assets	July 1, 2011
IFRS 9 (New)	Financial Instruments – Classification and Measurement	January 1, 2013
IFRIC 14: IAS 19 (Revised)	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction - November 2009 Amendments with respect to voluntary prepaid contributions	January 1, 2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	July 1, 2010

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

- Amendments specifically to *IAS 1, 27 and IFRS 3 and 7*, resulting from the May 2010 Annual Improvements to IFRS are not expected to have a significant impact on the Bank's financial statements on adoption at their respective effective dates.

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

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

- IAS 1 (Revised) *Presentation of Financial Statements* (as part of May 2010 Improvements to IFRS effective for annual periods beginning on or after January 1, 2011) The amendments to IAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. No note will be used for the items of other comprehensive income as the information is already included in the statement.

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

- IFRS 7 (Revised) *Financial Instruments: Disclosures.* The amendments 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 and clarifies the required level of disclosure around credit risk and collateral held and provides relief from disclosure of renegotiated loans.

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of compliance

The Group's financial statements have been prepared in accordance, and comply with, 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.

3.2.2 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 recognised in profit or loss as part of the gain or loss on disposal.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

3.3.1 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 Bank 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*;*

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.4 Business combinations cont'd

- 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 (see 3.16.2); 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.

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 1 January 2010 were accounted for in accordance with the previous version of IFRS 3.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.5 Investment in subsidiaries

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

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

3.6 Investment in associate

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

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

3.7 Goodwill

Goodwill arising on 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.

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.

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:

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

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

(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.

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
- Held to maturity investments
- Available-for-sale financial assets, and
- Loans and receivables

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.8 Financial Instruments (Cont'd)

3.8.1 Financial assets (Cont'd)

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 34.

3.8.1.2 Held-to-maturity investments

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

3.8.1.3 Available-for-sale financial assets

Listed securities held by the Group that are traded in an active market and unlisted shares are classified as being available for sale and are stated at fair value. Fair value is determined in the manner described in Note 34. Gains and losses arising from changes in fair value are recognised in other comprehensive income and are accumulated in the fair value reserve with the exception of impairment losses. Interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, are recognised directly in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.8 Financial Instruments (Cont'd)

3.8.1 Financial assets (Cont'd)

3.8.1.3 Available-for-sale financial assets (Cont'd)

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 assets denominated in foreign currency is determined in that currency and translated at the spot rate at the reporting date. The change in fair value attributable to the translation differences that result from a change in amortised cost of the assets is recognised in profit or loss, and the other changes are recognised in other comprehensive income.

3.8.1.4 Loans and receivables

Loans and receivables 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.

3.8.1.5 Loans and provisions for credit losses

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

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

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

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

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

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)

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

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

3.8.1.6 Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a financial asset and allocating interest income over the relevant period. The effective interest rate is the rate that exactly 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.

3.8.1.7 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-organization; or
- delayed payment past the due date.

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

For financial assets carried at amortised cost, the amount of the impairment 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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.8 Financial Instruments (Cont'd)

3.8.1 Financial assets (Cont'd)

3.8.1.7 Impairment of Financial Assets (Cont'd)

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.

3.8.1.8 De-recognition of financial assets

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

On derecognition 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.

On derecognition 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

3.8.2.1 Financial liabilities

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

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.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.8 Financial Instruments (Cont'd)

3.8.2 Financial liabilities and equity instruments issued by the Group (Cont'd)

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.

3.8.3 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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 costs include expenditure that is directly attributable to the acquisition of these items.

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

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

Land is not depreciated.

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

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

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

3.11 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 the profit and loss account, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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

3.13 Acceptances

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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 Revenue recognition

3.15.1 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.

3.15.2 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.

3.15.3 Dividend income

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.16 Leases

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

3.16.1 Group as the lessee

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

3.16.2 Group as the lessor

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

3.17 Provisions

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

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

3.18 Employee benefits

3.18.1 Pension obligations

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

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

3.18.2 Employee Share Ownership Plan

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

The ESOP was terminated effective 31st December 2009. The shares which were allocated to qualified participants through the ESOP were transferred to the individual participants and registered at the Jamaica Stock Exchange in their names as at that date.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.18 Employee benefits (Cont'd)

3.18.3 Leave entitlements

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

3.18.4 Termination benefits

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

3.19 Fiduciary activities

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

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

4.1 *Critical judgments in applying accounting policies*

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

4.1.1 Reclassification of Financial Assets

During 2008, the Group reclassified certain financial assets which meet the definition of loans and receivables and held to maturity out of the available-for-sale category to these categories (see Note 36). The Group believed that the deterioration of the world's financial markets that occurred during the third quarter of 2008 represented a rare circumstance that allowed such a reclassification. At the date of reclassification, the Group also believed that it had the intention and ability to hold some of these reclassified loans and receivables for the foreseeable future or until maturity.

Ability to hold is usually demonstrated if the entity has the financial resources to continue to finance the investment to maturity or is not subject to any legal or other constraint that could frustrate its intention to hold the asset to maturity. The Group's access to deposit funding, interbank funding, and liquidity provided by the Group's loan portfolio, indicated access to sufficient financial resources to continue financing these assets. (See Note 36).

Effective December 1, 2010, the Bank reclassified these investment securities from loans and receivables to the available-for-sale category. This was based upon the determination by the Institute of Chartered Accountants of Jamaica (ICAJ), in conjunction with the Jamaica Securities Dealers Association (JSDA) that the market for the GOJ Global Bonds has regained its active status which now provides a basis for valuation. Reclassifications are initially accounted for at the fair value of the financial assets at the date of reclassification and are subsequently revalued to current market value.

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

4.1 *Critical judgments in applying accounting policies(Cont'd)*

4.1.2 Held-to-Maturity Investments

In accordance with IAS 39 guidance in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity, the Group reclassified certain investment securities in 2008 that met the definition of held-to-maturity investments out of the available-for-sale category to the held to maturity category.

During the year these investment securities matured or were redeemed early under the Jamaica Debt Exchange (JDX) programme.

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 34, 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 $24.2 billion (2009: $11.2 billion) and for the Bank $13.2 billion (2009: $2.1 billion).

Had the fair value of these securities been 5% higher or lower, profit for the Group would increase/decrease by $2.2 million and $Nil for the Bank, while other comprehensive income would increase/decrease by $1.2 billion for the Group and $661.2 million for the Bank.

4.2.3 Income taxes

Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made (see Note 26).

4.2.4 Impairment losses on loans and advances

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

To the extent that the net present value of estimated cash flows changed adversely by 2 percent, the provision as estimated would be increased from $364.7 million to $489.4 million (2009: from $385.3 million to $518.2 million) for the Group and the Bank.

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5 CASH RESOURCES

Cash resources include $700.2 million (2009: $775.8 million) held under Section 14(i) of the Financial Institutions Act, at the Bank of Jamaica as a Cash Reserve and $Nil (2009: $699.6 million) held by an investment broker as security for funding provided on certain investment securities. Accordingly, these amounts are not available for investment or other use by the Group or the Bank.

6 INVESTMENT IN SECURITIES

	The Group		The Bank	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Financial assets at fair value through profit or loss:				
Government of Jamaica securities	278	-	-	-
Securities purchased under resale agreements	10,000	-	-	-
Equity securities	34,589	23,000	-	-
	44,867	23,000	-	-
Securities available-for-sale				
Government of Jamaica securities	19,657,272	9,032,654	9,240,420	1,186,002
US Government agencies	786,875	37,136	786,875	-
Equity investments	596,924	747,420	514,968	706,073
Bank of Jamaica certificates of deposit	946,000	731,005	645,000	-
Other securities	2,193,242	188,071	2,036,612	160,000
	24,180,313	10,736,286	13,223,875	2,052,075
Loans and Receivables Securities: (see Note 36)				
Government of Jamaica securities	3,208,961	14,064,561	-	10,647,543
Other securities	1,813,165	4,140,222	-	2,279,734
	5,022,126	18,204,783	-	12,927,277
Held to Maturity Securities: (see Note 36)				
Government of Jamaica securities	-	1,196,158	-	-
US Government agencies	-	1,480,510	-	-
Bank of Jamaica certificates of deposit	-	26,666	-	-
Other securities	-	-	-	-
	-	2,703,334	-	-
Total AFS, LR and HTM securities	29,202,439	31,644,403	13,223,875	14,979,352
Pledged assets (See Note 7)	(19,539,466)	(21,699,958)	(8,528,689)	(12,122,794)
	9,662,973	9,944,445	4,695,186	2,856,558
	9,707,840	9,967,445	4,695,186	2,856,558
Interest receivable	533,564	787,915	257,807	282,452
	10,241,404	10,755,360	4,952,993	3,139,010

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6 INVESTMENT IN SECURITIES (Cont'd)

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.

During 2010, the Bank of Jamaica (BOJ) implemented the Central Securities Depository and the Real Time Gross Settlement system, as a result the Group is no longer required to pledge assets to the BOJ to cover possible shortfalls in the Group's primary dealer account. In the prior period, Government securities totalling $71.4 million were held by the Bank of Jamaica, of which $70.4 million were held as security in the event of an overdraft on the Bank's and subsidiary's primary dealer accounts, and $1.0 million to facilitate stockbroking activities of the subsidiary.

Gross gains of $189.4 million for the Group $125.6 million for the Bank (2009: Gross gains of $85.4 million for the Group and gross losses of $12.5 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 collateralized repurchase agreements and as at the reporting date, investment securities amounting to $19.5 billion (2009: $21.7 billion) of the Group and $8.5 billion (2009: $12.1 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

	2010	2009
	$'000	$'000
Shares at cost	3,282	3,282
Less: share of losses	(3,282)	(3,282)
Total investment in associate	-	-

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9 INVESTMENT IN ASSOCIATE (Cont'd)

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

	2010 $'000	2009 $'000
Total assets	10,696	49,291
Total liabilities	4,618	27,967
Net assets	6,078	21,324
Group's share of net assets of associate	1,216	4,265

	2010 $'000	2009 $'000
Total revenue	32,732	89,364
Total loss for the year	(8,732)	(31,688)
Group's share of losses of associates (Restricted to the Bank's Investment in Associate)	-	(3,282)
Group's share of other comprehensive income	-	-

10 LOANS (AFTER PROVISION FOR LOAN LOSSES)

	The Group and the Bank	
	2010 $'000	2009 $'000
Corporate	4,673,248	5,111,177
Individuals	1,926,318	1,917,042
	6,599,566	7,028,219
Less provision	364,733	385,334
	6,234,833	6,642,885
Interest receivable	209,228	314,566
	6,444,061	6,957,451

(a) The loan balance includes an amount of $101.1 million (2009: $87.2 million) receivable from employees.

(b) The aggregate amount of non-performing loans on which interest is not being accrued is $2.9 billion (2009: $704.3 million). The majority of the non-performing loans are not considered impaired. (see Note 34.4.7)

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	
	2010	2009
	$'000	$'000
Provision for loan losses under IFRS		
Provision at January 1	385,334	97,206
Write-offs	(101,129)	(25,396)
	284,205	71,810
Charged to profit and loss	100,864	325,610
Recoveries during the year	(20,336)	(12,086)
	80,528	313,524
Balance at December 31	364,733	385,334
Regulatory provision		
Provision at January 1	336,854	207,538
Charged to equity	668,053	129,316
Balance at December 31	1,004,907	336,854
Total allowance for impairment	1,369,640	722,188

Total allowances for loan losses are made up as follows:

	2010	2009
	$'000	$'000
Allowance based on accounting standards		
- (IAS 39 see (i) below)	364,733	385,334
Additional allowance based on Bank of Jamaica		
regulations (see (ii) below)	1,004,907	336,854
	1,369,640	722,188

(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.

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11 ACCOUNTS RECEIVABLE

	The Group		The Bank	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Broker receivable	119,755	3,080	119,755	3,080
Withholding tax recoverable	379,914	376,972	35,071	23,855
Owed by parent company	41,187	696	1,187	696
Owed by wholly-owned subsidiary	-	-	2,843	-
Owed by fellow subsidiary	25,000	2,403	-	2,403
Liquid and staff loans	147,578	54,353	-	-
Other receivables	368,348	200,282	348,513	176,501
	1,081,782	637,786	507,369	206,535

12 INTANGIBLE ASSETS

	The Group			The Bank
	Computer Software	Goodwill	Total	Computer Software
	$'000	$'000	$'000	$'000
Cost				
Balance at December 31, 2009 and 2010	331,090	140,146	471,236	331,090
Amortisation				
Balance at December 31, 2008	83,028	-	83,028	83,028
Charge for the year	66,254	-	66,254	66,254
Balance at December 31, 2009	149,282	-	149,282	149,282
Charge for the year	66,218	-	66,218	66,218
Balance at December 31, 2010	215,500	-	215,500	215,500
Carrying amount				
December 31, 2010	115,590	140,146	255,736	115,590
December 31, 2009	181,808	140,146	321,954	181,808

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, 2008	2,968	20,391	221,755	9,619	64,447	18,021	337,201
Additions	-	-	6,894	-	17,036	-	23,930
Transfer	-	-	(21)	-	21	-	-
Disposal	-	-	(111)	-	-	-	(111)
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
Depreciation							
Balance at December 31, 2008	-	2,548	156,353	-	53,419	5,369	217,689
Charge for year	-	525	30,831	-	6,077	3,830	41,263
On disposal	-	-	(75)	-	-	-	(75)
Balance at December 31, 2009	-	3,073	187,109	-	59,496	9,199	258,877
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
Net book value							
December 31, 2010	2,968	16,823	39,650	9,619	15,141	5,991	90,192
December 31, 2009	2,968	17,318	41,408	9,619	22,008	8,822	102,143

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

Building	-	40 years
Furniture, fixtures and equipment	-	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, 2008	2,968	20,391	125,091	8,858	58,480	18,021	233,809
Additions	-	-	4,164	-	-	-	4,164
Disposals	-	-	(42)	-	-	-	(42)
Balance at December 31, 2009	2,968	20,391	129,213	8,858	58,480	18,021	237,931
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
Depreciation							
Balance at December 31, 2008	-	2,548	103,828	-	52,487	5,369	164,232
On disposal	-	-	(6)	-	-	-	(6)
Charge for year	-	525	12,359	-	1,204	3,830	17,918
Balance at December 31, 2009	-	3,073	116,181	-	53,691	9,199	182,144
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
Carrying amount							
December 31, 2010	2,968	16,823	25,493	8,858	4,436	5,991	64,569
December 31, 2009	2,968	17,318	13,032	8,858	4,789	8,822	55,787

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

Building	-	40 years
Furniture, fixtures and equipment	-	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	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Analysis for financial reporting purposes				
Deferred tax assets	361,879	947,531	378,526	652,519
Deferred tax liabilities	(301,141)	(435,823)	(210,218)	(259,449)
Net assets	60,738	511,708	168,308	393,070

(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	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Net assets at January 1	511,708	549,246	393,070	424,236
(Charged)/credited to income for the year (see Note 26)	(112,272)	70,012	(90,978)	51,244
Charged to other comprehensive income	(338,698)	(107,550)	(133,784)	(82,410)
Net assets at December 31	60,738	511,708	168,308	393,070

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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	Other $'000	Total $'000
At December 31, 2008	81,935	12,994	648,011	264,037	1,944	1,000	488	1,010,409
Credited/(charged) to income for the year	90,022	(7,630)	-	(36,041)	(1,191)	-	(488)	44,672
Charged to other comprehensive income for the year	-	-	(107,550)	-	-	-	-	(107,550)
At December 31, 2009	171,957	5,364	540,461	227,996	753	1,000	-	947,531
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

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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, 2008	78,155	477,052	82,569	1,000	-	638,776
Credited to income for the year	93,802	-	1,993	-	358	96,153
Charged to other comprehensive income for the year	-	(82,410)	-	-	-	(82,410)
At December 31, 2009	171,957	394,642	84,562	1,000	358	652,519
Credited/(charged) to income 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

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

(a) Cont'd

(ii) Deferred tax liabilities

	The Group				
	Capital Allowances in excess of Deprecation Charges	Interest Receivable	Unrealised Gains	Other	Total
	$'000	$'000	$'000	$'000	$'000
At December 31, 2008	(49,214)	(411,949)	-	-	(461,163)
Credited (charged) to income for the year	956	24,492	-	(108)	25,340
At December 31, 2009	(48,258)	(387,457)	-	(108)	(435,823)
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)

	The Bank			
	Capital Allowances in excess of Depreciation Charges	Interest Receivable	Unrealised Gains	Total
	$'000	$'000	$'000	$'000
At December 31, 2008	(44,893)	(169,647)	-	(214,540)
Charged to income for the year	(2,077)	(42,832)	-	(44,909)
At December 31, 2009	(46,970)	(212,479)	-	(259,449)
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)

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

Deferred income taxes are recognised for the tax loss carried forward only to the extent that realisation of the related tax benefit is probable. The Group has tax losses, subject to agreement with the Commissioner, Taxpayer Audit and Assessment, amounting to $76.6 million (2009: $515.9 million) available for carry forward and off-set against future taxable income. Deferred tax assets have been recognised in respect of these amounts.

15 **SECURITIES SOLD UNDER REPURCHASE AGREEMENTS**

	The Group		The Bank	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Personal	3,667,440	3,687,936	238	55,870
Financial institutions	13,035,094	16,126,738	7,105,115	11,047,538
Commercial and business enterprises	6,633,575	7,183,143	2,096,372	1,443,090
	23,336,109	26,997,817	9,201,725	12,546,498
Interest payable	291,712	443,575	195,301	73,111
	23,627,821	27,441,392	9,397,026	12,619,609

16 **DEPOSITS**

	The Group		The Bank	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Personal	3,965,534	4,553,945	3,965,534	4,553,945
Financial institutions	85,945	1,560,844	129,776	1,640,344
Commercial and business enterprises	3,212,483	2,065,018	3,212,483	2,065,018
	7,263,962	8,179,807	7,307,793	8,259,307
Interest payable	74,823	156,832	74,823	157,818
	7,338,785	8,336,639	7,382,616	8,417,125

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17 LOAN PARTICIPATION

	The Group and the Bank	
	2010	2009
	$'000	$'000
Personal	163,376	143,721
Financial institutions	79,359	140,329
Commercial and business enterprises	437,749	446,668
	680,484	730,718
Interest payable	1,137	6,380
	681,621	737,098

18 ACCOUNTS PAYABLE

	The Group		The Bank	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Prime accounts	7,810	8,089	-	-
Owed to fellow subsidiary	148	-	148	-
Payroll taxes	24,498	16,207	24,498	16,207
Other payable	163,182	93,524	121,083	50,859
	195,638	117,820	145,729	67,066

19 SHARE CAPITAL

	Number of units	
	2010	2009
	'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

	2010	2009
	$'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	85,488
	1,818,376	1,818,376
Less: Redeemable preference shares classified as liabilities as required by IFRS	(85,488)	(85,488)
Stated Capital	1,732,888	1,732,888

19 SHARE CAPITAL (Cont'd)

The preference shares pay a variable cumulative preferential dividend every six (6) months based on the most recent Bank of Jamaica 180 day weighted average Jamaica Treasury Bill yield payable before the payment of each dividend payment. In the event that a 180 day Treasury Bill is not in issue on the market, the 90 day Treasury Bill yield will apply. The preference shares are redeemable on 1st April 2011.

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

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

	2010	2009
	$'000	$'000
Redeemable Preference Shares	85,488	85,488
Interest accrued thereon	1,290	4,172
	86,778	89,660

20 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% (2009: 15%).

21 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 $300 million transfer from retained earnings reserve to loan loss reserve.

22 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	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Balance at January 1	(1,083,302)	(1,317,487)	(789,284)	(954,103)
Unrealised gains on available-for-sale Investments	1,202,632	256,344	526,923	234,779
Deferred tax on unrealised gains	(400,606)	(79,086)	(175,641)	(78,260)
Realised (gains)/losses on sale of available-for-sale investments transferred to profit and loss	(185,725)	85,391	(125,572)	12,450
Deferred tax on realized gains/(losses)	61,908	(28,464)	41,857	(4,150)
	678,209	234,185	267,567	164,819
Balance at December 31	(405,093)	(1,083,302)	(521,717)	(789,284)

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23 INVESTMENT REVENUE

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

	The Group		The Bank	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Interest income				
Government of Jamaica securities	2,572,582	3,484,712	863,131	1,216,313
US Government agencies	1,701	2,288	1,558	24
Other securities	190,151	192,573	282,556	209,416
Bank of Jamaica certificates of deposits	59,880	472,821	-	-
Loans and other receivables (including cash and cash equivalents)	1,004,510	1,349,472	987,978	1,349,472
	3,828,824	5,501,866	2,135,223	2,775,225
Interest expenses				
Securities sold under repurchase agreements	1,764,592	3,252,459	651,999	1,025,049
Deposits	633,086	851,728	638,388	851,728
Other	99,749	127,582	99,749	127,581
	2,497,427	4,231,769	1,390,136	2,004,358
Net Interest Income	1,331,397	1,270,097	745,087	770,867

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

	The Group		The Bank	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Interest revenue:				
Securities available-for-sale	1,257,934	1,981,256	257,115	330,488
Loans and Receivables Securities	1,454,413	1,489,611	890,130	1,095,265
Held-to-maturity Securities	2,514	498,630	-	-
Loans and other receivables (including cash and cash equivalents)	1,004,510	1,349,472	987,978	1,349,472
Other financial assets	109,453	182,897	-	-
	3,828,824	5,501,866	2,135,223	2,775,225

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23 INVESTMENT REVENUE (Cont'd)

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

	The Group		The Bank	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Other revenue:				
Dividends	53,036	60,792	48,679	55,651
Gains/(Losses) on disposal of available-for-sale investments	185,853	(85,391)	125,572	(12,450)
Gains/(Losses) on disposal of financial assets classified as held for trading	3,659	(21,785)	-	-
Net foreign exchange (losses)/gains	(126,139)	156,427	(121,512)	113,537
Unrealised gains/(losses) arising on financial assets classified as held for trading	-	19,327	-	-
Net gain/(loss) arising on financial assets designated as FVTPL	3,916	-	-	-
Other income	37,069	83	-	-
	157,394	129,453	52,739	156,738

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

	The Group		The Bank	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Investments in securities				
- Available-for-sale investm0nts	1,371,342	1,956,657	305,794	373,689
- Loans and receivables	1,458,473	1,603,148	894,190	1,208,802
- Held to maturity	2,514	498,630	-	-
Loans and other receivables (including cash and cash equivalents)	1,153,889	1,572,884	987,978	1,349,472
Total income for financial assets	3,986,218	5,631,319	2,187,962	2,931,963

Non-interest revenues relating to Loans are included in 'Commission and fee income' in Note 24.

24 COMMISSION AND FEE INCOME

	The Group		The Bank	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Loan processing fees	21,934	23,045	21,934	23,045
Commission - Government of Jamaica	3,767	2,849	-	-
Commission - equity trading	2,844	1,471	-	-
Fund management and registrar fees	57,367	46,176	-	-
	85,912	73,541	21,934	23,045

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25 STAFF COSTS

	The Group		The Bank	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Staff costs incurred during the year in respect of employees were:				
Salaries and wages	410,356	415,278	247,264	256,562
Statutory contributions	41,745	43,489	24,830	27,449
Pension contributions	16,529	18,337	9,988	11,159
Termination costs	6,685	-	4,440	-
Other staff benefits	93,378	103,903	54,710	75,640
	568,693	581,007	341,232	370,810

26 TAXATION

(a) Total charge for the year comprises:

	The Group		The Bank	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Income tax at 33⅓% of taxable income	98,890	78,137	-	-
Prior year over provision	-	(3,069)	-	-
Deferred tax (see Note 14)	112,272	(70,012)	90,978	(51,244)
	211,162	5,056	90,978	(51,244)

(b) Subject to agreement of the Commissioner, Taxpayer Audit and Assessment, at the reporting date the Group and the Bank had tax losses of approximately $76.6 million (2009: $515.9 million) available for set-off against future taxable profits. A deferred tax asset has been recognised in respect of these losses.

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

	The Group	
	2010	2009
	$'000	$'000
Profit before tax	555,221	347,762
Tax at the domestic income tax rate	185,073	115,921
Tax effect of:		
Expenses not deductible in determining taxable profit	84,874	44,141
Non-taxable income	(60,585)	(155,195)
Prior year over provision	-	(3,069)
Other adjustments	1,800	3,258
Taxation recognised in the consolidated profit and loss account	211,162	5,056

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26 **TAXATION (Cont'd)**

(c) (Cont'd)

	The Bank	
	2010	2009
	$'000	$'000
Profit before tax	247,186	209,887
Tax at the domestic income tax rate	82,395	69,962
Tax effect of:		
Expenses not deductible in determining taxable profit	65,991	22,660
Non-taxable income	(58,913)	(144,823)
Other adjustments	1,505	957
Taxation recognised in the profit and loss account	90,978	(51,244)

27 **NET PROFIT**

(a) Dealt with in the accounts of:

	2010	2009
	$'000	$'000
The Bank	156,208	261,131
The Subsidiaries	187,851	84,857
The Associate	-	(3,282)
	344,059	342,706

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

	The Group		The Bank	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Directors' emoluments				
- Fees	5,885	10,239	5,750	10,119
- Management	49,388	49,547	28,645	28,737
Audit fees - current year	11,681	10,855	5,901	5,335
- prior year	65	164	-	132
Depreciation and amortisation	99,929	107,517	80,728	84,174

28 **EARNINGS PER STOCK UNIT**

Earnings per stock unit is calculated by dividing the net profit attributable to stockholders of the Bank of $335.7 million (2009: $334.1 million) by 641,159,682 ordinary stock units in issue.

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29 CASH AND CASH EQUIVALENTS

	The Group		The Bank	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Cash and balances with banks including Bank of Jamaica	1,513,433	2,219,763	1,224,884	1,853,457
Securities purchased under resale agreements	10,000	-	-	1,023,475
Less: Statutory cash reserves (see Note 5)	(700,234)	(775,819)	(700,234)	(775,819)
Cash deposit held by Investment broker (see Note 5)	-	(699,569)	-	(699,569)
	823,199	744,375	524,650	1,401,544

30 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, 2010, the Group had financial assets under administration of approximately $3.6 billion (2009: $3.2 billion).

31 SEGMENTAL FINANCIAL INFORMATION

The Group has adopted IFRS 8 *Operating Segments* with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

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 segment's operations are from the same country of domicile and as such all its revenues generated from external customers and non-current assets are attributed to the same geographical area.

Included in revenues arising from Banking & related services of $2.4 billion (2009: $3.3 billion) and Financial & related services of $2.1 billion (2009: $3.2 billion) (see table below) are revenues of approximately $2.6 billion (2009: $3.5 billion) which arose from transactions with the Group's largest customer.

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31 **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 expense, less recovery	80,528	-	-	80,528

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

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

32 **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 25).

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

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33 **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	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Interest income				
Parent company	29,473	21,678	29,473	21,678
Wholly-owned subsidiary	-	-	98,650	187,896
Fellow subsidiary	11,835	4,312	6,695	4,312
Associate	-	5,943	-	5,943
	41,308	31,933	134,818	219,829
Other income				
Other related parties	40,592	-	-	-
Preference dividend received				
Wholly-owned subsidiary	-	-	10,564	19,200
Management fees paid				
Parent company	36,000	24,000	24,000	24,000
Interest expense				
Parent company	5	46	-	21
Subsidiaries	-	-	113,649	189,193
Fellow subsidiary	-	305	-	-
	5	351	113,649	189,214
Year end balances with related parties are as follows:				
Securities sold under repurchase agreement				
Parent company	98	363	97	-
Subsidiaries	-	-	568,429	1,945,923
Fellow subsidiary	-	158	-	-
	98	521	568,526	1,945,923
Securities purchased under resale agreement				
Wholly-owned subsidiary	-	-	445,120	1,585,543
Deposits				
Parent company	-	8,986	-	8,986
Subsidiary	-	-	43,633	80,486
Fellow subsidiary	127	125	127	125
Associate	-	675	-	675
	127	9,786	43,760	90,272

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

(a) (Cont'd)

	The Group		The Bank	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Loans (Unsecured)				
Parent company	108,235	134,015	108,235	134,015
Fellow subsidiary	28,815	29,439	28,815	29,439
Associate	-	30,083	-	30,083
	137,050	193,537	137,050	193,537
Other receivables				
Parent company	41,187	696	1,187	696
Wholly-owned subsidiary	-	-	2,843	-
Fellow subsidiary	25,000	2,403	-	2,403
Other related parties	545	-	-	-
	66,732	3,099	4,030	3,099
Other payables				
Fellow subsidiary	148	-	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	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Salaries, fees and other short term benefits				
Directors	55,273	59,786	34,395	38,856
Management personnel	102,887	88,887	58,285	52,390
	158,160	148,673	92,680	91,246
Interest expense				
Securities sold under repurchase agreements				
Directors	8,477	10,976	-	-
Management personnel	170	431	-	-
Other related parties	1,644	5,193	-	824
	10,291	16,600	-	824
Deposits				
Directors	2,390	4,347	2,390	4,347
Management personnel	398	561	398	561
Other related parties	27	-	27	-
	2,815	4,908	2,815	4,908

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

(b) (Cont'd)

	The Group		The Bank	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Interest income				
Loans				
Directors	3,922	275	2,853	275
Management personnel	3,420	4,735	2,919	4,205
	7,342	5,010	5,772	4,480

Year end balances with related parties are as follows:

	The Group		The Bank	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Deposits				
Directors	34,452	27,322	34,452	27,322
Management personnel	11,989	13,952	11,989	13,952
Other related parties	218	-	218	-
	46,659	41,274	46,659	41,274
Loans				
Directors	52,058	1,510	34,148	1,510
Management personnel	60,136	51,129	53,574	43,840
	112,194	52,639	87,722	45,350
Securities sold under repurchase agreements				
Directors	150,296	108,132	-	-
Management personnel	4,341	1,808	-	-
Other related parties	33,200	25,797	-	706
	187,837	135,737	-	706

34 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT

34.1 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.

34.2 Categories of financial instruments

	The Group		The Bank	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Financial assets				
Investments in securities				
- Held-for-trading	44,921	23,000	-	-
- Available-for-sale	24,638,055	11,132,903	13,481,682	2,081,012
- Loans and receivables	5,097,894	18,543,902	-	13,180,792
- Held to maturity	-	2,755,513	-	-
Loans and other receivables (including cash and cash equivalents)	8,643,063	9,453,028	8,896,503	10,918,076
	38,423,933	41,908,346	22,378,185	26,179,880
Financial liabilities				
Other financial liabilities at amortised cost	32,625,376	37,644,345	18,399,994	22,845,016

34.3 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.

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

34.3 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.

34.4 Credit risk management

34.4.1 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.

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

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

34.4 Credit risk management (Cont'd)

34.4.2 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

34.4.3 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.

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

34.4 Credit risk management (Cont'd)

34.4.3 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.

34.4.4 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.

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

	Loans	
	2010	2009
	$'000	$'000
Standard	2,495,197	3,753,256
Special mention	941,021	939,265
Sub-standard	407,973	1,085,023
Doubtful	1,563,363	1,207,164
Loss	1,192,012	43,511
	6,599,566	7,028,219

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

34.4 Credit risk management (Cont'd)

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

	The Group		The Bank	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Cash resources (excluding cash on hand)	1,396,086	2,154,521	1,150,873	1,814,711
Investment in securities	10,241,404	10,755,360	4,952,993	3,139,010
Securities purchased under resale agreements	-	-	470,542	1,585,543
Pledged assets	19,539,466	21,699,958	8,528,689	12,122,794
Loans (after provision for loan losses)	6,444,061	6,957,451	6,444,061	6,957,451
Accounts receivable	670,570	637,787	448,327	206,535
	38,291,587	42,205,077	21,995,485	25,826,044

34.4.7 Credit quality

	The Group and the Bank	
	2010	2009
	$'000	$'000
Neither past due nor impaired - standard	2,617,847	4,281,613
Past due but not impaired	3,078,834	1,649,074
Impaired	902,885	1,097,532
Gross	6,599,566	7,028,219
Less: provision for credit loss	364,733	385,334
Net	6,234,833	6,642,885

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 $869.3 million (2009: $1.2 billion) at their fair value. There were no other financial assets that were individually impaired.

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

	2010	2009
	$'000	$'000
Past due but not impaired		
Past due 1 - 30 days	510,544	621,901
Past due 31– 60 days	304,405	1,027,173
Past due 61 – 90 days	300,738	-
More than 90 days	1,963,147	-
	3,078,834	1,649,074

Loans become past due when payments are not received on contractual repayment dates. The majority of past due loans are not considered impaired.
The fair value of collateral on the aggregate amount of loans past due but not impaired, excluding unsecured loans, that the Group and the Bank held were $6.6 billion (2009:$4.4 billion).

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

34.4 Credit risk management (Cont'd)

34.4.7 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	
	2010	2009
	$'000	$'000
Current	565,298	794,050
1 - 30 days	1,840	1,491
31 - 60 days	3,014	899
61- 90 days	-	17,326
90 - 120 days	6,762	10,521
120 – 360 days	29,956	32,330
Over 360 days	296,015	240,915
	902,885	1,097,532

34.4.8 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 $2.4 billion (2009: $3.3 billion).

34.4.9 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 15 motor vehicles and 6 properties aggregating $15.8 million and $231.5 million respectively (2009: 19 motor vehicles and 12 properties aggregating $23.7 million and $1.2 billion respectively) held as security against loans categorized as past due but not impaired. Of this amount 12 motor vehicles and 2 properties (2009: 14 motor vehicles and 1 property) have been sold as at year end and the remaining 3 motor vehicles and 4 properties (2009: 5 motor vehicles and 11 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 $87.7 million (2009: $358.5 million).

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

34.4 Credit risk management (Cont'd)

34.4.10 Loans

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

	2010 $'000	2009 $'000
Construction, land development and real estate acquisition	2,083,195	1,715,159
Distribution	375,292	783,615
Financial institutions	259,368	451,117
Government and public entities	99,867	119,107
Manufacturing & utilities	231,296	102,755
Personal	1,697,217	1,656,667
Professional and other services	1,508,658	1,765,460
Tourism and entertainment	301,168	321,260
Transport, storage and communication	18,525	106,043
Agriculture	24,980	7,036
Total	6,599,566	7,028,219
Less: Provisions	364,733	385,334
	6,234,833	6,642,885
Interest receivable	209,228	314,566
	6,444,061	6,957,451

34.4.11 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	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Government of Jamaica	22,866,511	24,293,373	9,240,420	11,833,545
US Government agencies	786,875	1,517,646	786,875	-
Bank of Jamaica certificates of deposit	946,000	757,671	645,000	-
Financial Institutions	10,000	-	-	-
Corporate	631,862	798,491	514,968	706,073
Other	4,006,058	4,300,222	2,036,612	2,439,734
	29,247,306	31,667,403	13,223,875	14,979,352
Interest receivable	533,564	787,915	257,807	282,452
	29,780,870	32,455,318	13,481,682	15,261,804

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

34.5 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.

34.5.1 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.

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

34.5 Liquidity risk (Cont'd)

34.5.2 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					
	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	-
2009						
Liquidity Gap	(22,948,371)	1,944,460	20,019,587	45,398,472	-	44,414,148
Cumulative liquidity Gap	(22,948,371)	(21,003,911)	(984,324)	44,414,148	44,414,148	-

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

34.5 Liquidity risk (Cont'd)

34.5.2 (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	-
2009						
Liquidity gap	(12,629,705)	(247,772)	10,089,139	30,006,422	-	27,218,084
Cumulative liquidity gap	(12,629,705)	(12,877,477)	(2,788,338)	27,218,084	27,218,084	-

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

34.5 Liquidity risk (Cont'd)

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

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

At December 31, 2009

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

34.6 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:

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

34.6 Market risk (Cont'd)

34.6.1 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							
	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
	2009							
	USD		CDN		GBP		EUR	
	US$ '000	J$ Equiv. '000	Cdn$ '000	J$ Equiv. '000	£ '000	J$ Equiv. '000	€ '000	J$ Equiv. '000
Total assets	282,164	25,205,685	1,948	163,457	894	127,493	97	12,219
Total liabilities	(249,879)	(22,321,691)	(1,878)	(157,583)	(1,017)	(145,034)	(314)	(39,555)
Net exposure	32,285	2,883,994	70	5,874	(123)	(17,541)	(217)	(27,336)

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

34.6 Market risk (Cont'd)

34.6.1 Foreign currency risk (Cont'd)

	The Bank							
	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
	2009							
	USD		CDN		GBP		EUR	
	US$ '000	J$ Equiv. '000	Cdn$ '000	J$ Equiv. '000	£ '000	J$ Equiv. '000	€ '000	J$ Equiv. '000
Total assets	196,292	17,534,764	1,948	163,457	894	127,493	89	11,211
Total liabilities	(166,570)	(14,879,698)	(1,878)	(157,583)	(1,017)	(145,034)	(314)	(39,555)
Net exposure	29,722	2,655,066	70	5,874	(123)	(17,541)	(225)	(28,344)

34.6.2 Foreign currency sensitivity

The following tables indicate the currencies to which the Group and the Bank had significant exposure on its monetary assets and liabilities and its forecast cash flows. The sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 2% appreciation or a 5% depreciation (2009: 2% appreciation or a 5% depreciation) in foreign currency rates. 2% appreciation or a 5% depreciation is the sensitivity rate used when reporting foreign currency risk internally to the Board and the relevant committees of the Board and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes liabilities under repurchase agreement and investment securities. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variable, variables had to be on an individual basis. It should be noted that movements in these variables are non-linear.

	The Group			
	2010		2009	
	Change in Currency Rates %	Effect on Net Profit $'000	Change in Currency Rates %	Effect on Net Profit $'000
Currency:				
USD	2% Appreciation	(60,621)	2% Appreciation	(57,680)
	5% Depreciation	151,553	5% Depreciation	144,200
CDN	2% Appreciation	1,970	2% Appreciation	(118)
	5% Depreciation	(4,925)	5% Depreciation	294
GBP	2% Appreciation	(691)	2% Appreciation	351
	5% Depreciation	1,726	5% Depreciation	(877)
EURO	2% Appreciation	(206)	2% Appreciation	547
	5% Depreciation	516	5% Depreciation	(1,367)

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

34.6 Market risk (Cont'd)

34.6.2 Foreign currency sensitivity (Cont'd)

	The Bank			
	2010		2009	
	Change in Currency Rates	Effect on Net Profit	Change in Currency Rates	Effect on Net Profit
	%	$'000	%	$'000
Currency:				
USD	2% Appreciation	(50,465)	2% Appreciation	(53,101)
	5% Depreciation	126,162	5% Depreciation	132,753
CDN	2% Appreciation	1,970	2% Appreciation	(117)
	5% Depreciation	(4,925)	5% Depreciation	294
GBP	2% Appreciation	(691)	2% Appreciation	351
	5% Depreciation	1,726	5% Depreciation	(877)
EURO	2% Appreciation	(191)	2% Appreciation	567
	5% Depreciation	477	5% Depreciation	(1,417)

34.6.3 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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34 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

34.6 Market risk (Cont'd)

34.6.3 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						
	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	278	10,000	-	-	-	34,643	44,921
- 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	-	-	10,993	194,944	4,816,188	75,769	5,097,894
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	-
2009							
Interest sensitivity gap	(20,816,800)	(5,939,720)	(703,272)	8,381,831	21,954,876	(2,876,915)	-
Cumulative interest sensitivity gap	(20,816,800)	(26,756,520)	(27,459,792)	(19,077,961)	2,876,915	-	

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

34.6 Market risk (Cont'd)

34.6.3 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
- Loans and receivables	-	-	-	-	-	-	-
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	-
2009							
Interest sensitivity gap	11,460,751)	(2,586,501)	(1,820,251)	3,655,256	13,996,751	(1,784,504)	-
Cumulative interest sensitivity gap	(11,460,75)	(14,047,252)	(15,867,503)	(12,212,247)	1,784,504	-	

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

34.6 Market risk (Cont'd)

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

	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)						
- Trading securities	7.49	8.00	-	-	-	7.99
- Available-for-sale	7.58	9.86	20.95	8.75	8.81	9.15
- Loans and receivables	-	-	11.75	9.00	8.71	8.73
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

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

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

34.6 Market risk (Cont'd)

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

	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)						
- Available-for-sale	7.50	2.39	-	7.83	8.46	8.04
- Loans and receivables	-	-	-	-	-	-
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

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

(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.

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

34.6 Market risk (Cont'd)

34.6.5 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

	2010			2009	
	Effect on Net Profit $'000	Effect on other comprehensive income $'000		Effect on Net Profit $'000	Effect on other comprehensive income $'000
Change in interest rate			**Change in interest rate**		
- 6%	(471,115)	1,371,585	-6%	(470,581)	165,498
+ 2%	157,038	(555,110)	+2%	194,604	(46,530)

The Bank

	2010			2009	
	Effect on Net Profit $'000	Effect on other comprehensive income $'000		Effect on Net Profit $'000	Effect on other comprehensive income $'000
Change in interest rate			**Change in interest rate**		
-6%	(163,789)	565,877	-6%	(133,104)	132,723
+2%	54,596	(137,007)	+2%	82,111	(35,957)

34.6.6 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.

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

34.6 Market risk (Cont'd)

34.6.6 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 20% higher/lower (2009: 20% higher/lower):

- net profit for the year ended December 31, 2010, would have increased/decreased by $10.8 million (2009: $4.6 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 $80.62 million (2009: $134.7 million) for the Group and $75.96 million (2009: $126.4 million) for the Bank as a result of the changes in fair value of available-for-sale equities.

34.7 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, 2010 and 2009. 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).

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

34.7 Capital management (Cont'd)

	CCMB		CCSL		CCFM	
	2010	2009	2010	2009	2010	2009
	$'000	$'000	$'000	$'000	$'000	$'000
Tier 1 capital	2,827,564	2,770,348	1,851,183	1,399,564	139,207	111,415
Tier 2 capital	35,844	41,668	238,000	238,000	-	-
Prescribed deductions	(308,688)	(308,688)	-	-	-	-
Total regulatory capital	2,554,720	2,503,328	2,089,183	1,637,564	139,207	111,415
Total required capital	1,555,214	1,446,168	458,542	203,037	11,177	8,891
Risk-weighted assets:						
On balance sheet	12,340,526	10,522,840	4,079,531	1,802,255	127,249	64,639
Off balance sheet	433,148	527,179	-	-	-	-
Foreign exchange exposure	2,778,467	3,411,664	506,891	228,113	-	-
Total risk weighted assets	15,552,141	14,461,683	4,586,422	2,030,368	127,249	64,639
Actual capital base to risk weighted assets	16%	17%	46%	81%	109%	172%
Required capital base to risk weighted assets	10%	10%	10%	10%	13%	13%

The change of the regulatory capital in 2010 is mainly due to the contribution of the current year profit and the movement in the fair value reserve.

34.8 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;

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

34.8 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.

34.8.1 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			
	2010			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial assets at fair value through profit or loss:				
Securities purchased under resale agreements	-	10,278	-	10,278
Equity securities	34,589	-	-	34,589
	34,589	10,278	-	44,867
Securities available-for-sale				
Government of Jamaica securities	-	19,657,272	-	19,657,272
US Government agencies	-	786,875	-	786,875
Equity investments	562,689	34,235	-	596,924
Bank of Jamaica certificates of deposit	-	946,000	-	946,000
Other securities	-	2,193,242	-	2,193,242
	562,689	23,617,624	-	24,180,313
Total	597,278	23,627,902	-	24,225,180

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

34.8 Fair value of financial instruments (Cont'd)
34.8.1 Fair value measurements recognised in the statement of financial position

	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 Government agencies	-	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.

35 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, 2010 and 2009.

(c) Operating Leases

The Group has entered into lease agreements for office space expiring between March 2012 and August 2014. The amount charged to profit and loss account for the Group was $45 million (2009: $61.3 million) and for the Bank $23.7 million (2009: $19.7 million).

The total annual rentals to be paid are as follows:

	The Group	The Bank
	$'000	$'000
2011	51,994	28,484
2012	54,548	31,377
2013	59,438	35,432
2014	38,534	23,869

(d) Maintenance contract

The Group has entered into a maintenance agreement for the computer software for a period of ten years expiring July 2015. The amount allocated and charged in the profit and loss account in respect of the Group and the Bank is $14.6 million (2009: $28.1 million).

(e) Credit

Commitments to extend credit on term to maturity of no more than one year amounted to $267.4 million (2009: $121.2 million).

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36 RECLASSIFICATION OF FINANCIAL ASSETS

Consequent on the melt-down in the financial sector worldwide in 2008 and the demise of certain broker/dealers which were significantly involved in the marketing of Global Bonds issued by the Government of Jamaica (GOJ), the 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.

Effective December 1, 2010 the Bank reclassified these investment securities from loans and receivables to the available-for-sale category. This was based upon the determination by the Institute of Charted Accountants of Jamaica (ICAJ, in conjunction with the Jamaica Securities Dealers Association (JSDA) that the market for the GOJ Global Bonds has regained its active status.

Securities:	The Group			
	2010		2009	
	Carrying Value $'000	Fair value $'000	Carrying Value $'000	Fair value $'000
Transferred to Loans and Receivables				
GOJ US$ Fixed rate Global Bond	2,973,572	3,131,819	14,064,561	10,741,523
Other securities	1,786,041	1,746,013	4,140,222	3,173,382
	4,759,613	4,877,832	18,204,783	13,914,905
Transferred to held to maturity				
Government of Jamaica securities	-	-	1,196,158	1,205,203
US Government agencies	-	-	1,480,510	1,454,109
Bank of Jamaica certificates of Deposit	-	-	26,666	49,882
	-	-	2,703,334	2,709,194

Securities:	The Bank			
	2010		2009	
	Carrying Value $'000	Fair value $'000	Carrying Value $'000	Fair value $'000
Transferred to Loans and Receivables				
GOJ US$ Fixed rate Global Bond	-	-	10,647,543	8,105,041
Other securities	-	-	2,279,734	1,873,518
	-	-	12,927,277	9,978,559

(a) In 2008 fair value losses, exclusive of deferred taxation, of $1.9 billion for the Group and $896.6 million for the Bank were recognised in equity in relation to the above investments, using the fair value as at September 30, 2008. At December 31, 2010 the fair value losses in equity relating to these investments were reduced to $362.7 million (2009: $1.5 billion), exclusive of deferred taxation, mainly as a result of instruments being transferred back to the available-for-sale category during the year.

(b) Fair value losses, in relation to the above investments, of $245.36 million (2009: $5.9 billion) for the Group and for the Bank $Nil (2009: $4.0 billion), exclusive of deferred taxation, would have been included in equity at the end of the year had the investments not been reclassified. This amount was determined by reference to a discounted cash flow model using indicative market yields as at year end. Management does not believe that this price is necessarily indicative of the amount that would have been valued if an active market for the securities actually existed at that date.

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

(c) The weighted average effective interest rate of the investments at the date of reclassification was 9.5%. The undiscounted cash flows to be recovered from the investments reclassified by the Group is $10.86 billion (2009: $50.4 billion) and for the Bank $Nil (2009: $33.6 billion).