**CAPITAL & CREDIT MERCHANT BANK LIMITED**

**AND ITS SUBSIDIARIES**

**YEAR ENDED DECEMBER 31, 2006**

## CONTENTS

**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), set out on pages 2 to 55, which comprise the balance sheet as at December 31, 2006, the profit and loss account, statements of changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

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

*Auditors' Responsibility*

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

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

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

**Report on the financial statements (Cont'd)**

*Opinion*

In our opinion, the financial statements, present fairly, in all material respects, the financial position of the Bank as at December 31, 2006, and of its financial performance, and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on additional requirements of the Companies Act 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.

Chartered Accountants
Kingston, Jamaica

February 26, 2007

**CAPITAL & CREDIT MERCHANT BANK LIMITED**

**AND ITS SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2006**

| | Notes | 2006 $'000 | 2005 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **CASH RESOURCES** | 4 | 1,360,551 | 896,925 |
| **INVESTMENT IN SECURITIES** | 5 | 45,694,072 | 48,376,408 |
| **SECURITIES PURCHASED UNDER RESALE AGREEMENTS** | | 177,756 | - |
| **INVESTMENT IN ASSOCIATE** | | 3,282 | - |
| **LOANS** (after provision for loan losses) | 6 | 3,976,613 | 2,675,156 |
| **INTANGIBLE ASSETS** | 7 | 379,124 | 214,929 |
| **DEFERRED TAX ASSETS** | 8 | 14,359 | 67,081 |
| **OTHER ASSETS** | | | |
| Accounts receivable | 9 | 738,544 | 521,087 |
| Customers' liability under acceptances, guarantees and letters of credit as per contra | | 340,042 | 97,740 |
| Property, plant and equipment | 10 | 101,864 | 88,918 |
| Other asset | 11 | 15,000 | 15,000 |
| | | 1,195,450 | 722,745 |
| | | 52,801,207 | 52,953,244 |

**CAPITAL & CREDIT MERCHANT BANK LIMITED**

**AND ITS SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2006**

| | Notes | 2006<br>$'000 | 2005<br>$'000 |
|---|---|---|---|
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | |
| **DEPOSITS** | 12 | 5,683,937 | 4,906,959 |
| **SECURITIES SOLD UNDER REPURCHASE AGREEMENTS** | 13 | 37,466,800 | 40,068,283 |
| **LOAN PARTICIPATION** | 14 | 1,715,849 | 1,011,331 |
| **DUE TO OTHER FINANCIAL INSTITUTIONS** | | 1,719,950 | 1,678,417 |
| **OTHER LIABILITIES** | | | |
| Bank overdrafts | 25 | 7,484 | 64,250 |
| Accounts payable | 15 | 405,464 | 287,514 |
| Income tax payable | | - | 168,728 |
| Liabilities under acceptances, guarantees and letters of credit as per contra | | 340,042 | 97,740 |
| | | 752,990 | 618,232 |
| **STOCKHOLDERS' EQUITY** | | | |
| Share capital | 16 | 1,732,888 | 320,580 |
| Share premium | 16 | - | 1,412,308 |
| Statutory reserve fund | 17 | 362,678 | 301,670 |
| Retained earnings reserve | 18 | 1,515,442 | 1,085,020 |
| Fair value reserve | 19 | ( 88,381) | ( 206,908) |
| Loan loss reserve | 6 | 39,741 | 18,240 |
| Unappropriated profits | | 1,886,506 | 1,728,193 |
| Attributable to stockholders of the Bank | | 5,448,874 | 4,659,103 |
| Minority interest | | 12,807 | 10,919 |
| | | 5,461,681 | 4,670,022 |
| | | 52,801,207 | 52,953,244 |

The Notes on Pages 10 to 55 form an integral part of the Financial Statements.

The financial statements on Pages 2 to 55 were approved and authorised for issue by the Directors on 26 February 2007 and are signed on its behalf by:

| | |
|---|---|
| ……………………………….…… | ………………………………… |
| Ryland T. Campbell<br>Chairman | Curtis A. Martin<br>President & CEO |
| ……………………………………… | ………………………………….. |
| Andrew B. Cocking<br>Director | Kelvin St. C. Roberts<br>Director |

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

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

**YEAR ENDED DECEMBER 31, 2006**

| | Notes | 2006<br>$'000 | 2005<br>$'000 |
|---|---|---|---|
| **NET INTEREST INCOME AND OTHER REVENUE** | | | |
| Interest on investments | | 4,539,628 | 4,389,723 |
| Interest on loans | | 486,411 | 382,464 |
| Total interest income | | 5,026,039 | 4,772,187 |
| Interest expense | | 4,109,324 | 3,671,776 |
| Net interest income | | 916,715 | 1,100,411 |
| Commission and fee income | | 101,361 | 76,099 |
| Net gains on securities trading | | 880,707 | 999,431 |
| Foreign exchange trading and translation | | 24,490 | ( 16,988) |
| Dividend income | | 22,464 | 28,087 |
| Other income | | 14,739 | 29,518 |
| Total other operating income | | 1,043,761 | 1,116,147 |
| Net interest income and other revenue | | 1,960,476 | 2,216,558 |
| **NON-INTEREST EXPENSES** | | | |
| Staff costs | 20 | 448,503 | 473,287 |
| Impairment losses | 21 | 158,633 | - |
| Loan loss expense/(recovery) | 6 | 13,647 | ( 9,613) |
| Bank charges | | 30,683 | 32,135 |
| Property expense | | 70,873 | 78,071 |
| Depreciation | 10 | 23,758 | 27,056 |
| Information technology costs | | 30,601 | 37,496 |
| Marketing and corporate affairs | | 100,408 | 126,317 |
| Professional fees | | 48,358 | 41,965 |
| Regulatory costs | | 26,445 | 13,325 |
| Irrecoverable General Consumption Tax | | 32,528 | 35,755 |
| Other operating expenses | | 54,101 | 22,222 |
| Total non-interest expenses | | 1,038,538 | 878,016 |
| **PROFIT BEFORE TAXATION** | | 921,938 | 1,338,542 |
| Taxation | 22 | 150,056 | 181,319 |
| **PROFIT AFTER TAXATION** | | 771,882 | 1,157,223 |
| Attributable to: | | | |
| Stockholders of the Bank | 23 | 767,418 | 1,161,915 |
| Minority interest | | 4,464 | ( 4,692) |
| | | 771,882 | 1,157,223 |
| Earnings per stock unit | 24 | 120¢ | 196¢ |

The Notes on Pages 10 to 55 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, 2006**

| | Notes | Share Capital $'000 | Share Premium $'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 | Minority Interest $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at December 31, 2004 | | 294,400 | 392,229 | 230,281 | 1,085,020 | 213,995 | 20,702 | 790,259 | 3,026,886 | 17,246 | 3,044,132 |
| Unrealised loss on available-for-sale investments net of deferred tax | | - | - | - | - | 247,019 | - | - | 247,019 | ( 1,635) | 245,384 |
| Realised gains on sale of securities available for sale net of deferred tax transferred to profit and loss account | | - | - | - | - | (667,922) | - | - | ( 667,922) | - | ( 667,922) |
| Net expense recognised directly in equity | | - | - | - | - | (420,903) | - | - | ( 420,903) | ( 1,635) | ( 422,538) |
| Net profit for the year | | - | - | - | - | - | - | 1,161,915 | 1,161,915 | ( 4,692) | 1,157,223 |
| Total recognised income and expense | | - | - | - | - | (420,903) | - | 1,161,915 | 741,012 | ( 6,327) | 734,685 |
| Transfer from loan loss reserve | 6 | - | - | - | - | - | ( 2,462) | 2,462 | - | - | - |
| Shares issued | 16 | 26,180 | 1,020,079 | - | - | - | - | - | 1,046,259 | - | 1,046,259 |
| Transfer to statutory reserve fund | 17 | - | - | 71,389 | - | - | - | ( 71,389) | - | - | - |
| Dividend paid | 33 | - | - | - | - | - | - | ( 58,880) | ( 58,880) | - | ( 58,880) |
| Dividend declared | 33 | - | - | - | - | - | - | ( 96,174) | ( 96,174) | - | ( 96,174) |
| Balance at December 31, 2005 | | 320,580 | 1,412,308 | 301,670 | 1,085,020 | (206,908) | 18,240 | 1,728,193 | 4,659,103 | 10,919 | 4,670,022 |
| Unrealised gains on available-for-sale investments net of deferred tax | | - | - | - | - | 602,486 | - | - | 602,486 | ( 2,576) | 599,910 |
| Realised gains on sale of securities available for sale net of deferred tax transferred to profit and loss account | | - | - | - | - | (589,714) | - | - | ( 589,714) | - | ( 589,714) |
| Impairment losses net of deferred tax transferred to profit and loss account | | - | - | - | - | 105,755 | - | - | 105,755 | - | 105,755 |
| Net income/(expense) recognised directly in equity | | - | - | - | - | 118,527 | - | - | 118,527 | ( 2,576) | 115,951 |
| Net profit for the year | | - | - | - | - | - | - | 767,418 | 767,418 | 4,464 | 771,882 |
| Total recognised income and expense | | - | - | - | - | 118,527 | - | 767,418 | 885,945 | 1,888 | 887,833 |
| Transfer to loan loss reserve | 6 | | | | | | 21,501 | ( 21,501) | - | - | - |
| Transfer to share capital | 16 | 1,412,308 | (1,412,308) | - | - | - | - | | - | - | - |
| Transfer to statutory reserve fund | 18 | - | - | 61,008 | - | - | - | ( 61,008) | - | - | - |
| Transfer to retained earnings reserve | 17 | - | - | - | 430,422 | - | - | ( 430,422) | - | - | - |
| Dividend paid | 33 | - | - | - | - | - | - | ( 96,174) | ( 96,174) | - | ( 96,174) |
| Balance at December 31, 2006 | | 1,732,888 | - | 362,678 | 1,515,442 | ( 88,381) | 39,741 | 1,886,506 | 5,448,874 | 12,807 | 5,461,681 |

The Notes on Pages 10 to 55 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, 2006**

| | Notes | 2006<br>$'000 | 2005<br>$'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net profit | | 771,882 | 1,157,223 |
| Interest received | | 5,123,627 | 4,867,866 |
| Interest paid | | (4,004,122) | ( 3,684,078) |
| Interest income | | (5,026,039) | ( 4,772,187) |
| Interest expense | | 4,109,324 | 3,671,776 |
| Impairment losses | | 158,633 | - |
| Loan loss expense/(recovery) | | 13,647 | ( 9,613) |
| Depreciation | 10 | 23,758 | 27,056 |
| Gain on sale of property, plant and equipment | | ( 44) | - |
| Deferred taxation | | ( 8,539) | ( 109,838) |
| Income tax charge | | 158,595 | 291,157 |
| | | 1,320,722 | 1,439,362 |
| Movement in working capital | | | |
| Accounts receivable | | ( 150,697) | ( 229,644) |
| Loans receivable | | (1,289,807) | ( 3,235) |
| Accounts payable | | 202,142 | ( 240,785) |
| Cash generated from operations | | 82,360 | 965,698 |
| Income tax paid | | ( 394,082) | ( 162,921) |
| Net cash (used in)/provided by operating activities | | ( 311,722) | 802,777 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds on sale of property, plant and equipment | | 1,001 | - |
| Acquisition of property, plant and equipment | 10 | ( 37,661) | ( 33,699) |
| Acquisition of intangible assets | 7 | ( 164,195) | ( 74,783) |
| Decrease in investments | | 2,300,646 | 4,299,827 |
| Securities purchased under resale agreements | | ( 135,000) | - |
| Cash provided by investing activities | | 1,964,791 | 4,191,345 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Dividend paid | | ( 192,348) | ( 58,880) |
| Issue of ordinary shares | | - | 1,046,259 |
| Deposits | | 765,941 | 299,329 |
| Securities sold under repurchase agreements | | (2,680,588) | 13,827,268 |
| Loan participation | | 694,115 | ( 205,090) |
| Due to other financial institutions | | 34,911 | (21,217,591) |
| Cash used in financing activities | | (1,377,969) | ( 6,308,705) |
| **INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | 275,100 | ( 1,314,583) |
| **OPENING CASH AND CASH EQUIVALENTS** | | 529,762 | 1,812,019 |
| Effects of foreign exchange rate changes | | 13,946 | 32,326 |
| **CLOSING CASH AND CASH EQUIVALENTS** | 25 | 818,808 | 529,762 |

The Notes on Pages 10 to 55 form an integral part of the Financial Statements.

**CAPITAL & CREDIT MERCHANT BANK LIMITED**

**BALANCE SHEET AT DECEMBER 31, 2006**

| | Notes | 2006<br>$'000 | 2005<br>$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **CASH RESOURCES** | 4 | 1,169,319 | 820,421 |
| **INVESTMENT IN SECURITIES** | 5 | 23,572,097 | 27,309,401 |
| **SECURITIES PURCHASED UNDER RESALE AGREEMENTS** | | 1,792,756 | 452,730 |
| **INVESTMENT IN SUBSIDIARIES (Shares at cost)** | | 305,406 | 305,406 |
| **INVESTMENT IN ASSOCIATE** | | 3,282 | - |
| **LOANS** (after provision for loan losses) | 6 | 3,976,613 | 2,675,156 |
| **INTANGIBLE ASSET** | 7 | 238,978 | 74,783 |
| **DEFERRED TAX ASSETS** | 8 | 55,070 | 129,592 |
| **OTHER ASSETS** | | | |
| Accounts receivable | 9 | 467,273 | 92,402 |
| Income tax recoverable | | 77,359 | 80,229 |
| Customers' liabilities under acceptances, guarantees and letters of credit as per contra | | 340,042 | 97,740 |
| Property, plant and equipment | 10 | 58,078 | 64,034 |
| | | 942,752 | 334,405 |
| | | 32,056,273 | 32,101,894 |

**CAPITAL & CREDIT MERCHANT BANK LIMITED**

**BALANCE SHEET AT DECEMBER 31, 2006**

| | Notes | 2006<br>$'000 | 2005<br>$'000 |
|---|---|---|---|
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | |
| **DEPOSITS** | 12 | 5,683,937 | 4,906,959 |
| **SECURITIES SOLD UNDER REPURCHASE AGREEMENTS** | 13 | 18,358,037 | 20,597,094 |
| **LOAN PARTICIPATION** | 14 | 1,715,849 | 1,011,331 |
| **DUE TO OTHER FINANCIAL INSTITUTIONS** | | 1,719,950 | 1,678,417 |
| **OTHER LIABILITIES** | | | |
| Bank overdrafts | 25 | 7,484 | 64,250 |
| Accounts payable | 15 | 286,082 | 214,441 |
| Liabilities under acceptances, guarantees and letters of credit as per contra | | 340,042 | 97,740 |
| | | 633,608 | 376,431 |
| **STOCKHOLDERS' EQUITY** | | | |
| Share capital | 16 | 1,732,888 | 320,580 |
| Share premium | 16 | - | 1,412,308 |
| Statutory reserve fund | 17 | 362,678 | 301,670 |
| Retained earnings reserve | 18 | 1,515,442 | 1,085,020 |
| Fair value reserve | 19 | ( 98,716) | ( 211,397) |
| Loan loss reserve | 6 | 39,741 | 18,240 |
| Unappropriated profits | | 392,859 | 605,241 |
| | | 3,944,892 | 3,531,662 |
| | | 32,056,273 | 32,101,894 |

The Notes on Pages 10 to 55 form an integral part of the Financial Statements.

The financial statements on Pages 2 to 55 were approved and authorised for issue by the Directors on 26 February 2007 and are signed on its behalf by:

| | |
|---|---|
| ……………………………………… | ……………………………………… |
| Ryland T. Campbell<br>Chairman | Curtis A. Martin<br>President & CEO |
| ……………………………………… | ……………………………………… |
| Andrew B. Cocking<br>Director | Kelvin St. C. Roberts<br>Director |

**CAPITAL & CREDIT MERCHANT BANK LIMITED**

**PROFIT AND LOSS ACCOUNT**

**YEAR ENDED DECEMBER 31, 2006**

| | Notes | 2006<br>$'000 | 2005<br>$'000 |
|---|---|---|---|
| **NET INTEREST INCOME AND OTHER REVENUE** | | | |
| Interest on investments | | 2,107,054 | 1,774,519 |
| Interest on loans | | 486,411 | 382,464 |
| Total interest income | | 2,593,465 | 2,156,983 |
| Interest expense | | 2,176,992 | 1,715,611 |
| Net interest income | | 416,473 | 441,372 |
| Commission and fee income | | 44,124 | 10,580 |
| Net gains on securities trading | | 589,637 | 694,058 |
| Foreign exchange trading and translation | | 23,459 | ( 2,253) |
| Dividend income | | 20,089 | 39,634 |
| Other income | | 9,685 | 21,853 |
| Total other operating income | | 686,994 | 763,872 |
| Net interest income and other revenue | | 1,103,467 | 1,205,244 |
| **NON-INTEREST EXPENSES** | | | |
| Staff costs | 20 | 242,049 | 228,552 |
| Impairment losses | 21 | 158,633 | - |
| Loan loss expense/(recovery) | 6 | 13,647 | ( 9,613) |
| Bank charges | | 24,203 | 23,465 |
| Property expenses | | 47,793 | 41,314 |
| Depreciation | 10 | 18,094 | 22,589 |
| Information technology costs | | 21,386 | 18,954 |
| Marketing and corporate affairs | | 41,780 | 61,954 |
| Professional fees | | 42,984 | 36,757 |
| Regulatory costs | | 24,236 | 7,183 |
| Irrecoverable General Consumption Tax | | 22,168 | 23,843 |
| Other operating expenses | | 31,590 | 26,250 |
| Total non-interest expenses | | 688,563 | 481,248 |
| **PROFIT BEFORE TAXATION** | | 414,904 | 723,996 |
| Taxation | 22 | 18,181 | 10,109 |
| **NET PROFIT** | 23 | 396,723 | 713,887 |
| Earnings per stock unit | 24 | 62¢ | 121¢ |

The Notes on Pages 10 to 55 form an integral part of the Financial Statements.

**CAPITAL & CREDIT MERCHANT BANK LIMITED**

**STATEMENT OF CHANGES IN EQUITY**

**YEAR ENDED DECEMBER 31, 2006**

| | Notes | Share Capital $'000 | Share Premium $'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, 2004 | | 294,400 | 392,229 | 230,281 | 1,085,020 | 79,381 | 20,702 | 115,335 | 2,217,348 |
| Unrealised gain on securities available-for-sale net of deferred tax | | - | - | - | - | 171,927 | - | - | 171,927 |
| Realised gains on sale of securities available for sale net of deferred tax transferred to profit and loss account | | - | - | - | - | (462,705) | - | - | ( 462,705) |
| Net expenses recognised directly in equity | | - | - | - | - | (290,778) | - | - | ( 290,778) |
| Net profit for the year | | - | - | - | - | - | - | 713,887 | 713,887 |
| Total recognised income and expense | | - | - | - | - | (290,778) | - | 713,887 | 423,109 |
| Transfer from loan loss reserve | 6 | - | - | - | - | - | ( 2,462) | 2,462 | - |
| Shares issued | 16 | 26,180 | 1,020,079 | - | - | - | - | - | 1,046,259 |
| Transfer to statutory reserve fund | 17 | - | - | 71,389 | - | - | - | ( 71,389) | - |
| Dividend paid | 33 | - | - | - | - | - | - | ( 58,880) | ( 58,880) |
| Dividend declared | 33 | - | - | - | - | - | - | ( 96,174) | ( 96,174) |
| Balance at December 31, 2005 | | 320,580 | 1,412,308 | 301,670 | 1,085,020 | (211,397) | 18,240 | 605,241 | 3,531,662 |
| Unrealised gains on securities available-for-sale net of deferred tax | | - | - | - | - | 400,017 | - | - | 400,017 |
| Realised gains on securities available-for-sale net of deferred tax transferred to profit and loss account | | - | - | - | - | (393,091) | - | - | ( 393,091) |
| Impairment losses net of deferred tax transferred to profit and loss account | | - | - | - | - | 105,755 | - | - | 105,755 |
| Net income recognised directly in equity | | - | - | - | - | 112,681 | - | - | 112,681 |
| Net profit for the year | | - | - | - | - | - | - | 396,723 | 396,723 |
| Total recognised income and expense | | - | - | - | - | 112,681 | - | 396,723 | 509,404 |
| Transfer to loan loss reserve | 6 | - | - | - | - | - | 21,501 | ( 21,501) | - |
| Transfer to share capital | 16 | 1,412,308 | (1,412,308) | - | - | - | - | - | - |
| Transfer to statutory reserve fund | 17 | - | - | 61,008 | - | - | - | ( 61,008) | - |
| Transfer to retained earnings reserve | 18 | - | - | - | 430,422 | - | - | (430,422) | - |
| Dividend paid | 33 | - | - | - | - | - | - | ( 96,174) | ( 96,174) |
| Balance at December 31, 2006 | | 1,732,888 | - | 362,678 | 1,515,442 | ( 98,716) | 39,741 | 392,859 | 3,944,892 |

The Notes on Pages 10 to 55 form an integral part of the Financial Statements.

**CAPITAL & CREDIT MERCHANT BANK LIMITED**

**STATEMENT OF CASH FLOWS**

**YEAR ENDED DECEMBER 31, 2006**

| | Notes | 2006 $'000 | 2005 $'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net profit | | 396,723 | 713,887 |
| Interest received | | 2,562,588 | 2,047,719 |
| Interest paid | | (2,057,163) | ( 1,748,870) |
| Interest income | | (2,608,465) | ( 2,156,983) |
| Interest expense | | 2,176,992 | 1,715,611 |
| Depreciation | 10 | 18,094 | 22,589 |
| Impairment losses | | 158,633 | - |
| Loan loss expense/(recovery) | | 13,647 | ( 9,613) |
| Deferred tax adjustment | | 18,181 | 10,109 |
| | | 679,230 | 594,449 |
| Movements in working Capital | | | |
| Accounts receivable | | ( 374,871) | 36,982 |
| Loans receivable | | (1,289,807) | ( 3,235) |
| Accounts payable | | 167,815 | 38,624 |
| Cash generated from operations | | ( 817,633) | 666,820 |
| Income tax recovered/(paid) | | 2,870 | ( 93,627) |
| Net cash (used in)/provided by operating activities | | ( 814,763) | 573,193 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Securities purchased under resale agreements | | (1,297,378) | 192,238 |
| Acquisition of intangible asset | 7 | ( 164,195) | ( 74,783) |
| Acquisition of property, plant and equipment | 10 | ( 12,138) | ( 11,550) |
| Decrease in investments | | 3,477,051 | 3,796,727 |
| Cash provided by investing activities | | 2,003,340 | 3,902,632 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Dividends paid | | ( 192,348) | ( 58,880) |
| Issue of ordinary shares | | - | 1,046,259 |
| Deposits | | 765,941 | 299,329 |
| Securities sold under repurchase agreements | | (2,330,824) | 14,463,144 |
| Loan participation | | 694,115 | ( 205,090) |
| Due to other financial institutions | | 34,911 | (21,217,591) |
| Cash used in financing activities | | (1,028,205) | ( 5,672,829) |
| **INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | 160,372 | ( 1,197,004) |
| **OPENING CASH AND CASH EQUIVALENTS** | | 453,258 | 1,617,936 |
| Effect of foreign exchange rate changes | | 13,946 | 32,326 |
| **CLOSING CASH AND CASH EQUIVALENTS** | 25 | 627,576 | 453,258 |

The Notes on Pages 10 to 55 form an integral part of the Financial Statements

**CAPITAL & CREDIT MERCHANT BANK LIMITED**

**AND ITS SUBSIDIARIES**

**NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2006**

## 1 GROUP IDENTIFICATION

(a) Capital & Credit Merchant Bank Limited ("the Bank") is incorporated in Jamaica and is a 72.96% (2005: 73%) subsidiary of Capital & Credit Financial Group Limited, which is also incorporated in Jamaica. The registered office of the Bank is 6 – 8 Grenada Way, Kingston 5.

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

The Bank has two subsidiaries, Capital & Credit Securities Limited and Capital & Credit Fund Managers Limited. Both subsidiaries are incorporated and domiciled in Jamaica.

The principal activities of the subsidiaries are as follows:

| Subsidiaries | Place of incorporation and operation | Proportion of 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 | 70% | 70% | Management of Jamaica Investment Fund and the selling of units to the public on its behalf |

(b) 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. The Bank is listed on the Jamaica Stock Exchange and the Trinidad and Tobago Stock Exchange.

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

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

(c) 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. The entity has not yet commenced trading |

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of preparation**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and have been prepared under the historical cost convention as modified by the revaluation of available-for-sale investment securities, investment securities held-for-trading and all derivative contracts.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Although these estimates are based on management's best knowledge of current events and actions, actual results could differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

***Standards, interpretations and amendments to published standards effective for accounting periods beginning January 1, 2006***

Certain new standards, interpretations and amendments to existing standards were published and came into effect during the current financial year. The Group assessed the relevance of all such standards, interpretations and amendments and has adopted the following which are relevant to its operations.

| | |
|---|---|
| IAS 39 (Amendment) | The Fair Value Option |
| IAS 39 and IFRS 4 (Amendment) | Financial Guarantee Contracts |
| IFRIC 4 | Determining whether an Arrangement contains a Lease |

The adoption of these amendments and interpretations had no material effect on the Group's accounting policies.

**Standards, interpretations and amendments to published standards that are not yet effective**

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which were not yet effective at balance sheet date, and which the Group has not early adopted. The Group has assessed the relevance of all such new standards, interpretations and amendments, has determined that the following may be relevant to its operations, and has concluded as follows:

**IFRS 7 – Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures** (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

**IFRS 8 - Reportable Segments** (effective January 1, 2009). IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Additional entity wide disclosures are required including information about products and services or groups of products and services, analyses of revenues and information about transactions with major customers.

***Standards, interpretations and amendments to published standards that are not yet effective and not relevant:***

| | |
|---|---|
| IFRIC 7 | Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies |
| IFRIC 8 | Scope of IFRS 2, Scope of Share Based Payments |
| IFRIC 9 | Reassessment of Embedded Derivatives |
| IFRIC 10 | Interim Financial Reporting and Impairment |
| IFRIC 11 | Group and Treasury Share Transactions |
| IFRIC 12 | Service Concession Agreements |

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Foreign currency translation

i. Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Group operates ("the functional currency"). The financial statements are presented in Jamaican dollars which is the Group's functional currency.

ii. 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.

### Basis of consolidation

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

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

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

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

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

Investment in associate is accounted for using the equity method of accounting and is initially recognised at cost.

### Business combinations

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Investment in subsidiaries and associates

A subsidiary is an enterprise controlled by the Bank. Control is achieved where the Bank has an interest of more than half of the voting rights or otherwise has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

An associate is an entity over which the Bank 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 of the investee but does not provide control or joint control over those policies.

Investments in subsidiaries and associates are carried at cost less any recognised impairment losses in the financial statements of the Bank.

### Financial assets

Financial assets include investment in securities, accounts receivable, securities purchased under resale agreements, cash resources and loans.

*Recognition and derecognition*
Financial assets are recognised on the balance sheet when it becomes a party to the contractual provisions of the instrument. They are recognised on a trade-date basis and are initially measured at cost, including transaction costs. They are derecognised when the rights to receive cash flow from the investments have expired or the Group has transferred substantially all risks and rewards of ownership.

*Investment in securities*
Investments are classified into the following categories: trading securities, securities available-for-sale, securities held to maturity and loans and receivables. Management determines the appropriate classification of investments at the time of purchase.

Trading securities are those which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit-taking exists. They are subsequently re-measured at fair value based on quoted bid prices. All related realised and unrealised gains and losses are included in net gains on securities trading in the profit and loss account.

Securities available-for-sale are those intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates or market prices. They are subsequently re-measured at fair value based on quoted bid prices or amounts derived from cash flow models. Unrealised gains and losses arising from changes in fair value of securities available-for-sale are recognised in Stockholders' Equity in the fair value reserve net of deferred tax effect. When the securities are disposed of or impaired, the related accumulated unrealised gains or losses included in the fair value reserve are transferred to the profit and loss account. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are subsequently re-measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**Financial assets (Cont'd)**

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.

Loans which are provided directly to a borrower or government or other securities which are purchased directly from the issuer, are classified as loans and receivables. These include bonds, treasury bills, mortgages and demand loans which are subsequently re-measured at amortised cost using the effective interest rate method.

Securities sold subject to repurchase agreements are retained in the financial statements as trading or securities available-for-sale and the counterparty liability is included in due to other financial institutions and securities sold under repurchase agreements. The difference between sale and repurchase price is treated as interest and accrued over the life of the repurchase agreements using the effective yield method.

The amount of the impairment for financial assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the original effective interest rate. The amount of the impairment for financial assets carried at cost is calculated as the difference between its carrying amount and the present value of expected future cash flows discounted at the current market interest rate for a similar financial asset. These impairment losses are recognised in the profit and loss account.

*Securities purchased under resale agreements*

The costs of securities purchased under resale agreements are recorded as an asset in the financial statements. The difference between purchase and resale price is treated as interest income and accrued over the life of the resale agreements using the effective yield method.

*Accounts receivable*

These are measured at initial recognition at their fair value. Interest is not charged on outstanding balances and these are not generally discounted as they are usually settled within a short period during which market interest rates do not normally move significantly. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss account when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Bad debts are written off during the year in which they are identified.

*Fair value estimation*

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Valuation techniques used include the use of comparable recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

**Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including cash and bank balances at Bank of Jamaica (excluding statutory reserves), due to or from other banks and investment securities less bank overdraft.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**Derivative financial instruments**

Derivative financial instruments are initially recognised in the balance sheet at cost (including transaction costs) and subsequently are re-measured at their fair value.

Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives are included in income. Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39. Fair value gains and losses are therefore reported in income.

The fair values of the financial instruments are discussed in Note 30.

**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-current if they are non-performing in excess of ninety days. When a loan is classified as non-current, recognition of interest in accordance with the terms of the original loan ceases, and interest is taken into account on the cash basis by regulation (See interest and fees on page 18).

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

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

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**Property, plant and equipment**

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

Property, plant 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. Annual depreciation rates are based on the following estimated useful lives:

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

No depreciation is provided on land, paintings and artwork.

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.

**Intangible assets**

(i) Computer software costs

Costs associated with maintaining computer software programmes are recognised as an expense over the expected period of usage (not expected to exceed 12 months). Costs that are directly associated with identifiable and unique software products controlled by the Group that is 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.

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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**Intangible assets (Cont'd)**

(ii) Goodwill

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

**Taxation**

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax is calculated at the tax rates currently in effect, which are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also charged or credited in equity.

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.

**Accounts Payables**

Payables are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest rate method.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### 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.

### Share capital

(i) Equity instruments

Equity instruments issued by the Bank are recorded at the proceeds received net of direct issue costs.

(ii) Dividends on ordinary stock units

Dividends on ordinary stock units are recognised in the period in which they are declared.

### Related party transactions and balances

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

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

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

### Interest and fees

Interest income and expense are recognised in the profit and loss account for all interest-bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investments and discount or premium on financial 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. The difference between the regulatory basis and IFRS for the recognition of such income in the current year was assessed to be immaterial.

Fee and commission income is recognised on an accrual basis. Loan origination fees for loans which are likely to be drawn down are deferred, together with related direct costs, and recognised as an adjustment to the effective yield on the loan.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**Leases**

(i) Group as the lessee

To date, 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.

(ii) 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.

**Borrowings**

Borrowings are recognised initially at cost, being their issue proceeds net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective yield method.

**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.

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

**Employee benefits**

(i) Pension obligations

The Group pays fixed contributions into defined contribution Superannuation Funds and will have 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.

(ii) Employee Share Ownership Plan

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**Employee benefits**

(iii) Leave entitlements

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

(iv) 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.

**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.

**Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. 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.

Recoverable amount is the greater of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense in the profit and loss acoount unless the particular asset is carried at a revalued amount in equity, in which case the impairment loss is treated as a revaluation decrease through equity.

Where an impairment loss subsequently reverses, the carrying amount of the asset (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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income in the profit and loss account unless previously recognised through equity, in which case the reversal of the impairment loss is treated as a revaluation increase in equity.

## 3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in Note 2, management has made the following judgements and estimates that have the most significant effect on the amounts recognised in the financial statements and could cause material adjustments to the carrying amounts of assets and liabilities.

*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 judgements 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 differs by +/-2 percent, the provision would be estimated $74,269,000 (2005: $39,121,000) lower or $78,399,000 (2005: $52,510,800) higher.

*Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was $140,146,000.

The Group prepared cash flow forecasts derived from the most recent financial budgets approved by management for the next five years. The budget was based on an estimated growth rate of 20% per annum and 5% thereafter. The rate used to discount the forecasted cash flows is 12.5%. No impairment loss was recognised during 2006 and 2005.

*Computer software costs*

The Group has recognised as an asset costs directly associated with the acquisition of the rights to use a unique and identifiable software product and the cost to bring the software into use. Management is confident that the economic benefits to be generated will exceed costs beyond one year. Cumulative direct costs of $238,978,000 including licensing fee, project management fee and development cost, which include an appropriate portion of staff costs and relevant overheads have been recognised.

## 4 CASH RESOURCES

Cash resources include $534,259,000 (2005: $302,913,000) held under Section 14(i) of the Financial Institutions Act, at the Bank of Jamaica as a Cash Reserve. In the prior year the amount included a Special Deposit of 1% of prescribed liabilities on which interest was paid at 6% to the Group. Accordingly, these amounts were not available for investment or other use by the Group.

## 5 INVESTMENT IN SECURITIES

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $'000 | $'000 | $'000 | $'000 |
| Trading securities | | | | |
| Government of Jamaica securities | 929,690 | 1,902,746 | - | - |
| Financial institutions | 524,992 | - | - | - |
| Equity securities | 102,236 | 162,223 | - | - |
| Other securities | 19,592 | 29,589 | - | - |
| | 1,576,510 | 2,094,558 | - | - |
| Securities available-for-sale | | | | |
| Government of Jamaica securities | 21,892,115 | 23,109,758 | 8,106,321 | 13,140,818 |
| US Government agencies | 11,401,757 | 9,761,287 | 10,263,164 | 9,761,287 |
| Bank of Jamaica certificates of deposit | 5,059,998 | - | - | - |
| Other securities | 4,780,370 | 12,261,830 | 4,672,958 | 3,855,574 |
| | 43,134,240 | 45,132,875 | 23,042,443 | 26,757,679 |
| | 44,710,750 | 47,227,433 | 23,042,443 | 26,757,679 |
| Interest receivable | 983,322 | 1,148,975 | 529,654 | 551,722 |
| | 45,694,072 | 48,376,408 | 23,572,097 | 27,309,401 |

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.

Government securities totalling $71,440,000 (2005:$ 71,440,000) are held by the Bank of Jamaica, $70,440,000 (2005:$ 70,440,000) as security in the event of an overdraft on the Bank's and subsidiary's primary dealer accounts, and $1,000,000 (2005:$1,000,000) to facilitate stockbroking activities of the subsidiary.

Gross gains of $880,707,000 for the Group and $589,637,000 for the Bank (2005: $999,431,000 for the Group and $694,058,000 for the Bank) were realised on sales of securities available-for-sale during the year.

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**AND ITS SUBSIDIARIES**

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## 6 LOANS

(a)

| | The Group and the Bank | |
|---|---|---|
| | 2006 | 2005 |
| | $'000 | $'000 |
| Loans | 3,954,471 | 2,664,664 |
| Less: Loan loss provision | 34,528 | 20,881 |
| | 3,919,943 | 2,643,783 |
| Interest receivable | 56,670 | 31,373 |
| | 3,976,613 | 2,675,156 |

(b)

| | The Group and the Bank | | | | | |
|---|---|---|---|---|---|---|
| | Remaining Term to Maturity | | | | | |
| | Under 3 months | 3 to 12 Months | 1 to 5 Years | Over 5 Years | Carrying Value 2006 | Carrying Value 2005 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Individuals | 222,098 | 165,754 | 582,822 | 177,283 | 1,147,957 | 550,259 |
| Businesses | 579,173 | 550,929 | 979,828 | 696,584 | 2,806,514 | 2,114,405 |
| | 801,271 | 716,683 | 1,562,650 | 873,867 | 3,954,471 | 2,664,664 |

Loans for the Group and the Bank include non-performing loans in the amount of $419,031,000 (2005: $329,984,000).

(c)

| | The Group and the Bank | |
|---|---|---|
| | 2006 | 2005 |
| | $'000 | $'000 |
| Loan loss provision | | |
| Balance, January 1 | 20,881 | 30,494 |
| Provision for the year | 13,647 | 964 |
| | 34,528 | 31,458 |
| Recoveries during the year | - | (10,577) |
| Balance, December 31 | 34,528 | 20,881 |

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## 6 LOANS (Cont'd)

(c) (Cont'd)

| | The Group and the Bank | |
|---|---|---|
| | 2006 | 2005 |
| | $'000 | $'000 |
| The amount charged in the profit and loss account comprises: | | |
| Expense for the year | 13,647 | 964 |
| Recoveries | - | (10,577) |
| Loan loss expense/(recovery) | 13,647 | ( 9,613) |

(d) Loan loss reserve

| | 2006 | 2005 |
|---|---|---|
| | $'000 | $'000 |
| The total allowance for loan losses comprises: | | |
| Loan loss provision - allowance based on accounting standard | 34,528 | 20,881 |
| Loan loss reserve - additional allowance based on BOJ regulations | 39,741 | 18,240 |
| | 74,269 | 39,121 |

The loan loss reserve is a non-distributable reserve.

## 7 INTANGIBLE ASSETS

| | The Group | | | The Bank |
|---|---|---|---|---|
| | Computer Software | Goodwill | Total | Computer Software |
| | $'000 | $'000 | $'000 | $'000 |
| Balance at December 31, 2004 | - | - | - | - |
| Additions | 74,783 | 140,146 | 214,929 | 74,783 |
| Balance at December 31, 2005 | 74,783 | 140,146 | 214,929 | 74,783 |
| Additions | 164,195 | - | - | 164,195 |
| Balance at December 31, 2006 | 238,978 | 140,146 | 379,124 | 238,978 |

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## 8 DEFERRED TAXATION

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

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $'000 | $'000 | $'000 | $'000 |
| Analysis for financial reporting purposes | | | | |
| Deferred tax liabilities | 368,528 | 366,382 | 208,002 | 167,499 |
| Deferred tax assets | (382,887) | (433,463) | (263,072) | (297,091) |
| Net assets | ( 14,359) | ( 67,081) | ( 55,070) | (129,592) |

(b) The movement in the net deferred tax position is as follows:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $'000 | $'000 | $'000 | $'000 |
| Net (assets)/liabilities at January 1 | (67,081) | 249,991 | (129,592) | 5,688 |
| (Credited)/charged to income | ( 8,539) | (109,838) | 18,181 | 10,109 |
| Charged/(credited) to equity | 61,261 | (207,234) | 56,341 | (145,389) |
| Net assets at December 31 | (14,359) | ( 67,081) | ( 55,070) | (129,592) |

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

The following are the main deferred tax assets and liabilities recognised and the movements thereon, during the current and prior reporting periods:

(i) Deferred tax assets

| | The Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | Tax Losses $'000 | Unrealised Loss on Securities Trading $'000 | Available-for-sale Investment Revaluation $'000 | Interest Payable $'000 | Tax Credit $'000 | Other $'000 | Total $'000 |
| At December 31, 2004 | 23,161 | 73,520 | - | 206,498 | 1,000 | 574 | 304,753 |
| Credited/(charged) to income for the year | 112,728 | (73,520) | - | ( 4,875) | - | 294 | 34,627 |
| Charged to equity for the year | - | - | 94,083 | - | - | - | 94,083 |
| At December 31, 2005 | 135,889 | - | 94,083 | 201,623 | 1,000 | 868 | 433,463 |
| Credited/(charged) to income for the year | ( 24,801) | - | - | 35,721 | - | ( 235) | 10,685 |
| Charged to equity for the year | - | - | (61,261) | - | - | - | ( 61,261) |
| At December 31, 2006 | 111,088 | - | 32,822 | 237,344 | 1,000 | 633 | 382,887 |

| | The Bank | | | | |
|---|---|---|---|---|---|
| | Tax Losses $'000 | Unrealised Loss on Securities Trading $'000 | Interest Payable $'000 | Tax Credit $'000 | Total $'000 |
| At December 31, 2004 | - | 73,520 | 96,796 | 1,000 | 171,316 |
| Credited/(charged) to income for the year | 104,682 | 32,179 | ( 11,086) | - | 125,775 |
| At December 31, 2005 | 104,682 | 105,699 | 85,710 | 1,000 | 297,091 |
| Credited/(charged) to income for the year | ( 17,620) | - | 35,721 | - | 22,322 |
| Charged to equity for the year | - | ( 56,341) | - | - | ( 56,341) |
| At December 31, 2006 | 87,062 | 49,358 | 121,431 | 1,000 | 263,072 |

**CAPITAL & CREDIT MERCHANT BANK LIMITED**

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

(ii) Deferred tax liabilities

| | The Group | | | | |
|---|---|---|---|---|---|
| | Capital Allowances in excess of Deprecation Charges | Interest Receivable | Available for sale Investment Revaluation | Trading Investment Revaluation | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| At December 31, 2004 | 1,341 | 403,560 | 113,151 | 36,692 | 554,744 |
| Charged/(credited) to income for the year | 5,161 | ( 44,404) | - | ( 35,968) | ( 75,211) |
| Credited to equity for the year | - | - | (113,151) | - | (113,151) |
| At December 31, 2005 | 6,502 | 359,156 | - | 724 | 366,382 |
| Charged/(credited) to income for the year | 9,876 | ( 13,537) | - | 5,807 | 2,146 |
| At December 31, 2006 | 16,378 | 345,619 | - | 6,531 | 368,528 |

**CAPITAL & CREDIT MERCHANT BANK LIMITED**

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## 8 DEFERRED TAXATION (Cont'd)

(ii) Deferred tax liabilities (Cont'd)

| | The Bank | | | |
|---|---|---|---|---|
| | Capital Allowances in excess of Depreciation Charges | Interest Receivable | Available for sale Investment Revaluation | Total |
| | $'000 | $'000 | $'000 | $'000 |
| At December 31, 2004 | 1,112 | 136,202 | 39,690 | 177,004 |
| Charged to income for the year | 3,503 | 26,682 | - | 30,185 |
| Credited to equity for the year | - | - | ( 39,690) | ( 39,690) |
| At December 31, 2005 | 4,615 | 162,884 | - | 167,499 |
| Charged to income for the year | 8,834 | 31,669 | - | 40,503 |
| At December 31, 2006 | 13,449 | 194,553 | - | 208,002 |

## 9 ACCOUNTS RECEIVABLE

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $'000 | $'000 | $'000 | $'000 |
| Proceeds on sale of investments | 334,087 | - | 334,087 | - |
| Withholding tax recoverable | 312,134 | 425,596 | 11,238 | 31,147 |
| Owed by parent company | - | 147 | - | 147 |
| Owed by wholly-owned subsidiary | - | - | 57,278 | - |
| Owed by fellow subsidiary | 353 | 1,765 | 353 | - |
| Accounts receivable - Brokerage | - | 22,175 | - | - |
| Other receivables | 91,970 | 71,404 | 64,317 | 61,108 |
| | 738,544 | 521,087 | 467,273 | 92,402 |

The Directors are of the opinion that the carrying amount of accounts receivable approximates its fair value.

**CAPITAL & CREDIT MERCHANT BANK LIMITED**

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**YEAR ENDED DECEMBER 31, 2006**

10 **PROPERTY, PLANT AND EQUIPMENT**

| | The Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Land | Building | Furniture, Fixtures and Equipment | Paintings and Artwork | Leasehold Improvements | Motor Vehicles | Work-in-Progress | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| At cost | | | | | | | | |
| December 31, 2004 | 2,968 | 20,391 | 105,351 | 11,359 | 47,957 | 3,044 | - | 191,070 |
| Additions | - | - | 30,212 | 410 | 1,487 | 1,590 | - | 33,699 |
| December 31, 2005 | 2,968 | 20,391 | 135,563 | 11,769 | 49,444 | 4,634 | - | 224,769 |
| Additions | - | - | 13,692 | - | - | 2,334 | 21,635 | 37,661 |
| Disposals | - | - | - | - | - | (2,238) | - | ( 2,238) |
| December 31, 2006 | 2,968 | 20,391 | 149,255 | 11,769 | 49,444 | 4,730 | 21,635 | 260,192 |
| Depreciation | | | | | | | | |
| December 31, 2004 | - | 504 | 72,461 | - | 34,520 | 1,310 | - | 108,795 |
| Charge for year | - | 510 | 20,895 | - | 4,938 | 713 | - | 27,056 |
| December 31, 2005 | - | 1,014 | 93,356 | - | 39,458 | 2,023 | - | 135,851 |
| Charge for year | - | 510 | 18,685 | - | 3,840 | 723 | - | 23,758 |
| Disposal | - | - | - | - | - | (1,281) | - | ( 1,281) |
| December 31, 2006 | - | 1,524 | 112,041 | - | 43,298 | 1,465 | - | 158,328 |
| **Net book value** | | | | | | | | |
| December 31, 2006 | 2,968 | 18,867 | 37,214 | 11,769 | 6,146 | 3,265 | 21,635 | 101,864 |
| December 31, 2005 | 2,968 | 19,377 | 42,207 | 11,769 | 9,986 | 2,611 | - | 88,918 |

**CAPITAL & CREDIT MERCHANT BANK LIMITED**

**AND ITS SUBSIDIARIES**

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10 **PROPERTY, PLANT 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** | | | | | | | |
| December 31, 2004 | 2,968 | 20,391 | 84,328 | 10,706 | 47,440 | 806 | 166,639 |
| Additions | - | - | 8,104 | 369 | 1,487 | 1,590 | 11,550 |
| December 31, 2005 | 2,968 | 20,391 | 92,432 | 11,075 | 48,927 | 2,396 | 178,189 |
| Additions | - | - | 9,804 | - | - | 2,334 | 12,138 |
| December 31, 2006 | 2,968 | 20,391 | 102,236 | 11,075 | 48,927 | 4,730 | 190,327 |
| **Depreciation** | | | | | | | |
| December 31, 2004 | - | 504 | 56,255 | - | 34,003 | 804 | 91,566 |
| Charge for year | - | 510 | 16,876 | - | 4,938 | 265 | 22,589 |
| December 31, 2005 | - | 1,014 | 73,131 | - | 38,941 | 1,069 | 114,155 |
| Charge for year | - | 510 | 13,348 | - | 3,840 | 396 | 18,094 |
| December 31, 2006 | - | 1,524 | 86,479 | - | 42,781 | 1,465 | 132,249 |
| **Net book value** | | | | | | | |
| December 31, 2006 | 2,968 | 18,867 | 15,757 | 11,075 | 6,146 | 3,265 | 58,078 |
| December 31, 2005 | 2,968 | 19,377 | 19,301 | 11,075 | 9,986 | 1,327 | 64,034 |

**CAPITAL & CREDIT MERCHANT BANK LIMITED**

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## 11 OTHER ASSET

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

## 12 DEPOSITS

| | The Group and The Bank | | | | |
|---|---|---|---|---|---|
| | Remaining Term to Maturity | | | | |
| | Within 3 months | 3 to 12 Months | 1 to 5 Years | Carrying Value 2006 | Carrying Value 2005 |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| Total | 2,394,153 | 1,360,777 | 1,929,007 | 5,683,937 | 4,906,959 |
| Personal | | | | 3,140,748 | 2,584,755 |
| Financial institutions | | | | 285,217 | 262,319 |
| Commercial and business enterprises | | | | 2,161,331 | 1,974,281 |
| | | | | 5,587,296 | 4,821,355 |
| Interest payable | | | | 96,641 | 85,604 |
| | | | | 5,683,937 | 4,906,959 |

## 13 SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

| | The Group | | | | |
|---|---|---|---|---|---|
| | Remaining Term to Maturity | | | | |
| | Under 3 Months | 3 to 12 Months | 1 to 5 Years | Carrying Value 2006 | Carrying Value 2005 |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| Total | 23,040,864 | 14,328,844 | 97,092 | 37,466,800 | 40,068,283 |
| Personal | | | | 3,050,943 | 3,011,571 |
| Financial institutions | | | | 22,690,584 | 24,761,702 |
| Commercial and business enterprises | | | | 11,156,897 | 11,805,739 |
| | | | | 36,898,424 | 39,579,012 |
| Interest payable | | | | 568,376 | 489,271 |
| | | | | 37,466,800 | 40,068,283 |

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## 13 SECURITIES SOLD UNDER REPURCHASE AGREEMENTS (Cont'd)

| | The Bank | | | | |
|---|---|---|---|---|---|
| | Remaining Term to Maturity | | | | |
| | Within 3 months | 3 to 12 Months | 1 to 5 Years | Carrying Value 2006 | Carrying Value 2005 |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| Total | 11,191,336 | 7,163,406 | 3,295 | 18,358,037 | 20,597,094 |
| Personal | | | | 129,237 | 96,627 |
| Financial institutions | | | | 15,632,505 | 16,015,659 |
| Commercial and business enterprises | | | | 2,363,356 | 4,343,636 |
| | | | | 18,125,098 | 20,455,922 |
| Interest payable | | | | 232,939 | 141,172 |
| | | | | 18,358,037 | 20,597,094 |

## 14 LOAN PARTICIPATION

| | The Group and the Bank | | | | |
|---|---|---|---|---|---|
| | Remaining Term to Maturity | | | | |
| | Within 3 months | 3 to 12 Months | 1 to 5 Years | Carrying Value 2006 | Carrying Value 2005 |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| Total | 1,396,886 | 318,766 | 197 | 1,715,849 | 1,011,331 |
| Personal | | | | 1,191,548 | 745,910 |
| Financial institutions | | | | 42,630 | 18,933 |
| Commercial and business enterprises | | | | 452,689 | 227,909 |
| | | | | 1,686,867 | 992,752 |
| Interest payable | | | | 28,982 | 18,579 |
| | | | | 1,715,849 | 1,011,331 |

## 15 ACCOUNTS PAYABLE

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $'000 | $'000 | $'000 | $'000 |
| Dividends payable | - | 96,174 | - | 96,174 |
| Purchase of investments | 265,882 | - | 201,157 | - |
| Brokerage payable | 36,586 | 21,309 | - | - |
| Prime accounts | 10,037 | 8,381 | - | - |
| Other payable | 92,959 | 161,650 | 84,925 | 118,267 |
| | 405,464 | 287,514 | 286,082 | 214,441 |

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## 15 ACCOUNTS PAYABLE (Cont'd)

The Directors are of the opinion that the carrying amount of accounts payable approximates its fair value.

## 16 SHARE CAPITAL

(a)

| | Number of units | |
|---|---|---|
| | 2006 | 2005 |
| | '000 | '000 |
| Authorised: | | |
| Ordinary shares | 800,000 | 800,000 |

| | 2006 | 2005 |
|---|---|---|
| | $'000 | $'000 |
| Stated Capital | | |
| Issued and fully paid 641,159,682 ordinary stock units: | | |
| At January 1, | 320,580 | 320,580 |
| Transferred from share premium | 1,412,308 | - |
| At December 31 | 1,732,888 | 320,580 |

Effective February 1, 2005, the Jamaican Companies Act required that shares of all Jamaican companies become no par value shares unless an election was made to retain par value for a period of eighteen months. The Bank made the election at the Annual General Meeting of May 2005 to retain par value. With the expiration of the eighteen months in November 2006, the shares are now stated without par value. Accordingly, share premium of $1,412,308 has been included in stated capital.

On May 10, 2005, the authorised ordinary share capital was increased to $400,000,000 by the creation of an additional 200,000,000 ordinary shares of 50¢ each to rank pari passu in all respects with the existing ordinary shares to be converted into stock units on issue.

On December 14, 2005, following a 1 for 10 Rights Issue of its shares to the existing stockholders, the Bank increased its shares in issue by 52,359,682 new ordinary shares bringing the issued share capital of the Bank to 641,159,682 ordinary stock units.

(b) Share Premium

| | 2006 | 2005 |
|---|---|---|
| | $'000 | $'000 |
| Balance at January 1 | 1,412,308 | 392,229 |
| Premium arising on issue of equity shares | - | 1,047,864 |
| Expenses of issue of equity shares | - | ( 27,785) |
| Transfer to share capital | (1,412,308) | - |
| Balance at December 31 | - | 1,412,308 |

## 17 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% consequent on the transfer of share premium to share capital during the year (2005:10%).

## 18 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.

On February 17, 2006, the Board of Directors by resolution authorised the transfer of $430,422,000 (2005 – nil) from unappropriated profits to retained earnings reserve.

## 19 FAIR VALUE RESERVE

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

## 20 STAFF COSTS

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $'000 | $'000 | $'000 | $'000 |
| Staff costs incurred during the year in respect of employees were: | | | | |
| Salaries and wages | 349,957 | 377,578 | 184,251 | 181,870 |
| Statutory contributions | 31,363 | 33,584 | 16,208 | 14,706 |
| Pension contributions | 14,216 | 12,664 | 7,789 | 6,345 |
| Termination costs | - | 4,963 | - | - |
| Other staff benefits | 52,967 | 44,488 | 33,801 | 25,621 |
| | 448,503 | 473,287 | 242,049 | 228,552 |

## 21 IMPAIRMENT LOSSES

The National Assembly of Belize in December 2006 proposed a scheme of arrangement which was accepted by approximately 98% of the holders of their bonds including the Bank, leading to the surrender of the original bonds issued by the Government of Belize and the issue of new bonds effective February 2007 at approximately the same face value but with a reduced interest rate and later maturity date.

In considering the restructuring, in accordance with IAS 39, Financial Instruments: Recognition and Measurement, the Bank carried out an assessment for impairment. It was determined that the present value of the future cash flows of the new bonds discounted at the effective interest rate of the original bonds approximated the market value of the original bonds at December 31, 2006. As a result of the assessment, the Bank has recognised impairment losses equal to the difference between the original cost and the market value of the instruments at December 31, 2006. Accordingly, an amount of $158,633,000 previously recorded in the fair value reserve in equity was transferred to the profit and loss account.

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## 22 TAXATION

(a) Total charge for the year comprises:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $'000 | $'000 | $'000 | $'000 |
| Income tax at 33⅓% of taxable income | 158,595 | 291,157 | - | - |
| Deferred tax (Note 14) | ( 8,539) | (109,838) | 18,181 | 10,109 |
| | 150,056 | 181,319 | 18,181 | 10,109 |

(b) Subject to agreement of the Commissioner, Taxpayer Audit and Assessment, at balance sheet date the Group had tax losses of approximately $328,263,000 million (2005: $411,127,000) available for set-off against future taxable profits. A deferred tax asset has been recognised in respect of these losses.

(c) Reconciliation of applicable tax charge to effective tax charge:

| | The Group | | | |
|---|---|---|---|---|
| | 2006 | | 2005 | |
| | $'000 | % | $'000 | % |
| Profit before tax | 921,938 | | 1,338,542 | |
| Tax at the domestic income tax rate | 307,312 | 33.3 | 446,180 | 33.3 |
| Tax effect of: | | | | |
| Expenses not deductible in determining taxable profit | 37 | - | 1,639 | 0.1 |
| Non-taxable income | (159,727) | (17.3) | (271,026) | (20.2) |
| Other adjustments | 2,434 | 0.3 | 4,526 | 0.3 |
| Tax expense and effective tax rate for the year | 150,056 | 16.3 | 181,319 | 13.5 |

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22 **TAXATION (Cont'd)**

(c) Reconciliation of applicable tax charge to effective tax charge (Cont'd):

| | The Bank | | | |
|---|---|---|---|---|
| | 2006 | | 2005 | |
| | $'000 | % | $'000 | % |
| Profit before tax | 414,904 | | 723,996 | |
| Tax at the domestic income tax rate | 138,301 | 33.3 | 241,332 | 33.3 |
| Tax effect of: | | | | |
| Expenses not deductible in determining taxable profit | 37 | 0.1 | 1,639 | 0.2 |
| Non-taxable income | ( 118,494) | (28.6) | (232,951) | (32.2) |
| Other adjustments | ( 1,663) | ( 0.4) | 89 | 0.1 |
| Tax charge and effective tax rate for the year | 18,181 | 4.4 | 10,109 | 1.4 |

23 **NET PROFIT**

(a) Dealt with in the accounts of:

| | 2006 | 2005 |
|---|---|---|
| | $'000 | $'000 |
| The Bank | 396,723 | 713,887 |
| The subsidiaries | 370,695 | 448,028 |
| | 767,418 | 1,161,915 |

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

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $'000 | $'000 | $'000 | $'000 |
| Directors' emoluments | | | | |
| - Fees | 4,638 | 2,888 | 4,568 | 2,888 |
| - Management | 31,996 | 32,987 | 17,775 | 17,509 |
| Audit fees - current year | 8,347 | 6,982 | 3,600 | 2,990 |
| - prior year | 1,069 | 81 | 807 | ( 69) |
| Depreciation | 23,758 | 27,056 | 18,094 | 22,589 |

## 24 EARNINGS PER STOCK UNIT

The calculation of earnings per stock unit for the current year is based on the net profit after taxation of $771,882,000 for the Group and $396,723,000 for the Bank, divided by the 641,159,682 stock units in issue during the year.

The comparative earnings per stock unit is based on net profit of $1,157,223,000 for the Group and $713,887,000 for the Bank and the 591,238,670 weighted average number of ordinary stock units in issue during the year.

See Note 16 for increases in share capital.

## 25 CASH AND CASH EQUIVALENTS

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $'000 | $'000 | $'000 | $'000 |
| Cash and balances with banks including Bank of Jamaica | 1,360,551 | 896,925 | 1,169,319 | 820,421 |
| Less: Statutory cash reserves (Note 4) | 534,259 | 302,913 | 534,259 | 302,913 |
| Bank overdrafts | 7,484 | 64,250 | 7,484 | 64,250 |
| | 818,808 | 529,762 | 627,576 | 453,258 |

The Bank overdrafts are unsecured and repayable on demand.

## 26 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, 2006, the Group had financial assets under administration of approximately $2.65 billion (2005: $2.59 billion).

## 26 SEGMENTAL FINANCIAL INFORMATION

The Group is organized 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.

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## 27 SEGMENTAL FINANCIAL INFORMATION (Cont'd)

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

| | 2006 | | | |
|---|---|---|---|---|
| | Banking & Related Services | Financial & Related Services | Consolidated Adjustments | Group |
| | $'000 | $'000 | $'000 | $'000 |
| Gross external revenues | 3,199,582 | 2,870,218 | - | 6,069,800 |
| Revenue (expenses) from other segments | 80,877 | ( 68,551) | ( 12,326) | - |
| | 3,280,459 | 2,801,667 | ( 12,326) | 6,069,800 |
| Total expenses | 2,865,555 | 2,282,307 | - | 5,147,862 |
| Profit before tax | 414,904 | 519,360 | ( 12,326) | 921,938 |
| Income tax expense | | | | 150,056 |
| Net profit | | | | 771,882 |
| Segment assets | 32,056,273 | 22,641,242 | (1,896,308) | 52,801,207 |
| Segment liabilities | 28,111,381 | 21,044,147 | (1,816,002) | 47,339,526 |
| Other segment items: | | | | |
| Capital expenditure | 12,138 | 25,523 | | 37,661 |
| Depreciation | 18,094 | 5,664 | | 23,758 |
| Impairment losses | 158,633 | - | | 158,633 |
| Loan loss expense | 13,647 | - | | 13,647 |

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## 27 SEGMENTAL FINANCIAL INFORMATION (Cont'd)

| | 2005 | | | |
|---|---|---|---|---|
| | Banking & Related Services | Financial & Related Services | Consolidated Adjustments | Group |
| | $'000 | $'000 | $'000 | $'000 |
| Gross external revenues | 2,817,373 | 3,070,961 | - | 5,888,334 |
| Revenue (expenses) from other segments | 103,482 | ( 89,578) | ( 13,904) | - |
| | 2,920,855 | 2,981,383 | ( 13,904) | 5,888,334 |
| Total expenses | 2,196,859 | 2,352,933 | - | 4,549,792 |
| Profit before tax | 723,996 | 628,450 | ( 13,904) | 1,338,542 |
| Income tax expense | | | | 181,319 |
| Net profit | | | | 1,157,223 |
| Segment assets | 32,101,894 | 21,638,602 | (787,252) | 52,953,244 |
| Segment liabilities | 28,570,232 | 20,325,304 | (612,314) | 48,283,222 |
| Other segment items: | | | | |
| Capital expenditure | 86,333 | 22,149 | | 108,482 |
| Depreciation | 22,589 | 4,467 | | 27,056 |
| Loan loss recovery | ( 9,613) | - | | ( 9,613) |

## 28 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. Under the plan, employees who are members of the Fund will contribute 5% of earnings (as defined), as a basic contribution and have the option to contribute an additional amount of 5%. The Group contributes at a rate of 5% of members' earnings (as defined). (See note 20).

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

## 29 RELATED PARTY TRANSACTIONS AND BALANCES

(a) The following transactions were carried out with related parties including associated companies and the Bank's parent company:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $'000 | $'000 | $'000 | $'000 |
| Interest income | 6,197 | - | 72,012 | 94,714 |
| Preference dividends received | - | - | 12,326 | 13,904 |
| Management fees paid | 24,000 | 24,000 | 24,000 | 24,000 |
| Interest expense | - | 24,193 | 18,125 | 22,308 |
| Gain on sale of securities available-for-sale | - | 262,431 | - | 262,431 |

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29 **RELATED PARTY TRANSACTIONS AND BALANCES**

(a) (Cont'd)

Year end balances with related parties are as follows:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $'000 | $'000 | $'000 | $'000 |
| Securities sold under repurchase agreements | 235,640 | 50,415 | 235,640 | 50,415 |
| Securities purchased under resale agreements | - | - | 1,615,000 | 452,622 |
| Deposits | 42,861 | 17,867 | 42,861 | 17,867 |

These transactions occurred in the normal course of business.

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

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $'000 | $'000 | $'000 | $'000 |
| **Salaries and other short term benefits** | | | | |
| Directors | 31,996 | 32,987 | 17,775 | 17,509 |
| Management Personnel | 76,417 | 70,563 | 39,547 | 43,611 |
| | 108,413 | 103,550 | 57,322 | 61,120 |
| **Interest expense** | | | | |
| **Securities sold under repurchase agreements** | | | | |
| Directors | 7,010 | 7,418 | - | - |
| Management Personnel | 873 | 414 | - | - |
| Parties connected to Directors and Management | 347 | 1,181 | - | - |
| | 8,230 | 9,013 | - | - |
| **Interest expense** | | | | |
| **Deposits** | | | | |
| Directors | 1,477 | 1,664 | 1,477 | 1,664 |
| Management Personnel | 1,417 | 581 | 1,417 | 581 |
| Parties connected to Directors and Management | 533 | 2,830 | 533 | 2,830 |
| | 3,427 | 5,075 | 3,427 | 5,075 |
| **Interest income** | | | | |
| **Loans** | | | | |
| Directors | 707 | 299 | 707 | 299 |
| Management Personnel | 3,059 | 2,833 | 3,059 | 2,833 |
| | 3,766 | 3,132 | 3,766 | 3,132 |
| **Other operating expenses** | | | | |
| Parties connected to Directors and Management | 497 | 2,341 | 150 | 2,341 |

## 29 RELATED PARTY TRANSACTIONS AND BALANCES

(b) (Cont'd)

Year end balances with related parties are as follows:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $'000 | $'000 | $'000 | $'000 |
| **Deposits** | | | | |
| Directors | 17,104 | 17,734 | 17,104 | 17,734 |
| Management Personnel | 12,197 | 11,183 | 12,197 | 11,183 |
| Parties connected to Directors and Management | 475 | 22,337 | 475 | 22,337 |
| | 29,776 | 51,254 | 29,776 | 51,254 |
| **Loans** | | | | |
| Directors | 5,668 | 6,175 | 5,668 | 6,175 |
| Management Personnel | 29,570 | 27,700 | 29,570 | 27,700 |
| | 35,238 | 33,875 | 35,238 | 33,875 |
| **Securities sold under repurchase agreements** | | | | |
| Directors | 70,690 | 73,057 | - | - |
| Management Personnel | 6,789 | 529 | - | - |
| | 77,479 | 73,586 | - | - |

(c) Directors and key management personnel of the Group and their immediate relatives directly control approximately 1.99% (2005 - 2.19%) of the voting shares of the Bank.

## 30 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The following methods and assumptions have been used:

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

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

## 30 FAIR VALUE OF FINANCIAL INSTRUMENTS (Cont'd)

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

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

(v) 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.

## 31 FINANCIAL RISK MANAGEMENT

By their nature, the Group's activities are principally related to the use of financial instruments. The Group accepts deposits from customers at both fixed and floating rates and for various periods, and actively manages its interest rate exposures with the objective of enhancing net interest income within prudent risk tolerances.

The Group also seeks to increase these margins by consolidating short-term funds and investing for longer periods at higher rates while maintaining sufficient liquidity to meet all claims that may fall due.

The Group also seeks to raise its interest margins by obtaining competitive margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just loans and advances; the Group also enters into guarantees and other commitments such as letters of credit.

The Group also trades in financial instruments where it takes positions to take advantage of short-term market movements in securities prices and in foreign exchange and interest rates. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

(a) 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. The Group manages its risk through the Asset and Liability Committee, which carries out extensive research and monitors the price movement of securities on the local and international markets.

(b) Interest rate risk

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. Interest margins may increase or decrease as a result of such changes and create losses in the event that unexpected movements arise. The management sets limits on the level of mismatch of interest rate repricing that may be undertaken. This is monitored on a periodic basis.

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31 **FINANCIAL RISK MANAGEMENT (Cont'd)**

(b) Interest rate risk (Cont'd)

(i) The following tables summarise carrying amounts of balance sheet assets, liabilities and equity in order to arrive at the Group's interest rate gap based on earlier of contractual repricing or maturity dates.

| | 2006 | | | | | | |
|---|---|---|---|---|---|---|---|
| | The Group | | | | | | |
| | Within 1 Month | 1 to 3 Months | 3 to 12 Months | 1 to 5 Years | Over 5 Years | Non-Interest Securities | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Assets** | | | | | | | |
| Cash resources | 1,360,551 | - | - | - | - | - | 1,360,551 |
| Investment in securities | | | | | | | |
| - Trading | 482,299 | 155,934 | 816,449 | - | - | 121,828 | 1,576,510 |
| - Available for sale | 7,775,761 | 9,115,775 | 6,533,254 | 11,755,856 | 7,549,122 | 404,472 | 43,134,240 |
| - Interest receivable | - | - | - | - | - | 983,222 | 983,222 |
| Securities purchased under resale agreements | 5,000 | - | 130,000 | - | - | 42,756 | 177,756 |
| Investment in associate | - | - | - | - | - | 3,282 | 3,282 |
| Loans after provision for loan losses | 678,755 | 88,047 | 716,672 | 1,562,634 | 873,835 | 56,670 | 3,976,613 |
| Deferred tax assets | - | - | - | - | - | 14,359 | 14,359 |
| Intangible assets | - | - | - | - | - | 379,124 | 379,124 |
| Other assets | - | - | - | - | - | 1,195,450 | 1,195,450 |
| Total | 10,302,366 | 9,359,756 | 8,196,375 | 13,318,490 | 8,422,957 | 3,201,263 | 52,801,207 |
| **Liabilities and Stockholders' equity** | | | | | | | |
| Deposits | 1,170,522 | 1,126,990 | 1,360,777 | 1,929,007 | - | 96,641 | 5,683,937 |
| Securities sold under repurchase agreements | 14,461,578 | 8,010,910 | 14,328,844 | 97,092 | - | 568,376 | 37,466,800 |
| Loan participation | 823,184 | 544,720 | 318,766 | 197 | - | 28,982 | 1,715,849 |
| Due to other financial institutions | - | - | 1,327,201 | 371,336 | 3,016 | 18,397 | 1,719,950 |
| Other liabilities | - | - | - | - | - | 752,990 | 752,990 |
| Stockholders' equity | - | - | - | - | - | 5,461,681 | 5,461,681 |
| Total | 16,455,284 | 9,682,620 | 17,335,588 | 2,397,632 | 3,016 | 6,927,067 | 52,801,207 |
| Interest sensitivity gap | (6,152,918) | ( 322,864) | ( 9,139,213) | 10,920,858 | 8,419,941 | (3,725,804) | - |
| Cumulative interest sensitivity gap | (6,152,918) | ( 6,475,782) | (15,614,995) | (4,694,137) | 3,725,804 | - | |
| **2005** | | | | | | | |
| Interest sensitivity gap | (23,839,759) | ( 1,018,579) | ( 4,019,127) | 17,085,926 | 14,898,240 | (3,106,701) | |
| Cumulative interest sensitivity gap | (23,839,759) | (24,858,338) | (28,877,465) | (11,791,539) | 3,106,701 | - | |

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31 **FINANCIAL RISK MANAGEMENT (Cont'd)**

(b) Interest rate risk (Cont'd)

(i) (Cont'd)

| | The Bank 2006 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Within 1 Month | 1 to 3 Months | 3 to 12 Months | 1 to 5 Years | Over 5 Years | Non-Interest Securities | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Assets** | | | | | | | |
| Cash resources | 1,169,319 | - | - | - | - | - | 1,169,319 |
| Investment in securities | 1,291,421 | 1,659,695 | 2,243,281 | 10,750,089 | 6,800,897 | 826,714 | 23,572,097 |
| Securities purchased under resale agreements | 715,000 | 905,000 | 130,000 | - | - | 42,756 | 1,792,756 |
| Investment in subsidiaries | - | - | - | - | - | 305,406 | 305,406 |
| Investment in associate | - | - | - | - | - | 3,282 | 3,282 |
| Loans after provision for losses | 678,755 | 88,047 | 716,672 | 1,562,634 | 873,835 | 56,670 | 3,976,613 |
| Intangible asset | - | - | - | - | - | 238,978 | 238,978 |
| Deferred tax assets | - | - | - | - | - | 55,070 | 55,070 |
| Other assets | - | - | - | - | - | 942,752 | 942,752 |
| Total | 3,854,495 | 2,652,742 | 3,089,953 | 12,312,723 | 7,674,732 | 2,471,628 | 32,056,273 |
| **Liabilities and Stockholders' equity** | | | | | | | |
| Deposits | 1,170,522 | 1,126,990 | 1,360,777 | 1,929,007 | - | 96,641 | 5,683,937 |
| Securities sold under repurchase agreements | 9,826,788 | 1,131,609 | 7,163,406 | 3,295 | - | 232,939 | 18,358,037 |
| Loan participation | 823,184 | 544,720 | 318,766 | 197 | - | 28,982 | 1,715,849 |
| Due to other financial institutions | - | - | 1,327,201 | 371,336 | 3,016 | 18,397 | 1,719,950 |
| Other liabilities | - | - | - | - | - | 633,608 | 633,608 |
| Stockholders' equity | - | - | - | - | - | 3,944,892 | 3,944,892 |
| Total | 11,820,494 | 2,803,319 | 10,170,150 | 2,303,835 | 3,016 | 4,955,459 | 32,056,273 |
| Interest sensitivity gap | ( 7,965,999) | ( 150,577) | ( 7,080,197) | 10,008,888 | 7,671,716 | (2,483,831) | - |
| Cumulative interest sensitivity gap | ( 7,965,999) | ( 8,116,576) | (15,196,773) | ( 5,187,885) | 2,483,831 | - | |
| **2005** | | | | | | | |
| Interest sensitivity gap | (15,339,841) | ( 1,580,349) | ( 3,676,293) | 11,398,944 | 11,526,145 | (2,328,606) | |
| Cumulative interest sensitivity gap | (15,339,841) | (16,920,190) | (20,596,483) | ( 9,197,539) | 2,328,606 | - | |

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31 **FINANCIAL RISK MANAGEMENT (Cont'd)**

(a) Interest rate risk (Cont'd)

(ii) Average effective yields by the earlier of the contractual repricing or maturity dates:

| | The Group | | | | | |
|---|---|---|---|---|---|---|
| | 2006 | | | | | |
| | Immediately Rate Sensitive | Within 3 Months | 3 to 12 Months | 1 to 5 Years | Over 5 Years | Average |
| | % | % | % | % | % | % |
| Cash resources | 1.66 | - | - | - | - | 1.66 |
| Investment in securities (1) | | | | | | |
| - Trading | 7.23 | 11.91 | 10.50 | - | - | 9.59 |
| - Available-for-sale | 14.65 | 15.10 | 13.84 | 5.29 | 9.04 | 10.95 |
| Securities purchased under resale agreements | 8.73 | - | - | - | - | 8.73 |
| Loans (2) | 16.20 | 15.77 | 15.13 | 15.95 | 15.50 | 15.74 |
| Deposits (3) | 7.23 | 7.59 | 7.98 | 7.81 | - | 7.69 |
| Securities sold under repurchase agreements | 7.17 | 10.29 | 8.81 | 12.74 | - | 8.50 |
| Loan participation | 9.76 | 10.12 | 11.16 | - | - | 10.14 |
| Due to other financial institutions | - | - | 3.08 | 7.55 | - | 4.05 |

| | 2005 | | | | | |
|---|---|---|---|---|---|---|
| | Immediately Rate Sensitive | Within 3 Months | 3 to 12 Months | 1 to 5 Years | Over 5 Years | Average |
| | % | % | % | % | % | % |
| Cash resources | 1.91 | - | - | - | - | 1.91 |
| Investment in securities (1) | | | | | | |
| - Available-for-sale | 15.63 | 15.57 | 13.06 | 4.64 | 8.9 | 7.99 |
| Securities purchased under resale agreements | 8.73 | - | - | - | - | 8.73 |
| Loans (2) | 16.20 | 15.77 | 15.13 | 15.95 | 15.50 | 15.16 |
| Deposits (3) | 7.23 | 7.59 | 7.98 | 7.81 | - | 7.61 |
| Securities sold under repurchase agreements | 5.60 | 5.89 | 6.71 | 16.50 | - | 5.75 |
| Loan participation | 9.76 | 10.12 | 11.16 | - | - | 10.10 |
| Due to other financial institutions | 7.18 | - | 3.08 | 7.55 | - | 5.69 |

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31 **FINANCIAL RISK MANAGEMENT (Cont'd)**

(b) Interest rate risk (Cont'd)

The Group (Cont'd)

(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.

(ii) Average effective yields by the earlier of the contractual repricing or maturity dates:

| | The Bank | | | | | |
|---|---|---|---|---|---|---|
| | 2006 | | | | | |
| | Immediately Rate Sensitive | Within 3 Months | 3 to 12 Months | 1 to 5 Years | Over 5 Years | Average |
| | % | % | % | % | % | % |
| Cash resources | 2.17 | - | - | - | - | 2.17 |
| Investment in securities (1) | 13.84 | 13.65 | 8.53 | 4.72 | 9.19 | 7.60 |
| Securities purchased under resale agreements | 11.64 | 12.49 | 12.30 | - | - | 12.13 |
| Loans (2) | 19.32 | 21.52 | 15.42 | 17.46 | 14.76 | 16.92 |
| Deposits (3) | 7.69 | 7.43 | 8.43 | 7.67 | - | 7.81 |
| Securities sold under repurchase agreements | 6.84 | 7.65 | 6.52 | 17.59 | - | 6.77 |
| Loan participation | 9.78 | 10.18 | 11.94 | 12.15 | - | 10.32 |
| Due to other financial institutions | - | - | 7.67 | 5.75 | 9.50 | 7.25 |

| | 2005 | | | | | |
|---|---|---|---|---|---|---|
| | Immediately Rate Sensitive | Within 3 Months | 3 to 12 Months | 1 to 5 Years | Over 5 Years | Average |
| | % | % | % | % | % | % |
| Cash resources | 1.91 | - | - | - | - | 1.91 |
| Investment in securities (1) - Available-for-sale | 15.63 | 15.57 | 13.06 | 4.64 | 8.9 | 7.99 |
| Securities purchased under resale agreements | 8.73 | - | - | - | - | 8.73 |
| Loans (2) | 16.20 | 15.77 | 15.13 | 15.95 | 15.50 | 15.16 |
| Deposits (3) | 7.23 | 7.59 | 7.98 | 7.81 | - | 7.61 |
| Securities sold under repurchase agreements | 5.60 | 5.89 | 6.71 | 16.50 | - | 5.75 |
| Loan participation | 9.76 | 10.12 | 11.16 | - | - | 10.10 |
| Due to other financial institutions | 7.18 | - | 3.08 | 7.55 | - | 5.69 |

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31 **FINANCIAL RISK MANAGEMENT (Cont'd)**

(b) Interest rate risk (Cont'd)

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

(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.

(c) Foreign currency risks

Foreign currency risk is incurred on transactions that are denominated in a currency other than the Jamaican dollar. The main currencies giving rise to the risk are the United States dollar, the Canadian dollar, the British Pound and the Euro.

Net exposure is kept to an acceptable level by matching foreign assets with liabilities as far as possible.

The following foreign currency balances are included in these financial statements:

| | The Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | | | | 2005 | | | |
| | US$ '000 | Cdn$ '000 | £ '000 | € '000 | US$ '000 | Cdn$ '000 | £ '000 | € '000 |
| Total assets | 416,088 | 977 | 522 | 54 | 517,253 | 736 | 1,208 | 278 |
| Total liabilities | (437,465) | (836) | (824) | (50) | (530,478) | (1,264) | ( 755) | ( 27) |
| Net exposure | ( 21,377) | 141 | ( 302) | 4 | ( 13,225) | ( 528) | 453 | 251 |

| | The Bank | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | | | | 2005 | | | |
| | US$ '000 | Cdn$ '000 | £ '000 | € '000 | US$ '000 | Cdn$ '000 | £ '000 | € '000 |
| Total assets | 326,946 | 977 | 522 | 54 | 374,296 | 736 | 1,208 | 278 |
| Total liabilities | (347,663) | (836) | ( 824) | (50) | (390,470) | (1,264) | ( 755) | ( 27) |
| Net exposure | ( 20,717) | 141 | ( 302) | 4 | ( 16,174) | ( 528) | 453 | 251 |

(d) Credit risk

Credit risk is the risk of default by an obligator. The risk is managed primarily by reviews of the financial status of each obligator. The primary concentration of the Group's credit risks relates to investments in government securities. In respect of loans, the exposure is to a number of individuals and businesses in different sectors and geographic areas and this, in effect, mitigates the credit risk.

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31 **FINANCIAL RISK MANAGEMENT (Cont'd)**

(d) Credit risk (Cont'd)

The following table summarises the credit exposure to businesses and governments by sector:

| | The Group and the Bank | |
|---|---|---|
| | 2006 | 2005 |
| | $'000 | $'000 |
| Construction, land development and real estate acquisition | 890,342 | 617,230 |
| Distribution | 704,443 | 292,736 |
| Electricity, gas & water | - | 174,370 |
| Financial institutions | 4,665 | 8,959 |
| Government and public entities | 335,150 | 322,907 |
| Manufacturing | 81,984 | 50,561 |
| Personal | 1,174,652 | 627,143 |
| Professional and other services | 435,550 | 388,251 |
| Tourism and entertainment | 98,047 | 110,160 |
| Transport, storage and communication | 229,638 | 72,347 |
| Total | 3,954,471 | 2,664,664 |
| Total provision | 34,528 | 20,881 |
| | 3,919,943 | 2,643,783 |
| Interest receivable | 56,670 | 31,373 |
| | 3,976,613 | 2,675,156 |

(e) Liquidity risk

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 tables below analyse assets and liabilities of the Group into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

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.

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31 **FINANCIAL RISK MANAGEMENT (Cont'd)**

(e) Liquidity risk (Cont'd)

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.

| | The Group | | | | |
|---|---|---|---|---|---|
| | 2006 | | | | |
| | Remaining Term to Maturity | | | | |
| | Within 3 Months | 3 to 12 Months | 1 to 5 Years | Over 5 Years | Total 2005 |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Assets** | | | | | |
| Cash Resources | 1,360,551 | - | - | - | 1,360,551 |
| Investment in securities | | | | | |
| - Trading | 624,614 | 816,449 | - | 135,447 | 1,576,510 |
| - Available-for-sale | 14,885,195 | 6,645,959 | 13,250,340 | 8,352,746 | 43,134,240 |
| - Interest receivable | 983,322 | - | - | - | 983,322 |
| Securities purchased under resale agreements | 47,756 | 130,000 | - | - | 177,756 |
| Investment in associate | - | - | - | 3,282 | 3,282 |
| Loans after provision for loan losses | 823,472 | 716,672 | 1,562,634 | 873,835 | 3,976,613 |
| Deferred tax assets | - | - | 14,359 | - | 14,359 |
| Other assets | - | - | 238,978 | 140,146 | 379,124 |
| Intangible assets | 698,387 | 417,401 | 58,078 | 21,584 | 1,195,450 |
| Total | 19,423,297 | 8,726,481 | 15,124,389 | 9,527,040 | 52,801,207 |
| **Liabilities and Stockholders' equity** | | | | | |
| Deposits | 2,394,153 | 1,360,777 | 1,929,007 | - | 5,683,937 |
| Securities sold under repurchase agreements | 23,040,864 | 14,328,844 | 97,092 | - | 37,466,800 |
| Loan participation | 1,396,886 | 318,766 | 197 | - | 1,715,849 |
| Due to other financial institutions | 18,397 | 1,327,201 | 371,336 | 3,016 | 1,719,950 |
| Other liabilities | 716,061 | - | - | 36,929 | 752,990 |
| Stockholders' equity | - | - | - | 5,461,681 | 5,461,681 |
| Total | 27,566,361 | 17,335,588 | 2,397,632 | 5,501,626 | 52,801,207 |
| Total Liquidity Gap | ( 8,143,064) | ( 8,609,107) | 12,726,757 | 4,025,414 | - |
| Cumulative Gap | ( 8,143,064) | ( 16,752,171) | ( 4,025,414) | - | |
| **2005** | | | | | |
| Total Liquidity Gap | (24,267,636) | ( 4,019,127) | 17,153,007 | 11,133,756 | |
| Cumulative Liquidity Gap | (24,267,636) | (28,286,763) | (11,133,756) | - | |

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31 **FINANCIAL RISK MANAGEMENT (Cont'd)**

(d) Liquidity risk (Cont'd)

| | The Bank | | | | |
|---|---|---|---|---|---|
| | 2006 | | | | |
| | Remaining Term to Maturity | | | | |
| | Within 3 Months | 3 to 12 Months | 1 to 5 Years | Over 5 Years | Total 2006 |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Assets** | | | | | |
| Cash Resources | 1,169,319 | - | - | - | 1,169,319 |
| Investment in securities | 1,474,429 | 2,355,986 | 12,244,573 | 7,497,109 | 23,572,097 |
| Securities purchased under resale agreements | 1,662,756 | 130,000 | - | - | 1,792,756 |
| Investment in subsidiaries | - | - | - | 305,406 | 305,406 |
| Investment in associate | - | - | - | 3,282 | 3,282 |
| Loans after provision for loan losses | 823,472 | 716,672 | 1,562,634 | 873,835 | 3,976,613 |
| Deferred tax assets | - | - | 55,070 | - | 55,070 |
| Intangible asset | - | - | 238,978 | - | 238,978 |
| Other assets | 467,273 | 417,401 | 58,078 | - | 942,752 |
| Total Assets | 5,597,249 | 3,620,059 | 14,159,333 | 8,679,632 | 32,056,273 |
| **Liabilities and Stockholders' equity** | | | | | |
| Deposits | 2,394,153 | 1,360,777 | 1,929,007 | - | 5,683,937 |
| Securities sold under repurchase agreements | 11,191,336 | 7,163,406 | 3,295 | - | 18,358,037 |
| Loan participation | 1,396,886 | 318,766 | 197 | - | 1,715,849 |
| Due to other financial institutions | 18,397 | 1,327,201 | 371,336 | 3,016 | 1,719,950 |
| Other liabilities | 633,608 | - | - | - | 633,608 |
| Stockholders' equity | - | - | - | 3,944,892 | 3,944,892 |
| Total liabilities and Stockholders' equity | 15,634,380 | 10,170,150 | 2,303,835 | 3,947,908 | 32,056,273 |
| Total Liquidity Gap | (10,037,131) | ( 6,550,091) | 11,855,498 | 4,731,724 | - |
| Cumulative Gap | (10,037,131) | (16,587,222) | ( 4,731,724) | - | |
| **2005** | | | | | |
| Total Liquidity Gap | (16,700,177) | ( 3,676,293) | 11,528,536 | 8,847,934 | |
| Cumulative Liquidity Gap | (16,700,177) | (20,376,470) | ( 8,847,934) | - | |

## 32 CONTINGENCIES AND COMMITMENTS

(a) Litigation

The Bank 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 its legal advice, that it is probable that a payment will be made and the amount can be reasonably estimated.

The Bank is the subject of a legal claim by a customer regarding the disposal of an asset in 1990 in settlement of the customer's liability. The customer has appealed the decision of the local appellate court which was in favour of the Bank. Subsequent to December 31, 2006, the matter was heard by the UK Privy Council whose reserved judgement is awaited.

(b) Capital Commitments

Capital expenditure authorised and contracted for at balance sheet date but not recognised in the financial statement amounted to $83,000,000 (2005: $176,000,000).

(c) Operating Leases

The Group has entered into lease agreements for office space expiring April 2007, June 2007, January 2008 and August 2009 and for motor vehicles expiring February 2007 and July 2007. The amount charged to profit and loss account during the year was $25,601,000 (2005: $24,564,000).

The total annual rentals to be paid are as follows:

| | The Group | The Bank |
|---|---|---|
| | $'000 | $'000 |
| 2007 | 26,632 | 14,561 |
| 2008 | 23,520 | 10,531 |
| 2009 | 22,258 | 7,320 |
| 2010 | 17,178 | - |

(d) Maintenance contract

The Group has entered into a maintenance agreement for the computer software currently under development for a period of five years expiring July 2010 for an annual charge of $19,399,000. The amount charged in the profit and loss account during the year was $12,235,000.

(e) Credit

Commitments to extend credit on term to maturity of more than one year amounted to $942,000,000 (2005: $963,099,000).

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## 33 DIVIDENDS

| | 2006<br>$'000 | 2005<br>$'000 |
|---|---|---|
| Interim dividend paid | 96,174 | 58,880 |
| Interim dividend declared | - | 96,174 |

On May 19, 2006, the Directors approved the payment of an interim dividend of 15 cents per stock unit to stockholders on record as at June 16, 2006 payable on June 30, 2006.

## 34 RESTATEMENT

During the year certain balances were reclassified by the Group and the Bank to more accurately reflect their substance as defined in IFRS. The following table reflects such changes which, had no effect on the profits previously reported:

| | | The Group | | |
|---|---|---|---|---|
| | Notes | As previously stated 2005 $'000 | Restatement | As restated 2005 $'000 |
| **ASSETS** | | | | |
| **CASH RESOURCES** | | 896,925 | - | 896,925 |
| **INVESTMENT IN SECURITIES** | 1 | 47,227,445 | 1,148,963 | 48,376,408 |
| **LOANS** (after provision for loan losses) | 1 | 2,643,783 | 31,373 | 2,675,156 |
| **INTANGIBLE ASSETS** | 2 | 140,146 | 74,783 | 214,929 |
| **DEFERRED TAX ASSETS** | | 67,081 | - | 67,081 |
| **OTHER ASSETS** | | | | |
| Accounts receivable | 1 | 1,701,423 | (1,180,336) | 521,087 |
| Customers' liabilities under acceptances, guarantees and letters of credit as per contra | | 97,740 | - | 97,740 |
| Property, plant and equipment | 2 | 163,701 | ( 74,783) | 88,918 |
| Other asset | 2 | 15,000 | - | 15,000 |
| | | 1,977,864 | - | 722,745 |
| | | 52,953,244 | - | 52,953,244 |

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**YEAR ENDED DECEMBER 31, 2006**

34 **RESTATEMENT (Cont'd)**

| | | The Group | | |
|---|---|---|---|---|
| | Notes | As previously stated 2005 $'000 | Restatement | As restated 2005 $'000 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | |
| **DEPOSITS** | 3 | 4,821,355 | 85,604 | 4,906,959 |
| **SECURITIES SOLD UNDER REPURCHASE AGREEMENTS** | 3 | 39,579,012 | 489,271 | 40,068,283 |
| **LOAN PARTICIPATION** | 3 | 992,752 | 18,579 | 1,011,331 |
| **DUE TO OTHER FINANCIAL INSTITUTIONS** | 3 | 1,666,642 | 11,775 | 1,678,417 |
| **OTHER LIABILITIES** | | | | |
| Bank overdrafts | | 64,250 | | 64,250 |
| Accounts payable | 3 | 892,743 | ( 605,229) | 287,514 |
| Income tax payable | | 168,728 | | 168,728 |
| Liabilities under acceptances, guarantees and letters of credit as per contra | | 97,740 | - | 97,740 |
| | | 1,223,461 | - | 618,232 |
| **STOCKHOLDERS' EQUITY** | | | | |
| Share capital | | 320,580 | - | 320,580 |
| Share premium | | 1,412,308 | - | 1,412,308 |
| Statutory reserve fund | | 301,670 | - | 301,670 |
| Retained earnings reserve | | 1,085,020 | - | 1,085,020 |
| Fair value reserve | | ( 206,908) | - | ( 206,908) |
| Loan loss reserve | | 18,240 | - | 18,240 |
| Unappropriated profits | | 1,728,193 | - | 1,728,193 |
| Attributable to stockholders of the Bank | | 4,659,103 | - | 4,659,103 |
| Minority interest | | 10,919 | - | 10,919 |
| | | 4,670,022 | - | 4,670,022 |
| | | 52,953,244 | - | 52,953,244 |

**CAPITAL & CREDIT MERCHANT BANK LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2006**

34 **RESTATEMENT (Cont'd)**

| | | The Bank | | |
|---|---|---|---|---|
| | Notes | As previously stated 2005 $'000 | Restatement | As restated 2005 $'000 |
| **ASSETS** | | | | |
| **CASH RESOURCES** | | 820,421 | - | 820,421 |
| **INVESTMENT IN SECURITIES** | 1 | 26,757,679 | 551,722 | 27,309,401 |
| **SECURITIES PURCHASED UNDER RESALE AGREEMENTS** | 1 | 452,622 | 108 | 452,730 |
| **INVESTMENT IN SUBSIDIARIES (Shares at cost)** | | 305,406 | - | 305,406 |
| **LOANS** (after provision for loan losses) | 1 | 2,643,783 | 31,373 | 2,675,156 |
| **INTANGIBLE ASSET** | 2 | - | 74,783 | 74,783 |
| **DEFERRED TAX ASSETS** | | 129,592 | - | 129,592 |
| **OTHER ASSETS** | | | | |
| Accounts receivable | 1 | 675,605 | (583,203) | 92,402 |
| Income tax recoverable | | 80,229 | | 80,229 |
| Customers' liabilities under acceptances, guarantees and letters of credit as per contra | | 97,740 | | 97,740 |
| Property, plant and equipment | 2 | 138,817 | ( 74,783) | 64,034 |
| | | 992,391 | (657,986) | 334,405 |
| | | 32,101,894 | - | 32,101,894 |

**CAPITAL & CREDIT MERCHANT BANK LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2006**

34 **RESTATEMENT (Cont'd)**

| | | The Bank | | |
|---|---|---|---|---|
| | Notes | As previously stated 2005 $'000 | Restatement | As restated 2005 $'000 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | |
| **DEPOSITS** | 3 | 4,821,355 | 85,604 | 4,906,959 |
| **SECURITIES SOLD UNDER REPURCHASE AGREEMENTS** | 3 | 20,455,922 | 141,172 | 20,597,094 |
| **LOAN PARTICIPATION** | 3 | 992,752 | 18,579 | 1,011,331 |
| **DUE TO OTHER FINANCIAL INSTITUTIONS** | 3 | 1,666,642 | 11,775 | 1,678,417 |
| **OTHER LIABILITIES** | | | | |
| Bank overdrafts | | 64,250 | - | 64,250 |
| Accounts payable | 3 | 471,571 | (257,130) | 214,441 |
| Liabilities under acceptances, guarantees and letters of credit as per contra | | 97,740 | - | 97,740 |
| | | 633,561 | (257,130) | 376,431 |
| **STOCKHOLDERS' EQUITY** | | | | |
| Share capital | | 320,580 | - | 320,580 |
| Share premium | | 1,412,308 | - | 1,412,308 |
| Statutory reserve fund | | 301,670 | - | 301,670 |
| Retained earnings reserve | | 1,085,020 | - | 1,085,020 |
| Fair value reserve | | ( 211,397) | - | ( 211,397) |
| Loan loss reserve | | 18,240 | - | 18,240 |
| Unappropriated profits | | 605,241 | - | 605,241 |
| | | 3,531,662 | - | 3,531,662 |
| | | 32,101,894 | - | 32,101,894 |

Notes

(1) Interest receivable was reclassified from accounts receivable to the various financial assets to conform to the concept of amortised cost.
(2) Computer software which was previously shown as construction work in progress was reclassified to intangible assets.
(3) Interest payable was reclassified from accounts payable to the various financial liabilities to conform to the concept of amortised cost.