Capital & Credit Merchant Bank Limited and its subsidiaries

AUDITED FINANCIAL STATEMENTS

-Year Ended December 31, 2008

A Member of the Capital & Credit Financial Group

CONTENTS

FINANCIAL STATEMENTS

Deloitte.

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DIAMOND ANNIVERSARY 1949 – 2009
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CONTINUING TO BE ONE STEP AHEAD

INDEPENDENT AUDITORS' REPORT

To the members of

CAPITAL & CREDIT MERCHANT BANK LIMITED

Report on the Financial Statements

We have audited the financial statements of Capital & Credit Merchant Bank Limited (the Bank) and the consolidated financial statements of the Bank and its subsidiaries (the Group), set out on pages 2 to 77, which comprise the Group's and the Bank's balance sheets as at December 31, 2008, and the Group's and the Bank's profit and loss accounts, statements of changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Report on the financial statements (Cont'd)

Opinion

In our opinion, the financial statements give a true and fair view of the financial positions of the Group and the Bank as at December 31, 2008 and of the Group's and Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on additional requirements of the Jamaican Companies Act

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

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

Deloitte & Touche

Chartered Accountants

Kingston, Jamaica,
February 27, 2009

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2008

	Notes	2008 $'000	2007 $'000
ASSETS			
Cash resources	5	1,072,080	2,261,196
Investment in securities	6	11,008,285	19,062,910
Pledged assets	7	24,768,278	24,954,909
Investment in associate		3,282	3,282
Other investment	8	15,000	15,000
Loans (after provision for loan losses)	9	7,557,891	6,404,421
Accounts receivable	10	725,302	619,335
Income tax recoverable		87,142	115,541
Intangible assets	11	388,208	444,469
Property and equipment	12	119,512	104,032
Deferred tax assets	13	532,563	7,465
Customers' liability under acceptances, guarantees and letters of credit as per contra		590,346	354,989
Total assets		46,867,889	54,347,549

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2008

	Notes	2008 $'000	2007 $'000
LIABILITIES			
Securities sold under repurchase agreements	14	29,756,252	37,199,563
Deposits	15	9,378,051	7,670,991
Due to other financial institutions		791,962	1,194,852
Loan participation	16	814,790	1,959,561
Accounts payable	17	368,186	186,904
Preference shares	18	88,796	-
Liabilities under acceptances, guarantees and letters of credit as per contra		590,346	354,989
		41,788,383	48,566,860
STOCKHOLDERS' EQUITY			
Share capital	18	1,732,888	1,732,888
Statutory reserve fund	19	458,911	408,601
Retained earnings reserve	20	1,515,442	1,515,442
Fair value reserve	21	(1,317,487)	(216,516)
Loan loss reserve	9	207,538	74,611
Unappropriated profits		2,457,695	2,246,978
Attributable to stockholders of the Bank		5,054,987	5,762,004
Minority interest		24,519	18,685
		5,079,506	5,780,689
Total liabilities and stockholders' equity		46,867,889	54,347,549

The Notes on Pages 10 to 77 form an integral part of the Financial Statements.

The financial statements on Pages 2 to 77 were approved and authorised for issue by the Directors on February 27, 2009 and are signed on its behalf by:

Ryland T. Campbell
Chairman

Curtis A. Martin
President & CEO

Andrew B. Cocking
Director

Kelvin St. C. Roberts
Director

CONSOLIDATED PROFIT AND LOSS ACCOUNT
YEAR ENDED DECEMBER 31, 2008

	Notes	2008 $'000	2007 $'000
NET INTEREST INCOME AND OTHER REVENUE			
Interest on investments		4,145,176	4,076,825
Interest on loans		1,030,070	807,632
Total interest income		5,175,246	4,884,457
Interest expense		3,954,752	4,057,608
Net interest income	22	1,220,494	826,849
Commission and fee income	23	101,015	97,826
Net gains on securities trading		65,413	442,868
Foreign exchange trading and translation		218,206	(10,158)
Dividend income		88,484	45,912
Other income		18,644	11,317
Total other operating income		491,762	587,765
Net interest income and other revenue		1,712,256	1,414,614
NON-INTEREST EXPENSES			
Staff costs	24	597,817	475,419
Loan loss expense, less recovery	9	50,656	12,022
Bank charges		37,291	25,765
Property expense		78,653	66,491
Depreciation and amortisation		99,120	43,269
Information technology costs		41,448	27,290
Marketing and corporate affairs		69,475	70,025
Professional fees		48,324	56,749
Regulatory costs		31,035	21,068
Irrecoverable General Consumption Tax		36,197	30,446
Other operating expenses		55,135	51,264
Total non-interest expenses		1,145,151	879,808
PROFIT BEFORE TAXATION		567,105	534,806
Taxation	25	80,564	88,323
NET PROFIT		486,541	446,483
Attributable to:			
Stockholders of the Bank	26	479,442	441,265
Minority interest		7,099	5,218
		486,541	446,483
Earnings per stock unit	27	75¢	69¢

The Notes on Pages 10 to 77 form an integral part of the Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED DECEMBER 31, 2008

	Notes	Share Capital $'000	Statutory Reserve Fund $'000	Retained Earnings Reserve $'000	Fair Value Reserve $'000	Loan Loss Reserve $'000	Unappropriated Profits $'000	Attributable to equity holders of the Parent $'000	Minority Interest $'000	Total $'000
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
Unrealised gains on available-for-sale investments net of deferred tax		-	-	-	167,111	-	-	167,111	660	167,771
Realised gains on sale of securities available for sale net of deferred tax transferred to profit and loss account		-	-	-	(295,246)	-	-	(295,246)	-	(295,246)
Net income/(expense) recognised directly in equity		-	-	-	(128,135)	-	-	(128,135)	660	(127,475)
Net profit for the year		-	-	-	-	-	441,265	441,265	5,218	446,483
Total recognised income and expense		-	-	-	(128,135)	-	441,265	313,130	5,878	319,008
Transfer to loan loss reserve	9	-	-	-	-	34,870	(34,870)	-	-	-
Transfer to statutory reserve fund	19	-	45,923	-	-	-	(45,923)	-	-	-
Balance at December 31, 2007		1,732,888	408,601	1,515,442	(216,516)	74,611	2,246,978	5,762,004	18,685	5,780,689
Unrealised loss on available-for-sale investments net of deferred tax		-	-	-	(1,047,383)	-	-	(1,047,383)	(1,265)	(1,048,648)
Realised gains on sale of securities available for sale net of deferred tax transferred to profit and loss account		-	-	-	(53,588)	-	-	(53,588)	-	(53,588)
Net expense recognised directly in equity		-	-	-	(1,100,971)	-	-	(1,100,971)	(1,265)	(1,102,236)
Bonus issue of preference shares	18	-	-	-	-	-	(85,488)	(85,488)	-	(85,488)
Net profit for the year		-	-	-	-	-	479,442	479,442	7,099	486,541
Total recognised income and expense		-	-	-	(1,100,971)	-	393,954	(707,017)	5,834	(701,183)
Transfer to loan loss reserve	9	-	-	-		132,927	(132,927)	-	-	-
Transfer to statutory reserve fund	19	-	50,310	-	-	-	(50,310)	-	-	-
Balance at December 31, 2008		1,732,888	458,911	1,515,442	(1,317,487)	207,538	2,457,695	5,054,987	24,519	5,079,506

The Notes on Pages 10 to 77 form an integral part of the Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2008

	Notes	2008 $'000	2007 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		486,541	446,483
Interest income		(5,175,246)	(4,884,457)
Interest expense		3,954,752	4,057,608
Loan loss expense	9	55,492	32,078
Depreciation and amortisation		99,120	43,269
Deferred taxation		26,555	70,430
Income tax charge		54,009	17,893
		(498,777)	(216,696)
Movement in working capital			
Accounts receivable		(105,967)	48,510
Loans receivable		(1,115,001)	(2,404,125)
Accounts payable		181,282	(218,560)
Cash used in operations		(1,538,463)	(2,790,871)
Interest paid		(3,893,420)	(4,038,861)
Income tax paid		(25,610)	(62,734)
Net cash used in operating activities		(5,457,493)	(6,892,466)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of intangible assets	11	(12,344)	(81,291)
Acquisition of property and equipment	12	(45,995)	(29,491)
Interest received		4,928,037	4,932,676
Decrease in investments		6,572,332	1,048,650
Securities purchased under resale agreements		-	177,756
Net cash provided by investing activities		11,442,030	6,048,300
CASH FLOWS FROM FINANCING ACTIVITIES			
Deposits		1,667,988	3,491,772
Securities sold under repurchase agreements		(7,427,018)	(1,580,205)
Loan participation		(1,139,895)	253,624
Due to other financial institutions		(401,361)	(527,742)
Net cash (used in) provided by financing activities		(7,300,286)	1,637,449
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(1,315,749)	793,283
OPENING CASH AND CASH EQUIVALENTS		1,641,145	818,808
Effects of foreign exchange rate changes		35,557	29,054
CLOSING CASH AND CASH EQUIVALENTS	28	360,953	1,641,145

The Notes on Pages 10 to 77 form an integral part of the Financial Statements.

BALANCE SHEET AT DECEMBER 31, 2008

	Notes	2008 $'000	2007 $'000
ASSETS			
Cash resources	5	934,784	2,067,492
Investment in securities	6	4,689,294	9,828,422
Securities purchased under resale agreements		1,125,493	1,073,672
Pledged assets	7	9,816,338	11,019,221
Investment in subsidiaries (shares at cost)		305,406	305,406
Investment in associate		3,282	3,282
Loans (after provision for loan losses)	9	7,557,891	6,404,421
Accounts receivable	10	366,216	312,888
Income tax recoverable		109,446	85,228
Intangible assets	11	248,062	304,323
Property and equipment	12	69,577	49,634
Deferred tax assets	13	407,553	29,041
Customers' liabilities under acceptances, guarantees and letters of credit as per contra		590,346	354,989
Total assets		26,223,688	31,838,019

BALANCE SHEET AT DECEMBER 31, 2008

	Notes	2008 $'000	2007 $'000
LIABILITIES			
Securities sold under repurchase agreements	14	10,691,434	16,267,343
Deposits	15	9,378,051	7,675,437
Due to other financial institutions		791,962	1,194,852
Loan participation	16	814,790	1,959,561
Accounts payable	17	222,741	148,752
Preference shares	18	88,796	-
Liabilities under acceptances, guarantees and letters of credit as per contra		590,346	354,989
Total liabilities		22,578,120	27,600,934
STOCKHOLDERS' EQUITY			
Share capital	18	1,732,888	1,732,888
Statutory reserve fund	19	458,911	408,601
Retained earnings reserve	20	1,515,442	1,515,442
Fair value reserve	21	(954,103)	(112,676)
Loan loss reserve	9	207,538	74,611
Unappropriated profits		684,892	618,219
		3,645,568	4,237,085
Total liabilities and stockholders' equity		26,223,688	31,838,019

The Notes on Pages 10 to 77 form an integral part of the Financial Statements.

The financial statements on Pages 2 to 77 were approved and authorised for issue by the Directors on February 27, 2009 and are signed on its behalf by:

Ryland T. Campbell
Chairman

Curtis A. Martin
President & CEO

Andrew B. Cocking
Director

Kelvin St. C. Roberts
Director

PROFIT AND LOSS ACCOUNT
YEAR ENDED DECEMBER 31, 2008

	Notes	2008 $'000	2007 $'000
NET INTEREST INCOME AND OTHER REVENUE			
Interest on investments		1,242,205	1,523,737
Interest on loans		1,030,070	807,006
Total interest income		2,272,275	2,330,743
Interest expense		1,482,623	1,951,644
Net interest income	22	789,652	379,099
Commission and fee income	23	40,713	40,727
Net gains on securities trading		66,695	379,383
Foreign exchange trading and translation		154,614	37,082
Dividend income		76,728	48,033
Other income		7,273	6,732
Total other operating income		346,023	511,957
Net interest income and other revenue		1,135,675	891,056
NON-INTEREST EXPENSES			
Staff costs	24	350,920	270,407
Loan loss expense, less recovery	9	50,656	12,022
Bank charges		28,700	19,844
Property expenses		43,969	42,021
Depreciation and amortisation		82,971	32,040
Information technology costs		31,053	21,974
Marketing and corporate affairs		34,920	26,829
Professional fees		42,434	50,411
Regulatory costs		25,183	15,785
Irrecoverable General Consumption Tax		25,120	21,048
Other operating expenses		42,149	39,513
Total non-interest expenses		758,075	551,894
PROFIT BEFORE TAXATION		377,600	339,162
Taxation	25	42,202	33,009
NET PROFIT	26	335,398	306,153

The Notes on Pages 10 to 77 form an integral part of the Financial Statements.

STATEMENT OF CHANGES IN EQUITY
YEAR ENDED DECEMBER 31, 2008

	Notes	Share Capital $'000	Statutory Reserve Fund $'000	Retained Earnings Reserve $'000	Fair Value Reserve $'000	Loan Loss Reserve $'000	Unappropriated Profits $'000	Total $'000
Balance at December 31, 2006		1,732,888	362,678	1,515,442	(98,716)	39,741	392,859	3,944,892
Unrealised gains on securities available-for-sale net of deferred tax		-	-	-	238,962	-	-	238,962
Realised gains on securities available-for-sale net of deferred tax transferred to profit and loss account		-	-	-	(252,922)	-	-	(252,922)
Net expense recognised directly in equity		-	-	-	(13,960)	-	-	(13,960)
Net profit for the year		-	-	-	-	-	306,153	306,153
Total recognised income and expenses		-	-	-	(13,960)	-	306,153	292,193
Transfer to loan loss reserve	9	-	-	-	-	34,870	(34,870)	-
Transfer to statutory reserve fund	19	-	45,923	-	-	-	(45,923)	-
Balance at December 31, 2007		1,732,888	408,601	1,515,442	(112,676)	74,611	618,219	4,237,085
Unrealised loss on securities available-for-sale net of deferred tax		-	-	-	(796,751)	-	-	(796,751)
Realised gains on securities available-for-sale net of deferred tax transferred to profit and loss account		-	-	-	(44,676)	-	-	(44,676)
Net expense recognised directly in equity		-	-	-	(841,427)	-	-	(841,427)
Bonus issue of Preference shares	18	-	-	-	-	-	(85,488)	(85,488)
Net profit for the year		-	-	-	-	-	335,398	335,398
Total recognised income and expenses		-	-	-	(841,427)	-	249,910	(591,517)
Transfer to loan loss reserve	9	-	-	-	-	132,927	(132,927)	-
Transfer to statutory reserve fund	19	-	50,310	-	-	-	(50,310)	-
Balance at December 31, 2008		1,732,888	458,911	1,515,442	(954,103)	207,538	684,892	3,645,568

The Notes on Pages 10 to 77 form an integral part of the Financial Statements.

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2008

	Notes	2008 $'000	2007 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		335,398	306,153
Interest income		(2,272,275)	(2,330,743)
Interest expense		1,482,623	1,951,644
Loan loss expense	9	55,492	32,078
Depreciation and amortisation		82,971	32,040
Income tax charge		42,202	33,009
		(273,589)	24,181
Movements in working capital			
Accounts receivable		(53,328)	154,385
Loans receivable		(1,115,001)	(2,404,125)
Accounts payable		73,989	(137,330)
Cash used in operations		(1,367,929)	(2,362,889)
Interest paid		(1,622,568)	(1,940,952)
Income tax paid		(24,218)	(7,869)
Net cash used in operating activities		(3,014,715)	(4,311,710)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of intangible assets	11	(12,344)	(81,291)
Acquisition of property and equipment	12	(34,309)	(7,650)
Interest received		2,175,899	2,501,839
Decrease in investments		4,915,286	2,400,810
Securities purchased under resale agreements		(632,577)	1,750,000
Cash provided by investing activities		6,411,955	6,563,708
CASH FLOWS FROM FINANCING ACTIVITIES			
Deposits		1,663,542	1,967,289
Securities sold under repurchase agreements		(5,399,991)	(2,084,442)
Loan participation		(1,139,895)	253,624
Due to other financial institutions		(401,361)	(527,742)
Cash used in financing activities		(5,277,705)	(391,271)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(1,880,465)	1,860,727
OPENING CASH AND CASH EQUIVALENTS		2,515,448	627,576
Effect of foreign exchange rate changes		24,104	27,145
CLOSING CASH AND CASH EQUIVALENTS	28	659,087	2,515,448

The Notes on Pages 10 to 77 form an integral part of the Financial Statements

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

1 GROUP IDENTIFICATION

1.1 Composition of the Group

Capital & Credit Merchant Bank Limited ("the Bank") is incorporated in Jamaica and is a 100% (2007: 73.02%) subsidiary of Capital & Credit Financial Group Limited (CCFG), which is also incorporated in Jamaica. The registered office of the Bank is 6 – 8 Grenada Way, Kingston 5.

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

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

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

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

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

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

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

1.2 Principal activities

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

Subsidiaries	Place of incorporation and operation	Proportion of 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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

1 GROUP IDENTIFICATION (Cont'd)

1.3 Regulation and licence

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

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

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

1.4 Associate company

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

2 ADOPTION OF NEW AND REVISED STANDARDS

2.1 *Standards and Interpretations effective in the current period*

In the current year, three interpretations issued by the International Financial Reporting Interpretations Committee became effective for the Group. These are:

IFRIC 11	Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 14; IAS 19	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction

The adoption of these Interpretations has not had any changes to the Group's accounting policies.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures; issued in October 2008 effective for July 1, 2008. The Group adopted the amendments, these amendments permit an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivable category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available-for-sale) and the entity has the intention and ability to hold that financial asset for the foreseeable future or to maturity.

The adoption of this amendment resulted in the reclassification of certain investments from available for sale to loans and receivables. The impact on the financial results and the financial position of the Group and the additional disclosure required by IFRS 7 in respect of these investments are set out in Note 35.

2.2 Standards and interpretations in issue not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective for the financial period being reported upon:

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

2 ADOPTION OF NEW AND REVISED STANDARDS (Cont'd)

2.2 *Standards and interpretations in issue not yet effective (Cont'd)*

		Effective for annual periods beginning on or after
IAS 1, 8, 10,16, 18, 19,20,23, 27, 28, 29, 31,34, 36, 38, 39, 40,41 and IFRS 7	Amendments resulting from May 2008 Annual Improvements to IFRS	January 1, 2009
IAS 1 (Revised)	Presentation of Financial Statements:	
	- Comprehensive revision including requiring a statement of comprehensive income	January 1, 2009
	- Amendment to add disclosures about an entity's capital	January 1, 2009
IAS 23 (Revised)	Borrowing Costs	January 1, 2009
IAS 27 (Revised)	Consolidated and Separate Financial Statements	
	- Consequential amendments arising from amendments to IFRS 3	July 1, 2009
IAS 28	Investments in Associates - Consequential amendments arising from amendments to IFRS 3	July 1, 2009
IAS 31	Interests in Joint Ventures - Consequential amendments arising from amendments to IFRS 3	July 1, 2009
IAS 32	Financial Instruments: Presentation - Amendments relating to puttable instruments and obligations arising on liquidation	January 1, 2009
IAS 39	Financial Instruments: Recognition and Measurement - Amendments to clarify Eligible Hedged Items	July 1, 2009
IFRS 1	First-time Adoption of International Financial Reporting Standards:	
	- Cost of an Investment in a Subsidiary, Jointly Controlled - Entity or Associate	January 1, 2009
	- First-time Adoption of Financial Reporting Standards	July 1, 2009
IFRS 2	Share-based Payment - Amendment relating to vesting conditions and cancellations	January 1, 2009
IFRS 3 (Revised)	Business Combinations - Comprehensive revision on applying the acquisition method	July 1, 2009
IFRS 5 (Revised)	Non-current Assets Held for Sale and Discontinued Operations - Amendment relating to Plans to sell the controlling interest in a subsidiary	July 1, 2009
IFRS 8	Operating Segments	January 1, 2009
IFRIC 13	Customer Loyalty Programmes	July 1, 2008
IFRIC 15	Agreements for the Construction of Real Estate	January 1, 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	October 1, 2008
IFRIC 17	Distributions of Non-cash Assets to Owners	July 1, 2009
IFRIC 18	Transfers of Asset from Customers (transfers received on or after July 1, 2009)	

NOTES TO THE FINANCIAL STATEMENTS
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2 ADOPTION OF NEW AND REVISED STANDARDS (Cont'd)

2.2 *Standards and interpretations in issue not yet effective (Cont'd)*

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

2.3 *New and Revised Standards and Interpretations considered relevant*

- *IAS 1 (Revised 2007) - Presentation of Financial Statements* – IAS 1, among other things, affects the presentation of owner changes in equity and comprehensive income. It requires the presentation of all non-owners changes in equity (comprehensive income) in one or two statements; either in a single statement of comprehensive income, or in an income statement and a statement of comprehensive income. On adoption at its effective date, the standard will result in a change in the presentation of the Group's profit and loss account and the statement of changes in equity.

- *IAS* 23 *(Revised) - Borrowing Costs* - The revision removes the option of either capitalising borrowing costs relating to qualifying assets or expensing these borrowing costs. The revised standard requires management to capitalise borrowing costs attributable to qualifying assets. Qualifying assets are assets that take a substantial time to get ready for their intended use or sale. The adoption of this revised standard at its effective date is not expected to have a significant impact on the Group's financial statements as it currently has no qualifying assets.

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

- *IAS 28 (Revised) Investments in Associates* - The amendment addresses Impairment of investments in associates as it gives clarification that an investment in an associate is treated as a single asset for impairment testing. Therefore, an impairment loss recorded by an investor after applying the equity method is not allocated against any goodwill included in the equity accounted investment balance. Such an impairment loss should be reversed in a subsequent period to the extent that the recoverable amount of the associate increases. The adoption of the revised standard is not expected to have any significant impact on the Group's financial statements.

- *Under the amendments to IAS* 32 (Revised) *Financial instruments: Presentation – Puttable Instruments and Obligations Arising on Liquidation,* certain financial instruments that currently meet the definition of a financial liability will be classified as equity because they represent the residual interest in the net assets of the entity. This standard is not expected to have any significant impact on the Group's financial statements.

- *Under the amendments to IFRS 2 (Revised) Share-based payment – Vesting Conditions and Cancellations,* the terms 'vesting conditions' and 'cancellations' were clarified as follows. Vesting conditions are service and performance conditions only. Features of a share-based payment that are not vesting conditions should be included in the grant date fair value of the share-based payment. A cancellation of equity instruments is accounted for as an acceleration of the vesting period. The standard is not expected to have any significant impact on the financial statements of the Group.

2 ADOPTION OF NEW AND REVISED STANDARDS (Cont'd)

2.3 *New and Revised Standards and Interpretations considered relevant (Cont'd)*

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

- *IFRS 7 Financial Instruments: Disclosure* - The amendment is expected to have no or minimal effect on accounting and merely sought to resolve the potential conflict between IAS 1 and IFRS 7 by amending the Implementation Guidance accompanying IFRS 7 to clarify that interest income is not a component of finance costs.

- *IFRS 8 Operating Segments* – IFRS 8 replaces IAS 14 and sets out requirements for disclosure of information about an entity's operating segments and about the entity's products and services, the geographical areas in which it operates and its major customers. The standard is required for entities whose debt or equity instruments are traded in a public market or file their financial information with a regulatory organization for the purpose of issuing any class of instruments in a public market. The Group is currently accessing the impact that IFRS 8 will have on the disclosures in the Group's financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of compliance

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

3.2 Basis of preparation

3.2.1 Basis of measurement

The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments. The principal accounting policies are set out below.

3.2.2 Functional and presentation currency

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

3.2.3 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.3 Basis of consolidation

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

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

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

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

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.

3.4 Business combinations

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

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

3.5 Investment in subsidiaries

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

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

3.6 Investment in associate

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

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

3.6 **Investment in associate (Cont'd)**

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

3.7 **Goodwill**

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

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

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

3.8 **Financial Instruments**

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

A financial asset is any asset that is:

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.8 Financial Instruments (Cont'd)

A financial liability is any liability that is:

(a) a contractual obligation:

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

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

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

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

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

3.8.1 Financial assets

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

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

Financial assets are classified into the following categories:

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

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

3.8.1.1 Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

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

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

3.8.1 Financial assets (Cont'd)

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

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

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

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

3.8.1.2 Held-to-maturity investments

Securities with fixed or determinable payments and fixed maturity dates that the Group has the positive ability to hold to maturity are classified as held to maturity investments. These investments are recorded at amortised cost using the effective interest rate method less any impairment, with revenue recognised on an effective yield basis.

3.8.1.3 Available-for-sale financial assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.8 Financial Instruments (Cont'd)

3.8.1 Financial assets (Cont'd)

3.8.1.4 Loans and receivables

Loans and receivable that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate except for short term receivables, when the recognition of interest would be immaterial.

Were the Group to sell, other than an insignificant amount of held-to-maturity securities (in comparison to the remaining balance in the category) the entire category would be compromised and reclassified as available-for-sale.

3.8.1.5 Loans and provisions for credit losses

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

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

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

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

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

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

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

3.8.1 Financial assets (Cont'd)

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

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

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

3.8.1.6 Effective interest rate method

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

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

3.8.1.7 Impairment of financial assets

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

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

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

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

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

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

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

3.8.1 Financial assets (Cont'd)

3.8.1.7 Impairment of financial assets (Cont'd)

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

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

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

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

3.8.1.8 De-recognition of financial assets

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

3.8.2 Financial liabilities and equity instruments issued by the Group

3.8.2.1 Financial liabilities

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.8 Financial Instruments (Cont'd)

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

3.8.2.1 Financial liabilities (Cont'd)

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

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

3.8.2.2 De-recognition of financial liabilities

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

3.8.2.3 Equity instruments

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

3.8.2.4 Sale and repurchase agreements

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

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

3.8.3 Cash and cash equivalents

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.9 Property and equipment

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

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

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

Land is not depreciated.

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

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

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

3.10 Intangible assets

3.10.1 Computer software costs

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

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

3.10.2 Goodwill

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

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

3.11 **Impairment of tangible and intangible assets**

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.12 Taxation

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

3.12.1 Current tax

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

3.12.2 Deferred tax

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

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

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

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

3.12.3 Current and deferred tax for the period

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.13 Acceptances

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

3.14 Revenue recognition

3.14.1 Interest income

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

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

3.14.2 Fees and commission

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

3.14.3 Dividend income

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.15 Related party transactions and balances

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

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

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

3.16 Leases

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

3.16.1 Group as the lessee

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

3.16.2 Group as the lessor

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

3.17 Provisions

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

3.18 **Employee benefits**

3.18.1 Pension obligations

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

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

3.18.2 Employee Share Ownership Plan

The Group 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.

3.18.3 Leave entitlements

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

3.18.4 Termination benefits

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

3.19 **Fiduciary activities**

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

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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

Reclassification of Financial Assets

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

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

Held-to Maturity Investments

In accordance with IAS 39 guidance in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity, the Group reclassified certain investment securities that met the definition of held-to-maturity investments out of the available-for-sale category to the held to maturity category. This reclassification required judgment and in making this judgment, the Group evaluated its intention and ability to hold these investments to maturity. If the Group fails to keep these investments to maturity other than in specific permissible circumstances such as selling an insignificant amount close to maturity, it will be required to reclassify the entire class as available-for-sale. The investment therefore would be measured at fair value, not amortised cost. If the entire class of held-to-maturity investments is compromised, the carrying value which is at amortised cost would be decreased for the Group and for the Bank, with a corresponding reduction in the fair value reserve in shareholders' equity.

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

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

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

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

Fair value of financial assets

As described in Note 33, the management uses its judgment in selecting appropriate valuation techniques to determine fair values of financial assets. Valuation techniques commonly used by market practitioners supported by appropriate assumptions are applied by the Group. The financial assets of the Group at the balance sheet date stated at fair value amount to $12.3 billion (2007: $43.1 billion) and of the Bank $2.6 billion (2007: $20.5 billion).

Income taxes

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

Impairment losses on loans and advances

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

To the extent that the net present value of estimated cash flows changed adversely by 2 percent, the provision as estimated would be increased from $97.2 million to $147.0 million (2007: from $46.6 million to $125.8 million) for the Group and the Bank.

5 CASH RESOURCES

Cash resources include $711.1 million (2007: $620.0 million) held under Section 14(i) of the Financial Institutions Act, at the Bank of Jamaica as a Cash Reserve. Accordingly, these amounts are not available for investment or other use by the Group.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

6 INVESTMENT IN SECURITIES

	The Group		The Bank	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Financial assets at fair value through profit or loss:				
Equity securities	40,808	116,547	-	-
Securities available-for-sale				
Government of Jamaica securities	8,022,215	25,588,257	482,576	7,539,382
US Government agencies	1,472,295	11,276,961	1,472,295	10,572,961
Equity investments	710,269	1,107,565	651,206	1,107,565
Bank of Jamaica certificates of deposit	2,015,497	3,623,362	-	-
Other securities	3,338	1,434,225	-	1,333,266
	12,223,614	43,030,370	2,606,077	20,553,174
Loans and Receivables Securities: (see Note 35)				
Government of Jamaica securities	13,243,809	-	9,565,767	-
Other securities	3,576,113	-	2,072,678	-
	16,819,922	-	11,638,445	-
Held to Maturity Securities: (see Note 35)				
Government of Jamaica securities	752,989	-	-	-
US Government agencies	1,740,970	-	-	-
Bank of Jamaica certificates of deposit	3,011,704	-	-	-
Other securities	198,388	-	-	-
	5,704,051	-	-	-
	34,788,395	43,146,917	14,244,522	20,553,174
Pledged assets (Note 7)	(24,768,278)	(24,954,909)	(9,816,338)	(11,019,221)
	10,020,117	18,192,008	4,428,184	9,533,953
Interest receivable	988,168	870,902	261,110	294,469
	11,008,285	19,062,910	4,689,294	9,828,422

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

6 INVESTMENT IN SECURITIES (Cont'd)

Government securities totalling $71.4 million (2007: $71.4 million) are held by the Bank of Jamaica, of which $70.4 million (2007: $70.4 million) are held as security in the event of an overdraft on the Bank's and subsidiary's primary dealer accounts, and $1.0 million (2007: $1.0 million) to facilitate stockbroking activities of the subsidiary.

Gross gains of $80.3 million for the Group and $66.7 million for the Bank (2007: $442.8 million for the Group and $379.3 million for the Bank) were realised during the year on sale of securities available-for-sale.

7 PLEDGED ASSETS

The Group enters into collateralized repurchase agreements and as at the balance sheet date, investment securities amounting to $24.8 billion (2007: $24.9 billion) of the Group and $9.8 billion (2007: $11.0 billion) of the Bank were pledged as collateral for repurchase agreements which represents the total of those assets pledged for which the transferee has the right by contract or custom to sell or repledge the collateral.

8 OTHER INVESTMENT

This represents 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.

9 LOANS (AFTER PROVISION FOR LOAN LOSSES)

	The Group and the Bank	
	2008	2007
	$'000	$'000
Corporate	5,089,359	4,672,254
Individuals	2,359,346	1,666,286
	7,448,705	6,338,540
Less provisions	97,206	46,550
	7,351,499	6,291,990
Interest receivable	206,392	112,431
	7,557,891	6,404,421

	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 2008	Carrying Value 2007
	$'000	$'000	$'000	$'000	$'000	$'000
Corporate	2,134,198	900,034	1,383,957	671,170	5,089,359	4,672,254
Individuals	273,507	251,005	1,193,627	641,207	2,359,346	1,666,286
	2,407,705	1,151,039	2,577,584	1,312,377	7,448,705	6,338,540

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

(a) The loan balance includes an amount of $97.2 million (2007: $82.9 million) receivable from the bank's employees.

(b) The aggregate amount of non-performing loans on which interest is not being accrued is $550.9 million (2007: $464.9 million).

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

	2008 $'000	2007 $'000
Specific provisions		
Provision at January 1	46,550	34,528
Charged to profit and loss	55,492	32,078
Recoveries during the year	(4,836)	(20,056)
	50,656	12,022
Balance at December 31	97,206	46,550
General provisions		
Provisions at January 1	74,611	39,741
Charged to equity	132,927	34,870
Balance at December 31	207,538	74,611
Total allowance for impairment	304,744	121,161

Total allowances for loan losses is made up as follows:

	2008 $'000	2007 $'000
Allowance based on accounting standards - (IAS 39 see (i) below)	97,206	46,550
Additional allowance based on Bank of Jamaica regulations (see (ii) below)	207,538	74,611
	304,744	121,161

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

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

10 ACCOUNTS RECEIVABLE

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Broker receivable	63,689	160,151	63,689	160,151
Withholding tax recoverable	243,830	247,031	-	-
Owed by parent company	53,772	3,307	53,772	3,307
Owed by wholly-owned subsidiary	-	-	2,463	659
Owed by fellow subsidiary	63,929	15,423	63,929	15,423
Other receivables	300,082	193,423	182,363	133,348
	725,302	619,335	366,216	312,888

11 INTANGIBLE ASSETS

	The Group			The Bank
	Computer Software	Goodwill	Total	Computer Software
	$'000	$'000	$'000	$'000
Cost				
Balance at December 31, 2006	238,978	140,146	379,124	238,978
Additions	81,291	-	81,291	81,291
Balance at December 31, 2007	320,269	140,146	460,415	320,269
Additions	12,344	-	12,344	12,344
Transfer (Note 12)	(1,523)	-	(1,523)	(1,523)
Balance at December 31, 2008	331,090	140,146	471,236	331,090
Amortisation				
Balance at December 31, 2006	-	-	-	-
Charge for the year	15,946	-	15,946	15,946
Balance at December 31, 2007	15,946	-	15,946	15,946
Charge for the year	67,082	-	67,082	67,082
Balance at December 31, 2008	83,028	-	83,028	83,028
Carrying amount				
December 31, 2008	248,062	140,146	388,208	248,062
December 31, 2007	304,323	140,146	444,469	304,323

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

12 PROPERTY 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								
Balance at December 31, 2006	2,968	20,391	149,255	11,769	49,444	4,730	21,635	260,192
Additions	-	-	16,129	67	4,798	-	8,497	29,491
Transfer	-	-	30,132	-	-	-	(30,132)	-
Balance at December 31, 2007	2,968	20,391	195,516	11,836	54,242	4,730	-	289,683
Additions	-	-	22,499	-	10,205	13,291	-	45,995
Transfer (Note 11)	-	-	3,740	(2,217)	-	-	-	1,523
Balance at December 31, 2008	2,968	20,391	221,755	9,619	64,447	18,021	-	337,201
Depreciation								
Balance at December 31, 2006	-	1,524	112,041	-	43,298	1,465	-	158,328
Charge for year	-	497	17,459	-	8,581	786	-	27,323
Balance at December 31, 2007	-	2,021	129,500	-	51,879	2,251	-	185,651
Charge for year	-	527	26,853	-	1,540	3,118	-	32,038
Balance at December 31, 2008	-	2,548	156,353	-	53,419	5,369	-	217,689
Net book value								
December 31, 2008	2,968	17,843	65,402	9,619	11,028	12,652	-	119,512
December 31, 2007	2,968	18,370	66,016	11,836	2,363	2,479	-	104,032

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

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

No depreciation is provided on land, paintings and artwork.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

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

	The Bank						
	Land	Building	Furniture, Fixtures and Equipment	Paintings and Artwork	Leasehold Improvements	Motor Vehicles	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At cost							
Balance at December 31, 2006	2,968	20,391	102,236	11,075	48,927	4,730	190,327
Additions	-	-	2,852	-	4,798	-	7,650
Balance at December 31, 2007	2,968	20,391	105,088	11,075	53,725	4,730	197,977
Additions	-	-	16,263	-	4,755	13,291	34,309
Transfer (Note 11)	-	-	3,740	(2,217)	-	-	1,523
Balance at December 31, 2008	2,968	20,391	125,091	8,858	58,480	18,021	233,809
Depreciation							
Balance at December 31, 2006	-	1,524	86,479	-	42,781	1,465	132,249
Charge for year	-	497	6,230	-	8,581	786	16,094
Balance at December 31, 2007	-	2,021	92,709	-	51,362	2,251	148,343
Charge for year	-	527	11,119	-	1,125	3,118	15,889
Balance at December 31, 2008	-	2,548	103,828	-	52,487	5,369	164,232
Net book value							
December 31, 2008	2,968	17,843	21,263	8,858	5,993	12,652	69,577
December 31, 2007	2,968	18,370	12,379	11,075	2,363	2,479	49,634

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

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

No depreciation is provided on land, paintings and artwork.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

13 DEFERRED TAXATION

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

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Analysis for financial reporting purposes				
Deferred tax assets	993,726	381,584	622,093	205,868
Deferred tax liabilities	(461,163)	(374,119)	(214,540)	(176,827)
Net assets	532,563	7,465	407,553	29,041

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

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Net assets at January 1	7,465	14,359	29,041	55,070
Charged to income	(26,555)	(70,430)	(42,202)	(33,009)
Credited to equity	551,653	63,536	420,714	6,980
Net assets at December 31	532,563	7,465	407,553	29,041

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

13 DEFERRED TAXATION (Cont'd)

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

(i) Deferred tax assets

	The Group							
	Tax Losses $'000	Securities Trading $'000	Available-for-sale Investment Revaluation $'000	Interest Payable $'000	Accrued Vacation $'000	Tax Credit $'000	Other $'000	Total $'000
At December 31, 2006	111,088	-	32,822	237,344	-	1,000	633	382,887
Credited/(charged) to income for the year	(76,468)	-	-	6,249	-	-	(32)	(70,251)
Credited to equity for the year	-	-	63,536	-	-	-	-	63,536
Transfer from deferred tax liability	-	5,412	-	-	-	-	-	5,412
At December 31, 2007	34,620	5,412	96,358	243,593	-	1,000	601	381,584
Credited/(charged) to income for the year	30,632	7,582	-	20,444	1,944	-	(113)	60,489
Credited to equity for the year	-	-	551,653	-	-	-	-	551,653
At December 31, 2008	65,252	12,994	648,011	264,037	1,944	1,000	488	993,726

	The Bank				
	Tax Losses $'000	Available-for-sale Investment Revaluation $'000	Interest Payable $'000	Tax Credit $'000	Total $'000
At December 31, 2006	87,062	49,358	125,652	1,000	263,072
Credited/(charged) to income for the year	(67,749)	-	3,565	-	(64,184)
Credited to equity for the year	-	6,980	-	-	6,980
At December 31, 2007	19,313	56,338	129,217	1,000	205,868
Credited/(charged) to income for the year	42,159	-	(46,648)	-	(4,489)
Credited to equity for the year	-	420,714	-	-	420,714
At December 31, 2008	61,472	477,052	82,569	1,000	622,093

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

13 DEFERRED TAXATION (Cont'd)

(ii) Deferred tax liabilities

	The Group			
	Capital Allowances in excess of Deprecation Charges	Interest Receivable	Trading Investment Revaluation	Total
	$'000	$'000	$'000	$'000
At December 31, 2006	(16,378)	(345,619)	(6,531)	(368,528)
Charged to income for the year	(28,195)	16,073	11,943	(179)
Transfer to deferred tax asset	-	-	(5,412)	(5,412)
At December 31, 2007	(44,573)	(329,546)	-	(374,119)
Charged to income for the year	(4,641)	(82,403)	-	(87,044)
At December 31, 2008	(49,214)	(411,949)	-	(461,163)

	The Bank		
	Capital Allowances in excess of Depreciation Charges	Interest Receivable	Total
	$'000	$'000	$'000
At December 31, 2006	(13,449)	(194,553)	(208,002)
Charged to income for the year	(25,856)	57,031	31,175
At December 31, 2007	(39,305)	(137,522)	(176,827)
Charged to income for the year	(5,588)	(32,125)	(37,713)
At December 31, 2008	(44,893)	(169,647)	(214,540)

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

13 DEFERRED TAXATION (Cont'd)

Deferred income taxes are recognised for the tax loss carried forward only to the extent that realisation of the related tax benefit is probable. The Group has tax losses, subject to agreement with the Commissioner, Taxpayer Audit and Assessment, amounting to $195.6 million (2007: $103.8 million) available for indefinite carry forward and off set against future taxable income. Deferred tax assets have been recognised in respect of these amounts.

Deferred income tax liabilities have not been provided for the withholdings and other taxes that would be payable on the undistributed earnings of a subsidiary to the extent that such earnings are reinvested. Such undistributed earnings totalled $1.5 billion (2007: $1.3 billion).

14 SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

	The Group				
	Remaining Term to Maturity				
	Under 3 Months	3 to 12 Months	1 to 5 Years	Carrying Value 2008	Carrying Value 2007
	$'000	$'000	$'000	$'000	$'000
Total	26,391,324	3,360,349	4,579	29,756,252	37,199,563
Personal				3,285,833	3,327,207
Financial institutions				17,269,300	21,814,581
Commercial and business enterprises				8,647,237	11,487,600
				29,202,370	36,629,388
Interest payable				553,882	570,175
				29,756,252	37,199,563

	The Bank			
	Remaining Term to Maturity			
	Within 3 months	3 to 12 Months	Carrying Value 2008	Carrying Value 2007
	$'000	$'000	$'000	$'000
Total	10,529,330	162,104	10,691,434	16,267,343
Personal			-	2,355
Financial institutions			9,654,809	13,488,339
Commercial and business enterprises			985,856	2,549,962
			10,640,665	16,040,656
Interest payable			50,769	226,687
			10,691,434	16,267,343

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

15 DEPOSITS

	The Group				
	Remaining Term to Maturity				
	Within 3 months	3 to 12 Months	1 to 5 Years	Carrying Value 2008	Carrying Value 2007
	$'000	$'000	$'000	$'000	$'000
Total	4,807,300	4,448,984	121,767	9,378,051	7,670,991
Personal				3,140,821	3,722,786
Financial institutions				1,329,994	337,144
Commercial and business enterprises				4,747,312	3,490,209
				9,218,127	7,550,139
Interest payable				159,924	120,852
				9,378,051	7,670,991

	The Bank				
	Remaining Term to Maturity				
	Within 3 months	3 to 12 Months	1 to 5 Years	Carrying Value 2008	Carrying Value 2007
	$'000	$'000	$'000	$'000	$'000
Total	4,807,300	4,448,984	121,767	9,378,051	7,675,437
Personal				3,140,821	3,722,786
Financial institutions				1,329,994	341,590
Commercial and business enterprises				4,747,312	3,490,209
				9,218,127	7,554,585
Interest payable				159,924	120,852
				9,378,051	7,675,437

16 LOAN PARTICIPATION

	The Group and the Bank			
	Remaining Term to Maturity			
	Within 3 months	3 to 12 Months	Carrying Value 2008	Carrying Value 2007
	$'000	$'000	$'000	$'000
Total	499,965	314,825	814,790	1,959,561
Personal			301,703	755,610
Financial institutions			58,712	40,191
Commercial and business enterprises			440,181	1,144,690
			800,596	1,940,491
Interest payable			14,194	19,070
			814,790	1,959,561

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

17 ACCOUNTS PAYABLE

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Withholding tax	125,880	63,613	125,880	63,613
Prime accounts	3,832	-	-	-
Other payable	238,474	123,291	96,861	85,139
	368,186	186,904	222,741	148,752

18 SHARE CAPITAL

	Number of units	
	2008	2007
	'000	'000
Authorised:		
- Ordinary shares - no par value	800,000	800,000
- Cumulative redeemable preference shares - no par value	100,000	-

	2008	2007
	$'000	$'000
Issued and fully paid:		
- 641,159,682 ordinary shares – no par value at January 1	1,732,888	1,732,888
- 42,743,979 cumulative redeemable preference shares	85,488	-
	1,818,376	1,732,888
Less: Redeemable preference shares classified as liabilities as required by IFRS	(85,488)	-
Stated Capital at December 31	1,732,888	1,732,888

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

18 SHARE CAPITAL (Cont'd)

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

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

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

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

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

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

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

	$'000
Redeemable Preference Shares	85,488
Interest accrued thereon	3,308
	88,796

19 STATUTORY RESERVE FUND

Under the Financial Institutions Act (1992) the Bank is required to transfer to a reserve fund a minimum of 15% of the net profit each year until the amount to the credit of the reserve fund is equal to 50% of the Bank's paid up capital. Thereafter, 10% of the net profit each year is to be transferred to the reserve fund until the amount at the credit of the reserve fund is equal to the Bank's paid up capital. The transfer for the year was at the prescribed rate of 15% (2007: 15%).

20 RETAINED EARNINGS RESERVE

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

21 FAIR VALUE RESERVE

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

21 FAIR VALUE RESERVE (Cont'd)

Movement in fair value reserve is as follows:

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Balance at January 1	(216,516)	(88,381)	(112,676)	(98,716)
Unrealised (loss)/gains on available-for-sale investments	(1,571,075)	250,666	(1,195,127)	358,443
Deferred tax on unrealised (loss)/gains	523,692	(83,555)	398,376	(119,481)
Realised gains on sale of available-for-sale investments transferred to profit and loss	(80,382)	(442,868)	(67,014)	(379,383)
Deferred tax on realised gains	26,794	147,622	22,338	126,461
Balance at December 31	(1,317,487)	(216,516)	(954,103)	(112,676)

22 NET INTEREST INCOME

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Interest income				
Government of Jamaica securities	2,964,669	2,774,235	821,926	947,883
US Government agencies	134,930	508,394	115,793	483,779
Other securities	231,054	250,977	304,486	92,075
Bank of Jamaica certificates of deposits	814,523	543,219	-	-
Loans	1,030,070	807,632	1,030,070	807,006
	5,175,246	4,884,457	2,272,275	2,330,743
Interest expenses				
Securities sold under repurchase agreements	3,179,750	3,290,944	707,621	1,184,980
Deposits	661,742	483,654	661,742	483,654
Other	113,260	283,010	113,260	283,010
	3,954,752	4,057,608	1,482,623	1,951,644
	1,220,494	826,849	789,652	379,099

23 COMMISSION AND FEE INCOME

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Loan processing fees	40,713	40,727	40,713	40,727
Commission - Government of Jamaica	456	5,910	-	-
Commission - equity trading	5,757	6,189	-	-
Fund management and registrar fees	54,089	45,000	-	-
	101,015	97,826	40,713	40,727

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

24 STAFF COSTS

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Staff costs incurred during the year in respect of employees were:				
Salaries and wages	426,987	322,031	241,268	175,032
Statutory contributions	43,635	36,204	24,692	19,815
Pension contributions	16,718	14,753	9,230	7,216
Termination costs	11,826	8,593	9,450	4,916
Other staff benefits	98,651	93,838	66,280	63,428
	597,817	475,419	350,920	270,407

25 TAXATION

(a) Total charge for the year comprises:

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Income tax at 33⅓% of taxable income	54,009	17,893	-	-
Deferred tax (Note 13)	26,555	70,430	42,202	33,009
	80,564	88,323	42,202	33,009

(b) Subject to agreement of the Commissioner, Taxpayer Audit and Assessment, at balance sheet date the Group had tax losses of approximately $195.8 million (2007: $103.8 million) available for set-off against future taxable profits. A deferred tax asset has been recognised in respect of these losses.

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

	The Group	
	2008	2007
	$'000	$'000
Profit before tax	567,105	534,806
Tax at the domestic income tax rate	189,035	178,268
Tax effect of:		
Expenses not deductible in determining taxable profit	431	-
Non-taxable income	(115,066)	(94,146)
Other adjustments	6,164	4,201
Income tax expense recognised in profit or loss	80,564	88,323

25 TAXATION

	The Bank	
	2008	2007
	$'000	$'000
Profit before tax	377,600	339,162
Tax at the domestic income tax rate	125,867	113,054
Tax effect of:		
Expenses not deductible in determining taxable profit	50	-
Non-taxable income	(85,318)	(83,134)
Other adjustments	1,603	3,089
Income tax expenses recognised in profit or loss	42,202	33,009

26 NET PROFIT

(a) Dealt with in the accounts of:

	2008	2007
	$'000	$'000
The Bank	335,398	306,153
The subsidiaries	144,044	135,112
	479,442	441,265

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

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Directors' emoluments				
- Fees	8,320	6,915	8,185	6,815
- Management	36,909	30,332	19,426	16,851
Audit fees - current year	10,060	7,871	4,860	3,600
- prior year	217	279	138	279
Depreciation and amortization	99,120	43,269	82,971	32,040

27 EARNINGS PER STOCK UNIT

Earnings per stock unit is calculated by dividing the net profit attributable to stockholders of the Bank of $479.4 million (2007: $441.2 million) by 641,159,682 ordinary stock units in issue during the two years.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

28 CASH AND CASH EQUIVALENTS

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Cash and balances with banks including Bank of Jamaica	1,072,080	2,261,196	934,784	2,067,492
Securities purchased under resale agreements	-	-	435,430	1,068,007
Less: Statutory cash reserves (Note 5)	(711,127)	(620,051)	(711,127)	(620,051)
	360,953	1,641,145	659,087	2,515,448

In the prior year securities purchased under resale agreements which met the definition of cash and cash equivalents were not separately disclosed as such. This is now reflected in the comparative details above and in the statement of cash flows which were appropriately amended to include these changes.

29 FUND MANAGEMENT

The Group provides corporate administration, investment management and advisory services to third parties which involve the Group making allocation, purchase and sales decisions in relation to a wide range of financial instruments. Those assets are held in a fiduciary capacity and are not included in these financial statements. At December 31, 2008, the Group had financial assets under administration of approximately $3.2 billion (2007: $2.8 billion).

30 SEGMENTAL FINANCIAL INFORMATION

The Group is organised into two main business segments:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

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

	2008			
	Banking & Related Services $'000	Financial & Related Services $'000	Eliminations $'000	Group $'000
External revenue	2,497,387	3,169,621	-	5,667,008
Inter-segment revenue	120,911	46,339	(167,250)	-
Total revenue	2,618,298	3,215,960	(167,250)	5,667,008
Result				
Segment result	377,600	203,374	(13,869)	567,105
Profit before taxation				567,105
Taxation				(80,564)
Profit for the year				486,541
Balance sheet				
Assets				
Segment assets	26,223,688	22,506,523	(1,862,322)	46,867,889
Consolidated total assets				46,867,889
Liabilities				
Segment liabilities	22,578,120	20,907,327	(1,697,064)	41,788,383
Consolidated total liabilities				41,788,383
Other information				
Capital additions	46,653	11,686	-	58,339
Depreciation and amortisation	82,971	16,149	-	99,120
Loan loss expense, less recovery	50,656	-	-	50,656

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

30 SEGMENTAL FINANCIAL INFORMATION (Cont'd)

	2007			
	Banking & Related Services $'000	Financial & Related Services $'000	Eliminations $'000	Group $'000
External revenue	2,694,464	2,777,758	-	5,472,222
Inter-segment revenue	148,236	-	(148,236)	-
Total revenue	2,842,700	2,777,758	(148,236)	5,472,222
Result				
Segment result	339,162	207,349	(11,705)	534,806
Profit before taxation				534,806
Taxation				(88,323)
Profit for the year				446,483
Balance sheet				
Assets				
Segment assets	31,838,019	24,037,898	(1,528,368)	54,347,549
Consolidated total assets				54,347,549
Liabilities				
Segment liabilities	27,600,934	22,329,037	(1,363,111)	48,566,860
Consolidated total liabilities				48,566,860
Other information				
Capital additions	88,941	21,841	-	110,782
Depreciation and amortisation	32,040	11,229	-	43,269
Loan loss expense, less recovery	12,022	-	-	12,022

31 PENSION FUND

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

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

32 RELATED PARTY TRANSACTIONS AND BALANCES

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

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Interest income				
Wholly-owned subsidiary	-	-	104,219	41,807
Associate	15	97,409	15	97,409
Other related party	19	-	-	-
	34	97,409	104,234	139,216
Preference dividends received				
Wholly-owned subsidiary	-	-	13,869	11,705
Management fees paid				
Parent company	24,000	24,000	24,000	24,000
Interest expense				
Parent company	1,575	27	1,562	-
Wholly-owned subsidiary	-	-	42,882	2,684
Fellow subsidiary	16,287	630	12,855	-
Associate	393	-	393	-
Other related party	23,021	-	-	-
	41,276	657	57,692	2,684
Securities sold under repurchase agreement				
Parent company	132	-	132	-
Wholly-owned subsidiary	-	-	527,854	240,000
Fellow subsidiary	1,201,464	-	1,201,464	-
	1,201,596	-	1,729,450	240,000
Securities purchased under resale agreement				
Parent company	239	228	-	-
Wholly-owned subsidiary	-	-	1,125,493	1,073,672
Fellow subsidiary	20,429	9,154	-	-
	20,668	9,382	1,125,493	1,073,672
Deposits				
Wholly-owned subsidiary	-	-	-	4,446
Fellow subsidiary	2,277	-	2,277	-
Associate	58,899	-	58,899	-
	61,176	-	61,176	4,446
Other receivables				
Parent company	53,772	3,307	53,772	3,307
Wholly-owned subsidiary	-	-	2,463	659
Fellow subsidiary	63,929	15,423	63,929	15,423
	117,701	18,730	120,164	19,389

These transactions occurred in the ordinary course of business.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

32 RELATED PARTY TRANSACTIONS AND BALANCES (Cont'd)

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

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Salaries and other short term benefits				
Directors	36,909	30,332	19,426	16,851
Management Personnel	75,628	112,748	45,594	55,615
	112,537	143,080	65,020	72,466
Interest expense				
Securities sold under repurchase agreements				
Directors	10,293	4,907	-	-
Management Personnel	612	125	-	-
Parties connected to Directors and Management	-	-	-	-
	10,905	5,032	-	-
Interest expense				
Deposits				
Directors	2,894	2,338	2,894	2,338
Management Personnel	427	1,534	427	1,534
Parties connected to Directors and Management	-	1,594	-	1,594
	3,321	5,466	3,321	5,466
Interest income				
Loans				
Directors	1,259	937	1,228	937
Management Personnel	3,159	3,321	2,738	3,321
	4,418	4,258	3,966	4,258
Other operating expenses				
Parties connected to Directors and Management	-	1,205	-	1,205

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

32 RELATED PARTY TRANSACTIONS AND BALANCES

(b) (Cont'd)

Year end balances with related parties are as follows:

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Deposits				
Directors	30,476	34,639	30,476	34,639
Management Personnel	15,282	13,946	15,282	13,946
Parties connected to Directors and Management	-	14,488	-	14,488
	45,758	63,073	45,758	63,073
Loans				
Directors	16,390	5,135	13,175	5,135
Management Personnel	46,653	30,511	37,904	30,511
	63,043	35,646	51,079	35,646
Securities sold under repurchase agreements				
Directors	144,813	95,479	-	-
Management Personnel	5,186	2,897	-	-
	149,999	98,376	-	-

(c) Directors and key management personnel of the Group and their immediate relatives no longer have any direct control in the voting shares of the Bank (in 2007 approximately 1.98% existed).

33 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT

33.1 Significant accounting policies

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

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

33.2 Categories of financial instruments

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Financial assets				
Investments in Securities				
- Held-for-trading	40,808	116,547		-
- Available-for-sale investments	12,582,516	43,901,272	2,662,626	20,847,643
- Loans and receivables	17,100,938	-	11,843,006	-
- Held to maturity	6,052,301	-	-	-
Loans and other receivables (including cash and cash equivalents)	9,355,273	9,284,952	9,984,384	9,858,473
	45,131,836	53,302,771	24,490,016	30,706,116
Financial liabilities				
Other financial liabilities at amortised cost	41,198,037	48,211,871	21,987,774	27,245,945

33.3 Financial risk management objectives

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

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

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

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

Conduct Review and Risk Policy Committee

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

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

33.3 Financial risk management objectives (Cont'd)

Credit & Investment Committee

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

Audit Committee

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

Asset & Liability Committee

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

Internal Audit Department

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

Risk & Compliance Department

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

33.4 Credit risk management

33.4.1 Credit risk

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

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

33.4 Credit risk management (Cont'd)

33.4.2 Credit review process

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

(a) Investments

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

(b) Loans

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

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

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

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

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

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

33.4 Credit risk management (Cont'd)

33.4.3 Collateral and other credit enhancement

Collateral

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

The principal collateral types for loans and advances are:

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

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

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

Credit related commitments

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

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

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

33.4 Credit risk management (Cont'd)

33.4.4 Impairment

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

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

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

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

	Loans	
	2008	2007
	$'000	$'000
Standard	5,391,624	5,549,889
Special mention	1,506,174	322,954
Sub-standard	152,679	149,321
Doubtful	347,870	286,744
Loss	50,358	29,632
	7,448,705	6,338,540

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

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Cash resources (excluding cash on hand)	985,393	2,101,587	893,086	1,951,506
Investment in securities	11,008,285	19,062,910	4,689,294	9,828,422
Securities purchased under resale agreements	-	-	1,125,493	1,073,672
Pledged assets	24,768,278	24,954,909	9,816,338	11,019,221
Loans (after provision for loan losses)	7,557,891	6,404,421	7,557,891	6,404,421
Accounts receivable	720,302	619,335	366,216	312,888
	45,040,149	53,143,162	24,448,318	30,590,130

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YEAR ENDED DECEMBER 31, 2008

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

33.4 Credit risk management (Cont'd)

33.4.7 Credit quality

	2008 $'000	2007 $'000
Neither past due nor impaired – standard	3,782,062	3,408,634
Past due but not impaired	3,378,648	2,664,104
Impaired	287,995	265,802
Gross	7,448,705	6,338,540
Less: provision for credit loss	97,206	46,550
Net	7,351,499	6,291,990

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

	2008			2007		
	Gross $'000	Loan Provisions $'000	Net $'000	Gross $'000	Loan Provisions $'000	Net $'000
Current loans	3,782,062	-	3,782,062	3,408,634	-	3,408,634
Past due 1 - 30 days	1,036,126	-	1,036,126	956,778	-	956,778
Past due 31– 60 days	1,061,364	-	1,061,364	1,185,205	-	1,185,205
Past due 61 – 90 days	1,018,245	-	1,018,245	322,954	-	322,954
More than 90 days	550,908	97,206	453,702	464,969	46,550	418,419
	7,448,705	97,206	7,351,499	6,338,540	46,550	6,291,990

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

33.4.8 Renegotiated loans and leases

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

The carrying value of the loans that would otherwise be past due or impaired and whose terms have been negotiated amounts to $1.3 billion (2007: $547.6 million).

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

33.4 Credit risk management (Cont'd)

33.4.9 Repossessed collateral

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

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

The Group repossessed a total of 32 motor vehicles held as security against a loan facility categorized as past due but not impaired. Of this amount 18 have been sold as at year end and the remaining 14 are in the process of being sold and the proceeds of which will be used to cover the outstanding indebtedness.

The carrying value of the loans on which the collateral was repossessed during the year is $30.5 million (2007: $265 million).

33.4.10 Loans

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

	2008 $'000	2007 $'000
Construction, land development and real estate acquisition	1,960,906	1,686,395
Distribution	885,844	587,278
Financial institutions	567,922	640,742
Government and public entities	120,323	340,267
Manufacturing & Utilities	314,622	239,208
Personal	1,995,131	1,847,852
Professional and other services	1,332,067	647,651
Tourism and entertainment	105,412	120,097
Transport, storage and communication	166,478	229,050
Total	7,448,705	6,338,540
Less: Provisions	97,206	46,550
	7,351,499	6,291,990
Interest receivable	206,392	112,431
	7,557,891	6,404,421

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

33.4 Credit risk management (Cont'd)

33.4.11 Investments

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

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Government of Jamaica	22,019,013	25,333,404	10,048,343	7,539,381
US Government agencies	3,213,265	11,276,961	1,472,295	10,572,961
Bank of Jamaica	5,027,201	3,623,362	-	-
Corporate	751,799	1,432,624	2,072,678	1,245,243
Other	3,777,117	1,480,566	651,206	1,195,589
	34,788,395	43,146,917	14,244,522	20,553,174
Interest receivable	988,168	870,902	261,110	294,469
	35,776,563	44,017,819	14,505,632	20,847,643

33.5 Liquidity risk

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

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

33.5.1 Management of Liquidity Risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
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33 **FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)**

33.5 Liquidity risk (Cont'd)

33.5.1 Management of Liquidity Risk (Cont'd)

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

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

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

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

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

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

33.5 Liquidity risk (Cont'd)

33.5.2 (Cont'd)

	The Group				
	2008				
	Remaining Term to Maturity				
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
	$'000	$'000	$'000	$'000	$'000
Financial assets					
Cash resources	1,072,080	-	-	-	1,072,080
Investment in securities	3,954,654	6,573,762	17,905,273	42,797,705	71,231,394
Loans after provision for loan losses	2,914,374	1,603,663	3,783,080	1,746,659	10,047,776
Accounts receivable	482,182	4,298	2,080	-	488,560
	8,423,290	8,181,723	21,690,433	44,544,364	82,839,810
Non-financial assets	264,398	209,908	725,192	358,346	1,557,844
Total assets (contractual maturity dates)	8,687,688	8,391,631	22,415,625	44,902,710	84,397,654
Financial liabilities					
Deposits	4,890,616	4,653,312	139,623	-	9,683,551
Securities sold under repurchase agreements	27,342,346	3,493,656	5,817	-	30,841,819
Loan participation	517,442	337,131	-	-	854,573
Due to other financial institutions	576,789	228,326	18,585	-	823,700
Preference shares	-	6,616	118,615	-	125,231
Other liabilities	223,624	-	2,848	-	226,472
	33,550,817	8,719,041	285,488	-	42,555,346
Non-financial liabilities	125,880	15,836	-	-	141,716
Total liabilities (contractual maturity dates)	33,676,697	8,734,877	285,488	-	42,697,062
Net liquidity gap	(24,989,009)	(343,246)	22,130,137	44,902,710	41,700,592
Cumulative liquidity gap	(24,989,009)	(25,332,255)	(3,202,118)	41,700,592	-
2007					
Liquidity Gap	(29,739,232)	(1,035,132)	34,989,820	36,448,641	40,664,097
Cumulative liquidity Gap	(29,739,232)	(30,774,364)	4,215,456	40,664,097	-

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

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

33.5 Liquidity risk (Cont'd)

33.5.2 (Cont'd)

	The Bank 2008 Remaining Term to Maturity				
	Within 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
Financial assets					
Cash Resources	934,784	-	-	-	934,784
Investment in securities	436,334	1,656,390	5,324,306	27,223,664	34,640,694
Securities purchased under resale agreements	1,023,160	117,733	-	-	1,140,893
Loans after provision for loan losses	2,914,374	1,603,663	3,783,080	1,746,659	10,047,776
Accounts receivable	366,216	-	-	-	366,216
	5,674,868	3,377,786	9,107,386	28,970,323	47,130,363
Non-financial assets	-	109,446	725,192	308,688	1,143,326
Total assets (contractual maturity dates)	5,674,868	3,487,232	9,832,578	29,279,011	48,273,689
Financial liabilities					
Deposits	4,890,616	4,653,312	139,623	-	9,683,551
Securities sold under repurchase agreements	10,614,323	180,235	-	-	10,794,558
Loan participation	517,442	337,131	-	-	854,573
Due to other financial institutions	576,789	228,326	18,585	-	823,700
Preference shares	-	6,616	118,615	-	125,231
Other liabilities	96,861	-	-	-	96,861
	16,696,031	5,405,620	276,823	-	22,378,474
Non-financial liabilities	125,880	-	-	-	125,880
Total liabilities (contractual maturity dates)	16,821,911	5,405,620	276,823	-	22,504,354
Net liquidity gap	(11,147,043)	(1,918,388)	9,555,755	29,279,011	25,769,335
Cumulative liquidity gap	(11,147,043)	(13,065,431)	(3,509,676)	25,769,335	-
2007					
Liquidity gap	(15,319,709)	1,167,843	16,374,013	19,767,652	21,989,799
Cumulative liquidity gap	(15,319,709)	(14,151,866)	2,222,147	21,989,799	-

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

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

33.5 Liquidity risk (Cont'd)

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

At December 31, 2008

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

At December 31, 2007

	No later Than 1 Year $'000	1 to 5 Years $'000	Over 5 years $'000	Total $'000
Loan commitments	759,159	-	-	759,159
Guarantees, acceptances and other financial liabilities	120,668	193,971	40,350	354,989
Capital commitments (see Note 34(b))	6,700	-	-	6,700
	886,527	193,971	40,350	1,120,848

33.6 Market risk

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

Management of Market Risk

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

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

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

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

33.6 Market risk (Cont'd)

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

33.6.1 Foreign currency risk

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

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

Foreign currency risk management

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

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

	The Group							
	2008							
	USD		CDN		GBP		EUR	
	US$ '000	J$ Equiv. '000	Cdn$ '000	J$ Equiv. '000	£ '000	J$ Equiv. '000	€ '000	J$ Equiv. '000
Total assets	313,563	25,152,434	787	50,762	779	90,084	100	11,165
Total liabilities	(312,351)	(25,055,198)	(1,153)	(74,369)	(855)	(98,872)	(148)	(16,524)
Net exposure	1,212	97,236	(366)	(23,607)	(76)	(8,788)	(48)	(5,359)

	2007							
	USD		CDN		GBP		EUR	
	US$ '000	J$ Equiv. '000	Cdn$ '000	J$ Equiv. '000	£ '000	J$ Equiv. '000	€ '000	J$ Equiv. '000
Total assets	414,545	29,183,948	2,008	141,784	1,140	159,839	284	29,093
Total liabilities	(400,947)	(28,226,669)	(2,424)	(171,159)	(573)	(80,340)	(128)	(13,112)
Net exposure	13,598	957,279	(416)	(29,375)	567	79,499	156	15,981

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

33.6 Market risk (Cont'd)

33.6.1 Foreign currency risk (Cont'd)

The Bank

	2008							
	USD		CDN		GBP		EUR	
	US$ '000	J$ Equiv. '000	Cdn$ '000	J$ Equiv. '000	£ '000	J$ Equiv. '000	€ '000	J$ Equiv. '000
Total assets	222,711	17,864,763	787	50,762	779	90,084	81	9,044
Total liabilities	(229,869)	(18,438,942)	(1,153)	(74,369)	(855)	(98,872)	(148)	(16,524)
Net exposure	(7,158)	(574,179)	(366)	(23,607)	(76)	(8,788)	(67)	(7,480)

	2007							
	USD		CDN		GBP		EUR	
	US$ '000	J$ Equiv. '000	Cdn$ '000	J$ Equiv. '000	£ '000	J$ Equiv. '000	€ '000	J$ Equiv. '000
Total assets	315,462	22,208,525	2,008	141,784	1,140	159,839	274	28,069
Total liabilities	(305,962)	(21,539,725)	(2,424)	(171,159)	(573)	(80,340)	(128)	(13,112)
Net exposure	9,500	668,800	(416)	(29,375)	567	79,499	146	14,957

33.6.2 Foreign currency sensitivity

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

The Group

	2008		2007	
	Change in Currency Rates %	Effect on Net Profit $'000	Change in Currency Rates %	Effect on Net Profit $'000
Currency:				
USD	5	4,862	5	47,864
CDN	5	1,180	5	1,469
GBP	5	439	5	3,975
EURO	5	268	5	799

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

33.6 Market risk (Cont'd)

33.6.2 Foreign currency sensitivity (Cont'd)

	The Bank			
	2008		2007	
	Change in Currency Rates %	Effect on Net Profit $'000	Change in Currency Rates %	Effect on Net Profit $'000
Currency:				
USD	5	28,709	5	33,440
CDN	5	1,180	5	1,469
GBP	5	439	5	3,975
EURO	5	374	5	748

33.6.3 Interest rate risk

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

Management of interest rate risk

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

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

33.6 Market risk (Cont'd)

33.6.3 Interest rate risk (Cont'd)

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

	The Group						
	2008						
	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	1,030,382	-	-	-	-	41,698	1,072,080
Investment in securities							
- Trading securities	-	-	-	-	-	40,808	40,808
- Available-for-sale	5,450,081	3,827,326	614,135	1,374,089	269,147	1,047,738	12,582,516
- Loans & Receivables	-	-	-	134,273	16,685,649	281,016	17,100,938
- Held to maturity	419,935	1,118,199	1,942,993	1,828,378	394,546	348,250	6,052,301
Other investment	-	-	-	-	-	3,282	3,282
Loans after provision for loan losses	495,628	1,838,200	1,151,038	2,554,256	1,312,377	206,392	7,557,891
Deferred tax assets	-	-	-	-	-	532,563	532,563
Other assets	-	-	-	-	-	1,925,510	1,925,510
Total	7,396,026	6,783,725	3,708,166	5,890,996	18,661,719	4,427,257	46,867,889
Liabilities							
Securities sold under repurchase agreements	16,537,817	9,589,636	3,071,052	4,047	-	553,700	29,756,252
Deposits	3,636,164	1,120,083	4,341,254	120,626	-	159,924	9,378,051
Loan participation	401,848	90,408	308,340	-	-	14,194	814,790
Due to other financial institutions	540,042	-	217,070	15,338	-	19,512	791,962
Preference shares	-	-	-	85,488	-	3,308	88,796
Other liabilities	3,842	-	-	-	-	979,209	983,051
Stockholders' equity	-	-	-	-	-	5,054,987	5,054,987
Total	21,119,713	10,800,127	7,937,716	225,499	-	6,784,834	46,867,889
Interest sensitivity gap	(13,723,687)	(4,016,402)	(4,229,550)	5,665,497	18,661,719	(2,357,577)	-
Cumulative interest sensitivity gap	(13,723,687)	(17,740,089)	(21,969,639)	(16,304,142)	2,357,577	-	
2007							
Interest sensitivity gap	(6,738,033)	(10,165,404)	(8,187,947)	13,434,347	14,745,040	(3,088,003)	-
Cumulative interest sensitivity gap	(6,738,033)	(16,903,437)	(25,091,384)	(11,657,037)	3,088,003	-	

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

33.6 Market risk (Cont'd)

33.6.3 Interest rate risk (Cont'd)

	The Bank						
	2008						
	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Non-Interest Securities $'000	Total $'000
Assets							
Cash resources	893,086	-	-	-	-	41,698	934,784
Investment in securities							
- Available-for-sale	99,533	33,509	181,209	1,371,473	269,147	707,755	2,662,626
- Loans & Receivables	-	-	-	123,325	11,515,120	204,561	11,843,006
Securities purchased under resale agreements	621,430	357,623	105,000	-	-	41,440	1,125,493
Investment in subsidiaries	-	-	-	-	-	305,406	305,406
Investment in associate	-	-	-	-	-	3,282	3,282
Loans after provision for losses	495,628	1,838,200	1,151,038	2,554,256	1,312,377	206,392	7,557,891
Deferred tax assets	-	-	-	-	-	407,553	407,553
Other assets	-	-	-	-	-	1,383,647	1,383,647
Total	2,109,677	2,229,332	1,437,247	4,049,054	13,096,644	3,301,734	26,223,688
Liabilities and Stockholders' equity							
Securities sold under repurchase agreements	5,268,247	5,219,598	152,821	-	-	50,768	10,691,434
Deposits	3,636,164	1,120,083	4,341,254	120,626		159,924	9,378,051
Loan participation	401,848	90,408	308,340	-	-	14,194	814,790
Due to other financial institutions	540,042	-	217,070	15,338	-	19,512	791,962
Preference shares	-	-	-	85,488	-	3,308	88,796
Other liabilities	-	-	-	-	-	813,087	813,087
Stockholders' equity	-	-	-	-	-	3,645,568	3,645,568
Total	9,846,301	6,430,089	5,019,485	221,452	-	4,706,361	26,223,688
Interest sensitivity gap	(7,736,624)	(4,200,757)	(3,582,238)	3,827,602	13,096,644	(1,404,627)	-
Cumulative interest sensitivity gap	(7,736,624)	(11,937,381)	(15,519,619)	(11,629,017)	1,404,627	-	
2007							
Interest sensitivity gap	(9,482,433)	(6,377,693)	(2,344,823)	11,403,564	8,970,606	(2,169,221)	-
Cumulative interest sensitivity gap	(9,482,433)	(15,860,126)	(18,204,949)	(6,801,385)	2,169,221	-	

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

33.6 Market risk (Cont'd)

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

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

	2007					
	Immediately Rate Sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Average
	%	%	%	%	%	%
Cash resources	2.74	-	-	-	-	2.74
Investment in securities (1)	13.83	13.38	13.89	5.95	9.26	9.86
Securities sold under repurchase agreements	7.38	9.83	11.32	6.78	-	8.99
Loans (2)	15.78	17.02	16.77	13.98	15.85	15.18
Deposits (3)	6.72	6.37	7.60	7.55	-	6.90
Loan participation	6.96	8.77	9.00	-	-	7.57
Due to other financial institutions	6.52	6.36	6.79	11.10	-	6.59
Accounts payable	0.13	-	-	-	-	0.13

NOTES TO THE FINANCIAL STATEMENTS
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33 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

33.6 Market risk (Cont'd)

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

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

	2007					
	Immediately Rate Sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Average
	%	%	%	%	%	%
Cash resources	3.00					3.00
Investment in securities (1)	6.64	9.17	13.48	5.19	9.14	6.95
Securities purchased under resale agreements	6.71	13.57	-	-	-	8.63
Loans (2)	15.78	17.02	16.77	13.98	15.85	15.18
Deposits (3)	6.72	6.37	7.60	7.55	-	6.90
Securities sold under repurchase agreements	5.86	7.05	10.18	6.20	-	6.29
Loan participation	6.96	8.77	9.00	-	-	7.57
Due to other financial institutions	6.52	6.36	6.79	11.10	-	6.59

(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.

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

33.6 Market risk (Cont'd)

33.6.5 Interest rate sensitivity risk

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

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

	The Group			
	2008		2007	
	Effect on Net Profit $'000	Effect on Equity $'000	Effect on Net Profit $'000	Effect on Equity $'000
Change in interest rate				
-2%	(315,214)	65,108	(538,197)	(47,902)
+2%	315,214	(60,600)	593,013	31,795

	The Bank			
	2008		2007	
	Effect on Net Profit $'000	Effect on Equity $'000	Effect on Net Profit $'000	Effect on Equity $'000
Change in interest rate				
-2%	(105,205)	65,108	(183,133)	(1,781)
+2%	105,205	(60,600)	237,949	25,125

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

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

33.6 Market risk (Cont'd)

33.6.6 Equity risk

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

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

Equity price sensitivity analysis

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

If equity prices had been 5% higher/lower:

- net profit for the year ended December 31, 2008, would have increased/decreased by $2.1 million (2007: $11.7 million) for the Group as a result of equity investments classified at fair value through profit or loss (Bank: Nil);
- other equity reserves would have increased/decreased by $28.5 million (2007: $28.1 million) for the Group and $26.7 million (2007: $23.4 million) for the Bank as a result of the changes in fair value of available-for-sale equities.

33.7 Capital management

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

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

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

The BOJ and the FSC require each regulated entity to:

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

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

33.7 Capital management (Cont'd)

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

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

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

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

The table below summarises the composition of regulatory capital and the ratios of the regulated entities within the Group for the years ended December 31, 2008 and 2007. During those two years, the individual entities within the Group complied with all of the externally imposed capital requirements to which they are subject.

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

	CCMB		CCSL		CCFM	
	2008	2007	2008	2007	2008	2007
	$'000	$'000	$'000	$'000	$'000	$'000
Tier 1 capital	2,753,138	3,544,255	1,279,873	1,408,889	81,323	59,416
Tier 2 capital	(211,482)	(262,138)	238,000	238,000	-	-
Total regulatory capital	2,541,656	3,282,117	1,517,873	1,646,889	81,323	59,416
Total required capital	1,406,833	1,354,194	291,267	213,075	6,319	5,091
Risk-weighted assets:						
On balance sheet	12,134,377	12,288,144	1,409,158	1,229,681	47,448	64,093
Off balance sheet	1,319,894	1,114,148	-	-	-	-
Foreign exchange exposure	614,054	139,652	671,319	292,286	-	-
Total risk weighted assets	14,068,325	13,541,944	2,080,477	1,521,967	47,448	64,093
Actual capital base to risk weighted assets	18%	24%	73%	108%	171%	93%
Required capital base to risk weighted assets	10%	10%	14%	14%	13%	8%

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

33.8 Fair value of financial instruments

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

The following methods and assumptions have been used:

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

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

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

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

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

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

34 CONTINGENCIES AND COMMITMENTS

(a) Litigation

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

(b) Capital Commitments

Capital expenditure authorised and contracted for at balance sheet date but not recognised in the financial statements amounted to Nil (2007: $6.7 million).

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34 CONTINGENCIES AND COMMITMENTS (Cont'd)

(c) Operating Leases

The Group has entered into lease agreements for office space expiring April 2009 to March 2012. The amount charged to profit and loss account during the year for the Group was $40.1 million (2007: $32.3 million) and for the Bank $18.8 million (2007: $23.1 million).

The total annual rentals to be paid are as follows:

	The Group $'000	The Bank $'000
2009	33,707	15,471
2010	17,481	-
2011	18,475	-
2012	2,320	-

(d) Maintenance contract

The Group has entered into a maintenance agreement for the computer software for a period of five years expiring July 2010 for an annual charge of $19.4 million. The amount allocated and charged in the profit and loss account in respect of the Group and the Bank during the year was $18.3 million (2007: $12.2 million).

(e) Credit

Commitments to extend credit on term to maturity of no more than one year amounted to $729.5 million (2007: $759.1 million).

35 RECLASSIFICATION OF FINANCIAL ASSETS

Consequent on the melt-down in the financial sector worldwide and the demise of certain broker/dealers which were significantly involved in the marketing of Global Bonds issued by the Government of Jamaica (GOJ), the Group reclassified certain investments that are included in investment securities from available-for-sale to the held to maturity category and also to loans and receivables in accordance with paragraph 50E of the IAS 39 (See note 2), as follows:

Securities:	The Group 2008	
	Carrying Value $'000	Fair value $'000
Transferred to Loans and Receivables		
GOJ US$ Fixed rate Global Bonds	13,243,809	11,581,364
Other Corporate Bonds	3,576,113	3,776,746
	16,819,922	15,358,110

35 RECLASSIFICATION OF FINANCIAL ASSETS (Cont'd)

Securities:	The Group (Cont'd) 2008 Carrying Value $'000	The Group (Cont'd) 2008 Fair value $'000
Transferred to Held to Maturity		
Government of Jamaica securities	752,989	774,825
US Government agencies	1,740,970	1,731,365
Bank of Jamaica certificates of deposit	3,011,704	2,990,904
Other securities	198,388	196,085
	5,704,051	5,693,179

Securities:	The Bank 2008 Carrying Value $'000	The Bank 2008 Fair value $'000
Transferred to loans and receivables		
GOJ US$ Fixed rate Global Bonds	9,565,767	8,723,125
Other Corporate Bonds	2,072,678	2,105,063
	11,638,445	10,828,188

(a) Fair value losses exclusive of deferred taxation of $1.9 billion for the Group and for the Bank $896.6 million, were recognised in equity in relation to the above investments reclassified during the year, using the fair value as at September 30, 2008.

(b) Fair value losses in relation to the above investments of $3.3 billion for the Group and for the Bank $1.7 billion, exclusive of deferred taxation, would have been included in equity at the end of the year had the investments not been reclassified. This amount was determined by reference to a discounted cash flow model using market yields obtained from the Bloomberg yield curve as at December 31, 2008. Management does not believe that this price is necessarily indicative of the amount that would have been valued if an active market for the securities actually existed at that date.

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