Statement I

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AUDITORS' REPORT

To the members of

CAPITAL & CREDIT MERCHANT BANK LIMITED

We have audited the accompanying financial statements set out on Statements II to X and have received all the information and explanations which we considered necessary. These financial statements are the responsibility of the Bank's Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, proper accounting records have been kept and the financial statements, which are in agreement therewith, present fairly in all material respects the state of affairs of the Group and the Bank as at December 31, 2005 and of the results of operations, changes in equity and cash flows of the Group and the Bank for the year then ended and have been prepared in accordance with International Financial Reporting Standards and comply with the provisions of the Companies Act.

Deloitte & Touche

Chartered Accountants

Kingston, Jamaica,
February 17, 2006

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2005

Statement II

	Notes	2005 $'000	Restated 2004 $'000
ASSETS			
CASH RESOURCES	5	896,925	8,246,436
INVESTMENT IN SECURITIES	6		
Trading securities		2,094,558	5,323,688
Securities available-for-sale		45,132,887	38,761,364
Securities held-to-maturity		-	1,972,816
		47,227,445	46,057,868
LOANS (after provision for loan losses)	7	2,643,783	2,630,935
DEFERRED TAX ASSETS	15	67,081	-
OTHER ASSETS			
Accounts receivable	8	1,701,423	1,567,456
Customers' liability under acceptances, guarantees and letters of credit as per contra	-	97,740	219,707
Property and equipment	9	163,701	82,275
Other asset	10	15,000	15,000
		1,977,864	1,884,438
GOODWILL ON CONSOLIDATION	11	140,146	140,146
		52,953,244	58,959,823
LIABILITIES AND STOCKHOLDERS' EQUITY			
DEPOSITS	12	4,821,355	4,522,026
SECURITIES SOLD UNDER REPURCHASE AGREEMENTS	13	39,579,012	25,751,744
LOAN PARTICIPATION		992,752	1,197,842
DUE TO OTHER FINANCIAL INSTITUTIONS		1,666,642	22,884,233
OTHER LIABILITIES			
Bank overdrafts	25	64,250	-
Accounts payable	14	892,743	1,049,656
Income tax payable		168,728	40,492
Liabilities under acceptances, guarantees and letters of credit as per contra		97,740	219,707
		1,223,461	1,309,855
DEFERRED TAX LIABILITIES	15	-	249,991
STOCKHOLDERS' EQUITY			
Share capital	16	320,580	294,400
Share premium	16	1,412,308	392,229
Statutory reserve fund	17	301,670	230,281
Retained earnings reserve	18	1,085,020	1,085,020
Fair value reserve	19	(206,908)	213,995
Loan loss reserve	7	18,240	20,702
Unappropriated profits		1,728,193	790,259
Attributable to stockholders of the Bank		4,659,103	3,026,886
Minority interest		10,919	17,246
		4,670,022	3,044,132
		52,953,244	58,959,823

The Notes on Statement X form an integral part of the Financial Statements.

The financial statements on Statements II to X were approved and authorised for issue by the Directors on February 17, 2006 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

Statement III

	Notes	2005 $'000	2004 $'000
NET INTEREST INCOME AND OTHER REVENUE			
Interest on investments		4,389,723	4,459,794
Interest on loans		382,464	314,541
Total interest income		4,772,187	4,774,335
Interest expense		3,671,776	3,650,957
Net interest income		1,100,411	1,123,378
Commission and fee income		76,099	52,304
Net gains on securities trading		999,431	339,655
Foreign exchange trading and translation		(16,988)	44,527
Dividend income		28,087	55,346
Other income		29,518	29,204
		1,116,147	521,036
Net interest income and other revenue		2,216,558	1,644,414
NON-INTEREST EXPENSES			
Staff costs	20	473,287	327,921
Loan loss (recovery)/expense	7	(9,613)	1,944
Bank charges		32,135	19,183
Property expense		78,071	60,003
Depreciation	9	27,058	26,197
Information technology costs		37,496	18,101
Marketing and corporate affairs		126,317	103,293
Professional fees		41,965	42,379
Other operating expenses		71,300	67,134
Total non-interest expenses		878,016	666,155
PROFIT BEFORE TAXATION		1,338,542	978,259
Taxation	21	181,319	112,940
PROFIT AFTER TAXATION		1,157,223	865,319
Attributable to:			
Stockholders of the Bank	22	1,161,915	864,913
Minority interest		(4,692)	406
		1,157,223	865,319
Earnings per stock unit of 50 cents	23	197¢	147¢

The Notes on Statement X form an integral part of the Financial Statements.

Statement IV

	Notes	Share Capital $'000	Share Premium $'000	Statutory Reserve Fund $'000	Retained Earnings Reserve $'000	Fair Value Reserve $'000	Loan Loss Reserve $'000	Unappropriated Profits $'000	Minority Intrest $'000	Total $'000
Balance at December 31, 2003		292,250	365,299	196,706	723,020	81,859	30,973	398,970	-	2,089,077
Unrealised gains on available-for-sale investments net of taxes not recognized in profit and loss account		-	-	-	-	405,101	-	-	16,840	421,941
Net profit for the year	-	-	-	-	-	-	-	864,913	406	865,319
Transfer from loan loss reserve	7	-	-	-	-	-	(10,271)	10,271	-	-
Shares issued	16	2,150	26,930	-	-	-	-	-	-	29,080
Transfer to statutory reserve fund	17	-	-	33,575	-	-	-	(33,575)	-	-
Transfer to retained earnings reserve	18	-	-	-	362,000	-	-	(362,000)	-	-
Dividends paid	33	-	-	-	-	-	-	(88,320)	-	(88,320)
Balance at December 31, 2004 as previously stated	2	294,400	392,229	230,281	1,085,020	486,960	20,702	790,259	17,246	3,317,097
Effects of restatement of originated debt to securities avaiable-for-sale	6	-	-	-	-	(272,965)	-	-	-	(272,965)
Balance at December 31, 2004 as restated		294,400	392,229	230,281	1,085,020	213,995	20,702	790,259	17,246	3,044,132
Unrealised loss on available-for-sale investments net of taxes not recognized in profit and loss account		-	-	-	-	(420,903)	-	-	(1,635)	(422,538)
Net profit for the year	-	-	-	-	-	-	-	1,161,915	(4,692)	1,157,223
Transfer from loan loss reserve	7	-	-	-	-	-	(2,462)	2,462	-	-
Shares issued	16	26,180	1,020,079	-	-	-	-	-	-	1,046,259
Transfer to statutory reserve fund	17	-	-	71,389	-	-	-	(71,389)	-	-
Dividend paid	33	-	-	-	-	-	-	(58,880)	-	(58,880)
Dividend declared	33	-	-	-	-	-	-	(96,174)	-	(96,174)
Balance at December 31, 2005		320,580	1,412,308	301,670	1,085,020	(206,908)	18,240	1,728,193	10,919	4,670,022

The Notes on Statement X form an integral part of the Financial Statements.

Statement V

	Notes	2005 $'000	2004 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		1,157,223	865,319
Interest received		4,867,866	4,536,364
Interest paid		(3,684,078)	(3,643,978)
Interest income		(4,772,187)	(4,774,335)
Interest expense		3,671,776	3,650,957
Depreciation		27,058	26,197
Gain on sale of property and equipment		-	(275)
Accounts receivable		(229,646)	(166,998)
Loans receivable		(3,235)	(803,322)
Loan loss expense		(9,613)	1,944
Accounts payable		(240,785)	279,875
Deferred taxation		(109,838)	10,880
Income tax charge		291,157	101,494
Income tax paid		(162,921)	(44,125)
Net cash provided by operating activities		802,777	39,997
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on sale of property and equipment		-	275
Acquisition of property and equipment		(108,484)	(17,360)
Decrease/(increase) in investments		4,299,829	(14,903,673)
Securities purchased under resale agreements		-	87,551
Acquisition of subsidiary	24	-	(149,293)
Cash provided by/(used in) investing activities		4,191,345	(14,982,500)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(58,880)	(146,770)
Issue of ordinary shares		1,046,259	29,080
Deposits		299,329	2,367,417
Securities sold under repurchase agreements		13,827,268	6,826,393
Loan participation		(205,090)	12,979
Due to other financial institutions		(21,217,591)	6,534,940
Cash (used in)/provided by financing activities		(6,308,705)	15,624,039
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(1,314,583)	681,536
OPENING CASH AND CASH EQUIVALENTS		1,812,019	1,103,993
Effects of foreign exchange rate changes		32,326	26,490
CLOSING CASH AND CASH EQUIVALENTS	25	529,762	1,812,019

The Notes on Statement X form an integral part of the Financial Statements.

CAPITAL & CREDIT MERCHANT BANK LIMITED
BALANCE SHEET AT DECEMBER 31, 2005

Statement VI

	Notes	2005 $'000	Restated 2004 $'000
ASSETS			
CASH RESOURCES	5	820,421	8,052,353
INVESTMENT IN SECURITIES	6		
Securities available-for-sale		26,757,679	23,456,046
Securities held-to-maturity		-	1,365,349
		26,757,679	24,821,395
SECURITIES PURCHASED UNDER RESALE AGREEMENTS		452,622	644,860
INVESTMENT IN SUBSIDIARIES (Shares at cost)		305,406	375,406
LOANS (after provision for loan losses)	7	2,643,783	2,630,935
DEFERRED TAX ASSETS	15	129,592	-
OTHER ASSETS			
Accounts receivable	8	675,605	603,323
Income tax recoverable		80,229	-
Customers' liabilities under acceptances, guarantees and letters of credit as per contra		97,740	219,707
Property and equipment	9	138,817	75,073
		992,391	898,103
		32,101,894	37,423,052
LIABILITIES AND STOCKHOLDERS' EQUITY			
DEPOSITS	12	4,821,355	4,522,026
SECURITIES SOLD UNDER REPURCHASE AGREEMENTS	13	20,455,922	5,992,778
LOAN PARTICIPATION		992,752	1,197,842
DUE TO OTHER FINANCIAL INSTITUTIONS		1,666,642	22,884,233
OTHER LIABILITIES			
Bank overdrafts	25	64,250	-
Accounts payable	14	471,571	370,032
Income tax payable		-	13,398
Liabilities under acceptances, guarantees and letters of credit as per contra		97,740	219,707
		633,561	603,137
DEFERRED TAX LIABILITIES	15	-	5,688
STOCKHOLDERS' EQUITY			
Share capital	16	320,580	294,400
Share premium	16	1,412,308	392,229
Statutory reserve fund	17	301,670	230,281
Retained earnings reserve	18	1,085,020	1,085,020
Fair value reserve	19	(211,397)	79,381
Loan loss reserve		18,240	20,702
Unappropriated profits		605,241	115,335
		3,531,662	2,217,348
		32,101,894	37,423,052

The Notes on Statement X form an integral part of the Financial Statements.

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Ryland T. Campbell	Curtis A. Martin	Andrew B. Cocking	Kelvin St. C. Roberts
Chairman	President & CEO	Director	Director

Statement VII

	Notes	2005 $'000	2004 $'000
NET INTEREST INCOME AND OTHER REVENUE			
Interest on investments		1,774,519	1,506,083
Interest on loans		382,464	314,541
Total interest income		2,156,983	1,820,624
Interest expense		1,715,611	1,413,472
Net interest income		441,372	407,152
Commission and fee income		10,580	38,638
Net gains on securities trading		694,058	93,327
Foreign exchange trading and translation		(2,253)	44,498
Dividend income		39,634	88,670
Other income		21,853	26,464
Total other operating income		763,872	291,597
Net interest income and other revenue		1,205,244	698,749
NON-INTEREST EXPENSES			
Staff costs	20	228,552	176,014
Loan loss (recovery)/expense	7	(9,613)	1,944
Bank charges		23,465	14,947
Property expenses		54,787	45,462
Depreciation	9	22,589	24,233
Information technology costs		18,954	13,006
Marketing and corporate affairs		61,954	79,165
Professional fees		36,757	39,456
Other operating expenses		43,803	49,485
Total non-interest expenses		481,248	443,712
PROFIT BEFORE TAXATION		723,996	255,037
Taxation	21	10,109	(80,717)
NET PROFIT	22	713,887	335,754
Earnings per stock unit of 50 cents	23	121¢	57¢

The Notes on Statement X form an integral part of the Financial Statements.

CAPITAL & CREDIT MERCHANT BANK LIMITED

STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED DECEMBER 31, 2005

Statement VIII

	Notes	Share Capital	Share Premium	Statutory Reserve Fund	Retained Earnings Reserve	Fair Value Reserve	Loan Loss Reserve	Unappropriated Profits	Total
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at December 31, 2003		292,250	365,299	196,706	723,020	97,757	30,973	253,205	1,959,210
Unrealised gains on available-for-sale investments net of taxes not recognized in profit and loss account		-	-	-	-	306,369	-	-	306,369
Net profit for the year		-	-	-	-	-	-	335,754	335,754
Transfer from loan loss reserve	7	-	-	-	-	-	(10,271)	10,271	-
Shares issued	16	2,150	26,930	-	-	-	-	-	29,080
Transfer to statutory reserve fund	17	-	-	33,575	-	-	-	(33,575)	-
Transfer to retained earnings reserve	18	-	-	-	362,000	-	-	(362,000)	-
Dividend paid	33	-	-	-	-	-	-	(88,320)	(88,320)
Balance at December 31, 2004 as previously stated		294,400	392,229	230,281	1,085,020	404,126	20,702	115,335	2,542,093
Effects of restatement of originated debt securities to securities available-for-sale	6	-	-	-	-	(324,745)	-	-	(324,745)
Balance at December 31, 2004 as restated		294,400	392,229	230,281	1,085,020	79,381	20,702	115,335	2,217,348
Unrealised losses on available-for-sale investments net of taxes not recognized in profit and loss account		-	-	-	-	(290,778)	-	-	(290,778)
Net profit for the year		-	-	-	-	-	-	713,887	713,887
Transfer from loan loss reserve	7	-	-	-	-	-	(2,462)	2,462	-
Shares issued	16	26,180	1,020,079	-	-	-	-	-	1,046,259
Transfer to statutory reserve fund	17	-	-	71,389	-	-	-	(71,389)	-
Dividend paid	18	-	-	-	-	-	-	(58,880)	(58,880)
Dividend declared	33	-	-	-	-	-	-	(96,174)	(96,174)
Balance at December 31, 2005		320,580	1,412,308	301,670	1,085,020	(211,397)	18,240	605,241	3,531,662

The Notes on Statement X form an integral part of the Financial Statements

Statement VIIII

	Notes	2005 $'000	2004 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		713,887	335,754
Interest received		2,047,719	1,830,728
Interest paid		(1,748,870)	(1,315,493)
Interest income		(2,156,983)	(1,820,624)
Interest expense		1,715,611	1,413,472
Depreciation		22,589	24,233
Gain on sale of property and equipment		-	(275)
Accounts receivable		36,982	(40,093)
Loans receivable		(3,235)	(803,322)
Loan loss expense		(9,613)	1,944
Accounts payable		38,624	(293)
Deferred tax adjustment		10,109	(134,887)
Income tax charge		-	54,170
Income tax paid		(93,627)	(119)
Net cash provided by/(used in) operating activities		573,193	(454,805)
CASH FLOWS FROM INVESTING ACTIVITIES			
Securities purchased under resale agreements		192,238	(182,861)
Proceeds on sale of property and equipment		-	275
Acquisition of property and equipment	9	(86,333)	(14,032)
Decrease/(increase) in investments		3,796,727	(11,217,323)
Cash provided by/(used in) investing activities		3,902,632	(11,413,941)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(58,880)	(146,770)
Issue of ordinary shares		1,046,259	29,080
Deposits		299,329	2,367,417
Securities sold under repurchase agreements		14,463,144	3,587,833
Loan participation		(205,090)	12,979
Due to other financial institutions		(21,217,591)	6,534,940
Cash (used in)/provided by financing activities		(5,672,829)	12,385,479
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(1,197,004)	516,733
OPENING CASH AND CASH EQUIVALENTS		1,617,936	1,075,350
Effect of foreign exchange rate changes		32,326	25,853
CLOSING CASH AND CASH EQUIVALENTS	25	453,258	1,617,936

The Notes on Statement X form an integral part of the Financial Statements.

Statement X

1 GROUP IDENTIFICATION

(a) Capital & Credit Merchant Bank Limited ("the Bank") is incorporated in Jamaica and is a 73% (2004: 75%) subsidiary of Capital & Credit Financial Group Limited (previously Capital & Credit Holdings Limited), which is also incorporated in Jamaica. The registered office of the Bank is 6 – 8 Grenada Way, Kingston 5.

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

The Bank has two subsidiaries, Capital & Credit Securities Limited and Capital & Credit Fund Managers Limited (formerly Jamaica Unit Trust Services Limited) having acquired the latter effective October 1, 2004. The name of Jamaica Unit Trust Services Limited was changed to Capital & Credit Fund Managers Limited on January 19, 2005. Both subsidiaries are incorporated and domiciled in Jamaica.

The principal activities of the subsidiaries are as follows:

Subsidiaries	Principal Activities	Holdings	Financial Year End
Capital & Credit Securities Limited	Dealing in securities, stockbroking, portfolio planning, pension fund management and investment advisory services	100%	December 31
Capital & Credit Fund Managers Limited	Management of the Jamaica Investment Fund and the selling of units to the public on its behalf	70%	December 31

(b) i) The Bank is licensed under the Financial Institutions Act and the Securities Act and regulated by the Bank of Jamaica (the Supervisor) and the Financial Services Commission. The Bank is listed on the Jamaica Stock Exchange and the Trinidad and Tobago Stock Exchange.

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

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

2 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on January 1, 2005. The adoption of these new and revised Standards and Interpretations have resulted in changes to the Group's disclosures in the financial statements but have not affected the amounts reported for the current or prior years except for the reclassification of originated debt securities to available-for-sale securities during the current year which have been accounted for retrospectively (See Note 6).

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

- IFRS 6 Exploration for and Evaluation of Mineral Resources
- IFRS 7 Financial Instruments: Disclosure
- IFRIC 4 Determining whether an Arrangement contains a Lease
- IFRIC 5 Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6 Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
- IFRIC 8 Scope of IFRS 2

The Directors anticipate that the adoption of these Standards and Interpretations will have no material impact on the financial statements of the Group other than for additional disclosures.

Statement X.2

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Presentation of financial statements

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

(b) Basis of consolidation

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

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

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

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

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

(c) 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 recognized 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 recognized and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognized 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 recognized 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 recognized immediately in the profit and loss account.

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

(d) Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from the estimates and any adjustments that may be necessary will be reflected in the year in which actual results are known.

Statement X.3

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(e) Financial instruments

Financial assets and financial liabilities are recognized on the Group's balance sheet when it becomes a party to the contractual provisions of the instrument.

(i) Investment in securities

Investments are recognised on a trade-date basis and are initially measured at cost, including transaction costs.

Investments are classified into the following categories: trading securities, securities available-for-sale, securities held to maturity and loans and receivables (previously originated debt). Management determines the appropriate classification of investments at the time of purchase.

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

Securities available-for-sale are those intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates or market prices. They are subsequently re-measured at fair value based on quoted bid prices or amounts derived from cash flow models. Unrealised gains and losses arising from changes in fair value of available-for-sale securities are recognised in stockholders' equity in the fair value reserve. When the securities are disposed of or impaired, the related accumulated unrealised gains or losses included in the fair value reserve are transferred to the profit and loss account.

Securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are subsequently re-measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment. Impairment losses recognized in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognized in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

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

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

IAS 39, revised 2004, effective January 1, 2005 stipulates that securities which are quoted on an active market could not be treated as loans and receivables (previously originated debt). Consequently, securities which were previously classified as originated debt by the Group were transferred to available-for-sale securities.

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

A financial asset is considered impaired if its carrying amount exceeds its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the original effective interest rate. The recoverable amount of a financial asset carried at fair value is the present value of expected future cash flows discounted at the current market interest rate for a similar financial asset.

Statement X.4

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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

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

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

(v) Accounts payable
Payables are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest rate method.

(vi) Equity instruments
Equity instruments issued by the company are recorded at the proceeds received net of direct issue costs.

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

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

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

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

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

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

Loans are classified as non-current if they are non-performing in excess of ninety days. When a loan is classified as non-current, recognition of interest in accordance with the terms of the original loan ceases, and interest is taken into account on the cash basis by regulation. See note 3(m).

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.

Statement VIII.5

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(f) 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.

(g) Property and equipment

All 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.

Depreciation is charged so as to write off the cost of assets, over their estimated useful lives, using the straight-line method.

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 recognized impairment loss. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

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.

(h) Computer software development costs

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

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

(i) Taxation

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates currently enacted, which are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also charged or credited in equity.

Statement X.6

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(i) Taxation (cont'd)

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.

(j) 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.

(k) Share capital

(i) Share issue costs

Incremental external costs directly attributable to the issue of new shares, are deducted from share premium.

(ii) Dividends on ordinary stock units

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

(l) 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 recognized and disclosed for the following:

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

(ii) Key management personnel, that is 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.

(m) Interest and fees

Interest income and expense are recognised in the profit and loss account for all interest-bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investments and discount or premium on financial instruments.

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

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

(n) Foreign currency translation

Transactions in currencies other than the Group's functional currency (Jamaican dollars) are recorded at the rates of exchange prevailing on the dates of the transactions. At the balance sheet date monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

All resulting gains and losses are credited to or charged against net profit or loss for the year.

(o) Leases

(i) Group as the lessee

To date, the leases entered into by the Group are operating leases as a significant portion of the risks and reward of ownership are retained by the lessor. The total payments made under operating leases are charged to the income statement 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.

Statement X.7

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(o) Leases (Cont'd)

(ii) Group as the lessor

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

(p) Borrowings

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

(q) Provisions

Provisions are recognised when the Group has a present obligation as a result of past event and it is probable that the Group will be required to settle that obligation.

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

(r) Employee benefits

(i) Pension obligations

The Group pays fixed contributions into defined contribution Superannuation Funds and will have no legal or constructive obligations to pay further pension benefits.

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

(ii) Employee Share Ownership Plan

The Bank has an Employee Share Ownership Plan (ESOP) for eligible employees of the Capital & Credit Financial Group Limited group of companies. When the options are exercised, the par value of the shares is credited to share capital and the excess of the fair value over the par value is included in share premium. The difference between the fair value and the option price is included in staff costs.

(iii) Leave entitlements

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

(s) 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.

(t) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless previously recognized through equity, in which case the reversal of the impairment loss is treated as a revaluation increase in equity.

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in Note 3, management has made the following judgements and estimates that have the most significant effect on the amounts recognized in the financial statements and could cause material adjustments to the carrying amounts of assets and liabilities.

Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the profit and loss account, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in the Group, or national or local economic conditions that correlate with defaults on loans in the Group. Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when projecting its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to minimize any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs by +/-2 percent, the provision would be estimated $39,121,000 lower or $52,510,800 higher.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was $140,146,000. No impairment loss was recognized during 2004 and 2005.

Internally generated intangible asset

The Group has recognized as an asset costs directly associated with the acquisition of the rights to use a unique and identifiable software product and the cost to bring the software into use.

Management is confident that the economic benefits to be generated will exceed costs beyond one year. Direct costs of $74,783,000 including licensing fee, project management fee and development cost, which include an appropriate portion of staff costs and relevant overheads have been recognized during the year in property and equipment.

5 CASH RESOURCES

Cash resources include:

(a) $302,913,000 (2004: $304,440,000) held under Section 14(i) of the Financial Institutions Act, at the Bank of Jamaica as a Cash Reserve. This amount includes a Special Deposit of 1% (2004: 5%) of prescribed liabilities on which interest is paid at 6% (2004: 6%) to the Bank. Accordingly, these amounts are not available for investment or other use by the Bank.

(b) $6,129,977,000 at December 31, 2004 held by an investment broker as security for the sale of certain borrowed investment securities. The interest rate on this amount varied with the US Federal Reserve rate. The effective rate at December 31, 2004 was 1.875%.

Statement X.10

6 INVESTMENT IN SECURITIES

	The Group		The Bank	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Trading securities				
Government of Jamaica securities	1,902,746	3,134,077	-	-
Financial institutions	-	198,004	-	-
Equity securities	162,223	67,106	-	-
Other securities	29,589	1,924,501	-	-
	2,094,558	5,323,688	-	-
Securities available-for-sale				
Government of Jamaica securities	23,109,758	18,681,892	13,140,818	5,770,080
US Government agencies and other securities	22,023,129	20,079,472	13,616,861	17,685,966
	45,132,887	38,761,364	26,757,679	23,456,046
Securities held-to-maturity				
Government of Jamaica securities	-	1,972,816	-	1,365,349
	47,227,445	46,057,868	26,757,679	24,821,395

Prior to January 1, 2005, loans and advances which were provided directly to a borrower, and government or other securities which are purchased directly from the issuer, were classified as originated debt. Due to the revision of IAS 39, (2004) effective January 1, 2005, the category originated debt was changed to loans and receivables. As a consequence of the changes in the standard, securities previously classified as originated debt totalling $20,768,505,000 in the Group and $14,243,453,000 in the Bank at December 31, 2004 were reclassified as Available-for-sale securities as they did not meet the definition of loans and receivables. The effects of the changes included in the financial statements at December 31, 2004 are as follows:

The Group

Increase in securities available-for-sale	Decrease in fair value	Deferred tax effect	Net decrease in fair value reserve
$'000	$'000	$'000	$'000
20,359,058	409,447	136,482	272,965

The Bank

Increase in securities available-for-sale	Decrease in fair value	Deferred tax effect	Net decrease in fair value reserve
$'000	$'000	$'000	$'000
13,756,335	487,118	162,373	324,745

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

During the year a significant amount of investments in the category of Securities held-to-maturity were sold, consequently the remaining balances in the category were reclassified as Available-for-sale investments.

Government securities totalling $72,440,000 (2004:$92,630,000) are held by the Bank of Jamaica, $71,440,000 (2004:$91,630,000) as security in the event of an overdraft on the Bank's and subsidiary's primary dealer accounts, and $1,000,000 (2004:$1,000,000) to facilitate stockbroking activities of the subsidiary.

Gross gains of $963,096,000 for the Group and $694,058,000 for the Bank (2004: $114,078,000 for the Group and $48,011,000 for the Bank) were realized on sales of available-for-sale securities during the year.

Statement X.11

7 LOANS

(a)

	The Group and the Bank	
	2005	2004
	$'000	$'000
Loans	2,664,664	2,661,429
Less: Loan loss provision	20,881	30,494
	2,643,783	2,630,935

(b)

	The Group and the Bank					
	Remaining Term to Maturity					
	Under 3 months	3 to 12 Months	1 to 5 Years	Over 5 Years	Carrying Value 2005	Carrying Value 2004
	$'000	$'000	$'000	$'000	$'000	$'000
Individuals	43,587	151,422	311,157	44,093	550,259	271,916
Businesses	497,490	492,537	367,550	756,828	2,114,405	2,389,513
	541,077	643,959	678,707	800,921	2,664,664	2,661,429

Loans for the Group and the Bank include non-performing loans in the amount of $329,984,000 (2004:$33,031,000). Subsequent to the balance sheet date, the Commissioner of Lands confirmed that land bonds with a value of $260,000,000, the proceeds of a property which secured a non accrual loan were being prepared in the name of the Bank.

	The Group and the Bank	
	2005	2004
	$'000	$'000
(c) Loan loss provision		
Balance, January 1	30,494	42,972
Provision for the year	964	15,503
	31,458	58,475
Recoveries during the year	(10,577)	(13,559)
Written off during the year	-	(14,422)
Balance, December 31	20,881	30,494
The amount charged in the profit and loss account comprises:	$'000	$'000
Expense for the year	964	15,503
Recoveries	(10,577)	(13,559)
Loan loss (recovery)/expense	(9,613)	1,944

(d) Loan loss reserve

	2005	2004
	$'000	$'000
Regulatory loan loss provision	39,121	51,196
Less: Provision based on IAS 39	20,881	30,494
Balance, December 31	18,240	20,702

The amount in excess of the loan loss provision based on IAS 39 (Financial Instruments) requirements has been transferred to a non-distributable Loan loss reserve.

Statement X.12

8 ACCOUNTS RECEIVABLE

	The Group 2005 $'000	The Group 2004 $'000	The Bank 2005 $'000	The Bank 2004 $'000
Interest receivable on investments	1,148,963	1,217,999	551,830	415,923
Interest receivable on loans	31,373	58,016	31,373	58,016
Withholding tax recoverable	425,596	186,397	31,147	49,801
Owed by parent company	147	15,024	147	15,024
Owed by wholly-owned subsidiary	-	-	-	4,203
Owed by fellow subsidiary	1,765	506	-	506
Accounts receivable – Brokerage	22,175	25,532	-	-
Other receivables	71,404	63,982	61,108	59,850
	1,701,423	1,567,456	675,605	603,323

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

9 PROPERTY AND EQUIPMENT

The Group

	Land $'000	Building $'000	Furniture, Fixtures and Equipment $'000	Paintings and Artwork $'000	Leasehold Improvements $'000	Motor Vehicles $'000	Construction Work - in Progress $'000	Total $'000
At cost								
December 31, 2003	2,968	20,391	79,719	7,956	46,874	2,306	-	160,214
Acquisition of subsidiary	-	-	12,984	-	-	2,012	-	14,996
Additions	-	-	12,648	3,403	1,083	226	-	17,360
Disposals	-	-	-	-	-	(1,500)	-	(1,500)
December 31, 2004	2,968	20,391	105,351	11,359	47,957	3,044	-	191,070
Additions	-	-	30,214	410	1,487	1,590	74,783	108,484
December 31, 2005	2,968	20,391	135,565	11,769	49,444	4,634	74,783	299,554
Depreciation								
December 31, 2003	-	-	41,178	-	27,810	2,014	-	71,002
Acquisition of subsidiary	-	-	12,728	-	-	368	-	13,096
Charge for year	-	504	18,555	-	6,710	428	-	26,197
Disposal	-	-	-	-	-	(1,500)	-	(1,500)
December 31, 2004	-	504	72,461	-	34,520	1,310	-	108,795
Charge for year	-	510	21,032	-	4,938	578	-	27,058
December 31, 2005	-	1,014	93,493	-	39,458	1,888	-	135,853
Net book value								
December 31, 2005	2,968	19,377	42,072	11,769	9,986	2,746	74,783	163,701
December 31, 2004	2,968	19,887	32,890	11,359	13,437	1,734	-	82,275

The Bank

	Land $'000	Building $'000	Furniture, Fixtures and Equipment $'000	Paintings and Artwork $'000	Leasehold Improvements $'000	Motor Vehicles $'000	Work - in Progress $'000	Total $'000
At cost								
December 31, 2003	2,968	20,391	74,782	7,303	46,357	2,306	-	154,107
Additions	-	-	9,546	3,403	1,083	-	-	14,032
Disposal	-	-	-	-	-	(1,500)	-	(1,500)
December 31, 2004	2,968	20,391	84,328	10,706	47,440	806	-	166,639
Additions	-	-	8,104	369	1,487	1,590	74,783	86,333
December 31, 2005	2,968	20,391	92,432	11,075	48,927	2,396	74,783	252,972
Depreciation								
December 31, 2003	-	-	39,450	-	27,369	2,014	-	68,833
Charge for year	-	504	16,805	-	6,634	290	-	24,233
Disposal	-	-	-	-	-	(1,500)	-	(1,500)
December 31, 2004	-	504	56,255	-	34,003	804	-	91,566
Charge for year	-	510	16,876	-	4,938	265	-	22,589
December 31, 2005	-	1,014	73,131	-	38,941	1,069	-	114,155
Net book value								
December 31, 2005	2,968	19,377	19,301	11,075	9,986	1,327	74,783	138,817
December 31, 2004	2,968	19,887	28,073	10,706	13,437	2	-	75,073

Statement X.13

9 PROPERTY AND EQUIPMENT (Cont'd)

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

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

No depreciation is provided on land, paintings and artwork.

Property and equipment are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Following the revisions to IAS 16, Property, plant and equipment in 2003, that are effective for the current accounting period, the company has reviewed the residual values used for the purposes of depreciation calculations in light of the amended definition of residual value in the revised standard. The review did not highlight any requirement for an adjustment to the residual values used in the current or prior periods. In line with the new requirements, these residual values will be reviewed and updated annually.

10 OTHER ASSET

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

11 GOODWILL ON CONSOLIDATION

Goodwill represents the excess of the cost of shares in subsidiary over the value of the net assets acquired.

	2005	2004
	$'000	$'000
Balance at January 1	140,146	-
Goodwill on acquisition during the year	-	140,146
	140,146	140,146
Write off for impairment for the year	-	-
Balance at December 31	140,146	140,146

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the cash generating units (CGUs) are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepared cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows for the following five years based on an estimated growth rate of 20%. This rate does not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows is 13.5%.

12 DEPOSITS

	The Group and The Bank				
	Remaining Term to Maturity				
	Within 3 months	3 to 12 Months	1 to 5 Years	Carrying Value 2005	Carrying Value 2004
	$'000	$'000	$'000	$'000	$'000
Total	2,865,678	1,905,648	50,029	4,821,355	4,522,026
Personal				2,584,755	1,828,147
Financial institutions				262,319	906,275
Commercial and business enterprises				1,974,281	1,787,604
				4,821,355	4,522,026

Statement X.14

13 SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

The Group

	Remaining Term to Maturity				
	Under 3 Months	3 to 12 Months	1 to 5 Years	Carrying Value 2005	Carrying Value 2004
	$'000	$'000	$'000	$'000	$'000
Total	34,977,052	4,541,255	60,705	39,579,012	25,751,744
Personal				3,011,571	3,025,804
Financial institutions				24,761,702	10,518,942
Commercial and business enterprises				11,805,739	12,206,998
				39,579,012	25,751,744

The Bank

	Remaining Term to Maturity				
	Within 3 months	3 to 12 Months	1 to 5 Years	Carrying Value 2005	Carrying Value 2004
	$'000	$'000	$'000	$'000	$'000
Total	18,311,915	2,137,459	6,548	20,455,922	5,992,778
Personal				96,627	427,064
Financial institutions				16,015,659	3,354,753
Commercial and business enterprises				4,343,636	2,210,961
				20,455,922	5,992,778

14 ACCOUNTS PAYABLE

	The Group		The Bank	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Interest payable	607,194	619,496	257,130	290,389
Dividends payable	96,174	-	96,174	-
Brokerage payable	21,309	24,647	-	-
Prime accounts	8,381	17,290	-	-
Other payable	159,685	388,223	118,267	79,643
	892,743	1,049,656	471,571	370,032

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

Statement X.I5

15 DEFERRED TAXATION

(a) Deferred income taxes are calculated on all temporary differences under the balance sheet liability method using the current tax rate of 33 1/3%.

	The Group		The Bank	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Analysis for financial reporting purposes				
Deferred tax liabilities	366,382	554,744	167,499	177,004
Deferred tax assets	(433,463)	(304,753)	(297,091)	(171,316)
Net (assets)/liabilities	(67,081)	249,991	(129,592)	5,688

(b) The movement for the year and prior reporting period in the Bank's net deferred tax position is as follows:

	The Group		The Bank	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Net liability at January 1	249,991	190,781	5,688	149,763
(Credited)/charged to income	(109,838)	11,446	10,109	(134,887)
Credited/(charged) to equity	(207,234)	65,534	(145,389)	(9,188)
Deferred tax – subsidiary purchased	-	(17,770)	-	-
Net (assets)/liabilities at December 31	(67,081)	249,991	(129,592)	5,688

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

(i) Deferred tax assets

	The Group						
	Tax Losses	Unrealised Loss on securities trading	Available-for-sale Investment Revaluation	Interest Payable	Tax Credit	Other	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At December 31, 2003	-	-	-	225,088	-	-	225,088
Charged to income for the year	23,161	73,520	-	(18,590)	1,000	574	79,665
At December 31, 2004	23,161	73,520	-	206,498	1,000	574	304,753
Credited/(charged) to Income for the year	112,728	(73,520)	-	(4,875)	-	294	34,627
Charged to equity for the year	-	-	94,083	-	-	-	94,083
At December 31, 2005	135,889	-	94,083	201,623	1,000	868	433,463

	The Bank				
	Tax Losses	Unrealised Loss on securities trading	Interest Payable	Tax Credit	Total
	$'000	$'000	$'000	$'000	$'000
At December 31, 2003	-	-	64,136	-	64,136
Charged to income for the year	-	73,520	32,660	1,000	107,180
At December 31, 2004	-	73,520	96,796	1,000	171,316
Credited/(charged) to income for the year	104,682	32,179	(11,086)	-	125,775
At December 31, 2005	104,682	105,699	85,710	1,000	297,091

Statement X.I6

15 DEFERRED TAXATION (Cont'd)

(ii) Deferred tax liabilities

The Group

	Capital Allowances in excess of Deprecation Charges	Interest Receivable	Available for sale Investment Revaluation	Trading Investment Revaluation	Total
	$'000	$'000	$'000	$'000	$'000
At December 31, 2003	3,857	366,930	40,929	4,153	415,869
(Credited)/charged to income for the year	(2,516)	36,630	-	32,539	66,653
Charged to equity for the year as restated (See note 6)	-	-	72,222	-	72,222
At December 31, 2004	1,341	403,560	113,151	36,692	554,744
Charged/(credited) to income for the year	5,161	(44,404)	-	(35,968)	(75,211)
Credited to equity for the year	-	-	(113,151)	-	(113,151)
At December 31, 2005	6,502	359,156	-	724	366,382

The Bank

	Capital Allowances in excess of Deprecation Charges	Interest Receivable	Available for sale Investment Revaluation	Total
	$'000	$'000	$'000	$'000
At December 31, 2003	3,674	161,347	48,878	213,899
Credited to income for the year	(2,562)	(25,145)	-	(27,707)
Credited to equity for the year as restated (See Note 6)	-	-	(9,188)	(9,188)
At December 31, 2004	1,112	136,202	39,690	177,004
Charged/(credited) to income for the year	3,503	26,682	-	30,185
Credited to equity for the year	-	-	(39,690)	(39,690)
At December 31, 2005	4,615	162,884	-	167,499

16 SHARE CAPITAL

	2005 $'000	2004 $'000
(a) Authorised:		
800,000,000 (2004:600,000,000) ordinary shares of 50¢ each	400,000	300,000
Issued and fully paid:		
641,159,682 (2004: 588,800,000) ordinary stock units of 50¢ each	320,580	294,400

Effective February 1, 2005, the Jamaican Companies Act required that shares of all Jamaican companies become no par value shares unless an election was made to retain par value for a period of eighteen months. The Bank has elected to maintain the par value of its shares.

Statement X.I7

16 SHARE CAPITAL (Cont'd)

(a) (Cont'd)

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

On June 18, 2004 an amount of 4,300,000 ordinary shares were issued to the Employee Share Ownership Plan for the benefit of participating employees. This increased the issued share capital to 588,800,000 ordinary stock units.

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

(b) Share Premium

	2005	2004
	$'000	$'000
Balance at January 1	392,229	365,299
Premium arising on issue of equity shares	1,047,864	26,930
Expenses of issue of equity shares	(27,785)	-
Balance at December 31	1,412,308	392,229

17 STATUTORY RESERVE FUND

Under the Financial Institutions Act (1992) the Bank is required to transfer to a reserve fund a minimum of 15% of the net profit each year until the amount to the credit of the reserve fund is equal to 50% of the Bank's paid up capital. Thereafter, 10% of the net profit each year is to be transferred to the reserve fund until the amount at the credit of the reserve fund is equal to the Bank's paid up capital. The transfer for the year was at the prescribed rate of 10% (2004:10%).

18 RETAINED EARNINGS RESERVE

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

During 2004, the Directors by resolutions authorised the transfer of $362,000,000 from unappropriated profits to retained earnings reserve. No transfer was made during the current year.

19 FAIR VALUE RESERVE

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

20 STAFF COSTS

	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Staff costs incurred during the year in respect of employees were:				
Salaries and wages	403,830	262,085	185,970	129,094
Statutory contributions	20,857	22,167	10,093	13,353
Pension contributions	8,241	6,801	4,668	3,864
Termination costs	4,963	-	-	-
Other staff benefits	35,396	36,868	27,821	29,703
	473,287	327,921	228,552	176,014

The value of compensation under the ESOP included in other staff benefits was $NIL (2004:$7,270,000).

Statement X.I8

21 TAXATION

(a) Total charge for the year comprises:

	The Group		The Bank	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Income tax at 33 1/3% of taxable income	291,157	101,494	-	54,170
Deferred tax (Note 15)	(109,838)	11,446	10,109	(134,887)
	181,319	112,940	10,109	(80,717)

(b) Subject to agreement of the Commissioner, Taxpayer Audit and Assessment, at balance sheet date the Group had tax losses of approximately $407.67 million (2004: $69.48 million) available for set-off against future taxable profits. A deferred tax asset has been recognized in respect of these losses.

Reconciliation of applicable tax charge to effective tax charge:

	The Group			
	2005		2004	
	$'000	%	$'000	%
Profit before tax	1,338,542		978,259	
Tax at the domestic income tax rate	446,180	33.3	326,086	33.3
Tax effect of:				
Expenses not deductible in determining taxable profit	1,639	0.1	2,175	0.2
Non-taxable income	(271,026)	(20.2)	(221,522)	(22.6)
Other adjustments	4,526	0.3	6,201	0.6
Tax expense and effective tax rate for the year	181,319	13.5	112,940	11.5

	The Bank			
	2005		2004	
	$'000	%	$'000	%
Profit before tax	723,996		255,037	
Tax at the domestic income tax rate	241,332	33.3	85,012	33.3
Tax effect of:				
Expenses not deductible in determining taxable profit	1,639	0.2	2,075	0.8
Non-taxable income	(232,951)	(32.2)	(166,197)	(53.8)
Other adjustments	89	0.1	(1,607)	(0.6)
Tax expense and effective tax rate for the year	10,109	1.4	(80,717)	(20.3)

22 NET PROFIT

(a) Dealt with in the accounts of:

	2005	2004
	$'000	$'000
The Bank	713,887	335,754
The subsidiaries	448,028	529,159
	1,161,915	864,913

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

	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Directors' emoluments				
- Fees	2,888	2,412	2,888	2,412
- Management	32,987	27,473	17,509	13,789
Audit fees - current year	6,982	4,169	2,990	2,669
- prior year	81	(278)	(69)	104
Depreciation	27,058	26,197	22,589	24,233

23 EARNINGS PER STOCK UNIT

The calculation of earnings per stock unit is based on the net profit after taxation of $1,161,915,000 for the Group and $713,887,000 for the Bank, divided by the weighted average number of 50 cents stock units in issue in the year amounting to 591,238,670 ordinary stock units.

The comparative earnings per stock unit is based on net profit of $864,913,000 for the Group and $335,754,000 for the Bank and the 586,809,041 weighted average number of ordinary stock units in issue during the year.

See Note 16 for increases in share capital.

24 ACQUISITION OF SUBSIDIARY

On October 1, 2004, the Bank acquired 70% of the issued share capital of Capital & Credit Fund Managers Limited (formerly Jamaica Unit Trust Services Limited) for consideration of $179,089,000. This transaction has been accounted for by the purchase method of accounting.

	$'000
Net assets acquired:	
Cash resources	29,896
Investment	26,744
Investment in subsidiary	248
Accounts receivable	2,098
Property and equipment	1,900
Deferred tax assets	17,902
Accounts payable	(21,077)
Income tax payable	(1,858)
Bank overdraft	(100)
	55,753
Less minority interest at acquisition	(16,810)
Goodwill	140,146
Total consideration	179,089
Satisfied by cash	179,089
Net cash outflow arising on acquisition:	
Cash consideration	(179,089)
Bank balances and cash acquired	29,796
	(149,293)

There were no acquisitions during the current financial year.

25 CASH AND CASH EQUIVALENTS

	2005 $'000	2004 $'000
Cash and balances with banks including Bank of Jamaica	896,925	8,246,436
Less: Statutory cash reserves (Note 5(a))	302,913	304,440
Cash deposit – Investment Broker (Note 5(b))	-	6,129,977
Bank overdrafts	64,250	-
	529,762	1,812,019

The Bank overdrafts are unsecured and repayable on demand.

26 FUND MANAGEMENT

The Group provides corporate administration, investment management and advisory services to third parties which involve the Group making allocation, purchase and sales decisions in relation to a wide range of financial instruments. Those assets are held in a fiduciary capacity and are not included in these financial statements. At December 31, 2005, the Group had financial assets under administration of approximately $2.587 billion (2004: $2.4 billion).

27 SEGMENTAL FINANCIAL INFORMATION

The Group is organized into two main business segments:

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

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

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

Statement X.20

27 SEGMENTAL FINANCIAL INFORMATION (Cont'd)

	2005			
	Banking & Related Services	Financial & Related Services	Consolidated Adjustments	Group
	$'000	$'000	$'000	$'000
Gross external revenues	2,812,237	3,081,233	-	5,893,470
Revenue (expenses) from other segments	103,482	(89,578)	(13,904)	-
	2,915,719	2,991,655	(13,904)	5,893,470
Total expenses	2,196,859	2,358,069	-	4,554,928
Profit before tax	718,860	633,586	(13,904)	1,338,542
Income tax expense				181,319
Net profit				1,157,223
Segment assets	32,101,894	21,638,602	(787,252)	52,953,244
Segment liabilities	28,570,232	20,325,304	(612,314)	48,283,222
Other segment items:				
Capital expenditure	86,333	22,151		108,484
Depreciation	22,589	4,469		27,058
Loan loss recovery	(9,613)	-		(9,613)

	2004			
	Banking & Related Services	Financial & Related Services	Consolidated Adjustments	Group
	$'000	$'000	$'000	$'000
Gross external revenues	1,837,465	3,457,906	-	5,295,371
Revenue (expenses) from other segments	181,429	(146,653)	(34,776)	-
	2,018,894	3,311,253	(34,776)	5,295,371
Total expenses	1,857,184	2,459,928	-	4,317,112
Profit before tax	161,710	851,325	(34,776)	978,259
Income tax expense				112,940
Net profit				865,319
Segment assets	37,423,052	22,503,062	(966,291)	58,959,823
Segment liabilities	35,205,704	21,423,772	(713,785)	55,915,691
Other segment items:				
Capital expenditure	14,032	3,328		17,360
Depreciation	24,233	1,964		26,197
Loan loss expense	1,944	-		1,944

Statement VII.I9

28 PENSION FUND

A defined contribution superannuation fund ("The Fund") was established for the purpose of securing pensions on retirement for the qualified present and future employees of the Group. Under the plan, employees who are members of the Fund will contribute 5% of earnings (as defined), as a basic contribution and have the option to contribute an additional amount of 5%. The Group contributes at a rate of 5% of members' earnings (as defined). (See note 20).

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

29 RELATED PARTY TRANSACTIONS AND BALANCES

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

	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Interest income	-	-	94,714	100,886
Fee income	-	-	-	42,181
Preference dividends received	-	-	13,904	34,776
Management fees paid	24,000	24,000	24,000	24,000
Interest expense	24,193	40,197	22,308	17,171
Gain on sale of available-for-sale securities	262,431	-	262,431	-

Year end balances with related parties are as follows:

	The Group		The Bank	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Securities sold under repurchase agreements	50,415	107,262	50,415	32,277
Securities purchased under resale agreements	-	-	452,622	644,860
Deposits	17,867	205,481	17,867	205,481

These transactions occurred in the normal course of business.

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

	The Group		The Bank	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Salaries and other short term benefits				
Directors	32,987	27,473	17,509	13,789
Management Personnel	70,563	68,936	43,611	44,430
	103,550	96,409	61,120	58,219
Interest expense				
Securities sold under repurchase agreements				
Directors	7,418	501	-	-
Management Personnel	414	172	-	-
Parties connected to Directors and Management	1,181	-	-	-
	9,013	673	-	-
Interest expense				
Deposits				
Directors	1,664	-	1,664	-
Management Personnel	581	243	581	243
Parties connected to Directors and Management	2,830	1,856	2,830	1,856
	5,075	2,099	5,075	2,099
Interest income				
Loans				
Directors	299	149	299	149
Management Personnel	2,833	1,682	2,833	1,682
	3,132	1,831	3,132	1,831
Other operating expenses				
Parties connected to Directors and Management	2,341	3,013	2,341	3,013
Year end balances with related parties are as follows:				
Deposits				
Directors	17,734	-	17,734	-
Management Personnel	11,183	2,318	11,183	2,318
Parties connected to Directors and Management	22,337	28,464	22,337	28,464
	51,254	30,782	51,254	30,782
Loans				
Directors	6,175	500	6,175	500
Management Personnel	27,700	18,162	27,700	18,162
	33,875	18,662	33,875	18,662
Securities sold under repurchase agreements				
Directors	73,057	4,527	-	-
Management Personnel	529	233	-	-
	73,586	4,760	-	-

Statement VII.20

29 RELATED PARTY TRANSACTIONS AND BALANCES (Cont'd)

(c) Directors and key management personnel of the Group and their immediate relatives directly control approximately 2.19% (2004 - 2.23%) of the voting shares of the Bank.

30 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The following methods and assumptions have been used:

(i) investment in securities classified as trading or available-for-sale are measured at fair value by reference to quoted market prices where available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognized 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 shortterm elements of all other financial assets and financial liabilities;

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

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

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

The following tables present the fair value of financial instruments based on the above-mentioned valuation methods and assumptions. The following financial assets are not carried at fair value:

	The Group			
	Carrying Value 2005 $'000	Fair Value 2005 $'000	Carrying Value 2004 $'000	Fair Value 2004 $'000
Financial Assets				
Investment in securities				
- Held to maturity	-	-	1,972,816	2,112,985

	The Bank			
	Carrying Value 2005 $'000	Fair Value 2005 $'000	Carrying Value 2004 $'000	Fair Value 2004 $'000
Financial Assets				
Investment in securities				
- Held to maturity	-	-	1,365,349	1,470,954
- Investment in subsidiaries	305,406	1,304,420	375,406	991,104

31 FINANCIAL RISK MANAGEMENT

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

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

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

Statement X.21

31 FINANCIAL RISK MANAGEMENT (Cont'd)

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

(a) Interest rate risk

The Group and the Bank are exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase or decrease as a result of such changes and create losses in the event that unexpected movements arise. The management sets limits on the level of mismatch of interest rate repricing that may be undertaken. This is monitored on a periodic basis.

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

The Group

	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Securities	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Assets							
Cash resources	896,925	-	-	-	-	-	896,925
Investment in securities							
- Trading	244,647	456,265	-	1,231,423	-	162,223	2,094,558
- Available for sale	6,045,418	6,141,391	2,578,040	15,828,524	14,100,046	439,468	45,132,887
Loans after provision for loan losses	497,229	25,694	643,959	678,707	798,194	-	2,643,783
Deferred tax assets	-	-	-	-	-	67,081	67,081
Other assets	-	-	-	-	-	1,977,864	1,977,864
Goodwill on consolidation	-	-	-	-	-	140,146	140,146
Total	7,684,219	6,623,350	3,221,999	17,738,654	14,898,240	2,786,782	52,953,244
Liabilities and Stockholders' equity							
Deposits	1,859,309	1,006,369	1,905,648	50,029	-	-	4,821,355
Securities sold under repurchase agreements	28,734,185	6,242,867	4,541,255	60,705	-	-	39,579,012
Loan participation	459,040	392,693	141,019	-	-	-	992,752
Due to other financial institutions	471,444	-	653,204	541,994	-	-	1,666,642
Other liabilities	-	-	-	-	-	1,223,461	1,223,461
Stockholders' equity	-	-	-	-	-	4,670,022	4,670,022
Total	31,523,978	7,641,929	7,241,126	652,728	-	5,893,483	52,953,244
Interest sensitivity gap	(23,839,759)	(1,018,579)	(4,019,127)	17,085,926	14,898,240	(3,106,701)	-
Cumulative interest sensitivity gap	(23,839,759)	(24,858,338)	(28,877,465)	(11,791,539)	3,106,701	-	
2004							
Interest sensitivity gap	(514,731)	(14,119,645)	(10,512,291)	13,614,449	12,870,440	(1,338,222)	
Cumulative interest sensitivity gap	(514,731)	(14,634,376)	(25,146,667)	(11,532,218)	1,338,222	-	

Statement X.22

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

(a) Interest rate risk (Cont'd)
(i) (Cont'd)

	The Bank						
	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	820,421	-	-	-	-	-	820,421
Investment in securities - Available-for-sale	1,716,269	2,068,345	517,078	11,318,808	10,727,951	409,228	26,757,679
Securities purchased under resale agreements	452,622	-	-	-	-	-	452,622
Investment in subsidiaries	-	-	-	-	-	305,406	305,406
Loans after provision for losses	497,229	25,694	643,959	678,707	798,194	-	2,643,783
Deferred tax assets	-	-	-	-	-	129,592	129,592
Other assets	-	-	-	-	-	992,391	992,391
Total	3,486,541	2,094,039	1,161,037	11,997,515	11,526,145	1,836,617	32,101,894
Liabilities and Stockholders' equity							
Deposits	1,859,309	1,006,369	1,905,648	50,029	-	-	4,821,355
Securities sold under repurchase agreements	16,036,589	2,275,326	2,137,459	6,548	-	-	20,455,922
Loan participation	459,040	392,693	141,019	-	-	-	992,752
Due to other financial institutions	471,444	-	653,204	541,994	-	-	1,666,642
Other liabilities	-	-	-	-	-	633,561	633,561
Stockholders' equity	-	-	-	-	-	3,531,662	3,531,662
Total	18,826,382	3,674,388	4,837,330	598,571	-	4,165,223	32,101,894
Interest sensitivity gap	(15,339,841)	(1,580,349)	(3,676,293)	11,398,944	11,526,145	(2,328,606)	-
Cumulative interest sensitivity gap	(15,339,841)	(16,920,190)	(20,596,483)	(9,197,539)	2,328,606	-	
2004							
Interest sensitivity gap	2,738,666	(5,964,029)	(14,266,664)	6,779,603	11,091,022	(378,598)	
Cumulative interest sensitivity gap	2,738,666	(3,225,363)	(17,492,027)	(10,712,424)	378,598	-	

Statement X.23

31 FINANCIAL RISK MANAGEMENT (Cont'd)

(a) Interest rate risk (Cont'd)

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

The Group

2005

	Immediately Rate Sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Average
	%	%	%	%	%	%
Cash resources	1.76	-	-	-	-	1.76
Investment in securities (1)						
- Trading	18.96	16.28	-	10.50	-	11.93
- Available-for-sale	14.79	15.19	14.01	6.79	9.24	10.12
Loans (2)	16.20	15.77	15.13	15.95	15.50	15.66
Deposits (3)	7.23	7.59	7.98	7.81	-	7.61
Securities sold under repurchase agreements	7.63	8.77	8.93	13.03	-	7.97
Loan participation	9.76	10.12	11.16	-	-	10.10
Due to other financial institutions	7.18	-	3.08	7.55	-	5.69

The Group

2004

	Immediately Rate Sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Average
	%	%	%	%	%	%
Cash resources	1.41	-	-	-	-	1.41
Investment in securities (1)						
- Trading	15.15	16.29	16.79	11.40	-	14.51
- Available-for-sale	17.12	17.59	14.87	8.54	6.45	9.06
- Held-to-maturity	-	-	-	11.87	11.75	11.76
Loans (2)	14.31	17.45	12.68	15.47	14.78	15.10
Deposits (3)	7.72	8.29	6.78	15.01	-	7.51
Securities sold under repurchase agreements	8.79	11.04	12.91	8.89	-	10.36
Loan participation	8.72	10.85	8.32	-	-	9.76
Due to other financial institutions	0.07	2.10	1.96	4.04	4.75	2.62

(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.

Statement X.24

31 FINANCIAL RISK MANAGEMENT (Cont'd)

(a) Interest rate risk (Cont'd)

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

The Bank

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

The Bank

	2004					
	Immediately Rate Sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Average
	%	%	%	%	%	%
Cash resources	1.43	-	-	-	-	1.43
Investment in securities (1)						
- Available-for-sale	33.50	19.91	13.72	6.27	6.97	5.88
- Held-to-maturity	-	-	-	11.10	11.75	11.71
Securities purchased under resale agreements	6.31	17.93	17.35	-	-	15.15
Loans (2)	14.31	17.45	12.68	15.47	14.78	15.10
Deposits (3)	7.72	8.29	6.78	15.01	-	7.51
Securities sold under repurchase agreements	6.72	9.06	8.73	16.74	-	7.33
Loan participation	8.72	10.85	8.32	-	-	9.76
Due to other financial institutions	1.43	2.10	1.96	4.04	4.75	2.65

(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.

Statement X.25

31 FINANCIAL RISK MANAGEMENT (Cont'd)

((b) Foreign currency risks

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

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

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

	The Group							
	2005				2004			
	US$	Cdn$	£	€	US$	Cdn$	£	€
	'000	'000	'000	'000	'000	'000	'000	'000
Total assets	517,253	736	1,208	278	768,942	1,259	1,997	23,502
Total liabilities	(530,478)	(1,264)	(755)	(27)	(779,240)	(632)	(1,523)	(22,197)
Net exposure	(13,225)	(528)	453	251	(10,298)	627	474	1,305

	The Bank							
	2005				2004			
	US$	Cdn$	£	€	US$	Cdn$	£	€
	'000	'000	'000	'000	'000	'000	'000	'000
Total assets	374,296	736	1,208	278	594,160	1,259	1,997	23,408
Total liabilities	(390,470)	(1,264)	(755)	(27)	(611,056)	(632)	(1,523)	(22,197)
Net exposure	(16,174)	(528)	453	251	(16,896)	627	474	1,211

(c) Credit risk

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

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

	The Group and the Bank	
	2005	2004
	$'000	$'000
Construction, land development and real estate acquisition	617,230	409,935
Distribution	292,736	206,822
Electricity, gas & water	174,370	165,863
Financial institutions	8,959	190,140
Government and public entities	322,907	558,150
Manufacturing	50,561	71,651
Personal	627,143	271,950
Professional and other services	388,251	302,791
Tourism and entertainment	110,160	148,858
Transport, storage and communication	72,347	335,269
Total	2,664,664	2,661,429
Total provision	20,881	30,494
Net	2,643,783	2,630,935

(d) Liquidity risk

The Group is exposed to calls on its available cash resources from overnight deposits, maturing deposits, loan draw downs and guarantees. The Group does not maintain cash resources to meet all of these needs as experience shows that a level of reinvestment of maturing funds can be predicted with a high level of certainty.

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

31 FINANCIAL RISK MANAGEMENT (Cont'd)

Statement X.26

(d) Liquidity risk

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is 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.

	The Group				
	Remaining Term to Maturity				
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total 2005
$'000	$'000	$'000	$'000	$'000	
Assets					
Cash Resources	896,925	-	-	-	896,925
Investment in securities					
- Trading	700,912	-	1,231,423	162,223	2,094,558
- Available-for-sale	12,186,809	2,578,040	15,828,524	14,539,514	45,132,887
Loans after provision for loan losses	522,923	643,959	678,707	798,194	2,643,783
Deferred tax assets	-	-	67,081	-	67,081
Other assets	1,814,163	-	-	163,701	1,977,864
Goodwill on consolidation	-	-	-	140,146	140,146
Total	16,121,732	3,221,999	17,805,735	15,803,778	52,953,244
Liabilities and Stockholders' equity					
Deposits	2,865,678	1,905,648	50,029	-	4,821,355
Securities sold under repurchase agreements	34,977,052	4,541,255	60,705	-	39,579,012
Loan participation	851,733	141,019	-	-	992,752
Due to other financial institutions	471,444	653,204	541,994	-	1,666,642
Other liabilities	1,223,461	-	-	-	1,223,461
Stockholders' equity	-	-	-	4,670,022	4,670,022
Total	40,389,368	7,241,126	652,728	4,670,022	52,953,244
Total Liquidity Gap	(24,267,636)	(4,019,127)	17,153,007	11,133,756	-
Cumulative Gap	(24,267,636)	(28,286,763)	(11,133,756)	-	
2004					
Total Liquidity Gap	(13,936,508)	(10,512,291)	13,427,516	(11,021,283)	
Cumulative Liquidity Gap	(13,936,508)	(24,448,799)	(11,021,283)	-	

Statement X.27

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

(d) Liquidity risk (Cont'd)

	The Bank				
	Remaining Term to Maturity				
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total 2005
	$'000	$'000	$'000	$'000	$'000
Assets					
Cash Resources	820,421	-	-	-	820,421
Investment in securities					
- Available-for-sale	3,784,614	517,078	11,318,808	11,137,179	26,757,679
Securities purchased under resale agreements	452,622	-	-	-	452,622
Investment in subsidiaries	-	-	-	305,406	305,406
Loans after provision for loan losses	522,923	643,959	678,707	798,194	2,643,783
Deferred tax assets	-	-	129,592	-	129,592
Other assets	853,574	-	-	138,817	992,391
Total Assets	6,434,154	1,161,037	12,127,107	12,379,596	32,101,894
Liabilities and Stockholders' equity					
Deposits	2,865,678	1,905,648	50,029	-	4,821,355
Securities sold under repurchase agreements	18,311,915	2,137,459	6,548	-	20,455,922
Loan participation	851,733	141,019	-	-	992,752
Due to other financial institutions	471,444	653,204	541,994	-	1,666,642
Other liabilities	633,561	-	-	-	633,561
Stockholders' equity	-	-	-	3,531,662	3,531,662
Total liabilities and Stockholders' equity	23,134,331	4,837,330	598,571	3,531,662	32,101,894
Total Liquidity Gap	(16,700,177)	(3,676,293)	11,528,536	8,847,934	-
Cumulative Gap	(16,700,177)	(20,376,470)	(8,847,934)	-	
2004					
Total Liquidity Gap	(3,005,470)	(14,266,664)	7,098,660	10,173,474	
Cumulative Liquidity Gap	(3,005,470)	(17,272,134)	(10,173,474)	-	

32 CONTINGENCIES AND COMMITMENTS

(a) Litigation

The Bank and its subsidiaries are subject to claims, disputes and legal proceedings in the normal course of business. Provision is made for such matters when in the opinion of management and its legal advice, that it is probable that a payment will be made and the amount can be reasonably estimated.

Both the Bank and the subsidiary, Capital & Credit Fund Managers Limited (formerly Jamaica Unit Trust Services Limited) are involved in legal proceedings at this time. Based on legal advice, the Directors are of the opinion that the outcome will have no material effect on the financial position of the Group.

(b) Capital Commitments

Capital expenditure authorized and contracted for at balance sheet date but not recognized in the financial statements amounted to $176,000,000 (2004: Nil).

(c) Operating Leases

The Group has entered into lease agreements for office space expiring April 2007, June 2007, January 2008 and August 2009 and for motor vehicles expiring March 2006, April 2006, February 2007 and July 2007. The amount charged to income during the year was $24,564,000 (2004: $16,895,000).

The total annual rentals to be paid are as follows:

	The Group	The Bank
	$'000	$'000
2006	23,169	18,378
2007	17,532	14,561
2008	12,726	10,531
2009	7,321	7,321

33 DIVIDENDS

	2005	2004
	$'000	$'000
Interim dividends paid	58,880	88,320
Interim dividend declared	96,174	-

On December 16, 2005, the Directors approved the payment of a second interim dividend of 15 cents per stock unit to stockholders on record as at December 30, 2005 payable on January 26, 2006. This dividend was accrued as at December 31, 2005.