

# UNAUDITED FINANCIAL RESULTS

# FOR THE SECOND QUARTER

- ENDED JUNE 30, 2006



A Member of the Capital & Credit Financial Group

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**CAPITAL & CREDIT MERCHANT BANK LIMITED AND ITS SUBSIDIARIES**  
**FINANCIAL RESULTS FOR THE SECOND QUARTER**

The Directors of Capital & Credit Merchant Bank Limited (CCMB) are pleased to present the unaudited consolidated results of the Bank and its subsidiaries, Capital & Credit Securities Limited and Capital & Credit Fund Managers Limited (previously Jamaica Unit Trust Services Limited), for the quarter ended June 30, 2006. The Group continues to face the challenging economic environment with the achievement of Net Profit after Tax of \$131.87 million for the quarter compared to \$393.87 million in the comparative quarter, the reduction primarily due to the reduction in trading gains during the period from \$400.00 million in the comparative quarter to \$79.85 million in the current quarter.

**REVENUES**

With yields locally being stable to declining and overseas interest rates continuing to persistently increase both in the United States and in the Caribbean region, the Group continues to operate in a declining spread environment. Within these constraints, the Bank and its subsidiaries continue to pursue the strategy of building its Non-Proprietary Income streams; combined with restructuring the Balance Sheet which it began mid 2005. The primary initiative in this strategy has been the selective acquisition of higher yielding assets, while managing the cost of acquired funds. With this focus, the Group has been able to maintain its Net Interest Income to \$252.77 million for the quarter while simultaneously constraining the overall balance sheet size.

The Group noted the impact of world events triggering a significant downward valuation on Government of Jamaica United States denominated bonds during the quarter and curtailed the trading of securities to selective instruments. Consequently, the Group earned \$79.85 million in Gains on securities trading compared to \$400.00 million in the comparative quarter. The gains in the comparative period included \$262.43 million arising from the liquidation of a significant block of the equities portfolio as part of the initial strategy to restructure the banking activities of the Group, a level which has not been replicated since. This curtailment in trading has had significant impact on the Group's results. In the mean time, the Group continues to assess market conditions and to build its Other Revenue sources inclusive of Foreign Exchange trading and Fee generation and to look to further opportunities to expand its Net Interest Income stream with higher yielding assets.

**NON INTEREST EXPENSES**

Conscious of the compression on income streams, the Group has placed increased focus on cost containment and management reducing its overall expenses and thus maintaining the Group's efficiency ratio which continues to be a leader within the industry. Efficiency, measured as a percentage of Non-Interest Expenses to Net Interest Income and Other Revenues for the half year averaged 41.55% compared to the 35.40% of the comparative half year.

For the quarter, Non-Interest expenses amounted to \$192.25 million, a reduction of \$32.13 million compared to \$224.38 million for the comparative quarter 2005. Contributing significantly to the improved performance is the reduction in staff costs. The overall cost containment is further evident in the half year results with costs of \$422.40 million also less than the \$492.63 million for the comparative period.

**EARNINGS PER STOCK UNIT**

Earnings per Stock Unit for the quarter amounted to 21cents, compared to 67 cents for the comparable quarter 2005. Earnings per Stock Unit is based on the Net Profit after Tax and the weighted average number of the 641,159,682 stock units in issue for the current quarter and of the 588,800,000 units for the comparative quarter. The Earnings per Stock Unit for 2005 is based upon 586,809,041, the weighted average number of ordinary stock units in issue for the year. The stockholding incremented during 2005, consequent to the Rights Issues concluded in the fourth quarter 2005 that raised an additional 52.36 million shares.

**BALANCE SHEET**

Total assets at June 30, 2006 amounts to \$56.28 billion compared to \$54.56 billion for the comparative quarter end. In anticipation of market conditions in mid 2005, the Group took a strategic decision to constrain the overall size of the balance sheet at that time selling off low-yielding assets and selectively acquiring higher-yielding assets, while maintaining an optimal risk profile. One significant impact of this strategy is the dramatic growth in our Loan portfolio to \$3.38 billion while maintaining Investments in Securities to \$49.00 billion.

In addition, the Group manages, on a fiduciary basis, approximately \$2.59 billion in Assets Under Management primarily in respect of the funds managed by the subsidiary, Capital & Credit Fund Managers Limited.

**LOAN PORTFOLIO**

One of the most significant areas of growth in the Group has been the Growth of the Loan portfolio for the Bank. Loans at quarter end, after provision for Loan Losses, amounted to \$3.38 billion, an increase of 35.27% from the comparative quarter. As required under International Financial Reporting Standards (IFRS), the Loan Loss Provision at June 30, 2006 is \$23.89 million, representing 0.80% of gross loans, compared to Loan Loss Provision of \$65.54 million, or 2.55% of Gross Loans for the comparable quarter. Non-Performing Loans at June 30, 2006 amounted to \$425.13 million arising primarily to the challenges in the construction sector which delayed the completion of a number of construction projects. With conditions relating to the delivery to the construction sector improving, the Group anticipates that loans in this sector will quickly resume normal status.

IFRS Loan Loss Provision is determined on a different basis from Regulatory requirements. The difference between the methodologies is applied to a non-distributable Loan Loss Reserve in the equity component of the Balance Sheet. At June 30, 2006 the reserve amounted to \$27.48 million, compared to \$20.70 million for the comparable quarter end. This movement is shown in the equities statement. Accordingly, the provisions are considered adequate.

**CAPITAL BASE**

At June 30, 2006, total Stockholders' Equity amounted to \$4.74 billion. The strengthening of the Capital Base has been facilitated through both the retention in Earnings despite the impact of negative Fair Value Reserve.

The Capital Base has been incremented by the Group's earnings of approximately \$478.19 million in Net Profit for the half year. Additionally, the quality of the Capital Base was enhanced by the transfer of \$432.42 million from Unappropriated Profit, to Retained Earnings Reserve, thereby boosting the Tier 1 Capital to \$3.55 billion. The boosting of the Tier 1 Capital enhances the Group's Capital Management Programme; provides more scope for expansion, as well as ensures that the Regulators' benchmarks for Capital Adequacy are met and superseded.

The Capital Base has been impacted by negative Fair Value Reserve of \$511.07 million compared to \$206.91 million at the beginning of the year due to marked-to-market recording of the available-for-sale Investment Portfolio, in particular our Government of Jamaica United States denominated Global Bonds as well as the impact of the continued slide of the local equities market on our quoted equity portfolio.

**DIVIDENDS**

At the Directors' Meeting of May 19, 2006, an interim Dividend of 15 cents per stock unit was approved for stockholders on record as at June 16, 2006. Payment to stockholders of dividends totaling \$96.17 million was made on June 30, 2006.

**ANNUAL GENERAL MEETING**

The Annual General Meeting was held on May 26, 2006. The meeting approved the Consolidated Audited Accounts for 2005 and re-elected existing Directors.

**BUSINESS OUTLOOK**

Capital & Credit Merchant Bank Ltd and its subsidiaries will continue to solidify its income streams by growing its Non-Proprietary business and at the same time enhance its Net Interest Income, by diversifying into assets with higher net-interest spreads. We expect that these initiatives will ensure the continued and even growth in our annual profitability. The Group however, notes the potential continued impact of high interest rates in both the regional and United States markets. Additionally, the continued weakness of the local stock market and the delays in the construction sector and their linkages throughout the economy, will continue to negatively impact the economy in the short run and hence on the ability of the Group to drive revenue growth.

The Group has made significant progress in its implementation of new technology. It is expected that the new technology will improve not only efficiency, but also the Group's capability particularly in respect of customer service and access; product origination and competitiveness; as well as improving corporate reporting, planning and research. Implementation is anticipated commencing the first quarter 2007.

**CAPITAL & CREDIT MERCHANT BANK LIMITED AND ITS SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET AS AT JUNE 30, 2006**

**HIGHLIGHTS**

	Unaudited Jun-06 \$'000	Unaudited Jun-05 \$'000	Audited Dec-05 \$'000
<b>ASSETS</b>			
<b>CASH RESOURCES</b>	1,055,552	1,165,731	896,925
<b>INVESTMENT IN SECURITIES</b>			
Trading securities	1,445,223	3,412,711	2,094,558
Securities available-for-sale	47,557,090	45,215,006	45,132,887
	49,002,313	48,627,717	47,227,445
<b>SECURITIES PURCHASED UNDER RESALE AGREEMENTS</b>	220,000	35,000	-
<b>LOANS (after provision for loan losses)</b>	3,384,856	2,502,244	2,643,783
<b>DEFERRED TAX ASSETS</b>	226,999	-	67,081
<b>OTHER ASSETS</b>			
Accounts receivable	1,211,101	1,047,321	1,701,423
Property and equipment	231,131	77,630	163,701
Other assets	946,916	1,107,241	252,886
	2,389,148	2,232,192	2,118,010
<b>TOTAL ASSETS</b>	<b>56,278,868</b>	<b>54,562,884</b>	<b>52,953,244</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>DEPOSITS</b>	5,508,546	4,300,569	4,821,355
<b>SECURITIES SOLD UNDER REPURCHASE AGREEMENTS</b>	40,806,528	27,317,265	39,579,012
<b>LOAN PARTICIPATION</b>	2,063,219	1,223,064	992,752
<b>DUE TO OTHER FINANCIAL INSTITUTIONS</b>	1,950,250	15,996,160	1,666,642
<b>OTHER LIABILITIES</b>	1,205,657	1,401,399	1,223,461
<b>DEFERRED TAX LIABILITIES</b>	-	351,626	-
<b>STOCKHOLDERS' EQUITY</b>			
Capital - Authorised 800,000,000 ordinary shares of \$0.50 each Issued and fully paid 641,159,682 ordinary stock units of \$0.50 each (June 2005 -588,800,000 ordinary stock units)	320,580	294,400	320,580
Share premium	1,412,308	392,229	1,412,308
Statutory reserve fund	301,670	230,281	301,670
Retained earnings reserve	1,515,442	1,085,020	1,085,020
Fair value reserve (511,069)	386,151	386,151	(206,908)
Loan loss reserve	27,465	20,702	18,240
Unappropriated profits	1,670,706	1,551,177	1,728,193
Attributable to stockholders of the Bank	4,737,102	3,959,960	4,659,103
Minority interest	7,566	12,841	10,919
	4,744,668	3,972,801	4,670,022
	<b>56,278,868</b>	<b>54,562,884</b>	<b>52,953,244</b>

Approved for issue by the Board of Directors on July 21, 2006 and signed on its behalf by:

Ryland T. Campbell  
 Chairman

Curtis A. Martin  
 President & CEO

**CAPITAL & CREDIT MERCHANT BANK LIMITED AND ITS SUBSIDIARIES**  
**CONSOLIDATED PROFIT & LOSS ACCOUNT**  
 QUARTER ENDED JUNE 30, 2006

**HIGHLIGHTS**

	Unaudited 3 months Jun-06 \$'000	Unaudited 3 months Jun-05 \$'000	Unaudited 6 months Jun-06 \$'000	Unaudited 6 months Jun-05 \$'000	Audited 12 months Dec-05 \$'000
<b>Gross Operating Revenue</b>	<b>1,418,217</b>	<b>1,430,962</b>	<b>3,048,064</b>	<b>3,144,501</b>	<b>5,888,334</b>
Interest on investments	1,210,766	919,334	2,342,967	2,120,261	4,389,723
Interest on loans	104,995	91,478	210,731	185,499	382,464
	1,315,761	1,010,812	2,553,698	2,305,760	4,772,187
Interest expense	1,062,988	760,800	2,031,509	1,752,943	3,671,776
<b>Net interest income</b>	<b>252,773</b>	<b>250,012</b>	<b>522,189</b>	<b>552,817</b>	<b>1,100,411</b>
Commission and fee income	22,619	19,212	52,173	40,829	76,099
Net gains on securities trading	79,849	400,010	405,418	783,500	999,431
Foreign exchange trading and translation	( 9,671)	( 8,477)	22,168	( 7,976)	( 16,988)
Dividend income	5,899	3,584	6,974	11,891	28,087
Other income	3,760	5,821	7,633	10,497	29,518
	102,456	420,150	494,366	838,741	1,116,147
<b>Net interest income and other revenue</b>	<b>355,229</b>	<b>670,162</b>	<b>1,016,555</b>	<b>1,391,558</b>	<b>2,216,558</b>
<b>NON INTEREST EXPENSES</b>					
Staff costs	83,173	133,693	226,695	265,903	473,287
Loan loss expense \ (recovery)	2,613	( 10,901)	2,613	34,739	( 9,613)
Bank charges	7,748	4,699	16,857	9,433	32,135
Property expense	15,317	16,465	32,862	29,777	78,071
Depreciation	5,883	6,723	12,803	13,872	27,058
Information technology costs	11,076	9,909	15,344	24,177	37,496
Marketing and corporate affairs	30,868	28,100	44,250	50,239	126,317
Professional fees	5,726	4,055	9,956	6,339	41,965
Other operating expenses	29,846	31,636	61,024	58,153	71,300
	192,250	224,379	422,404	492,632	878,016
Profit Before Taxation	162,979	445,783	594,151	898,926	1,338,542
Taxation	31,108	51,917	115,963	142,110	181,319
<b>Profit After Taxation</b>	<b>131,871</b>	<b>393,866</b>	<b>478,188</b>	<b>756,816</b>	<b>1,157,223</b>
<b>Attributable to:</b>					
Stockholders of the Bank	132,734	396,004	478,332	760,918	1,161,915
Minority interest ( 863)	( 863)	( 2,138)	( 144)	( 4,102)	( 4,692)
	131,871	393,866	478,188	756,816	1,157,223
Earnings per stock unit (cents)	21	67	75	129	197
Return on average equity (annualised)	5.60%	42.32%	20.32%	44.35%	30.12%
Return on assets (annualised)	0.48%	2.75%	1.75%	2.68%	2.07%
Efficiency ratio	54.12%	33.48%	41.55%	35.40%	39.61%
Number of issued ordinary shares	641,159,682	588,800,000	641,159,682	588,800,000	641,159,682

## UNAUDITED FINANCIAL RESULTS

**FOR THE SECOND QUARTER**

- ENDED JUNE 30, 2006



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**CAPITAL & CREDIT MERCHANT BANK LIMITED AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
 QUARTER ENDED JUNE 30, 2006

	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 Interest \$'000	Total \$'000
Balance at December 31, 2004	294,400	392,229	230,281	1,085,020	90,268	20,702	790,259	17,246	2,920,405
Net profit for the period	-	-	-	-	-	-	760,918	( 4,102)	756,816
Unrealised gains on available for sale investments net of taxes not recognised in profit and loss account	-	-	-	-	295,883	-	-	( 303)	295,580
<b>Balance at June 30, 2005</b>	<b>294,400</b>	<b>392,229</b>	<b>230,281</b>	<b>1,085,020</b>	<b>386,151</b>	<b>20,702</b>	<b>1,551,177</b>	<b>12,841</b>	<b>3,972,801</b>
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
Net profit for the period	-	-	-	-	-	-	478,332	( 144)	478,188
Transfer to retained earnings reserve	-	-	-	430,422	-	-	( 430,422)	-	-
Transfer to loan loss reserve	-	-	-	-	-	9,225	( 9,225)	-	-
Unrealised losses on available for sale investments net of taxes not recognised in profit and loss account	-	-	-	-	( 304,161)	-	-	( 3,209)	( 307,370)
Dividend Paid	-	-	-	-	-	-	( 96,172)	-	( 96,172)
<b>Balance at June 30, 2006</b>	<b>320,580</b>	<b>1,412,308</b>	<b>301,670</b>	<b>1,515,442</b>	<b>( 511,069)</b>	<b>27,465</b>	<b>1,670,706</b>	<b>7,566</b>	<b>4,744,668</b>

**CAPITAL & CREDIT MERCHANT BANK LIMITED AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
 QUARTER ENDED JUNE 30, 2006

	Unaudited Jun-06 \$'000	Unaudited Jun-05 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Profit	131,871	760,918
Adjusted for operating assets and liabilities	( 327,952)	6,028,766
<b>Net cash (used in) / provided by operating activities</b>	<b>( 196,081)</b>	<b>6,789,684</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>( 2,962,147)</b>	<b>( 2,171,501)</b>
<b>CASH FLOWS PROVIDED BY / (USED IN) FINANCING ACTIVITIES</b>	<b>3,268,782</b>	<b>( 5,518,787)</b>
<b>INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>110,554</b>	<b>( 900,604)</b>
<b>OPENING CASH AND CASH EQUIVALENTS</b>	<b>529,762</b>	<b>1,812,019</b>
<b>CLOSING CASH AND CASH EQUIVALENTS</b>	<b>640,316</b>	<b>911,415</b>

**CAPITAL & CREDIT MERCHANT BANK LIMITED AND ITS SUBSIDIARIES**  
**SEGMENT RESULTS** QUARTER ENDED JUNE 30, 2006

	2006			
	Banking & Related Services \$'000	Financial & Related Services \$'000	Consolidation adjustments \$'000	Group \$'000
External revenue	1,636,088	1,417,187	( 5,211)	3,048,064
Net revenue from other segments	6,224	-	( 6,224)	-
	1,642,312	1,417,187	( 11,435)	3,048,064
Operating expenses	1,298,227	1,167,121	( 11,435)	2,453,913
Profit before tax	344,085	250,066	-	594,151
Taxation				115,963
Net profit after tax				478,188
Segment assets	35,663,700	20,955,898	( 340,730)	56,278,868
Segment liabilities	32,173,012	19,536,909	( 175,721)	51,534,200

	2005			
	Banking & Related Services \$'000	Financial & Related Services \$'000	Consolidation adjustments \$'000	Group \$'000
External revenue	1,637,093	1,699,461	-	3,336,554
Net revenue from other segments	7,595	12,153	( 19,748)	-
	1,644,688	1,711,614	( 19,748)	3,336,554
Operating expenses	1,178,295	1,266,928	( 7,595)	2,437,628
Profit before tax	466,393	444,686	( 12,153)	898,926
Taxation				142,110
Net profit after tax				756,816
Segment assets	32,148,662	22,748,775	( 334,553)	54,562,884
Segment liabilities	29,418,382	21,329,314	( 144,773)	50,602,923

**CAPITAL & CREDIT MERCHANT BANK LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO THE REPORT** QUARTER ENDED JUNE 30, 2006
**NOTES TO REPORT****1. Basis Of Preparation**

These consolidated financial statements have been prepared in accordance with and comply with standards issued by the International Financial Reporting Standards (IFRS). 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 our operations and effective for accounting periods beginning on January 1, 2005 were adopted during 2005.

This report is made in Jamaican dollars

**2. Investments**

Investments are classified as trading securities available for sale; held-to-maturity securities and Loans and receivables and are initially recorded at cost. Management determines an appropriate classification based on intent and ability to hold at the time of purchase.

Trading securities are measured at market value. Gains or losses arising from changes in fair value are recorded in the profit and loss account.

Securities available for sale are subsequently re-measured at fair value. Gains or losses that arise from changes in fair value of these investments are recorded in the Fair Value Reserve

Loans and receivables and held to maturity investments are subsequently re-measured at amortised cost.

**3. Employee Benefits**

Provision is made for the cost of vacation leave in respect of the services rendered by employees up to the Balance Sheet date.

**4. Cash And Cash Equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days to maturity from the date of acquisition including cash and bank balances at Bank of Jamaica, excluding statutory reserves of \$415,236,000 (2005 - \$230,701,000)

**5. Deferred Taxation**

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 profits, and is accounted for using the balance sheet liability method.

**6. Segment Reporting**

The Group is organised into two main business segments:

- Banking and related services, which include taking deposits, granting loans and other credit facilities and foreign currency trading.
- Financial and related services, which include securities trading, stock broking, portfolio planning, pension fund management, investment advisory services and unit trust management.

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