AUDITED FINANCIAL STATEMENTS

Year Ended December 31, 2007

INDEPENDENT AUDITORS' REPORT

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the members of

CAPITAL & CREDIT MERCHANT BANK LIMITED

Report on the Financial Statements

We have audited the financial statements of Capital & Credit Merchant Bank Limited (the Bank), and the consolidated financial statements of the Bank and its subsidiaries (the Group), set out on pages 2 to 29, which comprise the Group's and the Bank's balance sheets as at December 31, 2007, and the Group's and the Bank's profit and loss accounts, statements of changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements, give a true and fair view of the financial positions of the Group and the Bank as at December 31, 2007, and of the Group's and Bank's financial performance, and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on additional requirements of the Companies Act of Jamaica

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

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

Deloitte & Touche
Chartered Accountants

Kingston, Jamaica,
March 27, 2008

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

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

Member of
Deloitte Touche Tohmatsu

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2007

	Notes	2007 $'000	Restated 2006 $'000
ASSETS			
Cash resources	5	2,261,196	1,360,551
Investment in securities	6	19,062,910	26,776,270
Securities purchased under resale agreements		-	177,756
Pledged assets	7	24,954,909	18,917,802
Investment in associate		3,282	3,282
Other investment	8	15,000	15,000
Loans (after provision for loan losses)	9	6,404,421	3,976,613
Income tax recoverable		115,541	70,699
Intangible assets	10	444,469	379,124
Property and equipment	11	104,032	101,864
Deferred tax assets	12	7,465	14,359
Accounts receivable	13	619,335	667,845
Customers' liability under acceptances, guarantees and letters of credit as per contra		354,989	340,042
Total assets		**54,347,549**	**52,801,207**
LIABILITIES			
Securities sold under repurchase agreements	14	37,199,563	37,466,800
Deposits	15	7,670,991	5,683,937
Due to other financial institutions		1,194,852	1,719,950
Loan participation	16	1,959,561	1,715,849
Bank overdrafts	29	-	7,484
Accounts payable	17	186,904	405,464
Liabilities under acceptances, guarantees and letters of credit as per contra		354,989	340,042
		48,566,860	47,339,526
STOCKHOLDERS' EQUITY			
Share capital	18	1,732,888	1,732,888
Statutory reserve fund	19	408,601	362,678
Retained earnings reserve	20	1,515,442	1,515,442
Fair value reserve	21	(216,516)	(88,381)
Loan loss reserve	9	74,611	39,741
Unappropriated profits		2,246,978	1,886,506
Attributable to stockholders of the Bank		5,762,004	5,448,874
Minority interest		18,685	12,807
		5,780,689	5,461,681
Total liabilities and stockholders' equity		54,347,549	52,801,207

The accompanying notes form an integral part of these financial statements.

The financial statements were approved and authorized for issue by the Directors on March 27, 2008 and are signed on its behalf by:

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

CONSOLIDATED PROFIT AND LOSS ACCOUNT YEAR ENDED DECEMBER 31, 2007

	Notes	2007 $'000	2006 $'000
NET INTEREST INCOME AND OTHER REVENUE			
Interest on investments		4,076,825	4,539,628
Interest on loans		807,632	486,411
Total interest income		4,884,457	5,026,039
Interest expense		4,057,608	4,109,324
Net interest income	22	826,849	916,715
Commission and fee income	23	97,826	101,361
Net gains on securities trading		442,868	880,707
Foreign exchange trading and translation		(10,158)	24,490
Dividend income		45,912	22,464
Other income		11,317	14,739
Total other operating income		587,765	1,043,761
Net interest income and other revenue		1,414,614	1,960,476
NON-INTEREST EXPENSES			
Staff costs	24	475,419	448,503
Impairment losses	25	-	158,633
Loan loss expense, less recovery	9	12,022	13,647
Bank charges		25,765	30,683
Property expense		66,491	70,873
Depreciation and amortization		43,269	23,758
Information technology costs		27,290	30,601
Marketing and corporate affairs		70,025	100,408
Professional fees		56,749	48,358
Regulatory costs		21,068	26,445
Irrecoverable General Consumption Tax		30,446	32,528
Other operating expenses		51,264	54,101
Total non-interest expenses		879,808	1,038,538
PROFIT BEFORE TAXATION		534,806	921,938
Taxation	26	88,323	150,056
PROFIT AFTER TAXATION		446,483	771,882
Attributable to:			
Stockholders of the Bank	27	441,265	767,418
Minority interest		5,218	4,464
		446,483	771,882
Earnings per stock unit	28	69¢	120¢

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY YEAR ENDED DECEMBER 31, 2007

	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	Attribu table to equity holders of the Parent $'000	Minority Interest $'000	Total $'000
Balance at December 31, 2005		320,580	1,412,308	301,670	1,085,020	(206,908)	18,240	1,728,193	4,659,103	10,919	4,670,022
Unrealised gains on available-for-sale investments net of deferred tax		-	-	-	-	599,910	-	-	599,910	(2,576)	597,334
Realised gains on sale of securities available for sale net of deferred tax transferred to profit and loss account		-	-	-	-	(587,138)	-	-	(587,138)	-	(587,138)
Impairment losses net of deferred tax transferred to profit and loss account		-	-	-	-	105,755	-	-	105,755	-	105,755
Net income/(expense) recognised directly in equity		-	-	-	-	118,527	-	-	118,527	(2,576)	115,951
Net profit for the year		-	-	-	-	-	-	767,418	767,418	4,464	771,882
Total recognised income and expense		-	-	-	-	118,527	-	767,418	885,945	1,888	887,833
Transfer to loan loss reserve	9						21,501	(21,501)	-	-	-
Transfer to share capital	18	1,412,308	(1,412,308)	-	-	-	-		-	-	-
Transfer to statutory reserve fund	19	-	-	61,008	-	-	-	(61,008)	-	-	-
Transfer to retained earnings reserve	20	-	-	-	430,422	-	-	(430,422)	-	-	-
Dividend paid	36	-	-	-	-	-	-	(96,174)	(96,174)	-	(96,174)
Balance at December 31, 2006		1,732,888	-	362,678	1,515,442	(88,381)	39,741	1,886,506	5,448,874	12,807	5,461,681
Unrealised gains on available-for-sale investments net of deferred tax		-	-	-	-	167,111	-	-	167,111	660	167,771
Realised gains on sale of securities available for sale net of deferred tax transferred to profit and loss account		-	-	-	-	(295,246)	-	-	(295,246)	-	(295,246)
Net income/(expense) recognised directly in equity		-	-	-	-	(128,135)	-	-	(128,135)	660	(127,475)
Net profit for the year		-	-	-	-	-	-	441,265	441,265	5,218	446,483
Total recognised income and expense		-	-	-	-	(128,135)	-	441,265	313,130	5,878	319,008
Transfer to loan loss reserve	9	-	-	-	-	-	34,870	(34,870)	-	-	-
Transfer to statutory reserve fund	19	-	-	45,923	-	-	-	(45,923)	-	-	-
Balance at December 31, 2007		**1,732,888**	**-**	**408,601**	**1,515,442**	**(216,516)**	**74,611**	**2,246,978**	**5,762,004**	**18,685**	**5,780,689**

The accompanying notes form an integral part of these financial statements.

AUDITED FINANCIAL STATEMENTS

Year Ended December 31, 2007

A Member of the Capital & Credit Financial Group

6-8 Grenada Way, Kingston 5, Tel: (876) 960-5320 Fax: (876) 960-1381 Website: www.capital-credit.com Email: info@capital-credit.com

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2007

	Notes	2007 $'000	2006 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		446,483	771,882
Interest income		(4,884,457)	(5,026,039)
Interest expense		4,057,608	4,109,324
Impairment losses		-	158,633
Loan loss expense, less recovery		12,022	13,647
Depreciation and amortization		43,269	23,758
Gain on sale of property and equipment		-	(44)
Deferred taxation		70,430	(8,539)
Income tax charge		17,893	158,595
		(236,752)	201,217
Movement in working capital			
Accounts receivable		48,510	(150,697)
Loans receivable		(2,384,069)	(1,289,807)
Accounts payable		(218,560)	202,142
Cash used in operations		(2,790,871)	(1,037,145)
Interest paid		(4,038,861)	(4,004,122)
Income tax paid		(62,734)	(394,082)
Net cash used in operating activities		(6,892,466)	(5,435,349)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on sale of property and equipment		-	1,001
Acquisition of intangible assets	10	(81,291)	(164,195)
Acquisition of property and equipment	11	(29,491)	(37,661)
Interest received		4,932,676	5,123,627
Decrease in investments		1,048,650	2,300,646
Securities purchased under resale agreements		177,756	(135,000)
Cash provided by investing activities		6,048,300	7,088,418
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		-	(192,348)
Deposits		3,491,772	765,941
Securities sold under repurchase agreements		(1,580,205)	(2,680,588)
Loan participation		253,624	694,115
Due to other financial institutions		(527,742)	34,911
Cash provided by (used in) financing activities		1,637,449	(1,377,969)
INCREASE IN CASH AND CASH EQUIVALENTS		793,283	275,100
OPENING CASH AND CASH EQUIVALENTS		818,808	529,762
Effects of foreign exchange rate changes		29,054	13,946
CLOSING CASH AND CASH EQUIVALENTS	29	1,641,145	818,808

The accompanying notes form an integral part of these financial statements.

Capital & Credit Merchant Bank Limited
BALANCE SHEET AT DECEMBER 31, 2007

	Notes	2007 $'000	2006 $'000
ASSETS			
Cash resources	5	2,067,492	1,169,319
Investment in securities	6	9,828,422	18,208,155
Securities purchased under resale agreements		1,073,672	1,792,756
Pledged assets	7	11,019,221	5,363,942
Investment in subsidiaries (shares at cost)		305,406	305,406
Investment in associate		3,282	3,282
Loans (after provision for loan losses)	9	6,404,421	3,976,613
Income tax recoverable		85,228	77,359
Intangible asset	10	304,323	238,978
Property and equipment	11	49,634	58,078
Deferred tax assets	12	29,041	55,070
Accounts receivable	13	312,888	467,273
Customers' liabilities under acceptances, guarantees and letters of credit as per contra		354,989	340,042
Total assets		**31,838,019**	**32,056,273**
LIABILITIES			
Securities sold under repurchase agreements	14	16,267,343	18,358,037
Deposits	15	7,675,437	5,683,937
Due to other financial institutions		1,194,852	1,719,950
Loan participation	16	1,959,561	1,715,849
Bank overdrafts	29	-	7,484
Accounts payable	17	148,752	286,082
Liabilities under acceptances, guarantees and letters of credit as per contra		354,989	340,042
		27,600,934	28,111,381
STOCKHOLDERS' EQUITY			
Share capital	18	1,732,888	1,732,888
Statutory reserve fund	19	408,601	362,678
Retained earnings reserve	20	1,515,442	1,515,442
Fair value reserve	21	(112,676)	(98,716)
Loan loss reserve	9	74,611	39,741
Unappropriated profits		618,219	392,859
		4,237,085	3,944,892
Total liabilities and stockholders' equity		**31,838,019**	**32,056,273**

The accompanying notes form an integral part of these financial statements..

The financial statements were approved and authorized for issue by the Directors on March 27, 2008

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

Capital & Credit Merchant Bank Limited
PROFIT AND LOSS ACCOUNT YEAR ENDED DECEMBER 31, 2007

	Notes	2007 $'000	2006 $'000
NET INTEREST INCOME AND OTHER REVENUE			
Interest on investments		1,523,737	2,107,054
Interest on loans		807,006	486,411
Total interest income		2,330,743	2,593,465
Interest expense		1,951,644	2,176,992
Net interest income	22	379,099	416,473
Commission and fee income	23	40,727	44,124
Net gains on securities trading		379,383	589,637
Foreign exchange trading and translation		37,082	23,459
Dividend income		48,033	20,089
Other income		6,732	9,685
Total other operating income		511,957	686,994
Net interest income and other revenue		891,056	1,103,467
NON-INTEREST EXPENSES			
Staff costs	24	270,407	242,049
Impairment losses	25	-	158,633
Loan loss expense, less recovery	9	12,022	13,647
Bank charges		19,844	24,203
Property expenses		42,021	47,793
Depreciation and amortization		32,040	18,094
Information technology costs		21,974	21,386
Marketing and corporate affairs		26,829	41,780
Professional fees		50,411	42,984
Regulatory costs		15,785	24,236
Irrecoverable General Consumption Tax		21,048	22,168
Other operating expenses		39,513	31,590
Total non-interest expenses		551,894	688,563
PROFIT BEFORE TAXATION		339,162	414,904
Taxation	26	33,009	18,181
NET PROFIT	27	306,153	396,723

The accompanying notes form an integral part of these financial statements..

Capital & Credit Merchant Bank Limited
STATEMENT OF CHANGES IN EQUITY YEAR ENDED DECEMBER 31, 2007

	Notes	Share Capital $'000	Share Premium $'000	Statutory Reserve Fund $'000	Retained Earnings Reserve $'000	Fair Value Reserve $'000	Loan Loss Reserve $'000	Unappropriated Profits $'000	Total $'000
Balance at December 31, 2005		**320,580**	**1,412,308**	**301,670**	**1,085,020**	**(211,397)**	**18,240**	**605,241**	**3,531,662**
Unrealised gains on securities available-for-sale net of deferred tax		-	-	-	-	400,017	-	-	400,017
Realised gains on securities available-for-sale net of deferred tax transferred to profit and loss account		-	-	-	-	(393,091)	-	-	(393,091)
Impairment losses net of deferred tax transferred to profit and loss account		-	-	-	-	105,755	-	-	105,755
Net income recognised directly in equity		-	-	-	-	112,681	-	-	112,681
Net profit for the year		-	-	-	-	-	-	396,723	396,723
Total recognised income		-	-	-	-	112,681	-	396,723	509,404
Transfer to loan loss reserve	9	-	-	-	-	-	21,501	(21,501)	-
Transfer to share capital	18	1,412,308	(1,412,308)	-	-	-	-	-	-
Transfer to statutory reserve fund	19	-	-	61,008	-	-	-	(61,008)	-
Transfer to retained earnings reserve	20	-	-	-	430,422	-	-	(430,422)	-
Dividend paid	36	-	-	-	-	-	-	(96,174)	(96,174)
Balance at December 31, 2006		**1,732,888**	**-**	**362,678**	**1,515,442**	**(98,716)**	**39,741**	**392,859**	**3,944,892**
Unrealised gains on securities available-for-sale net of deferred tax		-	-	-	-	238,962	-	-	238,962
Realised gains on securities available-for-sale net of deferred tax transferred to profit and loss account		-	-	-	-	(252,922)	-	-	(252,922)
Net expense recognised directly in equity		-	-	-	-	(13,960)	-	-	(13,960)
Net profit for the year		-	-	-	-	-	-	306,153	306,153
Total recognised income (expense)		-	-	-	-	(13,960)	-	306,153	292,193
Transfer to loan loss reserve	9	-	-	-	-	-	34,870	(34,870)	-
Transfer to statutory reserve fund	19	-	-	45,923	-	-	-	(45,923)	-
Balance at December 31, 2007		**1,732,888**	**-**	**408,601**	**1,515,442**	**(112,676)**	**74,611**	**618,219**	**4,237,085**

The accompanying notes form an integral part of these financial statements.

6-8 Grenada Way, Kingston 5, Tel: (876) 960-5320 Fax: (876) 960-1381 Website: www.capital-credit.com Email: info@capital-credit.com

Capital & Credit Merchant Bank Limited
STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2007

	Notes	2007 $'000	2006 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		306,153	396,723
Interest income		(2,330,743)	(2,593,465)
Interest expense		1,951,644	2,176,992
Impairment losses		-	158,633
Loan loss expense, less recovery		12,022	13,647
Depreciation and amortization		32,040	18,094
Income tax charge		33,009	18,181
		4,125	188,805
Movements in working capital			
Accounts receivable		154,385	(374,871)
Loans receivable		(2,384,069)	(1,289,807)
Accounts payable		(137,330)	167,815
Cash used in operations		(2,362,889)	(1,308,058)
Interest paid		(1,940,952)	(2,057,163)
Income tax paid		(7,869)	2,870
Net cash used in operating activities		(4,311,710)	(3,362,351)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of intangible asset	10	(81,291)	(164,195)
Acquisition of property and equipment	11	(7,650)	(12,138)
Interest received		2,501,839	2,547,588
Decrease in investments		2,400,810	3,477,051
Securities purchased under resale agreements		681,993	(1,297,378)
Cash provided by investing activities		5,495,701	4,550,928
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		-	(192,348)
Deposits		1,967,289	765,941
Securities sold under repurchase agreements		(2,084,442)	(2,330,824)
Loan participation		253,624	694,115
Due to other financial institutions		(527,742)	34,911
Cash used in financing activities		(391,271)	(1,028,205)
INCREASE IN CASH AND CASH EQUIVALENTS		792,720	160,372
OPENING CASH AND CASH EQUIVALENTS		627,576	453,258
Effect of foreign exchange rate changes		27,145	13,946
CLOSING CASH AND CASH EQUIVALENTS	29	1,447,441	627,576

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2007

1 GROUP IDENTIFICATION

1.1 Composition of the Group

Capital & Credit Merchant Bank Limited ("the Bank") is incorporated in Jamaica and is a 73.02% (2006: 72.96%) subsidiary of Capital & Credit Financial Group Limited, which is also incorporated in Jamaica. The registered office of the Bank is 6 – 8 Grenada Way, Kingston 5.

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

1.2 Principal activities

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

Subsidiaries	Place of incorporation and operation	Proportion of ownership interest	Proportion of voting power held	Principal Activities
Capital & Credit Securities Limited	Jamaica	100%	100%	Dealing in securities,stockbroking, portfolio planning, pension fund management and investment advisory services
Capital & Credit Fund Managers Limited	Jamaica	70%	70%	Management of Jamaica Investment Fund and the selling of units to the public on its behalf

1.3 Regulation and licence

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

1.4 Associate company

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

2 ADOPTION OF NEW AND REVISED STANDARDS

2.1 Standards and Interpretations effective in the current period

In the current year, the Group has adopted IFRS 7, Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after January 1, 2007, and the consequential amendments to IAS 1, Presentation of Financial Statements.

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (See Note 34).

Four interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are:

IFRIC 7	Applying the Restatement Approach under IAS 29, Financial Reporting in Hyper-Inflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment

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

2.2 Standards and interpretations in issue not yet adopted

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

		Effective for annual periods beginning on or after
IAS 1 (Revised)	Presentation of financial statements – Comprehensive Revision Including Requiring a Statement of Comprehensive Income	January 1, 2009
IAS 23 (Revised)	Borrowing Costs	January 1, 2009
IFRS 8	Operating Segments	January 1, 2009
IFRIC 11	Group and Treasury Share Transactions	March 1, 2007
IFRIC 12	Service Concession Arrangements	January 1, 2008
IFRIC 13	Customer Loyalty Programme	July 1, 2008
IFRIC 14	IAS 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction	January 1, 2008

The directors anticipate that the adoption of these standards and interpretations in the future periods may have no material impact on the financial statements in the period of initial recognition, except for certain additional disclosures.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2007

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of compliance

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

3.2 Basis of preparation

3.2.1 Basis of measurement

The financial statements have been prepared on the historical cost basis except for the revaluation of financial assets classified as available for sale investment securities.

3.2.2 Functional and presentation currency

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

3.2.3 Transactions and balances

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

3.3 Basis of consolidation

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

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

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

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

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

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

3.4 Business combinations

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

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

3.5 Investment in subsidiaries

Subsidiary companies are those in which the Group has power to govern the financial and operating policies (through control of 50% or more of the investee's voting power) so as to obtain benefits from their activities.

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

3.6 Investment in associate

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

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

3.7 Goodwill

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

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

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

3.8 Financial Instruments

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

A financial asset is any asset that is:

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

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

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

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

A financial liability is any liability that is:

(a) a contractual obligation:

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

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

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

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

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

3.8.1 Financial assets

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

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

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3.8.1 **Financial assets (Con'd)**

Financial assets are classified into the following categories:

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

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

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or

- it is a part of an identified portfolio of financial instruments that the bank manages together and has a recent actual pattern of short-term profit taking

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

- such a designation eliminates or significantly reduces a measurement or inconsistency that would arise; or

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

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial assets. Fair value is determined in the manner described in Note 34.

3.8.1.2 Held-to-maturity investments

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

3.8.1.3 Available-for-sale financial assets

Unlisted shares and listed securities held by the Group that are traded in an active market are classified as being available for sale and are stated at fair value. Fair value is determined in the manner described in Note 34. Gains and losses arising from changes in fair value are recognized directly in equity in the fair value reserve with the exception of impairment losses. Interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the fair value reserve is included in the profit or loss for the period.

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

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

3.8.1.4 Loans and receivables

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

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

3.8.1.5 Loans and provisions for credit losses

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

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

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

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

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

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

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

3.8.1.6 Effective interest rate method

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

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

3.8.1.7 Impairment of financial assets

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

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

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

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

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

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

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

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

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

3.8.1.8 De-recognition of financial assets

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

3.8.2 **Financial liabilities and equity instruments issued by the Group**

3.8.2.1 Financial liabilities

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

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

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

3.8.2.2 De-recognition of financial liabilities

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

3.8.2.3 Equity instruments

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

3.8.2.4 Sale and repurchase agreements

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

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

3.8.3 Cash and cash equivalents

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

3.9 **Property and equipment**

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

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

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

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

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

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

3.10 **Intangible assets**

3.10.1 Computer software costs

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

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

3.10.2 Goodwill

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

3.11 **Impairment of tangible and intangible assets**

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

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

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

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

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

3.12 **Taxation**

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

3.12.1 Current tax

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

3.12.2 Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized 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 differences arise from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

3.12.2 Deferred tax (cont'd)

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

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

3.12.3 Current and deferred tax for the period

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

3.13 **Acceptances**

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

3.14 **Revenue recognition**

3.14.1 Interest income

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

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

3.14.2 Fees and commission

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

3.14.3 Dividend income

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

3.15 **Related party transactions and balances**

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

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

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

3.16 **Leases**

3.16.1 Group as the lessee

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

3.16.2 Group as the lessor

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

3.17 **Borrowings**

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

3.18 **Provisions**

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

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

3.19 **Employee benefits**

3.19.1 Pension obligations

The Group pays fixed contributions into a defined contribution Superannuation Fund 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.

3.19.2 Employee Share Ownership Plan

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

3.19.3 Leave entitlements

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

3.19.4 Termination benefits

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

3.20 **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.

3.21 **Comparative figures**

Where necessary, comparative figures have been reclassified and are restated to conform to changes in the current period.

4 **CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

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

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

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

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

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 adversely changed by 2 percent, the provision would be estimated at $125.8 million (2006: $78.4 million) for the Group and the Bank.

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

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

Fair value of financial assets

As described in Note 34, the management uses its judgment in selecting appropriate valuation techniques to determine fair values of financial assets. Valuation techniques commonly used by market practitioners supported by appropriate assumptions are applied by the Group. The financial assets of the Group at the balance sheet date stated at fair value amount to $43.1 billion (2006: $44.7 billion) and of the Bank $20.5 billion (2006: $23.0 billion).

Income taxes

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

5 **CASH RESOURCES**

Cash resources include $620.0 million (2006: $534.2 million) held under Section 14(i) of the Financial Institutions Act, at the Bank of Jamaica as a Cash Reserve. Accordingly, these amounts are not available for investment or other use by the Group.

6 **INVESTMENT IN SECURITIES**

	The Group		The Bank	
	2007	**2006**	**2007**	**2006**
	$'000	**$'000**	**$'000**	**$'000**
Financial assets at fair value through profit or loss:				
Government of Jamaica securities	-	929,690	-	-
Financial institutions	-	524,992	-	-
Equity securities	116,547	102,236	-	-
Other securities	-	19,592	-	-
	116,547	1,576,510	-	-
Securities available-for-sale				
Government of Jamaica securities	25,588,257	21,892,115	7,539,382	8,973,575
US Government agencies	11,276,961	11,401,757	10,572,961	10,263,164
Equity investments	1,107,565	659,222	1,107,565	581,968
Bank of Jamaica certificates of deposit	3,623,362	5,059,998	-	-
Other securities	1,434,225	4,121,148	1,333,266	3,223,736
	43,030,370	43,134,240	20,553,174	23,042,443
Pledged assets (Note 7)	(24,954,909)	(18,917,802)	(11,019,221)	(5,363,942)
	18,075,461	24,216,438	9,533,953	17,678,501
Interest receivable	870,902	983,322	294,469	529,654
	18,946,363	25,199,760	9,828,422	18,208,155
	19,062,910	26,776,270	9,828,422	18,208,155

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

Government securities totalling $71.4 million (2006: $71.4 million) are held by the Bank of Jamaica, of which $70.4 million (2006: $70.4 million) are held as security in the event of an overdraft on the Bank's and subsidiary's primary dealer accounts, and $1.0 million (2006: $1.0 million) to facilitate stockbroking activities of the subsidiary.

Gross gains of $442.8 million for the Group and $379.3 million for the Bank (2006: $880.7 million for the Group and $589.6 million for the Bank) were realised during the year on sale of securities available-for-sale.

7 **PLEDGED ASSETS**

The Group enters into collateralized repurchase agreements and as at the balance sheet date, investment securities amounting to $24.9 billion (2006: $18.9 billion) of the Group and $11.0 billion (2006: $5.3 billion) of the Bank were pledged as collateral for repurchase agreements which represents the total of those assets pledged for which the transferee has the right by contract or custom to sell or repledge the collateral.

8 **OTHER INVESTMENT**

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

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9 LOANS

	The Group and the Bank 2007 $'000	The Group and the Bank 2006 $'000
Corporate	4,672,254	2,806,514
Individuals	1,666,286	1,147,957
	6,338,540	3,954,471
Less provisions	46,550	34,528
	6,291,990	3,919,943
Interest receivable	112,431	56,670
	6,404,421	3,976,613

The Group and the Bank — Remaining Term to Maturity

	Under 3 months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Carrying Value 2007 $'000	Carrying Value 2006 $'000
Corporate	908,167	695,514	2,199,025	869,548	4,672,254	2,806,514
Individuals	476,934	97,407	712,849	379,096	1,666,286	1,147,957
	1,385,101	792,921	2,911,874	1,248,644	6,338,540	3,954,471

(a) The loan balance includes an amount of $82.9 million (2006: $84.2 million) receivable from the bank's employees.

(b) The aggregate amount of non-performing loans on which interest is not being accrued is $464.9 million (2006: $419.0 million).

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

	2007 $'000	2006 $'000
Specific provisions		
Provision at January 1	34,528	20,881
Charged to profit and loss	32,078	13,647
Recoveries during the year	(20,056)	-
Balance at December 31	46,550	34,528
General provisions		
Provisions at January 1	39,741	18,240
Charged to equity	34,870	21,501
Balance at December 31	74,611	39,741
Total allowance for impairment	121,161	74,269

Total allowances for loan losses is made up as follows:

	2007 $'000	2006 $'000
Allowance based on accounting standards - (IAS 39 see (i) below)	46,550	34,528
Additional allowance based on Bank of Jamaica regulations (see (ii) below)	74,611	39,741
	121,161	74,269

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

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

10 INTANGIBLE ASSETS

	The Group: Computer Software $'000	The Group: Goodwill $'000	The Group: Total $'000	The Bank: Computer Software $'000
Balance at December 31, 2005	74,783	140,146	214,929	74,783
Additions	164,195	-	164,195	164,195
Balance at December 31, 2006	238,978	140,146	379,124	238,978
Additions	81,291	-	81,291	81,291
Amortization	(15,946)	-	(15,946)	(15,946)
Balance at December 31, 2007	304,323	140,146	444,469	304,323

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

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

11 PROPERTY AND EQUIPMENT

The Group

	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, 2005	2,968	20,391	135,563	11,769	49,444	4,634	-	224,769
Additions	-	-	13,692	-	-	2,334	21,635	37,661
Disposals	-	-	-	-	-	(2,238)	-	(2,238)
December 31, 2006	2,968	20,391	149,255	11,769	49,444	4,730	21,635	260,192
Additions	-	-	16,129	67	4,798	-	8,497	29,491
Transfer	-	-	30,132	-	-	-	(30,132)	-
December 31, 2007	2,968	20,391	195,516	11,836	54,242	4,730	-	289,683
Depreciation								
December 31, 2005	-	1,014	93,356	-	39,458	2,023	-	135,851
Charge for the year	-	510	18,685	-	3,840	723	-	23,758
Disposals	-	-	-	-	-	(1,281)	-	(1,281)
December 31, 2006	-	1,524	112,041	-	43,298	1,465	-	158,328
Charge for year	-	497	17,459	-	8,581	786	-	27,323
December 31, 2007	-	2,021	129,500	-	51,879	2,251	-	185,651
Net book value								
December 31, 2007	2,968	18,370	66,016	11,836	2,363	2,479	-	104,032
December 31, 2006	2,968	18,867	37,214	11,769	6,146	3,265	21,635	101,864

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

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

No depreciation is provided on land, paintings and artwork.

11 PROPERTY AND EQUIPMENT (Cont'd)

The Bank

	Land $'000	Building $'000	Furniture, Fixtures and Equipment $'000	Paintings and Artwork $'000	Leasehold Improvements $'000	Motor Vehicles $'000	Total $'000
At cost							
December 31, 2005	2,968	20,391	92,432	11,075	48,927	2,396	178,189
Additions	-	-	9,804	-	-	2,334	12,138
December 31, 2006	2,968	20,391	102,236	11,075	48,927	4,730	190,327
Additions	-	-	2,852	-	4,798	-	7,650
December 31, 2007	2,968	20,391	105,088	11,075	53,725	4,730	197,977
Depreciation							
December 31, 2005	-	1,014	73,131	-	38,941	1,069	114,155
Charge for year	-	510	13,348	-	3,840	396	18,094
December 31, 2006	-	1,524	86,479	-	42,781	1,465	132,249
Charge for year	-	497	6,230	-	8,581	786	16,094
December 31, 2007	-	2,021	92,709	-	51,362	2,251	148,343
Net book value							
December 31, 2007	2,968	18,370	12,379	11,075	2,363	2,479	49,634
December 31, 2006	2,968	18,867	15,757	11,075	6,146	3,265	58,078

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

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

No depreciation is provided on land, paintings and artwork.

12 DEFERRED TAXATION

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

	The Group 2007 $'000	The Group 2006 $'000	The Bank 2007 $'000	The Bank 2006 $'000
Analysis for financial reporting purposes				
Deferred tax assets	381,584	382,887	205,868	263,072
Deferred tax liabilities	(374,119)	(368,528)	(176,827)	(208,002)
Net assets	7,465	14,359	29,041	55,070

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

	The Group 2007 $'000	The Group 2006 $'000	The Bank 2007 $'000	The Bank 2006 $'000
Net assets at January 1	14,359	67,081	55,070	129,592
(Charged)/credited to income	(70,430)	8,539	(33,009)	(18,181)
(Charged)/credited to equity	63,536	(61,261)	6,980	(56,341)
Net assets at December 31	7,465	14,359	29,041	55,070

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

(i) Deferred tax assets

The Group

	Tax Losses $'000	Securities Trading $'000	Available-for-sale Investment Revaluation $'000	Interest Payable $'000	Tax Credit $'000	Other $'000	Total $'000
At December 31, 2005	135,889	-	94,083	201,623	1,000	868	433,463
Credited/(charged) to income for the year	(24,801)	-	-	35,721	-	(235)	10,685
(Charged) to equity for the year	-	-	(61,261)	-	-	-	(61,261)
At December 31, 2006	111,088	-	32,822	237,344	1,000	633	382,887
Credited/(charged) to income for the year	(76,468)	-	-	6,249	-	(32)	(70,251)
Credited to equity for the year	-	-	63,536	-	-	-	63,536
Transfer from deferred tax liability	-	5,412	-	-	-	-	5,412
At December 31, 2007	34,620	5,412	96,358	243,593	1,000	601	381,584

The Bank

	Tax Losses $'000	Available-for-sale Investment Revaluation $'000	Interest Payable $'000	Tax Credit $'000	Total $'000
At December 31, 2005	104,682	105,699	85,710	1,000	297,091
Credited/(charged) to income for the year	(17,620)	-	39,942	-	22,322
(Charged) to equity for the year	-	(56,341)	-	-	(56,341)
At December 31, 2006	87,062	49,358	125,652	1,000	263,072
Credited/(charged) to income for the year	(67,749)	-	3,565	-	(64,184)
Credited to equity for the year	-	6,980	-	-	6,980
At December 31, 2007	19,313	56,338	129,217	1,000	205,868

(ii) Deferred tax liabilities

The Group

	Capital Allowances in excess of Depreciation Charges $'000	Interest Receivable $'000	Trading Investment Revaluation $'000	Total $'000
At December 31, 2005	(6,502)	(359,156)	(724)	(366,382)
(Charged)/credited to income for the year	(9,876)	13,537	(5,807)	(2,146)
At December 31, 2006	(16,378)	(345,619)	(6,531)	(368,528)
(Charged)/credited to income for the year	(28,195)	16,073	11,943	(179)
Transfer to deferred tax asset	-	-	(5,412)	(5,412)
At December 31, 2007	(44,573)	(329,546)	-	(374,119)

The Bank

	Capital Allowances in excess of Depreciation Charges $'000	Interest Receivable $'000	Total $'000
At December 31, 2005	(4,615)	(162,884)	(167,499)
(Charged) to income for the year	(8,834)	(31,669)	(40,503)
At December 31, 2006	(13,449)	(194,553)	(208,002)
(Charged)/credited to income for the year	(25,856)	57,031	31,175
At December 31, 2007	(39,305)	(137,522)	(176,827)

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12 DEFERRED TAXATION (Cont'd)

Deferred income taxes are recognized for the tax loss carried forward only to the extent that realization of the related tax benefit is probable. The Group has tax losses, subject to agreement with the Commissioner, Taxpayer Audit and Assessment, amounting to $103.8 million (2006: $333.2 million) available for indefinite carry forward and off set against future taxable income. Deferred tax assets have been recognized in respect of these amounts.

Deferred income tax liabilities have not been provided for the withholdings and other taxes that would be payable on the undistributed earnings of a subsidiary to the extent that such earnings are reinvested. Such undistributed earnings totalled $1.3 billion (2006: $1.2 billion).

13 ACCOUNTS RECEIVABLE

	The Group		The Bank	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Broker receivable	160,151	-	160,151	-
Proceeds on sale of investments	-	334,087	-	334,087
Withholding tax recoverable	247,031	312,134	-	11,238
Owed by parent company	3,307	-	3,307	-
Owed by wholly-owned subsidiary	-	-	659	57,278
Owed by fellow subsidiary	15,423	353	15,423	353
Other receivables	193,423	21,271	133,348	64,317
	619,335	667,845	312,888	467,273

14 SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

	The Group				
	Remaining Term to Maturity				
	Under 3 Months	3 to 12 Months	1 to 5 Years	Carrying Value	Carrying Value
				2007	2006
	$'000	$'000	$'000	$'000	$'000
Total	29,844,666	7,310,330	44,567	37,199,563	37,466,800
Personal				3,327,207	3,050,943
Financial institutions				21,814,581	22,690,584
Commercial and business enterprises				11,487,600	11,156,897
				36,629,388	36,898,424
Interest payable				570,175	568,376
				37,199,563	37,466,800

	The Bank				
	Remaining Term to Maturity				
	Within 3 months	3 to 12 Months	1 to 5 Years	Carrying Value	Carrying Value
				2007	2006
	$'000	$'000	$'000	$'000	$'000
Total	15,896,417	335,559	35,367	16,267,343	18,358,037
Personal				2,355	129,237
Financial institutions				13,488,339	15,632,505
Commercial and business enterprises				2,549,962	2,363,356
				16,040,656	18,125,098
Interest payable				226,687	232,939
				16,267,343	18,358,037

15 DEPOSITS

	The Group				
	Remaining Term to Maturity				
	Within 3 months	3 to 12 Months	1 to 5 Years	Carrying Value	Carrying Value
				2007	2006
	$'000	$'000	$'000	$'000	$'000
Total	4,932,985	2,697,909	40,097	7,670,991	5,683,937
Personal				3,722,786	3,140,748
Financial institutions				337,144	285,217
Commercial and business enterprises				3,490,209	2,161,331
				7,550,139	5,587,296
Interest payable				120,852	96,641
				7,670,991	5,683,937

	The Bank				
	Remaining Term to Maturity				
	Within 3 months	3 to 12 Months	1 to 5 Years	Carrying Value	Carrying Value
				2007	2006
	$'000	$'000	$'000	$'000	$'000
Total	4,937,431	2,697,909	40,097	7,675,437	5,683,937
Personal				3,722,786	3,140,748
Financial institutions				341,590	285,217
Commercial and business enterprises				3,490,209	2,161,331
				7,554,585	5,587,296
Interest payable				120,852	96,641
				7,675,437	5,683,937

16 LOAN PARTICIPATION

	The Group and the Bank				
	Remaining Term to Maturity				
	Within 3 months	3 to 12 Months	1 to 5 Years	Carrying Value	Carrying Value
				2007	2006
	$'000	$'000	$'000	$'000	$'000
Total	1,589,917	369,644	-	1,959,561	1,715,849
Personal				755,610	1,191,548
Financial institutions				40,191	42,630
Commercial and business enterprises				1,144,690	452,689
				1,940,491	1,686,867
Interest payable				19,070	28,982
				1,959,561	1,715,849

17 ACCOUNTS PAYABLE

	The Group		The Bank	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Withholding tax	63,613	-	63,613	-
Purchase of investments	-	265,882	-	201,157
Brokerage payable	-	36,586	-	-
Prime accounts	-	10,037	-	-
Other payable	123,291	92,959	85,139	84,925
	186,904	405,464	148,752	286,082

18 SHARE CAPITAL

	Number of units	
	2007	2006
	'000	'000
Authorised:		
Ordinary shares - no par value	800,000	800,000
Issued and fully paid ordinary shares – no par value	641,160	641,160

	2007	2006
	$'000	$'000
Stated Capital		
At January 1	1,732,888	320,580
Transferred from share premium	-	1,412,308
At December 31	1,732,888	1,732,888

See Note 37 on Subsequent Event.

19 STATUTORY RESERVE FUND

Under the Financial Institutions Act (1992) the Bank is required to transfer to a reserve fund a minimum of 15% of the net profit each year until the amount to the credit of the reserve fund is equal to 50% of the Bank's paid up capital. Thereafter, 10% of the net profit each year is to be transferred to the reserve fund until the amount at the credit of the reserve fund is equal to the Bank's paid up capital. The transfer for the year was at the prescribed rate of 15% (2006: 15%).

20 RETAINED EARNINGS RESERVE

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

On February 17, 2006, the Board of Directors by resolution authorised the transfer of $430.4 million from unappropriated profits to retained earnings reserve.

21 FAIR VALUE RESERVE

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

Movement in fair value reserve is as follows:

	The Group		The Bank	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Balance at January 1	(88,381)	(206,908)	(98,716)	(211,397)
Unrealized gains on available-for-sale investments	250,666	899,865	358,443	600,026
Deferred tax on unrealized gains	(83,555)	(299,955)	(119,481)	(200,009)
Realized gains on sale of available-for-sale investments transferred to profit and loss	(442,868)	(880,707)	(379,383)	(589,637)
Deferred tax on realized gains	147,622	293,569	126,461	196,546
Impairment loss transferred to profit and loss	-	158,633	-	158,633
Deferred tax on impairment loss	-	(52,878)	-	(52,878)
Balance at December 31	(216,516)	(88,381)	(112,676)	(98,716)

22 NET INTEREST INCOME

	The Group		The Bank	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Interest income				
GOJ securities	2,774,861	3,513,512	947,883	1,354,285
US Government agencies	508,394	718,986	483,779	718,380
Other securities	250,977	34,389	92,075	34,389
Bank of Jamaica	543,219	272,741	-	-
Loans	807,006	486,411	807,006	486,411
	4,884,457	5,026,039	2,330,743	2,593,465
Interest expenses				
Securities sold under repurchase agreements	3,290,944	3,365,930	1,184,980	1,433,598
Deposits	483,654	409,910	483,654	409,910
Other	283,010	333,484	283,010	333,484
	4,057,608	4,109,324	1,951,644	2,176,992
	826,849	916,715	379,099	416,473

23 COMMISSION AND FEE INCOME

	The Group		The Bank	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Loan processing fees	40,727	44,124	40,727	44,124
Commission - Government of Jamaica	5,910	4,912	-	-
Commission - equity trading	6,189	6,777	-	-
Fund management and registrar fees	45,000	45,548	-	-
	97,826	101,361	40,727	44,124

24 STAFF COSTS

	The Group		The Bank	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Staff costs incurred during the year in respect of employees were:				
Salaries and wages	322,031	349,957	175,032	184,251
Statutory contributions	36,204	31,363	19,815	16,208
Pension contributions	14,753	14,216	7,216	7,789
Termination costs	8,593	-	4,916	-
Other staff benefits	93,838	52,967	63,428	33,801
	475,419	448,503	270,407	242,049

25 IMPAIRMENT LOSSES

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

In considering the restructuring, in accordance with IAS 39, Financial Instruments: Recognition and Measurement, the Group carried out an assessment for impairment. It was determined that the present value of the future cash flows of the new bonds discounted at the effective interest rate of the original bonds approximated the market value of the original bonds at December 31, 2006. As a result of the assessment, the Group has recognised impairment losses equal to the difference between the original cost and the market value of the instruments at December 31, 2006. Accordingly, an amount of $158.6 million previously recorded in the fair value reserve in equity was transferred to the profit and loss account in 2006.

26 TAXATION

(a) Total charge for the year comprises:

	The Group		The Bank	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Income tax at 33 1/3% of taxable income	17,893	158,595	-	-
Deferred tax (Note 12)	70,430	(8,539)	33,009	18,181
	88,323	150,056	33,009	18,181

(b) Subject to agreement of the Commissioner, Taxpayer Audit and Assessment, at balance sheet date the Group had tax losses of approximately $103.8 million (2006: $333.2 million) available for set-off against future taxable profits. A deferred tax asset has been recognised in respect of these losses.

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

	The Group	
	2007	2006
	$'000	$'000
Profit before tax	534,806	921,938
Tax at the domestic income tax rate	178,268	307,312
Tax effect of:		
Expenses not deductible in determining taxable profit	-	37
Non-taxable income	(94,146)	(159,727)
Other adjustments	4,201	2,434
Income tax expense recognized in profit or loss	88,323	150,056

	The Bank	
	2007	2006
	$'000	$'000
Profit before tax	339,162	414,904
Tax at the domestic income tax rate	113,054	138,301
Tax effect of:		
Expenses not deductible in determining taxable profit	-	37
Non-taxable income	(83,134)	(118,494)
Other adjustments	3,089	(1,663)
Income tax expense recognized in profit or loss	33,009	18,181

27 NET PROFIT

(a) Dealt with in the accounts of:

	2007	2006
	$'000	$'000
The Bank	306,153	396,723
The subsidiaries	135,112	370,695
	441,265	767,418

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27 NET PROFIT cont'd

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

		The Group		The Bank	
		2007	2006	2007	2006
		$'000	$'000	$'000	$'000
Directors' emoluments					
	- Fees	6,815	4,638	6,815	4,568
	- Management	30,332	31,996	16,851	17,775
Audit fees	- current year	7,871	8,347	3,600	3,600
	- prior year	279	1,069	279	807
Depreciation and amortization		43,269	23,758	32,040	18,094

28 EARNINGS PER STOCK UNIT

Earnings per stock unit is calculated by dividing the net profit attributable to stockholders of $441.2 million (2006: $767.4 million) by 641,159,682 stock units in issue during the two years.

29 CASH AND CASH EQUIVALENTS

	The Group		The Bank	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Cash and balances with banks including Bank of Jamaica	2,261,196	1,360,551	2,067,492	1,169,319
Less: Statutory cash reserves (Note 5)	620,051	534,259	620,051	534,259
Bank overdrafts	-	7,484	-	7,484
	1,641,145	818,808	1,447,441	627,576

30 FUND MANAGEMENT

The Group provides corporate administration, investment management and advisory services to third parties which involve the Group making allocation, purchase and sales decisions in relation to a wide range of financial instruments. Those assets are held in a fiduciary capacity and are not included in these financial statements. At December 31, 2007, the Group had financial assets under administration of approximately $2.8 billion (2006: $2.7 billion).

31 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, stockbroking, portfolio planning, funds management and investment advisory services.

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

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

	2006			
	Banking & Related Services	Financial & Related Services	Eliminations	Group
	$'000	$'000	$'000	$'000
External revenue	3,199,582	2,870,218	-	6,069,800
Inter-segment revenue	80,877	(68,551)	(12,326)	-
Total revenue	3,280,459	2,801,667	(12,326)	6,069,800
Result				
Segment result	414,904	519,360	(12,326)	921,938
Profit before taxation				921,938
Taxation				(150,056)
Profit for the year				771,882
Balance sheet				
Assets				
Segment assets	32,056,273	22,641,242	(1,896,308)	52,801,207
Consolidated total assets				52,801,207
Liabilities				
Segment liabilities	28,111,381	21,044,147	(1,816,002)	47,339,526
Consolidated total liabilities				47,339,526
Other information				
Capital additions	176,333	25,523	-	201,056
Depreciation and amortization	18,094	5,664	-	23,758
Loan loss expense, less recovery	13,647	-	-	13,647
Impairment adjustment	158,633	-	-	158,633

32 PENSION FUND

A defined contribution superannuation fund ("The Fund") was established for the purpose of securing pensions on retirement for the qualified present and future employees of the Group. Employees who are members of the Fund 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 24).

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

33 RELATED PARTY TRANSACTIONS AND BALANCES

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

	The Group		The Bank	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Interest income	-	6,197	139,216	72,012
Preference dividends received	-	-	11,705	12,326
Management fees paid	24,000	24,000	24,000	24,000
Interest expense	-	-	2,684	18,125

Year end balances with related parties are as follows:

	The Group		The Bank	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Securities sold under repurchase agreements	-	235,640	240,000	235,640
Securities purchased under resale agreements	-	-	1,073,672	1,615,000
Deposits	-	42,861	4,446	42,861

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	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Salaries and other short term benefits				
Directors	30,332	31,996	16,851	17,775
Management Personnel	112,748	76,417	55,615	39,547
	143,080	108,413	72,466	57,322
Interest expense				
Securities sold under repurchase agreements				
Directors	4,907	7,010	-	-
Management Personnel	125	873	-	-
Parties connected to Directors and Management	-	347	-	-
	5,032	8,230	-	-
Interest expense				
Deposits				
Directors	2,338	1,477	2,338	1,477
Management Personnel	1,534	1,417	1,534	1,417
Parties connected to Directors and Management	1,594	533	1,594	533
	5,466	3,427	5,466	3,427
Interest income				
Loans				
Directors	937	707	937	707
Management Personnel	3,321	3,059	3,321	3,059
	4,258	3,766	4,258	3,766
Other operating expenses				
Parties connected to Directors and Management	1,205	150	1,205	150

Year end balances with related parties are as follows:

	The Group		The Bank	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Deposits				
Directors	34,639	17,104	34,639	17,104
Management Personnel	13,946	12,197	13,946	12,197
Parties connected to Directors and Management	14,488	475	14,488	475
	63,073	29,776	63,073	29,776
Loans				
Directors	5,135	5,668	5,135	5,668
Management Personnel	30,511	29,570	30,511	29,570
	35,646	35,238	35,646	35,238
Securities sold under repurchase agreements				
Directors	95,479	70,690	-	-
Management Personnel	2,897	6,789	-	-
	98,376	77,479	-	-

(c) Directors and key management personnel of the Group and their immediate relatives directly control approximately 1.98% (2006 - 1.99%) of the voting shares of the Bank.

34 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT

34.1 Significant accounting policies

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

34.2 Categories of financial instruments

	The Group		The Bank	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Financial assets				
Fair value through profit or loss - Held-for-trading	116,547	1,576,510	-	-
Loans and other receivables (including cash and cash equivalents)	9,284,952	6,182,765	9,858,473	7,405,961
Available-for-sale investments	43,901,272	44,117,562	20,847,643	23,572,097
	53,302,771	51,876,837	30,706,116	30,978,058
Financial liabilities				
Other financial liabilities at amortized cost	48,211,871	46,999,484	27,245,945	27,771,339

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34.3 Financial risk management objectives

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

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

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

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

Conduct Review and Risk Policy Committee

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

Credit & Investment Committee

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

Audit Committee

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

Asset & Liability Committee

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

Internal Audit Department

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

Risk & Compliance Department

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

34.4 Credit risk management

34.4.1 Credit risk

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

34.4.2 Credit review process

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

(a) Investments

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

(b) Loans

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

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

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

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

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

34.4.3 Collateral and other credit enhancement

Collateral

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

The principal collateral types for loans and advances are:

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

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

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

Credit related commitments

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

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

34.4.4 Impairment

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

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

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

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

	Loans 2007 $'000	Loans 2006 $'000
Standard	5,549,889	3,329,263
Special mention	322,954	211,692
Sub-standard	149,321	12,961
Doubtful	286,744	353,689
Loss	29,632	46,866
	6,338,540	3,954,471

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

	The Group 2007 $'000	The Group 2006 $'000	The Bank 2007 $'000	The Bank 2006 $'000
Cash resources (excluding cash on hand)	2,101,587	1,297,693	1,951,506	1,125,505
Investment in securities	19,062,910	26,776,270	9,828,422	18,208,155
Securities purchased under resale agreements	-	177,756	1,073,672	1,792,756
Pledged assets	24,954,909	18,917,802	11,019,221	5,363,942
Loans (after provision for loan losses)	6,404,421	3,976,613	6,404,421	3,976,613
Income tax recoverable	115,541	70,699	85,228	77,359
Accounts receivable	619,335	667,845	312,888	467,273
	53,258,703	51,884,678	30,675,358	31,011,603

34.4.7 Credit quality

	2007 $'000	2006 $'000
Neither past due nor impaired - standard	3,408,634	1,840,323
Past due but not impaired	2,664,104	2,067,282
Impaired	265,802	46,866
Gross	6,338,540	3,954,471
Less: provision for credit loss	46,550	34,528
Net	6,291,990	3,919,943

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

	2007 Gross $'000	2007 Loan Provisions $'000	2007 Net $'000	2006 Gross $'000	2006 Loan Provisions $'000	2006 Net $'000
Current loans	3,408,634	-	3,408,634	1,840,323	-	1,840,323
Past due 1 - 30 days	956,778	-	956,778	1,117,347	-	1,117,347
Past due 31– 60 days	1,185,205	-	1,185,205	423,326	-	423,326
Past due 61 – 90 days	322,954	-	322,954	154,444	-	154,444
More than 90 days	464,969	46,550	418,419	419,031	34,528	384,503
	6,338,540	46,550	6,291,990	3,954,471	34,528	3,919,943

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

34.4.8 Renegotiated loans and leases

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

The carrying value of the loans that would otherwise be past due or impaired and whose terms have been negotiated amounts to $547.6 million (2006: $109.2 million).

34.4.9 Repossessed collateral

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

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

The Group repossessed a construction project held as security against a loan facility categorized as past due but not impaired. The completed project will be sold and the proceeds will be used to cover the outstanding indebtedness.

The carrying value of the loan on which the collateral was repossessed during the year is $265 million.

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

34.4 Credit risk management (Cont'd)

34.4.10 Loans

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

	2007 $'000	2006 $'000
Construction, land development and real estate acquisition	1,686,395	890,342
Distribution	587,278	704,443
Financial institutions	640,742	4,665
Government and public entities	340,267	335,150
Manufacturing	239,208	81,984
Personal	1,847,852	1,174,652
Professional and other services	647,651	435,550
Tourism and entertainment	120,097	98,047
Transport, storage and communication	229,050	229,638
Total	6,338,540	3,954,471
Less: provisions	46,550	34,528
	6,291,990	3,919,943
Interest receivable	112,431	56,670
	6,404,421	3,976,613

34.4.11 Investments

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

	The Group		The Bank	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Government of Jamaica	25,333,404	23,689,059	7,539,381	8,973,575
US Government agencies	11,276,961	11,401,757	10,572,961	10,263,164
Bank of Jamaica	3,623,362	5,059,998	-	-
Corporate	1,432,624	339,828	1,245,243	160,338
Other	1,480,566	4,220,108	1,195,589	3,645,366
	43,146,917	44,710,750	20,553,174	23,042,443
Interest receivable	870,902	983,322	294,469	529,654
	44,017,819	45,694,072	20,847,643	23,572,097

34.5 Liquidity risk

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

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

34.5.1 Management of Liquidity Risk

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

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

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

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

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

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

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

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

	The Group 2007 Remaining Term to Maturity				
	Within 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
Financial assets					
Cash resources	2,261,196	-	-	-	2,261,196
Investment in securities	3,528,593	7,270,057	33,629,967	34,680,028	79,108,645
Securities purchased under resale agreements	-	-	-	-	-
Loans after provision for loan losses	1,766,850	1,645,039	4,107,239	1,216,830	8,735,958
Accounts receivable	372,304	-	-	-	372,304
	7,928,943	8,915,096	37,737,206	35,896,858	90,478,103
Non-financial assets	262,031	123,005	-	551,783	936,819
Total assets (contractual maturity dates)	8,190,974	9,038,101	37,737,206	36,448,641	91,414,922
Financial liabilities					
Deposits	3,689,535	1,609,694	2,665,847	-	7,965,076
Securities sold under repurchase agreements	31,504,938	7,804,209	48,766	-	39,357,913
Loan participation	1,596,763	386,945	-	-	1,983,708
Due to other financial institutions	911,731	272,385	29,925	-	1,214,041
Accounts payable	163,626	-	2,848	-	166,474
	37,866,593	10,073,233	2,747,386	-	50,687,212
Non-financial liabilities	63,613	-	-	-	63,613
Total liabilities (contractual maturity dates)	37,930,206	10,073,233	2,747,386	-	50,750,825
Net liquidity gap	(29,739,232)	(1,035,132)	34,989,820	36,448,641	40,664,097
Cumulative liquidity gap	(29,739,232)	(30,774,364)	4,215,456	40,664,097	-
2006					
Liquidity Gap	(8,143,064)	(8,609,107)	12,726,757	4,025,414	-
Cumulative liquidity Gap	(8,143,064)	(16,752,171)	(4,025,414)	-	-

34.5 Liquidity risk (Cont'd)

34.5.2 (Cont'd)

	The Bank 2007 Remaining Term to Maturity				
	Within 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
Financial assets					
Cash Resources	2,067,492	-	-	-	2,067,492
Investment in securities	1,831,241	2,028,920	15,000,112	17,888,177	36,748,450
Securities purchased under resale agreements	1,083,046	-	-	-	1,083,046
Loans after provision for loan losses	1,766,850	1,645,039	4,107,239	1,216,830	8,735,958
Accounts receivable	312,888	-	-	-	312,888
	7,061,517	3,673,959	19,107,351	19,105,007	48,947,834
Non-financial assets	-	114,269	-	662,645	776,914
Total assets (contractual maturity dates)	7,061,517	3,788,228	19,107,351	19,767,652	49,724,748
Financial liabilities					
Deposits	3,689,535	1,609,694	2,665,847	-	7,965,076
Securities sold under repurchase agreements	15,996,293	351,361	37,566	-	16,385,220
Loan participation	1,596,763	386,945	-	-	1,983,708
Due to other financial institutions	911,731	272,385	29,925	-	1,214,041
Accounts payable	123,291	-	-	-	123,291
	22,317,613	2,620,385	2,733,338	-	27,671,336
Non-financial liabilities	63,613	-	-	-	63,613
Total liabilities (contractual maturity dates)	22,381,226	2,620,385	2,733,338	-	27,734,949
Net liquidity gap	(15,319,709)	1,167,843	16,374,013	19,767,652	21,989,799
Cumulative liquidity gap	(15,319,709)	(14,151,866)	2,222,147	21,989,799	
2006					
Liquidity gap	(10,037,131)	(6,550,091)	11,855,498	4,731,724	
Cumulative liquidity gap	(10,037,131)	(16,587,222)	(4,731,724)	-	

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

At December 31, 2007

	No later Than 1 year $'000	1 to 5 Years $'000	Over 5 years $'000	Total $'000
Loan commitments	759,159	-	-	759,159
Guarantees, acceptances and other financial liabilities	120,668	193,971	40,350	354,989
Capital commitments (see Note 35(b))	6,700	-	-	6,700
	886,527	193,971	40,350	1,120,848

At December 31, 2006

	No later Than 1 Year $'000	1 to 5 Years $'000	Over 5 years $'000	Total $'000
Loan commitments	941,905	-	-	941,905
Guarantees, acceptances and other financial liabilities	39,409	262,930	37,703	340,042
Capital commitments (see Note 35(b))	83,000	-	-	83,000
	1,064,314	262,930	37,703	1,364,947

34.6 Market risk

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

Management of Market Risk

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

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

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

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

34.6.1 Foreign currency risk

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

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

Foreign currency risk management

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

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

34.6 Market risk (Cont'd)

34.6.1 Foreign currency risk (Cont'd)

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

The Group – 2007

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

2006

	USD US$ '000	USD J$ Equiv. '000	CDN Cdn$ '000	CDN J$ Equiv. '000	GBP £ '000	GBP J$ Equiv. '000	EUR € '000	EUR J$ Equiv. '000
Total assets	416,098	27,891,023	977	55,728	522	67,975	54	4,742
Total liabilities	(437,465)	(29,323,279)	(836)	(47,685)	(824)	(107,301)	(50)	(4,391)
Net exposure	(21,367)	(1,432,256)	141	8,043	(302)	(39,326)	4	351

The Bank – 2007

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

2006

	USD US$ '000	USD J$ Equiv. '000	CDN Cdn$ '000	CDN J$ Equiv. '000	GBP £ '000	GBP J$ Equiv. '000	EUR € '000	EUR J$ Equiv. '000
Total assets	326,946	21,915,190	977	55,728	522	67,975	54	4,742
Total liabilities	(347,663)	(23,303,851)	(836)	(47,685)	(824)	(107,301)	(50)	(4,391)
Net exposure	(20,717)	(1,388,661)	141	8,043	(302)	(39,326)	4	351

34.6.2 Foreign currency sensitivity

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

The Group

	2007 Change in Currency Rates %	2007 Effect on Net Profit $'000	2006 Change in Currency Rates %	2006 Effect on Net Profit $'000
Currency:				
USD	5	47,864	5	71,613
CDN	5	1,469	5	402
GBP	5	3,975	5	1,966
EUR	5	799	5	18
		54,107		73,999

The Bank

	2007 Change in Currency Rates %	2007 Effect on Net Profit $'000	2006 Change in Currency Rates %	2006 Effect on Net Profit $'000
Currency:				
USD	5	33,440	5	69,433
CDN	5	1,469	5	402
GBP	5	3,975	5	1,966
EURO	5	748	5	18
		39,632		71,819

34.6.3 Interest rate risk

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

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

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

2007 – The Group

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Non-Interest Securities $'000	Total $'000
Assets							
Cash resources	2,261,196	-	-	-	-	-	2,261,196
Investment in securities	8,885,876	7,171,777	1,663,018	10,629,769	13,486,405	2,180,974	44,017,819
Other investment	-	-	-	-	-	15,000	15,000
Loans after provision for loan losses	1,027,395	301,165	792,921	2,911,874	1,258,635	112,431	6,404,421
Deferred tax assets	-	-	-	-	-	7,465	7,465
Other assets	-	-	-	-	-	1,641,648	1,641,648
Total	12,174,467	7,472,942	2,455,939	13,541,643	14,745,040	3,957,518	54,347,549
Liabilities							
Securities sold under repurchase agreements	15,279,883	13,994,608	7,310,330	44,567	-	570,175	37,199,563
Deposits	1,949,266	2,862,867	2,697,909	40,097	-	120,852	7,670,991
Loan participation	1,342,237	228,610	369,644	-	-	19,070	1,959,561
Due to other financial institutions	332,914	552,261	266,003	22,632	-	21,042	1,194,852
Other liabilities	8,200	-	-	-	-	533,693	541,893
Stockholders' equity	-	-	-	-	-	5,780,689	5,780,689
Total	18,912,500	17,638,346	10,643,886	107,296	-	7,045,521	54,347,549
Interest sensitivity gap	(6,738,033)	(10,165,404)	(8,187,947)	13,434,347	14,745,040	(3,088,003)	-
Cumulative interest sensitivity gap	(6,738,033)	(16,903,437)	(25,091,384)	(11,657,037)	3,088,003	-	
2006							
Interest sensitivity gap	(6,152,918)	(322,864)	(9,139,213)	(10,920,858)	8,419,941	(3,725,804)	
Cumulative interest sensitivity gap	(6,152,918)	(6,475,782)	(15,614,995)	(4,694,137)	3,725,804	-	

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

34.6 Market risk (Cont'd)

34.6.3 Interest rate risk (Cont'd)

The Bank – 2007

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Non-Interest Securities $'000	Total $'000
Assets							
Cash resources	2,067,492	-	-	-	-		2,067,492
Investment in securities	1,542,841	1,069,640	531,371	8,589,786	7,711,971	1,402,034	20,847,643
Securities purchased under resale agreements	773,672	300,000	-	-	-	-	1,073,672
Investment in subsidiaries	-	-	-	-	-	305,406	305,406
Investment in associate	-	-	-	-	-	3,282	3,282
Loans after provision for losses	1,027,395	301,165	792,921	2,911,874	1,258,635	112,431	6,404,421
Deferred tax assets	-	-	-	-	-	29,041	29,041
Other assets	-	-	-	-	-	1,107,062	1,107,062
Total	5,411,400	1,670,805	1,324,292	11,501,660	8,970,606	2,959,256	31,838,019
Liabilities and Stockholders' equity							
Securities sold under repurchase agreements	11,264,970	4,404,760	335,559	35,367	-	226,687	16,267,343
Deposits	1,953,712	2,862,867	2,697,909	40,097	-	120,852	7,675,437
Loan participation	1,342,237	226,610	369,644	-	-	19,070	1,959,561
Due to other financial institutions	332,914	552,261	266,003	22,632	-	21,042	1,194,852
Other liabilities	-	-	-	-	-	503,741	503,741
Stockholders' equity	-	-	-	-	-	4,237,085	4,237,085
Total	14,893,833	8,048,498	3,669,115	98,096	-	5,128,477	31,838,019
Interest sensitivity gap	(9,482,433)	(6,377,693)	(2,344,823)	11,403,564	8,970,606	(2,169,221)	-
Cumulative interest sensitivity gap	(9,482,433)	(15,860,126)	(18,204,949)	(6,801,385)	2,169,221	-	
2006							
Interest sensitivity gap	(7,965,999)	(150,577)	(7,080,197)	10,008,888	7,671,716	(2,483,831)	
Cumulative interest sensitivity gap	(7,965,999)	(8,116,576)	(15,196,773)	(5,187,885)	2,483,831		

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

The Group – 2007

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

2006

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

The Bank – 2007

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

2006

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

(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.

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

34.6 Market risk (Cont'd)

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

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

The Group

	2007		2006	
	Effect on Net Profit	Effect on Equity	Effect on Net Profit	Effect on Equity
	$'000	$'000	$'000	$'000
Change in interest rate				
-2%	(2,442,588)	(47,902)	(1,398,140)	(154,304)
+2%	1,964,293	31,795	1,882,049	44,724

The Bank

	2007		2006	
	Effect on Net Profit	Effect on Equity	Effect on Net Profit	Effect on Equity
	$'000	$'000	$'000	$'000
Change in interest rate				
-2%	(183,133)	(1,781)	(159,210)	(122,637)
+2%	237,949	25,125	224,010	54,286

34.6.6 Equity risk

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

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

Equity price sensitivity analysis

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

If equity prices had been 5% higher/lower:

- net profit for the year ended December 31, 2007, would have increased/decreased by $11.7 million (2006: $7.2 million) for the Group as a result of equity investments classified at fair value through profit or loss (Bank: Nil);

- other equity reserves would have increased/decreased by $28.1 million (2006: $7.3 million) for the Group and $23.4 million (2006: $7.3 million) for the Bank as a result of the changes in fair value of available-for-sale equities.

34.7 Capital management

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

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

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

The BOJ and the FSC require each regulated entity to:

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

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

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

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

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

The table below summarises the composition of regulatory capital and the ratios of the regulated entities within the Group for the years ended December 31, 2007 and 2006. During those two years, the individual entities within the Group complied with all of the externally imposed capital requirements to which they are subject.

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

	CCMB		CCSL		CCFM	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Tier 1 capital	3,544,255	3,512,292	1,408,889	1,381,360	59,416	42,110
Tier 2 capital	(262,163)	(274,185)	238,000	238,000	-	-
Total regulatory capital	3,282,092	3,238,107	1,646,889	1,619,360	59,416	42,110
Total required capital	1,354,194	1,625,815	213,075	353,764	8,973	9,242
Risk-weighted assets:						
On balance sheet	12,288,144	13,845,690	1,229,681	2,482,654	64,093	66,012
Off balance sheet	1,114,148	1,281,947	-	-	-	-
Foreign exchange exposure	139,652	1,130,515	292,286	44,234	-	-
Total risk weighted assets	13,541,944	16,258,152	1,521,967	2,526,888	64,093	66,012
Actual capital base to risk weighted assets	24%	20%	108%	64%	93%	64%
Required capital base to risk weighted assets	10%	10%	14%	14%	14%	14%

The increase of the regulatory capital in 2007 is mainly due to the contribution of the current year profit.

34.8 Fair value of financial instruments

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

The following methods and assumptions have been used:

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

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

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

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

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

35 CONTINGENCIES AND COMMITMENTS

(a) Litigation

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

(b) Capital Commitments

Capital expenditure authorised and contracted for at balance sheet date but not recognised in the financial statements amounted to $6.7 million (2006: $83 million).

(c) Operating Leases

The Group has entered into lease agreements for office space expiring March 2008, August 2009 and March 2012. The amount charged to profit and loss account during the year was $32.3 million (2006: $25 million).

The total annual rentals to be paid are as follows:

	The Group $'000	The Bank $'000
2008	26,389	16,041
2009	26,821	15,471
2010	12,483	-
2011	13,732	-
2012	15,015	-

(d) Maintenance contract

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

(e) Credit

Commitments to extend credit on term to maturity of more than one year amounted to $727.0 million (2006: $942.0 million).

36 DIVIDEND

	2007 $'000	2006 $'000
Interim dividend paid	-	96,174

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

37 SUBSEQUENT EVENT

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

- CCFG will allot to Stockholders, other than CCFG, six (6) ordinary shares issued by CCFG in exchange for every five (5) ordinary shares held by stockholders, such shares to rank equally with the existing issued ordinary shares of CCFG.

- The Bank will allot, credited as fully paid to stockholders a bonus issue of 42,743,978 redeemable cumulative preference shares to be issued by the Bank with a value of $2.00 per share by capitalizing the sum of $85.5 million being part of the amount currently standing to the credit of the Bank's unappropriated profits.

- The said bonus issue shall be made to stockholders of the Bank at the ratio of one preference share for every fifteen (15) ordinary shares held in the Bank.

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

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

Subject to the approval by the stockholders, the following are to occur simultaneously:

- The Bank will apply to de-list the Bank's ordinary shares listed on the Jamaica Stock Exchange (JSE) and Trinidad & Tobago Stock Exchange (TTSE).
- The Bank's parent company, CCFG will apply to list the ordinary shares to be allotted to stockholders of the Bank on the JSE and TTSE.
- The Bank will apply to list the preference shares to be issued to the Banks' stockholders on the JSE and TTSE.

Pursuant to the Court making an order that the stockholders convene to consider the above scheme, the Bank has arranged for a meeting to be held on March 31, 2008 at the Terra Nova Hotel, Kingston, Jamaica. CCFG will not attend the meeting and not vote its shares as it is felt that the approval of this scheme should be made by the non-CCFG stockholders.