ERNST & YOUNG
Chartered Accountants

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of FirstCaribbean International Bank (Jamaica) Limited

We have audited the accompanying financial statements of FirstCaribbean International Bank (Jamaica) Limited and its subsidiary ("the Group") and FirstCaribbean International Bank (Jamaica) Limited ("the Bank") which comprise the consolidated and bank balance sheets as at October 31, 2008 and the consolidated and bank statements of income, changes in shareholders' 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 these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 auditor's judgement, 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 auditor considers 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 31 October 2008, and of the Group's and the Bank's financial performance, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act.

ERNST & YOUNG
Chartered Accountants

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Shareholders of FirstCaribbean International Bank (Jamaica) Limited

Report on Additional Requirements of the Jamaican Companies Act

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit. In our opinion, proper accounting records have been maintained and the financial statements are in agreement with the accounting records, and give the information required by the Jamaican Companies Act in the manner so required.

Ernst & Young

Chartered Accountants
Kingston, Jamaica

28 January 2009

FirstCaribbean International Bank (Jamaica) Limited

Consolidated Balance Sheet
As at 31 October 2008
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2008 $'000	2007 $'000
ASSETS			
Cash and balances with Central Bank	3	8,283,849	4,782,173
Due from other banks	4	1,865,287	1,505,349
Derivative financial instruments	5	111,352	44,797
Other assets	6	1,681,097	1,455,562
Investment securities	7	1,101,528	924,855
Government securities purchased under resale agreements	8	262,066	212,077
Loans and advances to customers	9	34,936,630	31,409,506
Property, plant and equipment	10	549,935	502,565
Deferred tax assets	11	9,644	4,499
Retirement benefit asset	12	824,680	829,800
TOTAL ASSETS		49,626,068	41,671,183

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

FirstCaribbean International Bank (Jamaica) Limited

Consolidated Balance Sheet
As at 31 October 2008
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2008 $'000	2007 $'000
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES			
Customer deposits	13	41,368,967	33,523,005
Derivative financial instruments	5	210,858	81,100
Other liabilities	14	647,343	571,001
Taxation payable		211,871	81,681
Deferred tax liabilities	11	182,756	218,430
Debt securities in issue	15	499,950	1,502,217
Retirement benefit obligation	12	57,180	76,090
TOTAL LIABILITIES		43,178,925	36,053,524
STOCKHOLDERS' EQUITY			
Share capital	16	1,396,667	1,396,667
Reserves	16	4,312,247	3,341,334
Retained earnings		738,229	879,658
TOTAL STOCKHOLDERS' EQUITY		6,447,143	5,617,659
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		49,626,068	41,671,183

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

Approved for issue by the Board of Directors on 28 January 2009 and signed on its behalf by:

Michael Mansoor

Milton Brady

Christopher Bovell

Allison Rattray

FirstCaribbean International Bank (Jamaica) Limited

Consolidated Statement of Changes in Stockholders' Equity
Year ended 31 October 2008
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	Share Capital $'000	Reserves $'000	Retained Earnings $'000	Total $'000
Balance at 31 October 2006		1,396,667	2,747,726	703,364	4,847,757
Net income for the year		-	-	771,123	771,123
Expense recognised directly in equity - Loss on available-for-sale investment securities	18	-	(1,221)	-	(1,221)
Transfer to statutory reserve fund	19	-	460,000	(460,000)	-
Transfer to loan loss reserve	21	-	134,829	(134,829)	-
Balance at 31 October 2007		1,396,667	3,341,334	879,658	5,617,659
Net income for the year		-	-	835,053	835,053
Expense recognised directly in equity - Loss on available-for-sale investment securities	18	-	(5,569)	-	(5,569)
Transfer to statutory reserve fund	19	-	940,000	(940,000)	-
Transfer to loan loss reserve	21	-	36,482	(36,482)	-
Balance at 31 October 2008		1,396,667	4,312,247	738,229	6,447,143

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

FirstCaribbean International Bank (Jamaica) Limited

Consolidated Statement of Income
Year ended 31 October 2008
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2008 $'000	2007 $'000
Interest and similar income		4,977,464	4,348,608
Interest and similar expense		(1,882,011)	(1,748,674)
Net interest income	23	3,095,453	2,599,934
Other operating income	24	594,480	681,559
Total operating income		3,689,933	3,281,493
Loan loss impairment		(130,961)	(122,293)
Net operating income		3,558,972	3,159,200
Operating expenses	25	(2,312,495)	(2,009,620)
Income before taxation	26	1,246,477	1,149,580
Income tax expense	27	(411,424)	(378,457)
NET INCOME FOR THE YEAR	28	835,053	771,123
EARNINGS PER STOCK UNIT	29	$3.14	$2.90

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

FirstCaribbean International Bank (Jamaica) Limited

Consolidated Statement of Cash Flows
Year ended 31 October 2008
(Expressed in Jamaican dollars unless otherwise indicated)

	Note	2008 $'000	2007 $'000
Cash Flows from Operating Activities			
Income before taxation		1,246,477	1,149,580
Adjustments to reconcile income to net cash used in operating activities:			
Loan loss impairment		130,961	122,293
Gain on disposal of property, plant and equipment		(2,469)	(4,244)
Depreciation		120,789	146,740
Interest income		(4,977,464)	(4,348,608)
Interest expense		1,882,011	1,748,674
Unrealised foreign exchange gains		8,617	(110,610)
		(1,591,078)	(1,296,175)
Changes in operating assets and liabilities:			
Loans and advances to customers		(2,806,495)	(6,819,765)
Customer deposits		6,680,946	6,436,285
Retirement benefit asset		5,120	(107,659)
Retirement benefit obligation		(18,910)	(59,328)
Other assets		(251,444)	(1,160,529)
Other liabilities		190,155	(209,977)
Statutory reserves with Bank of Jamaica		(169,109)	(940,293)
		2,039,185	(4,157,441)
Interest received		5,113,595	3,871,901
Interest paid		(1,823,747)	(1,706,407)
Income tax paid		(322,053)	(433,931)
Net cash provided by (used in) operating activities		5,006,980	(2,425,878)
Cash Flows from Investing Activities			
Investment securities, net		(160,491)	564,366
Government securities purchased under resale agreements, net		(49,989)	460,765
Additions to property, plant and equipment		(172,992)	(206,521)
Proceeds from disposal of property, plant and equipment		7,302	11,468
Net cash (used in) provided by investing activities		(376,170)	830,078
Cash Flows from Financing Activity			
(Repayment) issue of debt		(1,000,050)	1,500,000
Net cash (used in) provided by financing activity		(1,000,050)	1,500,000
Net increase (decrease) in cash and cash equivalents		3,630,760	(95,800)
Effect of exchange rate changes on cash and cash equivalents		61,745	286,016
Cash and cash equivalents at beginning of year		3,610,007	3,419,791
CASH AND CASH EQUIVALENTS AT END OF YEAR	3	7,302,512	3,610,007

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

FirstCaribbean International Bank (Jamaica) Limited

Balance Sheet
As at 31 October 2008
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2008 $'000	2007 $'000
ASSETS			
Cash and balances with Central Bank	3	8,168,013	4,720,252
Due from other banks	4	5,876,065	4,622,939
Derivative financial instruments	5	111,352	44,797
Other assets	6	1,389,154	1,390,498
Investment securities	7	1,465,528	1,288,855
Government securities purchased under resale agreements	8	55,611	25,272
Loans and advances to customers	9	27,925,693	25,945,982
Property, plant and equipment	10	547,867	499,815
Retirement benefit asset	12	806,060	804,470
TOTAL ASSETS		46,345,343	39,342,880

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

FirstCaribbean International Bank (Jamaica) Limited

Balance Sheet
As at 31 October 2008
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2008 $'000	2007 $'000
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES			
Customer deposits	13	38,742,578	31,758,342
Derivative financial instruments	5	210,858	81,100
Other liabilities	14	547,651	488,817
Taxation payable		204,479	65,167
Deferred tax liabilities	11	182,756	218,430
Debt securities in issue	15	499,950	1,502,217
Retirement benefit obligation	12	54,720	73,200
TOTAL LIABILITIES		40,442,992	34,187,273
STOCKHOLDERS' EQUITY			
Share capital	16	1,396,667	1,396,667
Reserves	16	3,770,024	2,989,460
Retained earnings		735,660	769,480
TOTAL STOCKHOLDERS' EQUITY		5,902,351	5,155,607
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		46,345,343	39,342,880

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

Approved for issue by the Board of Directors on 28 January 2009 and signed on its behalf by:

Michael Mansoor

Milton Brady

Christopher Bovell

Allison Rattray

FirstCaribbean International Bank (Jamaica) Limited

Statement of Changes in Stockholders' Equity
Year ended 31 October 2008
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	Share Capital $'000	Reserves $'000	Retained Earnings $'000	Total $'000
Balance at 31 October 2006		1,396,667	2,455,852	633,370	4,485,889
Net income for the year,		-	-	670,939	670,939
Expense recognised directly in equity - Loss on available-for-sale investment securities	18	-	(1,221)	-	(1,221)
Transfer to statutory reserve fund	19	-	400,000	(400,000)	-
Transfer to loan loss reserve	21	-	134,829	(134,829)	-
Balance at 31 October 2007		1,396,667	2,989,460	769,480	5,155,607
Net income for the year		-	-	752,313	752,313
Expense recognised directly in equity - Loss on available-for-sale investment securities	18	-	(5,569)	-	(5,569)
Transfer to statutory reserve fund	19	-	780,000	(780,000)	-
Transfer to loan loss reserve	21	-	6,133	(6,133)	-
Balance at 31 October 2008		1,396,667	3,770,024	735,660	5,902,351

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

FirstCaribbean International Bank (Jamaica) Limited

Statement of Income
Year ended 31 October 2008
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2008 $'000	2007 $'000
Interest and similar income		4,619,264	3,982,473
Interest and similar expense		(1,721,504)	(1,618,340)
Net interest income	23	2,897,760	2,364,133
Other operating income	24	578,623	670,766
Total operating income		3,476,383	3,034,899
Loan loss impairment		(115,392)	(93,365)
Net operating income		3,360,991	2,941,534
Operating expenses	25	(2,232,913)	(1,935,246)
Income before taxation	26	1,128,078	1,006,288
Income tax expense	27	(375,765)	(335,349)
NET INCOME FOR THE YEAR	28	752,313	670,939

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

FirstCaribbean International Bank (Jamaica) Limited

Statement of Cash Flows
Year ended 31 October 2008
(Expressed in Jamaican dollars unless otherwise indicated)

	Note	2008 $'000	2007 $'000
Cash Flows from Operating Activities			
Income before taxation		1,128,078	1,006,288
Adjustments to reconcile income to net cash used in operating activities:			
Loan loss impairment		115,392	93,365
Gain on disposal of property, plant and equipment		(2,469)	(4,244)
Depreciation		119,982	145,931
Interest income		(4,619,264)	(3,982,473)
Interest expense		1,721,504	1,618,340
Unrealised foreign exchange gains		12,201	(110,610)
		(1,524,576)	(1,233,403)
Changes in operating assets and liabilities:			
Loans to customers		(1,270,094)	(5,726,633)
Customer deposits		5,853,819	5,836,168
Retirement benefit asset		(1,590)	(105,051)
Retirement benefit obligations		(18,480)	(57,897)
Other assets		(30,481)	(1,115,479)
Other liabilities		172,425	(232,693)
Statutory reserves at Bank of Jamaica		(115,193)	(909,982)
		3,065,830	(3,544,970)
Interest received		4,762,259	3,918,136
Interest paid		(1,664,534)	(1,578,685)
Income tax paid		(272,127)	(385,872)
Cash provided by (used in) operating activities		5,891,428	(1,591,391)
Cash Flows from Investing Activities			
Government securities purchased under resale agreements ,net		(30,339)	479,391
Investment securities, net		(167,031)	564,367
Additions to property, plant and equipment		(172,867)	(206,163)
Proceeds from disposal of property, plant and equipment		7,302	11,468
Net cash (used in) provided by investing activities		(362,935)	849,063
Cash Flows from Financing Activity			
(Repayment) issue of debt		(1,000,050)	1,500,000
Net cash (used in) provided by financing activity		(1,000,050)	1,500,000
Net increase in cash and cash equivalents		4,528,443	757,672
Effect of exchange rate changes on cash and cash equivalents		57,251	283,857
Cash and cash equivalents at beginning of year		6,727,595	5,686,066
CASH AND CASH EQUIVALENTS AT END OF YEAR	3	11,313,289	6,727,595

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

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2008
(Expressed in Jamaican dollars unless otherwise indicated)

1. Corporate Information

FirstCaribbean International Bank (Jamaica) Limited (the "Bank"), which was incorporated and is domiciled in Jamaica, is a 96.3% (2007 - 96.3%) subsidiary of FirstCaribbean International Bank Limited (the "Parent"), a bank incorporated and domiciled in Barbados. The ultimate parent is Canadian Imperial Bank of Commerce ("CIBC"), a company incorporated in Canada.

The registered office of the Bank is located at 23-27 Knutsford Boulevard, Kingston 5, Jamaica.

The Bank is licensed and these financial statements are prepared in accordance with the Banking Act, 1992 and the Banking (Amendment) Act, 1997.

The Bank is listed on the Jamaica Stock Exchange.

The Bank's subsidiary, FirstCaribbean International Building Society is 100% owned and is incorporated and domiciled in Jamaica. Its principal activity is mortgage financing and its year end is October 31.

The consolidated financial statements include the financial statements of the Bank and its subsidiary. The Bank and its subsidiary are collectively referred to as the "Group".

2. Summary of Significant Accounting Policies

The principal financial accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of preparation

(i) ***Statement of compliance***
These financial statements have been prepared in conformity with International Reporting Financial Standards (IFRS) and the requirements of the Jamaican Companies Act.

(ii) ***Basis of measurement***
These financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale investment securities and the measurement at deemed cost of certain land and buildings. Deemed cost represents fair value at the date of transition to IFRS.

(iii) ***Judgements***
The preparation of financial statements in conformity with IFRS requires management to make certain critical estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. The areas requiring a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 36.

(iv) ***Consolidation***
Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus cost directly attributable to the acquisition. The excess of the cost is recorded as goodwill. Inter-company transactions, balances and unrealised gains on transactions between the Group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered.

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2008
(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(b) Change in accounting policies

(i) ***Standards, interpretations and amendments to published standards that were adopted during the year.***

The Group has adopted the following IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations during the year. Adoption of these new and revised standards, and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures:

- **IFRS 7 Financial Instruments: Disclosures**

  This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised when needed.

- **IAS 1 (Amendment) Presentation of Financial Statements**

  This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 16.

- **IAS 39 (Amendment), Financial instruments: Recognition and measurement**

  An amendment to IAS 39 was issued in October 2008, which permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future. The Group did not exercise this option and as such IAS 39 (Amendment) had no impact on these financial statements.

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2008
(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(b) Change in accounting policies (Continued)

(ii) Standards, interpretations and amendments to published standards that are not yet effective

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which were not yet effective for the Group at balance sheet date, and which the Group has not adopted early as follows:

- **IAS 1 (Revised), Presentation of Financial Statements** (effective from annual periods beginning on or after January 1, 2009) will require the disclosure of all non-owner changes in equity either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income), will require additional disclosures about an entity's capital and will change the titles of financial statements.

- **IAS 23 (Revised), Borrowing Costs** (effective from annual periods beginning on or after January 1, 2009) will remove the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity will therefore now be required to capitalise borrowing costs as part of the cost of such assets. The capitalisation of borrowing costs relating to assets measured at fair value is not however required by IAS 23. The transitional provisions of the standard require prospective application from the effective date. This is not applicable to the Group.

- **IAS 27 (Revised), Consolidated and Separate Financial Statements** (effective from annual periods beginning on or after July 1, 2009) has resulted from amendments to IFRS 3 and changes the accounting for acquisitions and disposals that do not result in a change of control and the attribution of profit or loss to non-controlling interest. Additional amendments have been made relating to the cost of a subsidiary in the separate financial statements of a parent on first-time adoption of IFRSs. These amendments are not applicable to the Group.

- **IAS 28 (Revised), Investment in Associates** (effective from annual periods beginning on or after July 1, 2009) has resulted from amendments to IFRS 3. This is not applicable to the Group.

- **IAS 31 (Revised), Interests in Joint Ventures** (effective from annual periods beginning on or after July 1, 2009) has resulted from amendments to IFRS 3. This is not applicable to the Group.

- **IAS 32 (Revised), Financial Instruments Presentation** (effective from annual periods beginning on or after January 1, 2009) will require amendments regarding puttable instruments and obligations arising on liquidation. These amendments are not applicable to the Group.

- **IFRS 1 (Revised), First–time Adoption of International Financial Reporting Standards** (effective from annual periods beginning on or after January 1, 2009) requires amendments relating to the cost of an investment on first-time adoption. This is not applicable to the Group.

- **IFRS 2 (Revised), Share-based Payment** (effective from annual periods beginning on or after January 1, 2009) requires amendments relating to vesting conditions and cancellations, and clarifies that vesting conditions are service conditions and performance conditions only, while other features of a share-based payment are not vesting conditions. This is not applicable to the Group.

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2008
(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(b) Change in accounting policies (Continued)

(ii) Standards, interpretations and amendments to published standards that are not yet effective (continued)

- **IFRS 3 (Revised), Business Combinations** (effective from annual periods beginning on or after July 1, 2009) has made a comprehensive revision on applying the acquisition method.

- **IFRS 8, Operating Segments** (effective from annual periods beginning on or after January 1, 2009) will replace IAS 14 Segments Reporting and increases the level of disclosure required, as well as, replace the requirement to determine primary (business) and secondary (geographical) reporting segments for the Group and extends the scope to include entities that meet certain requirements

- **IFRIC 12, Service Concession Arrangements** (effective from annual periods beginning on or after January 1, 2008), which is not applicable to the Group.

- **IFRIC 13, Customer Loyalty Programmes** (effective from annual periods beginning on or after July 1, 2008) specifically seeks to explain how entities should account for their obligations to provide free or discounted goods and services ('awards') to customers who redeem award credits. It requires that award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction.

- **IFRIC 14, The Limit on a defined Benefit Asset, Minimum Funding Requirements and their Interaction** (effective from annual periods beginning on or after January 1, 2008) addresses the interaction between minimum funding requirements and the limit placed by paragraph 58 of IAS 19 on the measurement of the defined benefit asset or liability.

- **IFRIC 15, Agreements for the Construction of Real Estate** (effective from annual periods beginning on or after January 1, 2008), which is not applicable to the Group.

- **IFRIC 16, Hedges of a Net Investment in a Foreign Operation** (effective from annual periods beginning on or after October 1, 2008) deals with the risks arising from foreign currency exposures associated with foreign operations, hedging such risk and accounting for both sides.

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
Year ended 31 October 2008
(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(b) Change in accounting policies (Continued)

(ii) Standards, interpretations and amendments to published standards that are not yet effective (continued)

Additionally, in May 2008, the International Accounting Standards Board issued "Improvements to IFRSs", as part of its annual improvements project, and a vehicle for making non-urgent but necessary amendments to various IFRSs. These amendments primarily become effective for annual periods beginning on or after January 1, 2009. The following table shows the IFRSs and topics addressed by these amendments. Management has not yet assessed the impact of these changes.

Standard	**Subject of the Amendment**
IAS 1	Current/non-current classification of derivatives
IAS 8	Status of implementation guidance.
IAS 10	Dividends declared after the end of the reporting period.
IAS 16	Recoverable amounts
IAS 18	Costs of originating a loan.
IAS 19	Curtailments and negative past-service costs. Plan administration costs. Replacement of term "fall due". Guidance on contingent liabilities.
IAS 20	Government loans with a below market interest rate; Consistency of terminology with other IFRSs.
IAS 23	Components of borrowing costs.
IAS 27	Measurement of subsidiary held for sale in separate financial statements.
IAS 28	Required disclosures when investments in associates are accounted for at fair value through profit or loss.
IAS 29	Description of measurement basis in financial statements; Consistency of terminology with other IFRSs.
IAS 31	Required disclosures when investments in jointly controlled entities are accounted for at fair value through profit or loss.
IAS 34	Earnings per share disclosures in interim financial statements.
IAS 36	Disclosure of estimates used to determine recoverable amounts.
IAS 38	Advertising and promotional activities. Unit of production method of amortisation.
IAS 39	Reclassification of derivatives into or out of the classification at fair value through profit or loss. Designating and documenting hedges at segment level. Applicable effective interest rate on cessation of fair value hedge accounting.
IAS 40	Property under construction or development for future use as investment property; Consistency of terminology with IAS 8. Investment property held under lease.
IAS 41	Discount rate for fair value calculations; Examples of agricultural produce and products. Point-of-sale costs.
IFRS 5	Plan to sell the controlling interest in a subsidiary
IFRS 7	Presentation of finance costs.

2. Summary of Significant Accounting Policies (Continued)

(c) Segment reporting

A segment is a group of assets and operations engaged in providing products and services that are subject to risks and returns that are different from those of other segments. Segments with a majority of revenue earned from external customers, and whose revenue, results or assets are 10% or more of all the segments are reported separately. Segment income, segment expenses and segment performance include transfers between business segments.

(d) Foreign currency translation

Items included in the financial statements of the Group and the Bank are measured using the currency of the primary economic environment in which the entity operates, referred to as the functional currency. The functional currency of each entity is the same as its presentation currency. The consolidated financial statements are presented in Jamaican dollars, which is the Group's functional and presentation currency.

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from such transactions and from the translation of foreign currency monetary assets and liabilities at the year end exchange rates are recognised in the statement of income.

Translation differences resulting from changes in the amortised cost of foreign currency monetary assets classified as available-for-sale are recognised in the statement of income. Other changes in the fair value of these assets are recognised in equity. Translation differences on non-monetary financial assets classified as available-for-sale are reported as a component of the fair value gain or loss in stockholders' equity.

(e) Derivative financial instruments

Derivatives are initially recognised in the balance sheet at their fair value on trade date. Fair values are obtained from discounted cash flow models, using quoted market interest rates. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives held for trading are included in the statement of income. Derivative transactions which, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39 are treated as derivatives held for trading with fair value gains and losses reported in the statement of income.

(f) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including cash and balances with Bank of Jamaica (excluding statutory reserves) and accounts with other banks (Note 3).

FirstCaribbean International Bank (Jamaica) Limited

Notes to the Financial Statements
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2. Summary of Significant Accounting Policies (Continued)

(g) Financial assets
The Group classifies its financial assets into the following categories:
(i) Loans and receivables
(ii) Held-to-maturity
(iii) Available-for-sale

Management determines the classification of its investments at initial recognition.

(i) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They arise when the Group provides money, goods or services directly or indirectly to a debtor with no intention of trading the receivable.

(ii) Held-to-maturity
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale.

(iii) Available-for-sale
Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised at trade date, which is the date that the Group commits to purchase or sell the asset. Otherwise such transactions are treated as derivatives until settlement occurs. Loans and receivables are recognised when cash is advanced to borrowers.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Available-for-sale financial assets are subsequently re-measured at fair value based on quoted bid prices or amounts derived from cash flow models. Held-to-maturity investments are carried at amortised cost using the effective interest yield method, less any provision for impairment. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity.

When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the statement of income as gains and losses from investment securities.

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest yield method, less any provision for impairment. Third party expenses associated with loans and receivables, such as legal fees incurred in securing a loan are expensed as incurred.

Unquoted equity instruments for which fair values cannot be measured reliably are recognised at cost less impairment.

(h) Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

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2. Summary of Significant Accounting Policies (Continued)

(i) Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

(i) significant financial difficulty of the issuer or obligor;
(ii) a breach of contract, such as a default or delinquency in interest or principal payments;
(iii) the Group granting to a borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
(v) the disappearance of an active market for that financial asset because of financial difficulties; or
(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
- adverse changes in the payment status of borrowers in the group; or
- national or local economic conditions that correlate with default on the assets in the group.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the carrying amount and the recoverable amount, being the estimated present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the current effective interest rate.

(j) Derecognition of financial assets and liabilities

(i) ***Financial assets***
Financial assets are derecognized when the rights to receive the cash flows from the financial assets have expired, the right to receive cash flows from the asset have been transferred or there is an obligation to pay the received cash flows in full without material delay to a third party, and where the Group has transferred substantially all risks and rewards of ownership or the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(ii) ***Financial liabilities***
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of income.

(k) Investments in subsidiary

Investments by the Bank in its subsidiary are stated at cost.

2. Summary of Significant Accounting Policies (Continued)

(l) Sale and repurchase agreements and lending of securities

Securities sold under agreements to repurchase (repurchase agreements) and securities purchased under agreements to resell (reverse repurchase agreements) are treated as collateralised financing transactions. The difference between the sale/purchase and repurchase/resale price is treated as interest and accrued over the life of the agreements using the effective yield method.

(m) Loans and provision for impairment losses

Loans are stated net of unearned income and provision for impairment.

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 are subsequently measured at amortised cost using the effective interest rate method.

A provision for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

The provision for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit rating allocated to the borrowers and the current economic climate in which the borrowers operate.

A loan is classified as impaired when, in management's opinion, there has been a 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. As required by statutory regulations, if a payment on a loan is contractually 90 days in arrears, the loan will be classified as impaired, if not already classified as such. Any credit card loan that has a payment that is contractually 180 days in arrears is written-off.

In circumstances where Central Bank guidelines and regulatory rules require provisions in excess of those calculated under IFRS, the difference is disclosed as an appropriation of retained earnings and is included in a non-distributable loan loss reserve.

(n) Leases

(i) As lessee

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

(ii) As lessor

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

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2. Summary of Significant Accounting Policies (Continued)

(o) Property, plant and equipment

Land and buildings comprise mainly branches and offices and are shown at deemed cost, less subsequent depreciation for buildings. Under IFRS 1, a first time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment as its deemed cost. The Group elected to apply this provision on transition to IFRS on 1 November 2002.

All other property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is computed on the straight line method at rates considered adequate to write-off the cost of depreciable assets, less salvage, over their useful lives.

The annual rates used are:

- Buildings	2½%
- Leasehold improvements	10% or over the life of the lease
- Equipment, furniture and vehicles	20 - 50%

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The asset's recoverable amount is the higher of the asset's fair value less costs to sell and the value in use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal of property, plant and equipment are determined by reference to its carrying amount and are taken into account in determining net income.

(p) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, if it is more than likely that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The expense relating to any provision is charged to the statement of income net of any reimbursement.

(q) Intangible assets

Intangible assets comprise computer software. These are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses.

FirstCaribbean International Bank (Jamaica) Limited

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2. Summary of Significant Accounting Policies (Continued)

(r) Income taxes
Taxation expense in the statement of income comprises current and deferred tax charges.

Current tax charges are based on taxable income for the year, which differs from the income before tax reported because taxable income excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The Group's liability for current tax is calculated at tax rates that have been enacted at the balance sheet date.

Deferred tax is the tax that is expected to be paid or recovered on differences between the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilised.

Deferred tax is charged or credited in the statement of income, except where it relates to items charged or credited to stockholders' equity, in which case deferred tax is also dealt with in stockholders' equity.

Deferred income tax liabilities are not recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of the subsidiary as such amounts are permanently reinvested.

(s) Retirement benefit obligations

(i) Pension obligations
The Group operates a defined benefit plan and a defined contribution plan, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from the Group, taking account of the recommendations of independent qualified actuaries.

A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation. The asset recognised in the balance sheet in respect of the defined benefit pension plan is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of plan assets, together with adjustments for unrecognised actuarial gains and losses and past service cost. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income over the expected average service lives of the related employees.

Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period), in which case, past service costs are amortised on a straight-line basis over the vesting period.

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2. Summary of Significant Accounting Policies (Continued)

(s) Retirement benefit obligations (continued)

(I) Pension obligations (Continued)

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in staff costs. The Group's contributions to defined contribution pension plans are charged to the statement of income in the year to which they relate.

(ii) Other post-retirement obligations

The Group provides post-retirement health care benefits to their retirees. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using a methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income over the expected average service lives of the related employees. These obligations are valued annually by independent qualified actuaries.

(iii) Annual leave and other benefits

Employee entitlements to annual leave and other benefits are recognised when they accrue to employees. A provision is made for the established liability for annual leave and other benefits as a result of services rendered by employees up to the balance sheet date.

(t) Share-based payment transactions

The Group engages in equity settled share-based payment transactions in respect of services rendered from certain of its employees. The cost of the services received is measured by reference to the fair value of the shares or share options granted. The cost related to the shares or share options granted is recognised in the income statement over the period that the services of the employees are received, which is the vesting period, with a corresponding credit to equity.

(u) Recognition of income and expenses

(i) Interest and similar income and expense

Interest and similar income and expense are recognised in the statement of income for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investments and accrued discount or premium on treasury bills and other discounted instruments.

Where collection of interest income is considered doubtful, or payment is outstanding for more than 90 days, the banking regulations stipulate that interest should be taken into account on the cash basis. IFRS requires 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 and IFRS bases of interest recognition was assessed to be immaterial.

2. Summary of Significant Accounting Policies (Continued)

(u) Recognition of income and expenses (continued)

(ii) Fee and commission income

Fees and commission are generally recognised on an accrual basis when the service has been provided. Fees and commission arising from origination, negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis. Asset management fees related to investment funds are recognised ratably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

(iii) Fiduciary activities

The Group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

(w) Hedge accounting

The Bank makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedge relationship, the Bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed each quarter. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%. For situations where that hedged item is a forecast transaction, the Bank assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the income statement.

(i) Fair value hedges

For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognised in the statement of income. Meanwhile, the change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of income.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortised cost, using the effective interest rate method, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge. If the hedged item is derecognized, the unamortized fair value adjustment is recognised immediately in the statement of income.

2. Summary of Significant Accounting Policies (Continued)

(w) Hedge accounting (continued)

(ii) Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in equity in the cash flow hedge reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the statement of income.

When the hedged cash flow affects the statement of income, the gain or loss on the hedging instrument is "recycled" in the corresponding income or expense line of the statement of income. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged forecast transaction is ultimately recognised in the statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of income.

(x) Comparative information

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year. In particular, the comparatives have been adjusted or restated to reflect the requirements of new IFRS.

3. Cash and Balances with Central Bank

	The Group		The Bank	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Cash	341,121	287,428	341,119	287,426
Deposits with Central Bank – interest bearing	5,998,926	2,886,804	5,922,777	2,860,666
Deposits with Central Bank – non-interest bearing	1,591,389	1,600,988	1,551,704	1,565,207
	7,931,436	4,775,220	7,815,600	4,713,299
Interest receivable	352,413	6,953	352,413	6,953
	8,283,849	4,782,173	8,168,013	4,720,252

Under Section 14 (i) of both the Banking Act, 1992 and section 13 of the Bank of Jamaica (Building Societies) Regulations, 1995, the Group and the Bank are required to place deposits with The Bank of Jamaica ("Central Bank") which are held substantially on a non-interest-bearing basis as a cash reserve; accordingly, these amounts are not available for investment or other use by the Group and the Bank. These reserves represent the required ratio of 9% (2007 - 9%) of the Group's and the Bank's prescribed liabilities.

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	The Group		The Bank	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Cash and balances with Central Bank	8,283,849	4,782,173	8,168,013	4,720,252
Less: Mandatory reserve deposits with Central Bank (Note 33)	(2,846,624)	(2,677,515)	(2,730,789)	(2,615,596)
	5,437,225	2,104,658	5,437,224	2,104,656
Due from other banks (Note 4)	1,865,287	1,505,349	5,876,065	4,622,939
	7,302,512	3,610,007	11,313,289	6,727,595

4. Due From Other Banks

	The Group		The Bank	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Money market placements	1,862,970	1,499,865	5,810,502	4,595,123
Interest receivable	2,317	5,484	65,563	27,816
	1,865,287	1,505,349	5,876,065	4,622,939

Included in money market placements are deposits with ultimate parent company of $416,575,000 (2007 – $634,968,000) for the Group.

5. Derivative Financial Instruments

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are indicative of neither the market risk nor the credit risk.

		Fair Values	
	Contract /Notional Amount $000	**Assets $'000**	**Liabilities $'000**
As at 31 October 2008			
Derivatives held for trading:			
Interest rate swaps	US$43,654	111,352	(210,858)
As at 31 October 2007			
Derivatives held for trading:			
Interest rate swaps	US$42,035	44,797	(81,100)

The combined fair value of these interest rate swaps at 31 October 2008 was negative US$2,784,000 (2007 – negative US$265,000).

As of October 31, 2008 the Bank has positions in the following types of derivatives:

Interest Rate Swaps
Interest rate swaps are contractual agreements between two parties to exchange movements in interest rates.

Derivative financial instruments held or issued for hedging purposes
As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to reduce its exposure to market risks. Fair value hedges are used by the Bank to protect it against changes in the fair value of specific financial assets due to movements in interest rates. The financial assets hedged for interest rate risk include fixed interest rate loans and available-for-sale debt securities, and are hedged by interest rate swaps.

During the year, the Bank recognised losses on hedging instruments of $160,100,000 (2007: NIL) and losses on hedged items attributable to the hedged risk of $21,700,000 (2007: NIL), which is included in operating income.

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6. Other Assets

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Cheques and other items in transit, net	753,619	844,661	522,312	812,066
Prepayments and deferred items	17,520	11,644	16,967	11,295
Due from parent company	713,069	488,770	713,069	488,770
Withholding tax	80,796	61,508	80,796	61,508
Other	116,093	48,979	56,010	16,859
	1,681,097	1,455,562	1,389,154	1,390,498

7. Investment Securities

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Securities available-for-sale:				
Equity securities – unquoted	11,264	11,264	375,264	375,264
Issued or guaranteed by Government –				
Treasury bills	107,917	473,342	107,917	473,342
Local registered stock	960,735	324,700	960,735	324,700
Other	-	95,498	-	95,498
Balance at end of year	1,079,916	904,804	1,443,916	1,268,804
Interest receivable	21,612	20,051	21,612	20,051
	1,101,528	924,855	1,465,528	1,288,855

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7. Investment Securities (Continued)

The movement in investment securities may be summarised as follows:

	The Group			The Bank		
	Available-for-sale $'000	Held-to-maturity $'000	Total $'000	Available-for-sale $'000	Held-to-maturity $'000	Total $'000
Balance at 31 October 2006	665,095	762,211	1,427,306	1,029,095	762,211	1,791,306
Additions	3,447,777	-	3,447,777	3,447,777	-	3,447,777
Disposals – sale and redemption	(3,996,680)	-	(3,996,680)	(3,996,680)	-	(3,996,680)
Transfers	762,211	(762,211)	-	762,211	(762,211)	-
Gains from changes in fair value	26,401	-	26,401	26,401	-	26,401
Balance at 31 October 2007	904,804	-	904,804	1,268,804	-	1,268,804
Additions	3,691,254	-	3,691,254	3,691,254	-	3,691,254
Disposals – sale and redemption	(3,506,391)	-	(3,506,391)	(3,506,391)	-	(3,506,391)
Gains from changes in fair value	(9,751)	-	(9,751)	(9,751)	-	(9,751)
Balance at 31 October 2008	1,079,916	-	1,079,916	1,443,916	-	1,443,916

8. Government Securities Purchased Under Resale Agreements

The Group and the Bank enter into reverse repurchase agreements collateralised by Government of Jamaica securities. These agreements may result in credit exposure in the event that the counterparty to the transaction is unable to fulfill its contractual obligations.

	The Group		The Bank	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Government securities purchased under resale agreements	254,081	206,447	54,455	24,333
Interest receivable	7,985	5,630	1,156	939
	262,066	212,077	55,611	25,272

FirstCaribbean International Bank (Jamaica) Limited

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9. Loans and Advances to Customers

	The Group							
	2008				2007			
	Mortgages $'000	Personal Loans $'000	Business & Government $'000	Total $'000	Mortgages $'000	Personal Loans $'000	Business & Government $'000	Total $'000
Performing loans	6,884,762	7,082,816	20,554,941	34,522,519	5,357,557	6,577,088	18,982,566	30,917,211
Impaired loans	195,395	394,950	188,152	778,497	149,370	321,176	153,007	623,553
Gross loans	7,080,157	7,477,766	20,743,093	35,301,016	5,506,927	6,898,264	19,135,573	31,540,764
Less: Provision for credit losses	(66,050)	(230,550)	(132,861)	(429,461)	(50,481)	(179,843)	(103,802)	(334,126)
	7,014,107	7,247,216	20,610,232	34,871,555	5,456,446	6,718,421	19,031,771	31,206,638
Add: Interest receivable				328,193				471,321
Add: Unearned fee income				(263,118)				(268,453)
				34,936,630				31,409,506

	The Bank							
	2008				2007			
	Mortgages $'000	Personal Loans $'000	Business & Government $'000	Total $'000	Mortgages $'000	Personal Loans $'000	Business & Government $'000	Total $'000
Performing loans	-	7,082,816	20,554,941	27,637,757	-	6,577,088	18,982,566	25,559,654
Impaired loans	-	394,950	188,152	583,102	-	321,176	153,007	474,183
Gross loans	-	7,477,766	20,743,093	28,220,859	-	6,898,264	19,135,573	26,033,837
Less: provision for credit losses	-	(230,550)	(132,861)	(363,411)	-	(179,843)	(103,802)	(283,645)
	-	7,247,216	20,610,232	27,857,448	-	6,718,421	19,031,771	25,750,192
Add: Interest receivable				293,424				436,586
Add: Unearned fee income				(225,179)				(240,796)
				27,925,693				25,945,982

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9. Loans and Advances to Customers (Continued)

Ageing analysis of past due but not impaired loan is as follows:

The Group

As at 31 October 2008	Mortgages $'000	Personal Loans $'000	Business & Government $'000	2008 $'000
Less than 30 days	1,472,428	1,173,065	2,437,938	5,083,431
31 – 60 days	307,394	413,974	347,465	1,068,833
	1,779,822	1,587,039	2,785,403	6,152,264

As at 31 October 2007	Mortgages $'000	Personal Loans $'000	Business & Government $'000	2007 $'000
Less than 30 days	1,194,291	870,531	3,007,205	5,072,027
31 – 60 days	257,304	289,041	54,954	601,299
61- 90 days	-	568	2,414	2,982
	1,451,595	1,160,140	3,064,573	5,676,308

The Bank

As at 31 October 2008	Mortgages $'000	Personal Loans $'000	Business & Government $'000	2008 $'000
Less than 30 days	-	1,173,065	2,437,938	3,611,003
31 – 60 days	-	413,974	347,465	761,439
61- 90 days	-	-	-	
	-	1,587,039	2,785,403	4,372,442

As at 31 October 2007	Mortgages $'000	Personal Loans $'000	Business & Government $'000	2007 $'000
Less than 30 days	-	870,531	3,007,205	3,877,736
31 – 60 days	-	289,041	54,954	343,995
61- 90 days	-	568	2,414	2,982
	-	1,160,140	3,064,573	4,224,713

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9. Loans and Advances to Customers (Continued)

Provision for credit losses comprise:-

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Specific provision	307,424	243,388	253,164	202,066
General provision	122,037	90,738	110,247	81,579
	429,461	334,126	363,411	283,645

As at 31 October 2008, loans with principal balances outstanding of $778,497,000,(2007 - $623,553,000) for the Group and $583,102,000 (2007 - $474,183,000) for the Bank were in non-performing status. Interest receivable on these loans amounted to $18,950,000 (2007 - $14,839,000) for the Group and $18,496,000 (2007 - $14,129,000) for the Bank, and interest taken to income amounted to $4,111,000 (2007 - $1,309,000) for the Group and $4,367,000 (2007 - $1,061,000) for the Bank.

The movement in the provision for credit losses during the year is as follows:

	The Group			
As at 31 October 2008	Mortgages $'000	Personal Loans $'000	Business & Government $'000	2008 $'000
Balance, beginning of year	50,481	181,695	101,950	334,126
Identified impairment	12,295	68,582	18,365	99,242
Unidentified impairment	3,274	17,751	10,694	31,719
Recoveries of bad and doubtful debts	-	25,339	-	25,339
Bad debts written off	-	(60,965)	-	(60,965)
Balance, end of year	66,050	232,402	131,009	429,461

As at 31 October 2007	Mortgages $'000	Personal Loans $'000	Business & Government $'000	2007 $'000
Balance, beginning of year	21,648	119,705	119,374	260,727
Identified impairment	30,131	112,510	8,797	151,438
Unidentified impairment	(1,203)	(5,766)	(22,176)	(29,145)
Recoveries of bad and doubtful debts	1	17,629	-	17,630
Bad debts written off	(96)	(62,383)	(4,045)	(66,524)
Balance, end of year	50,481	181,695	101,950	334,126

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9. Loans and Advances to Customers (Continued)

The movement in the provision for credit losses during the year is as follows:

	The Bank			
	Mortgages $'000	Personal Loans $'000	Business & Government $'000	2008 $'000
As at 31 October 2008				
Balance, beginning of year	-	181,695	101,950	283,645
Identified impairment	-	68,582	18,365	86,947
Unidentified impairment	-	17,751	10,694	28,445
Recoveries of bad and doubtful debts	-	25,339	-	25,339
Bad debts written off	-	(60,965)	-	(60,965)
Balance, end of year	-	232,402	131,009	363,411

	Mortgages $'000	Personal Loans $'000	Business & Government $'000	2007 $'000
As at 31 October 2007				
Balance, beginning of year	-	119,705	119,374	239,079
Identified impairment	-	112,510	8,797	121,307
Unidentified impairment	-	(5,766)	(22,176)	(27,942)
Recoveries of bad and doubtful debts	-	17,629	-	17,629
Bad debts written off	-	(62,383)	(4,045)	(66,428)
Balance, end of year	-	181,695	101,950	283,645

9. Loans and Advances to Customers (Continued)

The provision for credit losses determined under Bank of Jamaica regulatory requirements is as follows:

	The Group		The Bank	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
Specific provision	477,318	384,524	391,141	334,529
General provision	312,373	273,350	276,296	247,009
	789,691	657,874	667,437	581,538
Excess of regulatory provision over IFRS provision reflected in non-distributable loan loss reserve (Note 21)	360,230	323,748	304,026	297,893

Loans and advances to customers include finance lease receivables:

	The Group and the Bank	
	2008	**2007**
	$'000	**$'000**
No later than 1 year	1,593	-
Later than 1 year and no later than 5 years	98,810	3,683
Later than 5 years	75,326	151,168
Gross investment in finance leases	175,729	154,851
Unearned future finance income on finance leases	(81,595)	(76,917)
Net investment in finance leases	94,134	77,934

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10. Property, Plant and Equipment

The Group

	Land $'000	Buildings $'000	Leasehold Improvements $'000	Equipment, Furniture and Vehicles $'000	Total $'000
2008					
Cost					
1 November 2007	3,900	48,569	101,441	1,086,129	1,240,039
Additions	-	28,375	2,781	141,836	172,992
Disposals	(150)	-	(125)	(11,365)	(11,640)
Transfers	51,250	47,021	24,901	(123,172)	-
31 October 2008	55,000	123,965	128,998	1,093,428	1,401,391
Accumulated depreciation					
1 November 2007	-	17,243	72,983	647,248	737,474
Charge for the year	-	1,814	7,893	111,082	120,789
Relieved on disposals	-	-	(15)	(6,792)	(6,807)
31 October 2008	-	19,057	80,861	751,538	851,456
Net book value					
31 October 2008	55,000	104,908	48,137	341,890	549,935
2007					
Cost					
1 November 2006	3,900	48,569	89,684	915,951	1,058,104
Additions	-	-	11,757	194,764	206,521
Disposals	-	-	-	(24,586)	(24,586)
31 October 2007	3,900	48,569	101,441	1,086,129	1,240,039
Accumulated depreciation					
1 November 2006	-	16,029	69,015	523,052	608,096
Charge for the year	-	1,214	3,968	141,558	146,740
Relieved on disposals	-	-	-	(17,362)	(17,362)
31 October 2007	-	17,243	72,983	647,248	737,474
Net book value					
31 October 2007	3,900	31,326	28,458	438,881	502,565

FirstCaribbean International Bank (Jamaica) Limited

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10. Property, Plant and Equipment (Continued)

	The Bank				
	Land $'000	**Buildings $'000**	**Leasehold Improvements $'000**	**Equipment, Furniture and Vehicles $'000**	**Total $'000**
			2008		
Cost					
1 November 2007	3,900	48,569	101,396	1,080,800	1,234,665
Additions	-	28,375	2,781	141,711	172,867
Disposals	(150)	-	(125)	(11,365)	(11,640)
Transfers	51,250	47,021	24,901	(123,172)	-
31 October 2008	55,000	123,965	128,953	1,087,974	1,395,892
Accumulated depreciation					
1 November 2007	-	17,243	72,983	644,624	734,850
Charge for the year	-	1,814	7,893	110,275	119,982
Relieved on disposals	-	-	(15)	(6,792)	(6,807)
31 October 2008	-	19,057	80,861	748,107	848,025
Net book value					
31 October 2008	55,000	104,908	48,092	339,867	547,867
			2007		
Cost					
1 November 2006	3,900	48,569	89,639	910,980	1,053,088
Additions	-	-	11,757	194,406	206,163
Disposals	-	-	-	(24,586)	(24,586)
31 October 2007	3,900	48,569	101,396	1,080,800	1,234,665
Accumulated depreciation					
1 November 2006	-	16,029	69,015	521,237	606,281
Charge for the year	-	1,214	3,968	140,749	145,931
Relieved on disposals	-	-	-	(17,362)	(17,362)
31 October 2007	-	17,243	72,983	644,624	734,850
Net book value					
31 October 2007	3,900	31,326	28,413	436,176	499,815

Included in the table above are amounts totaling $14,430,000 (2007 – $14,430,000) for the Group and the Bank representing the revalued amount of land and buildings which has been used as the deemed cost of these assets under the provision of IFRS 1 on transition to IFRS on 1 November 2002. Subsequent additions and other property, plant and equipment are shown at cost. Equipment, furniture and vehicles include $106,744,000 (2007 - $196,052,000) for the Group and the Bank relating to work-in-progress on which no depreciation has been charged.

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11. Deferred Income Taxes

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 33⅓% for the Bank and 30% for FirstCaribbean International Building Society.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities. The amounts determined after appropriate setting off are as follows:

	The Group		The Bank	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Deferred tax assets	9,644	4,499	-	-
Deferred tax liabilities	(182,756)	(218,430)	(182,756)	(218,430)
	(173,112)	(213,931)	(182,756)	(218,430)

The movement in the deferred income tax account was as follows:

	The Group		The Bank	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Balance as at 1 November	213,931	129,000	218,430	132,105
(Credit)/charge to the income statement	(40,819)	84,931	(35,674)	86,325
Balance as at 31 October	173,112	213,931	182,756	218,430

Deferred income tax assets and liabilities were attributable to the following items:

	The Group		The Bank	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Deferred tax assets				
Loan loss provisions	3,771	2,748	-	-
Unrealised foreign exchange losses	4,067	-	4,067	-
Post-retirement medical and insurance benefits	18,978	25,267	18,240	24,400
Other provisions	98,302	99,361	86,306	90,254
	125,118	127,376	108,613	114,654
Deferred tax liabilities				
Defined benefit pension scheme	274,273	275,755	268,687	268,156
Unrealised foreign exchange gains	1,075	37,177	-	36,870
Loan loss provisions	6,165	4,710	6,165	4,710
Accelerated tax depreciation	16,581	23,452	16,517	23,348
Other	136	213	-	-
	298,230	341,307	291,369	333,084
Net deferred tax liability	173,112	213,931	182,756	218,430

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11. Deferred Income Taxes (Continued)

Deferred income tax liabilities have not been provided for on the withholding and other taxes that would be payable on the undistributed earnings of the subsidiary to the extent that such earnings are permanently reinvested. At 31 October 2008, such earnings totaled $550,000 (2007 - $110,179,000).

12. Retirement Benefit Asset/(Obligation)

Amounts recognised in the balance sheet:

	The Group		The Bank	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Defined benefit pension scheme	824,680	829,800	806,060	804,470
Other post retirement benefits	(57,180)	(76,090)	(54,720)	(73,200)

(a) Defined benefit pension scheme

The Group operates a pension scheme covering all permanent employees. The pension benefit is based on the best five consecutive years' earnings in the last ten years, multiplied by the years of credited service. The assets of the plan are held independently of the Group's assets in a separate trustee fund. The scheme is valued by independent actuaries annually using the Projected Unit Credit Method. The latest actuarial valuation for IFRS purposes was carried out as at 31 October 2008.

The amounts recognised in the balance sheet are determined as follows:

	The Group		The Bank	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Fair value of plan asset	2,128,070	1,768,020	2,080,020	1,725,420
Present value of funded obligation	(1,080,630)	(797,090)	(1,056,230)	(777,880)
Unrecognised actuarial gains	(222,760)	(141,130)	(217,730)	(143,070)
Asset in the balance sheet	824,680	829,800	806,060	804,470

At 31 October 2008, pension plan assets include the Parent's ordinary stock units with a fair value of $40,640,000 (2007 – $47,414,000).

Movements in the asset recognised in the balance sheet:

	The Group		The Bank	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
At 1 November	829,800	722,141	804,470	699,419
Credit for the year	(6,730)	91,150	20	88,940
Contributions paid	1,610	16,509	1,570	16,111
At 31 October	824,680	829,800	806,060	804,470

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12. Retirement Benefit Asset/(Obligation) (Continued)

(a) Defined benefit pension scheme (continued)

Changes in the fair value of plan asset are as follows:

	The Group		The Bank	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Fair value of plan asset at start of year	1,768,020	1,449,736	1,725,420	1,407,360
Expected return on plan asset	233,510	214,474	228,240	209,320
Contributions	1,610	16,510	1,570	16,110
Benefits paid during year	(38,370)	(16,230)	(37,500)	(15,840)
Actuarial gain (loss) on plan asset	163,300	103,530	162,290	108,470
Fair value of plant asset at end of year	2,128,070	1,768,020	2,080,020	1,725,420

Changes in the present value of obligation are as follows:

	The Group		The Bank	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Present value of obligation at start of year	797,090	595,840	777,880	578,430
Interest cost	109,520	88,260	107,050	86,140
Current service cost	44,830	38,450	43,820	37,510
Benefits paid during year	(38,370)	(16,230)	(37,500)	(15,840)
Actuarial loss on plan obligation	167,560	90,770	164,980	91,640
Present value of obligation at end of year	1,080,630	797,090	1,056,230	777,880

The amounts recognised in the statement of income are as follows:

	The Group		The Bank	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current service cost, net of employee contributions	44,830	38,450	43,820	37,510
Interest cost	109,520	88,260	107,050	86,140
Expected return on plan assets	(233,510)	(214,480)	(228,240)	(209,310)
Amount not recognised – Economic value of surplus	85,890	-	77,350	-
Actuarial gains recognised during the year	-	(3,380)	-	(3,280)
Included in staff costs (Note 25)	6,730	(91,150)	(20)	(88,940)
Actual return on plan asset	396,800	318,010	390,520	317,790

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12. Retirement Benefit Asset/(Obligation) (Continued)

The principal actuarial assumptions used were as follows:

	The Group and The Bank	
	2008	**2007**
Discount rate	13.0%	12.5%
Expected return on plan assets	12.5%	12.5%
Future salary increases	12.0%	11.0%
Future pension increases	4.0%	4.0%

Plan assets, pension obligations and actuarial gains and losses were allocated to each entity based on the number of permanent employees.

The last actuarial valuation to determine the adequacy of funding done as at 31 October 2008 revealed that the scheme was adequately funded at that date.

(b) Post-retirement medical and life insurance benefits

In addition to pension benefits, the Group offers medical and life insurance benefits that contribute to the health care and life insurance coverage of employees and beneficiaries after retirement. The method of accounting and frequency of valuations are similar to those used for the defined benefit pension scheme.

In addition to the assumptions used for the pension scheme, the main actuarial assumption is a long-term increase in health costs of 5% per year (2007 – 5%).

The amounts recognised in the balance sheet are as follows:

	The Group		The Bank	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
Present value of unfunded obligations	11,360	9,420	11,100	9,190
Unrecognised actuarial gains	45,820	66,670	43,620	64,010
Liability in the balance sheet	57,180	76,090	54,720	73,200

Movements in the obligation recognised in the balance sheet:

	The Group		The Bank	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
Obligation at beginning of year	76,090	135,418	73,200	131,097
Charge for the year	(17,920)	(58,510)	(17,520)	(57,100)
Contributions paid	(990)	(818)	(960)	(797)
Obligation at end of year	57,180	76,090	54,720	73,200

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12. Retirement Benefit Asset/(Obligation) (Continued)

The amounts recognised in the statement of income are as follows:

	The Group		The Bank	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current service cost	80	2,460	80	2,400
Interest cost	1,210	4,800	1,180	4,680
Curtailment gains	-	(5,480)	-	(5,350)
Actuarial gains recognised in year	(19,210)	(60,290)	(18,780)	(58,830)
Total included in staff costs (Note 25)	(17,920)	(58,510)	(17,520)	(57,100)

13. Customer Deposits

	The Group		The Bank	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Individuals	14,568,518	9,690,350	12,656,876	8,929,722
Business and Government	10,424,046	15,537,248	10,306,610	14,659,763
Banks	16,079,097	8,121,829	15,558,433	8,007,385
	41,071,661	33,349,427	38,521,919	31,596,870
Interest payable	297,306	173,578	220,659	161,472
	41,368,967	33,523,005	38,742,578	31,758,342

14. Other Liabilities

	The Group		The Bank	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Accounts payable and accruals	559,259	461,700	472,355	401,033
Withholding tax	8,395	20,557	-	2,801
Other	79,689	88,744	75,296	84,983
	647,343	571,001	547, 651	488,817

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15. Debt Securities In Issue

	The Group and Bank	
	2008 $'000	2007 $'000
Floating rate notes due 2012	499,950	1,500,000
Interest payable	-	2,217
	499,950	1,502,217

In April 2007, the Group issued redeemable floating rate notes with a face value of $1,500,000 due April 2012. During the year the Group redeemed $1,000,050 of these notes. The interest on the notes will be payable at a rate of weighted average Government Growth Treasury Bill of 11.65% plus 1.65% per annum. The average effective interest rate during 2008 was 15.85% (2007:13.30%).

16. Share Capital and Reserves

	The Group and Bank	
	2008 No. of shares (000)	2007 No of shares (000)
Share Capital		
Authorised -		
Ordinary shares	300,000	300,000

	The Group and Bank	
Issued and fully paid -	2008 $'000	2007 $'000
265,756,730 Ordinary stock units	1,396,667	1,396,667

Objectives, policies and procedures

Capital strength provides protection for depositors and creditors, allows the Bank to undertake profitable business opportunities as they arise and helps maintain favourable credit ratings. In December 2007, the International Credit Agency, Standard & Poors, reconfirmed our A- Stable credit rating, which the Bank has held since it was first issued in October 2002.

The Bank's objective is to employ a strong and efficient capital base. It manages capital in accordance with policies established by the Board. These policies relate to capital strength, capital mix, dividends and return of capital, and the unconsolidated capital adequacy of regulated entities. Each policy has associated guidelines, and capital is monitored continuously for compliance.

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16. Share Capital and Reserves (Continued)

Objectives, policies and procedures (Continued)

Each year a capital plan and three-year outlook are established, which encompass all the associated elements of capital: forecasts of sources and uses, maturities, redemptions, new issuance, corporate initiatives, and business growth. The capital plan is stress-tested in various ways to ensure that it is sufficiently robust under all reasonable scenarios. All of the elements of capital are monitored throughout the year, and the capital plan is adjusted as appropriate.

There were no significant changes made in the objectives, policies and procedures during the year.

Regulatory requirements
The Bank's regulatory capital requirements are determined in accordance with guidelines issued by the Central Bank of Jamaica. These guidelines evolve from the framework of risk-based capital standards developed by the Basel Committee, Bank of International Settlement.

Capital standards require that banks maintain minimum Tier 1 and Total capital ratios of 4% and 8% respectively. The Central Bank of Jamaica has established that Jamaican deposit-taking financial institutions maintain Tier 1 and Total capital ratios of 5% and 10%, respectively. During the year, the Bank complied in full with all of its regulatory capital requirements.

Regulatory capital
Regulatory capital consists of Tier 1 and Tier 2 capital, less certain deductions. Tier 1 Capital is comprised of common stock, less goodwill and other deductions. Tier 2 Capital principally comprises hybrid capital instruments.

In 2008, both Tier 1 and Total Capital ratios were 19.7% and 20.9%, respectively (2007 – 21.3% and 22.5%, respectively).

Reserves	**The Group**		**The Bank**	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
Capital reserves (Note 17)	12,833	12,833	12,833	12,833
Fair value reserve – available-for-sale investment securities (Note 18)	20,832	26,401	20,832	26,401
Statutory reserve fund (Note 19)	2,096,667	1,156,667	1,791,667	1,011,667
Retained earnings reserve (Note 20)	1,776,163	1,776,163	1,640,666	1,640,666
Loan loss reserve (Note 21)	360,230	323,748	304,026	297,893
Building Society reserve (Note 22)	45,522	45,522	-	-
Total share capital and reserves at end of the year	4,312,247	3,341,334	3,770,024	2,989,460

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17. Capital Reserves

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Comprised:				
Unrealised –				
Surplus on revaluation of premises	5,493	5,493	5,493	5,493
Realised –				
Profit on sale of property, plant and equipment	7,340	7,340	7,340	7,340
Balance at end of year	12,833	12,833	12,833	12,833

18. Fair Value Reserves – Available For Sale Investment Securities

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Balance at beginning of year	26,401	27,622	26,401	27,622
Fair value (losses)/gains on available for sale investments during the year	(5,569)	(1,221)	(5,569)	(1,221)
Balance at end of the year	20,832	26,401	20,832	26,401

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19. Statutory Reserve Fund

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Balance at beginning of year	1,156,667	696,667	1,011,667	611,667
Transfer from retained earnings	940,000	460,000	780,000	400,000
Balance at end of the year	2,096,667	1,156,667	1,791,667	1,011,667

The fund is maintained in accordance with the Banking Act 1992, for the Bank and The Bank of Jamaica (Building Societies) Regulations 1995, for FirstCaribbean International Building Society. These require that minimum prescribed percentages of net profit be transferred to the reserve fund until the amount in the fund is not less than paid up share capital.

20. Retained Earnings Reserve

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Balance at beginning of year	1,776,163	1,776,163	1,640,666	1,640,666
Transfer from retained earnings	-	-	-	-
Balance at end of the year	1,776,163	1,776,163	1,640,666	1,640,666

Sections 2 of the Banking Act 1992 and the Bank of Jamaica (Building Societies) Regulations 1995, permit the transfer of any portion of net profit to a retained earnings reserve. This reserve constitutes a part of the capital base for the purpose of determining the maximum level of deposit liabilities and lending to customers.

Transfers to the retained earnings reserve are made at the discretion of the Board; such transfers must be notified to the Bank of Jamaica.

21. Loan Loss Reserve

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Balance at beginning of year	323,748	188,919	297,893	163,064
Transfer from retained earnings	36,482	134,829	6,133	134,829
Balance at end of the year	360,230	323,748	304,026	297,893

This is a non-distributable reserve representing the excess of the provision for credit losses determined using the Bank of Jamaica's regulatory requirements over the amount determined under IFRS (Note 9).

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22. Building Society Reserve

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Balance at end of the year	45,522	45,522	-	-

In accordance with the Income Tax Act, FirstCaribbean International Building Society may transfer amounts from retained earnings to a general reserve on a tax free basis until this reserve equals 5% of prescribed assets.

23. Net Interest Income

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Interest and similar income:				
Cash & short term funds and due from banks	747,074	372,602	1,135,859	618,155
Investment securities	166,541	175,032	166,541	175,032
Loans and advances	4,028,487	3,757,851	3,306,991	3,166,543
Repurchase agreements and other	35,362	43,123	9,873	22,743
	4,977,464	4,348,608	4,619,264	3,982,473
Interest and similar expense:				
Customer deposits	(1,650,838)	(1,628,154)	(1,490,331)	(1,497,820)
Debt securities in issue	(231,173)	(120,520)	(231,173)	(120,520)
	(1,882,011)	(1,748,674)	(1,721,504)	(1,618,340)
Net interest income	3,095,453	2,599,934	2,897,760	2,364,133

24. Other Operating Income

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Net fees and commissions	334,339	427,068	333,693	421,990
Foreign exchange transactional net gains	277,029	182,111	278,800	182,111
Foreign exchange revaluation net gains	(8,617)	111,632	(12,201)	110,610
Trading securities net losses	(21,669)	(43,465)	(21,669)	(43,945)
Other operating income	13,398	4,213	-	-
	594,480	681,559	578,623	670,766

Net foreign exchange trading income includes gains and losses arising from foreign currency trading activities.

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25. Operating Expenses

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Staff costs	1,108,531	837,102	1,065,509	798,513
Depreciation	120,789	146,740	119,982	145,931
Occupancy costs	270,693	229,353	265,121	224,810
Other operating expenses	812,482	796,425	782,301	765,992
	2,312,495	2,009,620	2,232,913	1,935,246

Analysis of staff costs:

	The Group		The Bank	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Wages and salaries	876,442	799,303	845,645	763,878
Pension costs –				
Defined benefit plan (Note 12)	6,730	(91,150)	(20)	(88,940)
Defined contribution plan	46,599	9,180	46,433	8,942
Other post retirement benefits (Note 12)	(17,920)	(58,510)	(17,520)	(57,100)
Share-based payments	17,167	7,368	17,167	6,865
Other staff-related costs	179,513	170,911	173,804	164,868
	1,108,531	837,102	1,065,509	798,513

26. Income Before Taxation

Income before taxation is stated after charging:

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Depreciation	120,789	146,740	119,982	145,931
Directors' emoluments –				
Fees	3,127	2,737	2,869	2,316
Management remuneration	42,509	27,745	33,279	27,745
Management fees	78,272	134,237	63,632	119,749
Auditors' remuneration –				
Current year	9,602	7,682	7,857	6,251
Prior year	-	197	-	197

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27. Taxation

(a) The taxation charge is based on the profit for the year adjusted for taxation purposes and comprises:

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Current year income tax	452,776	302,095	411,975	257,552
Adjustment to prior year provision	(533)	(8,569)	(536)	(8,528)
	452,243	293,526	411,439	249,024
Deferred tax	(40,819)	84,931	(35,674)	86,325
	411,424	378,457	375,765	335,349

Income tax is calculated at the rate of 33⅓% for the Bank and at 30% for FirstCaribbean International Building Society.

(b) Tax on the Group's income before tax differs from the theoretical amount that would arise using the statutory tax rate for the Bank as follows:

	The Group		The Bank	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Income before taxation	1,246,477	1,149,580	1,128,078	1,006,288
Tax calculated at 33 1/3%	415,492	383,193	376,026	335,429
Effect of :				
Different tax rate applicable to mortgage financing subsidiary	(3,946)	(4,777)	-	-
Prior year under provision	(533)	12,047	(536)	8,505
Tax free investment income	(1,976)	(13,393)	(1,976)	(13,405)
Expenses not deductible for tax purposes	3,313	287	3,313	273
Other charges and allowances	(926)	1,100	(1,062)	4,547
	411,424	378,457	375,765	335,349

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28. Net Income For The Year

	2008 $'000	2007 $'000
The net income for the year is dealt with as follows in the financial statements of:		
The Bank	752,313	670,939
Subsidiary	82,740	100,184
	835,053	771,123

29. Earnings Per Stock Unit

Earnings per ordinary stock unit are calculated by dividing the net income for the year by the weighted average number of ordinary stock units in issue:

	2008	2007
Net income for the year ($'000)	835,053	771,123
Weighted average number of ordinary stock units in issue ('000)	265,757	265,757
Earnings per stock unit ($)	3.14	2.90

30. Related Party Transactions

In the ordinary course of business, the Group provides to its connected persons normal banking services on terms similar to those offered to persons not connected to the Group.

(a) Transactions and balances with FirstCaribbean entities and their associates

	The Group		The Bank	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
FirstCaribbean International Bank Limited:				
Management fees payable	266,804	188,532	231,589	167,957
Net receivable	446,265	488,721	481,480	488,770
Other FirstCaribbean entities:				
Interest expense	480,684	550,272	477,100	531,802
Deposits by other FirstCaribbean entities	13,555,944	8,172,709	13,038,833	8,011,956
Due from subsidiary	-	-	4,010,778	3,163,900
Affiliates:				
CIBC:				
Interest income	20,239	-	20,239	-
Interest expense	1,170	7,646	1,170	7,646
Due to CIBC entities	-	647,210	-	647,210
Customer deposits	1,347	-	1,347	-
Cash & Due from banks	416,575	-	416,575	-
Loans and advances to customers	95	-	95	-

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30. Related Party Transactions (Continued)

(b) Transactions and balances with directors

	The Group		The Bank	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
Loans outstanding	51,543	69,739	21,237	26,982
Deposits with FirstCaribbean entities	14,418	8,064	14,418	7,821
Interest income	4,718	4,815	2,184	960
Interest expense	299	509	299	238
Directors' fees	3,127	2,737	2,869	2,316
Management remuneration paid (included below)	42,509	27,745	33,279	27,745

(c) Key management remuneration paid during the year

	The Group		The Bank	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
Wages and salaries	113,037	84,354	106,981	76,579
Statutory contributions	9,625	5,832	9,097	5,315

31. Commitments

(a) Future rental commitments under operating leases

At 31 October 2008, the Bank held leases on buildings for extended periods. The future rental commitments under these leases were as follows:

	2008 $'000	2007 $'000
Not later than 1 year	166,352	125,800
Later than 1 year and less than 5 years	305,339	819,903
Later than 5 years	-	54,206
	471,691	999,909

(b) Other

The following table indicates the contractual amounts of off-balance sheet financial instruments that commit the Group and the Bank to extend credit to customers.

	The Group		The Bank	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Guarantees and indemnities	678,156	535,993	678,156	535,993
Letters of credit	950,915	325,651	950,915	325,651
Loan commitments	5,503,030	5,507,001	3,785,440	4,075,222
	7,132,101	6,368,645	5,414,511	4,936,866

32. Contingencies

The Group, because of the nature of its businesses, is subject to various threatened or filed legal actions. At 31 October 2008 material claims filed amounted to approximately $2,140,392,000 (2007 - $2,011,652,000). The majority of this amount relates to a specific counter claim of approximately $1,993,155,000 (2007 - $1,992,259,000), filed by a former customer against the Bank. This counter claim is as a result of an action brought against the former customer by the Bank for approximately $359,656,000 (2007 – $315,738,000). The Directors have been advised that the counter claim is totally without merit. Although the amount of the ultimate exposure, if any, cannot be determined at this time, the Directors are of the opinion, based upon the advice of counsel, that the final outcome of threatened or filed suits will not have a material adverse effect on the financial position of the Group.

33. Pledged Assets

Mandatory reserve deposits are held by the Bank of Jamaica in accordance with statutory requirements. These deposits are not available to finance the Group's and the Bank's day to day operations and are as follows:

	The Group			
	Asset		**Related Liability**	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
Statutory reserves at Bank of Jamaica (Note 3)	2,846,624	2,677,515	-	-
Securities (see note below)	285,000	375,000	-	-
	3,131,624	3,052,515	-	-

	The Bank			
	Asset		**Related Liability**	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
Statutory reserves at Bank of Jamaica (Note 3)	2,730,789	2,615,596	-	-
Securities (see note below)	260,000	350,000	-	-
	2,990,789	2,965,596	-	-

The Bank of Jamaica holds certificates of deposit and treasury bills as security against possible shortfalls in the operating account.

34. Business Segments

The Group operates five main lines of business organised along customer segments, but also includes Treasury, Sales and Trading (TST) as a reportable segment.

Retail Banking (Retail) is organized along three product lines: Home Finance (mortgages), Consumer Finance and Insurance.

Corporate Banking (Corporate) comprises two customer sub-segments: Corporate Business and Small Business Banking. Corporate Banking offers deposit and investment products, borrowing and cash management products, point of sale and on demand services, foreign exchange and trade finance products and services.

Wealth Management (WM) comprises Premier Banking and International Mortgages. The Premier Banking segment offers each client a personal relationship manager. The International Mortgage group provides funding in U.S. dollars, Euros or Sterling to residents and non-residents of Jamaica seeking to purchase second homes in Jamaica for personal use or as an investment.

Capital Markets (CM) provide issuers and investors with access to larger pools of capital resources and greater investment opportunities. It acts for, and on behalf of, large business, institutions and sovereign clients who seek both equity and debt capital instruments and facilitates the development and expansion of available investment banking products.

Credit Card (Cards) is responsible for both the issuance and acceptance of credit cards. The issuing side of Cards offers four (4) key product types, namely VISA Classic, VISA Gold, VISA Platinum and MasterCard and the acceptance side of Cards accepts/acquires on behalf of the global leading credit card associations, namely VISA, MasterCard, American Express and Discover. All customer segments are served with a range of Commercial and Consumer Cards, including Co-Branded Cards.

Treasury, Sales and Trading (TST) manages the interest rate, foreign exchange and liquidity risks of the Bank. In addition, TST conducts foreign exchange transactions on behalf of Bank clients, and hedges fixed rate loans and investments with interest rate swaps.

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

Funds are ordinarily allocated between segments, resulting in funding costs transfers. Interest charged for these funds is based on the Group's funds transfer pricing. There are no other material items of income or expense between the segments.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet, but exclude items such as taxation and intangible assets.

Internal charges and transfer pricing adjustments are reflected in the performance of each business.

The Group's operations are located solely in Jamaica.

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34. Business Segments (Continued)

	2008					
	Retail Banking $'000	Corporate Banking $'000	Others $'000	Unallocated Support Units $'000	Eliminations $'000	Group $'000
External revenues	1,463,660	2,751,212	1,461,749	(104,677)	-	5,571,944
Revenues from other segments	622,991	103,195	(336,384)	-	(389,802)	-
Total revenues	2,086,651	2,854,407	1,125,365	(104,677)	(389,802)	5,571,944
Income before taxation	303,679	1,910,587	126,278	(1,094,067)	-	1, 246,477
Taxation						(411,424)
Income for the year					-	835,053
Segment assets	21,815,712	25,935,277	6,294,658	-	(4,429,223)	49,616,424
Unallocated assets						9,644
Total assets						49,626,068
Segment liabilities	15,753,741	21,885,663	9,203,017	-	(4,058,125)	42,784,296
Unallocated liabilities						394,629
Total liabilities						43,178,925
Other segment information						
Capital expenditure	102,418	416	70,158	-	-	172,992
Depreciation	47,314	600	72,875	-	-	120,789
Loan impairment losses	54,939	39,391	36,631	-	-	130,961

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34. Business Segments (Continued)

	2007					
	Retail Banking $'000	Corporate Banking $'000	Others $'000	Unallocated Support Units $'000	Eliminations $'000	Group $'000
31 October 2007						
External revenues	1,428,698	2,286,024	1,302,802	12,643	-	5,030,167
Revenues from other segments	521,365	(132,652)	(128,905)	-	(259,808)	-
Total revenues	1,950,063	2,153,372	1,173,897	12,643	(259,808)	5,030,167
Income before taxation	242,755	1,300,727	406,463	(800,365)	-	1,149,580
Taxation						(378,457)
Income for the year						771,123
Segment assets	19,968,096	20,341,565	4,884,923	-	(3,527,900)	41,666,684
Unallocated assets						4,499
Total assets						41,671,183
Segment liabilities	13,932,194	17,847,177	7,137,942	-	(3,163,900)	35,753,413
Unallocated liabilities						300,111
Total liabilities						36,053,524
Other segment information						
Capital expenditure	156,137	657	49,727	-	-	206,521
Depreciation	33,191	408	113,141	-	-	146,740
Loan impairment losses	81,951	50,686	(10,344)	-	-	122,293

The Wealth Management, Capital Markets, Cards, Treasury, Sales and Trading segments have been consolidated and represented in Others. Individually the contribution of these segments is less than 10% of total revenue, and profits and does not exceed more than 10% of the total assets of all segments.

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35. Financial Risk Management

(a) Strategy in using financial instruments

By its nature the Group's activities are principally related to the use of financial instruments. The Group accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Group also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances but the Group also enters into guarantees and other commitments such as letters of credit and performance and other bonds.

(b) Credit risk

Credit risk primarily arises from direct lending activities, as well as from trading, investment and hedging activities. Credit risk is defined as the risk of financial loss due to a borrower or counter party failing to meet its obligations in accordance with agreed terms.

Process and Control

The Credit Risk Management Department (CRMD) is responsible for the provision of the Group's adjudication, oversight and management of credit risk within its portfolios, including the measurement, monitoring and control of credit risk.

The CRMD's credit risk approval authority flows from the Board of Directors and are further delegated to the Chairman and the Chief Risk Officer (CRO). The department is guided by the Group's Delegation of Authority Policy. Delegation is based on exposure and risk level; where the credit decision relates to larger and or higher risk transactions the Credit Committee (CC) is responsible for the final decision.

The Risk and Conduct Review Committee (R&CRC) is responsible for approving policy requirements and key risk limits.

Credit Risk Limits

Credit limits are established for all loans (mortgages, personal and business & government) for the purposes of diversification and managing concentration. These include limits for individual borrowers, groups of related borrowers, industry sectors, and products or portfolios. The Group does not have excessive concentration in any single borrower, or related group of borrowers, or industry sector.

Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances to customers are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

The Group's credit risk management policies include requirements relating to collateral valuation and management, including verification requirements and legal certainty. Valuations are updated periodically depending upon the nature of the collateral. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement during its periodic review of loan accounts in arrears. Policies are in place to monitor the existence of undesirable concentration in the collateral supporting the Group's credit exposure.

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35. Financial Risk Management (Continued)

(b) Credit risk (continued)

Exposures by Industry Groups

The following table provides an industry-wide break down of total exposures by industry groups:

	The Group					
	2008			2007		
	Loans and Leases $'000	Acceptances, Guarantees and Letters of Credit $'000	Total 2008 $'000	Loans and Leases $'000	Acceptances, Guarantees and Letters of Credit $'000	Total 2007 $'000
Agriculture, fishing and mining	76,341	6,275	82,616	145,883	6,275	152,158
Construction	347,278	-	347,278	344,842	107,398	452,240
Distribution	5,507,607	41,270	5,548,877	6,520,829	36,534	6,557,363
Electricity, gas and water	1,766,747	394,900	2,161,647	716,469	711,000	1,427,469
Financial institutions	716,382	500	716,882	392,604	500	393,104
Government and public entities	1,301,121	10,853	1,311,974	2,643,590	10,172	2,653,762
Manufacturing and production	2,346,993	33,005	2,379,998	573,374	132,587	705,961
Personal	13,255,927	3,215,508	16,471,435	10,789,644	2,799,159	13,588,803
Professional and other services	1,296,574	2,515,559	3,812,133	1,010,414	1,654,441	2,664,855
Tourism and entertainment	5,836,237	41,645	5,877,882	5,637,623	188,421	5,826,044
Transport, storage and communication	2,849,809	872,586	3,722,395	2,765,492	722,158	3,487,650
Total	35,301,016	7,132,101	42,433,117	31,540,764	6,368,645	37,909,409
Provision for credit losses			(429,461)			(334,126)
			42,003,656			37,575,283

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35. Financial Risk Management (Continued)

(b) Credit risk (continued)

Exposures by Industry Groups (Continued)

	The Bank					
	2008			2007		
	Loans and Leases $'000	Acceptances, Guarantees and Letters of Credit $'000	Total 2008 $'000	Loans and Leases $'000	Acceptances, Guarantees and Letters of Credit $'000	Total 2007 $'000
Agriculture, fishing and mining	76,341	6,275	82,616	145,883	6,275	152,158
Construction	347,278	-	347,278	344,842	107,398	452,240
Distribution	5,507,607	41,270	5,548,877	6,514,041	36,534	6,550,575
Electricity, gas and water	1,766,747	394,900	2,161,647	716,469	711,000	1,427,469
Financial institutions	716,382	500	716,882	392,604	500	393,104
Government and public entities	1,301,121	10,853	1,311,974	2,643,590	10,172	2,653,762
Manufacturing and production	2,340,892	33,006	2,373,898	566,977	132,587	699,564
Personal	6,238,352	1,497,917	7,736,269	5,404,744	1,367,380	6,772,124
Professional and other services	1,240,093	2,515,559	3,755,652	966,934	1,654,441	2,621,375
Tourism and entertainment	5,836,237	41,645	5,877,882	5,572,261	188,421	5,760,682
Transport, storage and communication	2,849,809	872,586	3,722,395	2,765,492	722,158	3,487,650
Total	28,220,859	5,414,511	33,635,370	26,033,837	4,936,866	30,970,703
Provision for credit losses			(363,411)			(283,645)
			33,271,959			30,687,058

Impaired Financial Assets and Provision for Credit Losses

The Group takes on exposure to credit risk, which is the risk that a counter party will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one counter party, borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

The exposure to any one counter party including banks and brokers is further restricted by sub-limits covering on and off balance sheet exposures. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral including corporate and personal guarantees.

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35. Financial Risk Management (Continued)

(b) Credit risk (Continued)

Derivatives

The Group maintains strict control limits on net open derivative positions, that is, the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

Master Netting Arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities as transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period since it is affected by each transaction subject to the arrangement.

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, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, 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 borrowing.

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 since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term of maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Maximum Exposure to Credit Risk

The maximum exposure to credit risk would be all balance sheet carrying values of all financial assets plus the off-balance sheet contingent liabilities and commitments [these disclosures are shown in note 31(b)]. The gross maximum exposure would be before allowance for credit losses and the effect of mitigation through the use of master netting and collateral arrangements.

The maximum exposure to credit risk within the customer loan portfolio would be all the balance sheet carrying values plus the off-balance sheet loan commitment amounts [these disclosures are shown in Note 31(b)]. The gross maximum exposure within the customer loan portfolio would be before provision for credit losses and the effect of mitigation through the use of master netting and collateral arrangements, plus the off-balance sheet loan commitments amount.

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35. Financial Risk Management (Continued)

(c) Geographical concentration of assets, liabilities, off-balance sheet items, revenues and capital expenditure

The Group operates in only the Jamaican geographical market.

(d) Credit rating system and credit quality per class of financial assets

Credit Quality
A mapping between the Group's internal ratings and the ratings used by external agencies is shown in the table below. As part of the Group's risk-rating methodology, the risk assessed includes a review of external ratings of the obligor. The obligor rating assessment takes into consideration the Group's financial assessment of the obligor, the industry, and the economic environment of the country in which the obligor operates. In certain circumstances, where a guarantee from a third party exists, both the obligor and the guarantor will be assessed.

Quality per FCIB	Standard & Poor's equivalent	Moody's Investor Services
High grade	AAA to BBB-	Aaa to Baa3
Standard	BB+ to B-	Ba to B3
Substandard	CCC+ to CC	Caa1 to Ca
Impaired	D	C

A credit scoring methodology is used to assess personal customers and a grading model is used for Corporate clients. As well, an ageing analysis of the portfolio assists in the development of a consistent internal-risk rating system. This risk rating system is used for portfolio management, risk limit setting, product pricing, and in the determination of economic capital.

The effectiveness of the risk rating system and the parameters associated with the risk ratings are monitored within Credit Risk Management and are subject to an annual review.

The credit quality of financial assets is managed using internal credit ratings.

The table below shows the credit quality by class of asset for gross loans and advances to customers, based on our internal credit rating system. Amounts provided are before allowance for credit losses, and after credit risk mitigation, valuation adjustments related to the financial guarantors, and collateral on agreements.

	The Group				
	2008				
	Performing				
Grade description	High Grade $'000	Standard Grade $'000	Sub Standard Grade $'000	Impaired $'000	2008 Total $'000
Loans and advances to customers:					
Mortgages	5,550,964	1,333,798	-	195,395	7,080,157
Personal loans	4,510,148	2,572,668	-	394,950	7,477,766
Business & government loans	14,443,169	6,111,772	-	188,152	20,743,093
Total	24,504,281	10,018,238	-	778,497	35,301,016

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35. Financial Risk Management (Continued)

(d) Credit rating system and credit quality per class of financial assets

Credit Quality (Continued)

	The Group				
	2007				
	Performing				
Grade description	**High Grade $'000**	**Standard Grade $'000**	**Sub Standard Grade $'000**	**Impaired $'000**	**2007 Total $'000**
Loans and advances to customers:					
Mortgages	4,317,524	1,040,033	-	149,370	5,506,927
Personal loans	4,160,627	2,416,461	-	321,176	6,898,264
Business & government loans	13,323,872	5,658,694	-	153,007	19,135,573
Total	21,802,023	9,115,188	-	623,553	31,540,764

	The Bank				
	2008				
	Performing				
Grade description	**High Grade $'000**	**Standard Grade $'000**	**Sub Standard Grade $'000**	**Impaired $'000**	**2007 Total $'000**
Loans and advances to customers:					
Mortgages	-	-	-	-	-
Personal loans	4,510,148	2,572,668	-	394,950	7,477,766
Business & government loans	14,443,169	6,111,772	-	188,152	20,743,093
Total	18,953,317	8,684,440	-	583,102	28,220,859

35. Financial Risk Management (Continued)

(d) Credit rating system and credit quality per class of financial assets (Continued)

Credit Quality (Continued)

	The Bank				
	2007				
	Performing				
Grade description	**High Grade $'000**	**Standard Grade $'000**	**Sub Standard Grade $'000**	**Impaired $'000**	**2007 Total $'000**
Loans and advances to customers					
Mortgages	-	-	-	-	-
Personal loans	4,160,626	2,416,462	-	321,176	6,898,264
Business & government loans	13,323,872	5,658,694	-	153,007	19,135,573
Total	17,484,498	8,075,156	-	474,183	26,033,837

(e) Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables. Market risk arises from positions in securities and derivatives as well as from the core retail, wealth and corporate businesses. The key risks to the Group are foreign exchange, interest rate and credit spread. Management of market risk within the Group is centralized at the FirstCairbbean International Bank Limited (Parent Group) level which mirrors the way that the hard currencies are managed by Treasury Sales and Trading and although the local currency exposures are managed in their respective geographic regions, these exposures are still monitored, measured and controlled centrally from a market risk perspective.

Policies and Standards:
The Parent Group has a comprehensive policy for market risk management related to its identification and to the measurement monitoring and control of those risks. This policy is reviewed and approved annually by the Risk and Conduct Review Committee. The policy includes the annual approval of the Board limits which is used by the Parent Group to establish explicit risk tolerances expressed in term of the four main risk measures mentioned below. There is a three tiered approach to limits at the Parent Group. The highest level are those set at the Board level, and the second level which includes a "haircut" from the Board limits are the Chief Risk Officer limits. The third level of limit is for the Treasury Sales and Trading Group, which limits traders to specific size of deal, documented through a formal delegation letter and these are monitored.

35. Financial Risk Management (Continued)

(e) Market Risk (Continued)

Process & Control:
Market risk measures are monitored with differing degrees of frequency dependent upon the relative risk and speed with which the risk changes. FX positions, Value at risk (VaR) and certain profit & loss measures are all measured daily whereas others such as stress tests and credit spread sensitivity are performed on either a weekly or monthly basis. Detailed market risk compliance reports are produced and circulated to senior management on a monthly basis and a summary version is reported quarterly to the Parent Group Board.

Risk Measurement:
The Group has four main measures of market risk:

- Outright position, used predominantly for FX,
- Sensitivity to a 1 basis point move in a curve, used for both interest rate and credit spread risk,
- Value at Risk (VaR) measures for both interest rate risk and for non pegged currencies
- Stress scenarios based upon a combination of theoretical situations and historical events.

Position:
This risk measurement is used predominantly for the bank's foreign exchange business. The measure produced and reported daily focuses upon the outright long or short position in each currency from both a pre-structural and post structural basis. Any forward contracts or FX swaps are also incorporated.

Sensitivity:
The main two measures utilized by the Group are the DV01 (delta value of a 1 basis point move, also known as the PV01 or Present value of a 1 basis point move) and the CSDV01 (Credit Spread Delta of a 1 basis point move). The DV01 measure is calculated for a 1 basis point move down in the yield curve. This generates the effect on earnings by individual currency of a parallel shift down in the related yield curve. As curves rarely move in a parallel fashion it is measured across different tenors to ensure that there is not further curve risk of having for example a long position in the short end of the curve offset by a short position in the longer tenors. This is then utilized within the scenario analysis. The sensitivities are calculated using two different approaches a pre structural basis that focuses upon predominantly contractual date positions and also a post structural basis that considers core balances for non contractual maturities as well as assigning risk to capital and non product general ledger accounts as well as considering market specific pricing situations that exist in the region. The post structural methodology although calculated and reported at the Group for a number of years was significantly enhanced during 2008 and has been used as the input into the stress tests and the VaR models from August 2008.

35. Financial Risk Management (Continued)

(e) Market Risk (Continued)

Value at Risk:
The Group's Value at Risk ("VaR") methodology utilizes the tested and validated CIBC parent models. It is a statistically and probability based approach that uses volatilities and correlations to quantify risk into dollar terms. VaR measures the potential loss from the adverse market movements that can occur overnight with a less than one percent probability of occurring under normal market conditions, based on equally weighted historical data. VaR uses numerous risk factors as inputs and is computed through the use of historical volatility of each risk factor and the associated correlations among them, evaluated over a one year period and updated on a regular basis. The use of these historical measures do cause a degree of limitation to its accuracy as it assumes that future price movements will follow a statistical distribution and thus may not clearly predict the future impact. The fact that VaR is an end of day measure and thus does not take into account intra moves is not a significant issue for the Group as neither the trading nor non trading portfolios are that active and the FX is controlled via trade and volume size limits. A further weakness of the VaR measure is that it does not estimate the effects of market variable moves outside of the ninety-nine percent parameter and hence may underestimate losses. To counter this, the Group has various stress measures to calculate potential tail event losses.

Stress testing & scenario analysis:
Stress testing and scenario analysis are designed to add insight to possible outcomes of abnormal (or tail event) market conditions and to highlight where risk concentrations could be a concern.

The Group has two distinct approaches to this. For the hard currency testing it sends its position sensitivity to CIBC and utilizes the suite of measures that the parent company has developed. The stress testing measures the effect on our hard currency portfolio values over a wide range of extreme moves in market prices. The stress testing methodology assumes no actions are taken or are able to be taken during the event to mitigate the risk, reflecting the decreased liquidity that frequently accompanies market shocks. The scenario analysis approach again for the Group's hard currency exposures simulate an impact on earnings of extreme market events up to a period of one quarter. Scenarios are developed using actual historical data during periods of market disruption, or are based upon hypothetical occurrence of economic or political events or natural disasters and are designed by the parent company's economists, business leaders and risk managers. Examples of these would include the 1998 Russian led crisis, Fed Reserve tightening of 1994 and potential effects of revaluation of the Chinese currency. These tests are run on our behalf on a weekly basis.

The local currency stress tests are designed on a similar but smaller scale. For interest rate stresses, Market Risk in conjunction with Treasury Sales & Trading consider the market data over approximately the last ten years and identify the greatest curve or data point moves over both sixty day and single day periods. These are then applied to the existing positions/sensitivities of the Group. This is performed and reported on a monthly basis as they do not tend to change rapidly. For foreign exchange stresses the Group considers what the effect of a currency coming off a peg would have on the earnings of the Group. This is largely judgmental as it has happened so infrequently in the region and it is supplemented by some historical reviews both within the region and in other areas where pegged currency regimes have or do exist.

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35. Financial Risk Management (Continued)

(e) Market Risk (Continued)

Foreign Exchange Risk
Foreign exchange (or currency) risk is defined as the risk that the value of a financial instrument will fluctuate as a result of changes in foreign exchange rates.

Foreign exchange risk is measured, managed and monitored centrally from a Parent Group perspective and the results and analysis is disclosed in the Parent Group's financial statements. Notwithstanding this fact, foreign exchange risk analysis was prepared for Jamaica based on what was disclosed at the Parent Group level. As Parent Group's functional and presentation currency is in USD, the following analysis are all done in USD terms and the foreign exchange exposure and risk would be to currencies other than USD.

The following table highlights the currencies that Jamaica had significant exposures to at each year end in USD equivalent. It also highlights the measures used to monitor, measure and control that risk.

Foreign exchange exposure and risk

Position Long (Short) 2008	VaR 2008	Stressed Loss 2008	Average Position 2008	Average VaR 2008	Position Long (Short) 2007	VaR 2007	Stressed Loss 2007
$,000	$,000	$,000	$,000	$,000	$,000	$,000	$,000
6,886	88	2,746	(1,189)	31	(1,022)	1	82

During 2008 the Parent Group introduced a measure to quantify non trading foreign exchange risk, also referred to as post structural foreign exchange risk. This considers the effect of currency changes on investment in foreign operations, retained earnings and profit derived throughout the year in currencies other than the Parent Group's presentation currency of USD.

New capital policies were also introduced during the year to ensure that both foreign currency retained earnings and current year earnings are converted promptly to reduce the risk.

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarizes the Group's exposure to foreign currency exchange rate risk at October 31.

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35. Financial Risk Management (Continued)

(e) Market Risk (Continued)

Foreign Exchange Risk (Continued)

Concentrations of assets, liabilities and credit commitments:

	The Group							
	2008							
	EC	BDS	CAY	BAH	US	JA	Other	Total
As at 31 October 2008	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**
Assets								
Cash resources	97	3,162	426	-	1,286,822	6,875,088	118,254	8,283,849
Due from banks	(438)	(1,618)	2,058	68	2,662,874	(1,654,504)	856,847	1,865,287
Other assets	-	-	-	-	971,407	1,416,839	(707,149)	1,681,097
Investment securities	-	-	-	-	-	1,121,696	(20,168)	1,101,528
Deferred tax assets	-	-	-	-	-	9,644	-	9,644
Retirement benefit assets	-	-	-	-	-	824,680	-	824,680
Government securities purchased under resale agreements	-	-	-	-	-	262,066	-	262,066
Loans and advances to customers	-	-	-	-	19,495,442	15,065,822	375,366	34,936,630
Property, plant and equipment	-	-	-	-	306	549,629	-	549,935
Derivative financial instruments	-	-	-	-	-	111,352	-	111,352
Total assets	(341)	1,544	2,484	68	24,416,851	24,582,312	623,150	49,626,068
Deposits	-	-	-	-	23,838,702	16,079,310	1,450,955	41,368,967
Derivative financial instruments	-	-	-	-	210,858	-	-	210,858
Debt securities in issue	-	-	-	-	-	499,950	-	499,950
Other borrowed funds	-	-	-	-	451,757	707,274	(511,688)	647,343
Other liabilities	-	-	-	-	-	211,871	-	211,871
Taxation payable	-	-	-	-	-	182,756	-	182,756
Deferred tax liabilities	-	-	-	-	-	57,180	-	57,180
Total liabilities	-	-	-	-	24,501,317	17,738,341	939,267	43,178,925
Net on balance sheet position	(341)	1,544	2,484	68	(84,466)	6,843,971	(316,117)	6,447,143
Credit commitments	-	-	-	-	2,262,493	4,869,117	491	7,132,101

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35. Financial Risk Management (Continued)

(e) Market Risk (Continued)

Foreign Exchange Risk (Continued)

Concentrations of assets, liabilities and credit commitments:

	The Group							
	2007							
	EC	BDS	CAY	BAH	US	JA	Other	Total
As at 31 October 2007	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**
Assets								
Cash resources	55	325	151	55	759,185	3,367,674	654,728	4,782,173
Due from banks	2,753	7,119	1,182	1,622	890,739	(122,342)	724,276	1,505,349
Other assets	-	-	161	-	225,979	21,842	1,207,580	1,455,562
Investment securities	-	-	-	-	380,460	544,395	-	924,855
Deferred tax assets	-	-	-	-	-	4,499	-	4,499
Retirement benefit assets	-	-	-	-	-	829,800	-	829,800
Loans and advances to customers	-	-	-	-	11,585,641	19,823,865	-	31,409,506
Government securities purchased under resale agreements	-	-	-	-	-	212,077	-	212,077
Property, plant and equipment	-	-	-	-	-	502,565	-	502,565
Derivative financial instruments	-	-	-	-	-	44,797	-	44,797
Total assets	2,808	7,444	1,494	1,677	13,842,004	25,229,172	2,586,584	41,671,183
Liabilities								
Deposits	-	-	-	-	13,113,489	16,221,938	4,187,578	33,523,005
Derivative financial instruments	-	-	-	-	81,100	-	-	81,100
Debt securities in issue	-	-	-	-	-	1,502,217	-	1,502,217
Other liabilities	-	-	-	-	598	570,403	-	571,001
Taxation payable	-	-	-	-	-	81,681	-	81,681
Deferred tax liabilities	-	-	-	-	-	218,430	-	218,430
Retirement benefit obligations	-	-	-	-	-	76,090	-	76,090
Total liabilities	-	-	-	-	13,195,187	18,670,759	4,187,578	36,053,524
Net on balance sheet position	2,808	7,444	1,494	1,677	646,817	6,558,413	(1,600,994)	5,617,659
Credit commitments	-	-	-	-	2,149,794	4,058,166	160,685	6,368,645

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35. Financial Risk Management (Continued)

(e) Market Risk (Continued)

Foreign Exchange Risk (Continued)
Analysis was conducted to determine the sensitivity to reasonable possible movements of selected currencies against the Jamaican dollar to which the Group had significant exposure at October 31, 2008 in respect of its assets and liabilities holding all other variables constant. The results revealed that as of October 31, 2008, if the Jamaican dollar had depreciated by 1% against foreign currencies, profit before tax for the year would have been $3,898,000 lower (2007 $4,347,000 higher) and shareholders equity would have been $3,898,000 lower (2007 - $8,152,000 higher).

(f) Liquidity risk

Liquidity risk arises from the Group's general funding activities in the course of managing assets and liabilities. It is the risk of having insufficient cash resources to meet current financial obligations without raising funds at unfavourable rates or selling assets on a forced basis.

The Group's liquidity management strategies seek to maintain sufficient liquid financial resources to continually fund the balance sheet under both normal and stressed market environments.

Process and Control
Actual and anticipated inflows and outflows of funds generated from on and off balance sheet exposures are managed on a daily basis within specific short term asset/liability mismatch limits by operational entity.

Potential cash flows under various stress scenarios are modelled using balance sheet positions. On a consolidated basis, prescribed liquidity levels under a selected benchmark stress scenario are maintained for a minimum time horizon.

Risk Measurement
The Group's liquidity measurement system provides daily liquidity risk exposure reports for monitoring and review by the Treasury department. The Group's Assets and Liabilities Committee – ALCO is responsible for recommending the liquidity ratio targets, the stress scenarios and the contingency funding plans. The Group's Board of Directors is ultimately responsible for the Group's liquidity.

The Group manages liquidity risk by maintaining a significant base of core customer deposits, liquid assets and access to contingent funding as part of its management of risk. Each operational entity has internally established specific liquidity requirements that are approved by the Group ALCO and reviewed annually.

The table below analyses assets, liabilities and off balance sheet positions of the Group and the Bank into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

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35. Financial Risk Management (Continued)

(f) Liquidity risk (continued)

	The Group					
	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	No Specific Maturity	Total
	$'000	$'000	$'000	$'000	$'000	$'000
As at 31 October 2008						
Cash and balances with Central Bank	8,283,849	-	-	-	-	8,283,849
Due from other banks	1,865,287	-	-	-	-	1,865,287
Derivative Financial Instruments	111,352	-	-	-	-	111,352
Other assets	1,681,097	-	-	-	-	1,681,097
Investment securities	107,836	70,728	500,000	422,964	-	1,101,528
Government securities purchased under resale agreements	121,105	140,961	-	-	-	262,066
Loans and advances to customers	4,226,639	4,632,587	6,918,303	19,159,101	-	34,936,630
Property, plant and equipment	-	-	549,935	-	-	549,935
Deferred tax assets	-	-	9,644	-	-	9,644
Retirement benefit asset	-	-	-	824,680	-	824,680
Total assets	16,397,165	4,844,276	7,977,882	20,406,745		49,626,068
Customer deposits	28,743,253	11,075,506	1,299,132	251,076	-	41,368,967
Derivative financial instruments	210,858	-	-		-	210,858
Other liabilities	647,343	-	-		-	647,343
Taxation payable	211,871	-	-		-	211,871
Deferred tax liabilities	-	-	-	182,756	-	182,756
Debt securities in issue	-	-	499,950	-	-	499,950
Retirement benefit obligation	-	-	-	57,180	-	57,180
Total liabilities	29,813,325	11,075,506	1,799,082	491,012	-	43,178,925
Net on balance sheet position	(13,416,160)	(6,231,230)	6,178,800	19,915,733	-	6,447,143
Off balance sheet position	5,820,739	1,133,055	41,660	136,647	-	7,132,101
As at 31 October 2007						
Total assets	14,307,774	3,714,678	7,064,074	16,584,657		41,671,183
Total liabilities	27,022,220	8,228,853	96,755	705,696	-	36,053,524
Net on balance sheet position	(12,714,446)	(4,514,175)	6,967,319	15,878,961	-	5,617,659
Off balance sheet position	4,249,984	1,241,002	737,316	140,343	-	6,368,645

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35. Financial Risk Management (Continued)

(f) Liquidity risk (continued)

	The Bank					
	1 to 3 Months	3 to12 Months	1 to 5 Years	Over 5 Years	No Specific Maturity	Total
	$'000	$'000	$'000	$'000	$'000	$'000
As at 31 October 2008						
Cash and balances with Central Bank	8,168,013	-	-	-	-	8,168,013
Due from other banks	5,876,065	-	-	-	-	5,876,065
Derivative financial instruments	111,352	-	-	-	-	111,352
Other assets	1,389,154	-	-	-	-	1,389,154
Investment securities	107,836	70,728	500,000	786,964	-	1,465,528
Government securities purchased under resale agreements	43,285	12,326	-	-	-	55,611
Loans and advances to customers	4,035,707	4,537,566	6,807,579	12,544,841	-	27,925,693
Property, plant and equipment	-	-	547,867	-	-	547,867
Retirement benefit asset	-	-	-	806,060	-	806,060
Total assets	19,731,412	4,620,620	7,855,446	14,137,865	-	46,345,343
Customer deposits	29,259,213	9,071,481	163,284	248,600	-	38,742,578
Derivative financial instruments	210,858	-	-		-	210,858
Other liabilities	547,651	-	-	-	-	547,651
Taxation payable	204,479	-	-	-	-	204,479
Deferred tax liabilities	-	-	-	182,756	-	182,756
Debt securities in issue	-	-	499,950	-	-	499,950
Retirement benefit obligation	-	-	-	54,720	-	54,720
Total liabilities	30,222,201	9,071,481	663,234	486,076	-	40,442,992
Net on balance sheet position	(10,490,789)	(4,450,861)	7,192,212	13,651,789	-	5,902,351
Off balance sheet position	4,103,149	1,133,055	41,660	136,647	-	5,414,511
As at 31 October 2007						
Total assets	16,890,840	3,479,151	6,980,672	11,992,217	-	39,342,880
Total liabilities	25,332,519	8,057,260	94,688	702,806	-	34,187,273
Net on balance sheet position	(8,441,679)	(4,578,109)	6,885,984	11,289,411	-	5,155,607
Off balance sheet position	2,818,205	1,241,002	737,316	140,343	-	4,936,866

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35. Financial Risk Management (Continued)

(g) Interest rate risk

Interest rate risk in the trading book arises from the changes in interest rate affecting the future cash flows of the financial instruments in the outsourced investment portfolio. The investment manager hedges most of this risk as the particular strategy that they follow is a relative value approach as opposed to an outright interest rate call. Non-trading interest rate risk consists primarily of a combination of the risks inherent in asset and liability management activities and the activities of the core retail, wealth and corporate businesses. Interest rate risk results from differences in the maturities or re-pricing dates of assets both on and off balance sheet.

Interest rate risk is measured, managed and monitored centrally from a Parent Group perspective and the results and analysis is disclosed in the Parent Group's financial statements. Notwithstanding this fact, interest rate risk analysis was prepared for Jamaica based on what was disclosed at the Parent Group level. As Parent Group's functional and presentational currency is in USD, the following analysis are all done in USD terms and the foreign exposure and risk would be to currencies other than the USD.

The following table shows the potential impact of an immediate 100 basis point increase or decrease in interest rates over the next 12 months in USD equivalent.

	2008	2007
100 bp increase in interest rates	$'000	$'000
Impact on net interest income	(400)	(810)
Impact on shareholders' equity	(1,120)	50
100 bp decrease in interest rates		
Impact on net interest income	400	810
Impact on shareholders' equity	1,120	(50)

The Parent Group approved a post structural interest rate assumption approach as at September 30, 2008 and as a result, the measurement, limit monitoring and control were transferred to this approach. This is shown in the following table in USD equivalent.

	Post Structural DV01	Contractual DV01	VaR	60 day Stressed Loss
	$'000	$'000	$'000	$'000
2008	(11)	4	47	2,118
2007	(18)	481	12	663

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35. Financial Risk Management (Continued)

(g) Interest rate risk (continued)

Derivatives held for ALM purposes

Where derivatives are held as hedges against either sizeable loans from core businesses or to reduce interest risk exposure to USD denominated local bond issues and the transactions meet the accounting criteria then the Group applies hedge accounting. Derivative hedges that do not qualify for hedge accounting treatment are considered to be economic hedges and are recorded at fair value on the balance sheet with changes in the fair value recognised through profit or loss. It should be noted that these are only interest rate risk hedges and other risks such as credit spread on the underlying still exist and are measured separately.

(h) Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Limits are set on the level of mismatch of interest rate repricing that may be undertaken, which are monitored on an ongoing basis.

Expected repricing and maturity dates do not differ significantly from the contract dates, except for the maturity of deposits up to 1 month, which represent balances on current accounts considered by the Group as a relatively stable core source of funding of its operations.

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35. Financial Risk Management (Continued)

(h) Cash flow and fair value interest rate risk

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

	The Group						
	Immediately Rate Sensitive[1]	Within 3 Months	3 to12 Months	1 to 5 Years	Over 5 Years	Non Rate Sensitive	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
As at 31 October 2008							
Cash and balances with Central Bank	834,153	1,937,776	3,525,000	-	-	1,986,920	8,283,849
Due from other banks	54,410	497,613	806,738	-	-	506,526	1,865,287
Derivative financial instruments	-	111,352	-	-	-	-	111,352
Other assets	-	-	-	-	-	1,681,097	1,681,097
Investments	-	857,836	50,728	20,000	161,700	11,264	1,101,528
Government securities purchased under resale agreements	-	122,260	139,806	-	-	-	262,066
Loans and advances to customers	2,249,827	9,191,986	3,937,652	6,120,078	13,402,318	34,769	34,936,630
Property, plant and equipment	-	-	-	-	-	549,935	549,935
Deferred tax assets	-	-	-	-	-	9,644	9,644
Retirement benefit asset	-	-	-	-	-	824,680	824,680
Total assets	3,138,390	12,718,823	8,459,924	6,140,078	13,564,018	5,604,835	49,626,068
Customer deposits	8,016,944	23,169,136	9,761,780	173,923	247,184	-	41,368,967
Derivative financial instruments	-	210,858	-	-	-	-	210,858
Other liabilities	-	-	-	-	-	647,343	647,343
Taxation payable	-	-	-	-	-	211,871	211,871
Deferred tax liabilities	-	-	-	-	-	182,756	182,756
Debt securities in issue	-	-	499,950	-	-	-	499,950
Retirement benefit obligation	-	-	-	-		57,180	57,180
Total liabilities	8,016,944	23,379,994	10,261,730	173,923	247,184	1,099,150	43,178,925
Total interest rate sensitivity gap	(4,878,554)	(10,661,171)	(1,801,806)	5,966,155	13,316,834	4,505,685	6,447,143
Cumulative gap	(4,878,554)	(15,539,725)	(17,341,531)	(11,375,376)	1,941,458	6,447,143	-
As at 31 October 2007							
Total interest rate sensitivity gap	(1,237,020)	(14,782,155)	(4,422,387)	6,460,340	15,336,385	4,262,496	5,617,659
Cumulative gap	(1,237,020)	(16,019,175)	(20,441,562)	(13,981,222)	1,355,163	5,617,659	-

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35. Financial Risk Management (Continued)

(h) Cash flow and fair value interest rate risk (continued)

The Bank

	Immediately Rate Sensitive[1]	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non Rate Sensitive	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
As at 31 October 2008							
Cash and balances with Central Bank	812,413	1,937,776	3,525,000	-	-	1,892,824	8,168,013
Due from other banks	-	4,562,801	806,738	-	-	506,526	5,876,065
Derivative financial instruments	-	111,352	-	-	-	-	111,352
Other assets	-	-	-	-	-	1,389,154	1,389,154
Investments	-	857,836	50,728	20,000	161,700	375,264	1,465,528
Government securities purchased under resale agreements	-	44,441	11,170	-	-	-	55,611
Loans and advances to customers	2,249,827	2,215,818	3,937,652	6,120,078	13,402,318	-	27,925,693
Property, plant and equipment	-	-	-	-	-	547,867	547,867
Retirement benefit asset	-	-	-	-	-	806,060	806,060
Total assets	3,062,240	9,730,024	8,331,288	6,140,078	13,564,018	5,517,695	46,345,343
Customer deposits	7,342,855	22,355,158	8,625,932	171,448	247,185	-	38,742,578
Debt securities in issue	-	-	499,950	-	-	-	499,950
Other liabilities	-	-	-	-	-	547,651	547,651
Taxation payable	-	-	-			204,479	204,479
Derivative financial instruments	-	210,858	-	-	-	-	210,858
Deferred tax liabilities	-	-	-	-	-	182,756	182,756
Retirement benefit obligation	-	-	-	-	-	54,720	54,720
Total liabilities	7,342,855	22,566,016	9,125,882	171,448	247,185	989,606	40,442,992
Total interest rate sensitivity gap	(4,280,615)	(12,835,992)	(794,594)	5,968,630	13,316,833	4,528,089	5,902,351
Cumulative gap	(4,280,615)	(17,116,607)	(17,911,201)	(11,942,571)	1,374,262	5,902,351	
As at 31 October 2007							
Total interest rate sensitivity gap	(69,149)	(11,594,065)	(4,486,321)	6,386,254	10,405,275	4,513,613	5,155,607
Cumulative gap	(69,149)	(11,663,214)	(16,149,535)	(9,763,281)	641,994	5,155,607	-

[1] This represents those financial instruments whose interest rates change concurrently with a change in the underlying interest rate basis, for example base rate loans.
[2] This includes financial instruments such as equity investments.
[3] This includes impaired loans.
[4] This includes non-financial instruments.

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35. Financial Risk Management (Continued)

(h) Cash flow and fair value interest rate risk (continued)

Average effective yields by the earlier of the contractual re-pricing or maturity dates:

	The Group					
	2008					
	Immediately Rate Sensitive %	Within 3 Months %	3 to 12 Months %	1 to 5 Years %	Over 5 Years %	Total %
Cash and balances with Central Bank	8.29	8.22	19.21	-	-	11.08
Due from other banks	-	5.12	3.03	-	-	5.57
Investments[(1)]	-	17.35	15.54	14.88	14.63	16.80
Government securities purchased under resale agreements	-	14.52	14.70	-	-	14.64
Loans to customers [(2)]	33.29	10.37	8.13	14.69	10.33	12.62
Customer deposits[(3)]	0.94	4.47	5.58	10.92	9.60	10.01

	The Group					
	2007					
	Immediately Rate Sensitive %	Within 3 Months %	3 to 12 Months %	1 to 5 Years %	Over 5 Years %	Total %
Cash and balances with Central Bank	3.98	12.08	14.00	-	-	5.08
Due from other banks	0.13	-	-	-	-	0.13
Investments[(1)] - available-for-sale	-	11.83	14.06	14.26	14.63	13.11
Government securities purchased under resale agreements	-	11.97	12.00	-	-	11.99
Loans to customers [(2)]	24.36	9.72	13.28	14.82	10.33	9.25
Customer deposits[(3)]	5.97	12.79	6.90	18.67	9.95	11.08

(1) Yields are based on book values and contractual interest rates adjusted for amortisation of premiums and discounts.
(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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35. Financial Risk Management (Continued)

(h) Cash flow and fair value Interest rate risk (continued)

Average effective yields by the earlier of the contractual re-pricing or maturity dates:

	The Bank 2008					
	Immediately Rate Sensitive %	Within 3 Months %	3 to 12 Months %	1 to 5 Years %	Over 5 Years %	Total %
Cash and balances with Central Bank	9.00	8.22	19.21	-	-	11.23
Due from other banks	-	5.12	3.03	-	-	5.57
Investments[1]	-	17.35	15.54	14.88	14.63	16.80
Government securities purchased under resale agreements	-	14.57	14.75	-	-	14.60
Loans to customers [2]	33.29	8.21	8.13	14.69	10.33	12.87
Customer deposits[3]	1.03	3.50	4.80	10.94	9.60	9.93

	The Bank 2007					
	Immediately Rate Sensitive %	Within 3 Months %	3 to 12 Months %	1 to 5 Years %	Over 5 Years %	Total %
Cash and balances with Central Bank	3.98	11.71	14.00	-	-	5.05
Due from other banks	0.09	11.29	-	-	-	6.23
Investments[1] - available-for-sale	-	11.83	14.06	14.26	14.63	13.18
Government securities purchased under resale agreements	-	11.98	12.00	-	-	11.98
Loans to customers [2]	24.36	9.56	13.37	14.83	9.51	8.66
Customer deposits[3]	5.49	11.62	6.82	18.90	9.95	10.29

(i) 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. Market price is used to determine fair value where an active market exists as it is the best evidence of the fair value of a financial instrument. However, market prices are not available for a significant number of the financial assets and liabilities held and issued by the Group. Therefore, for financial instruments where no market price is available, the fair values presented have been estimated using present value or other estimation and valuation techniques based on market conditions existing at balance sheet dates. The values derived from applying these techniques are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates.

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35. Financial Risk Management (Continued)

(i) Fair value of financial instruments (continued)

The following tables set out the fair values of the financial instruments of the Group and the Bank not shown on the balance sheet at fair value:

	The Group			
	Carrying value 2008 $'000	Fair value 2008 $'000	Carrying value 2007 $'000	Fair value 2007 $'000
Financial Assets				
Investments – held to maturity	-	-	-	-
Government securities purchased under resale agreements	262,066	261,670	212,077	275,704

	The Bank			
	Carrying value 2008 $'000	Fair value 2008 $'000	Carrying value 2007 $'000	Fair value 2007 $'000
Financial Assets				
Investments – held to maturity			-	-
Investments in subsidiaries	364,000	908,792	364,000	826,051
Government securities purchased under resale agreements	55,611	55,575	25,272	25,220

The following methods and assumptions have been used:

(i) **Loans and advances to banks**
Loans and advances to banks include inter-bank placements and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity. Their carrying values approximate their fair values.

(ii) **Loans and advances to customers**
The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. The balances are net of specific and other provisions for impairment and their net carrying amounts reflect their fair values.

(iii) **Investment securities**
Fair values for held-to-maturity investments were based on market prices or broker/dealer price quotations. Where this information was not available, fair value was estimated using quoted market prices for securities with similar credit, maturity and yield characteristics. Where fair values still could not be measured reliably, these securities were carried at cost less impairment. Available-for-sale securities are measured at fair value.

35. Financial Risk Management (Continued)

(iv) Investments in subsidiary
The fair value of the Bank's investment in the subsidiary has been determined based on the carrying value of the subsidiary's equity.

(v) Customer deposits
The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

36. Critical Accounting Judgements and Estimates in Applying Accounting Policies

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and judgements that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment losses on loans and advances
The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of income, 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 a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Retirement benefit obligations
Accounting for some retirement benefit obligations requires the use of actuarial techniques to make a reliable estimate of the amount of benefit that employees have earned in return for their service in the current and prior periods. These actuarial assumptions are based on managements' best estimates of the variables that will determine the ultimate cost of providing post-employment benefits and comprise both demographic and financial assumptions. Variations in the financial assumptions can cause material adjustments in the next financial year, if it is determined that the actual experience differed from the estimate.

(c) Held-to-maturity investments
The Group classifies certain investments with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances, such as selling an insignificant amount close to maturity, it will be required to reclassify the entire class as available-for-sale and record the investments at their fair value.

36. Critical Accounting Judgements and Estimates in Applying Accounting Policies (Continued)

(d) Property, plant and equipment

Management exercises judgment in determining whether costs incurred can accrue significant future economic benefits to the Group to enable the value to be treated as a capital expense.

Further judgment is applied in the annual review of the useful lives of all categories of property, plant and equipment and the resulting depreciation determined thereon.