Audited Financial Statements

The Bank of Nova Scotia Jamaica Limited

KPMG
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INDEPENDENT AUDITORS' REPORT

To the Members of
THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Report on the Financial Statements

We have audited the financial statements of The Bank of Nova Scotia Jamaica Limited ("the Bank") and the consolidated financial statements of the Bank and its subsidiaries ("the Group"), set out on pages 3 to 55, which comprise the Group's and Bank's balance sheets as at October 31, 2009, the Group's and Bank's statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

Auditors' Responsibility
Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether or not the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls 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 controls. 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 October 31, 2009, 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 the Jamaican Companies Act.

Report on other matters as required by 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, proper returns have been received for branches not visited by us and the financial statements are in agreement with the accounting records and returns, and give the information required by the Jamaican Companies Act in the manner required.

KPMG

November 26, 2009

KPMG, a Jamaican partnership and a member firm of KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

Elizabeth A. Jones, Caryl A. Fenton, R. Tarun Handa, Patrick A. Chin, Patricia O. Dailey-Smith, Linroy J. Marshall, Cynthia L. Lawrence, Rajan Trehan, Norman O. Rainford, Nigel R. Chambers

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Statement of Consolidated Revenue and Expenses

Year ended 31 October 2009

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2009	2008
Net interest income and other revenue			
Interest from loans and deposits with banks		20,826,337	18,293,646
Interest from securities		11,305,653	7,563,615
Total interest income	6	32,131,990	25,857,261
Interest expense	6	(6,159,435)	(5,591,074)
Net interest income		25,972,555	20,266,187
Impairment losses on loans	23	(1,800,819)	(756,220)
Net interest income after impairment losses on loans		24,171,736	19,509,967
Fee and commission income	7	4,543,656	4,584,301
Fee and commission expense	7	(1,141,041)	(1,061,258)
Net fee and commission income		3,402,615	3,523,043
Net foreign exchange trading income	8	979,008	966,712
Net insurance premium income	9	765,620	754,538
Other revenue	10	56,597	461,369
		822,217	1,215,907
		29,375,576	25,215,629
Expenses			
Salaries, pension contributions and other staff benefits	11	6,890,264	5,811,506
Property expenses, including depreciation		2,546,537	2,194,604
Change in policyholders' benefits and reserves	13	4,220,231	2,838,416
Other operating expenses		2,747,949	2,554,637
	13	16,404,981	13,399,163
Profit before taxation	14	12,970,595	11,816,466
Taxation	15	(3,318,814)	(3,196,882)
Profit for the year		9,651,781	8,619,584

Consolidated Balance Sheet

31 October 2009

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2009	2008
ASSETS			
Cash resources			
Notes and coins of, deposits with, and money at call at, Bank of Jamaica	17	47,733,280	40,082,448
Government and bank notes other than Jamaica		301,934	343,493
Amounts due from other banks	18	8,318,663	13,339,371
Accounts with parent and fellow subsidiaries	19	2,058,103	1,655,080
		58,411,980	55,420,392
Government securities purchased under resale agreements	21	692,401	523,392
Pledged assets	45	2,701,541	1,301,453
Loans, after allowance for impairment losses	22	89,340,846	86,152,384
Investment securities	24		
Available-for-sale		25,843,184	19,151,961
Held-to-maturity		46,576,957	35,941,612
		72,420,141	55,093,573
Other assets			
Customers' liabilities under acceptances, guarantees and letters of credit		8,641,071	6,228,186
Taxation recoverable		702,909	892,451
Deferred taxation	33	-	178
Sundry assets	25	353,021	639,162
Property, plant and equipment	26	3,357,222	2,807,769
Retirement benefit asset	27	5,827,140	5,402,224
		18,881,363	15,969,970
		242,448,272	214,461,164

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Consolidated Balance Sheet (continued)

31 October 2009

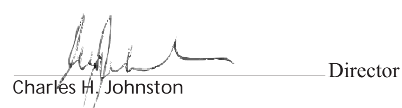
(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2009	2008
LIABILITIES			
Deposits			
Deposits by the public	28	139,233,073	126,917,903
Amounts due to other banks and financial institutions	29	2,842,839	2,386,319
Amounts due to ultimate parent company	30	8,316,825	7,003,706
Amounts due to fellow subsidiaries	31	2,331,931	2,302,225
		152,724,668	138,610,153
Other liabilities			
Cheques and other instruments in transit		2,317,503	2,524,687
Acceptances, guarantees and letters of credit		8,641,071	6,228,186
Securities sold under repurchase agreements		267,356	-
Redeemable preference shares	34	100,000	100,000
Other liabilities	32	2,138,217	1,142,071
Taxation payable		338,903	1,078,951
Deferred tax liabilities	33	2,210,068	1,567,918
Retirement benefit obligations	27	1,132,488	930,576
		17,145,606	13,572,389
Policyholders' liabilities	12	34,407,877	30,561,418
STOCKHOLDERS' EQUITY			
Share capital	34	2,927,232	2,927,232
Reserve fund	35	3,158,481	3,158,481
Retained earnings reserve	36	10,902,091	8,702,091
Cumulative remeasurement result from available-for-sale financial assets	37	(358,111)	(1,023,193)
Capital reserve	38	9,383	9,383
Loan loss reserve	39	1,709,767	1,295,232
Other reserves	40	2,928	2,928
Unappropriated profits		19,818,350	16,645,050
		38,170,121	31,717,204
		242,448,272	214,461,164

The financial statements on pages 3 to 55 were approved for issue by the Board of Directors on November 26, 2009 and signed on its behalf by:

Robert H. Pitfield — Director

Bruce F. Bowen — Director



Charles H. Johnston — Director

Julie Thompson-James — Secretary

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Statement of Changes in Consolidated Stockholders' Equity

Year ended 31 October 2009

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	Share capital	Reserve fund	Retained earnings reserve	Capital reserves	Cumulative remeasurement result from available for sale financial assets	Loan loss reserve	Other reserves	Unappropriated profits	Total
Balances at October 31, 2007		2,927,232	3,158,481	5,992,902	1,659,189	110,289	1,017,136	16,751	12,920,345	27,802,325
Unrealised loss on available-for-sale investments, net of taxes		-	-	-	-	(1,127,978)	-	-	-	(1,127,978)*
Realised gains on available-for-sale securities transferred to statement of revenue and expenses		-	-	-	-	(5,504)	-	-	-	(5,504)
Profit for the year		-	-	-	-	-	-	-	8,619,584	8,619,584*
Transfer of reserve relating to liquidation of subsidiary		-	-	-	9,383	-	-	(4,823)	(4,560)	-
Loan loss reserve transfer		-	-	-	-	-	278,096	-	(278,096)	-
Transfer of reserve relating to subsidiary			-	-	-	-	-	(9,000)	9,000	-
Transfer to retained earnings reserve		-	-	2,709,189	(1,659,189)	-	-	-	(1,050,000)	-
Dividends paid	48	-	-	-	-	-	-	-	(3,571,223)	(3,571,223)
Movement for the year		-	-	2,709,189	(1,649,806)	(1,133,482)	278,096	(13,823)	3,724,705	3,914,879
Balances at October 31, 2008		2,927,232	3,158,481	8,702,091	9,383	(1,023,193)	1,295,232	2,928	16,645,050	31,717,204
Unrealised loss on available-for-sale investments, net of taxes		-	-	-	-	616,691	-	-	-	616,691*
Realised gains on available-for-sale securities transferred to statement of revenue and expenses		-	-	-	-	48,391	-	-	-	48,391
Profit for the year		-	-	-	-	-	-	-	9,651,781	9,651,781*
Loan loss reserve transfer		-	-	-	-	-	414,535		(414,535)	-
Transfer to retained earnings reserve		-	-	2,200,000	-	-	-	-	(2,200,000)	-
Dividends paid	48	-	-	-	-	-	-	-	(3,863,946)	(3,863,946)
Movement for the year		-	-	2,200,000	-	665,082	414,535	-	3,173,300	6,452,917
Balances at October 31, 2009		2,927,232	3,158,481	10,902,091	9,383	(358,111)	1,709,767	2,928	19,818,350	38,170,121

* Total recognised income and expenses for the year $10,268,472 (2008: $7,491,606)

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Statement of Consolidated Cash Flows

Year ended 31 October 2009

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2009	2008
Cash flows from operating activities			
Profit for the year		9,651,781	8,619,584
Items not affecting cash:			
Interest income	6	(32,131,990)	(25,857,261)
Interest expense	6	6,159,435	5,591,074
Taxation charge	15	3,318,814	3,196,882
Depreciation	26	345,707	313,339
Impairment losses on loans	23	1,800,819	756,220
Loss/(gain) on sale of property, plant and equipment		338	(3,396)
Write-offs of property, plant and equipment	26	-	1,793
Gain on Visa shares	10	(53,308)	(456,612)
		(10,908,404)	(7,838,377)
Changes in operating assets and liabilities			
Loans		(4,964,332)	(13,707,178)
Retirement benefits		(223,003)	(354,802)
Deposits by the public		12,277,170	(884,314)
Policyholders' liabilities		3,846,457	3,546,650
Other assets, net		286,139	(501,465)
Other liabilities, net		996,146	53,550
Due to parent company and fellow subsidiaries		1,328,961	4,009,484
Amounts due from other banks		7,038,073	(4,073,394)
Accounts with parent and fellow subsidiaries		(2,051,498)	(885,822)
Taxation recoverable		189,543	360,060
Amounts due to other banks and financial institutions		456,520	325,264
Deposits with Bank of Jamaica maturing after 90 days		207,281	(9,623,337)
Statutory reserves at Bank of Jamaica		(6,759,038)	(432,537)
Securities sold under repurchase agreements		267,311	(234,310)
		1,987,326	(30,240,528)
Interest received		30,257,882	24,717,520
Interest paid		(6,107,527)	(5,643,962)
Taxation paid		(3,709,899)	(2,556,093)
Net cash provided by/(used in)operating activities		22,427,782	(13,723,063)
Cash flows from investing activities			
Investment securities		(14,985,052)	(62,836)
Government securities purchased under resale agreements		(166,621)	927,043
Pledged assets		(1,400,088)	39,532
Proceeds from the sale of property, plant and equipment		322	7,071
Net proceeds on liquidation of subsidiary		-	17,758
Purchase of property, plant and equipment	26	(895,819)	(572,735)
Net proceeds from sale of shares		126,197	249,030
Net cash (used in)/provided by investing activities		(17,321,061)	604,863
Net cash flows from operating and investing activities		5,106,721	(13,118,200)

Statement of Consolidated Cash Flows (continued)

Year ended 31 October 2009

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2009	2008
Cash flows from operating and investing activities		5,106,721	(13,118,200)
Cash flows from financing activity			
Dividends paid	48	(3,863,946)	(3,571,223)
Effect of exchange rate changes on cash and cash equivalents		1,791,930	286,957
Net increase/(decrease) in cash and cash equivalents		3,034,705	(16,402,466)
Cash and cash equivalents at beginning of year		10,824,315	27,226,781
CASH AND CASH EQUIVALENTS AT END OF YEAR	20	13,859,020	10,824,315

Statement of Revenue and Expenses

Year ended 31 October 2009

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2009	2008
Net interest income and other revenue			
Interest from loans and deposits with banks		18,443,831	16,347,484
Income from securities		4,151,504	3,217,375
Total interest income	6	22,595,335	19,564,859
Interest expense	6	(5,748,064)	(5,173,528)
Net interest income		16,847,271	14,391,331
Impairment losses on loans	23	(1,799,143)	(746,555)
Net interest income after impairment losses on loans		15,048,128	13,644,776
Fee and commission income	7	4,489,173	4,539,314
Fee and commission expense	7	(1,141,041)	(1,061,258)
Net fee and commission income		3,348,132	3,478,056
Net foreign exchange trading income	8	978,992	966,336
Other revenue	10	56,380	477,717
		1,035,372	1,444,053
		19,431,632	18,566,885
Expenses			
Salaries, pension contributions and other staff benefits	11	6,452,728	5,451,940
Property expenses, including depreciation		2,506,391	2,158,392
Other operating expenses		2,436,157	2,355,059
	13	11,395,276	9,965,391
Profit before taxation	14	8,036,356	8,601,494
Taxation	15	(2,411,952)	(2,646,278)
Profit for the year		5,624,404	5,955,216

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Balance Sheet

31 October 2009

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2009	2008
ASSETS			
Cash resources			
Notes and coins of, deposit with, and money at call at, Bank of Jamaica	17	39,552,911	30,319,327
Government and bank notes other than Jamaica		301,935	343,493
Amounts due from other banks	18	8,287,378	13,283,820
Accounts with parent and fellow subsidiaries	19	2,058,103	1,655,080
		50,200,327	45,601,720
Government securities purchased under resale agreements	21	1,557,259	407,920
Pledged assets	45	2,701,541	1,301,453
Loans, after allowance for impairment losses	22	82,554,936	79,996,715
Investment securities	24		
Available-for-sale		19,416,832	14,098,874
Held-to-maturity		11,669,863	10,096,345
		31,086,695	24,195,219
Investment in subsidiaries		242,093	242,093
Other assets			
Customers' liabilities under acceptances, guarantees and letters of credit		8,259,126	5,835,740
Sundry assets	25	351,861	638,734
Property, plant and equipment	26	3,299,800	2,750,330
Retirement benefit asset	27	5,827,140	5,402,224
		17,737,927	14,627,028
		186,080,778	166,372,148

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Balance Sheet (continued)

31 October 2009

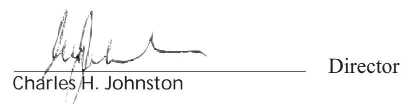
(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2009	2008
LIABILITIES			
Deposits			
Deposits by the public	28	134,960,101	122,331,269
Amounts due to other banks and financial institutions	29	1,739,661	1,504,015
Amounts due to ultimate parent company	30	8,316,825	7,003,706
Amounts due to subsidiaries	31	317,672	228,129
Amounts due to fellow subsidiaries	31	2,331,931	2,302,225
		147,666,190	133,369,344
Other liabilities			
Cheques and other instruments in transit		2,383,509	2,872,257
Acceptances, guarantees and letters of credit		8,259,126	5,835,740
Securities sold under repurchase agreements		267,356	-
Redeemable preference shares	34	100,000	100,000
Other liabilities	32	2,059,455	1,095,376
Taxation payable		309,767	1,013,877
Deferred tax liabilities	33	1,838,938	1,395,154
Retirement benefit obligations	27	1,132,488	930,576
		16,350,639	13,242,980
STOCKHOLDERS' EQUITY			
Share capital	34	2,927,232	2,927,232
Reserve fund	35	2,930,616	2,930,616
Retained earnings reserve	36	9,501,341	8,301,341
Cumulative remeasurement result from available-for-sale financial assets	37	(426,729)	(970,396)
Capital reserve	38	9,383	9,383
Loan loss reserve	39	1,596,943	1,248,712
Unappropriated profits		5,525,163	5,312,936
		22,063,949	19,759,824
		186,080,778	166,372,148

The financial statements on pages 3 to 55 were approved for issue by the Board of Directors on November 26, 2009 and signed on its behalf by:

Robert H. Pitfield — Director

Bruce F. Bowen — Director



Charles H. Johnston — Director

Julie Thompson-James — Secretary

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Statement of Changes in Stockholders' Equity

Year ended 31 October 2009

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	Share capital	Reserve fund	Retained earnings reserve	Capital reserve	Cumulative remeasurement result from available for sale financial assets	Loan loss reserve	Unappropriated profits	Total
Balances at October 31, 2007		2,927,232	2,930,616	5,592,152	1,659,189	137,442	983,418	4,253,620	18,483,669
Unrealised loss on available-for-sale investments, net of taxes		-	-	-	-	(1,102,222)	-	-	(1,102,222)*
Realised gains on available-for-sale securities, transferred to statement of revenue and expenses		-	-	-	-	(5,616)	-	-	(5,616)
Profit for the year		-	-	-	-	-	-	5,955,216	5,955,216*
Transfer of reserves relating to liquidation of subsidiary		-	-	-	9,383	-	-	(9,383)	-
Dividends paid	48	-	-	-	-	-	-	(3,571,223)	(3,571,223)
Retained earnings transfer		-	-	2,709,189	(1,659,189)	-	-	(1,050,000)	-
Loan loss reserve transfer		-	-	-	-	-	265,294	(265,294)	-
Movement for the year		-	-	2,709,189	(1,649,806)	(1,107,838)	265,294	1,059,316	1,276,155
Balances at October 31, 2008		2,927,232	2,930,616	8,301,341	9,383	(970,396)	1,248,712	5,312,936	19,759,824
Unrealised loss on available-for-sale investments, net of taxes		-	-	-	-	541,276	-	-	541,276*
Realised gains on available-for-sale securities, transferred to statement of revenue and expenses		-	-	-	-	2,391	-	-	2,391
Profit for the year		-	-	-	-	-	-	5,624,404	5,624,404*
Dividends paid	48	-	-	-	-	-	-	(3,863,946)	(3,863,946)
Retained earnings transfer		-	-	1,200,000	-	-	-	(1,200,000)	-
Loan loss reserve transfer		-	-	-	-	-	348,231	(348,231)	-
Movement for the year		-	-	1,200,000	-	543,667	348,231	212,227	2,304,125
Balances at October 31, 2009		2,927,232	2,930,616	9,501,341	9,383	(426,729)	1,596,943	5,525,163	22,063,949

* Total recognised income and expenses for the year $6,165,680 (2008: $4,852,994)

Statement of Cash Flows

Year ended 31 October 2009

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2009	2008
Cash flows from operating activities			
Profit for the year		5,624,404	5,955,216
Items not affecting cash:			
Interest income	6	(22,595,335)	(19,564,859)
Interest expense	6	5,748,064	5,173,528
Taxation charge	15	2,411,952	2,646,278
Depreciation	26	337,421	306,253
Impairment losses on loans	23	1,799,143	746,555
(Loss)/gain on sale of property, plant and equipment		554	(3,396)
Gain on liquidation of subsidiary		-	(9,383)
Gain on Visa shares	10	(53,308)	(456,612)
Write off of property, plant and equipment		-	1,063
		(6,727,105)	(5,205,357)
Changes in operating assets and liabilities			
Loans		(4,334,419)	(12,528,307)
Retirement benefits		(223,004)	(354,801)
Deposits by the public		12,588,781	(967,209)
Statutory reserves at Bank of Jamaica		(6,763,226)	(431,343)
Deposits with Bank of Jamaica maturing after ninety days		(2,490,548)	(7,398,793)
Other liabilities, net		964,078	40,259
Due to parent company and fellow subsidiaries		1,418,504	4,073,485
Amounts due from other banks		7,013,673	(4,029,401)
Amounts with parents and fellow subsidiaries		(2,051,423)	(885,066)
Amounts due to other banks and financial institutions		235,646	(89,256)
Other assets, net		286,874	(500,081)
Securities sold under repurchase agreements		267,311	(234,310)
		185,142	(28,510,180)
Interest received		21,771,762	18,941,640
Interest paid		(5,694,104)	(5,230,218)
Taxation paid		(2,944,109)	(2,110,061)
Net cash provided by/(used in) operating activities		13,318,691	(16,908,819)
Cash flows from investing activities			
Investment securities		(4,473,179)	3,087,089
Government securities purchased under resale agreements		(1,150,000)	845,000
Pledged assets		(1,400,066)	39,532
Purchase of property, plant and equipment	26	(887,445)	(567,300)
Proceeds from liquidation of subsidiary		-	22,029
Proceeds from the sale of property, plant and equipment		-	6,368
Net proceeds from sale of shares		126,197	249,030
Net cash (used)/provided by investing activities		(7,784,515)	3,681,748
Net cash flows from operating and investing activities		5,534,176	(13,227,071)

Statement of Cash Flows (continued)

Year ended 31 October 2009

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2009	2008
Cash flows from operating and investing activities		5,534,176	(13,227,071)
Cash flows from financing activity			
Dividends paid	48	(3,863,946)	(3,571,223)
Effect of exchange rate changes on cash and cash equivalents		1,791,855	286,198
Net increase/(decrease) in cash and cash equivalents		3,462,085	(16,512,096)
Cash and cash equivalents at beginning of year		9,397,205	25,909,301
CASH AND CASH EQUIVALENTS AT END OF YEAR	20	12,859,290	9,397,205

1. Identification, Regulation and Licence

(a) The Bank of Nova Scotia Jamaica Limited ("the Bank") is incorporated and domiciled in Jamaica. It is a 100% subsidiary of Scotia Group Jamaica Limited, which is incorporated and domiciled in Jamaica. Scotia Group Jamaica Limited is a 71.78% subsidiary of The Bank of Nova Scotia, which is incorporated and domiciled in Canada and is the ultimate parent. The registered office of the Bank is located at the Scotiabank Centre, Corner of Duke and Port Royal Streets, Kingston, Jamaica.

The Bank is licensed under the Banking Act, 1992 and is listed on the Jamaica Stock Exchange.

(b) The Bank's subsidiaries, which together with the Bank are referred to as "the Group", are as follows:

Subsidiaries	Principal Activities	Holding	Financial Year End
The Scotia Jamaica Building Society	Deposit taking and mortgage financing	100%	October 31
Scotia Jamaica Life Insurance Company Limited	Life insurance	100%	December 31
Scotia Jamaica Financial Services Limited	Non-trading	100%	October 31
Brighton Holdings Limited	Non-trading	100%	October 31

All of the Bank's subsidiaries are incorporated and domiciled in Jamaica.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied by the Group entities for all the years presented, unless otherwise stated.

(a) Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board, the Jamaican Companies Act and the Banking Act.

New standards, amendments to standards and interpretations that became effective during the year

Certain new standards, amendments to published standards and interpretations came into effect during the current financial year. The Group has assessed the relevance of all such standards, amendments and interpretations and has adopted those which are relevant to its operations, viz:

IFRIC 13 Accounting for Customer Loyalty Programmes, which became effective for annual reporting periods that began on or after July 1, 2008, clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple element arrangement. The consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 did not have a material impact on the Group's financial statements as these programmes are operated on behalf of third parties.

IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, which became effective for annual reporting periods that began on or after January 1, 2008, provides guidance on assessing the limit set in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This standard did not have a material impact on the financial statements.

New standards, and interpretations of and amendments to existing standards, that are not yet effective:

At the date of authorization of these financial statements, certain new standards, and amendments to and interpretations of existing standards, have been issued which are not yet effective at balance sheet date and which the Group has not early-adopted. The Group has assessed the relevance of all such new standards, amendments and interpretations with respect to the Group's operations and has determined that the following are relevant to its operations.

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

New standards, and interpretations of and amendments to existing standards, that are not yet effective (cont'd):

Revised IFRS 3 Business Combinations and *amended IAS 27 Consolidated and Separate Financial Statements* becomes effective for annual reporting periods beginning on or after July 1, 2009. The definition of a business combination has been revised and focuses on control. All items of consideration transferred by the acquirer are measured and recognised at fair value as of the acquisition date, including contingent consideration. An acquirer can elect to measure non-controlling interest at fair value at the acquisition date or on a transaction by transaction basis. New disclosure requirements have been introduced. The revisions are not expected to have any significant impact on the financial statements.

Amendments to *IFRS 7 Financial Instruments: Disclosures*, which becomes effective for annual reporting periods beginning on or after January 1, 2009, require enhanced disclosures in respect of two aspects: disclosures over fair value measurement relating to financial instruments, specifically, in relation to disclosures over the inputs used in valuation techniques and the uncertainty associated with such valuations; and improving disclosures over liquidity risk to address current diversity in practice. The Group is assessing the impact that the revised standard will have on the financial statements.

IFRS 8, Operating Segments, which becomes effective for annual reporting periods beginning on or after January 1, 2009, replaces IAS 14 and sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates and its major customers. The Group is assessing the impact that IFRS 8 will have on the disclosures in the financial statements.

IAS 1 (Revised) Presentation of Financial Statements, which becomes effective for annual reporting periods beginning on or after January 1, 2009, requires the presentation of all non-owner changes in equity in one or two statements: either in a single statement of comprehensive income, or in an income statement of comprehensive income. The Group is assessing the impact that the revised standard will have on the financial statements.

IAS 23(Revised) - Borrowing Costs, which becomes effective for annual reporting periods beginning on or after January 1, 2009, removes the option of either capitalizing borrowing costs relating to qualifying assets or expensing the borrowing costs, and, instead, requires management to capitalize all borrowing costs attributable to qualifying assets. Qualifying assets are assets that take a substantial time to get ready for their intended use or sale. The Group is assessing the impact IAS 23 (Revised) will have on the financial statements.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

New standards, and interpretations of and amendments to existing standards, that are not yet effective (cont'd):

IAS 27 (Revised) Consolidated and Separate Financial Statements becomes effective for annual reporting periods beginning on or after July 1, 2009. It requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. It also specifies the accounting when control is lost, requiring that any remaining interest in the entity be re-measured to fair value, and a gain or loss be recognized in profit or loss. The Group is assessing the impact the revision will have on the financial statements.

Amendments to *IAS 32 Financial Instruments: Presentation* and *IAS 1, Presentation of Financial Statements* become effective for annual reporting periods beginning on or after January 1, 2009. The amendments allow certain instruments that would normally be classified as liabilities to be classified as equity if certain conditions are met. Where such instruments are reclassified, the entity is required to disclose the amount, the timing and the reason for the reclassification. The Group is assessing the impact that the revised standard will have on the financial statements.

IAS 36 (Amendment), Impairment of Assets becomes effective for annual reporting periods beginning on or after January 1, 2009. The standard provides that where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculations should be made. The Group is assessing the impact that the revised standard will have on the financial statements.

IAS 39 (Amendment), Financial Instruments: Recognition and Measurement becomes effective for annual reporting periods beginning on or after July 1, 2009. The amendment provided clarification that it is possible for there to be movements into and out of the fair value through profit or loss category where:

- A derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.
- Financial assets are reclassified following a change in policy by an insurance company in accordance with IFRS 4.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

New standards, and interpretations of and amendments to existing standards, that are not yet effective (cont'd):

The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition. There is also the removal of a segment as an example of what may be considered a party external to the reporting entity. When re-measuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used. The Group is assessing the impact the amendment will have on the financial statements.

IFRIC 17, Distribution of Non-Cash Assets to Owners is effective for annual reporting periods beginning on or after July 1, 2009 and is required to be applied prospectively; earlier application is permitted. IFRIC 17 provides that a dividend payable should be recognized when appropriately authorized and no longer at the entity's discretion. Where an owner has a choice of a dividend of a non-cash asset or cash, the dividend payable is estimated considering both the fair value and probability of the owners selecting each option. The dividend payable is measured at the fair value of the net assets to be distributed. The difference between fair value of the dividend paid and the carrying amount of the net assets distributed is recognized in profit or loss. The Group is assessing the impact this interpretation will have on the financial statements.

(ii) Basis of measurement

The financial statements have been prepared on the historical cost basis as modified for the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss.

(iii) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS and the Companies Act requires the use of certain assumptions and critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(iv) Functional and presentation currency

These financial statements are presented in Jamaican dollars, which is the Group's functional currency. Except where indicated to be otherwise, financial information presented is shown in thousands of Jamaican dollars.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(v) Comparative information

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

(b) Basis of consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the Bank and its subsidiaries presented as a single economic entity.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are no longer consolidated from the date that control ceases.

Intra-group transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Segment reporting

A segment is a distinguishable component of the Group (a group of assets and operations) that is engaged in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment) and which is subject to risks and rewards that are different from those of other segments. The Group bases its segment reporting on business segments.

(d) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Jamaican dollars at the exchange rates prevailing at the balance sheet date, being the mid-point between the Bank of Jamaica's (the Central Bank) weighted average buying and selling rates at that date.

Transactions in foreign currencies are translated at the rates of exchange ruling at the dates of those transactions.

2. Summary of significant accounting policies (continued)

(e) Revenue recognition

(i) Interest income

Interest income is recognised in the statement of revenue and expenses for all interest earning instruments on the accrual basis using the effective interest method based on the actual purchase price. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset. The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently. Interest income includes coupons earned on fixed income investments, accretion of discount on treasury bills and other discounted instruments, and amortization of premium on instruments bought at a premium.

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. However, the difference between the amounts recognized under the banking regulations and such amounts as would have been determined under IFRS are considered to be immaterial.

(ii) Fee and commission

Fee and commission income are recognised on the accrual basis when service has been provided. Origination fees, for loans which are probable of being drawn down, are recognised in the statement of revenue and expenses immediately, as they are not considered material for deferral.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees are apportioned over the period the service is provided. The same principle is applied for financial planning and custody services that are continuously provided over an extended period of time.

Fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(iii) Premium income

Premiums are recognised as earned when received.

(f) Interest expense

Interest expense is recognised in the statement of revenue and expenses on the accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial liability.

2. Summary of significant accounting policies (continued)

(g) Claims

Death claims are recorded in the statement of revenue and expenses, net of reinsurance recoverable.

(h) Reinsurance contracts held

The Group enters into contracts with reinsurers under which it is compensated for losses on contracts it issues and which meet the classification requirements for insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. Reinsurance does not relieve the originating insurer of its liability.

(i) Taxation

Taxation on the profit or loss for the year comprises current and deferred taxes. Current and deferred taxes are recognised as tax expense or benefit in the statement of revenue and expenses except where they relate to items recorded in stockholders' equity, in which case they are charged or credited to stockholders' equity.

(i) Current taxation

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

(ii) Deferred tax

Deferred tax liabilities are recognised for temporary differences between the carrying amounts of assets and liabilities and their amounts as measured for tax purposes, which will result in taxable amounts in future periods. Deferred tax assets are recognised for temporary differences which will result in deductible amounts in future periods, but only to the extent it is probable that sufficient taxable profits will be available against which these differences can be utilised. Deferred tax assets are reviewed at each reporting date to determine whether it is probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realised or the liability will be settled based on enacted rates.

Current and deferred tax assets and liabilities are offset when the legal right of set-off exists, and when they relate to income taxes levied by the same tax authority on either the same taxable entity, or different taxable entities which intend to settle current tax liabilities and assets on a net basis.

2. Summary of significant accounting policies (continued)

(j) Insurance contracts – recognition and measurement

(i) Classification

The Group issues contracts that transfer insurance risk or financial risk or both.

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. The Group defines insurance risk as significant if an insured event could cause an insurer to pay significant additional benefits in a scenario that has a discernible effect on the economics of the transactions. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits, at the occurrence of an insured event, that is at least 10% more than the benefits payable if the insured event did not occur.

(ii) Recognition and measurement

Insurance contracts

These contracts insure human life events (for example death or permanent disability) over a long duration. The accounting treatment differs according to whether the contract bears investment options or not. Under contracts that do not bear investment options, premiums are recognised as income when they become payable by the contract holder and benefits are recorded as an expense when they are incurred.

Under contracts that bear an investment option, insurance premiums received are initially recognised directly as liabilities. These liabilities are increased by credited interest and are decreased by policy administration fees, mortality and surrender charges and any withdrawals; the resulting liability is called the Life Assurance Fund. Income consists of fees deducted for mortality, policy administration and surrenders. Interest credited to the account and benefit claims in excess of the account balances incurred in the period are recorded as expenses in the statement of revenue and expenses.

Insurance contract liabilities are determined by an independent actuary using the Policy Premium Method of valuation as discussed in Note 3(iv). These liabilities are, on valuation, adjusted through the income statement to reflect the valuation determined under the Policy Premium Method.

(k) Policyholders' liabilities

The policyholders' liabilities have been calculated using the Policy Premium Method (PPM) of valuation. Under this method explicit allowance is made for all future benefits and expenses under the policies. The premiums, benefits and expenses for each policy are projected and the resultant future cash flows are discounted back to the valuation date to determine the reserves.

2. Summary of significant accounting policies (continued)

(k) Policyholders' liabilities (continued)

The process of calculating policy reserves necessarily involves the use of estimates concerning such factors as mortality and morbidity rates, future investment yields and future expense levels. Consequently, these liabilities include reasonable provisions for adverse deviations from the estimates.

An actuarial valuation is prepared annually. Any adjustment to the reserves is reflected in the year to which it relates.

(l) Financial assets and liabilities

Financial assets carried on the balance sheet include cash resources, investments, securities purchased under resale agreements, pledged assets, loans and leases, other assets, deposits, other liabilities and policyholders' fund.

(i) Recognition

The Group initially recognises loans and advances and deposits on the date at which the Group becomes a party to the contractual provisions of the instrument i.e., the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated as at fair value through profit or loss) are initially recognized on the settlement date – the date on which the asset is delivered to or by the Group.

(ii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or have expired.

The Group enters into transactions whereby it transfers assets recognized on its balance sheet, but retains either all or a portion of the risks and rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized from the balance sheet. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

(iii) Measurement

Initial measurement: On initial recognition, financial assets and liabilities are measured at fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

2. Summary of significant accounting policies (continued)

(l) Financial assets and liabilities (continued)

(iii) Measurement (continued)

Subsequent measurement of financial assets: The measurement of financial assets subsequent to initial recognition depends upon their classification as set out in note 2 (m) below, namely: loans and receivables are measured at amortised cost using the effective interest method; held-to-maturity investments are measured at amortised cost using the effective interest method; investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably determined are measured at amortised cost.

Other financial assets are measured at their fair values without any deduction for transaction costs that may be incurred on sale or other disposal.

Subsequent measurement of financial liabilities: After initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

(m) Financial assets

(i) Classification

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

(1) Financial assets at fair value through profit or loss

This category includes financial assets held for trading. A financial asset is classified in this category at inception if acquired principally for the purpose of selling in the short term or if so designated by management. These assets are measured at fair value and all related gains and losses are included in the statement of revenue and expenses.

(2) Loans and receivables

See details at note 2(p).

(3) 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 and which are not designated as at fair value through profit or loss or as available-for-sale. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be compromised and reclassified as available-for-sale and the Group would be prohibited from classifying investment securities as held-to-maturity for the current and the following two financial years. Held-to-maturity investments are measured at amortised cost using the effective interest method.

2. Summary of significant accounting policies (continued)

(m) Financial assets (continued)

(i) Classification (continued)

(4) Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified in any of the other three categories of financial assets. They are intended to be held for an indefinite period of time, and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or market prices. Available-for-sale investments are measured at fair value except for any unquoted equity securities whose fair value cannot be reliably measured, which are carried at cost. Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized in the statement of revenue and expenditure when the Group becomes entitled to the dividend. Other unrealized gains and losses arising from changes in fair value of available-for-sale investments are recognized in stockholders' equity. On disposal or impairment of these investments, the unrealized gains or losses included in stockholders' equity are transferred to profit or loss.

(ii) Identification and measurement of impairment

At each balance sheet date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

2. Summary of significant accounting policies (continued)

(m) Financial assets (continued)

(ii) Identification and measurement of impairment (continued)

The Group considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the management makes judgements as to current economic and credit conditions and their effect on default rates, loss rates and the expected timing of future recoveries, ensuring that assumptions remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised directly in equity to profit or loss. The cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity.

2. Summary of significant accounting policies (continued)

(n) Investment in subsidiaries

Investments by the Bank in subsidiaries are stated at cost less impairment losses.

(o) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase the asset at a fixed price on a future date (repurchase agreements) and securities purchased under agreements to resell the asset at a fixed price on a future date (reverse repurchase agreements) are treated as collateralised financing transactions. In the case of reverse repurchase agreements, the underlying asset is not recognized in the Group's financial statements; in the case of repurchase agreements the underlying collateral is not derecognized from the Group's financial statements but is segregated as pledged assets. 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.

(p) Loans and receivables and allowance for impairment losses

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, and that, upon initial recognition, the Group designates as at fair value through profit or loss, or as available-for-sale.

Loans and receivables are initially recorded at the fair value of the consideration given, which is the cash disbursed to originate the loan, including any transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

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

An allowance 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 the impaired loans.

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 90 days in arrears is written-off.

2. Summary of significant accounting policies (continued)

(p) Loans and receivables and allowance for impairment losses (continued)

When a loan is classified as impaired, recognition of interest in accordance with the terms of the original loan ceases, and interest is taken into account on the cash basis. This differs from IFRS which requires that interest on the impaired asset continues to be recognised through the unwinding of the discount that was applied to the estimated future cash flows. However, the difference is not considered material.

Statutory and other regulatory loan loss reserve amounts that exceed the amounts required under IFRS are included in a non-distributable loan loss reserve as an appropriation of profits.

(q) Acceptances and guarantees

The Bank's potential liability under acceptances and guarantees is reported as a liability in the balance sheet. The Bank has equal and offsetting claims against its customers in the event of a call on these commitments, which are reported as an asset.

(r) Intangible assets

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with acquiring identifiable and unique software products which are expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. However, such costs are expensed where they are considered to be immaterial.

(s) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are recognised at the inception of the lease at the lower of the fair value of the leased asset and the present value of minimum lease payments. Each lease payment is allocated between the liability and interest charges so as to produce a constant rate of charge on the lease obligation. The interest element of the lease payments is charged as an expense and included in the statement of revenue and expenses over the lease period.

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 revenue and expenses on the straight-line basis over the period of the lease.

(t) Property, plant and equipment

Land is stated at historical cost. All other property, plant and equipment are stated at historical cost less accumulated depreciation and, if any, impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

2. Summary of significant accounting policies (continued)

(t) Property, plant and equipment (continued)

Expenditure subsequent to acquisition is included in the asset's carrying amount or is recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other expenditure is classified as repairs and renewals and charged as expenses in the statement of revenue and expenses during the financial period in which it is incurred.

Depreciation and amortisation are calculated on the straight-line method at rates estimated to write off the depreciable amount of the assets over their expected useful lives, as follows:

Buildings	40 years
Furniture, fixtures and equipment	10 years
Computer equipment	4 years
Motor vehicles	5 years
Leasehold improvements	Period of lease

The depreciation methods, useful lives and residual values are reassessed at the reporting date.

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

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining the profit for the year.

(u) Employee benefits

Employee benefits are all forms of consideration given by the Group in exchange for service rendered by employees. These include current or short-term benefits such as salaries, bonuses, NIS contributions, vacation leave; non-monetary benefits such as medical care; post-employment benefits such as pensions; and other long-term employee benefits such as termination benefits.

Employee benefits that are earned as a result of past or current service are recognised in the following manner: Short-term employee benefits are recognised as a liability, net of payments made, and charged as expense. The expected cost of vacation leave that accumulates is recognised when the employee becomes entitled to the leave. Post-employment benefits, termination benefits and equity compensation benefits are accounted for as described below. Other long-term benefits are not considered material and are charged off when incurred.

2. Summary of significant accounting policies (continued)

(u) Employee benefits (continued)

(i) Pension obligations

The Group operates a defined benefit plan, the assets of which are held in a separate trustee-administered fund. The pension plan is funded by contributions from employees and the Bank, taking the recommendations of the actuary into account.

The asset or liability in respect of defined benefit plans is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of plan assets, adjusted for unrecognised actuarial gains/losses and past service cost. Where a pension asset arises, the amount recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in future contributions to the plan. The pension costs are assessed using the Projected Unit Credit Method. Under this method, the cost of providing pensions is charged to the statement of revenue and expenses so as to spread the regular cost over the service lives of the employees in accordance with the advice of the actuaries, who carry out a full valuation of the plan every year in accordance with IAS 19. The pension obligation is measured at the present value of the estimated future cash outflows using estimated discount rates based on market yields on Government securities which have terms to maturity approximating the terms of the related liability.

A portion of actuarial gains and losses is recognised in the statement of revenue and expenses if the net cumulative unrecognised actuarial gains or losses at the end of the previous reporting period exceeded 10 percent of the greater of the present value of the gross defined benefit obligation and the fair value of plan assets at that date. Any excess actuarial gains or losses are deferred and recognised in the statement of revenue and expenses over the average remaining service lives of the participating employees.

(ii) Termination obligations

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve (12) months after the balance sheet date are discounted to present value.

2. Summary of significant accounting policies (continued)

(u) Employee benefits (continued)

(iii) Other post-retirement obligations

The Group also provides supplementary health, dental and life insurance benefits to qualifying employees upon retirement. The entitlement to these benefits is usually based on the completion of a minimum service period and the employee remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans. These obligations are valued annually by qualified independent actuaries.

(iv) Equity compensation benefits

The Group has an Employee Share Ownership Plan (ESOP) for eligible employees. The Group provides a fixed benefit to each participant, which is linked to the number of years of service. This benefit is recorded in salaries and staff benefits in the statement of revenue and expenses.

The amount contributed to the ESOP trust (note 49) by the Group for acquiring shares and allocating them to employees is recognised as an employee expense at the time of making the contribution, as the effect of recognising it over the two-year period in which the employees become unconditionally entitled to the shares is not considered material. Further, the effect of forfeitures is not considered material.

The special purpose entity that operates the Plan has not been consolidated as the effect of doing so is not considered material.

(v) Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between proceeds, net of transaction costs, and the redemption amount is recognised in the statement of revenue and expenses immediately, as they are not considered material for deferral.

(w) Share capital

(i) Ordinary shares are classified as equity when there is no obligation to transfer cash or other assets.

Preference share capital is classified as equity except where it is redeemable on a specific or determinable date or at the option of the shareholders and/or if dividend payments are not discretionary, in which case it is classified as a liability. Dividend payments on preference shares classified as a liability are recognized in the statement of revenue and expenses as interest expense.

2. Summary of significant accounting policies (continued)

(w) Share capital (continued)

(ii) Dividends

Dividends are recorded in the financial statements in the period in which they are approved by the Board of Directors.

(x) Financial instruments

Financial instruments carried on the balance sheet include cash resources, investments, securities purchased under resale agreements, pledged assets, loans and leases, other assets, deposits, other liabilities and policyholders' fund.

The fair values of the Group's financial instruments are discussed in note 42.

(y) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include notes and coins on hand, unrestricted balances held with Bank of Jamaica, amounts due from other banks, and highly liquid financial assets with original maturities of less than ninety days, which are readily convertible to known amounts of cash, and are subject to insignificant risk of changes in their fair value.

(z) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent of other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

2. Summary of significant accounting policies (continued)

(z) Impairment of non-financial assets (continued)

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3. Critical accounting estimates, and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of, and disclosures relating to, assets, liabilities, income and expenses reported in these financial statements and may be reported in the financial statements of the next financial year. Estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances, and are continually evaluated.

(i) 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 revenue and expenses, 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. To the extent that the net present value of estimated cash flows differs by +/-5 percent, the provision would be an estimated $112,215 (2008: $82,199) lower or $112,215 (2008: $82,199) higher.

(ii) Held-to-maturity investments

The Group follows the guidance of IAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires 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 in the specific permissible circumstances - for example, selling other than an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value, not amortised cost. If the entire class of held-to-maturity investments is compromised, the fair value of investments would increase by $1,931,476 (2008: increase by $433,638) with a corresponding entry in the fair value reserve in stockholders' equity.

3. Critical accounting estimates, and judgements in applying accounting policies (continued)

(iii) Income taxes

Estimates and judgements are required in determining the provision for income taxes. The tax liability or asset arising from certain transactions or events may be uncertain during the ordinary course of business. In cases of such uncertainty, the Group recognises liabilities for possible additional taxes based on its judgement. Where the final tax outcome in relation to such matters is different from the amount that was initially recognised, the difference will impact the current and deferred income tax provisions in the period in which such determination is made.

Were the actual final outcome (on the judgement areas) to differ by 10% from management's estimates, the Group would need to:

- Increase the income tax liability by $62,756 and the deferred tax liability by $24,023, if unfavourable; or
- Decrease the income tax liability by $62,756 and the deferred tax liability by $24,023, if favourable.

(iv) Estimate of future payments and premiums arising from long-term insurance contracts

The liabilities under long-term insurance contracts have been determined using the Policy Premium Method of valuation. Under this method explicit allowance is made for all future benefits and expenses under the policies. The premiums, benefits and expenses for each policy are projected and the resultant future cash flows are discounted back to the valuation date to determine the reserves. Any adjustment to the reserves is reflected in the year to which it relates.

The process of calculating policy reserves necessarily involves the use of estimates concerning such factors as mortality and morbidity rates, future investment yields and future expense levels. Consequently, these liabilities include reasonable provisions for adverse deviations from the estimates. Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

These estimates are more fully described in note 12(c).

3. Critical accounting estimates, and judgements in applying accounting policies (continued)

(v) Pension and other post-employment benefits

The cost of these benefits and the present value of the pension and the other post-employment liabilities depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net periodic cost (income) for pension and other post-employment benefits include the expected long-term rate of return on the relevant plan assets, the discount rate and, in the case of the post-employment medical benefits, the expected rate of increase in medical costs. Any changes in these assumptions will impact the net periodic cost (income) recorded for pension and post-employment benefits and may affect planned funding of the pension plans. The expected return on plan assets assumption is determined on a uniform basis, considering long-term historical returns, asset allocation and future estimates of long-term investment returns. The Group determines the appropriate discount rate at the end of each year; such rate represents the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension and post-employment benefit obligations. In determining the appropriate discount rate, the Group considered interest rate of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. The expected rate of increase of medical costs has been determined by comparing the historical relationship of the actual medical cost increases with the rate of inflation in the respective economies.

Past experience has shown that the actual medical costs have increased on average by the rate of inflation. Other key assumptions for the pension and other post retirement benefits cost and credits are based, in part, on current market conditions.

Were the actual expected return on pension plan assets to differ by 1% from management's estimates, there would be no impact on the consolidated net income. Similarly, were the actual discount rate used at the beginning of the fiscal year to differ by 1% from management's estimates there would be no impact on consolidated net income. Were the assumed medical inflation rate on the health plan to differ by 1.50% from management estimates, the health expense would increase by $67,878 or decrease by $48,344.

4. Responsibilities of the appointed actuary and external auditors

The Board of Directors, pursuant to the Insurance Act, appoints the Actuary. His responsibility is to carry out an annual valuation of the Group's insurance policyholders liabilities in accordance with accepted actuarial practice and regulatory requirements and report thereon to the policyholders and stockholders. In performing the valuation, the Actuary makes assumptions as to the future rates of interest, asset defaults, mortality, morbidity, claims experience, policy termination, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Group and the insurance policies in force. An actuarial valuation is prepared annually.

4. Responsibilities of the appointed actuary and external auditors (continued)

The shareholders, pursuant to the Companies Act, appoint the external auditors. Their responsibility is to conduct an independent and objective audit of the financial statements in accordance with International Standards on Auditing and report thereon to the stockholders. In carrying out their audit, the auditors also make use of the work of the appointed Actuary and his report on the policyholders' liabilities.

5. Segmental financial information

The Group is organised into five main business segments:

(a) Retail Banking - incorporating personal banking services, personal customer current, savings and deposits accounts, credit and debit cards, consumer loans and mortgages;

(b) Corporate and Commercial Banking - incorporating non-personal direct debit facilities, current accounts, deposits, overdrafts, loans and other credit facilities, and foreign currency transactions;

(c) Treasury - incorporating the Bank's liquidity and investment management function, management of correspondent bank relationships, as well as foreign currency trading;

(d) Insurance Services - incorporating the provision of life and medical insurance, individual pension, administration and investment management.

(e) Other operations of the Group – comprising non-trading subsidiaries

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

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

The Group's operations are located solely in Jamaica.

5. Segmental financial information (continued)

	2009						
	Banking						
	Retail	Corporate and Commercial	Treasury	Insurance services	Other	Eliminations	Group
Gross external revenues	12,441,557	7,732,275	8,032,897	9,105,600	23,501	-	37,335,830
Revenue/(expense) from other segments	2,269,615	2,394,677	(4,572,947)	(29,949)	17	(61,413)	-
Total gross revenues	14,711,172	10,126,952	3,459,950	9,075,651	23,518	(61,413)	37,335,830
Total expenses	(12,144,252)	(7,259,441)	(145,893)	(4,873,872)	(3,200)	61,413	(24,365,245)
Profit before tax	2,566,920	2,867,511	3,314,057	4,201,779	20,318	-	12,970,585
Taxation							(3,318,814)
Profit for the year							9,651,771
Segment assets	40,894,187	55,986,981	83,934,180	48,217,409	182,812	(1,826,367)	236,269,272
Unallocated assets							6,179,000
Total assets							242,448,272
Segment liabilities	87,125,539	76,821,736	407,358	35,806,374	57,341	(1,440,840)	198,837,504
Unallocated liabilities							5,440,647
Total liabilities							204,278,151
Other segment items:							
Capital expenditure	479,894	408,023	-	7,992	-	-	895,909
Impairment losses on loans	1,704,851	95,168	-	-	-	-	1,800,019
Depreciation	195,188	143,858	-	6,111	560	-	345,717

5. Segmental financial information (continued)

	2008						
	Banking						
	Retail	Corporate and Commercial	Treasury	Insurance services	Other	Eliminations	Group
Gross external revenues	12,226,466	6,410,926	7,007,045	5,900,615	17,871	-	31,562,923
Revenue/(expense) from other segments	2,002,494	1,991,270	(3,967,930)	6,028	-	(31,862)	-
Total gross revenues	14,228,960	8,402,196	3,039,115	5,906,643	17,871	(31,862)	31,562,923
Total expenses	(10,332,057)	(6,022,811)	(78,675)	(3,328,298)	(4,861)	20,243	(19,746,457)
Profit before tax	3,896,903	2,379,385	2,960,440	2,578,345	13,010	(11,619)	11,816,466
Taxation							(3,196,882)
Profit for the year							8,619,584
Segment assets	50,509,554	49,154,554	69,894,167	39,533,192	147,699	(818,961)	208,420,205
Unallocated assets							6,040,959
Total assets							214,461,164
Segment liabilities	80,144,200	65,377,560	1,504,015	30,756,781	56,805	(631,415)	178,208,979
Unallocated liabilities							4,534,981
Total liabilities							182,743,960
Other segment items:							
Capital expenditure	349,156	220,188	-	3,391	-	-	572,735
Impairment losses on loans	793,015	(36,795)	-	-	-	-	756,220
Depreciation	182,301	125,604	-	4,894	540	-	313,339

Capital expenditure comprises additions to property, plant and equipment (note 26).

6. Net interest income

	The Group 2009	The Group 2008	The Bank 2009	The Bank 2008
Interest income:				
Deposits with banks and other financial institutions	4,711,685	4,125,253	3,212,369	3,009,191
Investment securities	11,221,480	7,334,340	4,064,371	3,104,348
Reverse repurchase agreements	84,174	229,275	87,133	113,027
Loans and advances	16,106,197	14,158,332	15,228,349	13,335,668
Other	8,454	10,061	3,113	2,625
	32,131,990	25,857,261	22,595,335	19,564,859
Interest expense:				
Banks and customers	6,045,645	5,548,798	5,632,262	5,136,285
Repurchase agreements	79,039	17,890	83,031	12,857
Other	34,751	24,386	32,771	24,386
	6,159,435	5,591,074	5,748,064	5,173,528
Net interest income	25,972,555	20,266,187	16,847,271	14,391,331

7. Net fee and commission income

	The Group 2009	The Group 2008	The Bank 2009	The Bank 2008
Fee and commission income:				
Retail banking fees	2,541,962	2,465,578	2,541,962	2,465,578
Credit related fees	807,511	822,242	795,800	811,120
Commercial and depository fees	1,194,183	1,296,481	1,151,411	1,262,616
	4,543,656	4,584,301	4,489,173	4,539,314
Fee and commission expenses	(1,141,041)	(1,061,258)	(1,141,041)	(1,061,258)
	3,402,615	3,523,043	3,348,132	3,478,056

8. Net foreign exchange trading income

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

9. Net insurance premium income

	The Group 2009	The Group 2008
Gross written premium		
Individual life	380,860	339,012
Group life	386,079	417,231
	766,939	756,243
Reinsurance ceded	(1,319)	(1,705)
	765,620	754,538

10. Other revenue

	The Group		The Bank	
	2009	2008	2009	2008
Capital gain on liquidation of subsidiary	-	-	-	9,383
Gain on sale of property, plant and equipment	(338)	3,396	(554)	3,396
Gain on Visa shares	53,308	456,612	53,308	456,612
Other	3,627	1,361	3,626	8,326
	56,597	461,369	56,380	477,717

The 2008 gain on shares represents a gain on exchange of the Bank's membership interest in Visa International for equity shares in Visa Inc. consequent on the reorganization of Visa International. The reorganization involved a series of transactions by which Visa International, Visa U.S.A. and Visa Canada became subsidiaries of a Delaware stock corporation, Visa Inc., and was completed on October 2, 2007. Upon completion of the restructuring, common shares, of a class corresponding to the Visa region with which each member is associated, were issued by VISA Inc. to each member. The Bank was advised of the restructuring in April 2008. At that time there was also a forced redemption of 52% of the shares received. The remaining shares (48%) are subject to a lock up period of three years ending March 2011, unless the shareholder exercises the disposal option available at specified periods.

11. Salaries, pension contributions and other staff benefits

	The Group		The Bank	
	2009	2008	2009	2008
Wages and salaries	5,455,196	4,574,451	5,085,826	4,281,406
Payroll taxes	471,398	410,224	446,734	388,807
Pension costs, net [note 27(a)]	(387,218)	(519,780)	(387,218)	(519,780)
Other post-employment benefits [note 27(b)]	237,898	233,531	237,898	233,531
Other staff benefits	1,112,991	1,113,080	1,069,488	1,067,976
Total (note 13)	6,890,264	5,811,506	6,452,728	5,451,940

12. Policyholders' liabilities

(a) Composition of policyholders' liabilities

	The Group	
	2009	2008
Policyholders' fund	36,048,630	32,222,016
Benefits and claims payable	60,645	52,513
Unprocessed premiums	17,159	18,592
Insurance risk reserve – Individual life	(1,861,798)	(1,892,953)
– Group life	143,241	161,250
	34,407,877	30,561,418

12. Policyholders' liabilities (continued)

(b) Policyholders' liabilities:

	The Group	
	2009	2008
Policyholders fund:		
At beginning of year	32,222,016	28,585,195
Gross premiums	4,729,862	4,495,436
Benefits and claims	(4,938,391)	(3,730,948)
Interest credited	4,035,143	2,872,333
At end of year	36,048,630	32,222,016
Benefits and claims payable:		
At beginning of year	52,513	28,559
Policyholders' claims and benefits	179,677	110,109
Benefits and claims paid	(171,545)	(86,155)
At end of year	60,645	52,513
Unprocessed premiums:		
At beginning of year	18,592	12,003
Premiums received	5,171,240	4,984,611
Premiums applied	(5,172,673)	(4,978,022)
At end of year	17,159	18,592

	2009		
	Individual life	Group life	Total
Insurance risk reserve:			
At beginning of year	(1,892,953)	161,250	(1,731,703)
Changes in assumptions	217,779	(652)	217,127
Normal changes	(186,624)	(17,357)	(203,981)
At end of year	(1,861,798)	143,241	(1,718,557)

	2008		
	Individual life	Group life	Total
Insurance risk reserve:			
At beginning of year	(1,734,707)	123,718	(1,610,989)
Changes in assumptions	(68,151)	(635)	(68,786)
Normal changes	(90,095)	38,167	(51,928)
At end of year	(1,892,953)	161,250	(1,731,703)

12. Policyholders' liabilities (continued)

(c) Policy assumptions

Policy liabilities are valued using two major classes of assumptions, namely, best estimate assumptions and provisions for adverse deviation assumptions.

(1) Best estimate assumptions

Assumptions cover the lifetime of the policies and are made for many variables including mortality, morbidity, investment yields, rates of policy termination, operating expenses and certain taxes.

(i) Mortality and morbidity

The assumptions are based on industry experience.

(ii) Investment yields

The Group matches assets and liabilities by line of business. The projected cash flows from these assets are combined with projected reinvestment rates to determine expected rates of return for future periods.

The Group has assumed a portfolio yield of 13.50% beginning January 2009, decreasing monthly to 8% in the year 2015, and then decreasing yearly to 6% in the year 2028 and later.

A margin for adverse deviation is added to account for 0.50% reduction in the yield.

Assumed interest rates are net of Investment Income Tax.

The main source of the uncertainty is the fluctuation in the economy as lower yields would result in higher reserves and reduced income.

(iii) Persistency

Persistency assumptions are made in relation to the time since inception that a policy exists before it lapses or is surrendered. Lapses relate to termination of policies due to non-payment of premiums. Surrenders relate to voluntary termination of policies by the policyholders. Policy terminations are based on the Group's own experience adjusted for expected future conditions. The main source of uncertainty derives from changes in policyholder behaviour as it relates to changes in economic conditions. The expected lapse rates are 2% in the first year, 8% in the second year, 7% in the third year and 6% thereafter. A margin for adverse deviation is added by increasing or decreasing the lapse rates, whichever is adverse, by 20%.

12. Policyholders' liabilities (continued)

(c) Policy assumptions (continued)

(1) Best estimate assumptions (continued):

(iv) Policy expenses and inflation

Policy maintenance expenses are derived from the Group's own internal cost studies projected into the future with an allowance for inflation. Inflation is assumed to be 10% beginning in 2009, 8% beginning January 2010, decreasing to 5% in the year 2015, and then decreasing to 3% in year 2028 and later.

A margin for adverse deviation is added by increasing the maintenance expenses by 10% of the best estimate assumption.

(v) Partial withdrawal of policy funds

The Group's contracts allow policyholders to withdraw a portion of the funds accumulated under the contract without surrendering the entire contract. Partial withdrawal rates are derived from the Group's own experience. A margin for adverse deviation is added by increasing the partial withdrawal rates by 10% of the best-estimate assumption.

(vi) Taxation

It is assumed that current tax legislation and rates continue unaltered.

(2) Provision for adverse deviation assumptions

The basic assumptions made in establishing policy liabilities are best estimates for a range of possible outcomes. To recognise the uncertainty in establishing these best estimates, to allow for possible deterioration in experience and to provide greater comfort that the reserves are adequate to pay future benefits, the appointed actuary is required to include a margin in each assumption.

The impact of these margins is to increase reserves and so decrease the income that would be recognised on inception of the policy. The Canadian Institute of Actuaries prescribes a range of allowable margins. The Group uses assumptions at the conservative end of the range, taking into account the risk profiles of the business.

13. Expenses by nature

	The Group		The Bank	
	2009	2008	2009	2008
Salaries, pension contributions and other staff benefits (note 11)	6,890,264	5,811,506	6,452,728	5,451,940
Property expenses, including depreciation	2,546,537	2,194,604	2,506,391	2,158,392
Changes in policyholders' reserves	4,220,231	2,838,416	-	-
Transportation and communication	741,246	872,264	710,707	849,767
Marketing and advertising	560,490	523,561	467,243	472,643
Management and consultancy fees	372,458	372,600	312,517	309,375
Deposit insurance	212,704	190,504	204,731	182,553
Stationery	305,082	259,064	295,981	252,835
Other operating expenses	555,969	336,644	444,978	287,886
	16,404,981	13,399,163	11,395,276	9,965,391

14. Profit before taxation

In arriving at the profit before taxation, the following are among the items that have been charged/(credited):

	The Group		The Bank	
	2009	2008	2009	2008
Auditors' remuneration:				
- Prior years	12,102	-	8,076	-
- Current year	22,250	10,441	16,000	7,168
Depreciation	345,707	313,339	337,421	306,253
Directors' emoluments:				
Fees	29,202	25,358	23,065	18,502
Other	31,186	56,231	31,186	56,231
Gains on sale of shares and property, plant and equipment	(52,970)	(460,008)	(52,754)	(460,008)
Operating lease rentals	214,640	212,396	195,806	194,832

15. Taxation

(a) Taxation charge

Income tax is computed on the profit for the year as adjusted for tax purposes; other taxes are computed at rates and on items shown below:

	The Group		The Bank	
	2009	2008	2009	2008
Current income tax:				
Income tax at 33⅓%	2,246,621	2,371,089	2,240,001	2,364,101
Income tax at 30%	194,427	192,037	-	-
Premium income tax at 3%	81,383	93,199	-	-
Investment income tax at 15%	447,420	183,590	-	-
Deferred income tax (note 33)	348,963	356,967	171,951	282,177
	3,318,814	3,196,882	2,411,952	2,646,278

(b) Reconciliation of applicable tax charge to effective tax charge

	The Group		The Bank	
	2009	2008	2009	2008
Profit before taxation	12,970,595	11,816,466	8,036,356	8,601,494
Tax calculated at 33⅓%	4,323,532	3,938,822	2,678,786	2,867,165
Adjusted for the tax effects of:				
Different tax regime applicable to life insurance and mortgage financing subsidiaries	(738,176)	(527,691)	-	-
Income not subject to tax – tax free investments	(280,065)	(191,904)	(280,065)	(191,904)
Expenses not deductible for tax purposes	5,784	3,330	5,784	3,330
Capital gains	(17,585)	(156,463)	(17,585)	(156,463)
Other charges and allowances	25,324	130,788	25,032	124,150
Taxation expense	3,318,814	3,196,882	2,411,952	2,646,278

Tax on the life insurance business is charged on investment income, less expenses allowable in earning that income, at the rate of 15%, and on premium income less reinsurance premiums, at 3%.

16. Earnings per stock unit

Basic earnings per stock unit is calculated by dividing the net profit attributable to stockholders by the weighted average number of ordinary stock units in issue during the year.

	2009	2008
Net profit attributable to stockholders	9,651,781	8,619,584
Weighted average number of ordinary stock units in issue ('000)	2,927,232	2,927,232
Basic earnings per stock unit (expressed in $ per share)	3.30	2.94

17. Cash and balances at Bank of Jamaica

	The Group		The Bank	
	2009	2008	2009	2008
Statutory reserves with Bank of Jamaica – interest-bearing	5,282,175	3,564,323	5,281,720	3,563,931
Statutory reserves with Bank of Jamaica – non interest-bearing	12,395,038	7,353,852	12,354,100	7,308,663
Total statutory reserve (note 20)	17,677,213	10,918,175	17,635,820	10,872,594
Cash in hand and at bank (note 20)	30,056,067	29,164,273	21,917,091	19,446,733
	47,733,280	40,082,448	39,552,911	30,319,327

Statutory reserves with the Bank of Jamaica under Section 14 (i) of the Banking Act, 1992, and the Building Societies Regulations represent the required primary reserve ratio of 14% for Jamaica dollar reserves, and 11% for foreign currency reserves (2008: 9%) of the Bank's and 1% (2008: 1%) of the Society's prescribed liabilities, respectively. They are not available for investment, lending or other use by the Group and the Bank.

18. Amounts due from other banks

	The Group		The Bank	
	2009	2008	2009	2008
Items in course of collection from other banks	437,736	729,506	437,736	729,506
Placements with other banks	7,880,927	12,609,865	7,849,642	12,554,314
	8,318,663	13,339,371	8,287,378	13,283,820

19. Accounts with parent and fellow subsidiaries

These represent inter-company accounts held with the parent company and fellow subsidiaries in the normal course of business.

20. Cash and cash equivalents

	The Group		The Bank	
	2009	2008	2009	2008
Cash and balances with Bank of Jamaica	47,733,280	40,082,448	39,552,911	30,319,327
Less: statutory reserves (note 17)	(17,677,213)	(10,918,175)	(17,635,820)	(10,872,594)
Cash in hand and at bank (note 17)	30,056,067	29,164,273	21,917,091	19,446,733
Less balances at bank with tenures greater than 90 days	(20,495,489)	(20,702,770)	(15,054,341)	(12,563,793)
	9,560,578	8,461,503	6,862,750	6,882,940
Government and bank notes other than Jamaica	301,934	343,493	301,934	343,493
Amounts due from other banks	7,488,734	5,370,372	7,477,054	5,358,952
Accounts with parent and fellow subsidiaries	224,152	126,822	224,152	126,822
Government of Jamaica Treasury bills and bonds	556,200	410,085	1,555,000	405,000
Cheques and other instruments in transit	(2,317,503)	(2,524,687)	(2,383,509)	(2,872,258)
	15,814,095	12,187,588	14,037,381	10,244,949
Less accrued interest receivable on Bank of Jamaica Certificates of Deposit	(1,955,075)	(1,363,273)	(1,178,091)	(847,744)
	13,859,020	10,824,315	12,859,290	9,397,205

21. Government securities purchased under resale agreements

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

The fair value of collateral held pursuant to reverse repurchase agreements is $557,939 (2008: $463,507) for the Group and $1,557,702 (2008: $349,686) for the Bank.

21. Government securities purchased under resale agreements (continued)

Included in Government securities purchased under resale agreements are the following amounts which are regarded as cash equivalents for the purposes of the statement of cash flows:

	The Group		The Bank	
	2009	2008	2009	2008
Reverse repurchase agreements with an original maturity of less than 90 days	556,200	410,085	1,555,000	405,000

22. Loans, after allowance for impairment losses

	The Group		The Bank	
	2009	2008	2009	2008
Business and Government	45,319,016	42,329,376	45,313,861	42,321,947
Personal and credit cards	37,095,883	37,441,267	37,095,883	37,441,267
Residential mortgages	6,763,978	6,132,772	-	-
Interest receivable	882,683	857,735	823,955	801,010
Total	90,061,560	86,761,150	83,233,699	80,564,224
Less: allowance for impairment losses (note 23)	(720,714)	(608,766)	(678,763)	(567,509)
	89,340,846	86,152,384	82,554,936	79,996,715

(i) The aging of the loans at the reporting date was:

	The Group		The Bank	
	2009	2008	2009	2008
Neither past due nor impaired	78,284,996	74,659,595	72,873,267	70,000,675
Past due but not impaired loans				
Past due 0-30 days	5,804,675	6,379,595	4,999,602	5,388,823
Past due 30-60 days	1,671,506	1,773,939	1,416,856	1,522,178
Past due 60-90 days	716,643	892,311	691,707	809,288
	8,192,824	9,045,845	7,108,165	7,720,289
Carried forward	86,477,820	83,705,440	79,981,432	77,720,964

22. Loans, after allowance for impairment losses (continued)

(i) The aging of the loans at the reporting date was (continued):

	The Group		The Bank	
	2009	2008	2009	2008
Balance brought forward	86,477,820	83,705,440	79,981,432	77,720,964
Past due and impaired loans more than 90 days	2,701,057	2,197,975	2,428,312	2,042,250
Interest receivable	882,683	857,735	823,955	801,010
Gross loan portfolio	90,061,560	86,761,150	83,233,699	80,564,224
Less: Allowance for impairment losses	(720,714)	(608,766)	(678,763)	(567,509)
	89,340,846	86,152,384	82,554,936	79,996,715

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of loans not past due up to 90 days.

(ii) Renegotiated loans

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account may be reset to a normal status and managed together with other similar accounts after careful analysis and the demonstration to maintain the scheduled payments over a prolonged period.

Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review.

The Group's and Bank's renegotiated loans that would otherwise be past due or impaired totalled $59,199 (2008: $35,286).

(iii) Repossessed collateral

In general, the Group does not obtain financial or non-financial assets by taking possession of collateral. In the normal course of business, the security documentation which governs the collateral charged in favour of the Group to secure the debt, gives the Group express authority to repossess the collateral in the event of default. Repossessed collateral are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

The Group has no repossessed collateral.

(iv) Collateral accepted as security for assets

The fair value of assets accepted as collateral that the Group is permitted to sell or repledge in the absence of default is Nil (2008: Nil). The fair value of any such collateral that has been sold or repledged was Nil (2008: Nil).

23. Impairment losses on loans

	The Group		The Bank	
	2009	2008	2009	2008
Total non-performing loans	2,701,057	2,197,975	2,428,312	2,042,250
Allowance at beginning of year	608,766	530,368	567,509	498,776
Charged against revenue during the year	1,800,819	756,220	1,799,143	746,555
Bad debts written off	(2,133,547)	(932,752)	(2,132,565)	(932,752)
Recoveries of bad debts	444,676	254,930	444,676	254,930
Allowance at end of year	720,714	608,766	678,763	567,509
This comprises:				
Specific allowance	464,808	346,248	423,740	305,810
General allowance	255,906	262,518	255,023	261,699
	720,714	608,766	678,763	567,509

Allowance for impairment losses

A loan is classified as impaired if its book value exceeds the present value of the cash flows actually expected in future periods from interest payments, principal repayments, and proceeds of liquidation of collateral. Provisions for credit losses are made on all impaired loans. Uncollected interest on impaired loans not accrued in these financial statements was estimated at $212,815 as at October 31, 2009 (2008: $144,766) for the Group and $191,296 as at October 31, 2009 (2008: $132,168) for the Bank.

The total allowance for loan losses is made up as follows:

	The Group		The Bank	
	2009	2008	2009	2008
Allowance based on accounting standard - IAS 39 [see (a) below]	720,714	608,766	678,763	567,509
Additional allowance based on BOJ regulations [see (b) below]	1,709,767	1,295,232	1,596,943	1,248,712
	2,430,481	1,903,998	2,275,706	1,816,221

(a) This is the allowance based on the requirements of IAS 39, *Financial Instruments: Recognition and Measurement*, and is the amount included in the table above.

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

24. Investment securities

	The Group		The Bank	
	2009	2008	2009	2008
Available-for-sale (AFS)				
Government of Jamaica securities	24,700,596	18,197,603	18,449,125	13,307,690
Corporate bonds	-	84,392	-	-
Unquoted shares	175,188	212,687	175,188	212,687
Interest receivable	967,400	657,279	792,519	578,497
	25,843,184	19,151,961	19,416,832	14,098,874

	The Group		The Bank	
	2009	2008	2009	2008
Held-to-Maturity (HTM)				
Government of Jamaica securities	44,605,759	34,970,048	10,998,547	9,736,607
Interest receivable	1,971,198	971,564	671,316	359,738
	46,576,957	35,941,612	11,669,863	10,096,345

Included in investment securities are Government of Jamaica Local Registered Stocks with a fair value of $110,000 (2008 - $90,000) which have been deposited by one of the Bank's subsidiaries, Scotia Jamaica Life Insurance Company Limited, with the insurance regulator, Financial Services Commission, pursuant to Section 8(1)(a) of the Insurance Regulations 2001.

The Group has not reclassified any HTM securities (measured at amortized cost) to AFS securities, (measured at fair value), during the year.

25. Sundry assets

	The Group		The Bank	
	2009	2008	2009	2008
Accounts receivable and prepayments	181,401	156,085	179,012	155,658
Other	171,620	483,077	172,849	483,076
	353,021	639,162	351,861	638,734

26. Property, plant and equipment

	The Group				
	Freehold Land and Buildings	Leasehold Improvements	Furniture, Fixtures, Motor vehicles & Equipment	Capital Work-in-Progress	Total
Cost:					
October 31, 2007	1,665,552	203,717	3,113,597	201,341	5,184,207
Additions	8,886	1,832	76,418	485,599	572,735
Disposals	(19)	-	(91,067)	-	(91,086)
Transfers	108,562	13,781	195,315	(317,658)	-
Write offs	-	-	-	(1,793)	(1,793)
October 31, 2008	1,782,981	219,330	3,294,263	367,489	5,664,063
Additions	28,071	4,102	95,341	768,305	895,819
Disposals	-	-	(22,920)	-	(22,920)
Transfers	391,628	21,839	319,126	(732,593)	-
October 31, 2009	2,202,680	245,271	3,685,810	403,201	6,536,962
Accumulated depreciation:					
October 31, 2007	259,235	121,028	2,250,103	-	2,630,366
Charge for the year	33,699	21,864	257,776	-	313,339
Eliminated on disposals	-	-	(87,411)	-	(87,411)
October 31, 2008	292,934	142,892	2,420,468	-	2,856,294
Charge for the year	43,014	22,777	279,916	-	345,707
Eliminated on disposals	-	-	(22,261)	-	(22,261)
October 31, 2009	335,948	165,669	2,678,123	-	3,179,740
Net book values					
October 31, 2009	1,866,732	79,602	1,007,687	403,201	3,357,222
October 31, 2008	1,490,047	76,438	873,795	367,489	2,807,769
October 31, 2007	1,406,317	82,689	863,494	201,341	2,553,841

26. Property, plant and equipment (continued)

	The Bank				
	Freehold Land and Buildings	Leasehold Improvements	Furniture, Fixtures, Motor vehicles & Equipment	Capital Work-in Progress	Total
Cost:					
October 31, 2007	1,614,808	199,905	3,052,497	200,056	5,067,266
Additions	8,886	1,832	71,165	485,417	567,300
Disposals	(19)	-	(90,338)	-	(90,357)
Transfers	108,562	13,781	195,315	(317,658)	-
Write offs	-	-	-	(1,063)	(1,063)
October 31, 2008	1,732,237	215,518	3,228,639	366,752	5,543,146
Additions	28,071	3,876	87,838	767,660	887,445
Disposals	-	-	(22,603)	-	(22,603)
Transfers	391,628	21,839	318,481	(731,948)	-
Write offs	-	-	-	-	-
October 31, 2009	2,151,936	241,233	3,612,355	402,464	6,407,988
Accumulated depreciation:					
October 31, 2007	245,927	119,091	2,208,928	-	2,573,946
Charge for the year	33,069	21,864	251,320	-	306,253
On disposals	-	-	(87,383)	-	(87,383)
October 31, 2008	278,996	140,955	2,372,865	-	2,792,816
Charge for the year	41,844	22,107	273,470	-	337,421
On disposals	-	-	(22,049)	-	(22,049)
October 31, 2009	320,840	163,062	2,624,286	-	3,108,188
Net book values					
October 31, 2009	1,831,096	78,171	988,069	402,464	3,299,800
October 31, 2008	1,453,241	74,563	855,774	366,752	2,750,330
October 31, 2007	1,368,881	80,814	843,569	200,056	2,493,320

27. Retirement benefit asset/obligation

Amounts recognised in the balance sheet:

	The Group and The Bank	
	2009	2008
Defined benefit pension plan	5,827,140	5,402,224
Other post retirement benefits	(1,132,488)	(930,576)
	4,694,652	4,471,648

(a) Defined benefit pension plan

The Group has established a pension plan covering all permanent employees. The pension plan is a final salary (the average of the best three consecutive years' remuneration, with no salary cap) defined benefit plan and is fully funded. The assets of the plan are held independently of the Group's assets in a separate trustee-administered fund. The fund established under the plan is valued by independent actuaries annually using the Projected Unit Credit Method. The latest actuarial valuation was carried out as at October 31, 2009.

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

	The Group and The Bank	
	2009	2008
Present value of funded obligations	(10,948,143)	(9,087,313)
Fair value of plan assets	26,446,396	22,726,007
Unrecognised actuarial gains	(4,388,599)	(3,915,583)
	11,109,654	9,723,111
Limitation on recognition of surplus due to uncertainty of obtaining future benefits	(5,282,514)	(4,320,887)
Asset in the balance sheet	5,827,140	5,402,224
Pension plan assets include the following:		
The parent company's ordinary stock units	989,684	1,201,133

27. Retirement benefit asset/obligation (continued)

(a) Defined benefit pension plan (continued)

(ii) The movement in the present value of funded obligations for the year is as follows:

	The Group	
	2009	2008
At beginning of year	(9,087,313)	(6,911,961)
Interest and service costs	(1,738,688)	(1,401,802)
Past service cost – vested benefits	-	(1,128,199)
Actuarial loss on obligation	(706,720)	(102,382)
Benefits paid	584,578	457,031
At end of year	(10,948,143)	(9,087,313)

(iii) The movement in fair value of plan assets for the year is as follows:

	The Group and The Bank	
	2009	2008
At beginning of year	22,726,007	20,514,621
Expected return on plan assets	2,712,372	2,146,694
Actuarial loss on plan assets	1,253,835	204,530
Contributions	338,760	317,193
Benefits paid	(584,578)	(457,031)
At end of year	26,446,396	22,726,007

(iv) Analysis of fair value of plan assets:

	The Group and The Bank	
	2009	2008
Government stocks and bonds	20,992,497	15,423,191
Quoted investments	1,751,417	2,289,702
Repurchase agreements	1,255,934	2,918,306
Real estate	982,822	812,822
Net current assets	1,463,726	1,281,986
	26,446,396	22,726,007

27. Retirement benefit asset/obligation (continued)

(a) Defined benefit pension plan (continued)

(v) The amounts recognised in the statement of revenue and expenses are as follows:

	The Group and The Bank	
	2009	2008
Current service cost, net of employee contributions	225,782	128,552
Interest cost	1,211,843	1,023,716
Expected return on plan assets	(2,712,372)	(2,146,694)
Net actuarial gain recognised in year	(74,100)	(83,100)
Past service cost-vested benefits	-	1,128,199
Income not recognised due to limit	961,629	(570,453)
Included in staff costs (note 11)	(387,218)	(519,780)

The actual return on plan assets was $3,966,207 (2008: $2,351,224).

(vi) The principal actuarial assumptions used were as follows:

	The Group and The Bank	
	2009	2008
Discount rate	18.0%	13.0%
Expected return on plan assets	12.0%	10.5%
Future salary increases	14.5%	10.5%
Future pension increases	11.5%	4.5%
Average expected remaining working lives (years)	22.2	22.2

(b) Other post retirement benefits

In addition to pension benefits, the Bank offers retiree medical and group 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 plan.

In addition to the assumptions used for the pension plan, the main actuarial assumption is a long-term increase in health costs of 13.5% per year (2008: 10.5%).

(i) The amounts recognised in the balance sheet are as follows:

	The Group and The Bank	
	2009	2008
Present value of unfunded obligations	(1,569,756)	(1,209,160)
Unrecognised actuarial losses	437,268	278,584
Liability in the balance sheet	(1,132,488)	(930,576)

27. Retirement benefit asset/obligation (continued)

(b) Other post retirement benefits (continued)

(ii) The movement in the present value of unfunded obligations for the year is as follows:

	The Group and The Bank	
	2009	2008
At beginning of year	(1,209,160)	(1,141,333)
Interest and service costs	(232,043)	(222,131)
Actuarial (gain)/loss on obligation	(164,539)	128,228
Benefits paid	35,986	26,076
Liability in the balance sheet	(1,569,756)	(1,209,160)

(iii) The amounts recognised in the statement of revenue and expenses are as follows:

	The Group and The Bank	
	2009	2008
Current service cost	68,311	72,083
Interest cost	163,732	150,048
Net actuarial losses recognised in year	5,855	11,400
Total included in staff costs (Note 11)	237,898	233,531

(c) Five year trend analysis

	Pension				
	2009	2008	2007	2006	2005
Fair value of plan assets	26,446,396	22,726,007	20,514,620	18,483,277	16,377,620
Present value of defined benefit obligation	10,948,143	9,087,313	6,911,961	5,872,871	5,124,428
Surplus in the plan	15,498,253	13,638,694	13,602,659	12,610,406	11,253,192
Experience adjustments to plan liabilities	793,979	427,376	474,870	(397,996)	225,179
Experience adjustments to plan assets	1,253,835	(204,530)	21,643	352,091	306,914

	Health and Group Life				
	2009	2008	2007	2006	2005
Present value of defined benefit obligation	1,569,756	1,209,160	1,141,333	1,195,379	877,965
Deficit in the plan	(1,569,756)	(1,209,160)	(1,141,333)	(1,195,379)	(877,965)
Experience adjustments to plan liabilities	(184,950)	(8,502)	(140,505)	56,384	422,921

28. Deposits by the public

	The Group		The Bank	
	2009	2008	2009	2008
Personal	83,636,974	75,980,234	79,925,360	72,194,221
Other	55,346,251	50,723,813	54,832,832	49,973,408
Interest payable	249,848	213,856	201,909	163,640
	139,233,073	126,917,903	134,960,101	122,331,269

Deposits include $1,478,702 (2008: $260,093) held as collateral for irrevocable commitments under letters of credit.

29. Amounts due to other banks and financial institutions

These represent deposits by other banks and financial institutions in the normal course of business.

30. Due to ultimate parent company

	The Group and Bank	
	2009	2008
Bank of Nova Scotia:		
Facility I	1,065,158	984,018
Facility II	3,260,331	2,785,447
Facility III	3,510,686	2,999,337
	7,836,175	6,768,802
Interest payable	85,305	71,488
	7,921,480	6,840,290
Deposits held with the Bank :		
Scotia Group Jamaica Limited	388,940	155,185
Bank of Nova Scotia	6,405	8,231
	8,316,825	7,003,706

(i) Facility I is a US$ denominated fifteen (15) year non-revolving loan from the parent company, for on-lending. The repayment of the principal commenced June 30, 2003 and is subject to an interest rate of LIBOR + 1% per annum.

(ii) Facility II is a US$ denominated twelve (12) year non-revolving loan from the parent company, for on-lending. The repayment of the principal will commence May 2012 and is subject to a fixed interest rate of 5.63% per annum.

(iii) Facility III is a US$ denominated fourteen (14) year non-revolving loan from the parent company, for on-lending. The repayment of the principal will commence May 2012 and is subject to a fixed interest rate of 5.95% per annum.

The above loan facilities are unsecured.

31. Amounts due to subsidiaries and fellow subsidiaries

These represent accounts held by subsidiaries and fellow subsidiaries in the normal course of business.

32. Other liabilities

	The Group		The Bank	
	2009	2008	2009	2008
Accrued vacation and redundancy	77,149	59,314	72,511	55,158
Other accrued liabilities	1,322,586	812,583	1,276,517	789,818
Prepaid letters of credit	139,179	30,316	139,179	30,316
Other	599,303	239,858	571,248	220,084
	2,138,217	1,142,071	2,059,455	1,095,376

33. Deferred tax assets and liabilities

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of:

- 30% for The Scotia Jamaica Building Society;
- 15% for Scotia Jamaica Life Insurance Company Limited, and
- 33⅓ for the Bank and all its other subsidiaries.

(a) The movement on the deferred income tax account is as follows:

	The Group		The Bank	
	2009	2008	2009	2008
Balances at beginning of year	(1,567,740)	(1,767,044)	(1,395,154)	(1,666,896)
Recognised in the statement of revenue and expenses (note 15)	(348,963)	(356,967)	(171,951)	(282,177)
Recognised in equity on available-for-sale investments:				
- fair value re-measurement	(244,974)	550,655	(269,442)	548,303
- transfer to net profit	(48,391)	5,616	(2,391)	5,616
Net Deferred Tax Asset and Liability	(2,210,068)	(1,567,740)	(1,838,938)	(1,395,154)

33. Deferred tax assets and liabilities (continued)

(b) Deferred income tax assets and liabilities are attributable to the following items:

	The Group		The Bank	
	2009	2008	2009	2008
Other post retirement benefits	377,496	310,192	377,496	310,192
Available-for-sale investments	201,687	495,053	213,365	485,198
Vacation accrued	24,942	19,107	24,170	18,386
Pension benefits	(1,942,380)	(1,800,742)	(1,942,380)	(1,800,742)
Accelerated tax depreciation	(153,831)	(155,007)	(152,714)	(153,944)
Impairment losses on loans	(384,475)	(260,618)	(358,875)	(254,244)
Interest receivable other	(333,507)	(175,725)	-	-
Net deferred tax liability	(2,210,068)	(1,567,740)	(1,838,938)	(1,395,154)

This is comprised of:

	The Group		The Bank	
	2009	2008	2009	2008
Deferred tax asset	-	178	-	-
Deferred tax liability	(2,210,068)	(1,567,918)	(1,838,938)	(1,395,154)
	(2,210,068)	(1,567,740)	(1,838,938)	(1,395,154)

(c) The deferred tax charge in the statement of revenue and expenses comprises tax arising from the following temporary differences:

	The Group		The Bank	
	2009	2008	2009	2008
Accelerated tax depreciation	(1,176)	64,694	(1,230)	64,692
Pensions and other post retirement benefits	74,334	117,875	74,334	117,863
Allowance for loan impairment	123,858	98,945	104,631	100,362
Vacation accrued	(5,835)	(839)	(5,784)	(740)
Interest receivable	157,782	76,292	-	-
Total [note 15(a)]	348,963	356,967	171,951	282,177

Deferred income tax liabilities exclude withholding tax and other taxes that would be payable on distribution of the unappropriated profits of subsidiaries as such amounts are permanently reinvested, such unappropriated profits totaled $14,293,187 at October 31, 2009 (2008: $11,332,114).

34. **Share capital**

	Number of Units '000	
	2009	2008
Authorised:		
Ordinary shares of no par value	3,000,000	3,000,000
Preference shares of no par value	100,000	100,000
	3,100,000	3,100,000

	Number of Units '000		Amount	
	2009	2008	2009	2008
Issued and fully paid:				
Ordinary stock units	2,927,232	2,927,232	2,927,232	2,927,232
Preference shares	100,000	100,000	100,000	100,000
Total stated capital	3,027,232	3,027,232	3,027,232	3,027,232
Less: Redeemable preference shares required by IFRS to be accounted for as a liability	(100,000)	(100,000)	(100,000)	(100,000)
	2,927,232	2,927,232	2,927,232	2,927,232

Stated capital comprises both the ordinary and preference shares in accordance with the Companies Act. However, in accordance with IFRS the preference shares are presented as a liability.

Under the provisions of the Companies Act 2004, the shares have no par value.

The key terms and conditions of the redeemable preference shares are:

(1) the right to a cumulative preferential dividend payable semi-annually on June 30 and December 31 at the rate of the six month's weighted average Treasury Bill yield at the start of the dividend period.

(2) the right on winding to recover the amounts paid up on the preference shares and any arrears or accruals of the preference dividend.

(3) no right to vote except:
- (i) if the preference dividend is in arrears for more than six months.
- (ii) any resolution is proposed for the winding up of the company
- (iii) there is a proposal submitted to the meeting to vary the special rights and privileges attached to the preference shares.

35. **Reserve fund**

	The Group		The Bank	
	2009	2008	2009	2008
As at October 31	3,158,481	3,158,481	2,930,616	2,930,616

35. Reserve fund (continued)

In accordance with the regulations under which they operate, certain companies in the Group are required to make transfers of a minimum of 15% or 10% of net profit, depending on the circumstances, to the reserve fund until the required statutory levels are attained. As the required levels have been attained, no further transfers are being made.

36. Retained earnings reserve

Transfers to the retained earnings reserve are made at the discretion of the Board of Directors. Such transfers must be notified to the Bank of Jamaica and any transfer out of the retained earnings reserve must be approved by the Bank of Jamaica.

37. Cumulative remeasurement result from available-for-sale financial assets

This represents the unrealized surplus or deficit on the revaluation of available-for-sale investments.

38. Capital reserve

This represents the gain on liquidation of Scotia Jamaica General Insurance Brokers Limited.

39. Loan loss reserve

This is a non-distributable loan loss reserve which represents the excess of the regulatory loan loss provision over IAS 39 requirements (note 23).

40. Other reserves

	The Group	
	2009	2008
Capital reserve arising on consolidation, net	67	67
Reserves of subsidiary capitalised through issue of bonus shares	7,548	7,548
General reserve	136	136
Transfer of reserves relating to the liquidation of a subsidiary	(4,823)	(4,823)
	2,928	2,928

41. Financial risk management

(a) Overview and risk management framework

By their nature, the Group's activities are principally related to the use of financial instruments. Therefore, this will involve analysis, evaluation and management of some degree of risk or combination of risks. The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

41. Financial risk management (continued)

(a) Overview and risk management framework (continued)

The Board of Directors is ultimately responsible for the establishment and oversight of the Group's risk management framework. The Board has established committees for managing and monitoring risks.

Two key committees for managing and monitoring risks are as follows:

(i) Board Audit Committee

The Board Audit Committee is comprised solely of independent directors. The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Committee is assisted in its oversight role by the Internal Audit Department. The Internal Audit Department undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board Audit Committee.

The Board Audit Committee also reviews the annual and quarterly financial statements, related policies and assumptions for recommendation of approval to the Board of Directors.

(ii) Asset and Liability Committee

The Asset and Liability Committee (ALCO) has the responsibility of ensuring that risks are managed within the limits established by the Board of Directors. The Committee meets at least once monthly to review risks, evaluate performance and provide strategic direction. The Committee reviews investment, loan and funding activities, and ensures that the existing policies comprehensively deal with the management and diversification of the Group's investment and loan portfolios and that appropriate limits are being adhered to.

The Investment Advisory Committee performs a similar role to ALCO for Scotia Jamaica Life Insurance, which provides a specialized focus due to the different nature of the insurance business.

The most important types of risk are credit risk, market risk, liquidity risk, and insurance risk. Market risk includes currency risk and interest rate risk.

41. Financial risk management (continued)

(b) Credit risk

(i) Credit risk management

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are made for losses that have been incurred at the balance sheet date. However significant negative changes in the economy, or industry segment that represents a concentration in the Group's loan portfolio, or positions in tradeable assets such as bonds could result in losses that are different from those provided for at the balance sheet date.

At a strategic level, the Group manages the levels of credit risk they undertake by placing limits on the amount of risk accepted in relation to any one borrower, or groups of borrowers, and industry segments. Limits on the level of credit risk are approved quarterly by the Board of Directors. The exposure to any one borrower, including banks and brokers, is further restricted by sub-limits covering on and off-balance sheet exposures. Actual exposures against limits are monitored daily.

Operationally, 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 restructuring loans where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. The principal collateral types for loans are:

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

In addition, the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans.

41. Financial risk management (continued)

(b) Credit risk (continued)

(i) Credit risk management (continued)

The Group's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts.

The assessment normally encompasses collateral held and the anticipated receipts for that individual account. Collectively assessed impairment allowances are provided for:

(1) portfolios of similar assets

(2) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

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 favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

(ii) 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. Commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than direct borrowing.

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

41. Financial risk management (continued)

(b) Credit risk (continued)

(iii) Credit quality

In measuring credit risk of commercial loans at the counterparty level, the Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgment and are validated, where appropriate, by comparison with externally available data. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class:

Group's internal ratings scale and mapping of external ratings based on International rating agency, Standards and Poors.

The Group's rating	External rating : Standard & Poor's equivalent
Excellent	AAA to AA+
Very Good	AA to A+
Good	A to A-
Acceptable	BBB+ to BB+
Higher Risk	BB to B-

Retail loans are risk-rated based on an internal scoring system which combine statistical analysis with credit officer judgment, and fall within the following categories:

- Excellent
- Good
- Higher risk

The table below shows the percentage of the Group's loan portfolio as at October 31, 2009 relating to loans and credit commitments for each of the Group's internal rating categories:

41. Financial risk management (continued)

(b) Credit risk (continued)

(iii) Credit quality (continued)

	Loans and credit commitments			
	The Group		The Bank	
	2009 (%)	2008 (%)	2009 (%)	2008 (%)
Excellent	17.6	5.2	14.4	5.6
Very Good	0.3	0.3	0.4	0.3
Good	15.9	21.6	14.4	18.7
Acceptable	5.1	26.0	5.5	25.4
Higher Risk	61.1	46.9	65.3	50.0
	100.0	100.0	100.0	100.0

Under the Bank of Jamaica Credit Classification, Provisioning and Non Accrual Requirements, the following classifications are used:

Standard – loans where the financial condition of the borrower is in no way impaired, and appropriate levels of cash flows or income flows are available to meet debt payments.

Special Mention – loans where credit is currently up to date and collateral values protect the Group's exposure. However, there exists evidence to suggest that certain factors could, in future, affect the borrower's ability to service the credit properly or impair the collateral.

Sub-standard – loans with well-defined credit weakness or weakness in the sector of the borrower such that cash flows are insufficient to service debt as arranged.

Doubtful – loans where collection of the debt in full is highly questionable or improbable.

Loss – loans considered uncollectible due to insolvency of the borrower. The borrower's financial position is insufficient to service or retire outstanding debt.

41. Financial risk management (continued)

(b) Credit risk (continued)

(iii) Credit quality (continued)

Using these classifications to rate credit quality, the credit profile of the Group's and Bank's loan portfolios would be as set out in the following table:

	The Group		The Bank	
	2009	2008	2009	2008
Standard	90.6%	90.6%	90.4%	90.4%
Special Mention	6.5%	6.6%	6.8%	6.8%
Sub-Standard	0.9%	1.5%	0.9%	1.5%
Doubtful	1.1%	0.7%	1.0%	0.7%
Loss	0.9%	0.6%	0.9%	0.6%
	100.0%	100.0%	100.0%	100.0%

Debt Securities

The following table presents an analysis by rating agency designation of debt and similar securities, other than loans, based on Standard & Poor's ratings or their equivalent as at October 31, 2009:

	The Group		The Bank	
	2009	2008	2009	2008
BB to B-	-	83,504,841	-	42,973,465
Lower than B-	102,898,159	-	53,426,462	-
Unrated	-	83,462	-	-
	102,898,159	83,588,303	53,426,462	42,973,465

	The Group		The Bank	
	2009	2008	2009	2008
Of which classified as:				
Deposits with the Bank of Jamaica	27,951,800	27,406,099	19,813,414	17,689,480
Investment securities				
Held-to-maturity	46,576,822	35,941,477	11,669,863	10,096,345
Available-for-sale	25,667,996	18,939,274	19,241,644	13,886,187
Pledged assets				
Held-to-maturity	2,701,541	1,301,453	2,701,541	1,301,453
Available-for-sale	-	-	-	-
	102,898,159	83,588,303	53,426,462	42,973,465

41. Financial risk management (continued)

(b) Credit risk (continued)

(iv) Maximum exposure to credit risk

The following represents the maximum exposure to credit risk, before taking account of any collateral held or other credit enhancements. For financial assets, the exposure to credit risk equals their carrying amount. For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that would have to be paid, if the guarantees were called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

	Maximum Exposure			
	The Group		The Bank	
	2009	2008	2009	2008
Deposits with the Bank of Jamaica	45,880,891	38,570,781	37,701,111	28,808,582
Due from other banks	10,376,786	14,944,451	10,345,481	14,938,900
Government securities purchased under resale agreements	692,401	523,392	1,557,259	407,920
Pledged assets	2,701,541	1,301,453	2,701,541	1,301,453
Loans, after allowance for impairment losses	89,340,846	86,152,384	82,504,936	79,996,715
Investment securities				
Available-for-sale	25,667,996	18,939,274	19,241,644	13,886,187
Held-to-maturity	46,576,957	35,941,612	11,669,863	10,096,345
Customers' liabilities under acceptances, guarantees and letters of credit	8,641,071	6,228,186	8,259,126	5,835,740
Other assets	701,834	891,437	-	-
	230,580,303	203,492,970	174,030,961	155,271,862

41. Financial risk management (continued)

(b) Credit risk (continued)

(v) Concentration of exposure to credit risk

(1) Loans and leases

The following table summarises credit exposure for loans and leases at their carrying amounts, as categorised by the industry sectors. Loans and leases are well diversified across industry sectors, and are primarily extended to customers within Jamaica.

	The Group			
	Loans and Leases	Acceptances, Guarantees and Letters of Credit	Total 2009	Total 2008
Agriculture, fishing and mining	1,471,514	72,420	1,543,934	1,009,592
Construction and real estate	1,599,953	121,128	1,721,081	2,176,584
Distribution	3,457,686	1,331,943	4,789,629	5,421,381
Financial institutions	349	1,938,029	1,938,378	3,110,999
Government and public entities	21,089,954	2,211,901	23,301,855	15,784,545
Manufacturing	4,675,719	2,326,046	7,001,765	6,841,055
Personal	44,640,435	486,334	45,126,769	44,778,766
Professional and other services	4,550,505	97,472	4,647,977	4,202,558
Tourism and entertainment	7,691,502	55,797	7,747,299	8,805,171
Interest receivable	883,943	-	883,943	858,685
Total	90,061,560	8,641,070	98,702,630	92,989,336
Total impairment allowance			(720,714)	(608,766)
			97,981,916	92,380,570

	The Bank			
	Loans and Leases	Acceptances, Guarantees and Letters of Credit	Total 2009	Total 2008
Agriculture, fishing and mining	1,471,514	72,420	1,543,934	1,009,592
Construction and real estate	1,599,953	121,128	1,721,081	2,176,584
Distribution	3,457,686	1,331,943	4,789,629	5,421,381
Financial institutions	349	1,938,029	1,938,378	3,110,999
Government and public entities	21,089,772	2,211,901	23,301,673	15,783,454
Manufacturing	4,675,719	2,326,046	7,001,765	6,841,055
Personal	37,876,640	104,389	37,981,029	38,254,639
Professional and other services	4,545,350	97,472	4,642,822	4,195,129
Tourism and entertainment	7,691,502	55,797	7,747,299	8,805,171
Interest receivable	825,215	-	825,215	801,960
Total	83,233,700	8,259,125	91,492,825	86,399,964
Total impairment allowance			(678,763)	(567,509)
			90,814,062	85,832,455

41. Financial risk management (continued)

(b) Credit risk (continued)

(v) Concentration of exposure to credit risk (continued)

(2) Debt securities and amounts due from other banks

The following table summarises credit exposure for debt securities and amounts due from other banks at their carrying amounts, as categorised by issuer:

	Maximum Exposure			
	The Group		The Bank	
	2009	2008	2009	2008
Government	74,946,358	56,097,812	33,613,048	25,283,986
Bank of Jamaica	45,880,891	38,570,781	37,701,110	28,808,582
Financial institutions	11,069,166	15,352,548	11,902,740	15,181,522
Corporate and other	135	84,527	-	-
	131,896,550	110,105,668	83,216,898	69,274,090

Other than exposure on Government of Jamaica securities there is no significant concentration of liquid funds. For securities purchased under resale agreements, titles to securities are transferred to the company for the duration of the agreement.

(c) Market

The Group manages market risk through risk limits approved by the Board of Directors. Risk limits are determined for each portfolio, and are set by product and risk type, with market liquidity being a principal factor in determining the level of limits set. Limits are set using a combination of risk measurement techniques, including position limits and stress testing to identify the potential net interest income and market value effects of the positions in different scenarios. The results of the stress tests are reviewed by senior management and by the Board of Directors.

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

The management of the individual elements of market risks – interest rate and currency risk – is as follows:

(i) 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 its financial position and cash flows.

41. Financial risk management (continued)

(c) Market Risk (continued)

(i) Interest rate risk (continued)

The Group monitors interest rate risk using its Asset and Liability model. It calculates the interest rate risk gaps, economic value and annual income amounts which are compared with risk limits approved by the Board of Directors. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly.

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

	The Group						
	2009						
	Immediately rate sensitive (1)	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	1,842,040	16,126,421	16,306,565	1,782,074	-	22,354,880	58,411,980
Securities purchased under resale agreements	-	556,200	132,281	-	-	3,920	692,401
Pledged assets	-	1,400,000	1,301,453	-	-	88	2,701,541
Loans (3)	20,133,580	33,417,814	9,726,114	16,443,620	7,780,187	1,839,531	89,340,846
Investment securities (2)							
- Available for sale	-	5,315,929	1,054,707	12,730,008	5,590,951	1,142,589	25,843,184
- Held to maturity	-	23,732,173	11,215,547	6,903,953	2,753,950	1,971,334	46,576,957
Other assets	-	-	-	-	-	18,881,363	18,881,363
Total assets	21,975,620	80,548,537	39,736,667	37,868,655	16,125,088	46,193,705	242,448,272
Deposits	119,523,293	15,071,338	7,174,887	5,197,329	5,088,126	669,695	152,724,668
Other liabilities	-	-	-	-	-	16,878,250	16,878,250
Policyholders' liabilities	20,502,283	3,459,168	12,087,203	-	-	(1,640,777)	34,407,877
Securities sold under repurchase agreements	-	267,311	-	-	-	45	267,356
Stockholders' equity	-	-	-	-	-	38,170,121	38,170,121
Total liabilities and stockholders' equity	140,025,576	18,797,817	19,262,090	5,197,329	5,088,126	54,077,334	242,448,272
Total interest rate sensitivity gap	(118,049,956)	61,750,720	20,474,577	32,671,326	11,036,962	(7,883,629)	-
Cumulative gap	(118,049,956)	(56,299,236)	(35,824,659)	(3,153,333)	7,883,629	-	-
	2008						
Total assets	25,331,157	73,979,267	37,985,910	29,376,628	12,410,366	35,377,836	214,461,164
Total liabilities and stockholders' equity	126,063,711	16,514,196	17,648,016	4,236,908	6,083,994	43,914,339	214,461,164
Total interest rate sensitivity gap	(100,732,554)	57,465,071	20,337,894	25,139,720	6,326,372	(8,536,503)	-
Cumulative gap	(100,732,554)	(43,267,483)	(22,929,589)	2,210,131	8,536,503	-	-

41. Financial risk management (continued)

(c) Market Risk (continued)

(i) Interest rate risk (continued)

	The Bank						
	2009						
	Immediately rate sensitive (1)	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	1,831,416	12,704,955	12,335,348	1,782,074	-	21,546,534	50,200,327
Securities purchased under resale agreements	-	1,555,000	-	-	-	2,259	1,557,259
Pledged assets	-	1,400,000	1,301,453	-	-	88	2,701,541
Loans (3)	20,133,580	27,606,145	9,588,839	15,792,568	7,653,002	1,780,802	82,554,936
Investment securities (2)							
- Available for sale	-	1,113,080	-	12,259,318	5,076,727	967,707	19,416,832
- Held to maturity	-	6,700,000	1,698,547	2,600,000	-	671,316	11,669,863
Investment in subsidiaries	-	-	-	-	-	242,093	242,093
Other assets	-	-	-	-	-	17,737,927	17,737,927
Total assets	21,964,996	51,079,180	24,924,187	32,433,960	12,729,729	42,948,726	186,080,778
Deposits	117,009,584	13,373,222	6,417,694	5,167,687	5,067,034	630,969	147,666,190
Other liabilities	-	-	-	-	-	16,083,283	16,083,283
Securities sold under repurchase agreement	-	267,311	-	-	-	45	267,356
Stockholders' equity	-	-	-	-	-	22,063,949	22,063,949
Total liabilities and stockholders' equity	117,009,584	13,640,533	6,417,694	5,167,687	5,067,034	38,778,246	186,080,778
Total interest rate sensitivity gap	(95,044,588)	37,438,647	18,506,493	27,266,273	7,662,695	4,170,480	-
Cumulative gap	(95,044,588)	(57,605,941)	(39,099,448)	(11,833,175)	(4,170,480)	-	-
	2008						
Total assets	25,377,674	46,364,147	23,866,133	26,102,756	11,743,831	32,917,607	166,372,148
Total liabilities and stockholders' equity	105,331,440	12,212,580	5,325,849	4,209,662	6,054,685	33,237,932	166,372,148
Total interest rate sensitivity gap	(79,953,766)	34,151,567	18,540,284	21,893,094	5,689,146	(320,325)	-
Cumulative gap	(79,953,766)	(45,802,199)	(27,261,915)	(5,368,821)	320,325	-	-

(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.

41. Financial risk management (continued)

(c) Market Risk (continued)

(i) Interest rate risk (continued)

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

	The Group 2009					
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Weighted Average
	%	%	%	%	%	%
Cash resources	0.32	10.22	22.98	8.00	-	14.99
Investment securities (1)						
Available-for-sale	-	19.47	19.81	7.85	10.24	11.36
Held to maturity	-	19.79	22.02	17.87	20.76	20.11
Securities purchased under resale agreements	-	12.69	17.21	-	-	13.58
Pledged assets	-	22.17	21.41	-	-	21.80
Loans (2)	20.70	24.24	15.04	16.17	9.07	19.54
Deposits (3)	4.37	7.53	7.48	7.12	5.97	4.98
Securities sold under repurchase agreements	-	1.03	-	-	-	1.03
Policyholders' liabilities	12.45	12.18	14.73	-	-	13.19

	The Group 2008					
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Weighted Average
	%	%	%	%	%	%
Cash resources	1.44	8.62	13.09	-	-	10.71
Investment securities (1)						
Available-for-sale	-	16.35	16.11	7.60	5.76	9.63
Held to maturity	-	15.90	16.58	14.49	17.00	15.94
Securities purchased under resale agreements	-	15.47	13.81	-	-	15.12
Pledged assets	-	-	16.51	-	-	16.51
Loans (2)	19.64	25.31	16.91	16.12	8.96	19.66
Deposits (3)	4.26	7.63	7.95	7.40	5.92	4.93
Policyholders' liabilities	9.66	11.00	11.09	-	-	10.27

41. Financial risk management (continued)

(c) Market Risk (continued)

(i) Interest rate risk (continued)

	The Bank 2009					
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Weighted average
	%	%	%	%	%	%
Cash resources	0.30	8.46	22.89	8.00	-	14.12
Investment securities (1)						
Available-for-sale	-	20.90	-	7.49	9.43	8.83
Held to maturity	-	20.08	22.10	19.57	-	20.27
Securities purchased under resale agreements	-	11.41	-	-	-	11.41
Pledged assets	-	22.17	21.41	-	-	21.80
Loans (2)	20.70	26.42	15.05	16.38	9.02	20.03
Deposits (3)	4.29	7.33	7.22	7.12	5.96	4.85
Securities sold under resale agreements	-	1.03	-	-	-	1.03

	The Bank 2008					
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Weighted average
	%	%	%	%	%	%
Cash resources	1.56	7.44	12.11	-	-	9.71
Investment securities (1)						
Available-for-sale	-	-	14.52	7.32	7.82	7.46
Held to maturity	-	16.07	16.51	13.88	-	16.08
Securities purchased under resale agreements	-	15.51	-	-	-	15.51
Pledged assets	-	-	16.51	-	-	16.51
Loans (2)	19.64	27.72	16.98	16.30	8.89	20.14
Deposits (3)	4.17	7.38	7.72	7.40	5.91	4.79

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

(1) Yields are based on book values and contractual interest adjusted for amortisation of premiums and discounts. Yields on tax-exempt investments have not been computed on a taxable equivalent basis.

(2) Yields are based on book values, net of allowance for credit losses and contractual interest rates.

(3) Yields are based on contractual interest rates.

41. Financial risk management (continued)

(c) Market Risk (continued)

(i) Interest rate risk (continued)

Sensitivity analysis

The changes in the interest rates as noted below are based on recently observed market movements. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

Sensitivity of market risk variable	2009	2008
JMD Interest rates	Increase/decrease by 600bps	Increase/decrease by 100bps
USD Interest rates	Increase/decrease by 400bps	Increase/decrease by 250bps

	The Group		The Bank	
	2009	2008	2009	2008
Effect on profit or loss	1,950,085	283,535	1,910,785	276,539
Effect on Stockholders' equity	2,060,828	414,308	2,041,714	410,119

Sensitivity to interest rate risk for SJLIC, the insurance subsidiary is considered in note 41(e) under the DCAT scenarios.

(ii) Foreign exchange risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The main currencies giving rise to this risk are the USD, CAD, GBP, and EUR. The Group ensures that the net exposure is kept to an acceptable level by matching foreign assets with liabilities as far as possible.

41. Financial risk management (continued)

(c) Market risk (continued)

(ii) Foreign exchange risk (continued)

The table below summarizes the exposure to foreign currency exchange risk:

	The Group						
	2009						
JMD Equivalent	JMD	USD	CAD	GBP	EUR	OTHER	TOTAL
ASSETS							
Cash resources	36,538,217	14,471,926	1,843,682	5,361,705	170,692	25,758	58,411,980
Investments	57,780,572	14,572,086	-	-	67,483	-	72,420,141
Govt securities purchased under resale agreements	692,401	-	-	-	-	-	692,401
Pledged assets	2,701,541	-	-	-	-	-	2,701,541
Loans	62,933,218	25,844,417	291,146	132,201	139,864	-	89,340,846
Other assets	13,517,595	3,792,077	2,710	(68,148)	1,650,455	(13,326)	18,881,363
	174,163,544	58,680,506	2,137,538	5,425,758	2,028,494	12,432	242,448,272
LIABILITIES							
Deposits	91,886,747	53,187,493	2,030,125	5,317,176	302,771	356	152,724,668
Securities sold under repurchase agreements	267,356	-	-	-	-	-	267,356
Other liabilities	9,016,123	5,890,749	107,552	126,854	1,724,896	12,076	16,878,250
Policyholders liabilities	34,407,877	-	-	-	-	-	34,407,877
	135,578,103	59,078,242	2,137,677	5,444,030	2,027,667	12,432	204,278,151
NET POSITION	38,585,441	(397,736)	(139)	(18,272)	827	-	38,170,121

41. Financial risk management (continued)

(c) Market Risk (continued)

(ii) Foreign exchange risk (continued)

	The Group						
	2008						
JMD Equivalent	JMD	USD	CAD	GBP	EUR	OTHER	TOTAL
ASSETS							
Cash resources	37,339,475	12,495,549	1,151,604	4,225,935	170,291	37,538	55,420,392
Investments	42,853,665	12,189,067	-	-	50,841	-	55,093,573
Govt securities purchased under resale agreements	523,392	-	-	-	-	-	523,392
Pledged assets	1,301,453	-	-	-	-	-	1,301,453
Loans	64,064,137	21,592,522	204,066	173,978	117,681	-	86,152,384
Other assets	11,761,325	2,751,936	14,240	(56,618)	1,526,465	(27,378)	15,969,970
	157,843,447	49,029,074	1,369,910	4,343,295	1,865,278	10,160	214,461,164
LIABILITIES							
Deposits	87,121,604	45,577,114	1,319,938	4,248,085	343,150	262	138,610,153
Other liabilities	7,170,681	4,725,289	49,668	92,048	1,524,794	9,909	13,572,389
Policyholders' liabilities	30,561,418	-	-	-	-	-	30,561,418
	124,853,703	50,302,403	1,369,606	4,340,133	1,867,944	10,171	182,743,960
NET POSITION	32,989,744	(1,273,329)	304	3,162	(2,666)	(11)	31,717,204

41. Financial risk management (continued)

(c) Market Risk (continued)

(ii) Foreign exchange risk (continued)

The table below summarizes exposure to foreign currency exchange risk:

	The Bank						
	2009						
JMD Equivalent	JMD	USD	CAD	GBP	EUR	OTHER	TOTAL
ASSETS							
Cash resources	28,400,740	14,426,820	1,843,682	5,332,635	170,692	25,758	50,200,327
Investments	16,689,219	14,572,086	-	-	67,483	-	31,328,788
Govt securities purchased under resale agreements	1,557,259	-	-	-	-	-	1,557,259
Pledged assets	2,701,541	-		-	-	-	2,701,541
Loans	56,147,309	25,844,417	291,146	132,201	139,864	-	82,554,937
Foreign exchange spot position	963,008	(776,502)	(42,645)	(64,465)	(66,851)	(13,326)	29
Other assets	11,397,973	4,577,264	45,355	-	1,717,305	-	17,737,897
	117,857,049	58,643,905	2,137,538	5,400,371	2,028,493	12,432	186,080,778
LIABILITIES							
Deposits	86,890,014	53,151,127	2,030,125	5,291,797	302,771	356	147,666,190
Securities sold under repurchase agreements	267,356	-		-	-	-	267,356
Other liabilities	8,221,309	5,890,604	107,552	126,846	1,724,896	12,076	16,083,283
Policyholders' liabilities	95,378,679	59,041,731	2,137,677	5,418,643	2,027,667	12,432	164,016,829
NET POSITION	**22,478,370**	**(397,826)**	**(139)**	**(18,272)**	**826**	**-**	**22,063,949**

	The Bank						
	2008						
JMD Equivalent	JMD	USD	CAD	GBP	EUR	OTHER	TOTAL
ASSETS							
Cash resources	27,603,260	12,424,801	1,151,604	4,214,226	170,291	37,538	45,601,720
Investments	11,955,311	12,189,067	-	-	50,841	-	24,195,219
Investment in subsidiary	242,093	-	-	-	-	-	242,093
Govt securities purchased under resale agreements	407,920	-	-	-	-	-	407,920
Pledged assets	1,301,453	-	-	-	-	-	1,301,453
Loans	57,908,469	21,592,522	204,066	173,978	117,680	-	79,996,715
Other assets	10,418,383	2,751,936	14,240	(56,618)	1,526,465	(27,378)	14,627,028
	109,836,889	48,958,326	1,369,910	4,331,586	1,865,277	10,160	166,372,148
LIABILITIES							
Deposits	81,920,083	45,547,052	1,319,938	4,237,059	343,150	262	133,369,344
Other liabilities	6,841,282	4,725,287	49,668	92,040	1,524,794	9,909	13,242,980
Policyholders' liabilities	88,761,365	50,272,339	1,369,606	4,329,099	1,867,944	10,171	146,612,324
NET POSITION	21,075,524	(1,314,013)	304	2,487	(2,667)	(11)	19,759,824

41. Financial risk management (continued)

(c) Market Risk (continued)

(ii) Foreign exchange risk (continued)

The following significant exchange rates were applied during the period:

	Average rate for the period		Reporting date spot rate	
	2009	2008	2009	2008
USD	86.8489	71.8371	89.1037	76.1253
CAD	74.1712	69.5487	81.8778	61.6269
GBP	133.4279	137.8254	145.9954	121.9273
EUR	118.4444	106.8925	129.8712	96.7723

Sensitivity to foreign exchange risk

A weakening of the JMD against the currencies indicated at October 31 would have increased/(decreased) equity and profit by the amounts shown below. This analysis is performed on the same basis for 2008. The strengthening of the JMD against the same currencies at October 31 would have had the equal but opposite effect on the amounts shown, on the basis that all other variable remain constant.

	2009	2008
USD	Increase/decrease by 20%	Increase/decrease by 7%
CAD	Increase/decrease by 30%	Increase/decrease by 25%
GBP	Increase/decrease by 25%	Increase/decrease by 20%
EUR	Increase/decrease by 30%	Increase/decrease by 20%

	The Group		The Bank	
	2009	2008	2009	2008
Effect on profit or loss and stockholders' equity	608,343	236,865	608,033	236,631

41. **Financial risk management (continued)**

(d) Liquidity Risk

The Group is exposed to daily calls on its available cash resources from overnight and maturing deposits, loan drawdowns and guarantees. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for companies to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates. Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash and central bank balances; government and corporate bonds and treasury bills; and loans.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

41. Financial risk management (continued)

(d) Liquidity risk (continued)

Financial liabilities cash flows

The tables below present the undiscounted cash flows (both interest and principal cash flows) to settle financial liabilities, based on contractual repayment obligations. The Group expects that many policyholders/depositors/customers will not request repayment on the earliest date the Group could be required to pay. The expected maturity dates of financial assets and liabilities are based on estimates made by management as determined by retention history.

	The Group					
	2009					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Total
Financial liabilities						
Deposits	133,634,266	7,918,279	8,077,920	9,387,916	-	159,018,381
Policyholders' fund	22,385,776	13,853,584	-	-	-	36,239,360
Securities sold under repurchase agreements	267,394	-	-	-	-	267,394
Other liabilities	5,240,970	2,929,138	2,563,535	1,582,773	2,331,767	14,648,183
Total liabilities (contractual maturity dates)	161,528,406	24,701,001	10,641,455	10,970,689	2,331,767	210,173,318
	2008					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Total
Financial liabilities						
Deposits	123,591,406	6,766,132	5,737,492	7,107,833	-	143,202,863
Policyholders' fund	20,219,525	12,904,742	-	-	-	33,124,267
Other liabilities	5,433,777	1,063,301	2,005,251	1,470,258	3,599,802	13,572,389
Total liabilities (contractual maturity dates)	149,244,708	20,734,175	7,742,743	8,578,091	3,599,802	189,899,519

41. Financial risk management (continued)

(d) Liquidity risk (continued)

	The Bank					
	2009					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Total
Financial liabilities						
Deposits	130,408,296	7,105,950	8,077,920	8,212,029	-	153,804,19
Security sold under repurchase agreements	267,394	-	-	-	-	267,39
Other liabilities	4,866,501	2,948,468	2,534,836	1,582,773	2,331,767	14,244,34
Total liabilities (contractual maturity dates)	135,522,191	10,054,418	10,612,756	9,794,802	2,331,767	168,315,93
	2008					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Total
Financial liabilities						
Deposits	119,909,217	5,998,310	5,737,492	6,170,496	-	137,815,515
Other liabilities	5,345,759	893,430	1,940,132	1,470,258	3,593,401	13,242,980
Total liabilities (contractual maturity dates)	125,254,976	6,891,740	7,677,624	7,640,754	3,593,401	151,058,495

41. Financial risk management (continued)

(d) Liquidity risk (continued)

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

	The Group					
	2009					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Total
Cash resources	38,756,947	17,872,959	1,782,074	-	-	58,411,980
Securities purchased under resale agreements	557,075	135,326	-	-	-	692,401
Pledged assets	88	-	2,426,484	274,969	-	2,701,541
Loans	21,907,112	13,856,212	31,810,706	21,766,816	-	89,340,846
Investment securities						
- Available-for-sale	920,149	329,041	14,595,952	9,998,042	-	25,843,184
- Held to maturity	2,794,380	11,164,104	24,438,477	8,179,996	-	46,576,957
Other assets	2,270,318	2,948,469	2,534,836	1,582,773	9,544,967	18,881,363
Total assets	67,206,069	46,306,111	77,588,529	41,802,596	9,544,967	242,448,272
Deposits	133,147,818	7,209,354	6,124,575	6,242,921	-	152,724,668
Other liabilities	5,240,763	3,293,481	2,563,535	1,582,773	4,197,698	16,878,250
Policyholders' fund	22,320,674	12,087,203	-	-	-	34,407,877
Securities sold under repurchase agreement	267,356	-	-	-	-	267,356
Stockholders' equity	-	-	-	-	38,170,121	38,170,121
Total liabilities and stockholders' equity	160,976,611	22,590,038	8,688,110	7,825,694	42,367,819	242,448,272
Total liquidity gap	(93,770,542)	23,716,073	68,900,419	33,976,902	(32,822,852)	-
Cumulative gap	(93,770,542)	(70,054,469)	(1,154,050)	32,822,852	-	-
	2008					
Total assets	59,391,503	40,991,176	67,237,484	38,333,918	8,507,083	214,461,164
Total liabilities and stockholders' equity	147,620,500	18,928,778	5,011,737	7,583,143	35,317,006	214,461,164
Total liquidity gap	(88,228,997)	22,062,398	62,225,747	30,750,775	(26,809,923)	-
Cumulative gap	(88,228,997)	(66,166,599)	(3,940,852)	26,809,923	-	-

41. Financial risk management (continued)

(d) Liquidity risk (continued)

	The Bank					
	2009					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Total
Cash resources	35,045,247	13,373,006	1,782,074	-	-	50,200,327
Securities purchased under resale agreements	1,557,259	-	-	-	-	1,557,259
Pledged assets	88	-	2,426,484	274,969	-	2,701,541
Loans	21,738,764	13,543,519	30,565,184	16,707,469	-	82,554,936
Investment securities						
- Available-for-sale	781,804	159,579	12,588,165	5,887,284	-	19,416,832
- Held to maturity	635,823	1,735,493	9,073,516	225,031	-	11,669,863
Subsidiary companies	-	-	-	-	242,093	242,093
Other assets	1,184,457	2,948,468	2,534,836	1,582,773	9,487,393	17,737,927
Total assets	60,943,442	31,760,065	58,970,259	24,677,526	9,729,486	185,080,778
Deposits	129,962,884	6,511,697	6,124,575	5,067,034	-	147,666,190
Other liabilities	4,846,502	2,948,468	2,534,836	1,582,772	4,170,705	16,083,283
Securities sold under repurchase agreement	267,356	-	-	-	-	267,356
Stockholders' equity	-	-	-	-	22,063,949	22,063,949
Total liabilities and stockholders' equity	135,076,742	9,460,165	8,659,411	6,649,806	26,234,654	185,080,778
Total liquidity gap	(74,133,300)	22,299,900	50,310,848	18,027,720	(16,505,168)	-
Cumulative gap	(74,133,300)	(51,833,400)	(1,522,552)	16,505,168	-	-
	2008					
Total assets	54,184,902	28,626,326	52,077,004	22,792,696	8,691,220	166,372,148
Total liabilities and stockholders' equity	124,943,663	6,482,836	4,946,618	6,645,806	23,353,225	166,372,148
Total liquidity gap	(70,758,761)	22,143,490	47,130,386	16,146,890	(14,662,005)	-
Cumulative gap	(70,758,761)	(48,615,271)	(1,484,885)	14,662,005	-	-

41. Financial risk management (continued)

(d) Liquidity risk (continued)

	The Bank					
	2009					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Total
Cash resources	35,045,247	13,373,006	1,782,074	-	-	50,200,327
Securities purchased under resale agreements	1,557,259	-	-	-	-	1,557,259
Pledged assets	88	-	2,426,484	274,969	-	2,701,541
Loans	21,738,764	13,543,519	30,565,184	16,707,469	-	82,554,936
Investment securities						
- Available-for-sale	781,804	159,579	12,588,165	5,887,284	-	19,416,832
- Held to maturity	635,823	1,735,493	9,073,516	225,031	-	11,669,863
Subsidiary companies	-	-	-	-	242,093	242,093
Other assets	1,184,457	2,948,468	2,534,836	1,582,773	9,487,393	17,737,927
Total assets	60,943,442	31,760,065	58,970,259	24,677,526	9,729,486	186,080,778
Deposits	129,962,884	6,511,697	6,124,575	5,067,034	-	147,666,190
Other liabilities	4,846,502	2,948,468	2,534,836	1,582,772	4,170,705	16,083,283
Securities sold under repurchase agreement	267,356	-	-	-	-	267,356
Stockholders' equity	-	-	-	-	22,063,949	22,063,949
Total liabilities and stockholders' equity	135,076,742	9,460,165	8,659,411	6,649,806	26,234,654	186,080,778
Total liquidity gap	(74,133,300)	22,299,900	50,310,848	18,027,720	(16,505,168)	-
Cumulative gap	(74,133,300)	(51,833,400)	(1,522,552)	16,505,168	-	-
	2008					
Total assets	54,184,902	28,626,326	52,077,004	22,792,696	8,691,220	166,372,148
Total liabilities and stockholders' equity	124,943,663	6,482,836	4,946,618	6,645,806	23,353,225	166,372,148
Total liquidity gap	(70,758,761)	22,143,490	47,130,386	16,146,890	(14,662,005)	-
Cumulative gap	(70,758,761)	(48,615,271)	(1,484,885)	14,662,005	-	-

41. Financial risk management (continued)

(e) Insurance risk

The group issues long term contracts that transfer insurance risk or financial risk or both. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits is greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio.

Two key matters affecting insurance risk are discussed below:

(i) Long term insurance contracts

Long-term contracts are typically for a minimum period of 5 years and a maximum period which is determined by the remaining life of the insured. In addition to the estimated benefits which may be payable under the contract, the insurer has to assess the cash flows which may be attributable to the contract.

The Group has developed its insurance underwriting strategy and reinsurance arrangements to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. The Group's underwriting strategy includes the use of a medical questionnaire with benefits limited to reflect the health condition of applicants and retention limits on any single life insured.

(1) Frequency and severity of claims

For contracts where death is the insured risk the most significant factors that could increase the overall frequency and severity of claims are epidemics and wide-ranging lifestyle changes such as in eating, smoking and exercise habits resulting in earlier or more claims than expected.

The Group charges for mortality risks on a monthly basis for all insurance contracts and has the right to alter these charges to a certain extent based on mortality experience and hence minimize its exposure to mortality risk. Delays in implementing increases in charges and market or regulatory restraints over the extent of the increases may reduce its mitigating effect.

41. Financial risk management (continued)

(e) Insurance risk (continued)

(i) Long term insurance contracts (continued)

(1) Frequency and severity of claims (continued)

The tables below indicate the concentration of insured benefits across bands of insured benefits per individual life assured and group life insured benefits. The benefit insured figures are shown gross and net of reinsurance.

	Total benefits assured			
	Before and After Reinsurance 2009	%	Before and After Reinsurance 2008	%
Individual Life Benefits assured per life				
0 to 250,000	5,456,387	18	4,811,064	21
250,001 to 500,000	2,254,603	8	2,059,880	9
500,001 to 750,000	3,335,587	11	3,277,803	14
750,001 to 1,000,000	2,703,548	9	1,889,547	8
1,000,001 to 1,500,000	5,377,502	18	4,432,037	19
1,500,001 to 2,000,000	3,799,674	13	2,224,426	10
Over 2,000,000	6,939,243	23	4,681,826	19
Total	29,866,544	100	23,376,583	100

	2009 Total benefits assured			
	Before Reinsurance	%	After Reinsurance	%
Group Life Benefits assured per life				
0 to 250,000	4,194,129	16	3,799,558	11
250,001 to 500,000	3,528,165	13	12,306,135	35
500,001 to 750,000	2,119,369	9	2,323,808	7
750,001 to 1,000,000	1,396,788	5	1,497,586	4
1,000,001 to 1,500,000	3,106,280	12	3,048,623	8
1,500,001 to 2,000,000	2,223,832	8	2,220,599	6
Over 2,000,000	9,798,448	37	10,145,547	29
Total	26,367,011	100	35,341,856	100

41. Financial risk management (continued)

(e) Insurance risk (continued)

(i) Long term insurance contracts (continued)

(1) Frequency and severity of claims (continued)

	2008 Total benefits assured			
	Before Reinsurance	%	After Reinsurance	%
Group Life Benefits assured per life				
0 to 250,000	3,799,558	11	3,799,558	11
250,001 to 500,000	12,306,135	35	12,306,135	35
500,001 to 750,000	2,323,808	7	2,323,808	7
750,001 to 1,000,000	1,497,586	4	1,497,586	4
1,000,001 to 1,500,000	3,048,623	9	3,048,623	9
1,500,001 to 2,000,000	2,220,599	6	2,220,599	6
Over 2,000,000	10,145,547	28	10,046,227	28
Total	35,341,856	100	35,242,536	100

Insurance risk for contracts disclosed in this note is also affected by the policyholders' right to pay reduced or no future premiums and to terminate the contract completely. As a result, the amount of insurance risk is also subject to the policyholders' behaviour. The Group has factored the impact of policyholders' behaviour into the assumptions used to measure these liabilities.

(2) Sources of uncertainty in the estimation of future benefit payments and premiums

Uncertainty in the estimation of future benefit payments and premium receipts for long term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and the variability in policyholder behaviour.

Estimates are made as to the expected number of deaths for each of the years in which the company is exposed to risk. The Group bases these estimates on standard industry and international mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Group's own experience.

41. Financial risk management (continued)

(e) Insurance risk (continued)

(i) Long term insurance contracts (continued)

(3) Process used in deriving assumptions

The assumptions for long term insurance contracts and the process used in deriving these assumptions have remained substantially unchanged since the previous year.

For long-term contracts with fixed and guaranteed terms, estimates are made in two stages. Estimates of future deaths, voluntary terminations and partial withdrawal of policy funds, investment returns, crediting rates, inflation and administration expenses are made and form the assumptions used for calculating the liabilities at the inception of the contract. A margin for risk and uncertainty is added to these assumptions.

New estimates are made each subsequent year based on updated Group experience studies and economic forecasts. The valuation assumptions are altered to reflect these revised best estimates. The margins for risk and uncertainty may also be altered if the underlying level of uncertainty in the updated assumptions has changed. The financial impact of revisions to the valuation assumption or the related margins is recognised in the accounting period in which the change is made.

See note 12 (c) for detailed policy assumptions.

(ii) Reinsurance risk

Reinsurance risk is the risk that a reinsurer will default and not honour obligations arising from claims. To limit its exposure of potential loss on an insurance policy, the Group cedes certain levels of risk to a reinsurer. Reinsurance ceded does not discharge the Group's liability as primary issuer. The Group also limits the probable loss in the event of a single catastrophic occurrence by reinsuring this type of risk with reinsurers. The Group manages reinsurance risk by selecting reinsurers which have established capability to meet their contractual obligations and which generally have favourable credit ratings as determined by a reputable rating agency.

41. Financial risk management (continued)

(e) Insurance risk (continued)

(ii) Reinsurance risk (continued)

Retention limits represent the level of risk retained by the insurer. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit. The retention programs used by the Group are summarized below:

Type of insurance contract	Retention
Individual, group & creditor life catastrophe	maximum retention of $420 for a single event; treaty limits apply
Group creditor life contracts	maximum retention of $15,000 per insured

(iii) Sensitivity analysis of actuarial liabilities

(1) Sensitivity arising from the valuation of life insurance contracts

The determination of actuarial liabilities is sensitive to a number of assumptions, and changes in these assumptions could have a significant effect on the valuation results.

In summary, the valuation of actuarial liabilities of life insurance contracts is sensitive to:

- the economic scenario used in the Policy Premium Method (PPM)
- the investments allocated to back the liabilities
- the underlying assumptions used, and
- the margins for adverse deviations.

Under the PPM methodology, the Appointed Actuary is required to test the actuarial liability under several economic scenarios. The tests have been done and the results of the valuation provide adequately for liabilities derived from the worst of these different scenarios.

The assumption for future investment yields has a significant impact on actuarial liabilities. The different scenarios tested under Policy Premium Method (PPM) reflect the impact of different yields.

41. Financial risk management (continued)

(e) Insurance risk (continued)

(iii) Sensitivity analysis of actuarial liabilities (continued)

(1) Sensitivity arising from the valuation of life insurance contracts (continued)

The other assumptions which are most sensitive in determining the actuarial liabilities of the Group, are in descending order of impact:

- operating expenses and taxes
- lapse
- mortality and morbidity

The following table presents the sensitivity of the liabilities to a change in assumptions:

	2009	2008
Interest rates decrease by 1%	29,902	38,912
Interest rates increase by 1%	(101,607)	(85,107)
Mortality increases by 10%	127,563	100,434
Mortality decreases by 10%	(130,488)	(103,007)
Expenses increase by 10%	(156,819)	106,417
Expenses decrease by 10%	(154,785)	(105,102)
Lapses and withdrawals increase by 10%	108,748	111,865
Lapses and withdrawals decrease by 10%	(120,807)	(124,206)

(2) Dynamic capital adequacy testing (DCAT)

DCAT is a technique used by the Group to assess the adequacy of its financial position and financial condition in the light of different future economic and policy experience scenarios. DCAT assesses the impact of the Group's financial position and condition over the next 5 years under specific scenarios as required by the Insurance Regulations.

The financial position of the Group is reflected by the amount of assets, liabilities and equity in the balance sheet at a given date.

The financial condition of the Group at a given date is its prospective ability to meet its future obligations, especially obligations to policyholders, those to whom it owes benefits, and to its shareholders.

The purpose of the DCAT is:

- to develop an understanding of the sensitivity of the total equity of the Group and future financial condition to changes in various experience factors and management policies
- to alert management to material, plausible and imminent threats to the Group's solvency
- and to describe possible courses of action to address these threats.

41. Financial risk management (continued)

(e) Insurance risk (continued)

(iii) Sensitivity analysis of actuarial liabilities (continued)

(2) Dynamic capital adequacy testing (DCAT) (continued)

A full DCAT report was completed for the Group during 2009, and the results were as follows:

- Mortality and morbidity risks
  To test this scenario, existing mortality and morbidity rates were increased by 3% starting in 2009, for five years. The accumulated deterioration would be 15% by the end of the five-year DCAT period. The results for this scenario show relative insensitivity to the change in assumptions.

- Low lapse rates
  The business was tested by applying a factor of 0.5 to existing lapse and surrender rates. Overall this scenario produces a higher surplus and a lower MCCSR ratio over the 5-year period.

- Higher lapse rates
  The business was tested by doubling existing lapses, surrenders and partial withdrawal rates. Under this scenario, the surplus decreases while the MCCSR increases.

- Expense risks
  Higher unit maintenance expenses were tested by setting the annual inflation at 5% greater than current expenses, starting in 2009, for five years. Overall, this scenario produces a lower MCCSR ratio over the 5-year period.

- Low interest rate
  An assumed decrease in the portfolio rate of 7.5% over a 5 year period was tested in this scenario. Overall, this scenario produces a lower MCCSR over the five year period.

- High sales growth
  New business was projected to grow at 10% higher than existing sales per year over five years. The increased sales result in increased profits but the MCCSR ratio falls.

- Flat sales
  This scenario assumed sales were 10% less than existing sales starting in 2009 and staying at that level for 5 years. Overall this scenario produces adverse results for the next five years.

41. Financial risk management (continued)

(e) Insurance risk (continued)

(iii) Sensitivity analysis of actuarial liabilities (continued)

(2) Dynamic capital adequacy testing (DCAT) (continued)

The DCAT conducted has not tested any correlation that may exist between assumptions. The following table represents the estimated sensitivity of each of the above scenarios for the next five years to net actuarial liabilities at the end of the project – period which is 5 years after the relevant balance sheet.

	2009		2008	
	Surplus	MCCSR	Surplus	MCCSR
Base	10,354,310	1,075%	8,173,819	810%
Variable				
Mortality risks	10,316,168	1,075%	8,142,819	808%
Low lapse rates	10,567,151	1,057%	8,376,072	811%
Higher lapse rates	9,436,190	1,167%	7,328,310	859%
Expense risks	10,258,632	1,069%	8,090,996	804%
Low interest rate	10,372,885	1,073%	8,133,417	804%
High sales growth	10,341,133	1,059%	8,186,472	798%
Flat sales	10,258,394	1,100%	8,140,607	816%

42. 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. For financial instruments for which 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 the 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. The following methods and assumptions have been used:

(i) financial instruments classified as available-for-sale and held-to-maturity: fair value is estimated by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques;

(ii) financial instruments classified as at fair value through profit or loss fair value is estimated by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognized valuation techniques. Fair value is equal to the carrying amount of these investments.

42. Fair value of financial instruments (continued)

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

(iv) the fair value of demand deposits and savings accounts with no specific maturity is considered to be the amount payable on demand at the balance sheet date; the fair value of fixed-term interest bearing deposits is based on discounted cash flows using interest rates for new deposits;

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

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

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

	The Group			
	Carrying Value 2009	Fair Value 2009	Carrying Value 2008	Fair Value 2008
Financial assets				
Loans	89,340,846	88,277,470	86,152,384	85,484,446
Pledged assets	2,701,541	2,730,442	1,301,453	1,304,113
Investment securities:				
Held-to-maturity	46,576,957	48,508,433	35,941,612	36,375,250
Financial liability				
Deposits	152,724,668	152,753,642	138,610,153	138,603,436

	The Bank			
	Carrying Value 2009	Fair Value 2009	Carrying Value 2008	Fair Value 2008
Financial assets				
Loans	82,554,936	81,725,746	79,996,715	79,510,544
Pledged assets	2,701,541	2,730,442	1,301,453	1,304,113
Investment securities:				
Held-to-maturity	11,669,863	11,820,612	10,096,345	10,071,944
Financial liability				
Deposits	147,666,190	147,724,070	133,369,344	133,394,496

43. Capital Risk Management

Capital risk is the risk that the Group fails to comply with mandated regulatory requirements, resulting in a breach of its minimum capital ratios and the possible suspension or loss of its licences.

Regulators are primarily interested in protecting the rights of depositors and policyholders, and monitor the Group closely to ensure that it is satisfactorily managing fiduciary responsibility to the depositors and policyholders. At the same time, the regulators are also interested in ensuring that the Group maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

The Group manages its capital resources according to the following objectives:

- To comply with the capital requirements established by banking, insurance and other financial intermediaries regulatory authority;
- To safeguard its ability to continue as a going concern, and meet future obligations to depositors, policyholders and stockholders;
- To provide adequate returns to stockholders by pricing investment, insurance and other contracts commensurately with the level of risk; and
- To maintain a strong capital base to support the future development of the Group's operations.

Individual banking and insurance subsidiaries are directly regulated by their respective regulator, who set and monitor their capital adequacy requirements. Required capital adequacy information is filed with the regulators at least on an annual basis.

Banking and Mortgage lending

Capital adequacy is reviewed by Executive Management, the Audit Committee and the Board of Directors. Based on the guidelines developed by the Bank of Jamaica, each regulated entity is required to:

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

Regulatory capital is divided into two tiers:

1. Tier 1 capital comprises share capital and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and
2. Tier 2 capital comprises qualifying subordinated loan capital, collective impairment allowances and revaluation surplus on fixed assets

43. Capital Risk Management (continued)

Banking and Mortgage lending (continued)

Investment in subsidiaries is deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

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

The table below summarises the composition of regulatory capital and the ratios for each subsidiary based on the similarity of the regulator. During the year, the individual entities complied with all of the externally imposed capital requirements to which they are subject.

	The Group [1]		The Bank	
	2009	2008	2009	2008
Tier 1 Capital	16,989,189	14,789,189	15,359,189	14,159,189
Tier 2 Capital	507,149	512,071	479,660	485,979
Total regulatory capital	17,496,338	15,301,260	15,838,849	14,645,168
Less prescribed adjustment	(242,093)	(242,093)	(242,093)	(242,093)
	17,254,245	15,059,167	15,596,756	14,403,075
Risk weighted assets				
On-balance sheet	80,490,692	83,524,166	76,520,108	79,910,215
Foreign exchange exposure	978,829	738,805	963,879	731,674
Total risk weighted assets	81,469,521	84,262,971	77,483,987	80,641,889
Actual regulatory capital to risk weighted assets	21.5%	17.9%	20.1%	17.9%
Regulatory requirement	10.0%	10.0%	10.0%	10.0%

[1] This relates to The Bank of Nova Scotia Jamaica Limited, and Scotia Jamaica Building Society

43. Capital Risk Management (continued)

Life Insurance

Capital adequacy is calculated by the Appointed Actuary and reviewed by Executive Management, the Audit Committee and the Board of Directors. In addition, the Group seeks to maintain internal capital adequacy levels higher than the regulatory requirement. To assist in evaluating the current business and strategic opportunities, a risk-based approach is one of the core measures of financial performance. The risk-based assessment measure which has been adopted is the Minimum Continuing Capital and Surplus Requirement (MCCSR) standard as defined by the Financial Services Commission and required by the Insurance Regulations 2001. Under the regulations, the minimum standard recommended for companies is an MCCSR of 135% in 2008 and 2009, and up to 150% in 2010 and later. The MCCSR for the insurance subsidiary as of October 31, 2009 and 2008 is set out below:

	2009	2008
Regulatory capital held	11,312,242	7,664,426
Minimum regulatory capital	662,184	977,882
MCCSR Ratio	1708%	784%

44. Commitments

	The Group		The Bank	
	2009	2008	2009	2008
(a) Capital expenditure: Authorised and contracted	160,788	406,465	160,788	406,465
(b) Commitments to extend credit: Originated term to maturity of more than one year	25,362,399	11,005,385	24,980,454	10,612,939

(c) Operating lease commitments:

The future aggregate minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2009	2008
Not later than one year	183,718	125,714
Later than one year and not later than five years	711,615	482,014
Later than five years	3,391,237	3,354,218
	4,286,570	3,961,946

45. **Pledged assets**

Assets are pledged as collateral under repurchase agreements with counterparties. Mandatory reserve deposits are also held with The Bank of Jamaica under Section 14(i) of the Banking Act, 1992, viz:

	The Group and The Bank			
	Asset		Related Liability	
	2009	2008	2009	2008
Securities with regulators	800,000	800,000	-	-
Securities with other financial institutions and clearing house	701,541	501,453	-	-
Securities sold under repurchase agreements	1,200,000	-	267,356	-
	2,701,541	1,301,453	267,356	-

The Bank of Jamaica holds as security, Government of Jamaica Local Registered Stocks and Bank of Jamaica Certificates of Deposit with a carrying amount of $800,000 (2008: $800,000) for the Group and the Bank against possible shortfalls in the operating account.

Other financial institutions hold as security, Government of Jamaica Local Registered Stocks with a carrying amount of $701,541 (2008: $501,453) for the Bank in the normal course of inter bank transactions. These transactions are conducted under terms that are usual and customary for standard securities lending and repurchase agreements.

46. **Related party transactions and balances**

The Group is controlled by Scotia Group Jamaica Limited, which is incorporated and domiciled in Jamaica. Scotia Group Jamaica Limited is a 71.78% subsidiary of The Bank of Nova Scotia, which is incorporated and domiciled in Canada, and is the ultimate parent company. The remaining 28.22% of the stock units are widely held.

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party or both parties are subject to common control or significant influence. A number of banking transactions are entered into with related parties, including companies connected by virtue of common directorships in the normal course of business. These include loans, deposits, investment management services and foreign currency transactions.

No impairment losses have been recognised in respect of loans given to related parties.

Pursuant to Section 13(1), (d) and (i) of the Banking Act, 1992, connected companies include companies that have directors in common with the Bank and/or its subsidiaries.

Related credit facilities in excess of the limits of Section 13(1), (d) and (i), subject to the maximum of the limits in Section 13(1)(e) of the Banking Act are supported by guarantees issued by the parent company.

There were no related party transactions with the ultimate parent company other than the payment of dividends, management fees, guarantee fees, centralized computing service fees and the amount due to the ultimate parent company (note 30).

46. Related party transactions and balances (continued)

The amounts of related party transactions, outstanding balances at the year end, and related expenses and income for the year are as follows:

	The Group					
	Ultimate parent	Fellow subsidiaries	Directors and Key Management Personnel	Connected companies	Total 2009	Total 2008
Loans						
Loans outstanding at beginning of year	-	-	237,724	9,367,066	9,604,790	6,776,979
Net loans issued/(repaid) during the year	-	-	130,297	1,611,394	1,741,691	2,827,811
Loans outstanding at end of year	-	-	368,021	10,978,460	11,346,481	9,604,790
Interest income earned	-	-	25,501	1,107,957	1,133,458	1,132,280
Average repayment term (Years)	-	-	10.89	4.63	4.83	4.31
Average interest rate (%)	-	-	7.86	9.77	9.71	9.71
Deposits						
Deposits outstanding at beginning of year	6,768,802	-	117,014	3,114,706	10,000,522	9,928,465
Net deposits received/(repaid) during the year	1,067,372	-	(13,949)	(145,214)	908,209	72,057
Deposits outstanding at end of year	7,836,174	-	103,065	2,969,492	10,908,731	10,000,522
Interest expense on deposits	432,557	-	3,387	118,611	554,555	413,880
Other						
Fees and commission earned	-	-	413	134,982	135,395	94,622
Insurance products	-	-	35,396	-	35,396	22,938
Securities (sold)/purchased under repurchase agreements	-	(133,830)	-	-	(133,830)	113,821
Interest (paid)/earned on repurchase agreements	-	(60,413)	-	-	(60,413)	20,559
Due from banks and other financial institutions	205,429	1,800,795	-	-	2,006,224	1,649,328
Interest earned from banks and other financial institutions	75	143,071	-	-	143,146	92,927
Due to banks and other financial institutions	226,383	2,561,571	-	-	2,787,954	2,419,012
Interest paid to banks and other financial institutions	-	43,806	-	-	43,806	11,305
Management fees paid to parent company	387,917	(33,582)	-	-	354,335	357,613
Guarantee fees paid to parent company	4,671	-	-	-	4,671	7,905
Other operating (expense)/income	(428,302)	(11,513)	-	-	(439,815)	(205,586)

46. Related party transactions and balances (continued)

	The Bank					
	Ultimate Parent	Fellow subsidiaries	Directors and Key Management Personnel	Connected companies	Total 2009	Total 2008
Loans						
Loans outstanding at beginning of year	-	-	213,461	9,367,066	9,580,527	6,743,276
Net loans issued/(repaid) during the year	-	-	89,757	1,611,394	1,701,151	2,837,251
Loans outstanding at end of year	-	-	303,218	10,978,460	11,281,678	9,580,527
Interest income earned	-	-	21,894	1,107,957	1,129,851	1,128,859
Average repayment term (Years)	-	-	8.74	4.63	4.74	4.28
Average interest rate (%)	-	-	7.46	9.77	9.71	9.71
Deposits						
Deposits outstanding at beginning of year	6,768,802	-	113,338	3,114,706	9,996,846	9,923,098
Net deposits received/(repaid) during the year	1,067,372	-	(18,394)	(145,214)	903,764	73,748
Deposits outstanding at end of year	7,836,174	-	94,944	2,969,492	10,900,610	9,996,846
Interest expense on deposits	432,557	-	2,813	118,611	553,981	413,304
Other						
Fees and commission earned	-	-	413	134,982	135,395	94,622
Securities sold under repurchase agreements	-	732,689	-	-	732,689	-
Interest paid on repurchase agreements	-	(29,638)	-	-	(29,638)	8,029
Due from banks and other financial institutions	205,429	1,800,795	-	-	2,006,224	1,649,328
Interest earned from banks and other financial institutions	75	143,071	-	-	143,146	92,927
Due to banks and other financial institutions	226,383	2,883,746	-	-	3,110,129	2,946,758
Interest paid to banks and other financial institutions	-	62,428	-	-	62,428	22,373
Management fees paid to parent company	341,411	(33,582)	-	-	307,829	304,218
Guarantee fees paid to parent company	4,671	-	-	-	4,671	7,905
Other operating (expense)/income	(428,302)	47,260	-	-	(381,042)	(284,273)

	The Group 2009	The Group 2008	The Bank 2009	The Bank 2008
Key management compensation				
Salaries and other short term benefits	395,197	310,981	331,702	256,243
Post-employment benefits	613,787	615,400	510,640	535,506

47. Litigation and contingent liabilities

(a) The Group is subject to various claims, disputes and legal proceedings, in the normal course of business. Provision is made for such matters when, in the opinion of management and its legal counsel, it is probable that a payment will be made by the Group, and the amount can be reasonably estimated.

In respect of claims asserted against the Group which have not been provided for, management is of the opinion that such claims are either without merit, can be successfully defended or will result in exposure to the Group which is immaterial to both the financial position and results of operations.

(b) On April 7, 1999, a writ was filed by National Commercial Bank Jamaica Limited ("NCB") in which they set out a claim for the sum of US$13,286,000 in connection with an alleged undertaking given to NCB by Scotia Jamaica Investment Management Limited (formerly Scotiabank Jamaica Trust and Merchant Bank Limited). Legal opinion has been obtained which states that the subsidiary has a strong defence to the claim. Consequently, no provision has been made for this amount in these financial statements.

48. Dividends

(a) Paid

	The Group and The Bank	
	2009	2008
In respect of 2007	-	848,897
In respect of 2008	965,987	2,722,326
In respect of 2009	2,897,959	-
	3,863,946	3,571,223

(b) Proposed

At the Board of Directors meeting on November 26, 2009, a dividend in respect of 2009 of $0.357 per share (2008 - actual dividend $0.33 per share) amounting to a total of $1,045,022 (2008: $965,987) was proposed. The financial statements for the year ended October 31, 2009 do not reflect this resolution, which will be accounted for in stockholders' equity as an appropriation of retained profits in the year ending October 31, 2010.

49. Employee Share Ownership Plan

The Bank has an Employee Share Ownership Plan ("ESOP" or "Plan"), the purpose of which is to encourage eligible employees of the Group to steadily increase their ownership of the parent company's shares. Participation in the Plan is voluntary; any employee who has completed at least one year's service with any Group entity is eligible to participate.

The operation of the ESOP is facilitated by a Trust. The employer and employees make contributions to the trust fund and these contributions are used to fund the acquisition of shares for the employees. Employees' contributions are determined by reference to the length of their employment and their basic annual remuneration. The employer contributions are as prescribed by the formula set out in the rules of the Plan.

The contributions are used by the trustees to acquire the parent company's shares, at market value. The shares purchased with the employees contributions vest immediately, although they are subject to the restriction that they may not be sold within two years of acquisition. Out of shares purchased with the Bank's contributions, allocations are made to participating employees, but are held by the trust for a two-year period, at the end of which they vest with the employees; if an employee leaves the employer within the two-year period, the right to these shares is forfeited; such shares then become available to be granted by the employer to other participants in accordance with the formula referred to previously.

The amount contributed by the Group to employee share purchase during the year, included in employee compensation, amounted to $34,185 (2008: $35,296).

At the balance sheet date, the shares acquired with the employer's contributions and held in trust pending allocation to employees and/or vesting were:

	2009	2008
Number of shares	3,284,867	2,213,073
Fair value of shares $'000	60,376	44,759

50. Fiduciary activities

The Group provides administration and investment management services to an approved retirement scheme. This involves the Group making allocation and purchase and sale decisions in relation to fixed income securities. Those assets that are held in a fiduciary capacity are not included in these financial statements. At the balance sheet date there were assets under administration amounting to approximately $219,498 (2008: Nil) for the Group.