FIRST GLOBAL BANK LIMITED

Your Commercial Bank from GraceKennedy

FINANCIAL STATEMENTS

31 December 2009

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
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Independent Auditors' Report

To the Members of
First Global Bank Limited

Report on the Financial Statements

We have audited the accompanying financial statements of First Global Bank Limited, set out on pages 1 to 8 which comprise the balance sheet as of 31 December 2009 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

Report on Other Legal and Regulatory Requirements

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 kept, so far as appears from our examination of those records, and the accompanying financial statements are in agreement therewith and give the information required by the Act, in the manner so required.

PricewaterhouseCoopers
Chartered Accountants

31 March 2010
Kingston, Jamaica

Balance Sheet
31 December 2009
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2009 $'000	Restated 2008 $'000	2007 $'000
ASSETS				
Cash and bank balances	5	2,574,486	2,679,171	3,617,670
Items in the course of collection from other banks		205,620	199,823	206,794
Long positions held in securities trading	6	-	2,192,949	-
Margins held by brokers for securities trading	7	-	3,732,250	-
Securities purchased under resale agreements	8	886,327	161,808	-
Loans	9	10,729,707	8,627,375	5,103,327
Investment securities	10	12,143,510	13,749,783	15,755,124
Pledged assets	10	813,143	230,000	230,000
Property, plant and equipment	11	261,405	190,933	116,022
Retirement benefit asset	12	-	50,737	49,545
Deferred tax assets	13	694,642	560,461	3,259
Taxation recoverable		41,539	22,688	1,813
Other assets	14	313,709	305,060	345,258
Customers' liability under guarantees and letters of credit		232,313	306,310	326,877
Total Assets		28,896,401	33,009,348	25,755,689
LIABILITIES				
Customer deposits	15	14,827,259	15,606,836	14,776,231
Items in the course of payment		120,678	247,669	144,950
Bank overdraft		115,224	-	-
Securities sold under repurchase agreements		5,447,124	6,842,665	6,059,132
Short positions held in securities trading	16	-	6,422,184	-
Short term loans	17	927,314	313,398	917,939
Finance lease obligations		-	-	855
Loans from specialised banks	18	2,978,989	859,439	175,293
Retirement benefit obligations	12	98,600	75,326	58,799
Taxation payable		-	-	62,661
Other liabilities	19	256,438	209,283	243,474
Guarantees and letters of credit		232,313	306,310	326,877
Total Liabilities		25,003,939	30,883,110	22,766,211
EQUITY				
Share capital	20	2,414,181	627,685	627,685
Reserve fund	21	627,685	627,685	627,685
Fair value reserve	22	(349,187)	(572,383)	24,046
Loan loss reserve	23	185,740	83,192	49,320
Retained earnings reserve	24	1,594,630	1,594,630	1,594,630
Stock option reserve	25	17,400	17,400	17,400
Accumulated deficit/retained earnings		(597,987)	(251,971)	48,712
Total Equity		3,892,462	2,126,238	2,989,478
Total Liabilities and Equity		28,896,401	33,009,348	25,755,689

Approved for issue by the Board of Directors on 30 March 2010 and signed on its behalf by:

Courtney O. S. Campbell	Director	Donald G. Wehby	Director
Orville F. Walker	Director	Rema Spence Dunn	Secretary

Statement of Comprehensive Income
Year ended 31 December 2009
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2009 $'000	Restated 2008 $'000
Interest Income –			
Loans		1,471,351	883,984
Securities	26	1,741,289	1,554,415
Other		13,862	43,297
		3,226,502	2,481,696
Interest Expense –			
Customer deposits		(980,614)	(982,657)
Securities sold under repurchase agreements		(580,969)	(501,221)
Other		(218,734)	(24,790)
		(1,780,317)	(1,508,668)
Net Interest Income		1,446,185	973,028
Provision for Loan Losses, Net	9	(202,897)	(43,999)
		1,243,288	929,029
Other Income –			
Fees and commissions	27	279,704	222,045
Gains on foreign exchange translation and trading		35,757	175,266
Loss on the sale and trading of securities	28	(643,907)	(707,072)
Other		11,717	13,879
		(316,729)	(295,882)
Net Interest and Other Income		926,559	633,147
Operating Expenses –			
Staff costs	29	(603,788)	(492,209)
Depreciation	11	(94,034)	(62,668)
Administration and other expenses	30	(717,984)	(497,905)
		(1,415,806)	(1,052,782)
Loss before Taxation		(489,247)	(419,635)
Taxation	31	245,779	152,824
Loss for the Year		(243,468)	(266,811)
Other Comprehensive Income –			
Realised gains and losses on available-for-sale investments		(2,173)	(60,147)
Fair value gains and losses on available-for-sale investments		225,369	(536,282)
		223,196	(596,429)
TOTAL COMPREHENSIVE INCOME		(20,272)	(863,240)

Statement of Changes in Equity
Year ended 31 December 2009
(expressed in Jamaican dollars unless otherwise indicated)

	Share Capital $'000	Reserve Fund $'000	Fair Value Reserve $'000	Loan Loss Reserve $'000	Retained Earnings Reserve $'000	Stock Option Reserve $'000	Retained Earnings/ (Accumulated Deficit) $'000	Total $'000
Balance at 1 January 2007	627,685	627,685	24,046	49,320	1,594,630	17,400	48,712	2,989,478
Total comprehensive income	-	-	(596,429)	-	-	-	(266,811)	(863,240)
Transfer to loan loss reserve	-	-	-	33,872	-	-	(33,872)	-
Balance at 31 December 2008, as restated (Note 37)	627,685	627,685	(572,383)	83,192	1,594,630	17,400	(251,971)	2,126,238
Total comprehensive income	-	-	223,196	-	-	-	(243,468)	(20,272)
Issue of preference shares	886,496	-	-	-	-	-	-	886,496
Issue of ordinary shares	900,000	-	-	-	-	-	-	900,000
Transfer to loan loss reserve	-	-	-	102,548	-	-	(102,548)	-
Balance at 31 December 2009	2,414,181	627,685	(349,187)	185,740	1,594,630	17,400	(597,987)	3,892,462

Statement of Cash Flows
Year ended 31 December 2009
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2009 $'000	Restated 2008 $'000
Cash Flows from Operating Activities			
Loss for the year		(243,468)	(266,811)
Adjustments to reconcile profit for the year to net cash provided by operating activities –			
Depreciation	11	94,034	62,668
Foreign exchange gains		(98,297)	(832,498)
(Gain)/loss on disposal of property, plant and equipment		(1,736)	78
Loss on securities trading		667,282	741,119
Gain on sale of investment securities		(23,375)	(34,047)
Provision for loan losses	9	202,897	43,999
Interest income		(3,226,502)	(2,481,696)
Interest expense		1,780,317	1,508,668
Taxation	31	(245,779)	(152,824)
		(1,094,627)	(1,411,344)
Changes in other operating assets and liabilities –			
Customer deposits		(651,846)	777,952
Loans		(2,293,016)	(3,524,023)
Securities sold under repurchase agreements		(1,360,617)	772,202
Positions held in securities trading		(730,255)	(571,898)
Restricted cash and bank accounts		(399,317)	(158,974)
Retirement benefits		74,011	15,335
Other assets		(8,649)	40,198
Other liabilities		47,155	(34,191)
		(6,417,161)	(4,094,743)
Interest received		3,179,957	2,390,393
Interest paid		(1,939,070)	(1,439,374)
Taxation paid		(18,851)	(189,699)
Net cash used in operating activities		(5,195,125)	(3,333,423)

	Note	2009 $'000	Restated 2008 $'000
Cash Flows from Operating Activities		(5,195,125)	(3,333,423)
Cash Flows from Investing Activities			
Investment securities		1,507,370	1,942,089
Proceeds on disposal of property, plant and equipment		1,736	1,666
Acquisition of property, plant and equipment	11	(164,506)	(139,323)
Net cash provided by investing activities		1,344,600	1,804,432
Cash Flows from Financing Activities			
Due to specialised banks		2,095,112	641,604
Obligations under finance leases		-	(855)
Issue of preference shares	20	886,496	-
Issue of ordinary shares	20	900,000	-
Net cash provided by financing activities		3,881,608	640,749
Net increase/(decrease) in cash and cash equivalents		31,083	(888,242)
Effect of foreign exchange rate changes on cash and cash equivalents		27,094	135,933
Cash and Cash Equivalents at Beginning of Year		578,196	1,330,505
CASH AND CASH EQUIVALENTS AT END OF YEAR		636,373	578,196
Comprising:			
Cash and bank balances	5	585,125	768,260
Items in the course of collection from other banks		205,620	199,823
Securities purchased under resale agreements	8	886,327	161,808
Items in the course of payment		(120,678)	(247,669)
Bank overdraft		(115,224)	-
Short term loans	17	(804,797)	(304,026)
CASH AND CASH EQUIVALENTS AT END OF YEAR		636,373	578,196

1. Identification and Activities

(a) First Global Bank Limited (the Bank) is a limited liability company incorporated and domiciled in Jamaica and is licensed under the Banking Act, 1992. The Bank is a subsidiary of First Global Holdings Limited and its ultimate parent company is GraceKennedy Limited. Both companies are incorporated and domiciled in Jamaica. The Bank's registered office is located at 73 Harbour Street, Kingston.

(b) The Bank's principal activities are the provision of commercial banking and related financial services.

2. Significant Accounting Policies

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

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and have been prepared under the historical cost convention as modified by the revaluation of certain financial assets.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Although these estimates are based on management's best knowledge of current events and actions, actual results could differ from those estimates. 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 4.

The Bank has reclassified its previous presentation of accrued interest amounts from other assets and other liabilities to the financial instruments to which they relate, and items in the course of payment from other liabilities to a new line on the balance sheet, in order to conform with changes in presentation in the current year. Accordingly, the Bank has presented its balance sheet as at the beginning of the earliest comparative period, and has presented the notes to that balance sheet that have been impacted by the restatement. The other notes have not been impacted by the reclassification. There was no effect on comprehensive income as a result of this reclassification.

Standards, interpretations and amendments to published standards effective in the current year
Certain new standards, interpretations and amendments to existing standards have been published that became effective during the current financial year. The Bank has assessed the relevance of all such new standards, interpretations and amendments and has put into effect the following, which are immediately relevant to its operations:

IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009) The revised standard requires 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). In applying this revision, the Bank has presented all owner changes in equity in the statement of changes in equity, and all non-owner changes in equity in one performance statement (the statement of comprehensive income). Comparative information has been re-presented to conform with the revised standard.

IFRS 7 (Amendment) - Financial instruments: Disclosure (effective 1 January 2009) This amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy.

IFRS 2 (Amendment), 'Vesting Conditions and Cancellations' (effective from 1 January 2009). This amendment deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment does not have a material impact on the financial statements.

Standards, interpretations and amendments to published standards not yet effective
At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which are mandatory for the Bank's accounting periods beginning on or after 1 January 2010 or later periods, but were not effective at the balance sheet date, and which the Bank has not early adopted. The Bank has assessed the relevance of all such new standards, interpretations and amendments, has determined that the following may be relevant to its operations, and has concluded as follows:

IFRS 9, 'Financial Instruments' (effective on or after 1 January 2013). This standard specifies how an entity should classify and measure financial assets, including some hybrid contracts. They require all financial assets to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset; initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs; and subsequently measured at amortised cost or fair value. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of IAS 39. They apply a consistent approach to classifying financial assets and replace the four categories of financial assets in IAS 39, each of which had its own classification criteria. They also result in one impairment method, replacing the two impairment methods in IAS 39 that arise from the different classification categories. The Bank is still assessing the potential impact of IFRS 9 and whether it should adopt the standard prior to the effective date to take advantage of the transitional arrangements which vary depending on the date of initial adoption.

IFRS 2 (Amendment), 'Group cash-settled and share-based payment transactions' (effective from 1 January 2010). In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The new guidance is not expected to have a material impact on the financial statements. The Bank will apply the amendment from 1 January 2010, but it is not expected to have a material impact on the financial statements.

IFRIC 17 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Bank will apply IFRIC 17 from 1 January 2010, but it is not expected to have a material impact on the financial statements.

(b) Foreign currency translation

Functional and presentation currency
Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Jamaican dollars which is the Bank's functional and presentation currency.

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

Changes in the fair value of monetary assets denominated in foreign currencies and classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the asset and other changes. Translation differences resulting from the changes in amortised cost are recognised in arriving at net profit or loss and other changes are recognised in other comprehensive income.

(c) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, bank overdrafts and loans used for short term liquidity.

(d) Positions held in securities trading

Positions held in securities trading are initially recorded at their fair value, with a corresponding entry to reflect the margin balance held by the brokers who facilitate the trades. The positions are subsequently remeasured at fair value, with gains or losses being recognised in arriving at net profit or loss. Positions held in securities trading are derocognised when the position is closed and the Bank buys/sells the securities to cover its short/long position and clears the margin balance with the broker.

(e) Securities purchased/sold under resale/repurchase agreements

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

Notes to the Financial Statements
31 December 2009
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(f) Loans and provision for credit losses

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

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

For non-performing and impaired loans the accrual of interest income based on the original terms of the loan is discontinued. Jamaican banking regulations require that interest on non-performing loans be taken into account on the cash basis. IFRS require that interest income on non-performing loans be accrued, to the extent collectible, and that the increase in the present value of impaired loans due to the passage of time be reported as interest income. The difference between the Jamaican regulatory basis and IFRS was assessed to be immaterial.

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

Statutory and other regulatory loan loss reserve requirements that exceed the amounts required under IFRS are dealt with in a non-distributable loan loss reserve as an appropriation of retained earnings.

(g) Investment securities

Classification
The Bank classifies its investment securities in the available-for-sale and loans and receivables categories. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its investment securities at initial recognition and re-evaluates this designation at every reporting date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables either meet the definition of loans and receivables at the date of acquisition, or at the date of reclassification from another category. Financial assets which have been reclassified to this category, meet the definition of loans and receivables as a result of the respective securities becoming inactive during the previous financial year. The Bank has elected to reclassify the financial assets reclassified to loans and receivables, to available-for-sale, once the markets for these securities become active again.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other category.

Recognition and measurement
Regular purchases and sales of financial assets are recognised on the settlement date – the date on which an asset is delivered to or by the Bank – and are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Changes in the fair value of investments classified as available-for-sale are recognised in other comprehensive income.

When investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in arriving at net profit or loss. Interest on available-for-sale securities calculated using the effective interest method is recognised in arriving at net profit or loss. Dividends on available-for-sale equity instruments are recognised in arriving at net profit or loss when the Bank's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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

Impairment
The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in arriving at net profit or loss – is removed from equity and recognised in arriving at net profit or loss. Impairment losses on equity instruments recognised in arriving at net profit or loss are not reversed.

Debt securities are considered impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event or events has an impact on the estimated future cash flows that can be reliably estimated. The amount of loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate. For debt securities carried at amortised cost, the asset's carrying amount is reduced and the amount of loss is recognised in arriving at net profit or loss. For debt securities classified as available-for-sale, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in arriving at net profit or loss – is removed from equity and recognised in arriving at net profit or loss in the current year. If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in arriving at net profit or loss for the current year.

(h) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation.

Depreciation is calculated on the straight-line basis at such rates as will write off the carrying value of the assets over the shorter of their expected useful lives or the lease period. The expected useful lives are as follows:

Leasehold improvements	5 years
Office equipment, furniture and fixtures	10 years
Computer equipment	3 years
Motor vehicles	5 years

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

Repairs and maintenance expenses are charged in arriving at net profit or loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the assessed standard of performance of the existing asset will flow to the company. Major renovations are depreciated over the remaining useful life of the related asset.

(i) Employee benefits

Pension obligations
The Bank participates in a defined benefit plan operated by the ultimate parent company. The scheme is generally funded through payments to a trustee-administered fund as determined by periodic actuarial calculations. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

The asset or liability in respect of defined benefit pension plans is the difference between the present value of the defined benefit obligation at the balance date and the fair value of the plan assets, together with adjustments for actuarial gains and 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 defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The defined benefit obligation is measured at the present value of the estimated future outflows using discount rates based on market yields on government securities that have terms to maturity approximating the term of the related liability.

Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are charged or credited to income over the average remaining service lives of the related employees.

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

Other retirement benefit obligations
The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using accounting methodology similar to that for defined benefit pension plans. These obligations are valued annually by independent qualified actuaries.

Equity compensation benefits
The ultimate parent company operates an equity-settled, share-based compensation plan, in which the Bank participates. Stock options in the ultimate parent company are granted to management and key employees of the Bank. The fair value of the employee's services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of non-market vesting conditions. Options are granted at the market price of the shares on the date of the grant and are exercisable at that price. Options are exercisable beginning one year from the date of the grant and have a contractual option term of six years. When options are exercised, the proceeds received, net of any transaction costs are passed on to the ultimate parent company and credited to Stock Option Reserve.

Notes to the Financial Statements
31 December 2009
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(i) Employee benefits (continued)

Termination benefits
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 Bank recognises termination benefits when it is demonstrably committed to either terminate the employment of the current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

Incentive plans
The Bank recognises a liability and an expense for bonuses based on a formula that takes into consideration the results for the year after certain adjustments. The Bank recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(j) Income taxes

Taxation expense in the income statement comprises current and deferred tax charges.

Current tax charges are based on taxable profits for the year, which differ 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 Bank's liability for current tax is calculated at tax rates that have been enacted at the balance sheet date.

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

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

Current and deferred taxes are recognised as income tax expense or benefit in arriving at net profit or loss, except where they relate to items recorded in other comprehensive income, they are also charged or credited to other comprehensive income.

(k) Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method. Any differences between proceeds, net of transaction costs, and the redemption value is recognised in arriving at net profit or loss over the period of the borrowings using the effective yield method.

(l) Income and expense recognition

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expenses over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Bank estimates cash flows considering the contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

Fee and commission income
Fee and commission income is generally recognised on an accrual basis when the service has been provided. Loan origination fees for loans which are likely to be drawn down are deferred, together with related direct costs, and recognised as an adjustment to the effective interest on the loan. Fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction.

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

(m) Leases

Leases where the Bank has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant periodic rate of interest on the remaining balance for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

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

3. Financial Risk Management

The information provided in this Note is based on the Bank's investment portfolio as at 31 December 2009. As described in Note 35, the Bank participated in the Jamaica Debt Exchange (JDX) which resulted in significant changes to the Bank's investment portfolio in February 2010.

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

The Bank'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 Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors is ultimately responsible for the establishment and oversight of the Bank's risk management framework. The following committees were established for managing and monitoring risks:

Asset and Liability Committee
The Asset and Liability Committee (ALCO) is a management committee responsible for monitoring and formulating investment portfolios and investment strategies for the Bank. ALCO is also responsible for monitoring adherence to trading limits. Other responsibilities of ALCO include:

- Monitoring management's adherence to policies and procedures that are established to ensure that the Bank has adequate liquidity at all times;
- Monitoring and measuring capital adequacy for regulatory and business requirements;
- Establishing asset and liability pricing policies to protect the liquidity structure as well as assess the probability of various liquidity shocks and interest rate scenarios;
- Monitoring the balance sheet and ensure business strategies are consistent with liquidity requirements;
- Establishing and monitoring relevant liquidity ratios and balance sheet targets; and
- Ensuring full compliance with the Bank's Asset and Liability Manual as it relates to the management of liquidity risk, interest rate risk and foreign exchange risk.

The minutes of the ALCO meetings are submitted to the Board of Directors.

Audit Committee
The Audit Committee oversees how management monitors compliance with the Bank's risk management policies and procedures, reviews the adequacy of the risk management framework in relation to the risks faced by the Bank and monitors regulatory compliance. The Audit Committee is assisted in its oversight role by the Internal Audit department of the ultimate parent company. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit Committee
The Credit Committee manages the Bank's credit portfolio. The Chairman and the members of the committee are charged with the responsibility to approve credit within their designated limits and make recommendations to the Board of Directors.

The most important types of risks are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate and other price risk.

(a) Credit risk

The Bank takes on exposure to credit risk, which is the risk that its customers, clients or counterparties will cause a financial loss for the Bank by failing to discharge their contractual obligations. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in investment and lending activities.

For its investment activities, the Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty or groups of related counterparties and to geographical and industry segments. For its lending activities, consideration is given to sectorial exposure, as well as to counterparty and group risk. Additionally, much emphasis is placed on determining the adequacy of cash flow being generated by the counterparty to meet repayment terms, the availability of tangible security that may be realised as a secondary source of payment in the event that cash flow is impaired, and the timeliness and quality of financial information available on/from the counterparty/customer to assist in predicting its future performance.

Credit-related commitment risks also arise from guarantees/bonds issued by the Bank which may require payment on behalf of customers. Such guarantees/bonds are issued after analysis of the customer making the request to ensure that they have a good record of performance in the activity for which the bond or guarantee is being sought, as well as the taking of security as a secondary source of recovery in case of need. Generally, guarantees/bonds expose the Bank to similar risks as loans, and these are mitigated by the same control policies and processes.

Credit review process
The Bank has established a credit quality review process involving regular analysis of the ability of borrowers and other counterparties to meet interest and principal repayment obligations.

Loans
The Bank assesses the probability of default of individual counterparties using internal ratings. The Bank's clients are segmented into three rating classes. The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class.

The Bank's internal rating scale is as follows:

Rating	Description		
1	*Low Risk*	-	excellent credit history
2	*Standard Risk*	-	generally abides by credit terms
3	*Sub Standard Risk*	-	late paying with some level of impairment

Exposure to credit risk is managed in part by obtaining collateral and corporate and personal guarantees. Counterparty limits are established by the use of a credit classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risk to which it is exposed and take corrective action.

Investments
The Bank limits its exposure to credit risk by investing mainly in liquid securities, with counterparties that have high credit quality and Government of Jamaica securities. Accordingly, management does not expect any counterparty to fail to meet its obligations.

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Collateral and other credit enhancements
The amount and type of the collateral required depends on the credit risk of the counterparty and the use of professionally derived, estimable realisable values of security, assuming forced sale conditions. Guidelines are implemented regarding the acceptability of different types of collateral, the lending margins against forced sale values which will be used and the quality of work and experience from the professionals from whom these valuations will be accepted.

The main types of collateral obtained are as follows:

- Loans – first demand mortgages over residential and commercial properties, first debenture charges over business assets such as premises, inventory and accounts receivable and charges and hypothecations over deposit balances and financial instruments such as debt securities and equities.
- Securities lending and reverse repurchase transactions – cash or securities.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries and from individual shareholders for loans to their companies.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral held, during its annual review of the individual credit facilities, as well as during its review of the provision for credit losses.

The worst case scenario of credit risk exposure to the Bank without taking account of any collateral held or credit enhancements was as follows:

	2009 $'000	Restated 2008 $'000
Cash at bank	2,322,530	2,505,952
Items in the course of collection from other banks	205,620	199,823
Long positions held in securities trading	-	2,192,949
Margins held by brokers for securities trading	-	3,732,250
Securities purchased under resale agreements	886,327	161,808
Loans	10,729,707	8,627,375
Investment securities	12,956,653	13,979,783
Other assets	92,976	145,218
Customers' liability under guarantees and letters of credit	232,313	306,310
	27,426,126	31,851,468

Impairment
The main considerations for loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades or infringement of the original terms of the contract.

The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances are provided for financial assets that are above materiality thresholds, based on a review conducted 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 the 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 allowances are provided for portfolios of homogenous assets that are individually below materiality thresholds; and losses that have been incurred but have not yet been identified, by taking into consideration historical losses on the portfolio, current economic conditions and expected receipts and recoveries once impaired.

The Bank's internal rating systems focus more on credit quality mapping from the inception of lending activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have incurred at the balance sheet date, based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management purposes.

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal and interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The impairment provision shown in the balance sheet at year end is derived from each of the three internal rating grades. However, the majority of the impairment provision comes from the 'Sub Standard' rating class. The table below shows the Banks loans and the associated impairment provision for each internal rating class:

	2009		2008	
	Loans $'000	Impairment provision $'000	Loans $'000	Impairment provision $'000
Low Risk	645,812	-	1,450,260	-
Standard Risk	9,851,559	-	7,129,692	-
Sub-Standard Risk	502,418	270,082	181,750	134,327
	10,999,789	270,082	8,761,702	134,327

The credit quality of loans is summarised as follows:

	2009 $'000	2008 $'000
Neither past due nor impaired –		
Low Risk	645,812	1,450,260
Standard Risk	9,692,964	6,952,500
Sub Standard Risk	-	-
	10,338,776	8,402,760
Past due but not impaired	158,595	177,192
Impaired	502,418	181,750
	10,999,789	8,761,702
Less: Provision for impairment	(270,082)	(134,327)
	10,729,707	8,627,375

The ageing analysis of past due but not impaired loans was as follows:

	2009 $'000	2008 $'000
Less than 30 days	27,201	63,075
31 to 60 days	11,408	38,707
61 to 90 days	4,710	72,342
Greater than 90 days	115,276	3,068
	158,595	177,192

There were no financial assets other than loans that are past due or individually impaired. The fair value of collateral held as security for individually impaired loans was $417,497,000 (2008 – $196,632,000).

Concentration of credit risk
Loans
The majority of loans are extended to customers in Jamaica. The following table summarises the Bank's credit exposure for loans at their carrying amounts, as categorised by industry sector:

	Number of loan accounts		Credit exposure	
	2009	2008	2009 $'000	2008 $'000
Public sector	12	6	1,127,774	1,330,927
Financial institutions	7	4	39,258	163,220
Agriculture	8	12	2,160	9,074
Mining and quarrying	3	5	22	57,938
Manufacturing	51	29	706,592	144,747
Construction and land development	34	27	488,864	152,058
Transportation	67	39	1,060,962	214,267
Electricity, gas and water	4	2	14,844	139,614
Distribution	87	59	599,142	517,819
Tourism	42	32	953,962	355,907
Entertainment	9	-	23,721	-
Professional and other services	207	251	1,938,388	2,128,881
Individuals	5,879	5,047	3,774,018	3,412,923
	6,410	5,513	10,729,707	8,627,375

Debt securities
The following table summarises the credit exposure for debt securities at their carrying amounts as categorised by issuer:

	2009 $'000	2008 $'000
Government of Jamaica	10,662,245	12,349,723
Corporate	1,248,806	1,015,791
Other	1,040,582	609,249
	12,951,633	13,974,763

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3. Financial Risk Management (Continued)

(b) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due.

Liquidity risk management process
The Bank's liquidity management process, as carried out within the Bank and monitored by the Treasury Department, includes:

(i) Monitoring future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure funding if required;

(ii) Maintaining a portfolio of highly marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

(iii) Maintaining committed lines of credit;

(iv) Optimising cash returns on investments;

(v) Monitoring balance sheet liquidity ratios against internal and regulatory requirements. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities; and

(vi) Managing the concentration, profile and maturities of debt maturities.

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

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for companies ever to be completely matched since business transacted 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 Bank and its exposure to changes in interest rates and exchange rates.

Cash flows of financial instruments
The tables below present the undiscounted cash flows (both interest and principal cash flows) of the Bank's financial assets and liabilities based on contractual repayment obligations. The Bank expects that, based on estimates made by management as determined by retention history, many customers will not request repayment on the earliest date the Bank could be required to pay.

	Within 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	No Specific Maturity $'000	Total $'000
			2009			
Financial assets						
Cash and bank balances	2,574,486	-	-	-	-	2,574,486
Items in the course of collection from other banks	205,620	-	-	-	-	205,620
Securities purchased under resale agreements	888,276	-	-	-	-	888,276
Loans	790,407	1,790,687	5,507,942	8,190,679	-	16,279,715
Investment securities (including pledged assets)	2,301,069	3,452,333	6,506,571	10,968,068	5,020	23,233,061
Other assets	92,976	-	-	-	-	92,976
Customers' liabilities under guarantees and letters of credit	232,313	-	-	-	-	232,313
Total financial assets	7,085,147	5,243,020	12,014,513	19,158,747	5,020	43,506,447
Financial liabilities						
Customer deposits	12,127,046	2,814,264	24,697	-	-	14,966,007
Items in the course of payment	120,678	-	-	-	-	120,678
Bank overdraft	115,224	-	-	-	-	115,224
Securities sold under repurchase agreements	4,820,744	674,157	-	-	-	5,494,901
Short term loans	1,049,548	-	-	-	-	1,049,548
Loans from specialised banks	35,996	129,358	3,113,727	-	-	3,279,081
Other liabilities	244,068	-	-	-	-	244,068
Guarantees and letters of credit	232,313	-	-	-	-	232,313
Total financial liabilities	18,745,617	3,617,779	3,138,424	-	-	25,501,820
Total liquidity gap	(11,660,470)	1,625,241	8,876,089	19,158,747	5,020	18,004,627
Cumulative gap	(11,660,470)	(10,035,229)	(1,159,140)	17,999,607	18,004,627	

	Within 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	No Specific Maturity $'000	Total $'000
			2008 (Restated)			
Financial assets						
Cash and bank balances	2,679,171	-	-	-	-	2,679,171
Items in the course of collection from other banks	199,823	-	-	-	-	199,823
Long positions held in securities trading	2,192,949	-	-	-	-	2,192,949
Margins held by brokers for securities trading	3,732,250	-	-	-	-	3,732,250
Securities purchased under resale agreements	161,808	-	-	-	-	161,808
Loans	883,361	1,813,360	3,949,116	5,145,042	-	11,790,879
Investment securities (including pledged assets)	2,002,716	2,771,892	8,259,584	10,919,735	5,020	23,958,947
Other assets	145,218	-	-	-	-	145,218
Customers' liabilities under guarantees and letters of credit	306,310	-	-	-	-	306,310
Total financial assets	12,303,606	4,585,252	12,208,700	16,064,777	5,020	45,167,355
Financial liabilities						
Customer deposits	11,648,739	4,131,049	28,554	-	-	15,808,342
Items in the course of payment	247,669	-	-	-	-	247,669
Securities sold under repurchase agreements	6,606,330	299,943	-	-	-	6,906,273
Short positions held in securities trading	6,422,184	-	-	-	-	6,422,184
Short term loans	315,055	-	-	-	-	315,055
Loans from specialised banks	64,116	123,210	279,898	679,084	-	1,146,308
Other liabilities	180,384	-	-	-	-	180,384
Guarantees and letters of credit	306,310	-	-	-	-	306,310
Total financial liabilities	25,790,787	4,554,202	308,452	679,084	-	31,332,525
Total liquidity gap	(13,487,181)	31,050	11,900,248	15,385,693	5,020	13,834,830
Cumulative gap	(13,487,181)	(13,456,131)	(1,555,883)	13,829,810	13,834,830	

The Bank is also able to meet unexpected net cash outflows by selling securities and accessing additional funding sources from its ultimate parent company and other financing institutions.

(c) Market risk
The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks mainly arise from changes in foreign currency exchange rates and interest rates. Market risk is monitored by the Risk and Compliance department which carries out extensive research and monitors the price movement of financial assets on the local and international markets. Market risk exposures are measured using sensitivity analysis.

There has been no change to the Bank's exposure to market risks or the manner in which it manages and measures the risk.

Currency risk
Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Bank manages its foreign exchange risk by ensuring that the net exposure in foreign assets and liabilities is kept at an acceptable level by monitoring currency positions. The Bank further manages this risk by maximising foreign currency earnings and holding foreign currency balances. The net currency exposure of financial assets and liabilities at 31 December was as follows:

			2009			
	Jamaican$ J$'000	US$ J$'000	GBP J$'000	CAN$ J$'000	Euro J$'000	Total J$'000
Financial assets						
Cash and bank balances	779,677	1,571,339	156,659	14,736	52,075	2,574,486
Items in the course of collection from other banks	88,611	115,127	1,697	185	-	205,620
Securities purchased under resale agreements	-	672,354	213,973	-	-	886,327
Loans	3,858,276	6,871,431	-	-	-	10,729,707
Investment securities (including pledged assets)	4,089,469	7,990,210	-	-	876,974	12,956,653
Other assets	14,016	78,197	89	674	-	92,976
Customers' liabilities under guarantees and letters of credit	168,892	63,421	-	-	-	232,313
Total financial assets	8,998,941	17,362,079	372,418	15,595	929,049	27,678,082
Financial liabilities						
Customer deposits	3,684,865	10,780,877	219,312	41,757	100,448	14,827,259
Items in the course of payment	107,520	12,388	98	668	4	120,678
Bank overdraft	-	115,224	-	-	-	115,224
Securities sold under repurchase agreements	1,418,594	3,314,395	9	-	714,126	5,447,124
Short term loans	-	927,314	-	-	-	927,314
Loans from specialised banks	461,287	2,517,702	-	-	-	2,978,989
Other liabilities	162,852	77,970	(4,165)	329	7,082	244,068
Guarantees and letters of credit	168,892	63,421	-	-	-	232,313
Total financial liabilities	6,004,010	17,809,291	215,254	42,754	821,660	24,892,969
Net financial position	2,994,931	(447,212)	157,164	(27,159)	107,389	2,785,113

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

Currency risk (continued)

			(2008 – Restated)			
	Jamaican$ J$'000	US$ J$'000	GBP J$'000	CAN$ J$'000	Euro J$'000	Total J$'000
Financial assets						
Cash and bank balances	570,717	2,015,770	63,243	18,895	10,546	2,679,171
Items in the course of collection from other banks	-	198,138	-	221	1,464	199,823
Long positions held in securities trading	-	2,192,949	-	-	-	2,192,949
Margins held by brokers for securities trading	-	3,732,250	-	-	-	3,732,250
Securities purchased under resale agreements	-	161,808	-	-	-	161,808
Loans	3,889,632	4,737,743	-	-	-	8,627,375
Investment securities (including pledged assets)	4,823,200	8,071,716	-	-	1,084,867	13,979,783
Other assets	46,909	39,833	57,910	566	-	145,218
Customers' liabilities under guarantees and letters of credit	154,684	151,626	-	-	-	306,310
Total financial assets	9,485,142	21,301,833	121,153	19,682	1,096,877	32,024,687
Financial liabilities						
Customer deposits	3,927,107	11,235,356	147,505	44,067	252,801	15,606,836
Items in the course of payment	215,998	31,039	305	327	-	247,669
Securities sold under repurchase agreements	2,521,484	3,494,785	(7)	-	826,403	6,842,665
Short positions held in securities trading	-	6,422,184	-	-	-	6,422,184
Short term loans	100,000	213,398	-	-	-	313,398
Loans from specialised banks	429,809	429,630	-	-	-	859,439
Other liabilities	98,976	77,279	(390)	247	4,272	180,384
Guarantees and letters of credit	154,684	151,626	-	-	-	306,310
Total financial liabilities	7,448,058	22,055,297	147,413	44,641	1,083,476	30,778,885
Net financial position	2,037,084	(753,464)	(26,260)	(24,959)	13,401	1,245,802

The following table indicates the currencies to which the Bank had significant exposure on its monetary assets and liabilities and its forecast cash flows. The change in currency rate below represents management's assessment of the possible change in foreign exchange rates on income. There is no direct impact on equity. The sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation for the possible change in foreign currency rates. The correlation of variables will have a significant effect on determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables had to be on an individual basis. It should be noted that movements in these variables are non-linear.

	2009		2008 (Restated)	
	Change in Currency Rate %	Effect on Income $'000	Change in Currency Rate %	Effect on Income $'000
Currency:				
US$	5	(14,353)	10	(42,030)
GBP	5	5,213	10	(1,751)
CAN$	5	(883)	10	(1,664)
EURO	5	3,580	10	893
US$	-2	5,741	-10	42,030
GBP	-2	(2,085)	-10	1,751
CAN$	-2	353	-10	1,664
EURO	-2	(1,432)	-10	(893)

Interest rate risk
Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Bank takes on exposure to the effects of fluctuations in the prevailing level of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Floating rate instruments expose the Bank to cash flow interest risk, whereas fixed interest rate instruments expose the Bank to fair value interest risk.

The Bank's interest rate risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and liabilities. The Board sets limits on the level of mismatch of interest rate re-pricing that may be undertaken. These limits are monitored by the ALCO.

The following tables summarise the Bank's exposure to interest rate risk. They include the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The tables represent those financial instruments whose interest rates change concurrently with a change in the underlying interest rate basis.

			2009		
	Within 3 months $'000	3 to 12 months $'000	Over 12 months $'000	Non rate sensitive $'000	Total $'000
Financial assets					
Cash and bank balances	1,400,787	-	-	1,173,699	2,574,486
Items in the course of collection from other banks	-	-	-	205,620	205,620
Securities purchased under resale agreements	886,327	-	-	-	886,327
Loans	1,282,955	1,687,148	7,759,604	-	10,729,707
Investment securities (including pledged assets)	2,197,249	2,955,141	7,799,243	5,020	12,956,653
Other assets	-	-	-	92,976	92,976
Customers' liabilities under guarantees and letters of credit	-	-	-	232,313	232,313
Total financial assets	5,767,318	4,642,489	15,558,847	1,709,628	27,678,082
Financial liabilities					
Customer deposits	12,105,064	2,704,483	17,712	-	14,827,259
Items in the course of payment	-	-	-	120,678	120,678
Bank overdraft	115,224	-	-	-	115,224
Securities sold under repurchase agreements	4,798,355	648,769	-	-	5,447,124
Short term loans	927,314	-	-	-	927,314
Loans from specialised banks	-	92,220	2,886,769	-	2,978,989
Other liabilities	-	-	-	244,068	244,068
Guarantees and letters of credit	-	-	-	232,313	232,313
Total financial liabilities	17,945,957	3,445,472	2,904,481	597,059	24,892,969
Total interest repricing gap	(12,178,639)	1,196,817	12,654,366	1,112,569	2,785,113
Cumulative gap	(12,178,639)	(10,981,822)	1,672,544	2,785,113	

			2008 (Restated)		
	Within 3 months $'000	3 to 12 months $'000	Over 12 months $'000	Non rate sensitive $'000	Total $'000
Financial assets					
Cash and bank balances	1,485,193	-	-	1,193,978	2,679,171
Items in the course of collection from other banks	-	-	-	199,823	199,823
Long positions held in securities trading	-	-	2,192,949	-	2,192,949
Margins held by brokers for securities trading	-	-	-	3,732,250	3,732,250
Securities purchased under resale agreements	161,808	-	-	-	161,808
Loans	3,384,361	508,982	4,734,032	-	8,627,375
Investment securities (including pledged assets)	3,386,940	3,248,007	7,339,816	5,020	13,979,783
Other assets	-	-	-	145,218	145,218
Customers' liabilities under guarantees and letters of credit	-	-	-	306,310	306,310
Total financial assets	8,418,302	3,756,989	14,266,797	5,582,599	32,024,687
Financial liabilities					
Customer deposits	11,697,544	3,890,990	18,302	-	15,606,836
Items in the course of payment	-	-	-	247,669	247,669
Securities sold under repurchase agreements	6,564,301	278,364	-	-	6,842,665
Short positions held in securities trading	-	-	-	6,422,184	6,422,184
Short term loans	313,398	-	-	-	313,398
Loans from specialised banks	68,838	121,879	668,722	-	859,439
Other liabilities	-	-	-	180,384	180,384
Guarantees and letters of credit	-	-	-	306,310	306,310
Total financial liabilities	18,644,081	4,291,233	687,024	7,156,547	30,778,885
Total interest repricing gap	(10,225,779)	(534,244)	13,579,773	(1,573,948)	1,245,802
Cumulative gap	(10,225,779)	(10,760,023)	2,819,750	1,245,802	

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

Interest rate risk (continued)
The table below summarises the average effective yields of interest rate-sensitive financial instruments by currency:

	Jamaican$ %	US$ %	GBP %	CAN$ %	Euro %
2009					
Cash and bank balances	7.38	0.02	0.01	0.17	-
Securities purchased under resale agreements	-	6.46	4.50	-	-
Loans	21.19	11.35	-	-	-
Investment securities (including pledged assets)	19.02	12.40	-	-	10.62
Customer deposits	12.01	5.54	2.65	2.95	1.93
Securities sold under repurchase agreements	14.02	6.41	-	-	5.09
Short term loans	-	4.21	-	-	-
Loans from specialised banks	9.69	5.66	-	-	-
2008 (Restated)					
Cash and bank balances	10.25	1.00	1.24	0.58	-
Long positions held in securities trading	-	4.50	-	-	-
Securities purchased under resale agreements	-	3.76	-	-	-
Loans	18.16	9.68	-	-	-
Investment securities	17.55	9.80	-	-	10.50
Customer deposits	13.41	5.91	3.31	2.91	3.63
Securities sold under repurchase agreements	17.90	8.84	-	-	8.17
Short positions held in securities trading	-	4.50	-	-	-
Short term loans	-	13.76	-	-	-
Loans from specialised banks	10.00	6.04	-	-	-

Interest rate sensitivity
The following table indicates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Bank's income and equity.

The sensitivity of income is the effect of the assumed changes in interest rates on net income based on the floating rate non-trading financial assets and financial liabilities. The sensitivity of equity is calculated by revaluing fixed-rate available-for-sale financial assets for the assumed changes in interest rates. The correlations of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables had to be done on an individual basis. It should be noted that movements in these variables are non-linear.

2009			2008 (Restated)		
Change in basis points JMD/USD	Effect on Income $'000	Effect on Equity $'000	Change in basis points JMD/USD	Effect on Income $'000	Effect on Equity $'000
-600 / -200	60,191	260,516	-500 / -500	255,534	716,113
+200 / +200	(94,704)	(91,906)	+500 / +500	(255,534)	(259,104)

(d) Capital management
The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheet, are:
(i) To comply with the capital requirements set by the regulators of the markets within which the Bank operates;
(ii) To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
(iii) To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by management and bi-monthly by the Board. The required information is filed with the Bank of Jamaica on a quarterly basis.

The Bank of Jamaica requires the Bank to:
(i) Hold the minimum level of the regulatory capital as a percentage of total assets of 8% (2008 – 8%); and
(ii) Maintain a ratio of total regulatory capital to the risk-weighted assets at or above 10% (2008 – 10%).

The Bank's regulatory capital is managed by the ALCO and is divided into two tiers:
(i) Tier 1 capital: share capital, statutory reserve fund, retained earnings reserve fund, accumulated losses and net loss positions arising from fair value accounting; and
(ii) Tier 2 capital: general provisions for loan losses on assets limited to 1.25% of risk-weighted assets.

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

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

	2009 $'000	Restated 2008 $'000
Regulatory capital –		
Tier 1 capital	3,689,322	2,025,646
Tier 2 capital	185,740	83,192
Total regulatory capital	3,875,062	2,108,838
Risk-weighted assets –		
On-balance sheet	12,487,307	14,685,945
Off-balance sheet	2,106,036	2,153,683
Total risk-weighted assets	14,593,343	16,839,628
Tier 1 capital ratio	25%	12%
Total capital ratio	27%	13%
Required capital ratio	10%	10%

(e) Fair value estimation
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.

The following table provides an analysis of financial instruments held as at 31 December 2009 that, subsequent to initial recognition, are measured at fair value. The financial instruments are grouped into levels 1 to 3 based on the degree to which the fair value is observable, as follows:
- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical instruments;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the instrument, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the instrument that are not based on observable market data (unobservable inputs).

There were no transfers between levels during the year.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Available-for-sale investment securities –				
Issued by the Government of Jamaica	-	5,016,315	-	5,016,315
Issued by other government	-	34,233	-	34,233
Corporate bonds	-	-	1,114,494	1,114,494
Certificates of deposit	-	970,606	-	970,606
	-	6,021,154	1,114,494	7,135,648

The movement in securities classified as Level 3 during the year was as follows:

	$'000
At start of year	979,180
Acquisitions	241,254
Foreign exchange gains recognised in arriving at net profit or loss	90,135
Fair value losses recognised in other comprehensive income	(27,489)
Disposals	168,586
At end of year	1,114,494

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets is the current bid price. These instruments are grouped in Level 1.

The fair value of financial instruments not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

The following methods and assumptions have been used in determining fair values:
- Quoted market prices or dealer quotes for similar instruments. If quoted prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques, such as discounted cash flow analysis.
- The fair value of liquid assets and other assets maturing within one year is assumed to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities.
- The fair value of variable rate financial instruments issued at market terms is assumed to approximate their carrying amounts.
- The fair value of fixed rate borrowings issued at market terms is assumed to approximate to their carrying amounts.

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4. Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans
The Bank reviews its loan portfolio to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from loans. 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.

Pension and other retirement benefits
The cost of these benefits and the present value of the pension and the other retirement liabilities depend on a number of factors that are to be determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net periodic cost or income for pension and other retirement benefits include the expected long-term rate of return on the relevant plan assets, the discount rate and, in the case of the medical benefits, the expected rate of increase in medical costs. Any changes in these assumptions will impact the net periodic cost or income recorded for pension and other retirement 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 Bank determines the appropriate discount rate at the end of each year, which 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 other retirement benefit obligations. In determining the appropriate discount rate, the Bank considered the interest rates of government securities 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 historical relationship of the actual medical cost increases with the rate of inflation in the respective economy. Other key assumptions for the pension and other retirement benefits costs and credits are based in part on current market conditions.

Fair value of financial instruments
In the absence of quoted market prices, the fair value of a significant proportion of the Bank's financial instruments was determined using generally accepted alternative methods. The values derived from applying these methods are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates. Considerable judgement is required in interpreting market data to arrive at estimates of fair values. Consequently, the estimates arrived at may be significantly different from the actual price of the instruments in an arms length transaction.

Income taxes
Significant judgement is required in determining the provision for income taxes. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The Bank also recognises deferred tax assets on tax losses carried forward as it anticipates making future taxable income to offset these losses.

5. Cash and Bank Balances

	2009 $'000	Restated 2008 $'000
Notes and coins	251,956	173,219
Accounts with foreign banks	319,452	563,951
Balances with the Bank of Jamaica, other than statutory reserves	13,717	31,090
Included in cash and cash equivalents	585,125	768,260
Statutory reserves with the Bank of Jamaica	1,938,464	1,590,044
Cash held as collateral and other restricted cash accounts	50,897	320,867
	2,574,486	2,679,171

Statutory reserves with the Bank of Jamaica are held in compliance with Section 14(1) of the Banking Act, which requires that every licensee maintains a cash reserve with the Bank of Jamaica of not less than 5% of its prescribed liabilities. The reserve for Jamaican dollar prescribed liabilities is held on a non-interest-earning basis. No portion of the cash reserve is available for investment, lending or other use by the Bank. The actual required ratio at year end was 14% (2008 – 11%) for Jamaican dollar cash reserves and 11% (2008 – 11%) for United States dollar cash reserves.

6. Long Positions held in Securities Trading

At 31 December 2008, the Bank held two long positions in certain United States Treasury Bonds with a fair value of US$13,669,000 each. The Bank also held equal, offsetting short positions in these bonds (Note 16).

7. Margins held by Broker for Securities Trading

Brokers through which the Bank trades in securities hold margins against short positions (for which there are no corresponding long positions) which are closed when the trades are covered. At 31 December 2008, these margins amounted to US$46,527,000.

8. Securities Purchased under Resale Agreements

The Bank enters into reverse repurchase agreements collateralised by Government of Jamaica securities and Bank of Jamaica certificates of deposit. These agreements may result in credit exposure in the event that the counterparty to the transaction is unable to fulfil its contractual obligations. Included in this balance is interest receivable of $2,448,000 (2008 – $1,375,000).

9. Loans

Loans include interest receivable of $126,029,000 (2008 – $113,816,000) (2007 – $69,792,000), and are shown after deducting provision for credit losses of $270,082,000 (2008 – $134,327,000).

The current portion of loans amounted to $6,234,067,000 (2008 – $3,280,020,000).

The movement in the provision for credit losses determined under the requirements of IFRS was as follows:

	2009 $'000	2008 $'000
Balance at beginning of year	134,327	127,565
Provided during the year	225,289	81,485
Recoveries	(22,392)	(37,486)
Net amount charged in arriving at net profit or loss	202,897	43,999
Net loan balances written-off during the year	(67,142)	(37,237)
Balance at end of year	270,082	134,327

The aggregate amount of non-performing loans on which interest was not being accrued amounted to $502,418,000 (2008 – $181,750,000).

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

	2009 $'000	2008 $'000
Specific provisions	350,590	134,327
General provision	105,232	83,192
	455,822	217,519

The excess of the regulatory provision over the IFRS provision of $185,740,000 (2008 – $83,192,000) is included in a non-distributable loan loss reserve and treated as an appropriation of retained earnings (Note 23).

10. Investment Securities

	2009 $'000	Restated 2008 $'000	2007 $'000
Loans and receivables, at amortised cost:			
Issued by the Government of Jamaica –			
Global Bonds	5,396,759	5,270,015	5,817,242
Available-for-sale securities, at fair value:			
Issued by the Government of Jamaica –			
Local registered stocks and treasury bills	2,044,743	2,622,220	3,920,166
Investment bonds	797,074	1,599,335	1,840,825
Debentures	50,271	-	64,244
Indexed and US$ denominated bonds	2,124,227	2,575,724	2,234,539
Development Bank of Jamaica	-	-	1,355
	5,016,315	6,797,279	8,061,129
Issued by other government	34,233	-	-
Corporate bonds	1,114,494	979,180	934,131
US$ treasury bills	-	120,110	-
Certificates of deposit	970,606	423,285	647,710
Placement with other banks	-	-	182,277
	7,135,648	8,319,854	9,825,247
Available-for-sale securities, at cost less impairment:			
Unquoted equities	5,020	5,020	5,020
	12,537,427	13,594,889	15,647,509
Interest receivable	419,226	384,894	337,615
Total investment securities	12,956,653	13,979,783	15,985,124
Less: Pledged assets (shown separately on the balance sheet)	(813,143)	(230,000)	(230,000)
	12,143,510	13,749,783	15,755,124

The current portion of total investment securities amounted to $3,854,064,000 (2008 – $3,438,135,000).

Pledged assets shown separately on the balance sheet comprise local registered stocks amounting to $761,069,000 (2008 – $80,000,000) and investment bonds amounting to $52,074,000 (2008 – $150,000,000) held with the Bank of Jamaica as security for overdraft balances, if any. At the balance sheet date, there were no overdraft balances with the Bank of Jamaica. These assets have been shown separately as the Bank of Jamaica has the right to sell or repledge them.

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10. Investment Securities (Continued)

Investment securities amounting to $5,415,620,000 (2008 – $6,776,238,000) have been pledged by the Bank as collateral for securities sold under repurchase agreements.

Reclassification of investment securities
On 1 October 2008, the Bank reclassified its Government of Jamaica Global Bonds from available-for-sale to loans and receivables, as the markets for these securities became inactive. The fair value at reclassification date became the amortised cost of the newly reclassified loans and receivables.

The table below shows the carrying value and the fair value of these securities at year end:

	2009		2008	
	Carrying Value $'000	Fair Value $'000	Carrying Value $'000	Fair Value $'000
Government of Jamaica Global Bonds –				
Denominated in US$	4,541,464	3,501,409	4,190,609	3,125,806
Denominated in Euro	855,295	721,119	1,079,406	857,807
	5,396,759	4,222,528	5,270,015	3,983,613

(a) Fair value losses of $Nil (2008 – $132,381,000), exclusive of deferred taxation, were recognised in equity during the year in relation to the above investments, using their fair value as at 30 September 2008.

(b) Fair value losses of $1,174,231,000 (2008 – $1,286,402,000), exclusive of deferred taxation, would have been included in equity at year end had the investments not been reclassified. This amount was estimated on the basis of the quotations obtained from brokers for these securities as at the year end. Management believes that this price is not necessarily indicative of the amount that would have been valued if an active market for these securities actually existed at that date.

(c) The weighted average effective interest rate of the investments at the date of reclassification was 9.83%. The weighted average effective interest rate at year end was 9.79% (2008 – 9.83%).

(d) The undiscounted cash flows to be recovered from the investments reclassified, if held to maturity, is $12,657,549,000 (2008 – $12,146,741,000).

11. Property, Plant and Equipment

	Leasehold Improvements $'000	Computer Equipment $'000	Equipment, Furniture and Fixtures $'000	Motor Vehicles $'000	Work-in-progress $'000	Total $'000
Cost -						
1 January 2008	41,739	122,068	82,591	25,948	7,540	279,886
Additions	1,599	90,668	15,941	-	31,115	139,323
Disposal	-	-	-	(2,180)	-	(2,180)
31 December 2008	43,338	212,736	98,532	23,768	38,655	417,029
Additions	10,102	25,656	4,018	-	124,730	164,506
Transfers	11,865	50,249	8,585	-	(70,699)	-
Disposals	-	-	-	(3,519)	-	(3,519)
31 December 2009	65,305	288,641	111,135	20,249	92,686	578,016
Depreciation -						
1 January 2008	11,396	91,294	42,790	18,384	-	163,864
Charge for year	8,668	45,125	7,345	1,530	-	62,668
Disposal	-	-	-	(436)	-	(436)
31 December 2008	20,064	136,419	50,135	19,478	-	226,096
Charge for year	16,656	67,197	8,654	1,527	-	94,034
Disposal	-	-	-	(3,519)	-	(3,519)
31 December 2009	36,720	203,616	58,789	17,486	-	316,611
Net Book Value -						
31 December 2009	28,585	85,025	52,346	2,763	92,686	261,405
31 December 2008	23,274	76,317	48,397	4,290	38,655	190,933

12. Retirement Benefits

Following the JDX (Note 35), there has been a significant reduction in interest rates and a downward shift in the Jamaica sovereign debt yield curve. This shift will result in a significant reduction in the discount rate used to measure the Bank's obligations under the group defined benefit pension and other retirement benefit plans. Accordingly, the Bank's obligations under these plans are likely to increase significantly. The Bank, in conjunction with its actuaries, is in the process of determining the impact on both the accounting measurement and funding of these plans.

The Bank participates in a defined benefit pension plan operated by the ultimate parent company. The plan is funded by employee contributions of 5% of salary with the option of contributing an additional 5%, and employer contributions as recommended by independent actuaries. Pension at normal retirement age is based on 2% of final 3 year average salary per year of pensionable service, plus any declared bonus.

The Bank also participates in a number of other retirement benefit plans, including group-life, insured and self-insured health care, gratuity and other supplementary plans. These plans are not funded.

The plans are valued annually on 31 December by independent actuaries.

The amounts recognised in the balance sheet were as follows:

	2009 $'000	2008 $'000
Retirement benefit assets –		
Pension benefits	-	50,737
Retirement benefit obligations –		
Pension benefits	5,542	-
Other retirement benefits	93,058	75,326
	98,600	75,326

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

	Pension benefits		Other retirement benefits	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Fair value of plan assets	230,041	183,227	-	-
Present value of obligations	(253,535)	(249,294)	(70,205)	(59,031)
	(23,494)	(66,067)	(70,205)	(59,031)
Unrecognised actuarial gains and losses	17,952	116,804	(22,853)	(16,295)
	(5,542)	50,737	(93,058)	(75,326)

The amounts recognised in arriving at net profit or loss, in staff costs, were as follows:

	Pension benefits		Other retirement benefits	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current service cost	55,448	27,851	10,929	9,485
Interest cost	47,144	15,902	10,877	7,610
Employee contributions	(23,196)	(22,498)	-	-
Expected return on plan assets	(25,996)	(20,125)	-	-
Actuarial gains and losses	4,778	(481)	(120)	(235)
	58,178	649	21,686	16,860

The actual return on plan assets was $41,897,000 (2008 – a loss of $7,288,000).

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

Expected employer contributions for the year ended 31 December 2010 amount to $2,645,000.

The movement in the fair value of plan assets was as follows:

	Pension benefits		Other retirement benefits	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Balance at start of year	183,227	175,389	-	-
Employee contributions	23,196	22,498	-	-
Employer contributions	1,899	1,841	-	-
Expected return on plan assets	25,996	20,125	-	-
Benefits paid	(20,178)	(9,213)	-	-
Actuarial gains and losses	15,901	(27,413)	-	-
Balance at end of year	230,041	183,227	-	-

The distribution of plan assets was as follows:

	Pension benefits		Other retirement benefits	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Equities	36,751	35,638	-	-
Government of Jamaica securities	130,713	93,602	-	-
Other debt securities	2,448	3,557	-	-
Other	60,129	50,430	-	-
	230,041	183,227	-	-

The movement in the present value of defined benefit obligations was as follows:

	Pension benefits		Other retirement benefits	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Balance at start of year	249,294	99,076	59,031	49,223
Current service cost	55,448	27,851	10,929	9,485
Interest cost	47,144	15,902	10,877	7,610
Benefits paid	(20,178)	(9,213)	(3,957)	(333)
Actuarial gains and losses	(78,173)	115,678	(6,675)	(6,954)
Balance at end of year	253,535	249,294	70,205	59,031

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12. Retirement Benefits (Continued)

The five-year trend for the fair value of plan assets, the defined benefit obligations, the surplus in the pension plan, and experience adjustments for plan assets and liabilities are as follows:

	Pension benefits				
	2009 $'000	2008 $'000	2007 $'000	2006 $'000	2005 $'000
Fair value of plan assets	230,041	183,227	175,389	164,385	249,670
Defined benefit obligation	(253,535)	(249,294)	(99,076)	(94,914)	(58,741)
(Deficit)/surplus	(23,494)	(66,067)	76,313	69,471	190,929
Experience adjustments –					
Fair value of plan assets	15,901	(27,413)	(709)	(126,308)	121,719
Defined benefit obligation	(78,173)	21,700	(3,750)	1,062	(17,404)

	Other retirement benefits				
	2009 $'000	2008 $'000	2007 $'000	2006 $'000	2005 $'000
Defined benefit obligation	(70,205)	(59,031)	(49,223)	(43,894)	(30,488)
Experience adjustments –					
Defined benefit obligation	(11,692)	(935)	(783)	(313)	(5,143)

The principal actuarial assumptions used were as follows:

	2009	2008
Discount rate	16.00%	16.00%
Expected return on plan assets	11.00%	11.00%
Long term inflation rate	10.00%	11.00%
Future salary increases	12.50%	12.50%
Future pension increases	10.00%	10.00%
Medical claims growth	12.50%	10.50%
Average expected remaining working lives (years)	19.2	19.4

Mortality assumptions are based on the American 1994 Group Annuitant Mortality (GAM94) table.

A 1% increase/(decrease) in the assumed medical cost trend rate would result in an increase/(decrease) in the aggregate current service cost and interest cost of $3,502,000/($2,295,000), and an increase/(decrease) in the defined benefit obligation of $19,488,000/($12,835,000).

13. Deferred Income Taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 33⅓%. The movement in the deferred income tax balance is as follows:

	2009 $'000	Restated 2008 $'000
At beginning of year	560,461	3,259
Deferred tax credited in arriving at net profit or loss (Note 31)	245,779	258,987
Deferred tax (charged)/credited to other comprehensive income	(111,598)	298,215
At end of year	694,642	560,461

Deferred tax recognised in the balance sheet is attributable to the following temporary differences:

	2009 $'000	Restated 2008 $'000
Unrealised losses on securities trading	-	304,711
Tax losses carried forward	522,386	-
Retirement benefits	32,867	8,196
Differences between IFRS and BOJ Specific provisions for loan losses	(26,836)	-
Accelerated tax depreciation	(4,219)	(11,062)
Fair value of investment securities	174,593	286,191
Other	(4,149)	(27,575)
	694,642	560,461

Deferred tax assets include $301,199,000 (2008 – $388,734,000) which is expected to be recovered within 12 months.

Deferred tax assets have been recognised on tax losses carried forward as the Bank is projected to make sufficient profits to utilise these tax losses. Subject to agreement with the Taxpayer Audit and Assessment Department, losses available for offset against future profits amount to $1,567,157,000 (2008 – $Nil).

The deferred tax credited in arriving at net profit or loss is attributable to the following temporary differences:

	2009 $'000	Restated 2008 $'000
Unrealised losses on securities trading	(304,711)	304,711
Tax losses carried forward	522,386	-
Retirement benefits	24,671	5,111
Differences between IFRS and BOJ Specific provisions for loan losses	(26,836)	-
Accelerated tax depreciation	6,843	(9,565)
Other	23,426	(41,270)
	245,779	258,987

The deferred tax (charged)/credited to other comprehensive income is attributable to the following temporary differences:

	2009 $'000	2008 $'000
Realised losses on available-for-sale investments	1,086	30,074
Fair value gains and losses on available-for-sale investments	(112,684)	268,141
	(111,598)	298,215

14. Other Assets

	2009 $'000	Restated 2008 $'000	2007 $'000
Withholding tax recoverable	220,733	159,842	225,288
Due from fellow subsidiaries	51,305	321	23,873
Other	41,671	144,897	96,097
	313,709	305,060	345,258

15. Customer Deposits

The customer deposit portfolio was comprised as follows:

	Number of deposits			Value of deposits		
	2009	2008	2007	2009 $'000	2008 $'000	2007 $'000
Financial institutions	106	162	91	1,630,340	5,210,539	1,540,013
Commercial and business enterprises	2,145	2,324	1,756	4,757,094	3,719,321	8,018,901
Personal	8,046	7,386	6,120	3,963,279	3,981,851	4,694,536
Other	898	741	235	4,319,504	2,410,352	290,661
	11,195	10,613	8,202	14,670,217	15,322,063	14,544,111
Interest payable				157,042	284,773	232,120
				14,827,259	15,606,836	14,776,231

The non-current portion of customer deposits amounted to $53,651,000 (2008 – $17,588,000).

16. Short Positions held in Securities Trading

At 31 December 2008, the Bank held short positions in certain United States Treasury Bonds with a fair value of US$80,060,000. In entering into short sales agreements, the Bank has effectively sold securities that have been borrowed from brokers with the commitment to buy back the securities at a later date to return to the broker. The 'proceeds' from the short sale are held by the broker until the positions are covered (Note 7).

The Bank held equal, offsetting long positions for two short positions of US$13,669,000 each (Note 6).

17. Short Term Loans

This primarily represents loans from other banks, which are repayable within 90 days.

The balance at year end was comprised as follows:

	2009 $'000	Restated 2008 $'000	2007 $'000
GraceKennedy Limited	-	119,461	-
National Commercial Bank Jamaica Limited	-	181,081	425,000
Citibank NA	803,951	-	492,742
	803,951	300,542	917,742
Interest payable	846	3,484	197
Included in cash and cash equivalents	804,797	304,026	917,939
Margin funding balances with brokers	122,517	9,372	-
	927,314	313,398	917,939

18. Loans from Specialised Banks

These loans are primarily for the purpose of on-lending to customers who meet certain requirements of the banks and are to be used for eligible enterprises and projects. The balance at year end was comprised as follows:

	2009 $'000	2008 $'000
Development Bank of Jamaica Limited	637,921	423,948
National Export-Import Bank of Jamaica Limited	1,832	5,860
Inter-American Development Bank	2,062,040	181,498
Inter-American Investment Corporation	267,984	242,823
	2,969,777	854,129
Interest payable	9,212	5,310
	2,978,989	859,439

The current portion of amounts due to specialised banks was $276,522,000 (2008 – $235,295,000).

At 31 December 2009, the Bank was in breach of certain financial covenants relating to the Inter-American Development Bank and the Inter-American Investment Corporation loans, particularly with respect to certain liquidity and loan ratio requirements. The lenders have not enforced any penalties under the agreements.

19. Other Liabilities

	2009 $'000	Restated 2008 $'000	2007 $'000
Staff vacation and bonus accruals	6,516	44,098	39,827
Cambio surrenders payable	93,034	-	-
Other accruals	36,814	43,028	24,023
Withholding tax payable	12,370	28,899	54,369
Due to fellow subsidiaries	6,846	7,365	9,734
Other	100,858	85,893	115,521
	256,438	209,283	243,474

20. Share Capital

	2009 $'000	2008 $'000
Authorised –		
629,485,000 (2008 – 627,685,000) ordinary shares		
100,000 (2008 – Nil) convertible preference shares		
Issued and fully paid –		
628,585,000 (2008 – 627,685,000) ordinary shares of no par value	1,527,685	627,685
100,000 (2008 – Nil) non-redeemable convertible preference shares at a par value of US$100	886,496	-
	2,414,181	627,685

Issue of preference shares

In April 2009, the Bank issued 100,000 5.5% non-voting, non-redeemable, non-cumulative, convertible preference shares to International Finance Corporation (IFC) for a cash consideration of US$10 million. These shares are each convertible into 1,536.55 ordinary shares. After their third anniversary of ownership by IFC, these preference shares are convertible to ordinary shares at IFC's option under certain conditions. The shares may, however, be converted at any time if they are owned by a member of the GraceKennedy Group. If there is a Change in Control of the Bank as defined by the agreement, the shares will be immediately converted into ordinary shares.

Declaration of dividends on these preference shares is at the discretion of, and requires approval from, the Bank's Board of Directors. Such declarations are possible only if there are Available Distributable Profits, as defined by the agreement. Dividends on ordinary shares are subordinate to dividends on these preference shares. Additionally, the preference shareholders are not entitled to further distributions.

In the event of liquidation, preference shareholders are entitled to the aggregate paid-up Share Subscription Price, as defined by the agreement, plus accrued and unpaid preferred dividends after all debt obligations have been met. These preference shareholders have priority over the ordinary shareholders, subject to the availability of adequate net assets.

Issue of ordinary shares

In September 2009, the Bank increased its authorised share capital from 627,685,000 ordinary shares to 629,485,000 ordinary shares, by the creation of an additional 1,800,000 ordinary shares, such shares to rank *pari passu* with the Bank's existing ordinary shares. 900,000 of these shares were then issued to the parent company for a cash consideration of $900,000,000.

21. Reserve Fund

This fund is maintained in accordance with Section 8 of the Banking Act which requires that a minimum of 15% of the net profits, as defined by the Act, of the Bank be transferred to the reserve fund until the amount of the fund is equal to 50% of the paid-up capital of the Bank and thereafter 10% of the net profits until the amount of the fund is equal to the paid-up capital of the Bank. No amounts were transferred during the year.

22. Fair Value Reserve

This represents the net unrealised losses on the revaluation of investment securities amounting to $523,779,000 (2008 – $858,574,000), and is shown net of attributable deferred taxation of $174,593,000 (2008 – $286,191,000).

23. Loan Loss Reserve

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

24. Retained Earnings Reserve

Section 2 of the Banking Act permits the transfer of any portion of the Bank's net profit to a retained earnings reserve. This reserve constitutes a part of the capital base for the purpose of determining the maximum level of deposit liabilities and lending to customers. The deposit liabilities of the Bank and other indebtedness for borrowed money together with all interest accrued should not exceed twenty-five times its capital base.

25. Stock Option Reserve

The Bank participates in the 2003 Stock Option Plan for the Managers of GraceKennedy Limited (Senior Managers Plan) and the 2008 Stock Option Plan for the Permanent Employees of GraceKennedy Limited (Permanent Employees Plan), stock option plans operated by the ultimate parent company in which management and key employees may participate. 10,000,000 shares have been allocated to each plan since their inception. Allocations were approved at Annual General Meetings of the ultimate parent company. The plans provide for equitable adjustment of the allocated number of shares by reason of stock splits, combinations or exchanges of shares, stock dividends, bonus issues, and reclassifications or similar corporate changes in the ultimate parent company.

The subscription prices of the options granted are generally determined by using the weighted average prices of the ultimate parent company's shares on the Jamaica Stock Exchange for the previous ten trading days prior to the date on which each set of options are approved, less a discount of 25% for the Permanent Employees Plan. The options granted under the provisions of the Senior Managers Plan are exercisable over a period of six years while the options granted under the provisions of the Permanent Employees Plan are exercisable over a period of two years from their grant dates, at the end of which unexercised options will expire. The options granted under the Permanent Employees Plan were fully vested at grant date, while ⅓ of the total grants under the Senior Managers Plan will vest on each anniversary of the grant.

The movement in the number of stock options outstanding for the year and their related weighted average exercise prices were as follows:

	2009		2008	
	Average exercise price in $ per share	Options '000	Average exercise price in $ per share	Options '000
At beginning of year	52.26	382	45.43	238
Granted	-	-	66.43	189
Forfeited	58.58	(230)	96.93	(3)
Exercised	41.94	(11)	32.18	(42)
At end of the year	50.67	141	52.26	382

Stock options outstanding at the end of the year have the following expiry dates and exercise prices:

Year of expiry	Exercise price in $ per share	2009 '000	2008 '000
2009	41.92	-	118
2010	88.31	141	264
		141	382

No options were granted during the year. The fair value of the options granted during the prior year determined using the Binomial valuation model was $4,125,000. The significant inputs into the model were the share price at the grant date of $70; the exercise price of $66.43; standard deviation of expected share price returns of 27.47%; dividend yield of 1.64%; the option lives of 2 years from the date of the grant and an annual risk-free rate of 15.35%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of weekly share prices over the terms of the options.

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26. Interest Income on Securities

	2009 $'000	Restated 2008 $'000
Interest income was earned on –		
Investments classified as loans and receivables	415,703	378,777
Investments classified as available-for-sale	1,317,922	1,149,593
Securities purchased under resale agreements	7,664	26,045
	1,741,289	1,554,415

27. Fee and Commission Income

	2009 $'000	2008 $'000
Credit related	109,988	100,429
Retail banking	117,991	102,342
Other	51,725	19,274
	279,704	222,045

28. Loss on the Sale and Trading of Securities

	2009 $'000	Restated 2008 $'000
Net losses on positions held in securities trading	(667,282)	(741,119)
Gains on sale of investments classified as loans and receivables	23,628	30,386
(Losses)/gains on sale of investments classified as available-for-sale	(253)	3,661
	(643,907)	(707,072)

29. Staff Costs

	2009 $'000	2008 $'000
Wages and salaries	425,828	403,208
Statutory contributions	42,991	33,951
Pension benefits	58,178	649
Other retirement benefits	21,686	16,860
Other	55,105	37,541
	603,788	492,209

At the end of the year, the Bank had 195 employees (2008 – 197), of which 25 (2008 – 33) were employed part time.

30. Administration and Other Expenses

	2009 $'000	2008 $'000
Advertising and publicity	35,391	41,167
Audit fees	6,000	4,400
Bank charges	24,385	26,495
Computer expenses	27,515	16,908
Credit card expenses	21,364	18,403
Directors' fees	2,904	3,279
Group expenses	230,186	144,402
Insurance and licensing	45,479	35,212
Irrecoverable General Consumption Tax	54,955	46,737
Other fees and charges	5,710	5,898
Professional fees	76,986	20,040
Property costs, maintenance and utilities	114,908	96,371
Stationery	11,794	11,619
Other	60,407	26,974
	717,984	497,905

31. Taxation

Taxation is based on profit for the year adjusted for taxation purposes and comprises:

	2009 $'000	Restated 2008 $'000
Current taxation	-	106,163
Deferred taxation (Note 13)	(245,779)	(258,987)
	(245,779)	(152,824)

The tax on the loss before tax differs from the theoretical amount that would arise using the basic statutory rate of 33⅓% as follows:

	2009 $'000	Restated 2008 $'000
Loss before taxation	(489,247)	(419,635)
Tax calculated at a tax rate of 33⅓%	(163,082)	(139,878)
Adjusted for the effects of –		
Tax-free income	(108,850)	(42,470)
Expenses disallowed for tax purposes and other charges	26,153	29,524
	(245,779)	(152,824)

32. Related Party Transactions and Balances

(a) The balance sheet includes balances, in the ordinary course of business, with the ultimate parent company, fellow subsidiaries, key management personnel (directors and senior executives) and other related parties as follows:

	2009 $'000	2008 $'000
Loans –		
Ultimate parent company	-	9,350
Fellow subsidiaries	1,248	46,686
Key management personnel	54,276	11,668
Other related entities	1,001,767	184,383
	1,057,291	252,087
Other assets –		
Fellow subsidiaries	51,305	321
Customer deposits –		
Ultimate parent company	1,086,272	215,452
Fellow subsidiaries	1,706,662	1,431,027
Key management personnel	72,667	202,666
Other related entities	381,389	489,699
	3,246,990	2,338,844
Securities sold under repurchase agreements –		
Ultimate parent company	881,275	163,300
Fellow subsidiaries	116,954	329,015
Other related entities	71,250	29,607
	1,069,479	521,922
Short term loans –		
Ultimate parent company	-	119,461
Other liabilities –		
Fellow subsidiaries	6,846	7,366

32. Related Party Transactions and Balances (Continued)

(b) The income statement includes transactions, in the ordinary course of business, with the ultimate parent company, fellow subsidiaries, key management personnel (directors and senior executives) and other related parties as follows:

	2009 $'000	2008 $'000
Interest earned on loans –		
Ultimate parent company	2,469	678
Fellow subsidiaries	12,000	2,654
Key management personnel	1,217	1,858
Other related entities	95,834	4,729
	111,520	9,919
Interest earned on cash and other accounts –		
Ultimate parent company	1,068	730
Fellow subsidiaries	4,181	3,080
Key management personnel	386	58
Other related entities	387	1,093
	6,022	4,961
Interest earned on securities purchased under resale agreements –		
Ultimate parent company	-	171
Fellow subsidiaries	533	9,958
	533	10,129
Interest incurred on customer deposits –		
Ultimate parent company	91,365	39,225
Fellow subsidiaries	97,874	81,709
Key management personnel	619	2,038
Other related entities	16,603	12,237
	206,461	135,209
Interest incurred on securities sold under repurchase agreements –		
Ultimate parent company	17,150	26,152
Fellow subsidiaries	40,508	8,759
Other related entities	2,110	3,764
	59,768	38,675
Staff costs – key management personnel		
Directors	14,366	13,783
Senior executives	91,110	57,076
	105,476	70,859
Administration and other expenses –		
Ultimate parent company	230,186	144,402
Fellow subsidiaries	31,869	37,674
Directors' fees	2,904	3,279
	264,959	185,355

Other related parties primarily represent entities which are under the control of directors of the Bank.

33. Commitments

Operating lease commitments
Future lease payments under operating lease commitments are payable in the year ending:

	2009 $'000	2008 $'000
2009	-	51,594
2010	58,874	58,874
2011	62,878	62,878
2012	56,969	56,969
2013	42,905	42,905
	221,626	273,220

Loan commitments
Loans approved but not disbursed at year end amounted to $105,998,000 (2008 – $342,794,000).

34. Litigation, Claims and Assessments

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

In respect of claims asserted against the Bank which, according to the principles outlined above, 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 Bank which is immaterial to both its financial position and results of operations.

35. Post Balance Sheet Event

In February 2010, the Bank participated in the Jamaica Debt Exchange (JDX) transaction. The JDX involved a par-for-par exchange of domestic debt instruments ("Old Notes") issued by the Government of Jamaica for new debt instruments ("New Notes") having lower interest rates and longer maturities. While the Old Notes were all callable by the Government of Jamaica, a majority of New Notes will be non-callable. Participation in the JDX was voluntary. Interest accrued on the Old Notes up to but excluding 24 February 2010 (the Final Settlement Date) will be paid in cash, net of applicable withholding taxes.

The JDX has had a significant impact on the expected future cash flows from the Bank's investment portfolio. The Bank has instituted measures to mitigate the impact of reduced investment earnings on its profitability. The table below summarises the impact on coupon rates and maturities of the instruments that were exchanged.

	Pre JDX	Post JDX
Jamaican dollar denominated instruments –		
Face value exchanged (J$2,932,097,000)		
Weighted average coupon rate (%)	17.64	11.95
Weighted average tenor to maturity (years)	3.57	6.52
United States dollar denominated and indexed instruments –		
Face value exchanged (US$23,904,000)		
Weighted average coupon rate (%)	8.39	6.90
Weighted average tenor to maturity (years)	1.10	4.23

36. Breach of the Banking Act

At 31 December 2009, the Bank was in breach of Sections 13(1)(i)(i) and 13(1)(i)(ii) of the Banking Act. These sections prohibit the Bank from granting credit facilities to any one connected person in excess of 10% of the Bank's Capital Base, and to all connected persons in excess of 20% of the Bank's Capital Base, respectively.

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37. Restatement

In August 2009, an internal review was conducted of the Bank's treasury operations and certain irregular transactions related to the trading of US Treasury securities were detected. Further investigations confirmed losses for the Bank of US$19.9 million ($1.768 billion) from these irregularities. Of the total recognised loss of $1.768 billion, $926 million (before tax considerations) relates to the year ended 31 December 2008.

Further to the reclassifications, the financial statements for the year ended 31 December 2008 have been restated to reflect these and other matters, as follows:

Arising from irregularities

(a) Reversal or unrealised fair value gains on U.S. Treasuries and trading losses not previously booked. This includes the reclassification of trading positions.

Reclassification of short term loans and margin positions, including fair value losses recognised on U.S. Treasuries

Trading losses recognised from the purchase and sale of U.S. Treasuries.

Tax credits arising from the trading losses recognised which can be applied against taxable profits in the future.

(b) Amounts previously transferred from retained earnings reserve were reversed, as the Bank was no longer qualified for such transfers based on its accumulated deficit position.

(c) Cash balances previously classified under investment securities which were related to trading accounts.

Other matters

(d) The Bank adopted IFRIC 11, IFRS 2 – Group and Treasury Share Transactions, during the year and has restated its financial statements of prior periods to account for its participation in the GraceKennedy Group stock option plans.

The tables below reflect the effect of the restatement resulting from the correction of these irregularities and other matters on the financial position and results of operations, respectively, as at 31 December 2008 and for the year ended:

Effect on financial position at 31 December 2008

	As previously stated	Effect of reclass-ifications	(a) Reversal of trading positions booked incorrectly	(c) Proper Classification of cash account	Other	As restated
	$'000	$'000	$'000	$'000	$'000	$'000
ASSETS						
Cash and bank balances	2,391,923	-	(33,619)	320,867	-	2,679,171
Items in the course of collection from other banks	199,823	-	-	-	-	199,823
Long positions held in securities trading	3,279,820	-	(1,086,871)	-	-	2,192,949
Margins held by brokers for securities trading	2,582,549	-	1,149,701	-	-	3,732,250
Securities purchased under resale agreements	481,300	1,375	-	(320,867)	-	161,808
Loans	8,513,559	113,816	-	-	-	8,627,375
Investment securities	13,594,889	388,185	-	-	(3,291)	13,979,783
Property, plant and equipment	190,933	-	-	-	-	190,933
Retirement benefit assets	50,737	-	-	-	-	50,737
Deferred tax assets	255,750	-	304,711	-	-	560,461
Taxation recoverable	22,688	-	-	-	-	22,688
Other assets	808,436	(503,376)	-	-	-	305,060
Customers' liabilities under guarantees and letters of credit	306,310	-	-	-	-	306,310
Total assets	32,678,717	-	333,922	-	-	33,009,348

	As previously stated	Effect of reclass-ifications	(a) Reversal of trading positions booked incorrectly	(b) Reversal of transfer to reserves	(d) Stock options	Other	As restated
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
LIABILITIES							
Customer deposits	15,322,063	284,773	-	-	-	-	15,606,836
Items in the course of payment to other banks	-	247,669	-	-	-	-	247,669
Securities sold under repurchase agreements	6,776,238	66,427	-	-	-	-	6,842,665
Short positions held in securities trading	3,110,804	-	3,311,380	-	-	-	6,422,184
Short term loans	2,633,912	29,094	(2,349,608)	-	-	(2,227)	313,398
Loans from specialised banks	854,129	5,310	-	-	-	-	859,439
Retirement benefit liabilities	75,326	-	-	-	-	-	75,326
Other liabilities	842,556	(633,273)	-	-	-	-	209,283
Guarantees and letters of credit	306,310	-	-	-	-	-	306,310
Total liabilities	29,921,338		963,999	-	-	(2,227)	30,883,110
EQUITY							
Retained earnings reserve	1,991,200	-	-	(396,570)	-	-	1,594,630
Stock option reserve	-	-	-	-	17,400	-	17,400
Accumulated deficit	-	-	(630,077)	396,570	(17,400)	(1,064)	(251,971)
Share capital and other reserves	766,179	-	-	-	-	-	766,179
Total equity	2,757,379	-	(630,077)	-	-	(1,064)	2,126,238
Total liabilities and equity	32,678,717	-	333,922	-	-	(3,291)	33,009,348

Effect on results of operations for the year ended 31 December 2008

	As previously stated $'000	(a) Reversal of trading losses booked incorrectly $'000	Other $'000	As restated $'000
Interest income	2,479,340	-	2,356	2,481,696
Interest expense	(1,505,248)	-	(3,420)	(1,508,668)
Net interest income	974,092	-	(1,064)	973,028
Provision for loan losses, net	(43,999)	-	-	(43,999)
	930,093	-	(1,064)	929,029
Other income	638,906	(934,788)	-	(295,882)
Net interest and other income	1,568,999	(934,788)	(1,064)	633,147
Operating expenses	(1,052,782)	-	-	(1,052,782)
Profit/(loss) before taxation	516,217	(934,788)	(1,064)	(419,635)
Taxation	(151,887)	304,711	-	152,824
Profit/(loss) for the year	364,330	(630,077)	(1,064)	(266,811)
Other comprehensive income	(596,429)	-	-	(596,429)
Total comprehensive income	(232,099)	(630,077)	(1,064)	(863,240)