

5 YEARS SERVING THE CARIBBEAN



JAMAICA ANNUAL REPORT



FIRST CARIBBEAN
INTERNATIONAL BANK

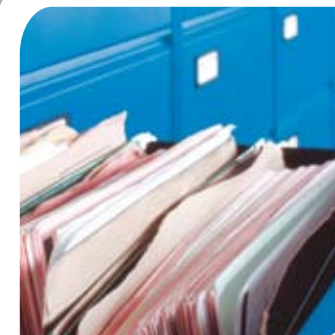
Vision



To create the Caribbean's number one financial services institution.

- First for Customers
- First for Employees
- First for Communities
- First for Shareholders

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Notice of Meeting

Notice is hereby given that the Thirty-Second Annual General Meeting of FirstCaribbean International Bank (Jamaica) Ltd will be held at the Port Antonio Suite, Jamaica Pegasus Hotel, 81 Knutsford Boulevard, Kingston 5 on Wednesday, May 14, 2008 beginning at 9:00 a.m. for the following purposes:

Resolution 1 – Receive the Report of Directors

To receive the Report of the Directors and the audited accounts for the year ended October 31, 2007.

Resolution 2 – Re-election of Directors

That Mr. Michael Mansoor retiring by rotation and being eligible for re-election be and is hereby re-elected a Director of the Company.

That Mr. Christopher Bovell retiring by rotation and being eligible for re-election be and is hereby re-elected a Director of the Company.

Resolution 3 – Appointment of Auditors and Fixing of Remuneration

That Ernst & Young be re-appointed auditors of the Company to hold office until the next General Meeting and that the Directors be authorised to fix the remuneration payable to the Auditors for their services for that period.

Resolution 4 – Fixing of Directors' Remuneration

To fix the remuneration of the Directors, or to determine the manner in which such remuneration is to be fixed.

Resolution 5 – To authorise the creation of Preference Shares

- a. **THAT** the authorised capital of the Company be increased from 300,000,000 ordinary shares to 300,000,000 ordinary shares and 1,000,000,000 fixed and/or variable cumulative redeemable non-voting preference shares with no par value by the creation of 1,000,000,000 fixed and/or variable cumulative redeemable non-voting preference shares with no par value ("Preference Shares").
- b. **THAT** the Preference Shares shall confer upon the registered holders such rights as to dividend, capital, voting and participation in surplus capital on winding up as the directors may in their absolute discretion determine.

Resolution 6 – To authorise the issue and allotment of Preference Shares

THAT the directors be authorised to issue and/or allot the Preference Shares (at any time up to the date of the next AGM) out of the authorised capital of the Company up to 1,000,000,000 Preference Shares and such Preference Shares to be allotted and sold (notwithstanding anything to the contrary in Rule 412A of the Rules of the Jamaica Stock Exchange) in such manner and to such persons as the directors may deem fit in the best interest of the Company.

Resolution 7 – Conversion of Preference Shares into Stock Units and Listing Application

THAT each of the Preference Shares when issued be converted into Preference Stock Units and that the directors be and are hereby authorised to carry the said conversion into effect and to apply for a listing of the Preference Shares on the Jamaica Stock Exchange.

Resolution 8 – SPECIAL RESOLUTION

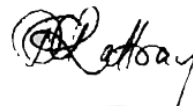
Redemption of Preference Shares

THAT the Preference Shares be redeemed on such date(s) and terms as the directors may decide.

Resolution 9 – Any other business

To transact any other business that may be transacted at an Annual General Meeting.

BY ORDER OF THE BOARD



Allison C. Rattray
Secretary
March 17th, 2008

Five Years of Being First



Joseph Giarraputo – Publisher, *Global Finance Magazine*, presents the Best Bank Award to Milton Brady, Managing Director, Jamaica.

Five Years of Being First



We have passed the five-year mark. In 2007 FirstCaribbean concluded its first half-decade, solidifying our position as the region's most prominent banking institution.

Five years is a significant milestone, and the number itself a powerful symbol. Mystics view the number five as symbolising action, expansion and growth. In radio they use it to indicate perfect signal strength and clarity.

We at FirstCaribbean look back at our five-year existence with confidence in our robust performance and the clarity of our vision for regional banking.

Since our formation in late 2002 through the fusion of Barclays Bank PLC's Caribbean enterprises with the CIBC West Indies Holdings' businesses, we have overcome challenges and achieved continuous growth. At the close of 2007, both

our profits and loan and deposit balances are at their highest levels ever.

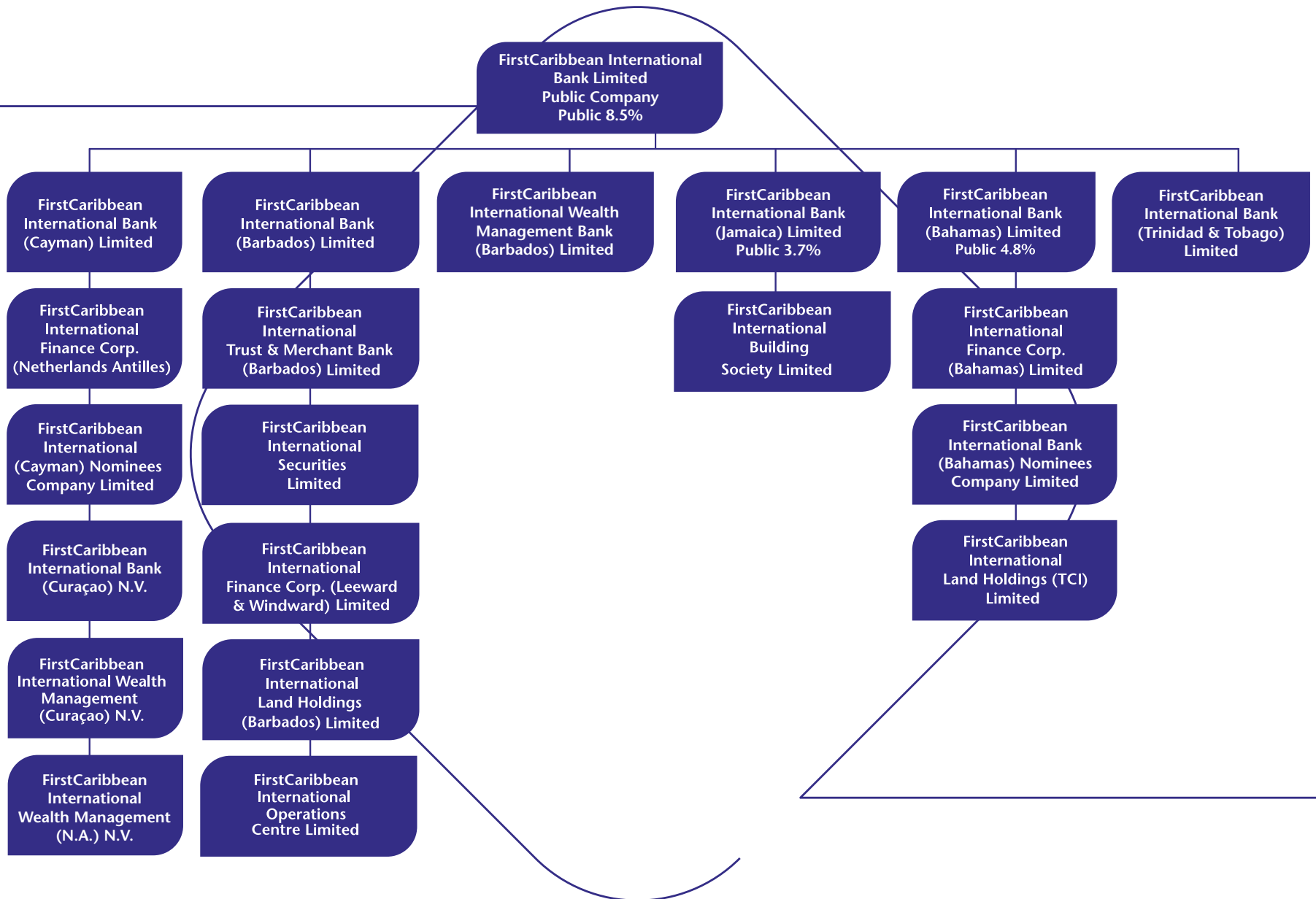
Though this is only our fifth year of existence, FirstCaribbean is the product of a merger between entities with nearly 250 years of banking experience and we have leveraged that knowledge in launching new initiatives and expanding our business in the region. We made two major acquisitions, improved technologies and carried out far-reaching enhancements to our customer proposition.

"Five by five" is the actual term used in radio for a powerful signal. On this anniversary, FirstCaribbean International Bank not only wants to celebrate our first five years with partners, customers, employees, shareholders and the wider Caribbean community, but to look with promise towards the next 10, 20, 25 years and beyond.

Branch Network



Ownership Structure



Branch Locations



Staff at our new Savanna-la-Mar branch.

Main Branches and Centres

Half Way Tree

PO Box 219
78 Half Way Tree Road
Kingston 10
Tel: (876) 926-7400
Fax: (876) 929-1413

King Street

PO Box 43
1 King Street
Kingston
Tel: (876) 922-6120-9
Fax: (876) 922-5330

Lluidas Vale Agency

Lluidas Vale
St. Catherine
Tel: (876) 903-6404

Mandeville

PO Box 57
Main Street
Mandeville
Tel: (876) 962-2619
Fax: (876) 962-9348

Manor Park

Manor Park Plaza
Constant Spring
Kingston 8
Tel: (876) 969-2708
Fax: (876) 969-6280

May Pen

50 Main Street
May Pen
Tel: (876) 986-2578
Fax: (876) 986-4940

Montego Bay

59 James Street
Montego Bay
Tel: (876) 952-4045/6
Fax: (876) 952-4815

New Kingston

PO Box 403
23-27 Knutsford
Boulevard
Kingston 5
Tel: (876) 929-9310
Fax: (876) 968-1969

Newport West

6-12 Newport West
Centre
Kingston 11
Tel: (876) 923-4821
Fax: (876) 923-6757

Ocho Rios

PO Box 111
Ocean Village Shopping
Centre
Ocho Rios
Tel: (876) 974-2824
Fax: (876) 974-5515

Port Antonio

4 West Street
Port Antonio
Tel: (876) 993-2708
Fax: (876) 993-2221

Savanna-la-Mar

33-35 Beckford Street
Savanna-la-Mar
Westmoreland
Tel: (876) 918-2054
Fax: (876) 955-4742

Twin Gates

Twin Gates Shopping
Centre
Kingston 10
Tel: (876) 926-1288
Fax: (876) 926-3056

Financial Centres Corporate Banking Centre

23-27 Knutsford
Boulevard
Kingston 5
Tel: (876) 929-9310
Fax: (876) 929-7751

Wealth Management Centre

23-27 Knutsford
Boulevard
Kingston 5, Jamaica
Tel: (876) 935-4619

FirstCaribbean International Building Society

PO Box 403
23-27 Knutsford
Boulevard
Kingston 5
Tel: (876) 935-4714
Fax: (876) 929- 9247

FirstCaribbean International Securities Limited

PO Box 162
23-27 Knutsford
Boulevard
Kingston 5
Tel: (876) 935-4606
Fax: (876) 926-1025

Card Services Centre

1 King Street
Kingston
Tel: (876) 922-5331
Fax: (876) 228-3996

Board of Directors



From left: Peter McConnell, Milton Brady, Anthony Bell, Christopher Bovell and Neville Ying.

Inset: Chairman Michael Mansoor.

Directors, Senior Management and Advisors

Board of Directors

Michael Mansoor – Chairman
Milton C. Brady – Managing Director
Anthony J. Bell
Christopher Bovell
Horace Cobham
Peter D. McConnell
Albert Webb
Professor Neville Ying

Legal Advisors

Dunn Cox
Myers Fletcher & Gordon

Corporate Secretary

Allison C. Rattray

Registrar & Transfer Agent

FirstCaribbean International
Securities Ltd.

Registered Office

23-27 Knutsford Boulevard

Auditors

Ernst & Young

Group Audit Committee

Ronald Lalonde – Chairman
Allan Fields
Teresa Butler
Sir Fred Gollop
David Ritch
Christopher Bovell
John Eaton
J. Gonzalez-Robatto

Country Management Committee

Milton Brady
Managing Director and Chairman of
Country Management Committee

Judith Kean
Chief Financial Officer

Stacy Adams
Administration &
Marketing Manager

Jennifer Brown
Head of Operations –
Central Caribbean

Lenworth Tracey
General Manager – FirstCaribbean
International Building Society

Berisford Grey
Director – Capital Markets

Jennifer Carty-Peart
Director – Wealth Management

Phillip Freckleton

Technical Architect – Infrastructure

Clovis Metcalfe

Head of Corporate Banking

Allison Rattray

Corporate Secretary

Henry Reid

Human Resources Director –
Central Caribbean

Robert Wright

Assistant General Manager – Retail

Nigel Holness

Acting Director – Treasury Sales
and Trading

Chairman's Report



Michael Mansoor

I am delighted to report that 2007 was a year of solid financial performance and significant improvements in operational capacity and governance of the Bank.

Our Bank achieved excellent results with net income of \$771 million. This commendable result has come about as we celebrate the fifth anniversary of the formation of FirstCaribbean and is a tangible manifestation of the achievements of all our people. When one takes a five-year view, the accomplishments are stellar – sustained organic growth in balance sheet aggregates and profitability, integration and improvements in our technology platforms, major and fundamental enhancements in the infrastructure of the Bank in distribution channels and all functional support areas.

I am very confident in saying that we have built a very strong and resilient financial institution in these five years and I thank the many individuals and groups who have contributed.

Economic Outlook

As we consider the sterling results and the sustained growth over the years since 2002, we must also reflect on the global and regional economic climate. Simply put, over the last five years we have witnessed strong economic growth generally across the globe and, arguably, quantum leaps in the economic potential and promise of certain economies, the mega nations of India and China being the most obvious. In more recent times we have had the international erosion of credit quality epitomised in the sub-prime mortgage phenomenon which continues to play out in the major financial markets.

The likely effects on our regional economies are on balance neutral to negative: high oil prices, rapidly increasing food prices, a declining US dollar to which several of our currencies are pegged, growing concerns over the long-term prospects of the US economy that impacts tourist arrivals and foreign direct investment. Of positive significance, however, is the buoyancy of the Trinidad and Tobago economy and the proven resilience and capability of these island economies to market our tourist product more aggressively in Europe and Asia when effective demand dampens in other major markets.

We take the view that we need to be cautiously optimistic in this climate and very focused on providing our clients with world class service and support in what may turn out to be somewhat more testing conditions.

Governance

As I have reported in previous years, we regard risk management broadly defined to include credit, operational, market and reputational risk as a primary determinant of shareholder value and our long-term growth and profitability.

We continue to enhance our risk management resources and processes. We have materially improved our market and operational risk capabilities, all very pertinent and timely in light of global economic conditions. We remain vigilant to the reputational and regulatory risks associated with anti-money laundering and we believe that the policies and standards that we have embedded in our business are among the most stringent and demanding in the region.

The credit and non-credit or operational losses that we have sustained in 2007 and in previous years remain low by regional and international standards and we continue to promote and inculcate a culture of control and compliance at all levels in our enterprise.

The Board

Your Board of Directors and its various Committees meet quarterly to provide strategic oversight and guidance to the business as well as to monitor performance and compliance with our broad range of policies and procedures. In carrying out these responsibilities the Board is focused on the creation of long-term shareholder value and the growth of our franchise in accordance with a defined appetite for risk.

Our people

We continue to invest in our most important and critical resource, our people. This investment is primarily skewed towards maintaining enlightened and

Chairman's Report continued


far-sighted industrial relations practices, steady and consistent investment in training, in developing our people skills in areas of core banking competence as well as ancillary support functions. We expend great efforts in explaining and living the primary value of being first for employees, a value which includes competitive compensation packages, training our people for peak performance and effective leadership of our business, insisting on best standards of behaviour and service, both internally among our people and externally with our customers and stakeholders.

The achievements of these five years prove that our people are dedicated and competent and among the best in the industry. They also suggest very strongly that our philosophy towards our people is inherently well founded and we will continue to promote, redefine and live this core value of being first for our people.

Appreciation

I wish to place on record my appreciation for the highly valued contributions of all our stakeholders, our customers, all our employees, our regulators and host governments, and of course our shareholders who provide the capital that makes our business possible.

As we embark upon the second half of our first decade, I rededicate all our efforts and energies to living our core values of being first for those who matter most – customers, employees our communities and our shareholders.



Michael Mansoor
Chairman

The commendable results as we celebrate our fifth anniversary of the formation of FirstCaribbean are a tangible manifestation of the achievements of all our people.

– Chairman Michael Mansoor

Chief Executive Officer's Report



Charles Pink

Our first year of ownership by CIBC has produced another extremely strong year's performance with profits crossing the US\$200 million threshold for the first time. Net Income After Tax (NIAT) and minority interest at US\$255.7 million was a 60.7% increase over our 2006 result. A one-off gain on the restructuring of VISA contributed US\$52.4 million to this total. Nevertheless, excluding this one-off gain, underlying NIAT of US\$203.3 million still represented a strong 28% gain on 2006's results. Given the dislocation in world credit markets as the sub-prime crisis broke, I view this as an especially robust year's result.

Group Financial Performance

Profit growth was again driven by loan growth, combined with tight control of costs and risk. Loan balances increased by 8% and passed the US\$6 billion mark for the first time. Fee and commission income growth was also strong at 10%.

Deposit balances increased by 1%. Our Bahamas, Jamaica and Trinidad businesses have all suffered from tight liquidity in local currency in 2007 and wholesale funding was launched successfully in all three jurisdictions during the year. Growing our deposit balances to match lending growth remains a focus. Costs were tightly controlled, rising only 2%. Changes in our policy on health benefits, in particular retirement health benefits, made a significant contribution with the IAS 19 release of US\$18.1 million to the P&L. This was offset by a change in accounting policy on software depreciation, increasing depreciation cost by US\$6.4 million.

Cost income ratio (excluding the VISA gain) as a result was 54.4%, and is now within sight of our objective of 50%. The "jaws" between Revenue growth and Costs growth remains a key focus and was again in positive territory at 10% excluding the VISA gain.

Provisions for credit losses picked up to US\$17.0 million (2006 – US\$10.3 million) 28bps of Loan book (2006 – 18bps). The increase reflects a worsening economic environment but generally our loan book remains very conservatively positioned. With the above, Earnings per Share (EPS) improved by 28% excluding the VISA gain (24% in 2006).

Business Units and Strategy

Eleven of the 12 SBUs had record years. The exception this year was Retail where rising deposit costs in Barbados and The Bahamas, coupled with competitive conditions restraining loan pricing, led to a squeeze on margins. These pressures are alleviating and we expect Retail to return to profitable growth in 2008. The Group is currently renewing its five-year strategy and we are thinking deeply and widely about "where next" for our businesses.

Control

2007 has been a very major year for our Control agenda. We have switched over to the CIBC Governance structure, with control being operated primarily through the revised Board. The switchover has been smooth.

CIBC ownership also brought the need to comply with the provisions of Sarbanes-Oxley (SOX), and significant and successful effort was focused on delivering compliance by the year-end. I believe that the rigour and discipline of SOX has further benefited our control processes and will do so going forward.

Similarly, our new parent brought a transition of Auditors with a successful transition to Ernst & Young.

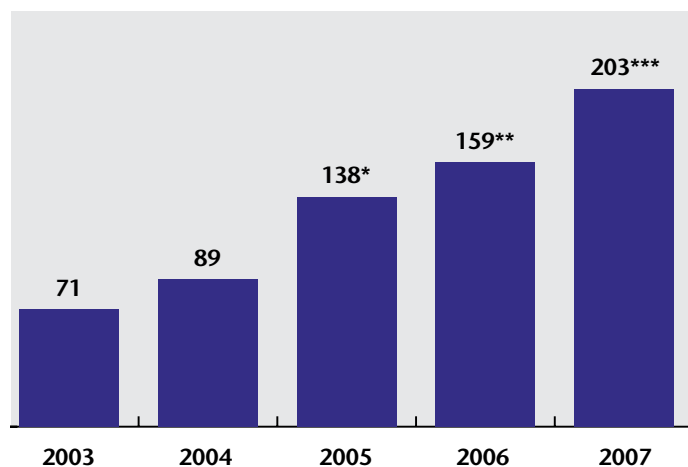
More generally we have continued to upgrade our control processes with major investments in Internal Audit, Compliance, Market Risk and Operational Risk during the year. As the economic environment turns downward we expect these investments to pay particular dividends.

Customer

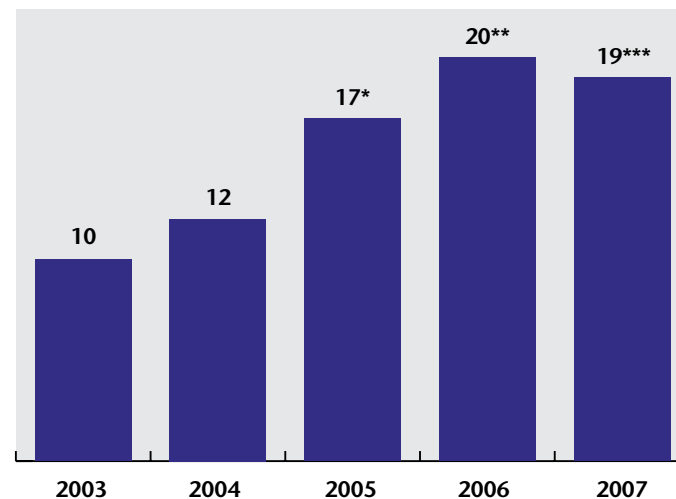
We challenged ourselves and our customers in 2007 with three major IT platform conversions for our Cards business, our Treasury business and our Wealth business. The inevitable disruption did impact customer service and I thank our customers for their understanding, and indeed our staff for bravely voyaging into new territory. The Helpful Partner Programme has delivered a set of universal standards for how we serve our customers. Our focus is now on embedding this new culture.

Chief Executive Officer's Report continued

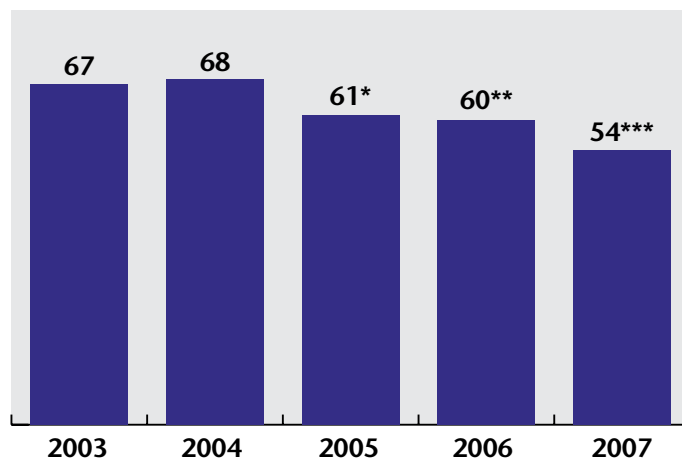
Net Income Attribute to Equity Holders of The Parent – US\$M



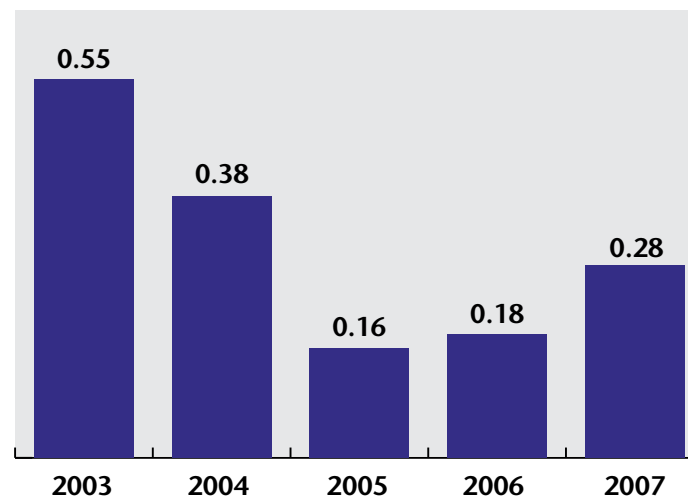
Return on Tangible Equity – Per Cent



Cost to Income Ratio – Per Cent

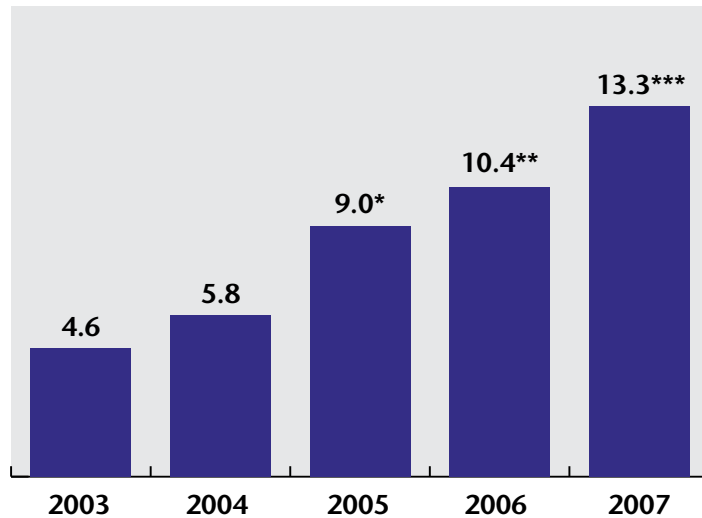


Loan Loss Expenses to Loan Ratio – Per Cent



Chief Executive Officer's Report continued

Earnings Per Share – US Cent



* Normalised for the gain on sale of Republic Bank shares and restated to reflect the retrospective impact of IAS 18.

** The 2006 numbers have been restated.

*** Normalised to exclude gain on VISA transaction.

These graphs apply to the FirstCaribbean International Bank Group.

People

Again, our investments in our people focused on learning and development with our Training investment reaching a record US\$3 million. The Wharton mini-MBA for senior management has completed its first "Cohort" with rave reviews. For new starters, we launched our "FirstStart" training programme. We have invested significantly in 2007 in upgrading our buildings for the benefit of staff and customers, the highlight being the launch of our new Barbados Business Centre, a US\$10 million investment in a state-of-the-art "greenfield" Technology and Operations Centre housing some 450 staff.

Community Partnership

Increased profits and our "1% of net income before taxes and minority interests" commitment brought a US\$2.0 million investment in the activities of our community foundation "Comtrust" in 2007. The Trust's investments are covered in a separate Corporate Social Responsibility Annual Report but it is clear the Trust's flagship programmes of "Unsung Heroes" and "Adopt-a-Cause" go from strength to strength.

The Executive Leadership Team and I enjoyed playing our own small part as we "Adopted a Cause" at Teen Challenge Barbados.

Conclusion

2007 was another exceedingly strong year for FirstCaribbean. A record seven "Best Bank" awards won from the likes of *The Banker* and *Global Finance* is independent testament to that achievement.

As we bring 2007 to a close, we also bring our first five years as FirstCaribbean to a close. The chart on the next page captures our track record. A tripling in profits and Return on Equity increasing from 10% to 20% are the highlights. It's been a great five years and I again thank our staff and customers for making it so.

Going forward, the environment looks less rosy with the US economy slowing significantly and US interest rates falling. Nevertheless, I believe that with the investments we've made, our conservative approach to risk, and above all the quality and commitment of our 3,500 people, we are well positioned to weather any impending storm.

Charles Pink
Chief Executive Officer

Jamaica Managing Director's Report



Milton Brady

Financial Performance

In 2007, FirstCaribbean Jamaica continued to make significant strides towards our vision of being first for Customers, first for Employees, first for Shareholders and first for the Communities in which we operate.

The year was one of continued growth as total revenues grew by 22% to J\$3,281 million. This was accomplished in an increasingly competitive environment characterised by tight liquidity and shrinking interest spreads. In response to the deteriorating market conditions, we have focused on the high growth sectors of the economy and on containing our costs. Consequently, our efficiency level, as measured by our Cost/Income ratio, has improved to 61.2% from 64.1% in 2006. These and other measures produced a 32% growth in our Net Income before Tax which exceeded the J\$1 billion mark for the first time. Net Income After Tax (NIAT) rose to J\$771 million, an increase of 31% over the prior year.

Total Assets increased by 27% to J\$41,671 million, mainly driven by the growth in our loan portfolio which climbed by 31% to J\$31,410 million in 2007. We are pleased with the strong loan growth, particularly in our corporate loans and our retail mortgage portfolio. We have maintained a keen focus on the quality of our loan portfolio which continues to show non-performing loans/total loans well below the average for commercial banks in Jamaica.

Strategic Initiatives

In 2007, the Jamaican capital markets gave us a vote of confidence as our J\$1.5 billion bond offer was oversubscribed. The proceeds were used to grow our Corporate and Retail Banking businesses. Growing our deposit base and developing creative funding solutions remain in focus as we seek to sustain our loan growth.

The expansion of our distribution channels continued apace as we opened our Savannah la Mar branch in February 2007. Our new Liguanea and

Portmore branches are scheduled to be opened in 2008. In 2007, we also increased our ABM network from 11 to 17. Together, these initiatives will provide greater access to our customers islandwide.

Customer Satisfaction

Our Customer Voice survey – an independently conducted benchmarking of our customer service standards against our main competitors in the Jamaica market – again rated FirstCaribbean #1 in both “Customer Satisfaction” and giving our customers “Value for Money”. While we are proud of these achievements, we are not resting on our laurels. In July 2007, we launched our “Helpful Partner” transformation to embed our internal and external customer service standards.

Taking Care of the Team

In 2007, FirstCaribbean Jamaica consolidated the gains in its Employee Satisfaction Index which continues to exceed by far the average for both regional and international “best practice” companies. Our industrial relations environment continued to benefit significantly from the heightened level of cooperation and collaboration under the FirstPartnership agreement between the Bank and the BITU, which represents our staff.

Our CareerFirst graduate training programme and our Leaders Edge leadership development programme, in association with the Wharton School of Business at the University of Pennsylvania, continue to be two of the main programmes through which we are building our talent pool to strengthen FirstCaribbean’s competitive position.

Nurturing our Communities

Through our Comtrust Foundation, FirstCaribbean has been delivering on its commitment to contribute 1% of our pre-tax profits to community causes. Responding to needs in our communities, we exceeded this target in 2007 as donations totalled J\$28.4 million or 3.0% of our 2006 pre-tax profits.

Jamaica Managing Director's Report *continued*

Through our flagship "Unsung Heroes" and "Adopt-a-Cause" programmes, we provided assistance to many worthy causes. Our staff has also continued to make financial donations from their own resources as well as volunteering their time to various causes such as refurbishing classrooms and mentoring students at schools in their communities.

FirstCaribbean collaborated with the Urban Development Corporation (UDC) to complete the upgrade and beautification of a section of the Kingston Waterfront in 2007. The Bank has also committed to maintaining the location for the next three years so that residents as well as visitors to downtown Kingston can continue to enjoy this oasis.

This year, as part of FirstCaribbean's 5th Anniversary celebrations, we provided funding to the SOS Children's Village to support their work in caring for Jamaica's orphaned and abandoned children. Additionally, we made major contributions to educational institutions and senior citizens who were affected by Hurricane Dean.

Outlook for 2008

The continuing increase in oil prices and the fallout from the "sub prime" financial sector are expected to have a negative impact on the US economy and by extension, the economies of the Caribbean region. From the Jamaican perspective, the jockeying for position among the traditional and non-traditional players, and the proliferation of "alternative investment schemes" is driving up the level of competition in the financial services industry. Nevertheless, given our focus on delivering value for money and excellent service and our consistent and conservative approach to risk, we are well prepared for the future.

Appreciation

Over the past five years, we have increased loans to our customers from J\$7,217 million to J\$31,410 million, reflecting a compounded annual growth rate (CAGR) of 43%. We have grown our NIAT from J\$169 million to J\$771 million – a CAGR of 36%.

In 2007, FirstCaribbean was awarded "Bank of the Year – Jamaica" by *The Banker Magazine* for the second year in a row. Also, for the first time, we earned the "Best Bank – Jamaica" award from the *Global Finance Magazine* and the "Euromoney 2007 Award for Excellence" from the *Euromoney Magazine*. We are proud to receive such honour from industry experts.

We thank our loyal customers, committed and dedicated staff and supportive shareholders for their stellar contributions to our success.



Allison C. Rattray
Corporate Secretary

Directors' Report



The Directors submit herewith the Group Statement of Revenue, Expenses and Retained Earnings of the Bank and its subsidiaries for the year ended October 31, 2007 together with the Group Balance Sheet and Balance Sheet of the Bank and its subsidiaries as at that date.

The Group Statement of Revenue and Expenses shows profit for the year of \$1,149,580,000 from which there was \$378,457,000 for taxation, leaving a balance of \$771,123,000. No dividends were paid for the period November 1, 2006 to October 31, 2007.

During the year Mr. Albert Webb resigned as a Director effective November 20, 2007. In accordance with the Articles of Association of the Company, the Directors who will retire by rotation at the Annual General Meeting are Mr. Michael Mansoor and Mr. Christopher Bovell and being eligible offered themselves for re-election.

The Auditors, Ernst & Young, have signified their willingness to continue in office and offer themselves for re-appointment until the conclusion of the next Annual General Meeting.

TEN LARGEST SHAREHOLDERS

As at October 31, 2007

1. FirstCaribbean International Bank Limited	255 897 212	96.30%
2. Ideal Group Corporation	1 117 486	0.42%
3. Fortress Mutual Fund Ltd./FCIB C1191	1 046 861	0.40%
4. Ideal Portfolio Services Limited	533 385	0.20%
5. Albert Gordon	389 071	0.15%
6. Ferdinand Limited	283 939	0.11%
7. Neil McLaren	166 662	0.06%
8. West Indies Trust Company A/C 92	154 998	0.06%
9. George Murray	133 326	0.05%
10. Ideal Finance Corporation Limited	110 500	0.04%

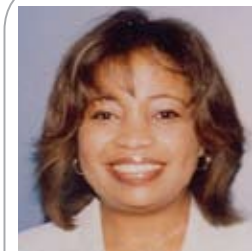
By Order of the Board

A handwritten signature in black ink, appearing to read 'A. Rattray', written over a faint circular stamp.

Allison C. Rattray (Mrs.)
Corporate Secretary/Legal Counsel

Judith Kean
Chief Financial Officer, Jamaica

Management Discussion and Analysis



Management's discussion and analysis should be read in conjunction with the audited consolidated financial statements included in this Annual Report.

OVERVIEW

At a Glance \$'000s, for the year ended October 31

	2007	2006	2005
Net income before taxation	\$1,149,580	\$867,733	\$578,605
Net income after taxation	\$771,123	\$588,776	\$450,511
Earnings per share (cents)	290.2	240.6	233.0
Return on average equity	14.7%	15.1%	16.7%
Efficiency ratio	61.2%	64.1%	70.5%

FirstCaribbean International Bank Jamaica Group reported net income after taxation of J\$771.1 million for the financial year ended October 31, 2007 compared to J\$588.8 million for the prior year. The year-over-year growth of J\$182.3 million or 31.0% stemmed from higher loan volumes. The preceding year's income, previously reported as J\$624.7 million, was adjusted by J\$35.9 million as a result of a review of the Group's hedge accounting, which revealed that one of the qualifying conditions was not fully met in accordance with International Financial Reporting Standards (IFRS).

Net interest income amounted to J\$2,599.9 million for the year ended October 31, 2007 in comparison to J\$2,231.2 million for the previous year. This performance was mainly as a result of growth in loan volumes offset by increased interest expense due to higher deposit volumes and costs.

Return on average stockholders' equity was reported at 14.7% in comparison to 15.1% for the prior year primarily due to the capital injection during prior year. Earnings per share were J\$2.90 compared to J\$2.41 reported for year ended October 31, 2006.

The efficiency ratio continued to decline from 64.1% to 61.2%, reflecting an improvement in productivity and cost control.

FINANCIAL PERFORMANCE REVIEW

Net interest income and margin

\$'000s, for the year ended October 31	2007	2006	2005
Average assets	37,237,808	28,167,061	21,817,075
Net interest income	2,599,934	2,231,159	1,562,666
Net interest margin	6.98%	7.92%	7.16%

Net interest income comprises interest and dividends earned on assets, less interest paid on customers' deposits and other debt obligations.

Loan interest income increased by J\$1,061.4 million or 41.2% primarily due to the \$7,487.2 million or 31.0% growth in loan volumes. This strong loan performance was offset by growth in deposit volumes by J\$6,494.2 million or 24.0% which resulted in increased interest expense by J\$748.9 million or 74.9%.

Net interest margin, which represents the net interest spread earned on net assets, fell by 94 basis points from 7.92% to 6.98% over the previous year as a result of the higher cost of funds.

Management Discussion and Analysis

Other operating income

\$'000s, for the year ended October 31	2007	2006	2005
Net fees and commissions	427,068	343,956	351,321
Foreign exchange earnings	293,743	172,581	138,009
Trading securities net losses	(43,465)	(53,889)	–
Other	4,213	425	49,832
	<u>681,559</u>	<u>463,073</u>	<u>539,162</u>

Other operating income includes all revenues not classified as interest income. Other operating income increased by 47% over prior year. This significant improvement was mainly derived from increased fees and commissions from core businesses by \$83.1 million (24.2%) in addition to an increase in foreign currency earnings by J\$121.2 million or 70.2%. Losses on trading securities represent unrealised losses on derivatives that were not considered hedge effective which resulted in a prior year restatement. Other operating income represented 20.8% of total revenue, compared to 17.2% for 2006.

Operating expenses and efficiency ratio

\$'000s, for the year ended October 31	2007	2006	2005
Staff costs	837,102	769,749	693,905
Depreciation	146,740	97,773	93,642
Occupancy costs	229,353	180,400	175,373
Other	796,425	680,160	579,560
	<u>2,009,620</u>	<u>1,728,082</u>	<u>1,542,480</u>

Operating expenses include all costs except interest expenses, provision for credit losses and income taxes.

Operating expenses for the year ended October 31, 2007 increased by J\$281.5 million or 16.29% over the preceding year. Staff costs exceeded the previous year by J\$67.4 million (8.7%) and other costs by J\$214.2 million (22.3%) mainly due to increased operational and administrative expenses.

Our efficiency ratio (non-interest expenses as a percentage of total revenue) was 61.2% in 2007, improving from 64.1% in the prior year as a result of effective cost containment measures that have been implemented.

Management Discussion and Analysis

Balance Sheet J\$(000)

	2007	Restated 2006	2005	2004
Assets				
Cash resources	6,287,522	5,157,013	6,591,062	7,351,408
Investment securities	924,855	1,463,207	1,503,634	2,331,756
Government securities purchased under resale agreements	212,077	674,745	135,357	565,253
Loans & Advances to customers	31,409,506	23,975,393	13,872,301	8,612,667
Other assets	2,837,223	1,534,075	1,427,335	1,243,377
	<u>41,671,183</u>	<u>32,804,433</u>	<u>23,529,689</u>	<u>20,104,461</u>
Liabilities and stockholders' equity				
Customers' deposits	33,523,005	27,028,807	19,863,646	16,702,965
Debt securities in issue	1,502,217	–	–	–
Other liabilities	1,028,302	927,869	740,725	929,239
Stockholders' equity	5,617,659	4,847,757	2,925,318	2,472,257
	<u>41,671,183</u>	<u>32,804,433</u>	<u>23,529,689</u>	<u>20,104,461</u>

Asset growth and quality

Total assets stood at J\$41.7 billion as at October 31, 2007, an increase of J\$8.9 billion or 27.0% driven by the growth in loans and advances to customers of J\$7.4 billion or 31.0%. The commercial bank's total assets increased by J\$8.1 billion or 26.0% and stood at J\$39.3 billion as at October 31, 2007. The Building Society also continued on its aggressive growth path with total assets of J\$5.9 billion as at October 31, 2007 compared to J\$4.3 billion as at October 31, 2006.

Cash resources and investments

Cash resources and investments increased by J\$1.1 billion or 13.8%. This comprises cash, interest-bearing short-term deposits/investments with other banks and financial institutions, deposits with the Central Bank held for statutory reserve purposes, as well as special short-term interest-bearing deposits/investments with the Central Bank.

The investment securities portfolio consists primarily of short-term investments including treasury bills and other government-guaranteed debt instruments. These are held to meet liquidity requirements and to take advantage of investment opportunities.

Loans & advances to customers

Loans and advances to customers stood at J\$31.4 billion as at October 31, 2007. The above-market-average growth of J\$7.4 billion or 31.0% was driven by business loans which increased by J\$5.3 billion or 34.7%, followed by mortgages, which grew by J\$1.5 billion or 38.3% and personal loans by \$0.6 billion or 13.1%.

The commercial bank loans and advances to customers grew by J\$5.9 billion or 29.7% with commercial loans responsible for 90.0% of the increase. The gross impaired loans were 1.8% of total gross loans as at October 31, 2007 compared to 1.5% for prior year 2006.

The Building Society's mortgage loans and advances to customers climbed by J\$1.5 billion or 38.3%. Gross impaired loans represented 1.98% of gross loans compared to 1.4% as at October 31, 2006. We are satisfied with the quality of the loan portfolio.

Deposits

Customers' deposits grew by J\$6.5 billion or 24.0% to close the year at J\$33.5 billion as at October 31, 2007 with the majority of the funds received from business and government sector and other banks which improved by J\$7.2 billion or 44.1% offset by a decline in deposits from individuals by J\$0.8 billion or 7.7%

Management Discussion and Analysis

This increase in customer deposits, plus the issue of a new J\$1.5 billion five-year floating rate note, was used to fund the growth in the loan portfolio.

Capital Strength

Total prescribed statutory capital as at October 31, 2007 was J\$4,738.0 million compared to J\$4,144.4 million for the preceding year after the transfers of J\$400 million and J\$60 million from Retained Earnings to the Statutory Reserve Fund for the Commercial Bank and the Building Society, respectively. Capital strength provides protection to depositors and creditors, which allows the Bank to undertake profitable business opportunities as they arise and helps to maintain favourable credit ratings. Internal policies require that marketplace and regulatory expectations for capital strength be met, as well as internal measures of required capital, which are based on sophisticated risk management techniques.

Shareholders' Issues

Share price increased by J\$2.00 to close at the end the year at J\$23.50 compared to J\$21.50 per share at the close of the previous year. Given the Bank's decision to raise J\$1.5 billion in debt and transfer J\$460 million from Retained Earnings to Statutory Capital in order to support the continuing growth of the business, no dividend was paid for the year ended October 31, 2007.

Economic Environment

The key economic indicators for the year reflected results as follows:

- Inflation rate for the 12-month period ended October 31, 2007 was 10.8% (2006: 5.8%)
- Jamaican dollar equivalent to US\$1 was J\$71.1839 (2006: J\$66.4905)
- Net international reserves was US\$1,924.5 million (2006: US\$2,306.4 million)
- Average loan rate was 20.9% (2006: 21.8%)

Strategic Business Units and Functions



2007 was another exceedingly strong year for FirstCaribbean. A record “Best Bank” awards won from the likes of *The Banker* and *Global Finance* is independent testament to that achievement.

– CEO Charles Pink

Retail Banking



R.K. Phillips
Managing Director, Retail Banking

Retail Banking



A Year of Challenge and Opportunity

This has been a very challenging fiscal year for the Retail Banking Strategic Business Unit during which we made significant changes to our business model and faced unfavourable competitive conditions in three of our major markets which impacted loan growth and interest margins.

Financial Performance

In summary, Retail Banking contributed net income before tax of \$48 million against a 2007 plan of \$56 million and a prior year contribution of \$60 million. Performance against 2007 plan was primarily impacted by significant under plan performance in our revenue in Bahamas and Jamaica and Barbados business units resulting from weak loan volume growth and rising deposit costs. In addition to these factors our performance against prior year was also impacted by changes in the accounting for depreciation, employee bonuses, and advertising and promotion.

On the balance sheet side we concluded the transfer of loan balances of \$225 million and deposit balances of \$688 million to the Wealth Management Strategic Business Unit to achieve the consolidation of our international and domestic wealth businesses. When normalised for this transfer, overall loan volumes grew by \$117 million or 6% over 2006 and deposit balances remained stable.

Customer Experience

The majority of our Retail customers continue to express satisfaction with our services. Overall customer satisfaction increased marginally from 69% in January to 72% in July 2007. Satisfaction with branch services dipped by 2%, from 69% to 67% over the same period. Loyalty to FirstCaribbean by Retail customers, however, remained high at 78%. During 2007 we introduced Helpful Partner as our major internal and external customer service initiative. 76% of Retail customers expressed satisfaction when surveyed against the

Helpful Partner standards. We will embed distinct business units Helpful Partner standards in 2008 and will expect that this together with the planned reorganisation of our branches will drive further improvements in customer service.

Our People

The training and development of our people remains a priority for Retail Banking. Our focus in 2007 was on continuing to equip our people to deliver improved customer experience and on sales effectiveness. The more than 1,300 retail staff from our 16 countries were critical to our performance in 2007. They continued to deliver excellent service and to sell products to our many existing and new customers despite the constraints faced this year.

Looking Ahead

During 2007 we completed the implementation of stronger geographic management roles to improve the efficiency, control, service delivery and financial performance of our branch network. We are committed to making our branches places where customers can have an exciting and enjoyable experience while having their needs met by our professional staff. We expect this to pay dividends in 2008 as we strive to gain increased share of wallet from our large pool of existing customers built up by significant market share growth in most countries over the last four years. Most of these customers currently use only one of our products. We are also continuing to strengthen our insurance capability to expand the penetration of our existing customer base.

In addition to the above, we have already begun to experience some alleviation in the negative factors which impacted us in 2007 and we expect to see a return to profitable growth in 2008.

Capital Markets



Ian Chinapoo
Managing Director, Capital Markets

Capital Markets



Growing from Strength to Strength

In 2006/2007, Capital Markets continued to build on the solid foundation established in our prior three years and enjoyed a banner year, featuring the near doubling of team size, achievement of significant milestones and international accolades for our efforts.

Building Our Team

This year we followed through with our plan to build out key areas of our business, namely Structured Finance, Primary Distribution and Transaction Management, all of which are crucial elements to our continued development and success. Overall, the team is now nearly double its size from the end of last fiscal and this strategy has already started to pay big dividends.

Performance Milestones

We ended the year marginally above our planned operating profit. In our third full year of operations, our revenues grew by 13% over prior year and we achieved a cost to income ratio of 35.2%. The coming year holds significant promise as we end 2007 with a pipeline of US\$2.37 billion in aggregate value. We are incredibly excited that, during this year, we crossed the US\$1 billion mark in financings for Caribbean Corporates and Sovereigns since we commenced operations four years ago. Prominent among these is the US\$375 million financing of the International Waterfront Project in

Port of Spain, Trinidad, which closed in February 2007. This pioneering and competitively-priced deal was the largest non-energy sector fundraising for any Trinidadian entity and the first direct offering of Trinidad & Tobago paper into the United States Private Placement (USPP) market. To add to our delight, the bridge financing for this transaction was awarded *The Banker* magazine's "Deal of the Year Trinidad & Tobago" in early 2007. The award, issued by *The Banker* magazine and the Financial Times Group, is the first to be received by FirstCaribbean and is also one of the first ever awarded in the Caribbean region. We made further inroads in the Northern Caribbean, leading significant corporate fundraisings and closing our first transaction in the Cayman Islands.

We would like to take this opportunity to thank the other units within the Bank who have contributed to our performance through their continued support and guidance.

Our Focus for the Future

As we look ahead to the coming year, innovation and relationship-building will be our main areas of focus. The building out of our Structured Finance, Primary Distribution and Transaction Management areas of the business will allow senior country personnel to refocus on executing these strategies. We are confident that our enthusiastic and energetic team can deliver on these areas whilst setting and adhering to distinctive standards in performance, customer service, teamwork and controls.

Corporate Banking



Horace Cobham
Managing Director, Corporate Banking

Corporate Banking



Another Successful Year

2007 proved to be another successful year for the Corporate Strategic Business Unit as we continue to build on the solid foundation over the past three years set around our customers, our employees and tailored financial solutions and service.

Our excellent results have again underscored the diversity of our operations as we serve and support our customers in their business activities throughout FirstCaribbean's footprint. We saw one of our newest businesses, Trinidad, perform exceptionally well with over 115% business volume growth over last year. Improved results were also registered in the Jamaica, Cayman Barbados and the OECS markets in the face of intense competition. Overall, our sales force of dedicated relationship managers, industry specialists and Small Business officers have kept focused on business opportunities and have helped us to retain our market position in all our key markets.

Financials

Corporate loans grew by 15.5% year over year to \$3.6 billion, fuelled by the disbursement of over \$1 billion in loan facilities for the third consecutive year. Deposits continue to be a growth priority for the business and this year we realised 5.6% growth, moving the portfolio to \$2.9 billion. Profit and loss performance has also been strong in 2007. Total revenues increased by 10% to \$247.7 million, with the primary contributor, net interest income, increasing by 13%. Operating expenses continued to be tightly controlled, with strong productivity metrics being achieved.

These strong financial results have been achieved without diluting our risk acceptance criteria. Underlying asset and portfolio quality remain well within the Bank's established risk parameters and well diversified loan portfolio has allowed us to manage our country and industry risks successfully, as we pursued opportunities across the region. Additionally, as the Bank moves into a Sarbanes Oxley era, the Corporate SBU is actively ensuring the correct governance and control structures are in place to achieve full compliance by the first quarter of 2008.

Customer Service

During 2007, Corporate has worked to deepen our understanding of our customers through better research, segmentation and tailoring products and

services to meet their needs. Broadening the way we interface with customers through multiple channels has been another area of focus for us, as we respond to customer requests for more self-service options and technological solutions. In this regard, our Internet Banking platform, facilitating straight-through processing of incoming and outgoing wires in most markets, has been seen as an excellent option by our customers.

People

Our 280 staff members across the region played an integral role in the success of the Corporate SBU in 2007. Their work effort, dedication and commitment have resulted in our customers rewarding us with more of their business, and most importantly, their trust. In 2007, we continued with our accreditation programmes under our sales and service mandate. On the risk side, in addition to credit training, we have rolled out Anti-Money Laundering and Know Your Customer courses to equip our people to better manage in the current environment. We remain committed to providing our people with the right tools, training and leadership to serve our clients better. To our staff, I say thank you for your dedication and finding new, innovative ways towards being first for our customers.

Outlook

As we enter 2008, there are expectations for a weaker global economic environment, characterised by high oil prices, slowdown in business and consumer activity and lower interest rates. The region's dependence on foreign direct investment, capital flows and tourism will heighten the potential for impact on our regional business. However, the Corporate SBU is confident that we can leverage the Bank's excellent balance sheet strength, our deep customer knowledge and service excellence to post another good performance in 2008.

Service excellence is integral to our value proposition to customers. We are committed to continually enhancing service levels through all our channels and contact points.

We stand committed to delivering the best customer experience possible, one that is tailored, efficient and solution oriented. Thank you to our customers for your business and we look forward to continuing our partnership in 2008.

Wealth Management



Jan-Arne Farstad
Managing Director, Wealth Management

Wealth Management



Another Banner Year

The Bank's Wealth Management team produced another banner year in 2007. Total deposits amounted to \$4.7 billion (an increase of 19% from last year), loans increased to \$535 million (up 118%) and additional Assets under Management or Administration reached \$1.5 billion (up 25%). Wealth Management's contribution to the Bank's operating profit reached 25% (up from 21%).

At the beginning of the year domestic and international Wealth Management were combined under one roof. Domestic clients with balances of \$100,000 or more and/or borrowings of \$350,000 or more were transferred from Retail to Wealth Management in the course of the year. These clients are now served by dedicated relationship managers and professional support staff to ensure that personalised service and advice is provided to this valued group of our clients. Domestic clients are now enjoying the same access to best-in-class products, services and advice that previously only were available to our international clientele. When adjusted for the internal client transfers from Retail, loans grew by 27% and deposits by 1%.

Our seven Wealth Management Centres located in The Bahamas, Barbados, the British Virgin Islands, Curaçao, the Cayman Islands, Jamaica and Turks & Caicos Islands were upgraded to improve service levels. Each of these Wealth Management Centres is now organised in four teams of professionals who specialise in advisory, transactional, lending and compliance management. Each of these teams reports to a Wealth Management Director, who ensures that the four areas cooperate seamlessly to serve our Wealth Management clients. Some 225 professionals serve our Wealth Management clients across these islands. All seven Wealth Management Centres performed well with financial results ahead of 2006.

We made good progress during the year in our specialty areas, such as banking services for Captive Insurers and Fund Managers. Our Investment Management practice was substantially improved by the addition of a number of highly qualified investment advisors. Our International mortgage offering again grew very substantially. Several enhancements to our Internet Banking platform were made that have increased the ease with which our clients can manage their monies.

Our Curaçao bank (acquired from ABN AMRO in 2006) now serves as centralised hub for execution of investment solutions for clients across all seven Wealth Management Centres and has performed exceptionally well despite going through a complete system conversion in 2007 from ABN AMRO's system platform to a new state-of-the-art wealth management platform of its own. We thank our clients for their patience during this conversion process which is now thankfully behind us. The financial performance of Curaçao has been exceptionally good, in particular when considering this disruption.

We believe the combination of domestic and international Wealth Management provides good growth opportunities as we seek to be trusted advisors to our clients who reward us with a larger "share of their wallet" based on sound financial advice, best available open architecture investment products and the professionalism of our highly rated relationship managers.

Treasury Sales & Trading



Pradip Chhadva
Managing Director, Treasury Sales & Trading

Treasury Sales & Trading



Transformation and Investment

I am pleased to be writing my first annual report since joining FirstCaribbean in early 2007. I was very excited by the possibilities offered by this role prior to joining the Bank, and I subsequently have real confidence that we have delivered the required transformational change to enable real success.

We have expanded our name from Treasury to Treasury Sales & Trading. The name change represents our transformation from a support function to a new Strategic Business Unit; and indeed if we are to succeed as an SBU it is essential that we are both customer-focused and a prudent risk-taker in local markets.

I take this opportunity to highlight the key transformational changes:

Regional Treasuries

Regional Treasury centres have been set up and populated in Trinidad, Bahamas, Curaçao, Jamaica, and Barbados. We've had real success in recruiting highly qualified candidates for Trinidad, Bahamas and Barbados; whilst promoting strong internal talent for the Jamaica and Curaçao positions.

The creation of regional Treasuries represents a sharp change of focus from a purely centralised model to a model in which we have high-level sales capability on the ground and in close proximity to our clients.

The regional Treasury managers have responsibility for generating stronger relationships with customers and regulators, delivering optimal solutions for balance sheet management and further identifying opportunities for FX & Securities trading in local markets.

Barbados represents a key guide to the future success of this model. Recruitment has enabled us to significantly grow our small and medium business client base in Barbados – the net result is significant revenue growth. It's a success story which will be replicated across the Caribbean.

Corporate Treasury

This department was created this year with the hiring of a senior Corporate Treasurer.

Corporate Treasury has responsibility for establishing standard policies and procedures for the liquidity, interest rate risk and capital management across the Bank.

In this context and within a short space of time we have:

- i. Established local Assets and Liability Committees in the different countries in addition to the Group Alco.
- ii. Designed a new transfer pricing policy that will reflect the marginal cost of funding.
- iii. Optimised liquidity management with the implementation of target ratios and the concept of Core Deposits.

The full implementation of the Transfer Pricing policy, Capital Hedge and a comprehensive Liquidity Policy (to the highest international standards) will follow. Corporate Treasury in the simplest terms ensures best practice and compliance for TS&T.

Sales and Structuring

The major focus of Sales and Structuring has been in developing a systematic marketing approach towards customers and the build of strong relationships with other SBUs in order to increase the cross-sell activity and overall customer profitability.

To enable these aims we have:

- Mapped the Bank's top tier customers with relevant information about risk profile, business activity and product knowledge.
- Set up a formal marketing dealing procedure to better serve our customer base (meeting call, follow up, survey and workshops).
- Introduced, in the Budget 2008 process, "the double count of

revenues" concept to give incentive to all Relationship managers in cross-sell Bank's products

-As far as product diversification is concerned, we have actively marketed exposure management products to qualified customers.

We further initiated relationships with CIBC WM in the Structured Products Arena – organising the first joint customer meetings in the region to introduce CIBC WM's capability in structured investment solutions.

Trading

The Trading function is an absolutely key driver of revenues both for TS&T and for the Bank. We can summarise the key highlights for Trading as follows:

- 1) Independent management of tradable hard currency Caribbean assets (CBP): this portfolio has delivered significant out-performance over the last 12 months in comparison with both external benchmarks and internal targets.
- 2) Implementation and execution of structural hedge strategy: we have actively built a true rolling structural hedge programme (picking up yield by buying AA- banks rather than Treasuries). The post-structural interest rate position has been neutralised.

- 3) Implementation of outsource strategy (as determined by Board Committees): the subprime crisis and associated wider credit crunch resulted in higher volatility and below plan returns for the outsource strategies. We have in fact reduced exposures as we shift focus from outsource to in-house strategies (focus on CBP and local market opportunities).

In conclusion, I am proud of the performance of the function to date and further to be associated with the changes that we have delivered over a relatively short time frame.

As you can see from the above, the TS&T function has undergone real and radical change. I am now certain that we have the strong foundations, the correct structures and most importantly the right people in place to ensure future success.

Our ambition is to be viewed as the cutting-edge and leading TS&T service provider in the region – we are on the way.

In 2007, FirstCaribbean was awarded “Bank of the Year – Jamaica” by *The Banker* Magazine for the second year in a row. Also, for the first time, we earned the “Best Bank – Jamaica” award from the *Global Finance* Magazine and the “Euromoney 2007 Award for Excellence” from the *Euromoney* Magazine. We are proud to receive such honour from industry experts.

– Milton Brady, Managing Director, Jamaica

Human Resources/Marketing



Peter Hall
Managing Director, Human Resources/Marketing

Human Resources/Marketing



Get There. Together. Our People. Our Brand.

FirstCaribbean is five years old this year. Built on the heritage platforms of two international banks, our brand continues to be a formidable part of the financial landscape in most of our current footprint. Even where our market share is lower than the competition, our brand is like our organisation's value acronym CRICKET. It's a long game and everybody knows we are in it.

Our financial performance continues to be a league table leader against any measure and our profits this year hit over US\$200 million. At the core of this has been the team at FirstCaribbean which has displayed a continuing commitment and capacity for change and challenge. Supported by a continued focus on our leadership development activities, our basic banking sales, credit and risk training agendas, we are slowly building a capability that is already differentiating us in the market. This differentiation was given a further dimension this year with the first phase implementation of our customer experience standards, which are about giving life and meaning in a universal and consistent way to what our customer experience will feel like.

Integrating this with a focus on recruitment, critical process re-engineering and measurement is creating a single momentum and connectivity between our employee experience and our customer experience. Operating as we do in a fierce market with competition for scarce people resources and business, our brand continues to be well positioned and is market leading in terms of the employee proposition.

Our organisation's change agenda, which witnessed numerous developments in our technology platform environment and upgrades in our Cards, Treasury and Wealth businesses, have all been successfully delivered by teams making significant contributions and demonstrating commitment and loyalty of which we are truly proud. To our Curaçao, Cards, Change Management, Operations and Technology teams, we owe this year a special thank you.

Our union partnership this year has been tested and found to be capable and innovative. Indeed, we have leveraged this year in a developmental way the partnership principles to enable successful closure to our collective agreement

arrangements in the Bahamas, where our first five-year settlement has been achieved. We recognise that we exercised a different level of engagement and note the role of the leaders in the union partnership in this process.

Our presence in the market was further felt this year through the release of our Universal "jingle", which won our agency an award. "FirstCaribbean. Get There. Together." is now a "hum" in the market. Our Wealth Management team was also this year supported by fresh collateral that is energising our team and impacting our clients.

Despite challenges associated with technology changes, our customer service ratings continue to hold their own in the market and will over the next three quarters show demonstrable positive change.

Our Internet platform continues to grow as a channel of choice, and upgrades in the coming year will further enhance this as a preferred service domain. With the added Internet channel for our Curaçao business, we are truly the No. 1 business in the region for basic online banking services.

Our communication and public relations presence internally and externally witnessed a number of firsts this year, including our campaign which proudly shared the numerous awards achieved by the Bank from the financial services community. FirstCaribbean Unsung Heroes flagship recognition and social responsibility commitment unearthed more treasures this year. These are being shared across the Caribbean.

We approach the new financial year with continued focus for growth, but also with caution, noting that economic conditions in the US market have changed. This will require continued focus on leadership excellence, precise marketing execution and a careful attention to costs.

We would like to take this opportunity to thank the team leaders, who continue to help us make things happen. They are Beatrix Carrington, David Small, Debra Johnson, Neil Brennan, Jacqueline Floro-Forde, Vivian Hinds, Kerry Higgs, Henry Reid, Geoffrey King, Monique Straughan, Dawne Williams, Siobhan Lloyd and Carolyn Lewis.

Juan M. Corral
Managing Director, Operations and Technology

Operations and Technology



During this period we have been able to further progress our ambitious agenda to improve productivity and efficiency, reduce processing cost, increase quality of service to internal and external customers, automate manual transactions, integrating new activities and countries and implementing the portfolio of projects that improve our products, infrastructure and governance.

Curaçao, Treasury and Other Projects

In this period we have been able to successfully convert all systems utilised previously by our Curaçao franchise to a new fully integrated banking platform (Flexcube) that will provide our operations in that country with the launching pad for growth, not only in their established Wealth Management operation, but also into Corporate Banking for the country as well as other Dutch Caribbean jurisdictions. The new platform deploys all existing products and processes and adds material benefits in terms of integration, reporting, time-to-market and our expansion ambitions.

We also took this as an opportunity to deploy an end-to-end state-of-the-art integrated system for Treasury Sales & Trading across the region. This platform will allow the Bank to efficiently manage funding and liquidity, foreign exchange, securities trading and positioning, derivatives and many other Treasury product families that will be gradually deployed and offered to our different customer segments with the most up-to-date risk monitoring and reporting.

We also were able to implement check imaging for the Barbados franchise and after careful planning we are now committed to replicate the same in Bahamas, Jamaica and Cayman. This implementation resulted in efficiencies, elimination of manual processes, increased customer satisfaction and material improvement in our speed in responding to customer needs.

We upgraded all of our Automated Banking Machines (ABMs) to include encryption (improved security), handling of multiple currencies and multiple

languages for those countries that require it, and improvements to the look and feel of screens and processing service.

Organisation, Staff Recruiting and Development

During this year we also reorganised the structure to augment our banking expertise with the hiring of a senior banker who is now in charge of Operations for the region, as well as changed the organisation and leadership for our Technology area and created the Shared Services unit that consolidates many important enablers for the business. We continued to recruit the best bankers we find with experience in the new practices and processes that are being deployed.

We have also invested a material amount of resources (financial and human) to work with our Learning and Development colleagues and design a training curriculum that is banking-specific and fit-for-purpose to enhance the capabilities of our entire management structure. We are on the road to create excellent bankers who will be the best in the region.

Focus on Cost Management

We continue to focus on cost management and have materially contributed to the improvement of our cost-to-revenue ratio through:

- Processing higher volumes with a smaller structure
- Automation initiatives to reduce manual processing and paper
- Continuous negotiations and vendor development initiatives
- Faster and more streamlined implementation of projects.

Overall, this fiscal has been one of tremendous success and progress on the road to building a great Bank, the best in the Caribbean region!

Martin Griffiths
Chief Risk Officer

Risk Management



Risk Management Ethos

Risk-taking is inherent in banking and FirstCaribbean assumes a variety of risks in its ordinary business activities. These include credit risk, market risk, compliance risk and operational risk. The Board and Management view the Bank as having a prudent risk profile, with a prudent approach to lending. FirstCaribbean has a limited appetite for market risk and has implemented detailed procedures to manage both Compliance and Operational risk. Risk and Control is firmly embedded in our corporate culture as a core competence and it provides a sound foundation for sustained growth in earnings and shareholder value.

Risk Management's function is to ensure that FirstCaribbean continues to take risk in a controlled way in order to enhance value and exploit opportunity. The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits, and to monitor and enhance its risk management practices to reflect changes in markets, products and evolving best practice, drawing on international and regional expertise. Risk is subject to independent oversight and analysis by six centrally based risk management teams reporting to the Chief Risk Officer: Credit Risk, Market Risk, Receivables Management, Compliance, Risk & Controls, and Operational Risk.

Primary responsibility for risk management lies with the line management in our various businesses. We have embedded a risk and control governance structure within each Strategic Business Unit. Representatives from the risk teams meet regularly with the senior leadership of each business unit in order to identify risks in the business and propose and/or track remediation. Through this process, the business has taken ownership of its risks and responsibility for remediation through solutions delivered in partnership with the specialist expertise in the risk management teams. This approach is supported by enterprise reporting, enabling risks to be identified in a transparent and rational manner, thus facilitating speedy recognition, resolution and enhanced accountability. It similarly greatly enhances the

ability of the organisation to set and monitor risk tolerance and to allow these to play their proper role in determining and delivering on the strategy of the Bank.

Credit Risk

Credit risk is the risk a customer or counterparty will be unable or unwilling to meet in a commitment that it has entered into, and the pledged security does not cover the customer's liabilities in the event of a default. The credit risks in FirstCaribbean arise primarily from lending activities to customers but also occur with bonds, guarantees, and securities.

Credit risk is managed and controlled on the basis of established credit processes and within a framework of credit policy and delegated authorities based on skill, experience and, with Corporate clients, by risk grade. Credit grading, scoring and monitoring systems accommodate the early identification and management of deterioration in loan quality. The credit management process is underpinned by an independent system of credit review by Credit Conformance teams. Delinquent facilities are subject to separate and additional oversight by our Receivables Management teams. Classification is automated and operates strictly in line with regulatory and accounting standards. Credit provisions are independently calculated in accordance with International Financial Reporting Standards for statutory reporting, and in accordance with the Financial Institutions Act to meet regulatory requirements by the central Risk & Control team, and is regularly reviewed by the Bank's auditors.

The Board determines the credit authority for the Credit Committee and approves the Group's key credit policies.

Market Risk

Market risk is the measurement of potential loss arising from adverse movements in interest rates, foreign exchange rates, equity and commodity prices. It arises in trading activities as well as in the natural course of wholesale and retail business, for example in the advancing of fixed rate loans to customers. The principal aims of FirstCaribbean's market risk management activities are to limit the adverse impact of interest rate and exchange rate movements on profitability and shareholder value and to enhance earnings within defined limits. There is no single risk measure that captures all aspects of market risk. FirstCaribbean uses several risk measures including Value at Risk ('VaR'), sensitivity measures and stress testing.

Market risks are managed by setting limits based upon the specific markets and products in which FirstCaribbean are engaged as well as the amount of the Group's capital that can be put at risk. These measurement methodologies utilise international best practice. There is a centralised, dedicated risk management team charged with the responsibility to ensure that the risk measurement methodologies used are appropriate for the risks being taken and that appropriate measurement, monitoring and control procedures are in place.

The Risk & Conduct Review Committee reviews market risk strategy and overall limits. It approves key policies and oversees the measurement, monitoring and control regime.

Compliance Risk

The Compliance team within the Risk function is tasked with identifying the compliance obligations in each country where the Bank operates and provides advice and guidance to the business line on compliance risks. Primary responsibility for compliance lies with territorial line management. Compliance risks are associated with failures to comply with laws, regulations,

rules, and the codes of ethics and conduct applicable to our business activities. Such failures can give rise to legal or regulatory sanctions, material financial loss, or a loss of reputation to the Bank.

Compliance supports management in the development of appropriate policies and procedures to ensure compliance with all legislation and internally our own code of conduct and ethics. The function regularly makes Compliance visits to assess conformance with group standards.

The Compliance function assesses and monitors the compliance risks faced by our businesses, and independently reports to the Audit & Governance Committee on the compliance framework operating across the Group, and on line management's attention to compliance issues.

Operational Risk

FirstCaribbean defines operational risk as the exposure to loss from failed or inadequate internal processes, people and systems or from external events. It is the risk of direct or indirect loss, or damaged reputation, due to deficiencies or errors in the Group's internal operations which may be attributable to fraud, human error, processes or technology failure, or due to external events.

Operational risks are inherent in all activities within the Bank, including in outsourced activities and in all interaction with external parties. Strong internal control and quality management, consisting of a fraud framework, leadership and trained staff, is the key to successful operational risk management. Each strategic business unit is primarily responsible for managing its own operational risks. Risk management develops and maintains the framework for identifying, monitoring and controlling operational risks and supports the business in implementing the framework and raising awareness of operational risks. The team sets policy, monitors compliance and promotes best practice.

An element of FirstCaribbean's operational risk management framework is ongoing monitoring through self-assessment of control deficiencies and weaknesses, the tracking of incidents and loss events to ensure that, once identified, control deficiencies are communicated and remedied across the Group. FirstCaribbean has adopted the Sarbanes-Oxley Act in as far as its business activities are material to CIBC and this has led to a material overhaul of the Bank's control deficiency approach in 2007.

Operational Risk Management activities across the Group are reported regularly to the Audit & Governance Committee.

Basel II

FirstCaribbean continues to follow the regulatory developments of Basel II. Preparations for changes to risk management practices necessary to comply with the forthcoming regulations have been in evidence throughout the year and will continue in 2008. It is the Bank's intention to leverage the enhancements being made to the sound Risk Management capabilities in place today in order not only to meet the new requirements but additionally to better manage our risk adjusted returns to our shareholders.

We would like to encourage the ongoing dialogue with our regulators. We would welcome an approach that would lead to implementation at the same time across all our largest markets. We would like to recommend region-wide reporting formats and limited use of national discretion exceptions. This approach would make the implementation easier for all stakeholders and make it easier for regulators to assess risks in banks across the region.

Financial Statements 2007



Independent Auditors' Report

To the Shareholders of FirstCaribbean International Bank (Jamaica) Limited

We have audited the accompanying financial statements of FirstCaribbean International Bank (Jamaica) Limited and its subsidiary ("the Group") and FirstCaribbean International Bank (Jamaica) Limited ("the Company") which comprise the consolidated and bank balance sheets as at October 31, 2007 and the consolidated and bank statements of income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The financial statements of the Group and Bank for the previous year were audited by another auditor whose report dated 14 December 2006 expressed an unqualified opinion thereon. We also audited the adjustments described in Note 37 that were applied to restate the 2006 financial statements for the Group and the Bank. In our opinion, such adjustments are appropriate and have been properly applied.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures

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

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

Opinion

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

Report on Additional Requirements of the Companies Act

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



Chartered Accountants
Kingston, Jamaica
25 January 2008

Consolidated Balance Sheet

For the year ended 31 October, 2007
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2007 \$'000	Restated 2006 \$'000
ASSETS			
Cash and balances with Central Bank	3	4,782,173	3,059,962
Due from other banks	4	1,505,349	2,097,051
Derivative financial instruments	5	44,797	89,063
Other assets	6	1,455,562	269,758
Investment securities	7	924,855	1,463,207
Government securities purchased under resale agreements	8	212,077	674,745
Loans and advances to customers	9	31,409,506	23,975,393
Property, plant and equipment	10	502,565	450,008
Deferred tax assets	11	4,499	3,105
Retirement benefit asset	12	829,800	722,141
TOTAL ASSETS		41,671,183	32,804,433

	Notes	2007 \$'000	Restated 2006 \$'000
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES			
Customer deposits	13	33,523,005	27,028,807
Derivative financial instruments	5	81,100	117,589
Other liabilities	14	571,001	334,303
Taxation payable		81,681	208,454
Deferred tax liabilities	11	218,430	132,105
Debt securities in issue	15	1,502,217	—
Retirement benefit obligation	12	76,090	135,418
TOTAL LIABILITIES		36,053,524	27,956,676
STOCKHOLDERS' EQUITY			
Share capital and reserves	16	4,738,001	4,144,393
Retained earnings		879,658	703,364
TOTAL STOCKHOLDERS' EQUITY		5,617,659	4,847,757
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		41,671,183	32,804,433

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

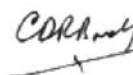
Approved for issue by the Board of Directors on 25 January 2008 and signed on its behalf by:



Michael Mansoor



Milton Brady



Christopher Bovell



Allison Rattray

Consolidated Statement of Changes in Stockholders' Equity

For the year ended 31 October, 2007
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	Share Capital \$'000	Reserves \$'000	Retained Earnings \$'000	Total \$'000
Balance at 31 October 2005, as previously reported		96,667	2,097,057	731,594	2,925,318
Prior period adjustment	37	—	—	8,591	8,591
Balance at 31 October 2005, as restated		96,667	2,097,057	740,185	2,933,909
Net income for the year, as previously reported		—	—	624,702	624,702
Prior year adjustment	37	—	—	(35,926)	(35,926)
Net income for the year, restated	37	—	—	588,776	588,776
Issue of shares		1,300,000	—	—	1,300,000
Income recognised directly in equity — Gain on available-for-sale investment securities	18	—	25,072	—	25,072
Transfer to statutory reserve fund	19	—	540,000	(540,000)	—
Transfer to loan loss reserve	21	—	85,597	(85,597)	—
Balance at 31 October 2006, restated		1,396,667	2,747,726	703,364	4,847,757
Balance at 31 October 2006, previously reported		1,396,667	2,747,726	730,699	4,875,092
Prior period adjustment	37	—	—	(27,335)	(27,335)
Balance at 31 October 2006, restated		1,396,667	2,747,726	703,364	4,847,757
Net income for the year		—	—	771,123	771,123
Expense recognised directly in equity — Loss on available-for-sale investment securities	18	—	(1,221)	—	(1,221)
Transfer to statutory reserve fund	19	—	460,000	(460,000)	—
Transfer to loan loss reserve	21	—	134,829	(134,829)	—
Balance at 31 October 2007		1,396,667	3,341,334	879,658	5,617,659

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

Consolidated Statement of Income

For the year ended 31 October, 2007
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2007 \$'000	Restated 2006 \$'000
Interest and similar income		4,348,608	3,230,980
Interest and similar expense		<u>(1,748,674)</u>	<u>(999,821)</u>
Net interest income	23	2,599,934	2,231,159
Other operating income	24	<u>681,559</u>	<u>463,073</u>
Total operating income		3,281,493	2,694,232
Loan loss impairment		<u>(122,293)</u>	<u>(98,417)</u>
Net operating income		3,159,200	2,595,815
Operating expenses	25	<u>(2,009,620)</u>	<u>(1,728,082)</u>
Income before taxation	26	1,149,580	867,733
Income tax expense	27	<u>(378,457)</u>	<u>(278,957)</u>
NET INCOME FOR THE YEAR	28	<u>771,123</u>	<u>588,776</u>
EARNINGS PER STOCK UNIT	29	<u>\$2.90</u>	<u>\$2.41</u>

The accompanying notes form an integral part of these financial statements

Consolidated Statement of Cash Flows

For the year ended 31 October, 2007
(Expressed in Jamaican dollars unless otherwise indicated)

	2007 \$'000	Restated 2006 \$'000	Note	2007 \$'000	Restated 2006 \$'000
Cash Flows from Operating Activities					
Income before taxation	1,149,580	867,733			
Adjustments to reconcile income to net cash used in operating activities:					
Loan loss impairment	122,293	98,417			
Gain on disposal of property, plant and equipment	(4,244)	(1,317)			
Depreciation	146,740	97,773			
Interest income	(4,348,608)	(3,230,980)			
Interest expense	1,748,674	999,821			
Unrealised foreign exchange gains	(110,610)	(18,868)			
	<u>(1,296,175)</u>	<u>(1,187,421)</u>			
Changes in operating assets and liabilities:					
Loans and advances to customers	(6,819,765)	(9,913,256)			
Customer deposits	6,436,285	7,113,158			
Retirement benefit asset	(107,659)	(103,731)			
Retirement benefit obligation	(59,328)	18			
Other assets	(1,160,529)	156,544			
Other liabilities	(209,977)	(223,954)			
Statutory reserves with Bank of Jamaica	(940,293)	(193,021)			
	<u>(4,157,441)</u>	<u>(4,351,663)</u>			
Interest received	3,871,901	2,863,833			
Interest paid	(1,706,407)	(862,158)			
Income tax paid	(433,931)	(75,619)			
Net cash used in operating activities	<u>(2,425,878)</u>	<u>(2,425,607)</u>			
Cash Flows from Investing Activities					
Investment securities, net				564,366	65,140
Government securities purchased under resale agreements, net				460,765	(536,948)
Additions to property, plant and equipment				(206,521)	(173,035)
Proceeds from disposal of property, plant and equipment				<u>11,468</u>	<u>5,007</u>
Net cash provided by (used in) investing activities				<u>830,078</u>	<u>(639,836)</u>
Cash Flows from Financing Activities					
Issue of share capital				—	1,300,000
Issue of debt				<u>1,500,000</u>	<u>—</u>
Net cash provided by financing activities				<u>1,500,000</u>	<u>1,300,000</u>
Net decrease in cash and cash equivalents				<u>(95,800)</u>	<u>(1,765,443)</u>
Effect of exchange rate changes on cash and cash equivalents				286,016	138,661
Cash and cash equivalents at beginning of year				<u>3,419,791</u>	<u>5,046,573</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR			3	<u>3,610,007</u>	<u>3,419,791</u>

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

Balance Sheet

As at 31 October, 2007
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2007 \$'000	Restated 2006 \$'000		Notes	2007 \$'000	Restated 2006 \$'000
ASSETS				LIABILITIES AND STOCKHOLDERS' EQUITY			
Cash and balances with Central Bank	3	4,720,252	3,028,351	LIABILITIES			
Due from other banks	4	4,622,939	4,363,328	Customer deposits	13	31,758,342	25,866,873
Derivative financial instruments	5	44,797	89,063	Derivative financial instruments	5	81,100	117,589
Other assets	6	1,390,498	249,745	Other liabilities	14	488,817	293,449
Investment securities	7	1,288,855	1,827,207	Taxation payable		65,167	188,383
Government securities purchased under resale agreements	8	25,272	506,085	Deferred tax liabilities	11	218,430	132,105
Loans and advances to customers	9	25,945,982	20,005,380	Debt securities in issue	15	1,502,217	—
Property, plant and equipment	10	499,815	446,807	Retirement benefit obligation	12	73,200	131,097
Retirement benefit asset	12	804,470	699,419				
TOTAL ASSETS		39,342,880	31,215,385	TOTAL LIABILITIES		34,187,273	26,729,496
				STOCKHOLDERS' EQUITY			
				Share capital and reserves	16	4,386,127	3,852,519
				Retained earnings		769,480	633,370
				TOTAL STOCKHOLDERS' EQUITY		5,155,607	4,485,889
				TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		39,342,880	31,215,385

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

Approved for issue by the Board of Directors on 25 January 2008 and signed on its behalf by:



Michael Mansoor



Milton Brady



Christopher Bovell



Allison Rattray

Statement of Changes in Stockholders' Equity

For the year ended 31 October, 2007
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	Share Capital \$'000	Reserves \$'000	Retained Earnings \$'000	Total \$'000
Balance at 31 October 2005, as previously reported		96,667	1,872,065	674,209	2,642,941
Prior year adjustment	37	—	—	8,591	8,591
Balance at 31 October 2005, restated		96,667	1,872,065	682,800	2,651,532
Net income for the year, as previously reported		—	—	545,211	545,211
Prior year adjustment	37	—	—	(35,926)	(35,926)
Net income for the year, restated	37	—	—	509,285	509,285
Issue of shares		1,300,000	—	—	1,300,000
Income recognised directly in equity — Gain on available-for-sale investment securities	18	—	25,072	—	25,072
Transfer to statutory reserve fund	19	—	490,000	(490,000)	—
Transfer to loan loss reserve	21	—	68,715	(68,715)	—
Balance at 31 October 2006, restated		1,396,667	2,455,852	633,370	4,485,889
Balance at 31 October 2006, as previously reported		1,396,667	2,455,852	660,705	4,513,224
Prior year adjustment	37	—	—	(27,335)	(27,335)
Balance at 31 October 2006, restated		1,396,667	2,455,852	633,370	4,485,889
Net income for the year		—	—	670,939	670,939
Expense recognised directly in equity — Loss on available-for-sale investment securities	18	—	(1,221)	—	(1,221)
Transfer to statutory reserve fund	19	—	400,000	(400,000)	—
Transfer to loan loss reserve	21	—	134,829	(134,829)	—
Balance at 31 October 2007		1,396,667	2,989,460	769,480	5,155,607

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

Statement of Income

For the year ended 31 October, 2007
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2007 \$'000	Restated 2006 \$'000
Interest and similar income		3,982,473	2,949,190
Interest and similar expense		<u>(1,618,340)</u>	<u>(909,916)</u>
Net interest income	23	2,364,133	2,039,274
Other operating income	24	<u>670,766</u>	<u>459,184</u>
Total operating income		3,034,899	2,498,458
Loan loss impairment		<u>(93,365)</u>	<u>(95,152)</u>
Net operating income		2,941,534	2,403,306
Operating expenses	25	<u>(1,935,246)</u>	<u>(1,650,962)</u>
Income before taxation	26	1,006,288	752,344
Income tax expense	27	<u>(335,349)</u>	<u>(243,059)</u>
NET INCOME FOR THE YEAR		<u>670,939</u>	<u>509,285</u>

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

Statement of Cash Flows

For the year ended 31 October, 2007
(Expressed in Jamaican dollars unless otherwise indicated)

	2007 \$'000	Restated 2006 \$'000		2007 \$'000	Restated 2006 \$'000
Cash Flows from Operating Activities					
Income before taxation	1,006,288	752,344			
Adjustments to reconcile income to net cash used in operating activities:					
Loan loss impairment	93,365	95,152			
Gain on disposal of property, plant and equipment	(4,244)	(1,317)			
Depreciation	145,931	97,392			
Interest income	(3,982,473)	(2,949,190)			
Interest expense	1,618,340	909,916			
Unrealised foreign exchange gains	(110,610)	(18,834)			
Changes in operating assets and liabilities:	(1,233,403)	(1,114,537)			
Loans to customers	(5,726,633)	(8,067,312)			
Customer deposits	5,836,168	6,672,189			
Retirement benefit asset	(105,051)	(100,699)			
Retirement benefit obligations	(57,897)	17			
Other assets	(1,115,479)	174,732			
Other liabilities	(232,693)	(215,176)			
Statutory reserves at Bank of Jamaica	(909,982)	(178,356)			
Interest received	3,544,970	(2,829,142)			
Interest paid	(1,578,685)	(776,940)			
Income tax paid	(385,872)	(46,629)			
Cash used in operating activities	(1,591,391)	(1,060,603)			
Cash Flows from Investing Activities					
Government securities purchased under resale agreements, net				479,391	(457,613)
Investment securities, net				564,367	55,139
Investment in subsidiary				—	(329,000)
Additions to property, plant and equipment				(206,163)	(170,145)
Proceeds from disposal of property, plant and equipment				11,468	5,007
Net cash provided by (used in) investing activities				849,063	(896,612)
Cash Flows from Financing Activities					
Issue of share capital				—	1,300,000
Issue of debt				1,500,000	—
Net cash provided by financing activities				1,500,000	1,300,000
Net increase (decrease) in cash and cash equivalents				757,672	(657,215)
Effect of exchange rate changes on cash and cash equivalents				283,857	141,365
Cash and cash equivalents at beginning of year				5,686,066	6,201,916
CASH AND CASH EQUIVALENTS AT END OF YEAR			3	6,727,595	5,686,066

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

Notes to the Consolidated Financial Statements

For the year ended October 31, 2007
(Expressed in Jamaican dollars unless otherwise indicated)

1. Corporate Information

FirstCaribbean International Bank (Jamaica) Limited (the "Bank"), which was incorporated and is domiciled in Jamaica, is a 96.3% (2006 - 96.2%) subsidiary of FirstCaribbean International Bank Limited (the "Parent"), a bank incorporated and domiciled in Barbados. The ultimate parent is Canadian Imperial Bank of Commerce ("CIBC"), a company incorporated in Canada. In the previous year, the majority shareholders of the Parent were jointly CIBC and Barclays Bank PLC, a company incorporated in England. On 22 December 2006, CIBC acquired Barclays' interest in the Parent and now owns 91.5% of its shares.

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

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

The Bank is listed on the Jamaica Stock Exchange.

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

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

2. Summary of Significant Accounting Policies

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

(a) Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in conformity with International Reporting Financial Standards (IFRS).

(ii) Basis of measurement

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

(iii) Judgements

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

(iv) Consolidation

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

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

Notes to the Consolidated Financial Statements

For the year ended October 31, 2007
(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(b) Change in accounting policies

(i) *Standards, interpretations and amendments to published standards effective in financial year 2007*

Certain new standards, interpretations and amendments to existing standards that became effective during the current financial year have been published. The Group has assessed the relevance of all such new standards, interpretations and amendments and has adopted the following IFRSs, which are relevant to its operations. The 2006 comparative figures have been amended as required, in accordance with the relevant requirements.

- **IAS 19 (Amendment), Employee Benefits** – This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. The Group has not changed the accounting policy adopted for the recognition of actuarial gains and losses, hence, adoption of this amendment has only impacted the format and extent of disclosures presented in the financial statements.
- **IAS 39 (Amendment), The Fair Value Option** – This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. This amendment did not have a significant impact on the classification of financial instruments.
- **International Financial Reporting Interpretations Committee (IFRIC) 4, Determining whether an Arrangement Contains a Lease** – This provides guidance in determining whether arrangements contain a lease to which accounting must be applied.
- **IFRIC 8, Scope of IFRS 2** – This interpretation requires IFRS to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee share scheme. The interpretation had no impact on the financial position or performance of the Group.

- **IFRIC 9, Reassessment of Embedded Derivatives** – This states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.

- **IFRIC 10, Interim Financial Reporting and Impairment** – This requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either equity instrument or a financial asset carried at cost.

The adoption of these revised accounting standards and interpretations has had no material effect on the Company's financial performance or position.

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

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which were not yet effective for the Group at balance sheet date, and which the Group has not adopted early. The Group has assessed the relevance of all such new standards, interpretations and amendments, and has determined that the following may be relevant to its operations.

(iii) *Change in accounting policies, change in accounting estimates and errors*

The accounting policies and estimates adopted are consistent with those used in the previous financial year except for the following:

As of November 1, 2006, the Group changed its accounting policy on the recognition of all purchases and sales of financial assets at fair value through profit or loss that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) from trade date (which is the date that the Group commits to purchase or sell an asset) to settlement date (which is the date that an asset is delivered to or by the Group). This change has been applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. However, there has been no material impact to the Group and therefore no restatement of prior year balances is required.

Notes to the Consolidated Financial Statements

For the year ended October 31, 2007
(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(b) Change in accounting policies (continued)

(iii) *Change in accounting policies, change in accounting estimates and errors* (continued)

As of November 1, 2006, the Group changed its estimate on the useful life of computer software from 5 years to 4 years. This change was applied prospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, which resulted in an increase in the depreciation charge for the year ended October 31, 2007 of \$31.7 million over the comparative year.

In the prior year, in accordance with IAS 18 Revenue, loan fee income, which would have been considered to be an integral part of the effective interest rate of the financial instruments, was deferred and recognised as an adjustment to the effective interest yield on the loan. The associated fees however continued to be reported as part of operating income, but have now been reclassified appropriately as part of the effective interest rate of the financial instruments. This adjustment was applied retrospectively and consequently, the comparative statements for 2006 were restated resulting in an increase in interest income by \$94.9 million with a corresponding decrease in operating income. There was no impact to total revenues or net income.

During the year, a review of the Group's hedge accounting revealed that one of the qualifying conditions was not fully met and this resulted in the restatement of the comparative statements for 2006. Opening retained earnings for 2006 was increased by \$8.6 million, net income attributable to the equity holders of the Company for 2006 was reduced by \$35.9 million with a corresponding reduction in retained earnings, total assets were reduced by \$40.9 million, total liabilities reduced by \$13.6 million and reserves were increased by \$27.3 million.

- **IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements** — Capital Disclosures (effective for financial year beginning on or after 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial

Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 November 2007.

- **IFRIC 11/IFRS 2, Group and Treasury Share Transactions** (effective for financial year beginning on or after 1 March 2007) – This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed.
- **IFRIC 14/IAS 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interpretation** (effective for financial year beginning on or after 1 January 2008) – This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 (Employee Benefits).
- **IFRS 8, Operating Segments** (effective for financial year beginning on or after 1 January 2009) – This standard requires the disclosure of information about the Group's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group.

(c) Segment reporting

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

Notes to the Consolidated Financial Statements

For the year ended October 31, 2007
(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(d) Foreign currency translation

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

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

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

(e) Derivative financial instruments

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

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

(f) Cash and cash equivalents

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

(g) Financial assets

The Group classifies its financial assets into the following categories:

- (i) Loans and receivables
- (ii) Held-to-maturity
- (iii) Available-for-sale

Management determines the classification of its investments at initial recognition.

- (i) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They arise when the Group provides money, goods or services directly or indirectly to a debtor with no intention of trading the receivable.
- (ii) Held-to-maturity
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale.
- (iii) Available-for-sale
Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Notes to the Consolidated Financial Statements

For the year ended October 31, 2007
(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(g) Financial assets (continued)

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

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

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

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

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

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

(h) Offsetting financial instruments

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

(i) Impairment of financial assets

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

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

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

Notes to the Consolidated Financial Statements

For the year ended October 31, 2007
(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(j) Derecognition of financial assets and liabilities

(i) *Financial assets*

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

(ii) *Financial liabilities*

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

(k) Investments in subsidiary

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

(l) Sale and repurchase agreements and lending of securities

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

(m) Loans and provision for impairment losses

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

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

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

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

A loan is classified as impaired when, in management's opinion, there has been a deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of the full amount of principal and interest. As required by statutory regulations, if a payment on a loan is contractually 90 days in arrears, the loan will be classified as impaired, if not already classified as such. Any credit card loan that has a payment that is contractually 180 days in arrears is written-off.

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

Notes to the Consolidated Financial Statements

For the year ended October 31, 2007
(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(n) Leases

(i) *As lessee*

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

(ii) *As lessor*

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

(o) Property, plant and equipment

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

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

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

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

The annual rates used are:

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

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

Gains and losses on disposal of property, plant and equipment are determined by reference to its carrying amount and are taken into account in determining net income.

(p) Provisions

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

(q) Intangible assets

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

Notes to the Consolidated Financial Statements

For the year ended October 31, 2007
(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(r) Income taxes

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

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

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

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

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

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

(s) Retirement benefit obligations

(i) Pension obligations

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

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

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

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

(ii) Other post-retirement obligations

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

Notes to the Consolidated Financial Statements

For the year ended October 31, 2007
(Expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(s) Retirement benefit obligations (continued)

(iii) Annual leave and other benefits

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

(t) Share-based payment transactions

Employees (including senior executives) of the Bank receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions"). Employees working in the business development group are granted share options, which can only be settled in cash ('cash-settled transactions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in the Parent's equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transaction at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period is recorded in 'Personal expenses' and represents the movement in cumulative expense recognised as at the beginning and end of that period.

(u) Recognition of income and expenses

(i) Interest and similar income and expense

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

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

(ii) Fee and commission income

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

(v) Fiduciary activities

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

(w) Hedge accounting

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

Notes to the Consolidated Financial Statements

For the year ended October 31, 2007
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2. Summary of Significant Accounting Policies (Continued)

(w) Hedge accounting (continued)

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

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

(i) Fair value hedges

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

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

(ii) Cash flow hedges

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

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

(x) Comparative information

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year. In particular, the comparatives have been adjusted or restated to reflect the requirements of new IFRS as well as amendments to and interpretations of existing IFRS, and for correction to prior year amounts relating to hedge accounting (Note 37).

Notes to the Consolidated Financial Statements

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(Expressed in Jamaican dollars unless otherwise indicated)

3. Cash and Balances with Central Bank

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Cash	287,428	322,353	287,426	322,351
Deposits with Central Bank – interest bearing	2,886,804	1,655,973	2,860,666	1,651,516
Deposits with Central Bank – non-interest bearing	1,600,988	1,060,302	1,565,207	1,033,150
	4,775,220	3,038,628	4,713,299	3,007,017
Interest receivable	6,953	21,334	6,953	21,334
	4,782,173	3,059,962	4,720,252	3,028,351

Under section 14 (i) of both the Banking Act, 1992 and section 13 of the Bank of Jamaica (Building Societies) Regulations, 1995, the Group and the Bank are required to place deposits with The Bank of Jamaica (“Central Bank”) which are held substantially on a non-interest-bearing basis as a cash reserve; accordingly, these amounts are not available for investment or other use by the Group and the Bank. These reserves represent the required ratio of 9% (2006 - 9%) of the Group’s and the Bank’s prescribed liabilities.

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

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Cash and balances with Central Bank	4,782,173	3,059,961	4,720,252	3,028,351
Less: Mandatory reserve deposits with Central Bank (Note 33)	(2,677,515)	(1,737,221)	(2,615,596)	(1,705,613)
	2,104,658	1,322,740	2,104,656	1,322,738
Due from other banks (Note 4)	1,505,349	2,097,051	4,622,939	4,363,328
	3,610,007	3,419,791	6,727,595	5,686,066

4. Due From Other Banks

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Money market placements	1,499,865	2,093,868	4,595,123	4,344,419
Interest receivable	5,484	3,183	27,816	18,909
	1,505,349	2,097,051	4,622,939	4,363,328

Included in money market placements are deposits with ultimate parent company of \$634,968,000 (2006 – Nil) for the Group.

5. Derivative Financial Instruments Fair Values

	Contract/ Notional Amount \$000	Assets \$'000	Liabilities \$'000
31 October 2007			
Derivatives held for trading:			
Interest rate swaps	US\$42,035	44,797	(81,100)
31 October 2006			
Derivatives held for trading:			
Interest rate swaps	US\$58,398	89,063	(117,589)

The Bank entered into interest rate swap agreements with Barclays Capital as hedges for fixed rate loans. The notional amounts of these swaps as at 31 October 2007 was US\$18,000,000 (2006 – US\$27,744,000).

The combined fair value of these interest rate swaps at 31 October 2007 was negative US\$264,917 (2006 – negative US\$435,000).

Notes to the Consolidated Financial Statements

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(Expressed in Jamaican dollars unless otherwise indicated)

6. Other Assets

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Cheques and other items in transit, net	844,661	33,490	812,066	19,915
Prepayments and deferred items	11,644	7,178	11,295	6,940
Due from parent company	488,770	154,311	488,770	154,311
Withholding tax	61,508	48,071	61,508	48,071
Other	48,979	26,708	16,859	20,508
	1,455,562	269,758	1,390,498	249,745

7. Investment Securities

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Securities available-for-sale:				
Equity securities – unquoted Issued or guaranteed by Government –	11,264	11,264	375,264	375,264
Treasury bills	473,342	653,831	473,342	653,831
Local registered stock	324,700	—	324,700	—
Other	95,498	—	95,498	—
	904,804	665,095	1,268,804	1,029,095
Securities held-to-maturity:				
Issued or guaranteed by Government –				
Debt securities	—	329,126	—	329,126
Debentures	—	117,342	—	117,342
Local registered stock	—	315,743	—	315,743
	—	762,211	—	762,211
Balance at end of year	904,804	1,427,306	1,268,804	1,791,306
Interest receivable	20,051	35,901	20,051	35,901
	924,855	1,463,207	1,288,855	1,827,207

7. Investment Securities (Continued)

The movement in investment securities may be summarised as follows:

	The Group			The Bank		
	Available-for-sale \$'000	Held-to-maturity \$'000	Total \$'000	Available-for-sale \$'000	Held-to-maturity \$'000	Total \$'000
Balance at 31 October 2005	16,904	1,450,470	1,467,374	380,904	1,440,470	1,821,374
Additions	2,240,376	2,325,565	4,565,941	2,240,376	2,325,565	4,565,941
Disposals – sale and redemption	(1,617,257)	(3,013,824)	(4,631,081)	(1,617,257)	(3,003,824)	(4,621,081)
Gains from changes in fair value	25,072	—	25,072	25,072	—	25,072
Balance at 31 October 2006	665,095	762,211	1,427,306	1,029,095	762,211	1,791,306
Additions	3,447,777	—	3,447,777	3,447,777	—	3,447,777
Disposals – sale and redemption	(3,996,680)	—	(3,996,680)	(3,996,680)	—	(3,996,680)
Transfers	762,211	(762,211)	—	762,211	(762,211)	—
Gains from changes in fair value	26,401	—	26,401	26,401	—	26,401
Balance at 31 October 2007	904,804	—	904,804	1,268,804	—	1,268,804

8. Government Securities Purchased Under Resale Agreements

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

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Government securities purchased under resale agreements	206,447	667,212	24,333	503,724
Interest receivable	5,630	7,533	939	2,361
	212,077	674,745	25,272	506,085

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(Expressed in Jamaican dollars unless otherwise indicated)

9. Loans and Advances to Customers

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Mortgages	5,506,927	3,981,834	—	—
Personal loans	5,329,712	4,712,676	5,329,712	4,712,676
Business and gov't loans	20,704,125	15,359,014	20,704,125	15,359,014
	31,540,764	24,053,524	26,033,837	20,071,690
Less: Provisions for impairment	(334,126)	(260,727)	(283,645)	(239,079)
	31,206,638	23,792,797	25,750,192	19,832,611
Add: Interest receivable	471,321	435,240	436,586	408,957
Less: Unearned fee income	(268,453)	(252,644)	(240,796)	(236,188)
	31,409,506	23,975,393	25,945,982	20,005,380

The movement in the provision for impairment on loans during the year is as follows:

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Balance at beginning of year	260,727	178,517	239,079	160,157
Identified impairment	151,438	47,973	121,307	49,334
Unidentified impairment	(29,145)	50,444	(27,942)	45,818
Recoveries of bad and doubtful debts	17,630	22,313	17,629	22,290
Bad debts written off	(66,524)	(38,520)	(66,428)	(38,520)
Balance at end of year	334,126	260,727	283,645	239,079

9. Loans and Advances to Customers (Continued)

These comprise:-

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Specific provision	243,388	140,844	202,066	129,558
General provision	90,738	119,883	81,579	109,521

As at 31 October 2007, loans with principal balances outstanding of \$623,553,000 (2006 – \$339,074,000) for the Group and \$474,183,000 (2006 – \$295,438,000) for the Bank were in non-performing status. Interest receivable on these loans amounted to \$14,839,000 (2006 – \$13,530,000) for the Group and \$14,129,000 (2006 – \$13,068,000) for the Bank, and interest taken to income amounted to \$36,823,000 (2006 – \$3,905,000) for the Group and \$30,205,000 (2006 – \$6,672,000) for the Bank.

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

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Specific provision	384,524	215,313	334,529	204,027
General provision	273,350	234,333	247,009	198,116
	657,874	449,646	581,538	402,143
Excess of regulatory provision over IFRS provision reflected in non-distributable loan loss reserve (Note 21)	323,748	188,919	297,893	163,064

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9. Loans and Advances to Customers (Continued)

Loans and advances to customers include finance lease receivables:

	The Group and the Bank	
	2007 \$'000	2006 \$'000
No later than 1 year	—	102
Later than 1 year and no later than 5 years	3,683	5,689
Later than 5 years	151,168	91,021
Gross investment in finance leases	154,851	96,812
Unearned future finance income on finance leases	(76,917)	(53,065)
	77,934	43,747
Less: Provision for impairment	—	(423)
Net investment in finance leases	77,934	43,324

10. Property, Plant and Equipment

	The Group				
	Land \$'000	Buildings \$'000	Leasehold Improvements \$'000	Equipment Furniture and Vehicles \$'000	Total \$'000
	2007				
Cost					
1 November 2006	3,900	48,569	89,684	915,951	1,058,104
Additions	—	—	12,057	253,824	265,881
Disposals	—	—	—	(24,586)	(24,586)
Transfers	—	—	(300)	(59,060)	(59,360)
31 October 2007	3,900	48,569	101,441	1,086,129	1,240,039
Accumulated depreciation					
1 November 2006	—	16,029	69,015	523,052	608,096
Charge for the year	—	1,214	3,968	141,558	146,740
Relieved on disposals	—	—	—	(17,362)	(17,362)
31 October 2007	—	17,243	72,983	647,248	737,474
Net book value					
31 October 2007	3,900	31,326	28,458	438,881	502,565
	2006				
Cost					
1 November 2005	3,900	47,815	86,246	758,942	896,903
Additions	—	754	3,438	168,843	173,035
Disposals	—	—	—	(11,834)	(11,834)
31 October 2006	3,900	48,569	89,684	915,951	1,058,104
Accumulated depreciation					
1 November 2005	—	14,832	66,023	437,612	518,467
Charge for the year	—	1,197	2,992	93,584	97,773
Relieved on disposals	—	—	—	(8,144)	(8,144)
31 October 2006	—	16,029	69,015	523,052	608,096
Net book value					
31 October 2006	3,900	32,540	20,669	392,899	450,008

Notes to the Consolidated Financial Statements

For the year ended October 31, 2007
(Expressed in Jamaican dollars unless otherwise indicated)

10. Property, Plant and Equipment (Continued)

	The Bank				
	Land \$'000	Buildings \$'000	Leasehold Improvements \$'000	Equipment Furniture and Vehicles \$'000	Total \$'000
2007					
Cost					
1 November 2006	3,900	48,569	89,639	910,980	1,053,088
Additions	—	—	12,057	253,466	265,523
Disposals	—	—	—	(24,586)	(24,586)
Transfers	—	—	(300)	(59,060)	(59,360)
31 October 2007	3,900	48,569	101,396	1,080,800	1,234,665
Accumulated depreciation					
1 November 2006	—	16,029	69,015	521,237	606,281
Charge for the year	—	1,214	3,968	140,749	145,931
Relieved on disposals	—	—	—	(17,362)	(17,362)
31 October 2007	—	17,243	72,983	644,624	734,850
Net book value					
31 October 2007	3,900	31,326	28,413	436,176	499,815
2006					
Cost					
1 November 2005	3,900	47,815	86,201	756,744	894,660
Additions	—	754	3,438	165,953	170,145
Disposals	—	—	—	(11,717)	(11,717)
31 October 2006	3,900	48,569	89,639	910,980	1,053,088
Accumulated depreciation					
1 November 2005	—	14,832	66,023	436,061	516,916
Charge for the year	—	1,197	2,992	93,203	97,392
Relieved on disposals	—	—	—	(8,027)	(8,027)
31 October 2006	—	16,029	69,015	521,237	606,281
Net book value					
31 October 2006	3,900	32,540	20,624	389,743	446,807

Included in the table above are amounts totaling \$14,430,000 (2006 – \$14,430,000) for the Group and the Bank representing the revalued amount of land and buildings which has been used as the deemed cost of these assets under the provision of IFRS 1 on transition to IFRS on 1 November 2002. Subsequent additions and other property, plant and equipment are shown at cost. Equipment, furniture and vehicles include \$196,052,128 (2006 — \$95,311,000) for the Group and the Bank relating to work-in-progress on which no depreciation has been charged.

11. Deferred Income Taxes

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 33¹/₃% for the Bank and 30% for FirstCaribbean International Building Society.

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

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Deferred tax assets	4,499	3,105	—	—
Deferred tax liabilities	(218,430)	(132,105)	(218,430)	(132,105)
	(213,931)	(129,000)	(218,430)	(132,105)

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

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Balance as at 1 November	129,000	116,970	132,105	117,786
Charge to the income statement	84,931	12,030	86,325	14,319
Balance as at 31 October	213,931	129,000	218,430	132,105

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11. Deferred Income Taxes (continued)

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

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Deferred tax assets				
Loan loss provisions	2,748	3,109	—	—
Post-retirement medical and insurance benefits	25,267	44,995	24,400	43,699
Other provisions	99,361	95,428	90,254	89,651
	127,376	143,532	114,654	133,350
Deferred tax liabilities				
Defined benefit pension scheme	275,755	239,957	268,156	233,140
Unrealised foreign exchange gains	37,177	6,278	36,870	6,278
Loan loss provisions	4,710	4,494	4,710	4,356
Accelerated tax depreciation	23,452	21,803	23,348	21,681
Other	213	—	—	—
	341,307	272,532	333,084	265,455
Net deferred tax liability	213,931	129,000	218,430	132,105

Deferred income tax liabilities have not been provided for on the withholding and other taxes that would be payable on the undistributed earnings of the subsidiary to the extent that such earnings are permanently reinvested. At 31 October 2007, such earnings totaled \$110,179,000 (2006 - \$69,995,000).

12. Retirement Benefit Asset/(Obligation)

Amounts recognised in the balance sheet:

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Defined benefit pension scheme	829,800	722,141	804,470	699,419
Other post retirement benefits	(76,090)	(135,418)	(73,200)	(131,097)

(a) Defined benefit pension scheme

The Group operates a pension scheme covering all permanent employees. The pension benefit is based on the best five consecutive years' earnings in the last ten years, multiplied by the years of credited service. The assets of the plan are held independently of the Group's assets in a separate trustee fund. The scheme is valued by independent actuaries annually using the Projected Unit Credit Method. The latest actuarial valuation for IFRS purposes was carried out as at 31 October 2007.

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

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Fair value of plan asset	1,768,020	1,449,736	1,725,420	1,407,364
Present value of funded obligation	(797,090)	(595,840)	(777,880)	(578,425)
Unrecognised actuarial gains	(141,130)	(131,755)	(143,070)	(129,520)
Asset in the balance sheet	829,800	722,141	804,470	699,419

At 31 October 2007, pension plan assets include the Parent's ordinary stock units with a fair value of \$47,413,660 (2006 - \$22,404,000).

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

(a) Defined benefit pension scheme (continued)

Movements in the asset recognised in the balance sheet:

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
At 1 November	722,141	618,410	699,419	598,720
Credit for the year	91,150	95,546	88,940	92,753
Contributions paid	16,509	8,185	16,111	7,946
At 31 October	829,800	722,141	804,470	699,419

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

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Fair value of plan asset at start of year	1,449,736	1,353,480	1,407,360	1,310,380
Expected return on plan asset	214,474	173,704	209,320	168,610
Contributions	16,510	8,190	16,110	7,950
Benefits paid during year	(16,230)	(6,970)	(15,840)	(6,770)
Actuarial gain (loss) on plan asset	103,530	(78,668)	108,470	(72,810)
Fair value of plan asset at end of year	1,768,020	1,449,736	1,725,420	1,407,360

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

(a) Defined benefit pension scheme (continued)

Changes in the present value of obligation are as follows:

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Present value of obligation at start of year	595,840	502,410	578,430	486,410
Interest cost	88,260	56,410	86,140	54,760
Current service cost	38,450	26,520	37,510	25,745
Benefits paid during year	(16,230)	(6,970)	(15,840)	(6,770)
Actuarial loss on plan assets	90,770	17,470	91,640	18,280
Present value of obligation at end of year	797,090	595,840	777,880	578,425

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

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Current service cost, net of employee contributions	38,450	26,520	37,510	25,745
Interest cost	88,260	56,410	86,140	54,760
Expected return on plan assets	(214,480)	(173,692)	(209,310)	(168,614)
Actuarial gains recognised during the year	(3,380)	(4,784)	(3,280)	(4,644)
Included in staff costs (Note 25)	(91,150)	(95,546)	(88,940)	(92,753)
Actual return on plan asset	318,010	95,047	317,790	95,810

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

(a) Defined benefit pension scheme (continued)

The principal actuarial assumptions used were as follows:

	The Group and The Bank	
	2007	2006
Discount rate	12.5%	12.0%
Expected return on plan assets	12.5%	14.0%
Future salary increases	11.0%	10.0%
Future pension increases	4.0%	4.0%

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

The last actuarial valuation to determine the adequacy of funding done as at 31 October 2006 revealed that the scheme was adequately funded at that date.

(b) Post-retirement medical and life insurance benefits

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

In addition to the assumptions used for the pension scheme, the main actuarial assumption is a long-term increase in health costs of 5% per year (2006 – 10%).

The amounts recognised in the balance sheet are as follows:

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Present value of unfunded obligations	9,420	32,031	9,190	31,095
Unrecognised actuarial gains	66,670	103,387	64,010	100,002
Liability in the balance sheet	76,090	135,418	73,200	131,097

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

(b) Post-retirement medical and life insurance benefits (continued)

Movements in the obligation recognised in the balance sheet:

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Obligation at beginning of year	135,418	135,400	131,097	131,080
Charge for the year	(58,510)	737	(57,100)	715
Contributions paid	(818)	(719)	(797)	(698)
Obligation at end of year	76,090	135,418	73,200	131,097

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

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Current service cost	2,460	1,826	2,400	1,773
Interest cost	4,800	3,693	4,680	3,585
Curtailment gains	(5,480)	—	(5,350)	—
Actuarial gains recognised in year	(60,290)	(4,782)	(58,830)	(4,643)
Total included in staff costs (Note 25)	(58,510)	737	(57,100)	715

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13. Customer Deposits

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Individuals	9,690,350	10,496,256	8,929,722	9,805,227
Business and Government	15,537,248	8,753,503	14,659,763	8,447,708
Banks	8,121,829	7,663,382	8,007,385	7,507,767
	33,349,427	26,913,141	31,596,870	25,760,702
Interest payable	173,578	115,666	161,472	106,171
	33,523,005	27,028,807	31,758,342	25,866,873

14. Other Liabilities

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Accounts payable and accruals	461,700	260,921	401,033	240,978
Withholding tax	20,557	9,983	2,801	—
Other	88,744	63,399	84,983	52,471
	571,001	334,303	488,817	293,449

15. Debt Securities In Issue

	The Group and Bank	
	2007 \$'000	2006 \$'000
Floating rate notes due 2012	1,500,000	—
Interest payable	2,217	—
	1,502,217	—

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

16. Share Capital and Reserves

	The Group and Bank			
	2007 No. of shares (000)	2006 No. of shares (000)		
Share Capital				
Authorised – Ordinary shares	300,000	300,000		
	The Group and Bank			
	2007 \$'000	2006 \$'000		
Issued and fully paid – 265,756,730 Ordinary stock units	1,396,667	132,878		
Share premium	—	1,263,789		
	1,396,667	1,396,667		
	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Reserves				
Capital reserves (Note 17)	12,833	12,833	12,833	12,833
Fair value reserve – available-for-sale investment securities (Note 18)	26,401	27,622	26,401	27,622
Statutory reserve fund (Note 19)	1,156,667	696,667	1,011,667	611,667
Retained earnings reserve (Note 20)	1,776,163	1,776,163	1,640,666	1,640,666
Loan loss reserve (Note 21)	323,748	188,919	297,893	163,064
Building Society reserve (Note 22)	45,522	45,522	—	—
	3,341,334	2,747,726	2,989,460	2,455,852
Total share capital and reserves at end of the year	4,738,001	4,144,393	4,386,127	3,852,519

At an Extraordinary General Meeting held on 31 January 2006, the Bank's shareholders approved an increase of 100,000,000 shares at a par value of \$0.50 in the authorised share capital of the Bank; such shares to rank pari passu with the existing ordinary shares. The shareholders then approved a proposal made by the parent company to inject US\$20 million (\$1.3 billion) in the equity of the Bank, comprising 72,423,398 shares at \$0.50 each plus a premium of \$1,263,789,000. The capital injection was done in February 2006.

During the year the Bank's authorized and issued share capital were converted to no par and nominal value status under the Companies Act 2004.

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17. Capital Reserves

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Comprised:				
Unrealised –				
Surplus on revaluation of premises	5,493	5,493	5,493	5,493
Realised –				
Profit on sale of property, plant and equipment	7,340	7,340	7,340	7,340
Balance at end of year	<u>12,833</u>	<u>12,833</u>	<u>12,833</u>	<u>12,833</u>

18. Fair Value Reserves — Available For Sale Investment Securities

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Balance at beginning of year	27,622	2,550	27,622	2,550
Fair value (losses)/gains on available for sale investments during the year	(1,221)	25,072	(1,221)	25,072
Balance at end of the year	<u>26,401</u>	<u>27,622</u>	<u>26,401</u>	<u>27,622</u>

19. Statutory Reserve Fund

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Balance at beginning of year	696,667	156,667	611,667	121,667
Transfer from retained earnings	460,000	540,000	400,000	490,000
Balance at end of the year	<u>1,156,667</u>	<u>696,667</u>	<u>1,011,667</u>	<u>611,667</u>

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

20. Retained Earnings Reserve

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Balance at beginning of year	1,776,163	1,776,163	1,640,666	1,640,666
Transfer from retained earnings	—	—	—	—
Balance at end of the year	<u>1,776,163</u>	<u>1,776,163</u>	<u>1,640,666</u>	<u>1,640,666</u>

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

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

21. Loan Loss Reserve

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).

22. Building Society Reserve

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Balance at end of the year	<u>45,522</u>	<u>45,522</u>	—	—

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

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23. Net Interest Income

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Interest and similar income:				
Cash & short term funds and due from banks	372,602	311,061	618,155	466,964
Investment securities	175,032	217,404	175,032	216,970
Loans and advances	3,757,851	2,678,629	3,166,543	2,258,519
Repurchase agreements and other	43,123	23,886	22,743	6,737
	4,348,608	3,230,980	3,982,473	2,949,190
Interest and similar expense:				
Customer deposits	(1,628,154)	(999,821)	(1,497,820)	(909,916)
Debt securities in issue	(120,520)	—	(120,520)	—
	(1,748,674)	(999,821)	(1,618,340)	(909,916)
Net interest income	2,599,934	2,231,159	2,364,133	2,039,274

24. Other Operating Income

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Net fees and commissions	427,068	343,956	421,990	340,220
Foreign exchange transactional net gains	182,111	153,713	182,111	154,019
Foreign exchange revaluation net gains	111,632	18,868	110,610	18,834
Trading securities net losses	(43,465)	(53,889)	(43,945)	(53,889)
Other operating income	4,213	425	—	—
	681,559	463,073	670,766	459,184

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

25. Operating Expenses

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Staff costs	837,102	769,749	798,513	728,521
Depreciation	146,740	97,773	145,931	97,392
Occupancy costs	229,353	180,400	224,810	175,768
Other operating expenses	796,425	680,160	765,992	649,281
	2,009,620	1,728,082	1,935,246	1,650,962
Analysis of staff costs:				
	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Wages and salaries	799,303	663,167	763,878	627,674
Pension costs –				
Defined benefit plan (Note 12)	(91,150)	(95,546)	(88,940)	(92,753)
Defined contribution plan	9,180	11,216	8,942	11,018
Other post retirement benefits (Note 12)	(58,510)	737	(57,100)	715
Share-based payments	7,368	4,681	6,865	4,315
Other staff-related costs	170,911	185,494	164,868	177,552
	837,102	769,749	798,513	728,521

26. Income Before Taxation

Income before taxation is stated after charging:

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Depreciation	146,740	97,773	145,931	97,392
Directors' emoluments –				
Fees	2,737	1,959	2,316	1,566
Management remuneration	27,745	18,484	27,745	18,484
Management fees	134,237	182,633	119,749	163,890
Auditors' remuneration –				
Current year	7,682	7,318	6,251	5,988
Prior year	197	—	197	—

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27. Taxation

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

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Current year income tax	302,095	266,313	257,552	228,901
Adjustment to prior year provision	(8,569)	614	(8,528)	(161)
	<u>293,526</u>	<u>266,927</u>	<u>249,024</u>	<u>228,740</u>
Deferred tax	84,931	12,030	86,325	14,319
	<u>378,457</u>	<u>278,957</u>	<u>335,349</u>	<u>243,059</u>

Income tax is calculated at the rate of 33 $\frac{1}{3}$ % for the Bank and at 30% for FirstCaribbean International Building Society.

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

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Income before taxation	<u>1,149,580</u>	<u>867,733</u>	<u>1,006,288</u>	<u>752,344</u>
Tax calculated at 33 $\frac{1}{3}$ %	383,193	289,244	335,429	250,781
Effect of:				
Different tax rate applicable to mortgage financing subsidiary	(4,777)	(3,846)	—	—
Prior year under provision	12,047	614	8,505	(181)
Tax free investment income	(13,393)	(13,864)	(13,405)	(13,844)
Expenses not deductible for tax purposes	287	99	273	—
Other charges and allowances	1,100	6,710	4,547	6,303
	<u>378,457</u>	<u>278,957</u>	<u>335,349</u>	<u>243,059</u>

28. Net Income For The Year

	2007 \$'000	2006 \$'000
The net income for the year is dealt with as follows in the financial statements of:		
The Bank	670,939	509,285
Subsidiary	<u>100,184</u>	<u>79,491</u>
	<u>771,123</u>	<u>588,776</u>

29. Earnings Per Stock Unit

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

	2007	2006
Net income for the year (\$'000)	771,123	588,776
Weighted average number of ordinary stock units in issue ('000)	265,757	244,724
Earnings per stock unit (\$)	<u>2.90</u>	<u>2.41</u>

30. Related Party Transactions

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

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

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
FirstCaribbean International Bank Limited:				
Management fees payable	188,532	182,633	167,957	163,890
Net receivable	488,721	148,223	488,770	154,310
Other FirstCaribbean entities:				
Interest expense	550,272	218,493	531,802	218,493
Deposits by other				
FirstCaribbean entities	8,172,709	7,507,764	8,011,956	7,507,764
Due from subsidiary	—	—	3,163,900	2,250,552
Affiliates:				
Due to CIBC entities	<u>647,210</u>	—	<u>647,210</u>	—

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30. Related Party Transactions (Continued)

(b) Transactions and balances with directors

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Loans outstanding	69,739	49,676	26,982	7,097
Deposits with FirstCaribbean entities	8,064	19,144	7,821	19,144
Interest income	4,815	4,807	960	279
Interest expense	509	171	238	171
Directors' fees	2,737	1,959	2,316	1,566
Management remuneration paid (included below)	27,745	18,484	27,745	18,484

(c) Key management remuneration paid during the year

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Wages and salaries	84,354	56,299	76,579	49,458
Statutory contributions	5,832	4,673	5,315	4,092

31. Commitments

(a) Future rental commitments under operating leases

At 31 October 2007, the Bank held leases on buildings for extended periods. The future rental commitments under these leases were as follows:

	2007 \$'000	2006 \$'000
Not later than 1 year	125,800	125,703
Later than 1 year and less than 5 years	819,903	576,015
Later than 5 years	54,206	51,650
	<u>999,909</u>	<u>753,368</u>

31. Commitments (continued)

(b) Other

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

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Guarantees and indemnities	535,993	589,492	535,993	589,492
Letters of credit	325,651	158,154	325,651	158,154
Loan commitments	5,507,001	4,394,905	4,075,222	3,031,704
	<u>6,368,645</u>	<u>5,142,551</u>	<u>4,936,866</u>	<u>3,779,350</u>

32. Contingencies

The Group, because of the nature of its businesses, is subject to various threatened or filed legal actions. At 31 October 2007 material claims filed amounted to approximately \$2,011,652,000 (2006 - \$2,062,077,000). The majority of this amount relates to a specific counter claim of approximately \$1,992,259,000 (2006 - \$1,990,890,000), filed by a former customer against the Bank. This counter claim is as a result of an action brought against the former customer by the Bank for approximately \$315,738,000 (2006 - \$315,738,000). The Directors have been advised that the counter claim is totally without merit. Although the amount of the ultimate exposure, if any, cannot be determined at this time, the Directors are of the opinion, based upon the advice of counsel, that the final outcome of threatened or filed suits will not have a material adverse effect on the financial position of the Group.

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33. Pledged Assets

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

	The Group			
	Asset		Related Liability	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Statutory reserves at				
Bank of Jamaica (Note 3)	2,677,515	1,737,221	—	—
Securities (see note below)	375,000	130,000	—	—
	3,052,515	1,867,221	—	—

	The Bank			
	Asset		Related Liability	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Statutory reserves at				
Bank of Jamaica (Note 3)	2,615,596	1,705,613	—	—
Securities (see note below)	350,000	130,000	—	—
	2,965,596	1,835,613	—	—

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

34. Business Segments

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

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

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

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

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

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

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

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

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

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

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

The Group's operations are located solely in Jamaica.

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34. Business Segments (Continued)

	Retail Banking \$'000	Corporate Banking \$'000	Other Financial Services \$'000	Eliminations \$'000	Group \$'000
31 October 2007					
External revenues	1,428,698	2,286,024	1,315,445	—	5,030,167
Revenues from other segments	521,365	(132,652)	(128,905)	(259,808)	—
Total revenues	1,950,063	2,153,372	1,186,540	(259,808)	5,030,167
Income before taxation	242,755	1,300,727	(393,902)	—	1,149,580
Taxation					(378,457)
Income for the year					771,123
Segment assets	19,968,096	20,341,565	4,884,923	(3,527,900)	41,666,684
Unallocated assets					4,499
Total assets					41,671,183
Segment liabilities	13,932,194	17,847,177	7,137,942	(3,163,900)	35,753,413
Unallocated liabilities					300,111
Total liabilities					36,053,524
Other segment information					
Capital expenditure	80,701	657	125,163	—	206,521
Depreciation	33,191	408	113,141	—	146,740
Loan impairment losses	81,951	50,686	(10,344)	—	122,293

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34. Business Segments (Continued)

	Retail Banking \$'000	Corporate Banking \$'000	Other Financial Services \$'000	Eliminations \$'000	Group \$'000
31 October 2006					
External revenues	1,383,290	1,593,843	716,920	—	3,694,053
Revenues from other segments	811,625	(164,670)	(485,204)	(161,751)	—
Total revenues	2,194,915	1,429,173	231,716	(161,751)	3,694,053
Income before taxation	431,535	951,324	(515,126)	—	867,733
Taxation					(278,957)
Income for the year					588,776
Segment assets	19,869,755	14,002,074	1,593,199	(2,663,700)	32,801,328
Unallocated assets					3,105
Total assets					32,804,433
Segment liabilities	15,484,499	12,228,724	2,202,594	(2,299,700)	27,616,117
Unallocated liabilities					340,559
Total liabilities					27,956,676
Other segment information					
Capital expenditure	99,858	512	72,665	—	173,035
Depreciation	20,024	283	77,466	—	97,773
Loan impairment losses	59,043	39,374	—	—	98,417

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

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35. Financial Risk Management

(a) Strategy in using financial instruments

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

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

(b) Credit risk

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

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a significant portion is personal lending where no such facilities can be obtained.

(i) Derivatives

The Group maintains strict control limits on net open derivative positions, that is, the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current

fair value of instruments that are favourable to the Group (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the group requires margin deposits from counterparties.

(ii) Master netting arrangements

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

(iii) Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

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

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35. Financial Risk Management (Continued)

(iv) Risk concentration

	The Group			
	Loans and Leases \$'000	Acceptances, Guarantees and Letters of Credit \$'000	Total 2007 \$'000	Total 2006 \$'000
Agriculture, fishing and mining	145,883	6,275	152,158	195,621
Construction	344,842	107,398	452,240	1,569,465
Distribution	6,520,829	36,534	6,557,363	2,490,765
Electricity, gas and water	716,469	711,000	1,427,469	3,736
Financial institutions	392,604	500	393,104	1,068,543
Government and public entities	2,643,590	10,172	2,653,762	1,049,122
Manufacturing and production	573,374	132,587	705,961	2,226,149
Personal	10,789,644	2,799,159	13,588,803	8,826,241
Professional and other services	1,010,414	1,654,441	2,664,855	1,176,295
Tourism and entertainment	5,637,623	188,421	5,826,044	4,543,848
Transport, storage and communication	2,765,492	722,158	3,487,650	1,651,386
Total	31,540,764	6,368,645	37,909,409	24,801,171
Provision for losses			(334,126)	(260,727)
			<u>37,575,283</u>	<u>24,540,444</u>

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35. Financial Risk Management (Continued)

(iv) Risk concentration (continued)

	The Bank			
	Loans and Leases \$'000	Acceptances, Guarantees and Letters of Credit \$'000	Total 2007 \$'000	Total 2006 \$'000
Agriculture, fishing and mining	145,883	6,275	152,158	195,621
Construction	344,842	107,398	452,240	1,514,883
Distribution	6,514,041	36,534	6,550,575	2,483,345
Electricity, gas and water	716,469	711,000	1,427,469	3,736
Financial institutions	392,604	500	393,104	1,068,543
Government and public entities	2,643,590	10,172	2,653,762	1,049,122
Manufacturing and production	566,977	132,587	699,564	2,219,461
Personal	5,404,744	1,367,380	6,772,124	4,945,049
Professional and other services	966,934	1,654,441	2,621,375	1,144,344
Tourism and entertainment	5,572,261	188,421	5,760,682	4,543,847
Transport, storage and communication	2,765,492	722,158	3,487,650	1,651,385
Total	26,033,837	4,936,866	30,973,703	20,819,336
Provision for losses			(283,645)	(239,079)
			30,690,058	20,580,257

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35. Financial Risk Management (Continued)

(c) Foreign exchange risk

The Group recognizes foreign currency risk on transactions that are denominated in a currency other than the Jamaican dollar. The main currencies giving rise to this risk are the United States dollar, Canadian dollar, and the British Pound Sterling.

The Group ensures that the net exposure is kept to an acceptable level by matching foreign assets with liabilities as far as possible. Net current foreign currency assets were as follows:

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
United States dollars	26,263	20,465	25,966	20,388
Canadian dollars	343	430	343	430
Pound Sterling	173	420	173	420

(d) Liquidity risk

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and guarantees. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

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

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities are fundamental to the management of the Group. It is unusual for banks 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 Group and its exposure to changes in interest rates and exchange rates.

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35. Financial Risk Management (Continued)

(d) Liquidity risk (continued)

	The Group					
	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	No Specific Maturity	Total
	2007 \$'000	2007 \$'000	2007 \$'000	2007 \$'000	2007 \$'000	2007 \$'000
Cash and balances						
with Central Bank	4,782,173	—	—	—	—	4,782,173
Due from other banks	1,505,349	—	—	—	—	1,505,349
Derivative Financial Instruments	44,797	—	—	—	—	44,797
Other assets	1,455,562	—	—	—	—	(4)1,455,562
Investment securities	447,877	199,067	44,915	232,996	—	924,855
Government securities purchased under resale agreements	94,647	117,430	—	—	—	212,077
Loans and advances to customers	5,977,369	3,398,181	6,512,095	15,521,861	—	(3)31,409,506
Property, plant and equipment	—	—	502,565	—	—	502,565
Deferred tax assets	—	—	4,499	—	—	4,499
Retirement benefit asset	—	—	—	829,800	—	829,800
Total assets	14,307,774	3,714,678	7,064,074	16,584,657	—	41,671,183
Customer deposits	26,288,438	6,726,636	96,755	411,176	—	33,523,005
Derivative financial instruments	81,100	—	—	—	—	81,100
Other liabilities	571,001	—	—	—	—	571,001
Taxation payable	81,681	—	—	—	—	81,681
Deferred tax liabilities	—	—	—	218,430	—	218,430
Debt securities in issue	—	1,502,217	—	—	—	1,502,217
Retirement benefit obligation	—	—	—	76,090	—	76,090
Total liabilities	27,022,220	8,228,853	96,755	705,696	—	36,053,524
Net liquidity gap	(12,714,446)	(4,514,175)	6,967,319	15,878,961	—	5,617,659
As at 31 October 2006						
Total assets	6,472,586	3,827,903	7,372,075	12,502,219	2,629,650	32,804,433
Total liabilities	17,353,137	5,843,652	146,243	569,235	4,044,409	27,956,676
Net liquidity gap	(10,880,551)	(2,015,749)	7,225,832	11,932,984	(1,414,759)	4,847,757

Notes to the Consolidated Financial Statements

For the year ended October 31, 2007
(Expressed in Jamaican dollars unless otherwise indicated)

35. Financial Risk Management (Continued)

(d) Liquidity risk (continued)

	The Bank					
	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	No Specific Maturity	Total
	2007 \$'000	2007 \$'000	2007 \$'000	2007 \$'000	2007 \$'000	2007 \$'000
Cash and balances with Central Bank	4,720,252	—	—	—	—	4,720,252
Due from other banks	4,622,939	—	—	—	—	4,622,939
Derivative financial instruments	44,797	—	—	—	—	44,797
Other assets	1,390,498	—	—	—	—	1,390,498
Investment securities	447,877	199,067	44,915	596,996	—	1,288,855
Government securities purchased under resale agreements	24,182	1,090	—	—	—	25,272
Loans and advances to customers	5,640,295	3,278,994	6,435,942	10,590,751	—	25,945,982
Property, plant and equipment	—	—	499,815	—	—	499,815
Retirement benefit asset	—	—	—	804,470	—	804,470
Total assets	16,890,840	3,479,151	6,980,672	11,992,217	—	39,342,880
Customer deposits	24,697,435	6,555,043	94,688	411,176	—	31,758,342
Derivative financial instruments	81,100	—	—	—	—	81,100
Other liabilities	488,817	—	—	—	—	488,817
Taxation payable	65,167	—	—	—	—	65,167
Deferred tax liabilities	—	—	—	218,430	—	218,430
Debt securities in issue	—	1,502,217	—	—	—	1,502,217
Retirement benefit obligation	—	—	—	73,200	—	73,200
Total liabilities	25,332,519	8,057,260	94,688	702,806	—	34,187,273
Net liquidity gap	(8,441,679)	(4,578,109)	6,885,984	11,289,411	—	5,155,607
As at 31 October 2006						
Total assets	8,592,068	3,777,920	7,322,955	8,592,988	2,929,454	31,215,385
Total liabilities	16,818,578	5,532,630	125,816	270,308	3,982,164	26,729,496
Net liquidity gap	(8,226,510)	(1,754,710)	7,197,139	8,322,680	(1,052,710)	4,485,889

Notes to the Consolidated Financial Statements

For the year ended October 31, 2007
(Expressed in Jamaican dollars unless otherwise indicated)

35. Financial Risk Management (Continued)

(e) Market risk

Market risk is the risk that the value of the financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security, its issuer or factors affecting all securities traded in the market. The Group manages its risk through the Asset and Liability Committee which carries out extensive research and monitors the price movement of securities on the local and international market.

(f) Cash flow and fair value interest rate risk

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

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

Notes to the Consolidated Financial Statements

For the year ended October 31, 2007
(Expressed in Jamaican dollars unless otherwise indicated)

35. Financial Risk Management (Continued)

(g) Cash flow and fair value interest rate risk

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

	The Group						Total
	Immediately Rate Sensitive ⁽¹⁾	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non- Rate Sensitive	
	2007 \$'000	2007 \$'000	2007 \$'000	2007 \$'000	2007 \$'000	2007 \$'000	
Cash and balances with Central Bank	1,298,319	1,459,127	90,000	—	—	1,934,727	4,782,173
Due from other banks	1,505,349	—	—	—	—	—	1,505,349
Derivative financial instruments	—	44,797	—	—	—	—	44,797
Other assets	—	—	—	—	—	1,455,562 ⁽⁴⁾	1,455,562
Investments	—	442,076	200,855	45,000	225,700	11,224 ⁽²⁾	924,855
Government securities purchased under resale agreements	—	94,647	117,430	—	—	—	212,077
Loans and advances to customers	525,361	4,980,687	3,398,181	6,512,095	15,521,861	471,321 ⁽³⁾	31,409,506
Property, plant and equipment	—	—	—	—	—	502,565	502,565
Deferred tax assets	—	—	—	—	—	4,499	4,499
Retirement benefit asset	—	—	—	—	—	829,800	829,800
Total assets	3,329,029	7,021,334	3,806,466	6,557,095	15,747,561	5,209,698	41,671,183
Customer deposits	4,566,049	21,722,389	6,726,636	96,755	411,176	—	33,523,005
Derivative financial instruments	—	81,100	—	—	—	—	81,100
Other liabilities	—	—	—	—	—	571,001	571,001
Taxation payable	—	—	—	—	—	81,681	81,681
Deferred tax liabilities	—	—	—	—	—	218,430	218,430
Debt securities in issue	—	—	1,502,217	—	—	—	1,502,217
Retirement benefit obligation	—	—	—	—	—	76,090	76,090
Total liabilities	4,566,049	21,803,489	8,228,853	96,755	411,176	947,202	36,053,524
Total interest rate sensitivity gap	(1,237,020)	(14,782,155)	(4,422,387)	6,460,340	15,336,385	4,262,496	5,617,659
Cumulative gap	(1,237,020)	(16,019,175)	(20,441,562)	(13,981,222)	1,355,163	5,617,659	—
As at 31 October 2006							
Total interest rate sensitivity gap	(12,539,878)	1,532,568	(1,857,199)	7,225,832	11,932,985	(1,446,551)	4,847,757
Cumulative gap	(12,539,878)	(11,007,310)	(12,864,509)	(5,638,677)	6,294,308	4,847,757	—

Notes to the Consolidated Financial Statements

For the year ended October 31, 2007
(Expressed in Jamaican dollars unless otherwise indicated)

35. Financial Risk Management (Continued)

(g) Cash flow and fair value interest rate risk

	The Bank						Total
	Immediately Rate Sensitive ⁽¹⁾	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non- Rate Sensitive	
	2007 \$'000	2007 \$'000	2007 \$'000	2007 \$'000	2007 \$'000	2007 \$'000	
Cash and balances with Central Bank	1,272,181	1,505,437	90,000	—	—	1,852,634	4,720,252
Due from other banks	2,094,065	2,528,874	—	—	—	—	4,622,939
Derivative financial instruments	—	44,797	—	—	—	—	44,797
Other assets	—	—	—	—	—	1,390,498 ⁽⁴⁾	1,390,498
Investments	—	442,076	200,855	45,000	225,700	375,224 ⁽²⁾	1,288,855
Government securities purchased under resale agreements	—	24,182	1,090	—	—	—	25,272
Loans and advances to customers	560,095	4,643,614	3,278,994	6,435,942	10,590,751	436,586 ⁽³⁾	25,945,982
Property, plant and equipment	—	—	—	—	—	499,815	499,815
Retirement benefit asset	—	—	—	—	—	804,470	804,470
Total assets	3,926,341	9,188,980	3,570,939	6,480,942	10,816,451	5,359,227	39,342,880
Customer deposits	3,995,490	20,701,945	6,555,043	94,688	411,176	—	31,758,342
Debt securities in issue	—	—	1,502,217	—	—	—	1,502,217
Other liabilities	—	—	—	—	—	488,817	488,817
Taxation payable	—	—	—	—	—	65,167	65,167
Derivative financial instruments	—	81,100	—	—	—	—	81,100
Deferred tax liabilities	—	—	—	—	—	218,430	218,430
Retirement benefit obligation	—	—	—	—	—	73,200	73,200
Total liabilities	3,995,490	20,783,045	8,057,260	94,688	411,176	845,614	34,187,273
Total interest rate sensitivity gap	(69,149)	(11,594,065)	(4,486,321)	6,386,254	10,405,275	4,513,613	5,155,607
Cumulative gap	(69,149)	(11,663,214)	(16,149,535)	(9,763,281)	641,994	5,155,607	—
As at 31 October 2006							
Total interest rate sensitivity gap	(12,062,750)	3,860,574	(1,754,710)	7,197,139	8,322,680	(1,077,044)	4,485,889
Cumulative gap	(12,062,750)	(8,202,176)	(9,956,886)	(2,759,747)	5,562,933	4,485,889	—

(1) This represents those financial instruments whose interest rates change concurrently with a change in the underlying interest rate basis, for example base rate loans.

(2) This includes financial instruments such as equity investments.

(3) This includes impaired loans.

(4) This includes non-financial instruments.

Notes to the Consolidated Financial Statements

For the year ended October 31, 2007
(Expressed in Jamaican dollars unless otherwise indicated)

35. Financial Risk Management (Continued)

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

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

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

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

35. Financial Risk Management (Continued)

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

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

	The Group					
	2006					
Immediately	Rate	Within 3	3 to 12	1 to 5	Over 5	Total
Sensitive	%	Months	Months	Years	Years	
Cash and balances with Central Bank	—	4.87	—	—	—	4.87
Due from other banks	—	5.77	—	—	—	5.77
Investments ⁽¹⁾ — available-for-sale	—	12.44	12.30	—	—	12.43
Investments ⁽¹⁾ — held to maturity	—	14.15	11.95	14.21	—	13.14
Government securities purchased under resale agreements	—	12.19	12.99	—	—	12.25
Loans to customers ⁽²⁾	23.80	13.01	11.81	14.75	11.72	13.49
Customer deposits ⁽³⁾	20.47	7.48	6.33	9.21	7.54	14.31

	The Bank					
	2006					
Immediately	Rate	Within 3	3 to 12	1 to 5	Over 5	Total
Sensitive	%	Months	Months	Years	Years	
Cash and balances with Central Bank	—	4.87	—	—	—	4.87
Due from other banks	—	5.77	—	—	—	5.77
Investments ⁽¹⁾ — available-for-sale	—	12.44	12.30	—	—	12.43
Investments ⁽¹⁾ — held to maturity	—	14.15	11.95	14.21	—	13.14
Government securities purchased under resale agreements	—	12.11	13.38	—	—	12.14
Loans to customers ⁽²⁾	23.80	13.06	11.80	14.75	11.00	13.54
Customer deposits ⁽³⁾	20.81	7.26	6.27	9.20	9.89	14.55

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

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

(3) Yields are based on contractual interest rates.

Notes to the Consolidated Financial Statements

For the year ended October 31, 2007
(Expressed in Jamaican dollars unless otherwise indicated)

35. Financial Risk Management (Continued)

(h) Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market price is used to determine fair value where an active market exists as it is the best evidence of the fair value of a financial instrument. However, market prices are not available for a significant number of the financial assets and liabilities held and issued by the Group. Therefore, for financial instruments where no market price is available, the fair values presented have been estimated using present value or other estimation and valuation techniques based on market conditions existing at balance sheet dates. The values derived from applying these techniques are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates.

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

	The Group			
	Carrying value	Fair value	Carrying value	Fair value
	2007 \$'000	2007 \$'000	2006 \$'000	2006 \$'000
Financial Assets				
Investments –				
held to maturity	—	—	762,211	793,597
Government securities				
purchased under				
resale agreements	212,077	275,704	674,745	667,506
	The Bank			
	Carrying value	Fair value	Carrying value	Fair value
	2007 \$'000	2007 \$'000	2006 \$'000	2006 \$'000
Financial Assets				
Investments –				
held to maturity	—	—	762,211	793,597
Investments in subsidiaries	364,000	826,051	364,000	725,868
Government securities				
purchased under				
resale agreements	25,272	25,220	506,805	503,836

35. Financial Risk Management (Continued)

(h) Fair value of financial instruments (continued)

The following methods and assumptions have been used:

(a) Loans and advances to banks

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

(b) Loans and advances to customers

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

(c) Investment securities

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

(d) Investments in subsidiary

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

(e) Customer deposits

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

Notes to the Consolidated Financial Statements

For the year ended October 31, 2007
(Expressed in Jamaican dollars unless otherwise indicated)

36. Critical Accounting Judgements and Estimates in Applying Accounting Policies

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

(a) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Retirement benefit obligations

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

(c) Held-to-maturity investments

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

37. Restatement

During the year, a review of the Group's hedge accounting revealed that one of the qualifying conditions was not fully met and this resulted in the restatement of the prior year's results. Opening retained earnings for the Group and the Bank as at 1 November 2005 were increased by \$8.6 million, net income attributable to the equity holders of the Bank for 2006 was reduced by \$35.9 million with a corresponding reduction in retained earnings; the net results of these adjustments are that total assets were reduced by \$40.9 million, total liabilities reduced by \$13.6 million and reserves were reduced by \$27.3 million.

	The Group		The Bank	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Opening retained earnings, as previously reported	730,699	731,594	660,705	674,209
Restatement of hedge accounting	(27,335)	8,591	(27,335)	8,591
Opening retained earnings, as restated	703,364	740,185	633,370	682,800
Net income (includes the impact of the revision)	771,123	588,776	670,939	509,285
Transfer to statutory reserve fund	(460,000)	(540,000)	(400,000)	(490,000)
Transfer to loan loss reserve	(134,829)	(85,597)	(134,829)	(68,715)
Closing retained earnings	879,658	703,364	769,480	633,370

Five-Year Statistical Report

For the year ended October 31, 2007

(Expressed in Jamaican dollars unless otherwise indicated)

	2007	Restated 2006	2005	2004	2003
PROFITABILITY					
Return on common equity	14.7%	15.1%	16.4%	16.4%	26.1%
Tax rate	32.9%	32.1%	22.1%	28.7%	27.8%
REVENUE AND EXPENSES AS A PERCENTAGE OF AVERAGE ASSETS					
Net interest income	6.98%	7.92%	7.16%	7.83%	7.28%
Provision for credit losses	0.33%	0.35%	0.31%	0.09%	0.08%
Non-interest income	1.83%	1.64%	2.25%	2.62%	3.41%
Non-interest expenses	5.40%	6.14%	7.07%	7.40%	6.93%
Income Taxes	1.02%	0.99%	0.59%	0.78%	1.04%
Net income - return on assets	2.07%	2.09%	2.06%	1.93%	2.70%
CREDIT QUALITY					
Allowance for credit losses to gross impaired loans	53.6%	76.9%	75.7%	63.0%	29.5%
Gross impaired loans (\$'000s)	623,553	339,074	235,703	224,712	435,920
Net impaired loans (\$'000s)	289,427	78,347	57,186	83,159	306,565
Net impaired loans to total net loans & leases	0.9%	0.3%	0.4%	1.0%	4.3%
LIQUIDITY					
Cash resources to total assets	15.1%	15.7%	28.0%	36.6%	39.6%
Securities to total assets	2.7%	6.5%	7.0%	14.4%	15.9%
CAPITAL AND RELATED					
Average common shareholders' equity ('000s)	5,232,708	3,886,538	2,752,875	2,319,623	1,925,224
Average assets ('000s)	37,237,808	28,167,061	21,817,075	19,738,060	18,623,088
Average assets to average common equity	7.1	7.2	7.9	8.5	9.7

Five-Year Statistical Report

For the year ended October 31, 2007

(Expressed in Jamaican dollars unless otherwise indicated)

	2007	Restated 2006	2005	2004	2003
PRODUCTIVITY AND RELATED					
Non-interest expenses to revenue ratio	61.2%	64.1%	75.1%	73.2%	64.3%
Full-time equivalent employees	476	475	455	474	485
Number of branches	12	11	11	12	12
Number of automated banking machine	17	13	11	11	11
COMMON SHARES					
Number of outstanding ('000s)	265,757	265,757	193,333	193,333	193,333
Weighted average number outstanding ('000s)					
basic	265,757	244,724	193,333	193,333	193,333
fully diluted	265,757	244,724	193,333	193,333	193,333
PER COMMON SHARE INFORMATION					
Net income					
basic	\$2.90	\$2.41	\$2.33	\$1.97	\$2.60
fully diluted	\$2.90	\$2.41	\$2.33	\$1.97	\$2.60
Price					
high	—	—	—	—	—
low	—	—	—	—	—
close	\$23.50	\$21.50	\$17.39	\$21.50	\$8.00
Dividends					
per share	\$0.00	\$0.00	\$0.00	\$0.00	\$0.10
yield	0.0%	0.0%	0.0%	0.0%	1.2%
payout ratio	0.0%	0.0%	0.0%	0.0%	3.8%
Price to earnings ratio	8.10	8.94	7.46	10.90	3.08
Book value	21.14	18.24	15.13	12.79	11.21
Price to book value	1.11	1.18	1.15	1.68	0.71

Proxy Form

I/We,

of

Being a member/members of the above-named company, hereby appoint

..... of

or failing him of

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on the 14th day of May, 2008, and at any adjournment thereof.

Dated this day of 2008.

Name(s) of shareholder(s) of the Company

Signature

Name(s) of signatory/signatories in block capitals

Please indicate with an "X" in the spaces below how you wish your proxy to vote on the Resolutions referred to. If no indication is given the proxy will exercise his or her discretion as to how he or she votes or whether he or she abstains from voting.

	FOR	AGAINST
Resolution 1 – To receive the report of the Directors		
Resolution 2 – Re-election of Directors		
a. Michael Mansoor		
b. Christopher Bovell		
Resolution 3 – Appointment of Auditors and fixing of remuneration		
Resolution 4 – Fixing of Directors' remuneration		

Proxy Form

	FOR	AGAINST
Resolution 5 – To authorise the creation of preference shares a. b.		
Resolution 6 – To authorise the issue and allotment of preference shares		
Resolution 7 – Conversion of preference shares into stock units and listing application		
Resolution 8 – Special Resolution – Redemption of preference shares		
Resolution 9 – Any other business		

Notes:

1. A member is entitled to appoint a proxy of his choice.
2. In the case of joint holders, the signature of any holder is sufficient, but the name of all joint holders should be stated.
3. If the appointer is a Corporation, this form must be under its Common Seal or under the name of an officer of the Corporation duly authorised in this behalf.
4. To be valid, this form must be completed and deposited with the Secretary, FirstCaribbean International Bank (Jamaica) Limited, 23-27 Knutsford Boulevard, Kingston 5, at least 48 hours before the time appointed for holding the Meeting or adjourned Meeting.
5. An adhesive stamp of One Hundred Dollars (J\$100.00) must be affixed to the form and cancelled by the Appointer at the time of the signing.

Anguilla
Antigua & Barbuda
The Bahamas
Barbados
Belize
British Virgin Islands
The Cayman Islands
Curaçao
Dominica
Grenada & Carriacou
Jamaica
The Netherlands Antilles
St. Kitts & Nevis
St. Lucia
St. Vincent & the Grenadines
Trinidad & Tobago
Turks & Caicos Islands

