The VICTORIA MUTUAL
Building Society

2008
ANNUAL REPORT

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The VICTORIA MUTUAL Building Society

Notice of Annual General Meeting

The One Hundred and Thirtieth Annual General Meeting of The Victoria Mutual Building Society will be held at Nos. 73-75 Half Way Tree Road, Kingston 10, on 30 July 2009 at 3:00 p.m.

Business:

1. To receive and adopt the Directors' and Auditors' Reports and Statement of Accounts for the year ended 31 December 2008.

2. To elect Directors.

3. To review the fees of the Directors.

4. To appoint Auditors.

5. To transact any other business permissible by the rules at an Annual General Meeting.

By Order of the Board
28 May 2009

Paulette Francis-Smellie
Secretary

8-10 Duke Street
Kingston,
Jamaica, W.I.

Director's Report

The Directors take pleasure in presenting the One Hundred and Thirtieth Annual Report and Statements of Revenue and Expenditure of the Group and the Society, for the year ended 31 December 2008, together with Balance Sheets of the Group and the Society, as at that date.

Surplus

The Group Revenue and Expenditure Account shows Gross Revenue of $6.84 billion (2007: $ 5.94 billion) and Net Surplus of $743.77 million (2007: $651.44 million)

Directors

The Directors who served the Society since the last Annual General Meeting are:

Mr. Roy Hutchinson, Chairman
Mr. Paul Pennicook, Deputy Chairman
Rear Admiral Peter Brady
Mr. Noel daCosta
Mr. Fernando DePeralto
Mr. George Dougall
Mr. Michael McMorris
Mr. Richard K. Powell
Mr. Richard M. Powell
Dr. Judith Robinson
Mr. Maurice Robinson
Mrs. Jeanne Robinson-Foster

In accordance with Rule 61(1) of the Society's Rules, at the next Annual General Meeting, Messers Paul Pennicook and George Dougall will retire by rotation and being eligible, will offer themselves for re-election.

Auditors

Messers Patrick Chin and Linroy Marshall, Auditors of the Society, retire and, in accordance with the Rules, being eligible, offer themselves for re-appointment.

The Directors wish to record their thanks to the management and staff for their continued commitment to the Society and for their hard work during the year under review.

By Order of the Board

Paulette Francis-Smellie
Secretary

28 May 2009
8-10 Duke Street
Kingston
Jamaica West Indies

VMBS Board of Directors

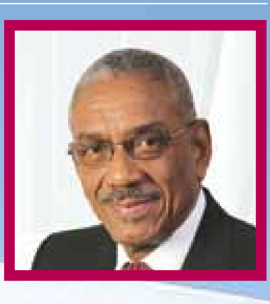
(Top Row) **left to right:**

- **Paul Pennicook**, B.Sc., Deputy Chairman
- **Noel daCosta** MASc., MBA, B.Sc., ACII
- **Fernando Deperalto**, F.C.A., M.Sc., B.Sc.
- **Richard K. Powell**, MBA, M.Sc, B.Sc. (Hons), President & Chief Executive Officer
- **George Dougall**, MBA, B.Sc.
- **Rear Admiral Peter Brady**, CD., CVO., MMM., J.P.

(Second Row) **left to right:**

- **Richard M. Powell**, B.A. (Hons)
- **Maurice Robinson**, B.A., LL.B.
- **Jeanne P. Robinson-Foster**, B.A. (Hons), LL.B. (Hons), C.L.E
- **Judith Robinson**, Ph.D., F.C.C.A., F.C.A.
- **Michael McMorris**, B.A.
- **Paulette Francis-Smellie**, LL.B. (Hons), Corporate Secretary

ROY HUTCHINSON,
O.D., J.P.,
Chairman



VM Senior Management Team

(Top Row) left to right:

- **Janice McKenley**, F.C.C.A., F.C.A., MBA, B.Sc. (Hons),
  Senior Vice-President & Group Chief Financial Officer
- **Allan Lewis**, A.S.A., Ed. M., MBA,
  Senior Vice-President, Group Strategy
- **Richard K. Powell,** MBA, M.Sc., B.Sc. (Hons),
  President & Chief Executive Officer
- **Hugh Reid**, F.C.A., F.C.C.A., FLMI, M.Sc., B.Sc. (Hons),
  Senior Vice-President & Chief Operating Officer
- **Noel Hann**, JD, F.A.I.A., M.C.M.I.,
  Senior Vice-President, Group Risk & Compliance

(Second Row) left to right:

- **Beverley Strachan**, MBA, B.Sc. (Hons), Dip. Ed.,
  Vice-President, Group Human Resources Administration
- **Paulette Francis-Smellie**, LL.B. (Hons),
  Vice-President & Corporate Secretary
- **Courtney Lodge**, MBA, B.B.A,
  Vice President, Branch Distribution
- **Vivienne Bayley-Hay**, B.Sc. (Hons),
  Vice-President, Group Marketing & Corporate Affairs
- **Rickardo Ebanks, B.Sc.,**
  Vice President, Information Technology

VM Group Executives

(Top Row) left to right:

- **Hugh Reid**, F.C.A., F.C.C.A., FLMI, M.Sc., B.Sc. (Hons), Senior Vice-President & Chief Operating Officer
- **Beverley Strachan**, MBA, B.Sc. (Hons), Dip. Ed., Vice-President, Group Human Resources Administration
- **Devon Barrett**, M.B.A., B.Sc., General Manager, Victoria Mutual Wealth Management Ltd.
- **Allan Lewis**, A.S.A., Ed. M., MBA, B.Sc., Senior Vice-President, Group Strategy

(Second Row) left to right:

- **Paulette Francis-Smellie**, LL.B. (Hons), Vice-President & Corporate Secretary
- **Richard K. Powell**, MBA, M.Sc., B.Sc. (Hons), President & Chief Executive Officer
- **Ian Rowlands**, A.C.I.I., General Manager, Victoria Mutual Insurance Co. Ltd.

(Third Row) left to right:

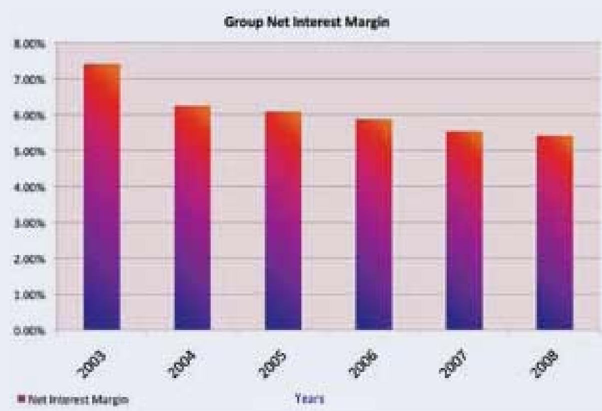
- **Rickardo Ebanks, B.Sc.** Vice President, Information Technology
- **Vivienne Bayley-Hay**, B.Sc. (Hons), Vice-President, Group Marketing & Corporate Affairs
- **Marlene Parker**, B.Sc. (Hons), General Manager, Victoria Mutual Money Transfer Services Ltd.

(Fourth Row) left to right:

- **Noel Hann**, JD, F.A.I.A., M.C.M.I., Senior Vice-President, Group Risk & Compliance
- **Joan Latty**, B.Sc. (Hons), General Manager, Victoria Mutual (Property Services) Ltd.
- **Courtney Lodge**, MBA, B.B.A, Vice President, Branch Distribution
- **Janice McKenley**, F.C.C.A., F.C.A., MBA, B.Sc. (Hons), Senior Vice-President & Group Chief Financial Officer

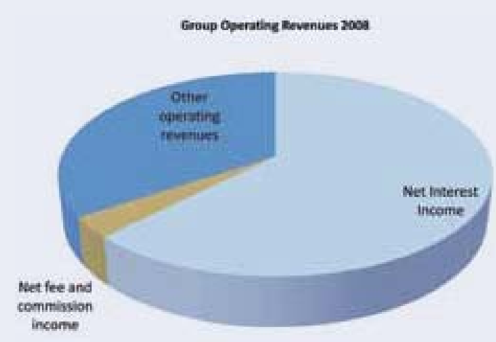
Financial Highlights

GROUP	2002	2003	2004	2005	2006	2007	2008
Balance Sheet	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Loans	7,748,136	8,951,845	10,822,309	12,900,933	14,336,010	20,541,520	28,766,351
Earning Assets	19,599,884	23,547,314	28,455,867	33,677,714	37,774,059	39,242,920	46,995,120
Total Assets	25,636,406	31,963,266	37,444,544	41,919,577	46,213,878	51,604,597	58,397,431
Savings Fund	19,166,252	23,056,755	27,210,086	30,401,565	33,694,348	37,799,335	41,886,467
Capital and Reserves	2,058,477	2,582,075	3,290,327	3,635,673	4,257,146	5,111,753	4,944,991
Income Statement	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Net Interest Income	1,207,150	1,598,572	1,624,651	1,888,657	2,096,719	2,130,852	2,336,159
Net fee and commission income						112,154	170,435
Other operating revenues						1,175,581	1,324,180
Operating Revenue	1,942,803	2,191,918	2,514,827	2,839,550	3,069,569	3,418,587	3,830,774
Administration Expenses	1,481,684	1,817,365	1,846,044	2,418,282	2,412,150	2,598,907	2,914,567
Surplus before income tax	424,247	619,099	739,677	535,554	657,419	819,680	916,207
Surplus	374,528	467,148	651,907	371,337	543,854	651,442	743,773
Ratios							
Net Interest Margin		7.41%	6.25%	6.08%	5.87%	5.53%	5.42%
Return on Capital		26.68%	25.19%	15.47%	16.66%	17.50%	18.22%
Return on Assets		2.15%	2.13%	1.35%	1.49%	1.68%	1.67%
Efficiency Ratio		6.31%	5.32%	6.09%	5.47%	5.31%	5.30%
Capital & Reserves as a Percentage of Assets	8.03%	8.08%	8.79%	8.67%	9.21%	9.91%	8.47%
Society							
Number of New Loans		984	1,124	1,208	825	1,552	1,767
Net Mortgage Disbursements ($'000)		1,753,974	2,578,714	3,276,928	2,579,281	7,138,341	9,549,469

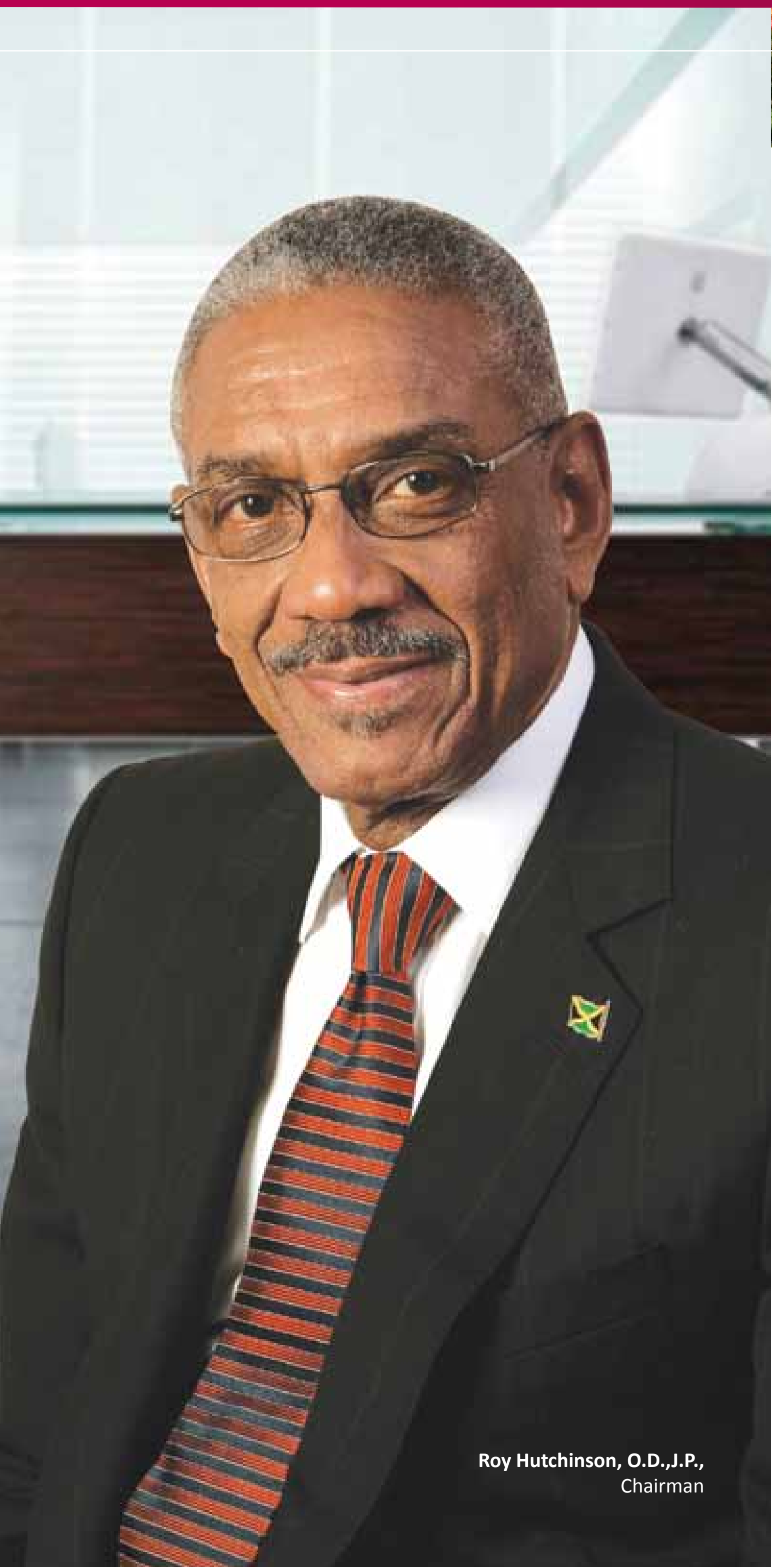


DEFINITIONS USED

Administrative Expenses =	Administration + Fee and commission expenses + Personnel costs
Earning Assets =	Investments + Resale Agreements + Loans
Net Interest Income =	Interest on loans + Interest and dividends from investments - Interest expense
Operating Revenue =	Interest on loans + Other operating revenues
Return on Capital =	Surplus before income tax / Average Capital and Reserves
Return on Assets =	Surplus before income tax / Average Total Assets
Net Interest Margin =	Net interest income / Earning Assets
Efficiency Ratio =	Administration Expenses / Average Total Assets



Chairman's Report



Roy Hutchinson, O.D.,J.P.,
Chairman

To our Members:

Notwithstanding the challenging local environment in which we operated all year and the unprecedented turmoil in the global economy during the second half of the year, your Society recorded a creditable financial performance, remained stable and secure, and achieved the majority of its stated objectives in 2008. Briefly, Group revenues increased by 15.2% to $6.84 billion and the Group's Net Surplus increased by 14.2% to $743.8 million. Victoria Mutual Building Society (VMBS) was again the industry leader in mortgage disbursements enabling many new and existing Members to purchase their first home. In addition, our property/casualty insurance subsidiary Victoria Mutual Insurance Company Limited (VMIC) achieved industry-leading underwriting performance and excellent financial results overall. Moreover, during the year we successfully re-engaged thousands of our Members through the "Victoria Mutual Oh My Gosh! Dream Promotion", which was launched in celebration of the Society's 130th anniversary.

In the latter half of 2008, the major financial markets of the global economy were subjected to a confluence of events that caused conditions that are generally accepted to be "the worst since the Great Depression".

First, difficulties in the US housing market lead to a precipitous fall in the value of mortgage backed securities. Then, market participants in the United States of America (USA), the United Kingdom (UK) and elsewhere severely curtailed their "normal" counter-party activities and reduced credit extended to financial institutions and industrial business alike ("de-risking and de-leveraging"). The crisis first received world-wide attention with the bankruptcy of Bear Sterns in the United States and the takeover of Northern Rock in the United Kingdom.

In the months that followed, uncertainty about the scale of the problem resulted in a loss of confidence and trust so that financial market activity literally came to a halt. Inevitably, the price of credit soared, threatening the continued existence of many major global companies, and more critically, a worldwide systemic collapse. This is now generally known as the "credit crunch". In the latter half of the year, the governments of the twenty leading economies co-ordinated a series of actions that now seem to have averted the collapse of the global economy. Nevertheless, most countries are currently experiencing "recession like" conditions with constrained and restrained demand of goods and services by private sector participants.

The local environment was once again characterized by weak economic growth, high inflation, high interest rates and significant devaluation of the local currency. The local economy recorded a decline in GDP per capita of approximately 1%, and an inflation rate of 16.8%, as measured by the movement in the Consumer Price Index. Interest rates increased steadily throughout the first three quarters and markedly in the month of December, with the benchmark BOJ one year CD rate ending the year at 24.0%. The Jamaican Dollar experienced devaluation of 11% against the US Dollar in the calendar year and sustained a loss in value of almost 20% over the 6 month period ending February 28, 2009. These adverse movements in key macroeconomic indicators resulted from structural weaknesses in the internal economy, not the least of which was the existence of an unsustainable fiscal deficit, compounded by the impact of the challenges imposed on the local

Richard K. Powell, MBA, M.Sc, B.Sc. (Hons),
President & Chief Executive Officer

economy, as international banks and securities firms "de-leveraged" their balance sheet exposures to Jamaican based financial and other institutions. Moreover, the collapse of several Unregulated Investment Schemes during this period only served to exacerbate an already difficult operating environment.

I am pleased to report that the financial strength and viability of your Society have not been threatened by these events. For the past 130 years, Victoria Mutual has provided our Members with the opportunity to satisfy their housing needs and to achieve their financial goals. As a mutual organisation, your Directors are empowered to take a long-term perspective when making business decisions. Unlike stock companies with profit maximising imperatives, we need not be overly concerned with the short-term interests of shareholders and financial analysts. Our primary focus is on serving the best interests of our valued Members and customers and in doing so, achieving sufficient levels of surplus to support our capital and reserves and to re-invest in the businesses of the Society and its subsidiaries.

We have had no exposure to sub-prime loans, nor have we made investments in "complex" financial instruments. Instead, the investment portfolios across the VM Group are skewed towards investments in securities issued by the Government of Jamaica. Importantly, we have continued to maintain high levels of liquidity and rely mostly on traditional savings to fund our mortgage lending in a conservative and responsible way.

Financial Highlights

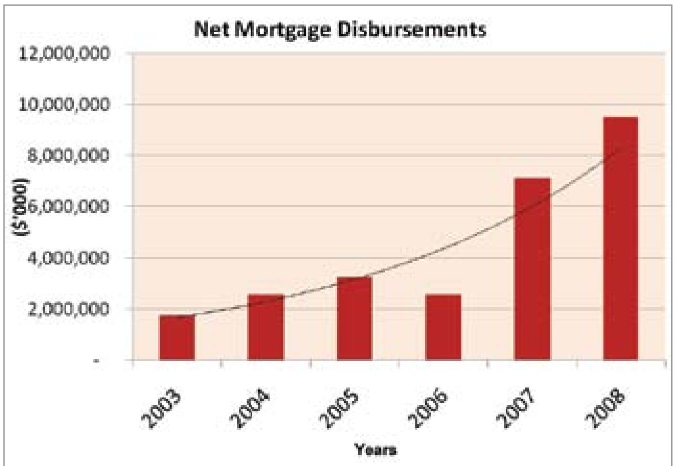
Although many of our products and services are offered by separate and distinct legal entities, consistent with our Vision and Mission the management of the VM Group is increasingly being conducted as an integrated group of enterprises, within the ambit of the regulatory framework which governs each entity. The objective is to be able to offer our Members and customers, a diverse range of financial services that enable them to meet their goals and aspirations for financial well being.

The table below illustrates the performance of the VM Group and the Society in key areas. The overall financial performance of the Group improved in 2008, as reflected in the increase in the after-tax surplus by 14.2% over the prior year, from $651.4 million to $743.8 million. However, the core business of the Society was severely challenged by contracting interest margins arising from sharp increases in interest rates and increased operating costs resulting from the high level of inflation experienced during the year. The Society's Net Interest Margin has declined steadily in each of the last six years, from a high of 7.94% in 2003 to 5.92% in 2008 and its operating expenses have been adversely affected by inflation of 16.8% in each of the last two years.

	2006		2007		2008	
	VM GROUP	SOCIETY	VM GROUP	SOCIETY	VM GROUP	SOCIETY
Pre-tax Surplus ($M)	657.4	499.4	819.7	589.4	916.2	597.4
After-tax Surplus ($M)	543.9	403.7	651.4	470.3	743.8	509.8
Total Assets ($B)	46.2	39.5	51.6	43.9	58.4	48.7
Mortgage Loans ($B)	14.0	14.0	20.2	20.2	28.2	28.2
Deposit Liabilities ($B)	33.7	33.8	37.8	38.0	41.9	42.2
Net Interest Margin as % of Mean Assets	5.87	6.14	5.53	6.07	5.42	5.92
Operating Expenses as a % of Mean Assets	5.47	4.42	5.31	4.33	5.30	4.48
Capital & Reserves as a % of Assets	9.21	9.08	9.91	10.01	8.47	8.91

Notwithstanding the efforts of the Board and the Executive Management, the Society and by extension the Group, failed for a second successive year to achieve its growth targets for savings. Largely as a result of the adverse operating environment described earlier, the Deposit Liabilities of the Group increased by only 10.8% year over year, to $41.9 billion at December 31, 2008. This area of the Society's operations will continue to receive the special attention of the Board and Management in 2009 and is expected to improve as a result of initiatives already taken to open up new distribution channels and to re-organise the Branch network for greater effectiveness as points of distribution and customer service.

For the second successive year, your Society achieved impressive results in mortgage disbursements thereby helping thousands of new and existing Members and customers to own their own homes. The portfolio of mortgage loans at December 31, 2008 stood at approximately $28.2B or 39.6% above the corresponding amount at the end of the prior year. We do not expect anything like this level of growth in 2009, as we anticipate a considerable reduction in effective demand. This will be precipitated by the higher levels of interest rates expected to prevail throughout the year, the increases in lending rates on NHT loans as well as increases in the prices of new housing units, occasioned by the recent high levels of inflation. Instead, in 2009 your Society is likely to experience a reduction in net mortgage disbursements by as much as 50%, year over year.



In 2008, the overall efficiency of operations of your Society (VMBS only) deteriorated slightly as the ratio "Operating expenses as a percentage of mean assets" increased from 4.33% to 4.48%. Generally, our plans to transform our operations as announced in our 2007 Annual Report have been adversely affected by the unprecedented economic events of the past twelve months. Essentially, we had planned to achieve our targets for improved productivity through a combination of enhanced efficiency and growth. Our costs have been negatively affected by higher than expected levels of inflation and, as mentioned earlier, our growth targets have not been achieved. Notwithstanding the serious slowdown in economic growth that is already evident, and the low likelihood that Jamaica will achieve growth rates of 3-6% in the near future, we are confident that the programmes and projects being implemented will result in the targeted improvement in productivity, albeit in a somewhat longer time-frame than originally planned.

We are committed to continue and complete the implementation of our corporate transformation programme for the remainder of 2009 and beyond, in order to improve the Group's organisational effectiveness and efficiency.

Strategic Business Units

Your Society has continued to operate several subsidiary companies for the benefit of its Members. In addition to complementing the core savings and mortgage products offered by the Society, these business units are critical to the achievement of the Group's Vision and Mission as they are expected to provide superior risk adjusted returns as well as contribute to the diversification of the Group's assets and earnings.

After Tax Profit for Selected Subsidiaries
(Millions of Jamaican Dollars)

	2007	2008
VM Wealth Management Ltd.	48.47	59.35
VM Insurance Company Ltd.	56.24	108.98
VM Property Services Ltd.	2.51	(1.36)
VM Money Transfer Services Ltd.	2.13	(12.25)

During the year, the operations of Victoria Mutual Wealth Management Limited (VMWM) were the worst affected of the Group's business units, by the global "credit crunch". Nevertheless, VMWM recorded after-tax profits of $59.35 million, representing a 22.4% increase over the prior year. Although VMWM had no exposure to Bear Sterns or Lehman Brothers – and thus your Society suffered no financial losses as a result of the bankruptcy of these or other institutions – VMWM and all other securities firms in Jamaica were required, at short notice, to repay US dollar denominated credit lines that were secured by GOJ internationally issued debt. In the circumstances, the value of GOJ Global Bonds fell by up to 40% thereby weakening the capital ratios of the Company. The Directors and Executives of your Society, after consultation with the regulators, took the decision and caused the Society to inject approximately J$100M by way of additional equity, in order to increase the capital of VMWM. Subsequently, the market values of GOJ Global Bonds stabilized and as at May 2009, VMWM had achieved profitability for the year to date, in excess of expectations.

In 2008, the results achieved by the Group's property/casualty insurance operations significantly surpassed all expectations. Victoria Mutual Insurance Company Limited (VMIC) recorded after-tax profits of $108.98 million, reflecting a year over year increase of 93.8%. The management team performed an excellent job in underwriting the Company's motor portfolio thus achieving motor insurance loss ratios that few, if any other, industry participants were able to achieve. Our actuaries have confirmed that the level of capital that supports this line of business is "appropriate", even as the Financial Services Commission has announced that a new capital regime will be introduced for insurance companies by early 2010.

Our property division and money transfer operations performed unsatisfactorily in 2008. The financial performance of VM Money Transfer Services Limited (VMTS) was negatively affected by the appreciation of the British Pound Sterling. This phenomenon occurred as the appreciation in Sterling against the US Dollar was consistently more than enough to offset the depreciation of the Jamaican Dollar against the US currency. Notwithstanding the relatively small size of this business relative to the Group's overall operations, the money transfer service is very important to many of our Members and customers who reside in the USA and the UK, in particular.

The financial results of our property services operations mirrored the performance of the Jamaican economy and were further affected by the impact on the Jamaican real estate market of the global "credit crunch". As a consequence, Victoria Mutual Property Services Limited (VMPS) failed to achieve its revenue targets for project management services, real estate sales and valuation services.

Our associated company, Prime Asset Management Limited continued to grow in 2008. Prime has quickly become a leading provider of pension fund administration and investment management services in Jamaica. In 2009 Prime is expected to introduce a pension fund product for persons who are not Members of an employer sponsored pension plan. We expect to market this product through our network of Financial Services Specialists, thereby broadening our product offerings to our Members and customers.

Conclusion

The unprecedented events of the past twelve months place in greater perspective, the achievements of your Society during the past 130 years. The Victoria Mutual Building Society has the distinction of being the indigenous financial institution that has been operating for the longest time in Jamaica with the same legal structure and brand. Other institutions claim to have operated longer but their initial organisations have changed and the associated brands have long been forgotten.

VMBS remains committed to the same values and traditions that inspired our founders over a century ago. Your Directors and all team members are steadfastly committed to helping our Members and customers in achieving their financial goals. Further, we remain committed to upholding our tradition of being an outstanding corporate citizen by providing support for the development of critical areas of community and national life.

Notwithstanding the vicissitudes of the economy and the financial marketplace in which we operate, your Directors and team members will continue to build on the secure foundation provided by our founders and predecessors. We will continue to act with integrity and offer relevant financial services to the market, in a manner that maintains the trust and confidence of our Members and customers.

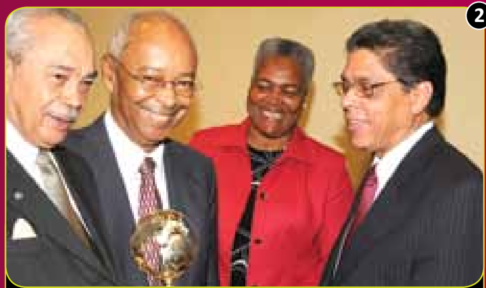
On behalf of the members of the Board of Directors of the Society, I would like to thank you, our Members, most sincerely for your continued support. I extend our thanks also to the directors of all VM Group companies as well as to our dedicated team members located in Jamaica, the UK, Canada and the USA for their professionalism, commitment and selflessness. A special word of appreciation goes to the members of our Advisory Councils and other business partners for their continued guidance and support. As a community with a common purpose, we pledge to do our best to make Jamaica a better society.

Roy Hutchinson, O.D.,J.P.,
Chairman

Corporate Outreach

1


VMBS President & CEO, Richard K. Powell (left) shares a light moment with (from l-r) Oliver Clarke, JNBS Chairman, Hon. Andrew Holness, Minister of Education, VMBS Chairman, Roy Hutchinson and JNBS General Manager, Earl Jarrett at the Press Launch of the Mutual Building Societies Foundation

2


Mr. Alvaro Casserly, (left) Immediate Past Chairman, United Way of Jamaica presents the Jupiter Award to Richard K. Powell (right). Also sharing in the momenty are Mr. Noel daCosta, Chairman, and Mrs. Winsome Wilkins, Chief Executive Officer, United Way of Jamaica at the Annual Nation Builders and Employees Awards Ceremony.

3


Richard K. Powell, President & CEO and Rev. Stanley Clarke, Secretary, NLPB Committee (1st and 2nd left) welcome The Hon. Bruce Golding, Prime Minister and Mrs. Lorna Golding to the 23rd Annual National Leadership Prayer Breakfast held at the Jamaica Pegasus Hotel.

4


The lucky couple, Mr. and Mrs. Anthony Brown stare intently into each other s eyes while Reverend Peter Garth conducts the renewal of vows ceremony at the 22nd Marriage and the Family Series at Emancipation Park.

Victoria Mutual is committed to building the Jamaican society and prides itself in fulfilling its Corporate Social Responsibility by supporting several initiatives that promote individual, community and national development for the benefit of Jamaicans at home and in the Diaspora. The Society continued to focus on Education, Sports, Youth and Community Development in its Corporate Citizenry Programme.

Mutual Building Societies Foundation

During 2008, The Victoria Mutual Building Society (VMBS) joined forces with Jamaica National Building Society to form The Mutual Building Societies Foundation. This collaboration seeks to support the Government of Jamaica's Transformation of Education Initiative through the establishment of Centres of Excellence in rural Jamaica. The Foundation was created with a view to assisting in the development of the management systems in newly upgraded schools and will focus on the three main stakeholders in the education system: the administrator, the teacher and the learner. This effort ties directly into the Jamaican Government's Vision 2030 Jamaica model for National Development, which is expected to put Jamaica on a path to achieve "developed country" status by the year 2030.

United Way of Jamaica

Victoria Mutual continued its partnership with the United Way of Jamaica by participating in the Donor Option Programme. Through this participation, the Society was able to make financial contributions to over 75 charities in the areas of health, education, youth, sports and community development. In recognition of its outstanding contribution during 2008, the Society was again honoured by the United Way with a Jupiter Award at the Annual Nation Builders & Employee Awards Ceremony.

National Leadership Prayer Breakfast

The 23rd Annual National Leadership Prayer Breakfast was aimed at uniting leaders from State, Church, Civic and Community groups for prayer and healing and was hailed as a significant national event by the Patron of the Breakfast, Governor General of Jamaica, The Most Honourable Sir Kenneth Hall. During 2008, Victoria Mutual demonstrated its continued dedication to making a positive impact through this initiative by once again taking on the role of major sponsor of The National Leadership Prayer Breakfast held under the theme: "Renewing Our Commitment". As is customary, a free-will offering was taken at the Breakfast as a donation to the Police Convalescent Home.

Annual Marriage & the Family Series

In its continued effort to enhance the social growth and development of Jamaica, through the promotion of healthy marriages, relationships and family life, the Society once again hosted the Annual Marriage & the Family Series at the Emancipation Park in Kingston. The 2008 Series drew together a team of experts to provide advice on topics including "saving and investing for marriage and the family" and "important considerations for sex and marriages: today, tomorrow and always". In addition to the advice segment of the Series, guests were treated to special features such as live entertainment, fun and games, a bridal fashion show and a live Renewal of Vows Ceremony, at which one lucky couple, who had been married for over 22 years, got the chance to renew their marriage vows.

Sports

During 2008, the Society continued its sponsorship of several sporting activities including the 23rd Annual VMBS/St. James U-13 Football Competition, an outreach project of the Society's Montego Bay Branch. This competition continued to provide the youngsters with the opportunity to develop their football skills, while enjoying healthy competition with neighbouring schools. The 2008 staging of the competition was launched in early April and the Society was delighted to continue facilitating the development of the talents and skills of our young athletes.

The Society also continued its support of the annual Penn Relays Carnival in Pennsylvania, USA.

Scholarships, Bursaries & Grants

In 2008, the Society awarded over 90 scholarships, bursaries and grants to student-savers on the Society's School Savings Programme. One outstanding student from each school participating in the VMBS School Savings Programme, who was successful in the Grade Six Achievement Test (GSAT), received bursaries to off-set the cost of the first year in high school. Additionally, nineteen (19) students across the island received Five-Year Scholarships to complete their Secondary Education. Three students were awarded the VMBS Junior Plan "Head Start" Scholarship; three were awarded the VMBS Future Plan "Head-Start" Scholarship and one student was the recipient of the VMBS Master Plan "Head Start" Scholarship.

The Society also provided assistance to six (6) teachers completing final year studies at local universities/teachers' colleges and who had committed themselves to careers in education. Each of these teachers was awarded a VM Teacher's Bursary.

Several other bursaries were awarded by the Society in 2008, including one National Youth Agriculture Bursary and the Building Society Cooperative Credit Union Bursary, both of which were awarded to students attending the University of Technology.

On November 14, 2008, the Society celebrated its 130th Anniversary. Over the years, Victoria Mutual has built a reputation as an outstanding corporate citizen, committed to building a better society. As it looks beyond this significant milestone, Victoria Mutual remains a Society for all of us.

5

Mrs. Jeanne Robinson-Foster, Director, The Victoria Mutual Building Society (VMBS), performs the official kick-off of the Annual VMBS/ St. James U-13 Football Competition as Coordinator of the Competition, Mr. Hopeton Gilchrist (left), Mrs. Lesa Robinson, Branch Manager, VMBS-Montego Bay, Mr. Orville Powell, President, St. James Football Association (both partly hidden) and Mr. Wendel Downswell, National Coordinator & Instructor, JFF, look on.

6

Richard K. Powell, President & CEO, Hugh Reid, SVP & Chief Operating Officer and Vivienne Bayley-Hay, Vice-President, Group Marketing & Corporate Affairs with the scholarship awardees at the Annual VMBS Scholarship Awards Ceremony held at the Alhambra Inn.

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The three recipients of the VMBS Junior Plan Head-Start Scholarship have the full attention of President & CEO, Richard K. Powell and SVP & Chief Operating Officer, Hugh Reid at the Annual VMBS Scholarship Awards Ceremony.

The VICTORIA MUTUAL Building Society

FINANCIAL STATEMENTS
2008

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To the Members of
THE VICTORIA MUTUAL BUILDING SOCIETY

Report on the Financial Statements

We have audited the consolidated financial statements of The Victoria Mutual Building Society ("Society") together with its subsidiaries ("Group"), as well as the financial statements of the Society, set out on pages 18 to 78, which comprise the Group's and the Society's balance sheets as at December 31, 2008, the Group's and the Society's statements of revenue and expenses, changes in capital and reserves and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Society as at December 31, 2008, and of the Group's and the Society's financial performance, changes in capital and reserves and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Reporting on other matters required by the Building Societies Act

We have examined the mortgage deeds and other securities belonging to the Society. Title deeds numbering 9,385 were produced to us and actually inspected by us, and we are satisfied that the remaining 323 deeds not inspected by us were in the hands of attorneys, or elsewhere in the ordinary course of business of the Society.

In our opinion, proper accounting records have been kept and the financial statements, which are in agreement therewith, are duly vouched and in accordance with law.

Linroy J. Marshall)
) Chartered Accountants
Patrick A. Chin)

March 30, 2009

The VICTORIA MUTUAL Building Society

ANNUAL REPORT 2008

BALANCE SHEETS
YEAR ENDED DECEMBER 31, 2008

	Notes	Group 2008 $'000	Group 2007 $'000	Society 2008 $'000	Society 2007 $'000
ASSETS					
Cash and cash equivalents	7	8,305,094	9,353,631	8,250,213	9,248,870
Investments - Jamaica Government securities	8	9,651,499	10,027,444	6,150,252	6,360,714
- Other	9	5,241,618	3,698,390	1,180,400	2,643,197
Resale agreements	10	3,335,652	4,975,566	1,900,743	2,541,692
Loans	11	28,766,351	20,541,520	28,758,771	20,532,246
Other assets	12	1,487,324	1,443,757	623,071	728,196
Deferred tax assets	13(a)	97,078	7,030	-	-
Employee benefit asset	14	721,000	756,500	721,000	756,500
Interest in subsidiaries	15	-	-	307,181	265,465
Intangible assets	16	106,273	135,592	80,851	105,631
Investment properties	17	233,323	239,082	350,643	356,401
Property, plant and equipment	18	452,219	426,085	412,730	378,320
Total assets		**58,397,431**	**51,604,597**	**48,735,855**	**43,917,232**
LIABILITIES					
Savings fund:					
Shareholders' savings	19	41,517,461	37,453,425	41,782,643	37,621,023
Depositors' savings	20	369,006	345,910	369,006	345,910
		41,886,467	37,799,335	42,151,649	37,966,933
Income tax payable		1,547	17,225	-	-
Other liabilities	21	1,857,717	951,284	730,867	372,677
Repurchase agreements	22	7,176,186	5,549,192	-	-
Insurance underwriting provisions	23	782,172	753,723	-	-
Loans payable	24	1,383,135	1,045,268	1,383,135	1,045,268
Deferred tax liabilities	13(b)	202,116	234,117	196,620	229,184
Employee benefit obligation	14	163,100	142,700	146,900	128,600
Total liabilities		**53,452,440**	**46,492,844**	**44,609,171**	**39,742,662**
CAPITAL AND RESERVES					
Permanent capital fund	25	2,941,630	2,582,885	2,941,630	2,582,885
Reserve fund	26(i)	358,120	318,260	358,120	318,260
Retained earnings reserve	26(ii)	559,222	559,222	559,222	559,222
Capital reserve on consolidation	26(iii)	90,082	90,082	-	-
Credit facility reserve	26(iv)	388,221	277,037	388,221	277,037
Investment revaluation reserve	26(v)	(400,547)	401,749	(130,509)	427,166
General reserve		10,000	10,000	10,000	10,000
Currency translation reserve	26(vi)	(12,241)	95,998	-	-
Retained earnings		1,010,504	776,520	-	-
Total capital and reserves attributable to members of the Society		4,944,991	5,111,753	4,126,684	4,174,570
Minority interest	4(a)	-	-	-	-
Total capital and reserves		4,944,991	5,111,753	4,126,684	4,174,570
Total liabilities and capital and reserves		**58,397,431**	**51,604,597**	**48,735,855**	**43,917,232**

The financial statements on pages 18 – 78 were approved for issue by the Board of Directors on March 31, 2009 and signed on its behalf by:

_______________ Director
R. K. Powell

Countersigned:

_______________ Director
F. DePeralto

_______________ Corporate Secretary
P. Francis-Smellie

To be read in conjunction with the accompanying notes to the financial statements.

The VICTORIA MUTUAL Building Society

ANNUAL REPORT 2008

REVENUE AND EXPENSES
YEAR ENDED DECEMBER 31, 2008

	Notes	Group 2008 $'000	Group 2007 $'000	Society 2008 $'000	Society 2007 $'000
Interest income	29	5,259,215	4,598,209*	4,309,874	3,883,045*
Interest expense	29	(2,923,056)	(2,467,357)	(2,237,078)	(1,951,248)
Net interest income		2,336,159	2,130,852	2,072,796	1,931,797
Fee and commission income	30	261,973	169,777	109,380	46,093
Fee and commission expenses	30	(91,538)	(57,623)	(67,866)	(33,887)
Net fee and commission income		170,435	112,154	41,514	12,206
Other operating revenue	31	1,324,180	1,175,581*	558,556	451,361*
Operating revenue		3,830,774	3,418,587	2,672,866	2,395,364
Personnel costs	32	(1,234,480)	(1,102,624)	(999,185)	(903,110)
Depreciation and amortisation	16,17,18	(104,167)	(89,105)	(89,480)	(75,724)
Other operating expenses	33	(1,575,920)	(1,407,178)	(986,760)	(827,147)
		(2,914,567)	(2,598,907)	(2,075,425)	(1,805,981)
Surplus before income tax		916,207	819,680	597,441	589,383
Income tax expense	34	(172,434)	(168,238)	(87,652)	(119,098)
Surplus for the year	35	743,773	651,442	509,789	470,285
Attributable to:					
Members of the Society	4(a),35	743,773	651,442	509,789	470,285

* After reclassifications to conform to the current year's presentation.
To be read in conjunction with the accompanying notes to the financial statements.

The Victoria Mutual Building Society

STATEMENT OF CHANGES IN CAPITAL AND RESERVES
YEAR ENDED DECEMBER 31, 2008

	Permanent capital fund $'000	Reserve fund $'000	Retained earnings reserve $'000	Capital reserve on consolidation $'000	Credit facility reserve $'000	Investment revaluation reserve $'000	General reserve $'000	Currency translation reserve $'000	Retained earnings $000	Total capital and reserves $000
Group:										
Balances at December 31, 2006	2,216,213	277,519	559,222	90,082	214,165	209,864	10,000	84,718	595,363	4,257,146
Surplus for the year	-	-	-	-	-	-	-	-	651,442	651,442*
Foreign currency translation differences on foreign subsidiaries' balances	-	-	-	-	-	-	-	11,280	-	11,280*
Change in fair value of investments	-	-	-	-	-	165,874	-	-	-	165,874*
Deferred tax on investments	-	-	-	-	-	26,011	-	-	-	26,011*
Credit facility reserve transfer [note 4(r)]	-	-	-	-	62,872	-	-	-	(62,872)	-
Transfers [notes 25 and 26(i)]	366,672	40,741	-	-	-	-	-	-	(407,413)	-
Balances at December 31, 2007	2,582,885	318,260	559,222	90,082	277,037	401,749	10,000	95,998	776,520	5,111,753
Surplus for the year	-	-	-	-	-	-	-	-	743,773	743,773*
Foreign currency translation differences on foreign subsidiaries' balances	-	-	-	-	-	-	-	(108,239)	-	(108,239)*
Change in fair value of investments	-	-	-	-	-	(655,151)	-	-	-	(655,151)*
Deferred tax on investments	-	-	-	-	-	(147,145)	-	-	-	(147,145)*
Credit facility reserve transfer [note 4(s)]	-	-	-	-	111,184	-	-	-	(111,184)	-
Transfers [notes 25 and 26(i)]	358,745	39,860	-	-	-	-	-	-	(398,605)	-
Balances at December 31, 2008	2,941,630	358,120	559,222	90,082	388,221	(400,547)	10,000	(12,241)	1,010,504	4,944,991

*Total recognised (losses)/gains for the year: for 2008 losses of $(166,762,000); for 2007 gains of $854,607,000.
To be read in conjunction with the accompanying notes to the financial statements.

Society:	Permanent capital fund $'000	Reserve fund $'000	Retained earnings reserve $'000	Credit facility reserve $'000	Investment revaluation reserve $'000	General reserve $'000	Retained earnings $000	Total $000
Balances at December 31, 2006	2,216,213	277,519	559,222	214,165	142,911	10,000	-	3,420,030
Surplus for the year	-	-	-	-	-	-	470,285	470,285*
Change in fair value of investments	-	-	-	-	258,244	-	-	258,244*
Deferred tax on investments	-	-	-	-	26,011	-	-	26,011
Credit facility reserve transfer [note (4(r)]	-	-	-	62,872	-	-	(62,872)	-
Transfers [notes 25 and 26(i)]	366,672	40,741	-	-	-	-	(407,413)	-
Balances at December 31, 2007	2,582,885	318,260	559,222	277,037	427,166	10,000	-	4,174,570
Surplus for the year	-	-	-	-	-	-	509,789	509,789*
Change in fair value of investments	-	-	-	-	(410,530)	-	-	(410,530)*
Deferred tax on investments	-	-	-	-	(147,145)	-	-	(147,145)*
Credit facility reserve transfer [note (4(r)]	-	-	-	111,184	-	-	(111,184)	-
Transfers [notes 25 and 26(i)]	358,745	39,860	-	-	-	-	(398,605)	-
Balances at December 31, 2008	2,941,630	358,120	559,222	388,221	(130,509)	10,000	-	4,126,684

*Total (losses)/gains recognised for the year: for 2008 losses of $(47,886,000); for 2007 gains of $754,540,000.
To be read in conjunction with the accompanying notes to the financial statements

The VICTORIA MUTUAL Building Society

ANNUAL REPORT 2008

STATEMENT OF GROUP CASH FLOWS

YEAR ENDED DECEMBER 31, 2008

	Notes	2008 $'000	2007 $'000
Cash flows from operating activities			
Surplus for the year		743,773	651,442
Adjustments for:			
Depreciation	16,17,18	104,167	89,105
Employee benefit obligation		20,400	15,100
Interest income	29	(5,259,215)	(4,598,209)
Interest expense	29	2,923,056	2,467,357
Income tax expense	34	87,652	168,238
		(1,380,167)	(1,206,967)
Loss/(gain) on disposal of property, plant and equipment		4,500	(2)
Gain on sale of investments		(222,070)	(75,286)
Change in provision for loan losses		978	(7,898)
Insurance underwriting provisions		28,449	104,423
Unrealised exchange gains on foreign currency balances		9,152	8,206
Loan advances, net of repayments		(8,129,675)	(6,197,611)
Change in other assets		(43,567)	(40,278)
Change in deferred tax assets		(90,048)	(4,535)
Change in employee benefit assets		35,500	(98,400)
Net receipts from shareholders and depositors		4,087,132	4,104,986
Change in deferred tax liabilities		(32,001)	42,695
Change in other liabilities		906,432	83,672
		(4,825,385)	(3,286,995)
Interest and dividends received		5,154,634	4,677,944
Interest paid		(2,652,138)	(2,496,496)
Income taxes paid		(167,324)	(151,189)
Net cash used by operating activities		(2,490,213)	(1,256,736)
Cash flows from investing activities			
Government of Jamaica securities	8	375,945	1,024,202
Other investments	9	(1,543,228)	4,495,495
Resale agreements		1,639,914	(783,047)
Purchase of intangible asset	16(b)	2,473	(102,408)
Additions to investment properties	17	(6,881)	(13,979)
Purchase of property, plant and equipment	18	(101,230)	50,781
Proceeds of disposal of property, plant and equipment	18	5,359	-
Repurchase agreements		1,626,993	837,314
Net cash provided by investing activities		1,999,345	5,508,358
Cash flows from financing activities			
Loans payable		337,867	(639,989)
Net (decrease)/increase in cash and cash equivalents		(153,001)	3,611,633
Cash and cash equivalents at beginning of the year	7	9,353,631	5,540,532
Effect of exchange rate fluctuations on cash and cash equivalents		(895,536)	201,466
Cash and cash equivalents at end of the year	7	$8,305,094	9,353,631

To be read in conjunction with the accompanying notes to the financial statements.

The Victoria Mutual Building Society

ANNUAL REPORT 2008

STATEMENT OF SOCIETY CASH FLOWS

YEAR ENDED DECEMBER 31, 2008

	Notes	2008 $'000	2007 $'000
Cash flows from operating activities			
Surplus for the year		509,789	470,285
Adjustments for:			
Depreciation	16,17,18	89,480	75,724
Employee benefit obligation		18,300	12,100
Interest income	29	(4,309,874)	(3,883,045)
Interest expense	29	2,237,078	1,951,248
Income tax expense	34	87,652	119,098
		(1,367,575)	(1,254,590)
Gain on disposal of property, plant and equipment		(274)	(2)
Gain on sale of investments		(222,070)	(75,286)
Change in provision for loan losses		978	(7,898)
Loan advances, net of repayments		(8,227,503)	(6,196,269)
Interest in subsidiaries		(41,716)	(34,758)
Change in other assets		105,125	119,071
Change in employee benefit assets		35,500	(98,400)
Net receipts from shareholders and depositors		4,184,716	4,126,433
Change in deferred tax liabilities		(32,564)	57,408
Change in other liabilities		358,190	140,251
		(5,207,193)	(3,224,040)
Interest and dividends received		4,232,667	3,846,819
Interest paid		(2,169,289)	(1,980,387)
Income taxes paid		(29,370)	(104,792)
Net cash used by operating activities		(3,173,185)	(1,462,400)
Cash flows from investing activities			
Government of Jamaica securities	8	210,462	1,776,721
Other investments	9	1,462,797	1,210,199
Resale agreements		640,949	2,687,883
Purchase of intangible asset	16(b)	(84,165)	(6,254)
Additions to investment properties	17	(6,881)	(13,979)
Purchase of property, plant and equipment	18	(103,142)	(132,484)
Proceeds of disposal of property, plant and equipment	18(a)	678	-
Net cash provided by investing activities		2,120,698	5,522,086
Cash flows from financing activities			
Loans payable		337,867	(639,989)
Net (decrease)/increase in cash and cash equivalents		(1,390,354)	3,419,697
Cash and cash equivalents at beginning of the year	7	9,248,870	5,447,712
Effect of exchange rate fluctuations on cash and cash equivalents		391,697	381,461
Cash and cash equivalents at end of the year	7	8,250,213	9,248,870

To be read in conjunction with the accompanying notes to the financial statements.

1. IDENTIFICATION

(a) The Victoria Mutual Building Society ("Society") is incorporated under the Building Societies Act and is domiciled in Jamaica. The registered office of the Society is located at 8-10 Duke Street, Kingston, Jamaica.

During the year, the principal activities of the Society and its subsidiaries [note 1(b)] comprised the granting of home loans, operating savings accounts, trading in foreign currencies, money transmission services, investing surplus funds, the provision of general insurance services, insurance premium financing, investment holding, stockbroking and securities trading and the development and letting of real property.

(b) "Group" refers to the Society and its subsidiaries, as follows:

Subsidiaries	Country of incorporation	Nature of Business	Percentage equity held by: The Society	Percentage equity held by: Subsidiaries
Victoria Mutual Insurance Company Limited	Jamaica	General insurance	100	-
Westin International Insurance Company Limited	The Cayman Islands	General insurance	100	-
Victoria Mutual Investments Limited and its subsidiary:	Jamaica	Insurance premium financing and investment holding	100	-
Victoria Mutual Wealth Management Limited	Jamaica	Stockbroking and securities trading	-	100
Victoria Mutual Properties Limited and its wholly-owned subsidiaries:	Jamaica	Development and letting of real property	100	-
VMBS Realty Inc.*	Delaware, USA	Property holding and rental	-	100
Victoria Mutual (Property Services) Limited and its wholly-owned subsidiary:	Jamaica	Housing development and property management and sales	-	100
Manx Development Limited*	Jamaica	Housing development	-	100
Victoria Mutual Finance Limited	United Kingdom	Provision of management services to the Society, money transfer and cheque cashing services	100	-
VMBS Money Transfer Services Limited	Jamaica	Management of the money transfer services of the Society	85	-
Victoria Mutual Jamaica Limited*	Jamaica	Promotion of the business of the Society	100	-
VMBS Overseas (UK) Limited	United Kingdom	Promotion of the business of the Society	100	-
VMBS Overseas (Canada) Inc.	Canada	Money transfer and promotion of the business of the Society	100	-

* Inactive subsidiaries which, together with Victoria Mutual Properties Limited, are the subject of an undertaking, given to Bank of Jamaica, for their winding up.

During the year the Society acquired a 20% interest in Prime Pensions St. Lucia Limited, the holding company for Prime Asset Management Limited, whose principal activity is pension management.

(c) The Society is an authorised foreign currency dealer.

2. REGULATIONS AND LICENCE

The Society is licensed, and the financial statements are delivered, under the Building Societies Act, as amended by the Building Societies (Amendment) Act, 1996, and the Bank of Jamaica (Building Societies) Regulations, 1995.

3. BASIS OF PREPARATION

(a) Statement of compliance:

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

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

Certain new standards and interpretations of, and amendments to, existing standards, which were in issue, came into effect for the current financial year, as follows:

- *Amendments to IAS 39 Financial Instruments: Recognition and Measurement* and *IFRS 7 Financial Instruments Disclosures* issued on October 13, 2008. The amendments permit an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendments also permit an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available-for-sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future.

- *IFRIC 12 Service Concession Arrangements* addresses the accounting requirements for public-to-private service concession arrangements in private sector entities. IFRIC 12 is not considered relevant to the Group and the Society and has no impact on the financial statements.

- *IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, provides guidance on assessing the limit set in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how a pension asset or liability may be affected by a statutory or contractual minimum funding requirement.

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

At the date of approval of the financial statements, certain new standards, and amendments to and interpretations of existing standards, were in issue but are not yet effective and have not been early-adopted. The Group has assessed the relevance of all such new standards, amendments and interpretations with respect to its operations and has concluded as follows:

- *IFRS 8 Operating Segments*, which is effective for annual reporting periods beginning on or after January 1, 2009 replaces IAS 14 (segment reporting) and sets out requirements for disclosure of information about a publicly listed entity's operating segments and also about the entity's products and services, the geographical areas in which it operates and its major customers. The standard, applicable to publicly listed entities, is not relevant to the Group, and will not have any impact on the financial statements.

- *IFRIC 13 Accounting for Customer Loyalty Programmes*, creates consistency in accounting for customer loyalty plans. The interpretation is applicable to all entities that grant awards as part of a sales transaction (including awards that can be redeemed for goods or services not supplied by the entity). IFRIC 13 is effective for annual reporting periods beginning on or after July 1, 2008, and will not have any significant impact on the financial statements.

3. BASIS OF PREPARATION (CONT'D)

(a) Statement of compliance (cont'd):

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

- *IAS 1 (Revised 2007) Presentation of Financial Statements* requires the presentation of all non-owners changes in equity in one or two statements: either in a single statement of comprehensive income, or in an income statement and a statement of comprehensive income. The standard, which becomes effective for annual reporting period beginning on or after January 1, 2009, will result in a change in the presentation of the statements of revenue and expenses and changes in equity.

- *IAS 23 (Revised) – Borrowing Costs,* which becomes effective for annual reporting periods beginning on or after January 1, 2009, removes the option of either capitalising borrowing costs relating to qualifying assets or expensing the borrowing costs, and requires management to capitalise borrowing costs attributable to qualifying assets. Qualifying assets are assets that take a substantial time to get ready for their intended use or sale. An example is self-constructed assets such as buildings, machinery and internally developed software (intangible assets). This is not expected to have a material impact on the financial statements.

- *Amendments to IAS 32 Financial instruments: Presentation* and *IAS 1, Presentation of Financial Statements* is effective for annual reporting periods beginning on or after January 1, 2009. The amendments allow certain instruments that would normally be classified as liabilities to be classified as equity if certain conditions are met. Where such instruments are reclassified, the entity is required to disclose the amount, the timing and the reason for the reclassification. The standard is not expected to have any significant impact on the financial statements.

  Amendment to IFRS 2 Share-based payment – Vesting Conditions and Cancellations is effective for annual reporting periods beginning on or after January 1, 2009. Under the amendment, non-vesting conditions are taken into account in measuring the grant date fair value of the share-based payment and there is no adjustment for differences between expected and actual outcomes. The standard is not expected to have any significant impact on the financial statements.

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

(b) Basis of measurement:

The financial statements are prepared on the historical cost basis, modified for the inclusion of available-for-sale investments at fair value. Where a reliable measure of fair value is not available for available-for-sale investments, cost is used.

(c) Functional and presentation currency:

The financial statements are presented in Jamaica dollars ($), which is the functional currency of the Society. Amounts are rounded to the nearest thousand. The financial statements of other entities included in the consolidated financial statements that have different functional currencies are translated in the manner set out in note 4(s).

(d) Use of judgements and estimates:

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions, and critical judgements in applying accounting policies, that affect the application of accounting policies and the reported amounts of, and disclosures relating to, assets, liabilities, contingent assets and contingent liabilities at the balance sheet date and the revenue and expenses for the year then ended. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised, if the revision affects only that year, or in the year of the revision and future years, if the revision affects both current and future years.

3. BASIS OF PREPARATION (CONT'D)

(d) Use of judgements and estimates (cont'd):

The significant assumptions about the future and key areas of estimation uncertainty, and the critical judgements made in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are as follows:

(i) Key sources of estimation uncertainty:

- Pension and other post-retirement benefits:

  The amounts recognised in the balance sheets and revenue and expenses for pension and other post-retirement benefits are determined actuarially using several assumptions. The primary assumptions used in determining the amounts recognised include expected long-term return on plan assets, the discount rate used to determine the present value of estimated future cash flows required to settle the pension and other post-retirement obligations and the expected rate of increase in medical costs for post-retirement medical benefits.

  The assumed expected return on plan assets considers the long-term historical returns, asset allocation and future estimates of long-term investment returns. The discount rate is determined based on the estimate of yield on long-term government securities that have maturity dates approximating the terms of the Society's obligation. In the absence of such instruments in Jamaica, the rate is estimated by extrapolating from the longest-tenor security on the market. The estimate of the expected rate of increase in medical costs is determined based on inflationary factors. Any changes in these assumptions will impact the amounts recorded in the financial statements for these obligations.

- Allowance for impairment losses on loans and receivables:

  In determining amounts recorded for impairment of loans and receivables in the financial statements, management makes judgements regarding indicators of impairment, that is, whether there are indicators that suggest there may be a measurable decrease in the estimated future cash flows from loans, for example, repayment default and adverse economic conditions. Management also makes estimates of the likely estimated future cash flows from impaired loans, as well as the timing of such cash flows. Historical loss experience is applied where indicators of impairment are not observable on individual significant loans and loans portfolio with similar characteristics, such as credit risks.

- Goodwill:

  Goodwill is stated at cost or deemed cost, less any accumulated amortisation up to December 31, 2004, and impairment losses. Goodwill is no longer amortised but is tested annually for impairment. Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

- Outstanding claims:

  Outstanding insurance claims comprise estimates of the amount of reported losses and loss expenses, plus a provision for losses incurred but not reported, based on historical experience. The loss and loss expense reserves have been reviewed by the subsidiary's appointed actuary using the subsidiary's past loss experience and industry data.

  Amounts recoverable in respect of claims from reinsurers are estimated in a manner consistent with the underlying liabilities.

  Management believes, based on the analysis completed by its actuary, that the provision for outstanding losses and loss expenses will be adequate to cover the ultimate net cost of losses incurred up to the balance sheet date. However, the provision is necessarily an estimate and may, ultimately, be settled for a significantly greater or lesser amount. Any subsequent differences arising are recorded in the period in which they are determined.

  Note 5 contains information about the risks and uncertainties associated with insurance and financial risk management.

3. BASIS OF PREPARATION (CONT'D)

(d) Use of judgements and estimates (cont'd):

(i) Key sources of estimation uncertainty (cont'd):

- Residual values and useful lives of property, plant and equipment:

  The residual values and the useful life of each asset are reviewed at least at each financial year-end, and, if expectations differ from previous estimates, the change is accounted for as a change in accounting estimate. The useful life of an asset is defined in terms of the asset's expected utility to the Group and the Society.

  It is reasonably possible that outcomes within the next financial year that are different from these assumptions could require a material adjustment to the carrying amount reflected in the financial statements.

(ii) Critical accounting judgements in applying the Group's accounting policies.

The Group's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

- In classifying financial assets as "trading", the Group has determined that they meet the description of trading assets set out in accounting policy 4(c).

  In designating financial assets at fair value through profit or loss, the Group has determined that they have met the criteria for this designation set out in accounting policy 4(c).

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies set out below have been applied consistently to all years presented in the financial statements, and conform in all material respects to IFRS.

(a) Basis of consolidation:

The Group's financial statements include the audited financial statements of the Society and all its subsidiaries as at and for the year ended December 31, 2008, after eliminating intra-group amounts.

Subsidiaries are those enterprises controlled by the Society [note 1(b)]. Control exists when the Society has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

In the absence of a commitment by the minority interest to fund losses in excess of its interest in the equity of a consolidated subsidiary, the excess and any further losses are allocated to the majority interest. If the subsidiary subsequently reports profits, such profits are allocated to the majority interest until the minority's share of losses, previously absorbed by the majority, has been recovered.

(b) Cash and cash equivalents:

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with the central bank and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are held for the purpose of meeting short-term cash commitments, rather than for investment or other purposes.

Cash and cash equivalents are carried at amortised cost in the balance sheet.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Investments:

Investments are classified as *loans and receivables*, *held-to-maturity*, *at fair value through profit or loss* or *available-for-sale*. Management determines the appropriate classification of investments at the time of purchase.

Government of Jamaica or other securities acquired and loans granted with fixed or determinable payments and which are not quoted in an active market, are classified as loans and receivables and are initially measured at cost and subsequently at amortised cost, using the effective interest rate method, less impairment losses [see note 4(q)]. An active market is one where quoted prices are readily and regularly available from an exchange dealer, broker or other agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Government of Jamaica or other securities with fixed or determinable payment and fixed maturity that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity and are initially measured at cost and subsequently at amortised cost, using the effective interest rate method, less impairment losses. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Other investments, including certain securities, are classified as available-for-sale and are initially measured at cost and subsequently at fair value, with unrealised gains and losses arising from changes in fair value included in investment revaluation reserve, except for impairment losses and, in the case of debt securities, foreign exchange gains and losses. Where fair value cannot be reliably determined, available-for-sale investments are stated at cost. Where the securities are disposed of, or impaired, the related accumulated unrealised gains or losses are included in the revenue and expenses accounts.

Purchases and sales of securities are recognised at settlement date.

Investments classified as fair value through profit or loss are those investments that the Group acquires for the purpose of selling or repurchasing in the near term, or hold as part of a portfolio that is managed together for short-term profit or position taking. Fair value through profit or loss investments are carried at fair value with transaction costs taken directly to revenue and expenses account.

The fair value of fair value through profit or loss, as well as available-for-sale investments, is based on their quoted market bid price at the balance sheet date.

Where a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on an externally derived yield curve and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

(d) Resale and repurchase agreements:

Resale and repurchase agreements, which are described in more detail in notes 10 and 22, respectively, are accounted for as short-term collateralised lending and borrowing, respectively. Resale agreements are classified as loans and are carried in the balance sheet at amortised cost. Securities sold under repurchase agreements are retained in the balance sheet and measured in accordance with their original measurement principles. The proceeds of sale are reported as liabilities and are carried at amortised cost.

Interest earned on resale agreements and interest incurred on repurchase agreements is recognised, respectively, as interest income and interest expense over the life of each agreement using the effective interest method.

(e) Loans:

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. Loans and advances are initially measured at fair value, plus incremental direct transaction costs, and subsequently measured at their amortised cost, using the effective interest method.

(f) Other assets:

Other assets are stated at cost, less impairment losses.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) Income tax:

Income tax on the results for the year comprises current and deferred tax. Income tax expense is recognised in the statement of revenue and expenses, except to the extent that it relates to items recognised directly to capital and reserves, in which case it is recognised in reserves.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be realised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(h) Employee benefits:

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

(i) General benefits:

Employee benefits that are earned as a result of past or current service are recognised in the following manner: Short-term employee benefits are recognised as a liability, net of payments made, and are expensed as the related service is provided. The expected cost of vacation leave that accumulates is recognised when the employee becomes entitled to the leave. Post employment benefits are accounted for as described in paragraphs (ii), (iii) and (iv) below. Other long-term benefits, including termination benefits, which arise when either: (1) the employer decides to terminate an employee's employment before the normal retirement date, or (2) an employee decides to accept voluntary redundancy in exchange for termination benefits, are accrued as they are earned and charged as an expense, unless not considered material, in which case they are charged when they fall due.

The Group has established a defined-contribution pension scheme, administered by a life insurance company, and two Group defined-benefit pension schemes, operated by the Society (see note 14).

(ii) Defined-contribution pension scheme:

Obligations for contributions to the defined-contribution pension scheme are recognised as an expense in the revenue and expenses accounts when they become due. This scheme is closed to new members and no further contributions are being made.

(iii) Defined-benefit pension scheme:

The scheme provides benefits for retired employees of Group entities. However, in the financial statements of the Society the scheme is accounted for as a defined-benefit scheme, as described below, while in the financial statements of the individual participating subsidiaries, the scheme is accounted for as a defined-contribution scheme, that is, pension contributions as recommended by the actuary are expensed as they become due. The reasons for this are that (1) although the scheme exposes the participating subsidiaries to actuarial risks associated with current and former employees of Group entitites, there is no stated policy for charging the net defined benefit cost among Group entities, and (2) all residual interest in the scheme belongs to the society.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Employee benefits (cont'd):

(iii) Defined-benefit pension scheme (cont'd):

In respect of defined-benefit arrangements, employee benefits, comprising pensions and other post-employment assets, and obligations included in the financial statements are determined by a qualified independent actuary, appointed by management. The appointed actuary's report outlines the scope of the valuation and the actuary's opinion. The actuarial valuations are conducted in accordance with IAS 19, and the financial statements reflect the Society's post-employment benefit asset and obligation as computed by the actuary. In carrying out their audit, the auditors rely on the work of the actuary and the actuary's report.

The Group's net obligation in respect of the defined-benefit pension schemes is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of scheme assets are deducted. The discount rate is the yield at the reporting date on long-term government securities that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by an independent qualified actuary using the Projected Unit Credit method.

When the benefits of the schemes are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the statements of revenue and expenses on the straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the statements of revenue and expenses.

In calculating the Group's and the Society's obligation in respect of the schemes, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10 percent of the greater of the present value of the defined benefit obligation and the fair value of scheme assets, that portion is recognised in the statements of revenue and expenses over the expected average remaining working lives of the employees participating in the scheme. Otherwise, the actuarial gain or loss is not recognised.

When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the schemes or reductions in future contributions to the schemes.

(iv) Post-employment medical benefits to retirees:

The Group provides post-employment medical benefits to retirees. The obligations with respect to this benefit are calculated on a basis similar to that for the defined-benefit pension schemes.

(i) Interest in subsidiaries;

Interest in subsidiaries is stated at cost, less impairment losses.

(j) Intangible assets:

(i) Goodwill arising on consolidation:

Goodwill is recognised as stated in note 3(d).

(ii) Computer software:

Costs that are directly associated with acquiring identifiable and unique software products which are expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. These assets are stated at cost less accumulated amortisation and impairment losses, if any. The assets are amortised using the straight-line method over their expected useful lives, estimated at five years. Costs associated with maintaining computer software programs are recognised as an expense as incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(k) Investment properties:

Investment properties are properties held either to earn rental income or for capital appreciation or for both. Investment properties are stated at cost, less accumulated depreciation and impairment losses. Each year's lease income from investment property is accounted for on the straight-line basis over the year.

(l) Property, plant and equipment and depreciation:

(i) Owned assets:

(a) Recognition and measurement:

Items of property, plant and equipment are measured at cost, less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(b) Subsequent costs:

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised as expenses, as incurred.

(ii) Depreciation:

Property, plant and equipment, with certain exceptions, are depreciated on the straight-line method at annual rates estimated to write off depreciable amounts over the assets expected useful lives. The exceptions are freehold land, on which no depreciation is provided, and equipment on lease and leasehold improvements, which are amortised over the shorter of their useful lives and the lease terms.

The depreciation rates are as follows:-

Buildings	2.5%
Office furniture and equipment	10 - 30%
Motor vehicles	20% - 25%

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

(m) Other liabilities:

Other liabilities are stated at their cost.

NOTES TO THE FINANCIAL STATEMENTS December 31, 2008

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Insurance operations:

Underwriting results are accounted for in compliance with the recommendations and practices of the insurance industry, and comply with the provisions of the Insurance Act 2001.

The underwriting results are determined after making provision for, *inter alia*, unearned premiums and commissions, deferred commission expenses, outstanding claims and claims equalisation.

Unearned premiums represent the estimated cost of that portion of the premiums written up to the accounting date, which is attributable to subsequent periods, and is calculated substantially on the twenty-fourths basis on the total premiums written. Premiums ceded to reinsurers are accounted for similarly [note 4(p)].

Claims equalisation represents the amount previously set aside to be used to prevent exceptional fluctuations in the amounts charged to revenue in subsequent financial years in respect of claims under insurance contracts.

Commission income and expense are deferred on a basis consistent with that used for deferring premium income.

(o) Loans payable:

Loans payable are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, they are stated at amortised cost, with any difference between cost and redemption value being recognised in the statement of revenue and expenses on the effective interest basis.

(p) Reinsurance ceded:

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with reinsured policies. Unearned premiums on business ceded up to the accounting date which is attributable to subsequent periods is calculated substantially on the "twenty-fourths" basis on the total premiums ceded.

q) Impairment:

The carrying amounts of the Group's and the Society's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the revenue and expenses accounts.

(i) Calculation of recoverable amount:

The recoverable amount of the Group's and the Society's held-to-maturity securities, loans and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

For collateralised loans where foreclosure is probable, the recoverable amount is measured based on net realisable value of the collateral.

(ii) Reversals of impairment:

An impairment loss in respect of held-to-maturity securities, loans and receivables is reversed, if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed, if there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, if no impairment loss has been recognised.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(r) Provision for loan losses:

The allowance to cover specific credit losses is maintained at a level considered adequate to provide for potential loan losses and is based on management's evaluation of individual loans in the loan portfolio.

The evaluation takes all relevant matters into consideration, including prevailing and anticipated business and economic conditions, the collateral held, the debtors ability to repay the loan and guidance provided by Bank of Jamaica, which requires that appropriate provisions be made for all loans on which interest payments and principal repayments are ninety or more days in arrears. Amounts are written-off from the provision whenever management has concluded that such amounts will not be recovered.

General provisions for loans are established against the portfolio where a prudent assessment by the Group of adverse economic trends and losses inherent in its portfolio suggest that losses may occur, but such losses cannot be determined on an item-by-item basis. This provision is maintained at the minimum 0.5% of the portfolio for residential mortgages and 1% for all other loans, being the rates established by the Supervisor, Bank of Jamaica.

IFRS permits only specific loan loss provisions and requires that the future cash flows of impaired loans be discounted and, thereafter, the increase in the present value be reported as interest income. The loan loss provision required under the Bank of Jamaica Building Societies Regulations (1995), which is in excess of the requirements of IFRS, is treated as an appropriation of retained earnings and included in a non-distributable credit facility reserve [note 26(iv)].

(s) Foreign currencies:

Balances denominated in foreign currencies are translated into Jamaica dollars at the exchange rates prevailing at the balance sheet date (see note 38). Transactions in foreign currencies are converted at the rates of exchange ruling at the dates of those transactions. Except as set out in the following paragraph, all gains and losses arising from fluctuations in exchange rates are included in the statement of revenue and expenses.

For the purpose of consolidating the financial statements of subsidiaries operating outside of Jamaica, the balance sheets are translated at the closing rates and the income statements at the average rates for the year. Translation differences are included in the currency translation reserve.

(t) Interest income and expense:

Interest income and expense are recognised in the statement of revenue and expenses on the accrual basis, using the effective yield method, except that, where collection of interest income is considered doubtful, or payment is outstanding for 90 days or more, the cash basis is used. Accrued interest on loans which are in arrears for 90 days and over is excluded from income in accordance with the Building Societies Act.

IFRS requires that when collection of loans becomes doubtful, such loans should be written down to their recoverable amounts after which interest income is to be recognised based on the rate of interest that was used to discount the future cash flows in arriving at the recoverable amount. The difference between the basis of interest recognition under IFRS and the Bank of Jamaica Building Societies Regulations (1995) has been assessed as immaterial.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(u) Commissions, premium income and other income:

Commission and other fee income, including account servicing fees, investment management fees, sales commissions, and placement fees, are recognised as the related services are performed. When a loan commitment fee is not expected to result in the draw down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

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

(i) Premium income and commissions:

Premium and commission income are recognised over the period of insurance policies. Unearned premiums and commissions are calculated on the twenty-fourths method in accordance with industry practice. Reinsurance commission is recognised on a basis that is consistent with the recognition of the costs incurred on the acquisition of the underlying insurance contracts. Profit commission in respect of reinsurance contracts is recognised on the accrual basis.

(ii) Investment income:

Interest income is recorded on the accrual basis using the effective interest method, except when collectability is considered doubtful. In such cases, income is recorded when economic benefits are received. Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

(v) Financial assets and liabilities:

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. For the purpose of the financial statements, financial assets have been determined to include cash and cash equivalents, investments, resale agreements, loans and other assets. Financial liabilities include savings fund, other liabilities, loans payable and repurchase agreements. The fair values of financial instruments are discussed in note 28.

(i) Recognition:

The Group initially recognises loans and advances, and deposits on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

(ii) Derecognition:

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

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby they transfer assets recognised on its balance sheet, but retain either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

(w) Related parties:

A party is related to an entity, if:

(i) directly, or indirectly through one or more intermediaries, the party:

(a) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);

(b) has an interest in the entity that gives it significant influence over the entity; or

(c) has joint control over the entity;

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(w) Related parties (cont'd):

(ii) the party is an associate of the entity;

(iii) the party is a joint venture in which the entity is a venturer;

(iv) the party is a member of the key management personnel of the entity or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

5. FINANCIAL RISK MANAGEMENT

Introduction and overview

The Group's activities are principally related to the use of financial instruments. The Group, therefore, has exposure to the following risks from the use of financial instruments in the ordinary course of business:

- credit risk
- market risks
- liquidity risk
- operational risk
- insurance risk

Note 5 presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

Risk management framework

The Board of Directors of the Society has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established Finance and Risk Management Committees, which are responsible for developing and monitoring risk management policies in their specified areas. All Board committees are comprised of non-executive members and report regularly to the Society's Board of Directors on their activities.

There is, in addition, an Asset and Liability Committee (ALCO) comprising members of executive management. It monitors the liquidity, interest rate and foreign exchange risks of the Group, reporting to the Finance Committee of the Board.

The risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Society's and certain subsidiaries' Audit Committees are responsible for monitoring the Group's compliance with risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group and the Society. The Audit Committees are assisted in these functions by Group Internal Audit, which consists of employees of the Society and contracted external resources. Group Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committees.

The Group does not make use of derivative instruments as part of its overall risk management activities at this time. Therefore, exposure to interest rate, credit, foreign currency, market, liquidity and cash flow risks on financial instruments arises in the ordinary course of the Group's operations, and not for risk management purposes.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Credit risk:

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from credit given to customers in stock-broking activities, investing activities, lending and deposits with other institutions. Balances arising from these activities include loans and other receivables, investment securities, resale agreements, cash and cash equivalents and accounts receivable.

(i) Loans receivable:

The management of credit risk in respect of loans receivable is delegated to the Society's Finance Committee. The Committee is responsible for oversight of credit risk, including formulating credit policies, establishing the authorisation structure for the approval of credit facilities, reviewing and assessing credit risk, and limiting concentration of exposure to counterparties.

Impaired loans:

Impaired loans are loans for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan.

Past due but not impaired loans:

These are loans where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security available and/or the stage of collection of amounts owed to the Group.

Credit quality of loans is summarised as follows:

	Group and Society	
	2008	2007
	$'000	$'000
Past due and not impaired	3,580,008	1,909,717
Aging analysis of past due and not impaired		
Under 3 months	2,938,082	1,391,647
3 months – 6 months	502,113	295,941
6 months – 12 months	113,153	91,901
Over 12 months	26,660	130,228
Total carrying amount	3,580,008	1,909,717

	Group and Society	
	2008	2007
	$'000	$'000
Past due and impaired	352,566	215,927
Aging analysis of past due and impaired		
3 months – 6 months	185,773	79,904
6 months – 12 months	59,574	31,706
Over 12 months	107,219	104,317
Total carrying amount	352,566	215,927

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Credit risk (cont'd):

Loans with renegotiated terms:

Loans with renegotiated terms are loans that have been restructured due to deterioration in the member's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured, it remains in this category independent of satisfactory performance after restructuring. Main restructuring activities included the moratorium arrangements on loans following the hurricane in August 2007. The extent of these renegotiations at December 31, 2008 total $138,822,144 (2007: $143,958,527).

Allowances for impairment:

The Group has established an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established on a group basis in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy:

The Group writes off a loan (and any related allowances for impairment losses) when it determines that the loans are uncollectable. This determination is usually made after considering information such as changes in the borrower's financial position, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

(ii) Cash and cash equivalents:

These are held with reputable financial institutions and collateral is not required for such accounts as management regards the institutions as strong.

(iii) Investment securities:

With regard to investments, there is a significant concentration in securities issued or guaranteed by Government of Jamaica. The Group manages the level of risk it undertakes by investing substantially in short-term investments which are Government of Jamaica securities.

No investment securities were considered impaired at the balance sheet date.

(iv) Resale agreements and certificates of deposit:

Collateral is held for all resale agreements other than those acquired from the Bank of Jamaica.

(v) Accounts receivable:

Exposure to credit risk is managed through regular analysis of the ability of the borrowers and potential borrowers to meet repayment obligations and by changing these lending limits where appropriate.

The impairment provision shown in the balance sheet at year end is derived from four categories set up by the Group. These apply specifically to mortgage loans, the core function of the Society.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Credit risk (cont'd):

(vi) Exposure to credit risk:

The maximum credit exposure, the amount of loss that would be suffered if every counterparty to the Group's financial assets were to default at once, is represented by the carrying amount of financial assets shown on the balance sheets and is as follows:

	Group		Society	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Cash and cash equivalents	8,305,094	9,353,631	8,250,213	9,248,870
Loans	28,766,351	20,541,520	28,758,771	20,532,246
Investments	14,893,117	13,725,834	7,330,652	9,003,911
Accounts receivable	1,487,324	1,443,757	623,071	728,196
Loan commitments	2,520,094	3,112,535	2,520,094	3,112,535

There was no change in the Group's approach to managing its credit risk during the year.

The following table summarises the exposure to credit risk arising from loans to borrowers, by category:

Group:

	2008 ($'000)			
	Mortgage loans	Share loans	Other loans	Total
Individuals	27,918,715	-	117,133	28,035,848
Other	279,969	175,619	274,915	730,503
	28,198,684	175,619	392,048	28,766,351

	2007 ($'000)			
	Mortgage loans	Share loans	Other loans	Total
Individuals	19,849,448	-	83,588	19,933,036
Other	350,233	142,425	115,826	608,484
	20,199,681	142,425	199,414	20,541,520

Society:

	2008 ($'000)			
	Mortgage loans	Share loans	Other loans	Total
Individuals	27,918,715	-	90,348	28,009,063
Other	279,969	175,619	294,120	749,708
	28,198,684	175,619	384,468	28,758,771

Society:

	2007 ($'000)			
	Mortgage loans	Share loans	Other loans	Total
Individuals	19,849,448	-	74,314	19,923,762
Other	350,233	142,425	115,826	608,484
	20,199,681	142,425	190,140	20,532,246

Substantially all the lending is to parties in Jamaica.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Credit risk (cont'd):

(vii) Collateral:

Collateral held in respect of loans is in the form of mortgages over property, lien over motor vehicles and hypothecation of deposits held. The fair value of collateral that the Group held for loans past due was $10,652,073,000 (2007: $4,748,424,000).

Collateral is not generally held against deposits and investment securities, and no such collateral was held at December 31, 2008 or 2007.

(b) Market risks:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. These arise mainly from changes in interest rates, foreign exchange rates, credit spreads and equity prices and will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising returns.

Management of market risks

The Group separates its exposure to market risks between trading and non-trading portfolios. The market risks from trading activities are concentrated in the Money Market Department and are monitored by senior management. The Money Market Department also monitors the price movement of securities on the local and international markets. Market risks are managed through risk limits approved by the Board of Directors.

(i) Interest rate risk:

Interest rate risk is the potential for economic loss due to future interest rate changes. It arises when there is a mismatch between interest-earning assets and interest-bearing liabilities, which are subject to interest rate adjustment within a specified period. It can be reflected as a loss of future net interest income and/or a loss of current market values.

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

It shows significant excess of short-term interest-bearing liabilities over short-term interest-earning assets. This is a direct consequence of the nature of the Group's business, which involves granting long-term loans (up to 25 years) funded by savings which are substantially withdrawable on demand or after short notice. The savings fund has been stable and management expects it to remain so. This interest rate gap is normal within the building society sector.

The Group manages the risk by monitoring the savings fund, taking steps to ensure its stability, monitoring lending activity, and by adjusting interest rates to the extent practicable within the overall policy of encouraging long-term savings and facilitating home ownership.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd):

(i) Interest rate risk (cont'd):

A summary of the interest rate gap, using historical data as a basis, as at December 31, is as follows:

Group:

	2008 ($'000)					
	Immediately rate sensitive	Within 3 months	Three to 12 months	Over 12 months	Non-rate sensitive	Total
Cash and cash equivalents	2,867,366	1,571,440	1,007,179	66,152	2,792,957	8,305,094
Investments	775,275	1,300,603	1,570,054	11,150,442	96,743	14,893,117
Resale agreements	1,074,942	1,434,834	256,300	-	569,576	3,335,652
Loans	-	28,758,840	6,812	-	699	28,766,351
Other assets	59	28,610	25,750	-	1,432,905	1,487,324
Deferred tax asset**	-	-	-	-	97,078	97,078
Employee benefit asset**	-	-	-	-	721,000	721,000
Intangible assets**	-	-	-	-	106,273	106,273
Investment properties	-	-	-	-	233,323	233,323
Property, plant and equipment**	-	-	-	-	452,219	452,219
Total assets	4,717,642	33,094,327	2,866,095	11,216,594	6,502,773	58,397,431
Savings fund	26,090,109	5,586,482	3,303,400	6,906,476	-	41,886,467
Income tax payable	-			-	1,547	1,547
Other liabilities	-	113,029	38,329	-	1,706,359	1,857,717
Repurchase agreements	-	5,554,007	1,622,179	-	-	7,176,186
Insurance underwriting provisions	-	-	-	-	782,172	782,172
Loans payable	25,750	-	1,345,639	-	11,746	1,383,135
Deferred tax liabilities**	-	-	-	-	202,116	202,116
Employee benefit obligation**	-	-	-	-	163,100	163,100
Capital and reserves**	-	-	-	-	4,944,991	4,944,991
Total liabilities, capital and reserves	26,115,859	11,253,518	6,309,547	6,906,476	7,812,031	58,397,431
Total interest rate sensitivity gap *	(21,398,217)	21,840,809	(3,443,452)	4,310,118	(1,309,258)	-
Cumulative gap	(21,398,217)	442,592	(3,000,860)	1,309,258	-	-

* The gap is in relation to balance sheet items; there are no off-balance sheet financial instruments.
** These are (or include) non-financial instruments.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd):

(i) Interest rate risk (cont'd):

Society:

	2008 ($'000)					
	Immediately rate sensitive	Within 3 months	Three to 12 months	Over 12 months	Non-rate sensitive	Total
Cash and cash equivalents	2,811,765	1,571,440	1,007,179	66,152	2,793,677	8,250,213
Investments	775,275	943,113	1,139,461	4,379,618	93,185	7,330,652
Resale agreements	1,340,942	559,801	-	-	-	1,900,743
Loans	-	28,758,771	-	-	-	28,758,771
Other assets	-	-	-	-	623,071	623,071
Deferred tax asset**	-	-	-	-	-	-
Employee benefit asset**	-	-	-	-	721,000	721,000
Interest subsidiaries	-	-	-	-	307,181	307,181
Intangible assets**	-	-	-	-	80,851	80,851
Investment properties	-	-	-	-	350,643	350,643
Property, plant and equipment**	-	-	-	-	412,730	412,730
Total assets	4,927,982	31,833,125	2,146,640	4,445,770	5,382,338	48,735,855
Savings fund	26,355,292	5,586,481	3,303,400	6,906,476	-	42,151,649
Other liabilities	-	-	-	-	730,867	730,867
Loans payable	-	-	1,383,135	-	-	1,383,135
Deferred tax liabilities**	-	-	-	-	196,620	196,620
Employee benefit obligation**	-	-	-	-	146,900	146,900
Capital and reserves**	-	-	-	-	4,126,684	4,126,684
Total liabilities, capital and reserves	26,355,292	5,586,481	4,686,535	6,906,476	5,201,071	48,735,855
Total interest rate sensitivity gap *	(21,427,310)	26,246,644	(2,539,895)	(2,460,706)	181,267	-
Cumulative gap	(21,427,310)	4,819,334	2,279,439	(181,267)	-	-

* The gap is in relation to balance sheet items; there are no off-balance sheet financial instruments.
** These are (or include) non-financial instruments.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd):

(i) Interest rate risk (cont'd):

Group:

	2007 ($'000)					
	Immediately rate sensitive	**Within 3 months**	**Three to 12 months**	**Over 12 months**	**Non-rate sensitive**	**Total**
Cash and cash equivalents	5,162,892	1,605,277	45,016	2,022,760	517,686	9,353,631
Investments	-	3,584,323	5,623,944	3,493,418	1,024,149	13,725,834
Resale agreements	795,741	3,401,866	407,986	-	369,973	4,975,566
Loans	20,466,160	-	-	73,685	1,675	20,541,520
Other assets	12,329	12	25,495	714	1,405,207	1,443,757
Deferred tax asset**	-	-	-	-	7,030	7,030
Employee benefit asset**	-	-	-	-	756,500	756,500
Intangible assets**	-	-	-	-	135,592	135,592
Investment properties	-	-	-	-	239,082	239,082
Property, plant and equipment**	-	-	-	-	426,085	426,085
Total assets	26,437,122	8,591,478	6,102,441	5,590,577	4,882,979	51,604,597
Savings fund	22,758,776	8,474,545	1,748,914	4,817,100	-	37,799,335
Income tax payable	-	-	-	-	17,225	17,225
Other liabilities	-	-	-	-	951,284	951,284
Repurchase agreements	-	4,433,972	1,115,220	-	-	5,549,192
Insurance underwriting provisions	-	-	-	-	753,723	753,723
Loans payable	-	347,264	698,004	-	-	1,045,268
Deferred tax liabilities**	-	-	-	-	234,117	234,117
Employee benefit obligation**	-	-	-	-	142,700	142,700
Capital and reserves**	-	-	-	-	5,111,753	5,111,753
Total liabilities, capital and reserves	22,758,776	13,255,781	3,562,138	4,817,100	7,210,802	51,604,597
Total interest rate sensitivity gap *	3,678,346	(4,664,303)	2,540,303	773,477	(2,327,823)	-
Cumulative gap	3,678,346	(985,957)	1,554,346	2,327,823	-	-

* The gap is in relation to balance sheet items; there are no off-balance sheet financial instruments.

** These are (or include) non-financial instruments.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd):

(i) Interest rate risk (cont'd):

Society:

	2007 ($'000)					
	Immediately rate sensitive	Within 3 months	Three to 12 months	Over 12 months	Non-rate sensitive	Total
Cash and cash equivalents	5,088,233	1,598,213	45,016	2,022,760	494,648	9,248,870
Investments	-	3,523,611	4,818,019	379,420	282,861	9,003,911
Resale agreements	2,541,692	-	-	-	-	2,541,692
Loans	20,457,932	-	-	73,685	629	20,532,246
Other assets	-	-	-	-	728,196	728,196
Deferred tax asset**	-	-	-	-	-	-
Employee benefit asset**	-	-	-	-	756,500	756,500
Interest subsidiaries	-	-	-	-	265,465	265,465
Intangible assets**	-	-	-	-	105,631	105,631
Investment properties	-	-	-	-	356,401	356,401
Property, plant and equipment**	-	-	-	-	378,320	378,320
Total assets	28,087,857	5,121,824	4,863,035	2,475,865	3,368,651	43,917,232
Savings fund	22,926,374	8,474,545	1,748,914	4,817,100	-	37,966,933
Other liabilities	-	-	-	-	372,677	372,677
Loans payable	-	347,264	698,004	-	-	1,045,268
Deferred tax liabilities**	-	-	-	-	229,184	229,184
Employee benefit obligation**	-	-	-	-	128,600	128,600
Capital and reserves**	-	-	-	-	4,174,570	4,174,570
Total liabilities, capital and reserves	22,926,374	8,821,809	2,446,918	4,817,100	4,905,031	43,917,232
Total interest rate sensitivity gap *	5,161,483	(3,699,985)	2,416,117	(2,341,235)	(1,536,380)	-
Cumulative gap	5,161,483	1,461,498	3,877,615	1,536,380	-	-

* The gap is in relation to balance sheet items; there are no off-balance sheet financial instruments.

** These are (or include) non-financial instruments.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd):

(i) Interest rate risk (cont'd):

Sensitivity analysis

A change of 800 basis points (8 percentage points) in interest rates would have increased or decreased profit and reserves of the Society by the amounts shown. The analysis assumes that all other variables, in particular, foreign currency rates, remain constant. The analysis is performed on the same basis for 2007.

	Group $'000	Society $'000
December 31, 2008		
Effect on profit or loss	186,893	162,224
Effect on equity	412,076	346,611
December 31, 2007		
Effect on profit or loss	170,468	154,545
Effect on equity	408,940	33,966

(ii) Foreign currency risk:

Foreign currency risk is the risk that the market value of, or the cash flows from, financial instruments will vary because of exchange rate fluctuations, because there are transactions and balances that are denominated in currencies other than the Jamaican dollar. The main currencies giving rise to this risk are the United States dollar, Canadian dollar and the British pound.

The Group manages this risk by ensuring that the net exposure is kept to an acceptable level through matching foreign currency assets and liabilities as far as possible.

Group:

	2008				2007			
	US$ $'000	£ $'000	CDN$ $'000	€ $000	US$ $'000	£ $'000	CDN$ $'000	€ $'000
Foreign currency assets	130,560	55,056	3,521	12,374	162,093	50,913	4,024	-
Foreign currency liabilities	(142,431)	(52,467)	(4,186)	-	(131,343)	(49,702)	(4,053)	-
Net foreign currency asset/(liability)	(11,871)	2,589	(665)	12,374	30,750	1,211	(29)	-

Society:

	2008			2007		
	US$ $'000	£ $'000	CDN$ $'000	US$ $'000	£ $'000	CDN$ $'000
Foreign currency assets	94,631	54,855	3,387	119,119	50,591	3,932
Foreign currency liabilities	(101,877)	(52,435)	(4,184)	(99,281)	(49,697)	(4,053)
Net foreign currency (liability)/asset	(7,246)	2,420	(797)	19,838	894	(121)

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd):

(ii) Foreign Currency Risk (cont'd)

Sensitivity Analysis

A 5 percent strengthening of the Jamaica dollar against the following currencies at December 31, 2008 would have (decreased)/increased profit by the amounts shown. The analysis assumes that all other variables, in particular, interest rates, remain constant. The analysis is performed on the same basis for 2007.

	Group		Society	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
United States	(47,484)	105,473	(28,970)	67,896
Pounds Sterling	8,233	8,174	13,847	6,010
Canadian Dollar	(3,810)	(99)	(2,528)	(411)
Euro	69,418	-	-	-
	26,357	113,548	(17,651)	73,495

A 9 percent weakening of the Jamaica dollar against the following currencies at December 31, 2008 would have (decreased)/increased profit by the amounts shown. The analysis assumes that all other variables, in particular, interest rates, remain constant. The analysis is performed on the same basis for 2007.

	Group		Society	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
United States	(85,471)	189,420	(52,145)	67,896
Pounds Sterling	26,667	14,714	24,925	10,818
Canadian Dollar	3,997	(177)	(4,551)	(741)
Euro	124,853	-	-	-
	70,046	203,957	(31,771)	77,973

(iii) Equity price risk

Equity price risk arises from available-for-sale equity securities held by the Group as part of its investment portfolio. Management monitors the mix of debt and equity securities in its investment portfolio based on market expectations. The primary goal of the Group's investment strategy is to maximise investment returns.

The Group's equity securities are listed on the Jamaica Stock Exchange with the exception, in the previous year, of a block of newly issued shares purchased late in the year which was listed in January 2008. An increase or decrease of 20% (2007: 5%) in share prices would result in an increase or an equal decrease, respectively, in equity of $9,730,878 (2007: $14,715,000) for the Group and $ 8,297,909 (2007: $13,310,000) for the Society.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Liquidity risk:

Liquidity risk is the risk that the Group and the Society will encounter difficulty in raising funds to meet commitments associated with financials instruments. Liquidity risk may result from an inability to sell a financial asset quickly at, or close to, its fair value. Prudent liquidity risk management requires the Group to maintain sufficient cash and marketable securities, monitoring future cash flows and liquidity on a daily basis and have funding available through an adequate amount of committed facilities.

Due to the dynamic nature of the underlying businesses, the management of the Group ensures that sufficient funds are held in short-term marketable instruments to meet its liabilities when due, without incurring unacceptable losses or risk damage to the Group's reputation.

The daily liquidity position is monitored by reports covering the position of the Group. All liquidity policies and procedures are subject to review and approval by the Board

There are two entities that are subject to externally imposed liquidity risk management ratios. These ratios are taken into account by management in their measurement and management of liquidity risk.

(i) The key measure used by the Group for managing liquidity risk of the Society is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment in debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Society's compliance with the liquidity limit established by the Bank of Jamaica.

	Ratio of net liquid assets to deposits from customers	
	2008	2007
As at 31 December	6.23%	5.24%
Average for the year	6.52%	7.25%
Maximum for the year	8.40%	8.64%
Minimum for the year	5.62%	5.24%

(ii) The stock broking subsidiary manages liquidity risk by keeping a substantial portion of its financial assets in liquid form, in accordance with regulatory guidelines. The subsidiary is subject to a requirement to have a liquid assets ratio of 25%, imposed by the Financial Services Commission (FSC). The key measure used for maintaining liquidity risk is the one year liquidity ratio. The numerator is calculated by subtracting total assets maturing within one year from the total liabilities which fall due in one year. The denominator is total liabilities which fall due in one year. For this purpose, liquid assets include investments maturing within one year. The liquid asset ratio at the end of the year was 38% (2007: 36%).

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Liquidity risk (cont'd):

The following table presents the contractual maturities of financial liabilities, including interest payments, on the basis of their earliest possible contractual maturity.

Group:

	2008 ($'000)					
	Within One month	One to 3 months	Three to 12 months	One to 5 years	over 5 years	Carrying amount
Other liabilities	26,959	964,309	998,446	-	12,000	2,001,714
Due to customers	26,355,292	5,586,481	3,303,400	255,736	6,650,740	42,151,649
Due to banks	49	217	-	-	-	266
Repurchase agreements	-	6,001,616	1,622,178	-	-	7,623,794
Loans payable	-	-	1,383,135	-	11,746	1,394,881

	2007 ($'000)					
	Within One month	One to 3 months	Three to 12 months	One to 5 years	over 5 years	Carrying amount
Other liabilities	2,401	920,232	28,651	-	-	951,284
Due to customers	26,744,877	4,793,056	1,935,267	296,108	4,029,979	37,799,287
Due to banks	48	-	-	-	-	48
Repurchase agreements	-	4,458,714	1,090,478	-	-	5,549,192
Loans payable	18,518	342,250	684,500	-	-	1,045,268

Society:

	2008 ($'000)					
	Within One month	One to 3 months	Three to 12 months	One to 5 years	over 5 years	Carrying amount
Other liabilities	-	730,867	-	-	-	730,867
Due to customers	26,355,243	5,586,481	3,303,400	255,736	6,650,740	42,151,600
Due to banks	49	-	-	-	-	49
Loans payable	-	-	1,383,135	-	-	1,383,135

	2007 ($'000)					
	Within One month	One to 3 months	Three to 12 months	One to 5 years	over 5 years	Carrying amount
Other liabilities	-	372,677	-	-	-	372,677
Due to customers	26,912,475	4,793,056	1,935,267	296,108	4,029,979	37,966,885
Due to banks	48	-	-	-	-	48
Loans payable	18,518	324,250	684,500	-	-	1,045,268

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Liquidity risk (cont'd):

There has been no change to the Group's approach to managing their liquidity risk.

(d) Operational risk:

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than financial risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to its reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to identify operational risk is assigned to senior management. This responsibility is supported by overall Group standards for the management of operational risk in the following areas:

- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

(e) Insurance risk

(i) Overview:

The management of insurance and financial risk is a critical aspect of the management of the Group's business. The primary insurance activity carried out is the transfer of risk from persons or entities that are directly subjected to the risk, by means of the sale of insurance policies. The subsidiaries are exposed to uncertainty surrounding the timing, frequency and severity of claims under these policies.

The principal types of policy written by the subsidiaries are:

- Property insurance
- Motor insurance
- Other insurance

The Group manages insurance risk through its underwriting policy that includes, *inter alia*, authority limits, approval procedures for transactions that exceed set limits, pricing guidelines and the centralised management of reinsurance. The Group monitors insurance risk exposures both for individual and portfolio types of risks.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(e) Insurance risk (cont'd):

(i) Overview (cont'd):

Underwriting strategy:

Insurance subsidiaries assume risk through the insurance contracts they underwrite and the exposures are associated with both the perils covered by the specific line of insurance and the specific processes associated with the conduct of the insurance business. The Group manages the individual risk to determine the insurability of risks and exposure to large claims. The Group follows detailed, uniform underwriting practices and procedures designed to properly assess and qualify risks before issuing coverage. The Group underwriting guidelines also outline acceptance limits and the appropriate levels of authority for acceptance of risks.

Reinsurance strategy:

In the normal course of business, the Group seeks to reduce the losses that may result from catastrophe or other events that cause unfavourable underwriting results, by reinsuring certain levels of risk with other insurers. Reinsurance ceded does not discharge the Group's obligations as the principal insurer. Failure of reinsurers to honour their obligations could result in losses to the Group. Consequently, a contingent liability exists in the event that an assuming reinsurer is unable to meet its obligations. The Group mitigates this risk by evaluating the financial condition of its reinsurers on a continuing basis.

A comprehensive reinsurance programme is critical to the financial stability of the organisation and a detailed analysis of the Group's exposures, reinsurance needs and quality of reinsurance securities is conducted by senior management.

The Group's exposures are continually evaluated by management to ensure that its reinsurances remain adequate and mechanisms are in place to continually monitor the rating of reinsurance providers.

Under the 2008/2009 reinsurance treaties, the insurance subsidiary retains risk to a basic maximum of US$25,000 on any property claim, J$3,000,000 on any liability claim, and J$5,000,000 on any motor claim. The reinsurance has an upper event limit of US$137,305,000 in respect of earthquake and US$98,075,000 in respect of hurricane, and covers a further US$14,700,000 for earthquake and US$10,200,000 for hurricane, in respect of the Group's net exposure in the event of a catastrophe.

(ii) Terms and conditions of general insurance contracts and associated risks:

The table below provides an overview of the terms and conditions of general insurance contracts written by the Group and the key factors upon which the timing and uncertainty of future cash flows of these contacts depend:

Types of contract	Terms and conditions	Key factors affecting future cash flows
Property	Property insurance indemnifies, subject to any limits or excesses, the policyholder against the loss or damage to their own material property and business interruption arising from this damage.	The risk on any policy varies according to many factors such as location, safety measures in place and the age of the property. The event giving rise to a claim for damage to buildings or contents usually occurs suddenly (as for fire and burglary) and the cause is easily determinable. Therefore, claims are generally notified promptly and can be settled without delay (an exception to this is in relation to land subsistence claims). Property business is therefore classified as "short-tailed" and expense deterioration and investment return is of less importance in estimating provisions. The cost of repairing or rebuilding assets, of replacement of or indemnity for contents and the time taken to restart or resume operations to original levels for business interruption losses are the key factors influencing the level of claims under these policies.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(e) Insurance risk (cont'd):

(ii) Terms and conditions of general insurance contracts and associated risks (cont'd):

Types of contract	Terms and conditions	Key factors affecting future cash flows
Motor	Motor insurance contracts provide cover in respect of policyholders' private vehicles and their liability to third parties in respect of damage to property and injury. The exposure on motor insurance contracts is normally limited to the replacement value of the vehicle and a policy limit in respect of third party damage.	In general, claims reporting lags are minor and claim complexity is relatively low. The number of claims is correlated with the price of fuel, exchange rates and economic activity, which affect the amount of traffic activity.
Other	Other insurance contracts provide cover in respect of general accident, mortgage indemnity, engineering and liability.	The risk on any policy varies according to many factors such as the type of injury sustained, safety measures put in place, the type of industry that the business operates and the size of the business. The events giving rise to a claim are rare and the causes can be easily determined.

(iii) Risk management approach:

Property contracts:

The risks relating to property contracts are managed primarily through the pricing and underwriting processes. The Group uses strict underwriting criteria to ensure that the risk of loss is acceptable. Furthermore, the Group accepts property insurance risks for one year so that each contract can be re-priced on renewal to reflect the evolving risk profile.

Motor and other contracts:

The risks relating to motor and other contracts are also managed primarily through the pricing and underwriting processes. The Group monitors and reacts to changes in trends of injury awards, litigation and the frequency of claims appeals.

Risk exposure and concentrations of risk:

The following table shows the Group's exposure to general insurance risk (based on the carrying value of insurance provisions at the reporting date) per major category of business.

	2008			
	Property	Motor	Other	Total
Gross	392,298	208,332	179,355	779,985
Net of reinsurance	39,271	207,431	48,787	295,489

	2007			
	Property $	Motor $	Other $	Total $
Gross	375,795	229,234	131,331	736,360
Net of reinsurance	45,050	228,187	39,703	312,940

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(e) Insurance risk (cont'd)

Claims development:

Claims development information is disclosed in order to illustrate the insurance risk inherent in the Group. The top part of the table shows how the estimates of total claims for each accident year develop over time. The estimates are increased or decreased as losses are paid and more information becomes known about the severity of unpaid claims. The lower part of the table provides a reconciliation of the total provision included in the balance sheet and the estimate of cumulative claims.

	Accident year						
	2003	2004	2005	2006	2007	2008	Total
	J$'000	J$'000	J$'000	J$'000	J$'000	J$'000	J$'000
Estimate of cumulative claims							
at end of accident year	94,982	116,046	136,769	194,950	126,263	100,408	-
-one year later	83,869	107,382	135,166	181,801	-	-	-
-two years later	84,527	109,989	127,374	-	-	-	-
-three years later	83,800	97,173	-	-	-	-	-
-four years later	81,826	-	-	-	-	-	-
-five years later	-	-	-	-	-	-	-
Estimate of cumulative claims	81,826	97,173	127,374	181,801	126,263	100,408	666,884
Cumulative payments to date	(71,248)	(85,109)	(97,931)	(123,628)	(84,409)	(50,793)	(518,057)
Claims liability at end of year	10,578	12,064	29,443	58,173	41,854	49,615	148,827

Exposure to credit risk:

The Group's key areas of exposure to credit risk include:

- debt securities, and cash and cash equivalents;
- amounts due from policyholders;
- amounts due from intermediaries;
- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of payments already made to policyholders.

The nature of the Group's exposures to insurance-related credit risk and its objectives, policies and processes for managing credit risk have not changed significantly from the prior period.

Credit ratings are not publicly available for any assets with credit risk, except for reinsurance assets. The credit ratings at year end were as follows:

	AA	A	Total
	$'000	$'000	$'000
December 31, 2008	121,124	363,733	484,857
December 31, 2007	127,026	296,394	423,420

The carrying amounts of financial assets and cash and cash equivalents do not include any asset that is either past due or impaired.

The Group has no financial assets or reinsurance assets that have been renegotiated.

The Group does not hold any collateral for its premiums receivable.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(e) Insurance risk (cont'd)

Concentrations of credit risk:

The specific concentration of risk from counterparties where premiums receivable from any one counterparty or group of connected counterparties is 10% or more of total premiums receivable at the year end is as follows:

	2008 $'000	2007 $'000
Billy Craig Insurance Brokers	2,515	-
General Accident Insurance Co.	-	2,683
Thwaites Finson Sharp Insurance Brokers	-	3,807
Zenith Insurance Brokers	-	1,030

6. CAPITAL RISK MANAGEMENT

Capital risk is the risk that the Group fails to comply with mandated regulatory requirements, resulting in a breach of capital adequacy ratios and the possible suspension or loss of one or more licenses. The objectives when managing capital, which is a broader concept than the 'equity' on the face of the balance sheet, are:

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

(a) The Financial Services Commission monitors compliance with the capital requirements established for the general insurance subsidiary. The Regulations require the subsidiary maintain a certain minimum level of assets, capital and surplus to meet its liabilities. The company is solvent and adequately capitalized when the available assets are equal to at least 135% (2007: 120%) of the required assets (as defined).

At December 31, 2008, the general insurance subsidiary's available assets were 122.16% (2007: 124.44%) of the required assets.

(b) The Financial Services Commission also monitors compliance with the capital requirements established for the subsidiary involved in non-deposit taking financial services. The Regulations require that the subsidiary maintains a minimum total capital to risk weighted assets of 14%.

The subsidiary's regulatory capital position as at the balance date was as follows:

	2008 $'000	2007 $'000
Tier 1 Capital		
Ordinary share capital	115,000	30,000
Retained earnings	360,647	312,167
Current year to date profit	60,934	48,480
	536,581	390,647
Less: Revaluation reserves	(270,006)	(25,791)
Intangible assets	(13,763)	(15,905)
Total Tier 1 Capital	252,812	348,951
Tier 2 Capital		
Preference Shares (perpetual cumulative)	-	10,000
Total qualifying capital	252,812	358,951
Risk weighted assets		
Deposits & other amounts due from local banks	2,208	7,760
Equity investments	3,858	22,637
Property, plant and equipment	7,295	4,335
Other assets	424,168	257,498
Foreign exchange exposure	1,427,719	145,942
	1,865,248	438,172
Capital ratios:		
Total regulatory qualifying capital expressed as a percentage of total risk weighted assets	13.6%	81.9%
Total Tier 1 Capital expressed as a percentage of total risk weighted assets	13.6%	79.6%

6. CAPITAL RISK MANAGEMENT (CONT'D)

(c) Bank of Jamaica requires that building societies maintain a minimum of 10% of their risk weighted assets in capital.

	Society	
	2008	2007
	$'000	$'000
Capital base (note 27)	3,940,164	3,552,556
Qualifying capital	3,903,088	3,466,367
On balance sheet risk weighted assets	21,211,991	17,264,843
Off balance sheet risk weighted assets – Loan commitments	2,520,094	3,384,614
Foreign exchange exposure	665,142	1,156,773
Total risk assessed assets	24,397,227	21,806,230
Risk based capital adequacy ratio	16.00%	15.90%
Regulatory requirement	10.00%	10.00%

7. CASH AND CASH EQUIVALENTS

	Group		Society	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Cash in hand and at banks and other financial institutions	1,456,177	2,301,253	1,401,296	2,196,492
Statutory reserves held at Bank of Jamaica	407,328	1,309,555	407,328	1,309,555
Term deposits at banks [see notes 24(a) and (b)]	6,441,589	5,742,823	6,441,589	5,742,823
	8,305,094	9,353,631	8,250,213	9,248,870

Statutory reserves, required by regulation to be held at Bank of Jamaica, comprise cash reserves not available for use by the Society and are determined by the percentage of specified liabilities stipulated by Bank of Jamaica (see note 2). For the rate to remain at no more than one percent of specified liabilities, as defined, the Society must have qualifying assets of a stipulated percentage of the specified liabilities, currently 40%.

8. INVESTMENTS - JAMAICA GOVERNMENT SECURITIES

These are securities issued, or guaranteed, by Government of Jamaica and comprise the following:

	Group		Society	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Held-to-maturity securities:				
Securities denominated in United States dollars:				
Bonds	472,576	407,056	-	-

8. INVESTMENTS - JAMAICA GOVERNMENT SECURITIES (CONT'D)

	Group		Society	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
b/forward				
Held to maturity securities	472,576	407,056	-	-
Available-for-sale securities:				
Securities denominated in United States dollars:				
Bonds	1,026,932	3,835,907	651,639	2,438,372
Securities denominated in Jamaica dollars:				
Bonds	2,083,164	2,582,070	2,020,527	2,403,325
Debentures	2,233,387	1,913,141	179,746	684,353
Treasury bills	80,409	388,826	-	368,389
Local registered stock	645,407	900,444	358,868	466,275
	5,042,367	5,784,481	2,559,141	3,922,342
	6,541,875	10,027,444	3,210,780	6,360,714
Loans and receivables:				
Bonds	3,109,624	-	2,939,472	-
	9,651,499	10,027,444	6,150,252	6,360,714

In the previous year, the Society sold some of its held-to-maturity securities. In keeping with IAS 39, the remaining securities were reclassified to available-for-sale and the Society is restricted from classifying any financial assets as held-to-maturity for the next two financial years [note 26 (v)].

Government securities mature, in relation to the balance sheet date, as follows:

	Group		Society	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Within 3 months	445,835	429,964	336,695	359,252
From 3 months to 1 year	991,947	1,244,346	494,570	835,363
From 1 year to 5 years	4,359,412	4,534,837	2,637,320	3,465,625
Thereafter	3,854,305	3,818,297	2,681,667	1,700,474
	9,651,499	10,027,444	6,150,252	6,360,714

Certain Government of Jamaica securities are pledged by a subsidiary as collateral for repurchase agreements (note 22) and by the Society for loans payable [note 24 (b)].

8. INVESTMENTS - JAMAICA GOVERNMENT SECURITIES (CONT'D)

Reclassification of financial assets

As at October 1, 2008, the Group reclassified certain investment securities previously included in available-for-sale to loans and receivables in accordance with paragraph 50(E) of IAS 39. The standard requires that the reclassification be made at the fair value of the assets at the date of the reclassification. This followed the crisis in the financial sector worldwide and the failure of some broker/dealers overseas, who were extensively involved in the marketing of the Government of Jamaica Global Bonds.

	Carrying value 2008	Fair value 2008	Carrying value 2007	Fair value 2007
	$'000	$'000	$'000	$'000
Group				
Securities:				
US$ denominated GOJ				
Global bonds	4,285,966	4,386,775	3,139,770	3,376,371
EURO denominated GOJ				
Global bonds	1,360,264	1,360,264	-	-
Society				
Securities:				
US$ denominated GOJ				
Global bonds	1,879,946	1,980,755	1,888,952	2,151,382

(a) Fair value gains/(losses), excluding deferred taxation of ($368,191,924) (2007: $288,257,393) for the Group and ($161,620,274) (2007: $262,429,289) for the Society, were recognized in equity in relation to the above investment securities reclassified during the year.

(b) Fair value losses of $1,470,338,005 for the Group and $274,445,576 for the Society, excluding deferred taxation, would have been included in equity for the year had the investments not been reclassified. This amount was estimated on the basis of the mid-price of the securities as at December 31, 2008. Management believes that this price is not necessarily indicative of the amount that would have obtained if an active market for the securities existed at that date.

(c) The weighted average effective interest rate of the investment securities at the date of reclassification was 9.76% for US$ denominated securities and 10.50% for EURO denominated securities, for the Group, and 10.66% for US$ denominated securities for the Society. The undiscounted cash flows to be recovered from the investment securities reclassified is $7,105,965,502 for the Group and $3,205,734,552 for the Society.

9. INVESTMENTS – OTHER

	Group		Society	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Loans and receivables:				
Bank deposits	333,491	1,037,424	46,200	10,333
Bonds	3,766,285	-	-	-
Available-for-sale:				
Bonds	975,169	879,420	975,169	879,420
Treasury bills	112,044	1,481,849	112,044	1,481,849
Ordinary shares - quoted	49,132	294,300	41,490	266,198
Ordinary shares - unquoted	39	39	39	39
Units in unit trusts	5,458	5,358	5,458	5,358
	5,241,618	3,698,390	1,180,400	2,643,197

Bank deposits include certificates of deposit issued by Bank of Jamaica.

Other investments mature, in relation to the balance sheet date, as follows:

	Group		Society	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
No maturity	100,830	240,486	93,188	212,384
Within 3 months	360,394	152,331	112,044	138,159
3 months to 1 year	124,761	1,954,663	21,393	1,413,234
From 1 year to 5 years	2,042,878	1,151,356	695,646	679,866
Thereafter	2,612,755	199,554	258,129	199,554
	5,241,618	3,698,390	1,180,400	2,643,197

10. RESALE AGREEMENTS

Government and corporate securities are purchased under agreement to resell them on a specified date and at a specified price ('resale agreements' or 'reverse repos'). On paying cash to the counterparty, possession of the underlying securities is sometimes taken, although title is not formally transferred unless that counterparty fails to repurchase the securities on the date specified or to honour other conditions.

	Group		Society	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Denominated in Jamaica dollars	1,240,776	2,555,305	666,000	1,476,063
Denominated in United States dollars	2,094,876	2,420,261	1,234,743	1,065,629
	3,335,652	4,975,566	1,900,743	2,541,692

Under resale agreements, the securities obtained as collateral may themselves be sold under repurchase agreements (see note 22). At December 31, 2008, securities with such permission that the Group and the Society held had a fair value of $3,777,034,095 (2007: $5,604,309,000) and $2,541,816,000 (2007: $2,906,893,000), respectively.

11. LOANS

(a) Loans:

	Group 2008 $'000	Group 2007 $'000	Society 2008 $'000	Society 2007 $'000
Conventional mortgage loans	27,790,677	19,918,195	27,857,492	19,918,195
Mortgage escrow (see below)	410,918	350,233	410,918	350,233
Provision for losses	(69,725)	(68,747)	(69,725)	(68,747)
Net conventional mortgage loans	28,131,870	20,199,681	28,198,685	20,199,681
Share loans	175,595	142,425	175,619	142,425
Other loans	458,886	199,414	384,467	190,140
Provision for losses	-	-	-	-
Net other loans	458,886	199,414	384,467	190,140
Total loans, net	28,766,351	20,541,520	28,758,771	20,532,246

Mortgage escrow

This represents insurance premiums paid by the Society on behalf of mortgagors. These amounts are recoverable over one year and are collected as part of monthly mortgage repayments.

(b) Provision for loan loss:

	Group and Society 2008 $'000	Group and Society 2007 $'000
Balances at the beginning of the year	68,747	76,645
Charged against income during the year	978	12,130
Provision no longer required	-	(20,028)
Balances at the end of the year	69,725	68,747

(c) Credit facility reserve:

	Group and Society 2008 $'000	Group and Society 2007 $'000
Regulatory loan loss provision	457,946	345,784
Less: Provision based on IAS 39 [see (b) above]	(69,725)	(68,747)
Balances at end of year	388,221	277,037

The loan loss provisions in excess of the provisioning requirements of IFRS have been transferred to a non-distributable credit facility reserve [note 26(iv)].

11. LOANS (CONT'D)

(d) Loan principal repayments and mortgage escrow payments are projected to be received, in relation to the balance sheet date, as follows:

	Group		Society	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Within three months	36,181	582,890	36,181	582,890
3 months to 1 year	333,746	391,857	326,165	382,583
1 year to 5 years	1,099,111	1,909,916	1,099,111	1,909,916
Thereafter	27,297,313	17,656,857	27,297,314	17,656,857
	28,766,351	20,541,520	28,758,771	20,532,246

12. OTHER ASSETS

	Group		Society	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Interest receivable	692,014	501,855	423,289	358,730
Premiums receivable	-	26,131	-	-
Clients funds	-	30,833	-	-
Income tax recoverable	90,150	208,468	48,908	132,005
Sundry receivables, deferrals and prepayments	705,160	676,470	150,874	237,461
	1,487,324	1,443,757	623,071	728,196

Sundry receivables, deferrals and prepayments does not include any amount in connection with capital expenditure (2007: $2,301,160) [note 37(b)].

13. DEFERRED TAX ASSETS AND LIABILITIES

(a) Deferred tax assets:

Deferred tax assets are attributable to the following:

	Group		Society	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Investments	135,003	12,896	-	
Other receivables	(86,942)	(49,246)	-	-
Property, plant and equipment	(2,076)	(1,444)	-	-
Employee benefit asset	299	181	-	-
Other liabilities	51,672	41,643	-	-
Employee benefit obligation	3,100	2,400	-	-
Unrealised foreign exchange (gains)/losses	(53,080)	600	-	-
Utilised tax value of loss carry forwards	49,102	-	-	-
	97,078	7,030	-	

13. DEFERRED TAX ASSETS AND LIABILITIES (CONT'D)

(a) Deferred tax assets (cont'd):

Movement in temporary differences during the year for the Group:

	Balance at Jan 1, 2008 $'000	Recognised in income $'000	Recognised in equity $'000	Balance at Dec 31, 2008 $'000
Investments	12,896	-	122,107	135,003
Other receivables	(49,246)	(37,696)	-	(86,942)
Property, plant and equipment	(1,445)	(631)	-	(2,076)
Employee benefit asset	181	118	-	299
Other liabilities	41,644	10,028	-	51,672
Employee benefit obligation	2,400	700	-	3,100
Unrealised foreign exchange losses	600	(53,680)	-	(53,080)
Utilised tax value of loss carry-forwards	-	49,102	-	49,102
	7,030	32,059	122,107	97,078

Deferred tax assets of $6,296,495 (2007: $15,844,000) have not been recognised in respect of tax losses of certain subsidiaries [note 34(b)]. As at this time, management does not consider that it is probable that future taxable profits will be available against which the asset will be realised.

(b) Deferred tax liabilities:

Deferred tax liabilities are attributable to the following:

	Group 2008 $'000	Group 2007 $'000	Society 2008 $'000	Society 2007 $'000
Investment	(8,786)	(33,289)	-	(26,011)
Investment properties	23,033	(18,815)	23,033	(18,815)
Other receivables	(164,576)	(122)	(164,565)	-
Employee benefit asset	(237,668)	(249,161)	(240,333)	(252,167)
Property, plant and equipment	43,993	9,747	43,357	10,286
Other liabilities	92,921	14,656	92,921	14,656
Employee benefit obligation	48,967	42,867	48,967	42,867
	(202,116)	(234,117)	(196,620)	(229,184)

Movement in temporary differences during the year:

13. DEFERRED TAX ASSETS AND LIABILITIES (CONT'D)

(b) Deferred tax liabilities (cont'd):

Group:

	Balance at Jan 1, 2008 $'000	Recognised in income $'000	Recognised in equity $'000	Balance at Dec 31, 2008 $'000
Investments	(33,289)	(1,508)	26,011	(8,786)
Investment properties	(18,815)	41,848	-	23,033
Other receivable	(122)	(164,454)	-	(164,576)
Employee benefit asset	(249,161)	11,493	-	(237,668)
Property, plant and equipment	9,747	34,246	-	43,993
Other liabilities	14,656	78,265	-	92,921
Employee benefit obligation	42,867	6,100	-	48,967
Tax value of losses carried forward	-	-	-	-
	(234,117)	5,990	26,011	(202,116)

Society:

	Balance at Jan 1, 2008 $'000	Recognised income $'000	Recognised equity $'000	Balance at Dec 31, 2008 $'000
Investments	(26,011)	-	26,011	-
Investment properties	(18,815)	41,848	-	23,033
Employee benefits asset	(252,167)	11,834	-	(240,333)
Property, plant and equipment	10,286	33,071	-	43,357
Other liabilities	14,656	78,265	-	92,921
Other receivables	-	(164,565)	-	(164,565)
Employee benefit obligation	42,867	6,100	-	48,967
	(229,184)	6,553	26,011	(196,620)

No deferred tax liability, in respect of the undistributed profits of subsidiaries amounting to $523,776 (2007: $42,356,000), has been recognised as the Society controls whether the liability will be incurred, and it is satisfied t hat a liability will not be incurred in the foreseeable future.

14. EMPLOYEE BENEFIT ASSET/OBLIGATION

The Group provides for post-retirement pension benefits through a defined-contribution pension scheme, administered by a life assurance company and defined-benefit pension scheme, administered by trustees. All the schemes are funded by contributions from the Group and employees in accordance with the rules of the schemes.

The defined-contribution scheme is closed to new entrants and there are no further contributions. Under this scheme, retirement benefits are based on the Group's and employees' accumulated contributions plus interest and, therefore, the Group has no further liability to fund benefits.

The defined-benefit pension scheme, under which retirement benefits are calculated by reference to, *inter alia*, final salary, was most recently actuarially valued as at December 31, 2008.

14. EMPLOYEE BENEFIT ASSET/OBLIGATION (CONT'D)

The Group also provides post-retirement medical benefits to retirees.

The amount in the balance sheet in respect of the defined-benefit pension plans and post retirement medical benefits are as follows:

	Group		Society	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Employee benefit asset (i)	721,000	756,500	721,000	756,500
Post-retirement medical benefit obligation (ii)	163,100	142,700	146,900	128,600

(i) Employee benefit asset:

(a) Amount recognised in the balance sheet:

	Group and Society	
	2008 $'000	2007 $'000
Present value of funded obligations	(1,120,400)	(1,048,200)
Fair value of scheme assets	2,463,400	2,380,900
	1,343,000	1,332,700
Unrecognised actuarial gains	(460,900)	(576,200)
Unrecognised amount of scheme assets due to limitation in economic benefit	(161,100)	-
	721,000	756,500
Scheme assets consist of the following:		
Equity securities	93,000	281,000
Government securities	1,936,700	1,455,500
Resale agreements	5,000	305,300
Property investments	52,200	48,000
Net current assets	376,500	291,100
	2,463,400	2,380,900

14. EMPLOYEE BENEFIT ASSET/OBLIGATION (CONT'D)

(i) Employee benefit asset (cont'd):

(b) Movements in the net assets recognised in the balance sheet:

	Group and Society	
	2008 $'000	2007 $'000
Net asset at January 1	756,500	658,100
Contributions paid	4,300	4,200
(Expense)/income recognised in the statement of revenue	(39,800)	94,200
Net assets at December 31	721,000	756,500

(c) Movement in scheme assets:

	2008	2007
Fair value of scheme assets January 1	2,380,900	2,023,600
Contributions paid into the scheme	30,500	30,200
Benefits paid by the scheme	(66,600)	(89,000)
Expected return on scheme assets	259,900	199,400
Actuarial gain/(loss) on plan assets	(141,300)	216,700
Fair value of scheme assets December 31	2,463,400	2,380,900

(d) Income recognised in the statement of revenue and expenses:

	Group and Society	
	2008 $'000	2007 $'000
Current service costs	23,100	28,800
Interest on obligation	138,000	128,900
Expected return on scheme assets	(259,900)	(199,400)
Net actuarial gain recognised	(22,500)	(18,600)
Change in disallowed asset	161,100	-
Gain on curtailment/settlement	-	(33,900)
	39,800	(94,200)
Actual return on plan assets	13.00%	11.00%

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	2008 %	2007 %
Discount rate at December 31	16.0	13.0
Expected return on plan assets at December 31	13.0	11.0
Future salary increases	12.5	10.0
Future pension increases	8.5	5.0

14. EMPLOYEE BENEFIT ASSET/OBLIGATION (CONT'D)

(e) Historical information:

Defined benefit pension plan:

	2008 $'000	2007 $'000	2006 $'000	2005 $'000	2004 $'000
Present value of the defined benefit	(1,120,400)	(1,048,200)	(1,080,100)	(877,100)	(759,700)
Fair value of plan assets	2,463,400	2,380,900	2,023,600	1,919,300	1,732,900
	1,343,000	1,332,700	943,500	1,042,200	973,200
Experience adjustments arising on plan liabilities	26,700	26,100	(9,600)	4,900	7,400
Experience adjustments arising on plan assets	(141,300)	216,700	(75,800)	12,900	369,600

(ii) Employee benefit obligation:

The employee benefit obligation represents the present value of the constructive obligation to provide medical benefits.

(a) Obligation recognised in the balance sheet:

	Group		Society	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Present value of obligations	130,900	122,400	116,900	110,000
Unrecognised actuarial gain	32,200	20,300	30,000	18,600
	163,100	142,700	146,900	128,600

(b) Movements in the obligation recognised in the balance sheet:

	Group		Society	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Balance at beginning of year	142,700	127,600	128,600	116,500
Contributions paid	(600)	(1,700)	(1,900)	(1,700)
Expense recognised in the revenue and expenses account	21,000	16,800	20,200	13,800
Balance at end of year	163,100	142,700	146,900	128,600

14. EMPLOYEE BENEFIT ASSET/OBLIGATION (CONT'D)

(ii) Employee benefit obligation (cont'd):

(c) Expense recognised in the statement of revenue and expenses accounts:

	Group		Society	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Actuarial losses	(500)	3,800	(500)	3,800
Current service costs	6,900	8,100	5,800	6,500
Gains on curtailment	-	(10,600)	-	(10,600)
Interest on obligations	15,900	15,500	14,900	14,100
	22,300	16,800	20,200	13,800

(d) Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	2008	2007
	%	%
Discount rate	16.0	13.0
Medical claims growth	15.0	12.0

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at age 65 is 21 years for males and 26 years for females.

The overall expected long-term rate of return on assets is 10 percent. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

The Group expects to pay $4,300,000 in contributions to the defined-benefit schemes in 2009.

(e) Post-employment medical benefits:

	2008	2007	2006	2005	2004
	$'000	$'000	$'000	$'000	$'000
Present value of the defined benefit obligation:					
Group	131,400	122,400	126,900	95,000	96,700
Directors' pension plan	18,800	14,300	13,000	11,000	9,600
Concessionary mortgage loans	2,200	1,400	1,400	1,000	1,000
Fair value of plan assets	152,400	138,100	141,300	107,000	107,300
Experience adjustments arising on plan liabilities:					
Group	13,400	15,800	(3,800)	21,900	1,900
Directors' pension plan	(2,676)	800	(300)	(100)	800
Concessionary mortgage loans	(1,184)	40	(400)	(100)	(100)
	9,540	16,640	(4,500)	21,700	2,600

14. EMPLOYEE BENEFIT ASSET/OBLIGATION (CONT'D)

(ii) Employee benefit obligation (cont'd):

(e) Post-employment medical benefits (cont'd):

Assumed health care cost trends have a significant effect on the amounts recognised in profit or loss. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

	Group		Society	
	One percentage point increase	One percentage point decrease	One percentage point increase	One percentage point decrease
Effect on the aggregate service and interest cost	6,900	(5,100)	5,800	(4,200)
Effect on the defined benefit obligation	30,900	(23,500)	27,400	(20,800)

15. INTEREST IN SUBSIDIARIES

	Society	
	2008 $'000	2007 $'000
Shares, at cost [see note 1(b)]	232,566	232,566
Current accounts	74,615	32,889
	307,181	265,455

16. INTANGIBLE ASSETS

	Group		Society	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
(a) Goodwill arising on consolidation				
At beginning and end of the year	7,940	7,940	-	-
(b) Computer software (see below)	98,333	127,652	80,851	105,631
	106,273	135,592	80,851	105,631

16. INTANGIBLE ASSETS (CONT'D)

(b) Computer software

	Group			Society		
	Computer software $'000	Improvements in progress $'000	Total $'000	Computer software $'000	Improvements in progress $'000	Total $'000
Cost:						
December 31, 2006	124,535	-	124,535	99,636	-	99,636
Additions	16,407	86,001	102,408	6,254	86,001	92,255
December 31, 2007	140,942	86,001	226,943	105,890	86,001	191,891
Transfer from property plant and equipment	343	-	343	-	-	-
Transfer from improvements in progress	84,165	-	84,165	84,165	-	84,165
Additions	2,423	50	2,473	-	50	50
Transfer to computer software	-	(84,165)	(84,165)	-	(84,165)	(84,165)
Transfer to property plant and equipment	-	(1,836)	(1,836)	-	(1,836)	(1,836)
December 31, 2008	227,873	50	227,923	190,055	50	190,105
Depreciation:						
December 31, 2006	81,774	-	81,774	73,842	-	73,842
Charge for year	17,517	-	17,517	12,418	-	12,418
December 31, 2007	99,291	-	99,291	86,260		86,260
Transfer of depreciation from property plant and equipment	245	-	245	-	-	-
Charge for year	30,054	-	30,054	22,994	-	22,994
December 31, 2008	129,590	-	129,590	109,254	-	109,254
Carrying value:						
December 31, 2008	98,283	50	98,333	80,801	50	80,851
December 31, 2007	41,651	86,001	127,652	19,630	86,001	105,631

17. INVESTMENT PROPERTIES

	Group $'000	Society $'000
Cost:		
December 31, 2006	257,249	374,569
Additions	13,979	13,979
December 31, 2007	271,228	388,548
Additions	6,881	6,881
Transfer to property, plant and equipment	(7,063)	(7,063)
December 31, 2008	271,046	388,366
Depreciation:		
December 31, 2006	26,571	26,571
Charge for the year	5,575	5,575
December 31, 2007	32,146	32,146
Charge for the year	5,577	5,577
December 31, 2008	37,723	37,723
Net book values:		
December 31, 2008	233,323	350,643
December 31, 2007	239,082	356,401
December 31, 2006	230,678	347,997

Included in investment properties is land at cost of $41,091,000 (2007: $41,091,000) for the Group, net of intra-group profit of $117,320,000 recorded during 2000; and $41,091,000 (2007: $41,091,000) for the Society.

The fair value of investment properties, as determined by Victoria Mutual (Property Services) Limited (note 1), on the open-market value basis in the current and prior years, was $1,304,450,000 (2007: $1,074,000,000) for the Group and the Society.

18. PROPERTY, PLANT AND EQUIPMENT

Group:

	Leasehold and freehold land and buildings $'000	Office furniture and equipment $'000	Motor vehicles $'000	Improvements in progress $'000	Total $'000
Cost:					
December 31, 2006	296,228	739,042	13,570	-	1,048,840
Translation adjustment *	8,303	3,897	-	-	12,200
Revaluation adjustment	(40,606)	-	-	-	(40,606)
Additions	549	39,166	296	10,770	50,781
Disposals	-	(3,442)	(213)	-	(3,655)
December 31, 2007	264,474	778,663	13,653	10,770	1,067,560
Translation adjustment*	(15,674)	(7,532)	-	-	(23,206)
Transfer from improvements in progress	-	7,419	-	-	7,419
Transfer from intangible assets	-	1,836	-	-	1,836
Revaluation adjustment	8,677	-	-	-	8,677
Additions	36	85,708	116	15,369	101,229
Transfer to intangible assets	-	(343)	-	-	(343)
Transfer to office furniture and equipment	-	-	-	(7,419)	(7,419)
Disposals	-	(1,587)	(2,040)	-	(3,627)
December 31, 2008	257,513	864,164	11,729	18,720	1,152,126
Depreciation					
December 31, 2006	53,255	513,351	8,136	-	574,742
Translation adjustment *	556	3,438	-	-	3,994
Charge for year	7,224	57,002	1,787	-	66,013
Eliminated on disposals	-	(3,061)	(213)	-	(3,274)
December 31, 2007	61,035	570,730	9,710	-	641,475
Translation adjustment *	(233)	(6,858)	-	-	(7,091)
Charge for year	7,001	59,959	1,576	-	68,536
Transfer to intangible assets	-	(245)	-	-	(245)
Eliminated on disposals	-	(1,450)	(1,318)	-	(2,768)
December 31, 2008	67,803	622,136	9,968	-	699,907
Net book values:					
December 31, 2008	189,710	242,028	1,761	18,720	452,219
December 31, 2007	203,439	207,933	3,943	10,770	426,085
December 31, 2006	242,973	225,691	5,434	-	474,098

The Group's freehold land and buildings include land at cost of $27,161,792 (2007: $27,161,792).

* The translation adjustment arises from translation of the opening balances of the fixed assets of a foreign subsidiary at exchange rates prevailing at December 31, 2008 which differed from those prevailing at the end of the previous year.

18. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Society:

	Leasehold and freehold land and buildings $'000	Office furniture & equipment $'000	Motor vehicles $'000	Improvement in progress $'000	Total $'000
Cost:					
December 31, 2006	212,743	655,645	13,257	-	881,645
Additions	-	35,713	-	10,770	46,483
December 31, 2007	212,743	691,358	13,257	10,770	928,128
Additions	-	71,455	-	15,369	86,824
Transfers	-	7,419	-	(7,419)	-
Transfer from investment properties	-	7,063	-	-	7,063
Adjustment to capital improvement		1,836	-	-	1,836
Disposal	-	-	(1,644)	-	(1,644)
December 31, 2008	212,743	779,131	11,613	18,720	1,022,207
Depreciation:					
December 31, 2006	36,940	447,232	7,905	-	492,077
Charge for year	4,724	51,274	1,733	-	57,731
December 31, 2007	41,664	498,506	9,638	-	549,808
Charge for year	4,724	54,638	1,547	-	60,909
Disposal	-	-	(1,240)	-	(1,240)
December 31, 2008	46,388	553,144	9,945	-	609,477
Net book values:					
December 31, 2008	166,355	225,987	1,668	18,720	412,730
December 31, 2007	171,079	192,852	3,619	10,770	378,320
December 31, 2006	175,803	208,413	5,352	-	389,568

The Society's freehold land and buildings include land at a cost of $23,807,012 (2007: $23,807,012).

The freehold buildings in Jamaica were appraised for insurance purposes by Victoria Mutual (Property Services) Limited, and the insured value is assumed to approximate market value. The buildings in the United Kingdom were assessed, at open market value, by Colliers, Conrad Ritblat, Erdman, Chartered Surveyors and Property Consultants, as of the balance sheet date.

	Group		Society	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Fair values:				
Jamaica	2,496,100	2,134,100	1,159,150	959,300
United Kingdom	71,525	101,213	-	-

19. SHAREHOLDERS' SAVINGS

	Group		Society	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
B shares	18,027,736	16,726,850	1,842,373	1,608,826
C shares	23,408,533	20,634,386	39,859,078	35,920,008
	41,436,269	37,361,236	41,701,451	37,528,834
Deferred shares [notes 26(i) and 27]	81,192	92,189	81,192	92,189
	41,517,461	37,453,425	41,782,643	37,621,023

Deferred shares are issued on terms that they shall not be withdrawable before the expiration of three years and may be interest bearing.

Included in shareholders' savings are accounts with the following maturity profile:

	Group		Society	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
On demand to 3 months	32,460,778	31,172,305	32,725,960	31,339,903
Three to 12 months	2,156,099	1,997,723	2,074,907	1,905,534
Over 12 months	6,900,584	4,283,397	6,981,776	4,375,586
	41,517,461	37,453,425	41,782,643	37,621,023

20. DEPOSITORS' SAVINGS

	Group		Society	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Due to depositors	369,006	345,910	369,006	345,910
Percentage of the Society's mortgage loan balances			1.30%	1.68%

21. OTHER LIABILITIES

	Group		Society	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Due to reinsurers	285,195	175,348	-	-
Clients funds	20,753	30,833	-	-
Deposits – private treaty sales	18,272	16,337	18,272	16,337
Accrued expenses and other payables	1,533,497	728,766	712,595	356,340
	1,857,717	951,284	730,867	372,677

22. REPURCHASE AGREEMENTS

The Group sells Government and corporate securities and agree to repurchase them on a specified date and at a specified price ('repurchase agreements' or 'repos'). On receiving payment from the purchaser, the underlying securities are sometimes delivered to the purchaser, although title is not formally transferred unless the securities are not repurchased on the date specified or other conditions are not honoured.

	Group		Society	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Denominated in Jamaica dollars	4,243,154	3,586,511	-	-
Denominated in United States dollars	2,933,032	1,962,681	-	-
	7,176,186	5,549,192	-	-

At December 31, 2008, securities obtained under resale agreements and certain investments (see notes 8 and 10) and interest accrued thereon are pledged as collateral for repurchase agreements. These financial instruments have a carrying value of $7,932,023,399 (2007: $6,085,052,000) for the Group.

23. INSURANCE UNDERWRITING PROVISIONS

	Group	
	2008	2007
	$'000	$'000
Unearned premiums	602,596	489,637
Outstanding claims	179,576	264,086
	782,172	753,723

24. LOANS PAYABLE

	Group and Society	
	2008	2007
	$'000	$'000
United States dollar loan [see (a) below]	399,810	342,250
United States dollar loan [see (b) below]	799,595	684,500
Jamaican dollar loan [see (b) below]	156,000	-
	1,355,405	1,026,750
Interest payable	27,730	18,518
	1,383,135	1,045,268

(a) This represents a US$5 million loan, which bears interest at 4.38% per annum. The loan will mature July 31, 2009. The loan is secured by call deposits amounting to £3,938,059 (2007: £3,911,895).

(b) This comprises three loans:

Loan # 1 - US$5 million which bears interest at 4.25% (2007: 5.86%) per annum payable semi-annually. The loan matures on June 15, 2009 and is secured by term deposits amounting to £4,251,449 (2007: £4,036,000) (see note 7).

Loan #2 - US$5 million which bears interest at 4.01% per annum, payable semi-annually. The loan matures on August 18, 2009 and is secured by term deposits amounting to £5,664,838 (2007: £5,339,000) (see note 7).

Loan #3 - J$156 million which bears interest at 12% per annum payable annually. The loan matures September 30, 2009 and is secured by Government of Jamaica securities amounting to J$160 million [see note 8].

25. PERMANENT CAPITAL FUND

The regulations (see note 2) require that every building society maintain a minimum subscribed capital of $25,000,000. At least four-fifths of such subscribed capital is to be paid up in cash. In view of the non-applicability of "subscribed capital" to a mutual society, and in accordance with an agreement with the Bank of Jamaica, pending passage of appropriate legislation, a "Permanent Capital Fund" has been established in lieu of subscribed capital [see note 26(i)].

26. RESERVES

(i) Reserve fund:

The regulations (see note 2) require the Society to transfer at least 10% of its net surplus after income tax each year to the reserve fund until the amount of the reserve fund is equal to the amount paid up on its Permanent Capital Fund [which, though not formally recognised, is the fund substituted for the capital shares referred to in the regulations (see notes 25 and 27)] and its deferred shares (note 19).

(ii) Retained earnings reserve:

The regulations (see note 2) permit the Society to transfer a portion of its profits to a retained earnings reserve, which constitutes a part of the capital base (see note 27). Transfers of profits to the retained earnings reserve are made at the discretion of the directors, but must be notified to Bank of Jamaica to be effective.

(iii) Capital reserve on consolidation:

Capital reserve on consolidation represents primarily subsidiaries' post acquisition retained earnings capitalised by issuing bonus shares.

(iv) Credit facility reserve:

Credit facility reserve represents provisions for loan loss required under the Building Societies Act in excess of the requirements of IFRS [see notes 4(r) and 11(c)].

(v) Investment revaluation reserve:

Investment revaluation reserve represents cumulative unrealised gains, net of losses, arising from the changes in fair value of available-for-sale investments until the investment is derecognised or impaired.

(vi) Currency translation reserve:

The currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Society's net investment in foreign operations.

27. CAPITAL BASE

	Group and Society	
	2008	2007
	$'000	$'000
Permanent capital fund (note 25)	2,941,630	2,582,885
Reserve fund [note 26(i)]	358,120	318,260
Retained earnings reserve [note 26(ii)]	559,222	559,222
Deferred shares (note 19)	81,192	92,189
Total capital base [note 6(c)]	3,940,164	3,552,556

Capital base has the meaning ascribed in the regulations (see note 2).

28. FINANCIAL INSTRUMENTS

(a) Fair value:

Fair value amounts represent estimates of the arm's length consideration that would be currently agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. Many of the Group's and its subsidiaries' financial instruments lack an available trading market. Therefore, these instruments have been valued using present value or other valuation techniques and the fair values may not necessarily be indicative of the amounts realisable in an immediate settlement of the instruments.

The fair values of cash and cash equivalents, resale agreements, other assets, repurchase agreements, and other liabilities are assumed to approximate their carrying values in view of their short-term nature.

The estimated fair values of loans and other receivables are assumed to be the principal receivable, less any provision for losses.

The fair value of savings fund, which are substantially payable on demand, or after notice, are assumed to be equal to their carrying values.

The fair value of loans payable is assumed to approximate carrying value as the loans are due within the short-term (note 24).

The fair values of investments are as follows:

(i) Investments – Jamaica Government securities:

	Group		Society	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Held-to-maturity securities:				
Securities denominated in United States dollars:				
Bonds	373,104	440,599	-	-
Available-for-sale securities:				
Securities denominated in United States dollars:				
Bonds	1,026,932	3,835,907	651,639	2,438,372
Securities denominated in Jamaica dollars:				
Bonds	2,083,164	2,582,070	2,020,527	2,403,325
Debentures	2,233,387	1,913,141	179,746	684,353
Treasury bills	80,408	388,826	-	368,389
Local registered stock	645,408	900,444	358,868	466,275
	6,069,299	9,620,388	3,210,780	6,360,714
	6,442,403	10,060,987	3,210,780	6,360,714
Loans and receivables:				
Bonds	3,109,624	-	2,939,472	-
	9,552,027	10,060,987	6,150,252	6,360,714

(ii) Investments – Other

	Group		Society	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Loans and receivables:				
Bank deposits	333,491	1,037,424	46,200	10,333
Bonds	3,766,285	-		-
Available-for-sale:				
Treasury bills	112,044	1,481,849	112,044	1,481,849
Bonds	975,169	879,420	975,169	879,420
Ordinary shares - quoted	49,132	294,300	41,490	266,198
Ordinary shares - unquoted	39	39	39	39
Units in unit trusts	5,458	5,358	5,458	5,358
	5,241,618	3,698,390	1,180,400	2,643,197

29. NET INTEREST INCOME

	Group		Society	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Interest income				
Investment securities	2,322,772	2,519,572	1,376,065	1,806,569
Loans to customers	2,936,443	2,078,637	2,933,809	2,076,476
	5,259,215	4,598,209	4,309,874	3,883,045
Interest expense				
Interest on borrowings	62,938	104,408	57,471	93,466
To shareholders	2,795,363	2,307,530	2,115,107	1,802,617
To depositors	56,030	45,148	56,030	45,148
Other	8,725	10,271	8,470	10,017
	2,923,056	2,467,357	2,237,078	1,951,248
Net interest income	2,336,159	2,130,852	2,072,796	1,931,797

30. NET FEE AND COMMISSION INCOME

	Group		Society	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Fee and commission income				
Reinsurance	119,045	90,860	-	-
Customers	33,563	50,922	75,644	18,098
Other	109,365	27,995	33,736	27,995
	261,973	169,777	109,380	46,093
Fee and commission expenses				
Reinsurance	22,831	23,601	-	-
Other	34,139	5,261	48,000	5,126
Inter-bank transaction fees	34,568	28,761	19,866	28,761
	91,538	57,623	67,866	33,887
Net fee and commission income	170,435	112,154	41,514	12,206

31. OTHER OPERATING REVENUE

	Group		Society	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Insurance premiums	714,324	633,621	-	-
Other income	331,035	432,932	288,784	337,647
Rent	30,832	27,283	34,780	32,128
Dividends	25,646	6,457	12,649	6,298
Gain on sale of investments	222,069	75,286	222,069	75,286
Gain on disposal of property, plant and equipment	274	2	274	2
	1,324,180	1,175,581	558,556	451,361

32. PERSONNEL COSTS

	Group		Society	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Salaries	835,013	744,997	647,025	587,542
Pension scheme contributions	4,024	4,316	3,264	3,686
Statutory payroll contributions	97,269	86,648	82,326	71,930
Other	298,174	266,663	266,570	239,952
	1,234,480	1,102,624	999,185	903,110

33. OTHER OPERATING EXPENSES

	Group		Society	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Direct operating expenses for investment property that generated rental income	51,297	39,150	51,297	39,150
Administration	847,689	736,665	893,679	737,365
Audit fees	29,296	23,300	15,150	10,175
Directors' fees [note 36(d)]	14,352	9,820	5,800	4,020
Specific provision for losses	20,834	37,966	20,834	36,437
Underwriting expenses	612,452	560,277	-	-
	1,575,920	1,407,178	986,760	827,147

34. INCOME TAX EXPENSE

(a) Income tax expense is based on the surplus for the year, as adjusted for tax purposes, and is computed at statutory rates of 30% for the Society, 33⅓% for local subsidiaries and 25% for certain foreign subsidiaries [note 34(c)]. In computing taxable income of the Society, transfers to general reserves (as defined in the Income Tax Act) are exempt from income tax if the general reserves after such transfers do not exceed 5% of assets. The charge is made up as follows:

	Group 2008 $'000	Group 2007 $'000	Society 2008 $'000	Society 2007 $'000
(i) Current tax expense:				
Current tax at 30%	94,204	87,700	94,204	87,700
Current tax at 25% and 33⅓%				
- current year	52,427	41,735	-	-
- prior year's	(77)			
under provision	-	(129)	-	-
	146,554	129,306	94,204	87,700
(ii) Deferred tax expense:				
Origination and reversal of temporary differences [notes 13(a) and (b)]	(23,033)	29,631	(6,552)	31,398
Tax benefit of unused tax losses	48,913	9,301	-	-
	25,880	38,932	(6,552)	31,398
Actual tax expense recognised	172,434	168,238	87,652	119,098

(b) At the balance sheet date, taxation losses of certain subsidiaries, subject to agreement by the Commissioner of Taxpayer Audit and Assessment, available for relief against future taxable income, amounted to approximately $523,776 (2007: $42,356,000).

In his April 2006, budget presentation, the Minister of Finance and Planning announced that, instead of indefinitely, the carry forward of taxation losses would be restricted to five years, with effect from January 1, 2007. Up to the date of approval of the financial statements, enabling legislation had not been passed. The amounts disclosed, therefore, do not reflect any change in the current treatment of taxation losses.

(c) Reconciliation of effective tax charge:

The effective tax rate of 18.82% (2007: 20.52%) for the Group and 14.67% (2007: 20.21%) for the Society, that is, the income tax expense as a percentage of the reported surplus, is significantly different from the statutory rates [note 34(a)]. The actual taxation expense differs from the expected taxation expense for the year as follows:

	Group 2008 $'000	Group 2007 $'000	Society 2008 $'000	Society 2007 $'000
Surplus before income tax	852,662	819,680	597,441	589,383
Computed "expected" income tax using local tax rates	264,248	234,721	179,232	176,815
Tax effect of treating the following items differently for taxation and financial statements purposes				
Depreciation charge and capital allowances	(16,368)	(24,875)	(13,856)	(24,887)
Tax exempt income	-	(5,394)	-	1,283
Preference dividends payment	-	(2,847)	-	-
Prior year adjustments	-	-	-	-
Disallowed expenses	4,579	3,010	-	1,206
Unrealised exchange gain	(2,001)	(23,159)	-	(21,827)
Interest receivable	-	2	-	-
Tax losses utilised	-	320	-	-
Interest payable	(1)	(1)	-	-
Other	(78,023)	(13,539)	(77,724)	(13,492)
Actual tax expense	172,434	168,238	87,652	119,098

35. SURPLUS FOR THE YEAR

	Group	
	2008	2007
	$'000	$'000
Dealt with in the financial statements of:		
The Society	509,789	470,285
Subsidiaries	233,984	181,157
	743,773	651,442

In accordance with the policy set out at note 4(a), minority interest has not been allocated a share of the relevant subsidiary's loss.

36. RELATED PARTY TRANSACTIONS

(a) Identity of related parties:

The Society has a related party relationship with its subsidiaries, with its directors, senior officers and executives, as well as those of subsidiaries. The directors, senior officers and executives are collectively referred to as "key management personnel".

(b) The Society's balance sheet includes balances, arising in the ordinary course of business, with related parties, as follows:

	2008	2007
	$'000	$'000
Subsidiaries:		
Resale agreements	266,000	1,745,951
Shareholders' savings	(257,851)	(178,478)
Key management personnel:		
Mortgage loans	39,145	43,541
Other loans	17,532	1,390
Shareholders' savings	(8,365)	(10,940)
Non-executive Directors - mortgage loans	12,867	9,506

Average interest rates charged on balances outstanding are lower than the rates that would be charged in an arm's length transaction.

The mortgages and secured loans granted are secured on property of the respective borrowers. Other balances are not secured and no guarantees have been obtained.

(c) The Society's statement of revenue and expenses includes income earned in/(expenses arising from) transactions with related parties, as follows:

	2008	2007
	$'000	$'000
Directors		
Interest from loans	1,251	1,375
Key management personnel:		
Interest from loans	5,597	1,562
Interest expense	(794)	(297)
Subsidiaries:		
Interest and dividends from investments	128,063	424,553
Interest on loans	13,027	-
Other operating revenue	18,509	14,232
Interest expense	(15,308)	(10,883)
Other operating expenses	(187,631)	(226,702)

36. RELATED PARTY TRANSACTIONS (CONT"D)

(d) Key management personnel compensation:

In addition to directors' fees paid to non-executive directors (note 33), compensation of key management personnel, included in employee costs (note 32), is as follows:

	Group 2008 $'000	Group 2007 $'000	Society 2008 $'000	Society 2007 $'000
Short-term employee benefits	93,500	57,020	85,341	53,457
Long service leave	-	240	-	240
Post employment benefits	548	625	548	625
	94,048	57,885	85,889	54,322

In addition to their salaries, key management personnel are provided with non-cash benefits, as well as post-employment benefits under a defined-benefit pension scheme (note14). In accordance with the rules of the scheme, key management personnel retire at age 62 and may continue to receive medical benefits, at the discretion and approval of the Board of Directors. In the case of preferential staff rates on loans, this benefit continues to age 65 when the rate is adjusted with reference to market.

Non-executive directors, who continuously serve the Board for at least five years and attain the age of 65, receive a pension at a specified percentage of the gross annual average director's fee received during the five years immediately preceding retirement, or alternatively, a gratuity in lieu of pension, based on a multiple of a percentage of the annual pensions.

37. COMMITMENTS

(a) Operating lease commitments at the balance sheet date expire as follows:

	Group 2008 $'000	Group 2007 $'000	Society 2008 $'000	Society 2007 $'000
Within one year after balance sheet date	6,344	6,244	4,994	3,866
Subsequent years	5,549	5,870	9,988	-

(b) Commitments for capital expenditure for the Group and the Society amount to approximately $6,000,000 (2007: $3,000,000) at balance sheet date in respect of total project costs of approximately $1,453,400 (2007: $5,500,000). Of this amount, $Nil (2007: $2,301,160) has already been expended and is included in other assets (note 12).

The group leases a number of branch and office premises under operating leases. The leases typically run for a period of 3 years, with an option to renew the lease after that date. Lease payments are increased every three to five years to reflect market rentals.

38. FOREIGN EXCHANGE RATES

At the balance sheet date for 2007, the average of the buying and selling rates at which the Society traded the Jamaica dollar for the major currencies in which it transacts business were as follows [see note 4(t)]. As at December 31, 2008 the Society used Bank of Jamaica buying rate for all balance sheet balances.

	2008 J$	2007 J$
United States Dollar	79.96	68.45
Canadian Dollar	63.44	68.00
Pound Sterling	114.44	134.95

39. MANAGED FUNDS

Managed funds, which are not beneficially owned by the Group, are not included in the Group's balance sheet, the book value of which amounted to $4,948,335,518 at year-end (2007: $8,776,367,007).

VICTORIA MUTUAL GROUP
For Every Financial Move You Make

2009 Corporate Data

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- Honourable Justice Ian Forte, President of the Court of Appeal (retired)
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- Myers, Fletcher & Gordon
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- Robinson, Phillips & Whitehourne
- Tenn, Russell, Chin-Sang, Hamilton & Ramsey
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- First Caribbean International Bank of Jamaica Ltd.
- Citibank N.A.
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