2007 ANNUAL REPORT

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The VICTORIA MUTUAL
Building Society

Vision Statement

To be the leading provider of financial services.

Mission Statement

To provide exceptional financial services locally, regionally, and internationally to Caribbean nationals through enabling technology, a highly trained and motivated team, to ensure superior customer satisfaction and growth in stakeholder value.

Core Values

Integrity
Teamwork
Innovation
Enthusiasm
Excellence
Respect

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Notice of Annual General Meeting

The One Hundred and Twenty-Ninth Annual General Meeting of The Victoria Mutual Building Society will be held at Nos. 73-75 Half-Way-Tree Road, Kingston 10, on Wednesday, 30 July 2008 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 2007.
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 Society's rules at an Annual General Meeting.

By Order of the Board
29 May 2008

Paulette Francis-Smellie
Secretary

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

Directors' Report

The Directors take pleasure in presenting the One Hundred and Twenty-Ninth Annual Report and Statements of Revenue and Expenditure of the Group and the Society, for the year ended 31 December 2007, 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 $5.94 billion (2006: $5.43 billion) and Net Surplus of $651.44 million (2006: $543.85 million).

Directors

In accordance with Rule 61(1), Mr. Fernando Deperalto and Mrs. Jeanne Robinson-Foster retire and, they being eligible, offer themselves for re-election.

In January 2008, we welcomed to the Board, Dr. Judith Robinson, she having served previously as an Honorary Director. In accordance with Rule 62, Dr. Robinson retires and, being eligible, offers herself for re-election.

Auditors

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

By Order of the Board
29 May 2008

Paulette Francis-Smellie
Secretary

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

Board of Directors

from left to right:

Third row: Rear Admiral Peter Brady, CD., CVO., MMM., J.P.;
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
Second row: Michael McMorris, B.A.; Richard M. Powell, B.A. (Hons); Paul Pennicook, B.Sc., Deputy Chairman; George Dougall, MBA, B.Sc.
First row: Maurice Robinson, LL.B., B.A.; Jeanne P. Robinson-Foster, B.A. (Hons) LL.B (Hons), C.L.E
Roy Hutchinson, O.D., J.P., Chairman; Judith Robinson, Ph.D., F.C.C.A., F.C.A., Paulette Francis-Smellie, LL.B. (Hons), Corporate Secretary

VMBS Management Team

from left to right:

Back row: L to R: Noel Hann, JD, F.A.I.A., M.C.M.I., Senior Vice-President, Group Risk & Compliance

Paulene Lyle, M.Sc., B.Sc. (Hons), PMP, Vice-President, Information Technology

Paulette Francis-Smellie, LL.B. (Hons), Vice-President & Corporate Secretary

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

Beverley Strachan, MBA, B.Sc. (Hons), Dip Ed., Vice-President, Group Human Resources Administration

Allan Lewis, A.S.A., Ed M., MBA, B.Sc., Senior Vice-President, Group Strategy

Hugh Reid, F.C.A., F.C.C.A., FLMI, M.Sc., B.Sc. (Hons), Senior Vice-President & Chief Operating Officer

Seated: L to R: Janice E. McKenley, F.C.C.A., F.C.A., MBA, B.Sc. (Hons), Senior Vice-President & Group Chief Financial Officer

Michelle Wilson-Reynolds, MBA, B.Sc. (Hons), Senior Vice-President, Group Marketing & Corporate Affairs

VM Group Executives

from left to right:

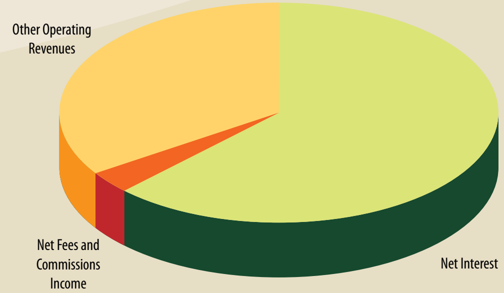
Second row: Devon Barrett, M.B.A., B.Sc., General Manager, Victoria Mutual Wealth Management Ltd.
Brian Campbell, M.B.A., General Manager, Victoria Mutual (Property Services) Ltd.
Janice E. McKenley, F.C.C.A., F.C.A., MBA, B.Sc. (Hons), Senior Vice-President & Group Chief Financial Officer
Ian Rowlands, A.C.I.I., General Manager, Victoria Mutual Insurance Co. Ltd.
Allan Lewis, A.S.A., Ed M., MBA, B.Sc., Senior Vice-President, Group Strategy
Paulene Lyle, M.Sc., B.Sc. (Hons), PMP, Vice-President, Information Technology
Hugh Reid, F.C.A., F.C.C.A., FLMI, M.Sc., B.Sc. (Hons), Senior Vice-President & Chief Operating Officer

First row: Noel Hann, JD, F.A.I.A., M.C.M.I., Senior Vice-President, Group Risk & Compliance
Beverley Strachan, MBA, B.Sc. (Hons), Dip Ed., Vice-President, Group Human Resources Administration
Richard K. Powell, MBA, M.Sc, B.Sc. (Hons), President & Chief Executive Officer
Marlene Parker, B.Sc. (Hons), General Manager, Victoria Mutual Money Transfer Services Ltd.
Michelle Wilson-Reynolds, MBA, B.Sc. (Hons), Senior Vice-President, Group Marketing & Corporate Affairs
Paulette Francis-Smellie, LL.B. (Hons), Vice-President & Corporate Secretary

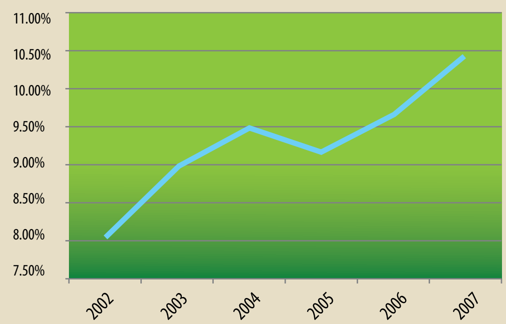
Financial Highlights

GROUP					
BALANCE SHEET	**2007 $'000**	**2006 $'000**	**2005 $'000**	**2004 $'000**	**2003 $'000**
Earning Assets	39,242,920	37,774,059	33,677,714	28,455,867	23,547,314
Total Assets	51,604,597	46,213,878	41,919,577	37,444,544	31,963,266
Loans	20,541,520	14,336,010	12,900,933	10,822,309	8,951,845
Savings Fund	37,799,335	33,694,348	30,401,565	27,210,086	23,056,755
Capital & Reserves	5,111,753	4,257,146	3,635,673	3,290,327	2,582,075
INCOME STATEMENT	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Net Interest Income	2,137,309	2,096,719	1,888,657	1,624,651	1,598,572
Operating Revenue	3,418,587	3,069,569	2,839,550	2,514,827	2,191,918
Operating Expenses	2,598,907	2,412,150	2,418,282	1,846,044	1,817,365
Surplus Before Income Tax	819,680	657,419	525,554	739,677	619,099
Surplus	651,442	543,854	371,337	651,907	467,148
RATIOS					
Return on Capital	17.50%	16.66%	15.47%	25.19%	26.68%
Return on Assets	1.68%	1.49%	1.35%	2.13%	2.15%
Net Interest Margin	5.55%	5.87%	6.08%	6.25%	7.41%
Efficiency Ratio	5.31%	5.47%	6.09%	5.32%	6.31%
Capital & Reserves as a Percentage of Mean Assets	10.45%	9.66%	9.16%	9.48%	8.97%
SOCIETY					
Number of New Loans	1,552	825	1,208	1,124	984
Net Mortgage Disbursements ($'000)	7,138,341	2,579,281	3,276,928	2,578,714	1,753,974

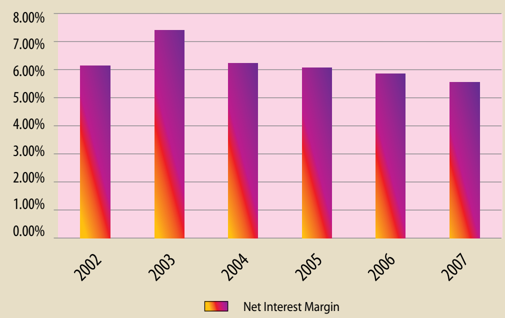
Society's Operating Revenues 2007



Group Capital & Reserves as % of Mean Assets



Group Net Interest Margin



DEFINITIONS USED

Administrative Expenses =	Administration + Fee & Commission Expenses + Personnel Costs
Earning Assets =	Investments + Resale Agreements + Loans
Net Interest Income =	Interest on Loans + Interest & 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 =	Operating Expenses / Average Total Assets

Chairman's Report

To our Members:

In 2007 your Society recorded solid financial results even as global and local economic conditions deteriorated markedly during the final quarter of the year. The outlook for 2008 is challenging and uncertain, as economic growth exhibited by Jamaica's major trading partners has slowed significantly. Moreover, recent high levels of local inflation will make it more difficult for The Victoria Mutual Building Society (VMBS) to improve, the efficiency of our operations significantly.

Although growth is not a primary goal, it is an important plank in the three year strategic plan adopted by your Board of Directors. Briefly, your Society expects to grow the business profitably, while containing costs and improving efficiency. The successful implementation of these strategic objectives will make your Society more competitive and ensure its long term viability.

Equally important, a competitive VMBS is a necessary condition for all the benefits of mutuality to accrue to you, our members. Unlike most of our competitors, VMBS is not a stock company and as a mutual institution, your Directors are primarily concerned about protecting and advancing your interests.

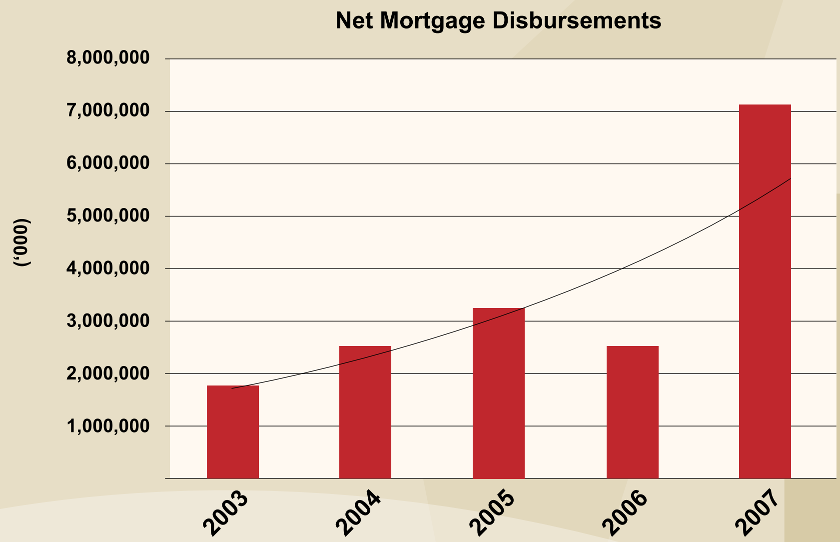
Therefore, the main goals of the Board of Directors and all Victoria Mutual team members are making available to our members, the highest possible interest rates on their savings; and offering the lowest possible interest rates on their mortgage loans. Accordingly, the main objective of our corporate transformation programme initiated in mid-2005 is to achieve significant improvements in the efficiency of our operations, in order to provide more resources that will be returned to our members and other customers by way of superior product and service offerings.

Financial Highlights

As illustrated in the table below, which shows the performance of the VM Group and the Society in key areas, your Society did not increase the level of deposit liabilities in 2007 to the extent desired. Specifically, the Savings Fund amounted to $37.8B as at December 31, 2007, reflecting an 11.2% increase over the prior year. It is our view that the popularity of the various un-registered financial schemes adversely affected our ability to attract significant levels of new customers and savings. The Board of Directors and the Executive Management team have already introduced measures to improve this performance, including the launch of the new iSave product that we expect to attract significant levels of new savings in the medium term.

	2005		2006		2007	
	VM Group	Society	VM Group	Society	VM Group	Society
Pre-tax Surplus ($M)	525.5	409.2	657.4	499.4	819.7	589.4
After-tax Surplus ($M)	371.3	323.8	543.9	403.7	651.4	470.3
Total Assets ($B)	41.9	35.8	46.2	39.5	51.6	43.9
Mortgage Loans ($B)	12.6	12.5	14.0	14.0	20.2	20.2
Deposit Liabilities ($B)	30.4	30.6	33.7	33.8	37.8	38.0
Net interest margin as a percentage of mean assets	6.1	6.3	5.9	6.1	5.6	6.1
Management expenses as a percentage of mean assets	6.1	4.4	5.5	4.4	5.3	4.3
Capital and reserves as a percentage of mean assets	9.2	8.9	9.7	9.1	10.5	10.0

Chairman's Report (Cont'd)



In stark contrast, your Society achieved record levels of mortgage disbursements during 2007. New mortgage advances were approximately $7B, a 180% increase over the prior year. This significant growth in our mortgage portfolio has been achieved without compromising quality, as our mortgage loans in arrears for more than 90 days continue to be well within industry and regulatory standards at less than 4% of the portfolio.

Mortgage demand continues to be strong in 2008, even though we have been forced to increase lending rates, as the general level of interest rates set by the Bank of Jamaica was increased at the beginning of calendar year 2008.

Notwithstanding the improved overall financial performance of your Society illustrated by the $651.4M of after tax Surplus – an increase of just under 20% over the prior year - the spectre of inflation has dampened our expectations for the next 12-18 months. Soaring oil and commodity prices internationally have contributed to rising inflation here in Jamaica. Specifically, inflation for calendar year 2007, as measured by the change in the Consumer Price Index, was 19.9%, up from the benign 5.8% experienced in 2006.

Inflation levels here in Jamaica, being significantly in excess of those exhibited by our major trading partners, are inimical to the interests of our members, the Society and the wider Jamaican community. Inflation will almost inevitably lead to rising interest rates that will prevent, at least in the short term, many of our members from being able to purchase their own homes. It will also result in increased administration costs thus affecting the ability of our organisation to achieve our goals for improving efficiency. Finally, high and rising inflation will adversely affect Jamaica's macro-economic performance, which will affect general living standards for all Jamaicans.

Strategic Business Units

Your Society continues to own and operate a number of subsidiaries that simultaneously expand the range of financial services available to our members and customers, and complement our core savings and mortgage product offerings.

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

	2006	2007
VM Wealth Management Ltd.	67.3	48.5
VM Insurance Company Ltd.	13.9	56.2
VM Property Services Ltd.	5.8	2.5
VM Money Transfer Services Ltd.	(6.9)	2.1

All major subsidiaries exhibited profitable operations in 2007. The Victoria Mutual Wealth Management Ltd. recorded after tax profits below expectations ($48.5M), while the Victoria Mutual Insurance Company (VMIC) was more successful. In 2007 VMIC significantly improved the quality (loss ratio) of the motor insurance portfolio to place it among the industry leaders in this measure of operating performance.

The operations of VM Money Transfer Services Ltd. (VMTS) and Victoria Mutual (Property Services) Ltd. (VMPS) continue to provide important complementary services for our members and other customers. Briefly, VMPS provides our mortgagors and other customers with credible property valuations, while VMTS enables our members and customers overseas to send cash to their relatives and friends in Jamaica as well as to their VMBS savings accounts.

Finally, in the second quarter of 2008 your Society completed the purchase of a 20% stake in Prime Asset Management Ltd. (PAM), a leading provider of pension fund investment and administration services in Jamaica. Although PAM currently provides services primarily to institutional clients, we expect to use the leverage of our branch and other distribution facilities to offer pension fund investment and administration products to individuals, particularly to our members and other customers who are either self employed, or are not currently members of any private pension fund.

Industrial Relations

In our 2006 Annual Report I reported that the dispute with the clerical bargaining unit had been reported to the Industrial Disputes Tribunal (IDT). We had taken this step because we felt that this would be the quickest and easiest way for the matter to be resolved. Unfortunately, even as this 2007 Annual Report is being written the IDT proceedings have not yet been concluded.

As at June 2008 the leadership of your Society continues to present its case to the IDT. It is expected that the presentation of evidence by the respective parties will end in July 2008, and we are hopeful that the IDT will deliver its ruling by the end of September.

At the end of 2007, your Board of Directors and Executive Management were concerned that our unionised team members had not received any increase in compensation for almost 2 years. In the spirit of the principles adopted by the founders of your Society – namely caring for and building the Jamaican Society – your Board of Directors approved the recommendation of the Executive Management Team and provided the unionised team members with the same percentage increases in salary as those received by their non-unionised colleagues. This decision was taken solely because of the concern that the high and rising levels of inflation were making it very difficult for the affected team members to meet their obligations.

Conclusion

Your Board of Directors has adopted a strategic plan that is based on dramatically improving efficiency while controlling the costs of administering the products and services offered to our members and customers. We are confident that the strategic plan is robust and will achieve the stated objectives.

In 2008 and 2009 the Executive Team and all VM team members, monitored by the Board will focus on executing the plan. The Strategic Plan will only be successful if we are able to provide even better product offerings featuring improved levels of service for our members and customers. Your Board of Directors is always cognizant of the fact that the entire Victoria Mutual family of directors, executives and other team members are here to serve you, our members. We are humbled by the glorious 130 year history of the Society and honoured to have the opportunity to help our members achieve their financial and other goals.

The Board of Directors is especially thankful for the dedicated support of the Victoria Mutual team members working at the Society and the other Strategic Business Units. It is because of their commitment to the financial security of our members and other customers that Victoria Mutual has been able to secure the achievements of the past year.

I close by expressing my sincere gratitude to my colleague board members for their dedicated service to our great institution. I would also like to thank the members of the Boards of Directors of VMBS' subsidiaries, members of the Society's Advisory Councils, the National Housing Trust and all our other corporate partners for their continued support as we continue to strive to make Jamaica a better society.

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

Corporate Outreach

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Corporate Social Responsibility

Victoria Mutual is committed to supporting the building of 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. In 2007, the Society's Corporate Citizenry programme focused on the areas of Sports, Youth and Community Development.

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 70 charities in the areas of Health, Education, Community Development, Sports and Youth. In 2007, the Society was among the highest corporate donors and was honoured by the United Way with a Jupiter Award at the Annual Nation Builders & Employees Award Ceremony.

National Leadership Prayer Breakfast

2007 marked the 22nd year that Victoria Mutual served as the sponsor of the National Leadership Prayer Breakfast, which was held under the theme "Building on the Right Foundation." The aim of the Breakfast, each year is to unite State, Church, Civic, and Community leaders for prayer and healing. As is customary, a free-will offering was collected at the Breakfast and donated to the Build Jamaica Project.

Annual Marriage & the Family Series

The Society continued its Corporate Outreach efforts by promoting healthy marriages and better family life, with one of its Signature Corporate events, the Annual Marriage & the Family Series, which celebrated its 21st Anniversary in 2007. For the first time in its history, the Series was held over one weekend in June, instead of Mondays in June at the Emancipation Park. A highlight of the Series was the live Renewal of Vows Ceremony, for one lucky couple, who had been married for 52 years. The couple was chosen from nominations received from the public. The Series provided expert advice on topics such as Parenting, Financial Planning for Marriage; and How to Make a Marriage Last. There was also live entertainment and fun and games for the entire family throughout the weekend.

Sports

As part of our commitment to Youth and Community Development, the Society continued its sponsorship of several sporting activities in 2007. The 17th Annual VMBS/St. James U-12 Football Competition was changed to the VMBS/St. James U-13 to accommodate students who turned 13 years old after sitting the Grade Six Achievement Test (GSAT) at Preparatory or Primary school. The competition is an outreach project of the Society's Montego Bay branch and continues to provide the youngsters with the opportunity to develop their football skills, while enjoying friendly competition from neighbouring schools.

At the 113th staging of the Penn Relays in Pennsylvania, USA, the Society received two special awards for its efforts in supporting young athletes. The Comets Athletic Club International presented the Society with the Comet International Visionary Award in recognition of the Society's unstinting contribution and dedicated service to the development of sports in Jamaica. The second award, the Distinguished Corporate Citizen Award, was presented to VMBS by the University of Pennsylvania and Team Jamaica Bickle Foundation. This award was presented in recognition of the Society's 14-year sponsorship of the Boys' and Girls' Championships and its impact at the Penn Relays.

The Society also supported the VM Caribbean Challenge (Cricket) Cup Competition and the Winston Davis Benefit Cricket Match in the United Kingdom. Both events continue to serve as a platform for players who wish to display their skills and represent the region at the international level, as well as present an opportunity to unite members of the Jamaican and Caribbean Diaspora.

The Society provided sponsorship to the National U-17 Football Team during the preparation for their World Cup qualifying matches and was a major sponsor of the World Cup U-17 Football qualifiers held at the National Stadium. The National Senior Netball Team and the Kingston & St. Andrew Football Association (KSAFA) U-17 and Super, Major & Syd Bartlett Leagues also benefitted.

Scholarships, Bursaries & Grants

In 2007, the Society awarded over 90 scholarships, bursaries and grants to student-savers on the Society's School Savings Programme, which boasts approximately 80 Preparatory, Primary, All-age and High schools. Students who performed well in the Grade Six Assessment Test (GSAT) were awarded bursaries to off-set the cost of their first year in high school. Scholarships were also awarded to several students through the Junior Plan, Master Plan and Future Plan programmes. Three students were awarded VMBS Junior Plan "Head Start" Scholarships; four were awarded VMBS Future Plan "Head-Start" Scholarships and one student was the recipient of the VMBS Master Plan "Head Start" Scholarship.

Since 1987, the Society has provided assistance to teachers completing final year studies at a local university or teachers' college and who have committed themselves to a career in Education. In 2007, six teachers were awarded the VM Teacher's Scholarship Assistance.

Several other bursaries were awarded by the Society in 2007, including two University of the West Indies Bursaries and two National Youth in Agriculture Bursaries

Three VMBS savers were given the opportunity to fulfill their entrepreneurial dreams with the VMBS Business Developer "Head-Start" Grant. In partnership with the United Way of Jamaica, savers submitted their business ideas to VMBS and the best three ideas were awarded the Grant. In addition, the recipients attended several workshops, which provided them with advice on operating a business.

As the Society moves into its 130th year, it renews its commitment to fulfilling its social responsibility as a good Corporate Citizen as it seeks to enhance the welfare of Jamaicans at home and in the Diaspora.

1. *Mrs. Michelle Wilson-Reynolds, Senior Vice President, Group Marketing & Corporate Affairs, accepts the Jupiter Award from Mr. Alvaro Casserly, Chairman, United Way of Jamaica.*
2. *Leaders fellowship together at the National Leadership Prayer Breakfast (NLPB). From left to right, Lady Rheima Hall, wife of the Governor General, Rev. Alston Henry, Chairman, NLPB Committee, The Hon. Bruce Golding, Prime Minister of Jamaica and Mrs. Golding and Robert Pickersgill, Chairman, People's National Party.*
3. *The Most Honourable Sir Kenneth Hall, Governor General of Jamaica and Lady Rheima Hall, Co- Patrons of the NLPB, bring greetings.*
4. *Rev. Peter Garth, Pastor, Hope Gospel Assembly, performs the first live Renewal of Vows Ceremony of Mr. and Mrs. McFarquhar at the 21st Annual Marriage and the Family Series.*
5. *Mr. Frank Harrison, former Senior Vice President, Operations and Chief Operating Officer, VMBS responds to questions at the 21st Annual Marriage and the Family Series. Looking on are Rev. Peter Garth, Pastor, Hope Gospel Assembly and Olecia Wedderburn, Love 101.*
6. *VM representatives pose with Scholarship Awardees and Dr. Rebecca Tortello (2nd left) who was the Guest Speaker at the 2007 Awards and Presentation Ceremony. Over 90 Scholarships and Grants were given to Secondary and Tertiary students, as well as "budding" Entrepreneurs.*
7. *Trudy-Ann Johnson, the 2007 VMBS Future Plan "Head-Start" Scholarship Awardee, collects her plaque from Richard K. Powell, President and CEO, VMBS.*
8. *Ambassador Stewart Stephenson (l), President, KSAFA and Richard K. Powell, President and CEO, VMBS, present the Dickie Coke Trophy to the Meadhaven U-17 Team. Sharing in the presentation are Michelle Wilson-Reynolds, Senior VP, Group Marketing & Corporate Affairs and the late David Hunt, former Coach of Meadhaven.*
9. *Recipients of the VMBS Business Developer "Head-Start" Grant examine their cheques while representatives of the United Way of Jamaica, Mrs. Sharon Edwards (l) and Mrs. Winsome Wilkens (2nd left), as well as VMBS representatives, Las Brown, Branch Manager, Duke Street and Ms. Nadine Anderson, Marketing Officer – Sales and Corporate Promotions, look on.*


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INDEPENDENT AUDITORS' REPORT

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 16 to 71, which comprise the Group's and the Society's balance sheets as at December 31, 2007, 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, 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, 2007, 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.

Additional reporting requirements of the Building Societies Act

We have examined the mortgage deeds and other securities belonging to the Society. Title deeds numbering 7,932 were produced to us and actually inspected by us, and we are satisfied that the remaining 451 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.

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

March 31, 2008

The VICTORIA MUTUAL Building Society

BALANCE SHEETS Year ended December 31, 2007

	NOTES	GROUP 2007 $'000	GROUP 2006 $'000	SOCIETY 2007 $'000	SOCIETY 2006 $'000
ASSETS					
Cash & Cash Equivalents	7	9,353,631	5,540,532	9,248,870	5,447,712
Investments - Jamaica Government Securities	8	10,027,444	11,051,646	6,360,714	8,137,435
- Other	9	3,698,390	8,193,885	2,643,197	3,853,396
Resale Agreements	10	4,975,566	4,192,518	2,541,692	5,229,575
Loans	11	20,541,520	14,336,010	20,532,246	14,328,079
Other Assets	12	1,443,757	1,483,216	728,196	847,267
Deferred Tax Assets	13(a)	7,030	2,495	-	-
Employee Benefit Assets	14	756,500	658,100	756,500	658,100
Interest In Subsidiaries	15	-	-	265,465	230,707
Intangible Assets	16	135,592	50,700	105,631	25,794
Investment Properties	17	239,082	230,678	356,401	347,997
Property, Plant & Equipment	18	426,085	474,098	378,320	389,568
Total Assets		**51,604,597**	**46,213,878**	**43,917,232**	**39,495,630**
LIABILITIES					
Savings Fund:					
Shareholders' Savings	19	37,453,425	33,430,766	37,621,023	33,576,918
Depositors' Savings	20	345,910	263,582	345,910	263,582
		37,799,335	33,694,348	37,966,933	33,840,500
Income Tax Payable		17,225	176	-	-
Other Liabilities	21	951,284	867,612	372,677	232,428
Repurchase Agreements	22	5,549,192	4,711,878	-	-
Insurance Underwriting Provisions	23	753,723	649,300	-	-
Loans Payable	24	1,045,268	1,714,396	1,045,268	1,714,396
Deferred Tax Liabilities	13(b)	234,117	191,422	229,184	171,776
Employee Benefit Obligation	14	142,700	127,600	128,600	116,500
Total Liabilities		**46,492,844**	**41,956,732**	**39,742,662**	**36,075,600**
CAPITAL AND RESERVES					
Permanent Capital Fund	25	2,582,885	2,216,213	2,582,885	2,216,213
Reserve Fund	26(i)	318,260	277,519	318,260	277,519
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)	277,037	214,165	277,037	214,165
Investment Revaluation Reserve	26(v)	401,749	209,864	427,166	142,911
General Reserve		10,000	10,000	10,000	10,000
Currency Translation Reserve	26(vi)	95,998	84,718	-	-
Retained Earnings		776,520	595,363	-	-
Total Capital & Reserves Attributable to Members of the Society		5,111,753	4,257,146	4,174,570	3,420,030
Minority Interest	4(a)	-	-	-	-
Total Capital & Reserves		**5,111,753**	**4,257,146**	**4,062,316**	**3,420,030**
Total Liabilities and Capital and Reserves		**51,604,597**	**46,213,878**	**43,917,232**	**39,495,630**

The financial statements were approved for issue by the Board of Directors on March 31, 2008 and signed on its behalf by:

_______________ Director
F. DePeralto

_______________ Director
R. K. Powell

Countersigned:

_______________ Corporate Secretary
P. Francis-Smellie

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

REVENUE & EXPENSES ACCOUNTS Year ended December 31, 2007

	NOTES	GROUP 2007 $'000	GROUP 2006* $'000	SOCIETY 2007 $'000	SOCIETY 2006* $'000
Interest Income	29	4,604,666	4,417,086	3,889,343	3,734,028
Interest Expense	29	(2,467,357)	(2,320,367)	(1,951,248)	(1,899,457)
Net Interest Income		2,137,309	2,096,719	1,938,095	1,834,571
Fee & Commission Income	30	169,777	144,096	46,093	49,815
Fee & Commission Expenses	30	(57,623)	(45,824)	(33,887)	(21,610)
Net Fee & Commission Income		112,154	98,272	12,206	28,205
Other Operating Revenues	31	1,169,124	874,578	445,063	300,254
Operating Revenue		3,418,587	3,069,569	2,395,364	2,163,030
Personnel Costs	32	(1,102,624)	(988,030)	(903,110)	(799,630)
Depreciation & Amortisation	16,17,18	(89,105)	(84,734)	(75,724)	(71,099)
Other Operating Expenses	33	(1,407,178)	(1,339,386)	(827,147)	(792,921)
		(2,598,907)	(2,412,150)	(1,805,981)	(1,663,650)
Surplus Before Income Tax		819,680	657,419	589,383	499,380
Income Tax Expense	34	(168,238)	(113,565)	(119,098)	(95,642)
Surplus For The Year	35	651,442	543,854	470,285	403,738
Attributable To:					
Members of the Society		651,442	543,854	470,285	403,738
Minority Interest	4(a)	-	-	-	-
Surplus for the Year		651,442	543,854	470,285	403,738

*After reclassifications to conform to the 2007 presentation
To be read in conjunction with the accompanying notes to the financial statements.

STATEMENT OF CHANGES IN CAPITAL AND RESERVES Year ended December 31, 2007

	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 & Reserves $'000
Group:										
Balances At December 31, 2005	1,888,811	241,140	559,222	90,082	174,208	134,152	10,000	82,811	455,247	3,635,673
Surplus For The Year	-	-	-	-	-	-	-	-	543,854	543,854*
Foreign Currency Translation Differences On Foreign Subsidiaries' Balances	-	-	-	-	-	-	-	1,907	-	1,907*
Change In Fair Value Of Investments	-	-	-	-	-	75,712	-	-	-	75,712*
Credit Facility Reserve Transfer [Note 4(S)]	-	-	-	-	39,957	-	-	-	(39,957)	-
Transfers [Notes 25 And 26(I)]	327,402	36,379	-	-	-	-	-	-	(363,781)	-
As Restated	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(S)]	-	-	-	-	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

*Total recognised gains for the year amounted to $854,607,000 (2006: $621,473,000)
To be read in conjunction with the accompanying notes to the financial statements.

STATEMENT OF CHANGES IN CAPITAL AND RESERVES Year ended December 31, 2007

	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
Society:								
Balances at December 31, 2005	1,888,811	241,140	559,222	174,208	119,414	10,000	-	2,992,795
Surplus for the Year	-	-	-	-	-	-	403,738	403,738*
Change in Fair Value of Investments	-	-	-	-	23,497	-	-	23,497*
Credit facility reserve transfer [note 4(s)]	-	-	-	39,957	-	-	(39,957)	-
Transfers [Notes 25 and 26(I)]	327,402	36,379	-	-	-	-	(363,781)	-
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(s)]	-	-	-	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

*Total recognised gains for the year amounted to $754,540,000 (2006: $427,235,000)
To be read in conjunction with the accompanying notes to the financial statements.

STATEMENT OF GROUP CASH FLOWS Year ended December 31, 2007

	Notes	2007 $'000	2006 $'000
Cash Flows From Operating Activities			
Surplus for the Year		651,442	543,854
Adjustments For:			
Depreciation	16,17,18	89,105	85,216
Employee Benefit Obligation		15,100	30,600
Interest Income	29	(4,604,666)	(4,417,085)
Interest Expense	29	2,467,357	2,320,367
Income Tax Expense	34	168,238	113,565
		(1,213,424)	(1,323,483)
Gain on Disposal of Property, Plant and Equipment		(2)	(5,325)
Loss/(Gain) on Sale of Investments		(75,286)	(7,810)
Change in Provision For Loan Losses		(7,898)	(19,876)
Insurance Underwriting Provisions		104,423	125,265
Unrealised Exchange Gains on Foreign Currency Balances		8,206	(11,076)
Loan Advances, Net of Repayments		(6,197,611)	(1,224,242)
Change in Other Assets		(40,278)	233,937
Change in Deferred Tax Assets		(4,535)	8,399
Change in Employee Benefit Assets		(98,400)	(83,200)
Net Receipts from Shareholders and Depositors		4,104,986	3,292,783
Change in Deferred Tax Liabilities		42,695	14,989
Change in Other Liabilities		83,672	(100,467)
		(3,293,452)	899,894
Interest and Dividends Received		4,684,401	4,226,126
Interest Paid		(2,496,496)	(2,283,010)
Income Taxes Paid		(151,189)	(113,727)
Net Cash Provided by Operating Activities		(1,256,736)	2,729,283
Cash Flows From Investing Activities			
Government of Jamaica Securities	8	1,024,202	1,352,279
Other Investments	9	4,495,495	(5,927,641)
Resale Agreements	-	(783,047)	1,311,578
Additions to Investment Properties	17	(13,979)	(12,033)
Purchase of Property, Plant and Equipment	18	50,781	(74,974)
Proceeds of Disposal of Property, Plant and Equipment	18	-	218
Purchase of Intangible Asset	16	(102,408)	(19,542)
Repurchase Agreements		837,314	291,870
Net Cash Used by Investing Activities		5,508,358	(3,078,245)
Cash Flows from Financing Activities			
Loans Payable		(639,989)	(19,729)
Net Increase/(Decrease) in Cash and Cash Equivalents		3,611,633	(368,691)
Cash and Cash Equivalents at Beginning of the Year	7	5,540,532	5,222,867
Effect of Exchange Rate Fluctuations on Cash Held		201,466	686,356
Cash and Cash Equivalents at End of the Year	7	9,353,631	5,540,532

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

STATEMENT OF SOCIETY CASH FLOWS Year ended December 31, 2007

	Notes	2007 $'000	2006 $'000
Cash Flows From Operating Activities			
Surplus for the Year		470,285	403,738
Adjustments For:			
Depreciation	16,17,18	75,724	71,099
Employee Benefit Obligation		12,100	64,957
Interest Income	29	(3,889,343)	(3,734,028)
Interest Expense	29	1,951,248	1,899,457
Income Tax Expense	34	119,098	95,642
		(1,260,888)	(1,199,135)
Gain on Disposal of Property, Plant and Equipment		(2)	(143)
Gain on Sale of Investments		(75,286)	(4,077)
Change in Provision for Loan Losses		(7,898)	(19,876)
Loan Advances, Net of Repayments		(6,196,269)	(1,433,335)
Interest in Subsidiaries		(34,758)	40,455
Change in Other Assets		119,071	161,402
Change in Employee Benefit Assets		(98,400)	(83,200)
Net Receipts from Shareholders and Depositors		4,126,433	3,257,046
Change in Deferred Tax Liabilities		57,408	2,257
Change in Other Liabilities		140,251	(111,123)
		(3,230,338)	610,271
Interest and Dividends Received		3,853,117	3,631,207
Interest Paid		(1,980,387)	(1,899,457)
Income Taxes Paid		(104,792)	(83,660)
Net Cash (Used) /provided by Operating Activities		(1,462,400)	2,258,361
Cash Flows From Investing Activities			
Government of Jamaica Securities	8	1,776,721	(955,608)
Other Investments	9	1,210,199	(1,502,470)
Resale Agreements		2,687,883	(55,163)
Purchase of Intangible Asset	16(b)	(6,254)	(12,107)
Additions to Investment Properties	17	(13,979)	(12,036)
Purchase of Property, Plant and Equipment	18	(132,484)	(47,989)
Proceeds of Disposal of Property, Plant and Equipment	18	-	143
Net Cash Provided/(Used) by Investing Activities		5,522,086	(2,585,230)
Cash Flows From Financing Activities			
Loans Payable		(639,989)	58,919
Net Increase/(Decrease) in Cash and Cash Equivalents		3,419,697	(267,950)
Cash Flows From Financing Activities			
Cash and Cash Equivalents at Beginning of the Year	7	5,447,712	5,029,306
Effect of Exchange Rate Fluctuations on Cash Held		381,461	686,356
Cash and Cash Equivalents at End of the Year	7	9,248,870	5,447,712

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

NOTES TO THE FINANCIAL STATEMENTS Year ended December 31, 2007

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 and 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	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 (These subsidiaries, together with Victoria Mutual Properties Limited, are the subject of an undertaking, given to Bank of Jamaica, for their winding up).

(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) and their interpretations, issued by the International Accounting Standards Board (IASB).

In preparing the financial statements in the previous year, the Group and the Society early adopted IFRS 7 *Financial Instruments: Disclosures and IAS 1 Presentation of Financial Statements - Capital Disclosures* (effective for reporting periods beginning on or after January 1, 2007). IFRS 7 requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions,* and some of the requirements in IAS 32, *Financial Instruments: Disclosure and Presentation.*

The Amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The adoption of IFRS 7 and the amendment to IAS 1 impacted the type and amount of disclosures made in the financial statements, but had no impact on the reported profits or financial position of the Group or the Society. The Group has provided full comparative information (note 5).

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

IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyper-Inflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment

The above interpretations were not relevant to the Group or the Society, and had no material effect on the Group's or the Society's accounting policies nor its financial position and performance.

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 (**effective for accounting periods beginning on or after January 1, 2009**)*. **IFRS 8 replaces IAS 14 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 is not relevant to the Group or the Society, and will not have any impact on the financial statements.
- *IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions (effective for accounting periods beginning on or after March 1, 2007)* addresses the classification of a share-based payment transaction (as equity or cash-settled), in the financial statements of the entity whose employees are entitled to the share-based payment, where equity instruments of the parent or another group company are transferred in settlement of the obligation. IFRIC 11 is not considered relevant to the Group and the Society and will not have any impact on the financial statements.
- *IFRIC 12 Service Concession Arrangements (effective for accounting periods beginning on or after January 1, 2008)* 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 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, effective for accounting periods beginning on or after July 1, 2008, and will not have any significant impact on the financial statements of the Group and the Society.
- *IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction,* which becomes effective for accounting periods beginning on or after January 1, 2008, provides guidance on assessing the limit set in IAS 19 on a 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. The impact of any potential effect of IFRIC 14 and IAS 19 on the Group's and the Society's financial statements have not yet been determined.
- *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 accounting periods beginning on or after January 1, 2009, and will result in a change in the presentation of the statements of revenue and expenses and changes in equity.

3. BASIS OF PREPARATION (CONT'D)

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

- *IAS 23 (Revised) – Borrowing Costs*, which becomes effective for financial 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 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 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 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 estimates:

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions 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.

(e) Use of judgements:

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are discussed below:

(i) 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.

3. **BASIS OF PREPARATION (CONT'D)**

(e) Use of judgements (cont'd):

(ii) 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.

(iii) 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.

(iv) 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 company'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.

(v) 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.

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, 2007, 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 by the Group and the Society 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(r)]. 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 and the Society have 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 and the Society 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 and the Society acquire 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 and the Society do 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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) Income tax (cont'd):

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.

(iii) Defined-benefit pension schemes:

The schemes are accounted for as defined-contribution schemes in the financial statements of the individual participating subsidiaries, that is, pension contributions being expensed as incurred.

The schemes are accounted for as defined-benefit schemes in the financial statements of the Society.

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 assets and obligations 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 and the Society'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 and the Society's obligations. The calculation is performed by an independent qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group and the Society, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

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 Group's and the Society's revenue and expenses accounts 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 Group and the Society's revenue and expenses accounts.

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 Group's and the Society's revenue and expenses accounts over the expected average remaining working lives of the employees participating in the scheme. Otherwise, the actuarial gain or loss is not recognised.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Employee benefits (cont'd):

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

When the calculation results in a benefit to the Group and the Society, 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 and the Society provide 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)(iii).

(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 amortization 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.

(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. Rental income from investment property is accounted for on the straight-line basis over the term of the lease.

(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 the Society 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Property, plant and equipment and depreciation (cont'd):

(ii) Depreciation (cont'd):

The depreciation rates are as follows:-

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

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

(m) Other liabilities:

Other liabilities are stated at their cost.

(n) Provisions:

A provision is recognised in the balance sheet when the Group and the Society have a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(o) 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(q)].

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.

(p) 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.

(q) 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.

(r) 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

4. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

(r) Impairment (cont'd):

(i) Calculation of recoverable amount (cont'd):

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.

(s) 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 Society 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)].

(t) 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.

(u) 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.

(v) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(v) Commissions, premium income and other income (cont'd):

(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 collectibility 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.

(w) 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, repurchase agreements, loans payable and other liabilities. The fair values of the Group's and the Society's financial instruments are discussed in note 28.

(i) Recognition:

The Group and the Society initially recognise 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 and the Society become a party to the contractual provisions of the instrument.

(ii) Derecognition:

The Group and the Society derecognise 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 and the Society is recognised as a separate asset or liability.

The Group and the Society derecognise a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group and the Society enter 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

(x) 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;

(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 MANGEMENT

Introduction and overview

The Group's and the Society'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

The notes present information about the Group's and the Society's exposure to each of the above risks, the Group's and the Society'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.

The risk management policies are established to identify and analyse the risks faced by the Group and the Society, 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 and the Society, through their training and management standards and procedures, aim 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 and the Society do 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 and the Society's operations, and not for risk management purposes.

(a) Credit risk:

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from credit given to customers from stock-broking activities, investing activities, lending and deposits with other institutions. Balances arising from these activities include loans and other receivables, debt 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 the 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 and the Society 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 and the Society believe 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 and the Society.

5. FINANCIAL RISK MANGEMENT (CONT'D)

(a) Credit risk (cont'd):

Credit quality of loans is summarised as follows:

	Group &	Society
	2007 $'000	2006 $'000
Past due but not impaired	1,909,717	1,792,518
Aging analysis of past due but not impaired		
Under 3 months	1,391,647	1,311,452
3 months – 6 months	295,941	257,635
6 months – 12 months	91,901	128,659
Over 12 months	130,228	94,772
Total carrying amount	**1,909,717**	**1,792,528**

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 Society 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 total $143,958,527 as at December 31, 2007. The Society had no such loans as at December 31, 2006.

Allowances for impairment:

The Society 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 Society writes off a loan (and any related allowances for impairment losses) when the Society determines that the loans are uncollectible. 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 MANGEMENT (CONT'D)

(a) Credit risk (cont'd):

(vi) Exposure to credit risk:

The maximum credit exposure, the amount of loss that the Group and the Society would suffer if every counterparty to which the Group's and the Society'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	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Cash and cash equivalents	9,353,631	5,540,532	9,248,870	5,447,712
Loans	20,541,520	14,336,010	20,532,246	14,328,079
Investments	13,725,834	9,245,531	9,003,911	11,990,831
Accounts receivable	1,443,757	1,483,216	728,196	847,267
Loan commitments	3,112,535	1,193,194	3,112,535	1,193,194

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

The following table summarises the credit exposure of the Group and the Society to borrowers, by category:

Group:	**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:	**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

Group:	**2006 ($'000)**			
	Mortgage loans	Share loans	Other loans	Total
Individuals	12,791,984	122,840	-	12,914,824
Other	1,251,212	100	169,874	1,421,186
	14,043,196	122,940	169,874	14,336,010

Society:	**2006 ($'000)**			
	Mortgage loans	Share loans	Other loans	Total
Individuals	12,791,984	122,840	-	12,914,824
Other	1,251,212	100	161,943	1,413,255
	14,043,196	122,940	161,943	14,328,079

Substantially all the Society's lending is to parties in Jamaica.

5. FINANCIAL RISK MANGEMENT (CONT'D)

(a) Credit risk (cont'd):

(vi) Exposure to credit risk (cont'd):

Collateral:

The Group and the Society hold collateral in respect of loans in the form of mortgage interests over property, lien over motor vehicles and hypothecation of deposits held. The fair value of collateral that the Group and the Society held for loans past due was $525,929,781 (2006: $299,938,730).

Collateral is not generally held against deposits and investment securities, and no such collateral was held at December 31, 2007 or 2006.

(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 and the Society'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 and the Society separate their 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 and the Society'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 and the Society'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 is expected to remain so. This interest rate gap is normal within the building society sector.

The Group and the Society manage 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 MANGEMENT (CONT'D)

(b) Market risks (cont'd):

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

A summary of the trading portfolios using historical data as a basis, at December 31, and during the period is a follows:

Group:	2007 ($'000)					
	Immediately Rate Sensitive	Within 3 Months	Three to 12 Months	Over 12 Months	Non-Rate Sensitive	Total
Cash & 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 & 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 & Reserves**	-	-	-	-	5,111,753	5,111,753
Total Liabilities, Capital & 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 MANGEMENT (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 & 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
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 & 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 & Reserves**	-	-	-	-	4,174,570	4,174,570
Total Liabilities, Capital & 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 MANGEMENT (CONT'D)

(b) Market risks (cont'd):

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

Group:

	2006 ($'000)					
	Immediately Rate Sensitive	Within 3 Months	Three to 12 Months	Over 12 Months	Non-Rate Sensitive	Total
Cash & Cash Equivalents	2,889,900	891,088	1,670,048	-	89,496	5,540,532
Investments	-	4,540,794	5,160,185	8,852,386	692,166	19,245,531
Resale Agreements	-	3,749,638	440,134	-	2,746	4,192,518
Loans	14,275,305	24,303	35,244	-	1,158	14,336,010
Other Assets	67,946	1,438	-	-	1,413,832	1,483,216
Deferred Tax Asset**	-	-	-	-	2,495	2,495
Employee Benefit Asset**	-	-	-	-	658,100	658,100
Intangible Assets**	-	-	-	-	50,700	50,700
Investment Properties	-	-	-	-	230,678	230,678
Property, Plant & Equipment**	-	-	-	-	474,098	474,098
Total Assets	17,233,151	9,207,261	7,305,611	8,852,386	3,615,469	46,213,878
Savings Fund	20,833,955	8,091,735	1,688,310	3,080,348	-	33,694,348
Income Tax Payable	-	-	-	-	176	176
Other Liabilities	-	-	-	-	867,612	867,612
Repurchase Agreements	-	3,507,026	1,204,852	-	-	4,711,878
Insurance Underwriting Provisions	-	-	-	-	649,300	649,300
Loans Payable	740,150	-	649,496	324,750	-	1,714,396
Deferred Tax Liabilities**	-	-	-	-	191,422	191,422
Employee Benefit Obligation**	-	-	-	-	127,600	127,600
Capital & Reserves**	-	-	-	-	4,257,146	4,257,146
Total Liabilities, Capital & Reserves	21,574,105	11,598,761	3,542,658	3,405,098	6,093,256	46,213,878
Total Interest Rate Sensitivity Gap*	(4,340,954)	(2,391,500)	3,762,953	5,447,288	(2,477,787)	-
Cumulative Gap	(4,340,954)	(6,732,454)	(2,969,501)	2,477,787	-	-

+ Reclassified to conform with current year presentation.

* 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 MANGEMENT (CONT'D)**

(b) **Market risks (cont'd):**

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

Society:	**2006 ($'000)**					
	Immediately Rate Sensitive	Within 3 Months	Three to 12 Months	Over 12 Months	Non-Rate Sensitive	Total
Cash & Cash Equivalents	1,763,205	1,570,068	2,114,439	-	-	5,447,712
Investments	1,340,537	563,125	3,468,892	6,618,277	-	11,990,831
Resale Agreements	-	5,101,974	127,601	-	-	5,229,575
Loans	14,297,079	-	31,000	-	-	14,328,079
Other Assets	67,946	-	-	-	779,321	847,267
Employee Benefit Asset**	-	-	-	-	658,100	658,100
Interest Subsidiaries	-	-	-	-	230,707	230,707
Intangible Assets**	-	-	-	-	25,794	25,794
Investment Properties	-	-	-	-	347,997	347,997
Property, Plant & Equipment**	-	-	-	-	389,568	389,568
Total Assets	17,468,767	7,235,167	5,741,932	6,618,277	2,431,487	39,495,630
Savings Fund	20,980,109	8,091,734	1,688,310	3,080,347	-	33,840,500
Other Liabilities	-	-	-	-	232,428	232,428
Loans Payable	740,150	-	649,500	324,746	-	1,714,396
Deferred Tax Liabilities**	-	-	-	-	171,776	171,776
Employee Benefit Obligation**	-	-	-	-	116,500	116,500
Capital & Reserves**	-	-	-	-	3,420,030	3,420,030
Total Liabilities, Capital & Reserves	21,720,259	8,091,734	2,337,810	3,405,093	3,940,734	39,495,630
Total Interest Rate Sensitivity Gap*	(4,251,492)	(856,567)	3,404,122	3,213,184	(1,509,247)	-
Cumulative Gap	(4,251,492)	(5,108,059)	(1,703,937)	1,509,247	-	-

\+ Reclassified to conform with current year presentation.

* 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 MANGEMENT (CONT'D)

(b) Market risks (cont'd):

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

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

Group:

	2007 (%)			
	Immediately Rate Sensitive	Within 3 Months	Three to 12 Months	Over 12 Months
Cash & Cash Equivalents	1.37	5.91	4.8	3.90
J$ Investments	-	14.68	14.03	14.28
Us$ Investments	-	11.75	-	9.32
J$ Resale Agreements	-	11.14	12.00	13.33
Us$ Resale Agreements	-	6.06	6.15	-
Loans	12.22	-	14.00	-
Savings Fund	5.56	9.98	10.93	6.85
J$ Repurchase agreements	-	11.11	11.44	-
US$ Repurchase agreements	-	5.18	5.60	-
Loans Payable	-	5.86	5.66	-

Society:

	2007 (%)			
	Immediately Rate Sensitive	Within 3 Months	Three to 12 Months	Over 12 Months
Cash & Cash Equivalents	1.37	5.91	4.8	3.90
J$ Investments	-	15.79	14.51	14.29
Us$ Investments	-	-	-	9.38
J$ Resale Agreements	-	10.38	11.95	13.33
Us$ Resale Agreements	-	5.95	5.60	-
Loans	12.22	-	14.00	-
Savings Fund	5.56	9.98	10.93	6.85
Loans Payable	-	5.86	5.66	-

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

Group:

	2006 (%)			
	Immediately Rate Sensitive	Within 3 Months	Three to 12 Months	Over 12 Months
Cash & Cash Equivalents	2.10	16.81	4.79	-
J$ Investments	-	22.62	14.73	11.75
Us$ Investments	-	5.20	8.87	10.42
J$ Resale Agreements	-	12.98	13.80	-
US$ Resale Agreements	-	5.93	6.20	5.90
Loans	14.90	-	24.00	-
Savings Fund	3.13	9.84	9.83	8.73
J$ Repurchase agreements	-	11.75	12.56	-
US$ Repurchase agreements	5.71	5.50	5.55	-
Loans Payable	5.91	-	5.92	4.84

5. FINANCIAL RISK MANGEMENT (CONT'D)

(b) Market risks (cont'd):

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

Average effective yields by the earlier of contractual repricing and maturity dates (cont'd):

Society:	2006 (%)			
	Immediately Rate Sensitive	Within 3 Months	Three to 12 Months	Over 12 Months
Cash & Cash Equivalents	2.10	4.65	4.79	-
J$ Investments	-	15.03	13.73	12.44
US$ Investments	-	5.20	5.19	3.59
J$ Resale Agreements	-	12.05	13.30	-
US$ Resale Agreements	-	5.95	-	-
Loans	14.90	-	24.00	-
Savings Fund	3.13	9.84	9.83	8.73
Loans Payable	5.91	-	5.92	4.84

Sensitivity analysis

A change of 200 basis points (2%) 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 2006.

	$'000
December 31, 2007	
Fixed rate financial investment	26,994
Variable rate external credit	6,778
December 31, 2006	
Fixed rate financial investment	15,406
Variable rate external credit	20,449

(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. The Group and the Society are exposed to foreign currency risk due to fluctuations in exchange rates on 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.

5. FINANCIAL RISK MANGEMENT (CONT'D)

(b) Market risks (cont'd):

(ii) Foreign currency risk (cont'd):

The Group and the Society ensure that the net exposure is kept to an acceptable level by matching foreign currency assets and liabilities as far as possible.

Group:

	2007			2006		
	US$ $'000	£ $'000	CDN$ $'000	US$ $'000	£ $'000	CDN$ $'000
Foreign currency assets	162,093	50,913	4,024	149,693	48,098	4,107
Foreign currency liabilities	(131,343)	(49,702)	(4,053)	(127,143)	(46,180)	(3,937)
Net foreign currency asset/(liability)	30,750	1,211	(29)	22,550	1,918	170

Society:

	2007			2006		
	US$ $'000	£ $'000	CDN$ $'000	US$ $'000	£ $'000	CDN$ $'000
Foreign currency assets	119,119	50,591	3,932	119,716	47,631	3,979
Foreign currency liabilities	(99,281)	(49,697)	(4,053)	(107,628)	(46,180)	(3,937)
Net foreign currency asset/(liability)	19,838	894	(121)	12,088	1,451	42

(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 of a block of newly issued shares purchased late in the year which was listed in January 2008. An increase or decrease of 5% (2006: 5%) in share prices would result in an increase or an equal decrease, respectively, in equity of $14,715,000 (2006: $9,603,000) for the Group and $13,310,000 (2006: $902,700) for the Society.

(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 and the Society 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 and the Society 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 and the Society's reputation.

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

The key measure used by the Group and the Society for managing liquidity risk 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 Group's and the Society's compliance with the liquidity limit established by the Bank of Jamaica.

5. FINANCIAL RISK MANGEMENT (CONT'D)

(c) Liquidity risk (cont'd):

	2007	2006
As at 31 December	25%	20%
Average for the year	25%	25%
Maximum for the year	26%	28%
Minimum for the year	23%	20%

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

Group:

	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	26,744,925	4,793,056	1,935,267	296,108	4,029,979	37,799,335
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

	2006 ($'000)					
	Within One Month	One to 3 Months	Three to 12 Months	One to 5 Years	Over 5 Years	Carrying Amount
Other liabilities	2,757	827,393	37,462	-	-	867,612
Due to customers	25,237,730	4,783,914	1,631,380	305,174	2,736,150	33,694,348
Due to banks	47	-	-	-	-	47
Repurchase agreements	-	3,507,025	1,204,853	-	-	4,711,878
Loans payable	-	324,750	1,389,646	-	-	1,714,396

Society:

	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	26,912,523	4,793,056	1,935,267	296,108	4,029,979	37,966,933
Due to banks	48	-	-	-	-	48
Loans payable	-	324,250	684,500	-	-	1,045,268

	2006 ($'000)					
	Within One Month	One to 3 Months	Three to 12 Months	One to 5 Years	Over 5 Years	Carrying Amount
Other liabilities	-	232,428	-	-	-	232,428
Due to customers	24,383,882	4,783,914	1,631,380	305,174	2,736,150	33,840,500
Due to banks	47	-	-	-	-	47
Loans payable	18,518	324,750	1,389,646	-	-	1,714,396

5. **FINANCIAL RISK MANGEMENT (CONT'D)**

(c) Liquidity risk (cont'd):

A subsidiary also manages this risk by keeping a substantial portion of its financial assets in liquid form, in accordance with regulatory guidelines. The subsidiary is subject to a liquidity limit of not less than 25%, imposed by 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 36% (2006: 21%).

There has been no change to this subsidiary's exposure to liquidity risk or the rest of 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 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 periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- 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.

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.

5. FINANCIAL RISK MANGEMENT (CONT'D)

(e) Insurance risk (cont'd):

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 2007/2008 reinsurance treaties, the Group retains risk to a basic maximum of US$30,000 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$111,485,000 in respect of earthquake and US$79,635,000 in respect of hurricane, and covers a further US$14,100,000 for earthquake and US$9,800,000 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 & 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 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.
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.

5. FINANCIAL RISK MANGEMENT (CONT'D)

(e) Insurance risk (cont'd):

(iii) Risk management approach (cont'd):

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.

	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

	2006			
	Property $	Motor $	Other $	Total $
Gross	280,092	272,351	88,606	641,049
Net of reinsurance	44,466	271,955	27,197	343,618

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						
	2002 J$'000	2003 J$'000	2004 J$'000	2005 J$'000	2006 J$'000	2007 J$'000	Total J$'000
Estimate of cumulative claims at end of accident year	66,741	94,982	116,046	136,769	194,950	126,263	-
-one year later	55,307	83,869	107,382	135,166	181,801	-	-
-two years later	46,814	84,527	109,989	127,374	-	-	-
-three years later	43,873	83,800	97,173	-	-	-	-
-four years later	35,635	81,826	-	-	-	-	-
-five years later	44,735	-	-	-	-	-	-
Estimate of cumulative claims	44,735	81,826	97,173	127,374	181,801	126,263	659,172
Cumulative payments to date	(25,752)	(71,248)	(85,109)	(97,931)	(123,628)	(84,409)	(488,077)
Claims liability at end of year	18,983	10,578	12,064	29,443	58,173	41,854	171,095

5. FINANCIAL RISK MANGEMENT (CONT'D)

(e) Insurance risk (cont'd):

(iii) Risk management approach (cont'd):

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 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 $'000	A $'000	Total $'000
December 31, 2007	127,026	296,394	423,420
December 31, 2006	14,872	282,559	297,431

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 have no financial assets or reinsurance assets that have been renegotiated.

The Group does not hold any collateral for its premiums and other receivables.

Concentrations of credit risk:

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

	2007 $'000	2006 $'000
General Accident Insurance Co.	2,683	2,218
Thwaites Finson Sharp Insurance Brokers	3,807	1,755
Zenith Insurance Brokers	1,030	3,317

6. CAPITAL RISK MANAGEMENT

Capital risk is the risk that the Group or the Society fails to comply with mandated regulatory requirements, resulting in a breach of capital adequacy ratios and the possible suspension or loss of their 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 and the Society's ability to continue as a going concern so that they 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 General insurance company must maintain a certain minimum level of assets, capital and surplus to meet the liabilities. The company is solvent and adequately capitalized when the available assets are equal to at least 120% of the required assets (as defined).

At December 31, 2007, the general insurance subsidiary's available assets were 124.44% (2006: 115.11%) of the required assets.

(b) The Financial Services Commission stipulates and monitors capital requirements for the financial services sector. It requires that the subsidiary maintains a minimum total capital to risk weighted assets of 14%.

6. CAPITAL RISK MANAGEMENT (CONT'D)

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

	2007	2006
Tier 1 Capital		
Ordinary Share Capital	30,000,000	30,000,000
Retained Earnings	312,167,416	244,839,514
Current Year to Date Profit	48,479,477	67,327,902
	390,646,893	342,167,416
Less: Revaluation Reserves	(25,791,183)	-
Intangible Assets	(15,904,680)	(8,374,290)
Total Tier 1 Capital	348,951,030	333,793,126
Tier 2 Capital		
Preference Shares (Perpetual Cumulative)	10,000,000	10,000,000
Total Qualifying Capital	358,951,030	343,793,126
Risk Weighted Assets		
Deposits & Other Amounts Due From Local Banks	7,760,122	6,053,065
Equity Investments	22,637,030	2,551,574
Property, Plant And Equipment	4,335,484	5,350,693
Other Assets	257,497,576	339,844,716
Foreign Exchange Exposure	145,942,162	86,491,228
	438,172,374	440,291,276
Capital Ratios:		
Total Regulatory Qualifying Capital Expressed As A Percentage Of Total Risk Weighted Assets	81.9%	78.1%
Total Tier 1 Capital Expressed As A Percentage Of Total Risk Weighted Assets	79.6%	75.8%

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

	Society	
	2007 $'000	2006 $'000
Capital base (note 27)	3,552,556	3,157,974
Qualifying capital	3,466,367	3,028,899
On balance sheet risk weighted assets	17,264,843	16,821,747
Off balance sheet risk weighted assets	3,384,614	1,276,128
Foreign exchange exposure	1,156,773	851,078
Total risk assessed assets	21,806,230	18,948,953
Risk based capital adequacy ratio	15.90%	15.98%
Regulatory requirement	10%	10%

7. CASH AND CASH EQUIVALENTS

	Group		Society	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Cash in hand, at banks and other financial institutions	2,301,253	1,856,026	2,196,492	1,763,206
Statutory reserves held at Bank of Jamaica	1,309,555	1,151,951	1,309,555	1,151,951
Term deposits at banks [see notes 24(a) and (b)]	5,742,823	2,532,555	5,742,823	2,532,555
	9,353,631	5,540,532	9,248,870	5,447,712

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.

8. INVESTMENTS - JAMAICA GOVERNMENT SECURITIES

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

	Group		Society	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Held-to-maturity securities:				
Securities denominated in United States dollars:				
Bonds	407,056	2,595,032	-	2,161,689
Securities denominated in Jamaica dollars:				
Bonds	-	2,207,999	-	2,207,999
Treasury bills	-	521,118	-	521,118
Local registered stock	-	64,253	-	64,253
Debentures	-	885,000	-	885,000
	407,056	6,273,402	-	5,840,059

	Group		Society	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Available-for-sale securities:				
Securities denominated in United States dollars:				
Bonds	3,835,907	2,497,213	2,438,372	1,189,718
Securities denominated in Jamaica dollars:				
Bonds	2,582,070	1,367,520	2,403,325	470,340
Debentures	1,913,141	160,349	684,353	92,452
Treasury bills	388,826	-	368,389	-
Local registered stock	900,444	753,162	466,275	544,866
	9,620,388	4,778,244	6,360,714	2,297,376
	10,027,444	11,051,646	6,360,714	8,137,435

During the year, the Society sold some of its held-to-maturity securities. In keeping with IFRS 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)].

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

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

	Group		Society	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Within 3 months	429,964	572,392	359,252	563,125
From 3 months to 1 year	1,244,346	1,643,168	835,363	1,276,418
From 1 year to 5 years	4,534,837	5,516,871	3,465,625	4,529,125
Thereafter	3,818,297	3,319,215	1,700,474	1,768,767
	10,027,444	11,051,646	6,360,714	8,137,435

Certain Government of Jamaica securities are pledged by a subsidiary as collateral for repurchase agreements (see note 22).

9. INVESTMENTS – OTHER

	Group		Society	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Loans and receivables:				
Bank deposits	1,037,424	6,480,560	10,333	2,148,695
Bonds	-	-	-	1,195,730
Available-for-sale:				
Bonds	879,420	1,516,115	879,420	1,323,718
Treasury bills	1,481,849	-	1,481,849	-
Ordinary shares - quoted	294,300	192,068	266,198	180,550
Ordinary shares - unquoted	39	39	39	39
Units in unit trusts	5,358	5,103	5,358	4,664
	3,698,390	8,193,885	2,643,197	3,853,396

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	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
No Maturity	240,486	197,210	212,384	-
Within 3 Months	152,331	4,036,112	138,159	1,195,730
From 3 Months to 1 Year	1,954,663	3,640,178	1,413,234	-
From 1 Year to 5 Years	1,151,356	66,222	679,866	2,421,131
Thereafter	199,554	254,163	199,554	236,535
	3,698,390	8,193,885	2,643,197	3,853,396

10. RESALE AGREEMENTS

The Group and the Society purchase Government and corporate securities and agree to resell them on a specified date and at a specified price ('resale agreements' or 'reverse repos'). The Group and the Society, on paying cash to the counterparty, sometimes take possession of the underlying securities, although title is not formally transferred unless that counterparty fails to repurchase the securities on the date specified or to honour other conditions.

10. RESALE AGREEMENTS (CONT'D)

	Group		Society	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Denominated in Jamaica Dollars	2,555,305	3,008,665	1,476,063	3,863,898
Denominated in United States Dollars	2,420,261	1,183,853	1,065,629	1,365,677
	4,975,566	4,192,518	2,541,692	5,229,575

Under resale agreements, the securities that the Group and the Society obtain as collateral may themselves be sold under repurchase agreements (see note 22). At December 31, 2007, securities with such permission that the Group and the Society held had a fair value of $5,604,309,000 (2006: $4,774,811,798) and $2,906,893,000 (2006: $5,275,866,382), respectively.

11. LOANS

(a) Loans:

	Group		Society	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Conventional Mortgage Loans	19,918,195	13,872,174	19,918,195	13,871,016
Mortgage Escrow (See Below)	350,233	247,495	350,233	247,495
Provision for Losses	(68,747)	(75,315)	(68,747)	(75,315)
Net Conventional Mortgage Loans	20,199,681	14,044,354	20,199,681	14,043,196
Share Loans	142,425	122,940	142,425	122,940
Other Loans	199,414	170,046	190,140	163,273
Provision For Losses	-	(1,330)	-	(1,330)
Net Other Loans	199,414	168,716	190,140	161,943
Total Loans, Net	**20,541,520**	**14,336,010**	**20,532,246**	**14,328,079**

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 & Society	
	2007 $'000	2006 $'000
Balances at beginning of the year	76,645	96,521
Charged against income during the year	12,130	-
Provision no longer required	(20,028)	(19,876)
Balances at end of the year	68,747	76,645

11. LOANS (CONT'D)

(c) Credit facility reserve:

	Group & Society 2007 $'000	Group & Society 2006 $'000
Regulatory loan loss provision	345,784	290,810
Less: Provision based on IAS 39 [see (b) above]	(68,747)	(76,645)
Balances at end of year	277,037	214,165

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

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

	Group		Society	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Within three months	582,890	-	582,890	36,243
3 months to 1 year	391,857	46,156	382,583	38,755
1 year to 5 years	1,909,916	796,619	1,909,916	796,089
Thereafter	17,656,857	13,493,235	17,656,857	13,456,992
	20,541,520	14,336,010	20,532,246	14,328,079

12. OTHER ASSETS

	Group		Society	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Interest receivable	501,855	581,590	358,730	394,957
Premiums receivable	26,131	38,840	-	-
Clients funds	30,833	31,001	-	-
Income tax recoverable	208,468	349,341	132,005	248,676
Sundry receivables, deferrals and prepayments	676,470	482,444	237,461	203,634
	1,443,757	1,483,216	728,196	847,267

Sundry receivables, deferrals and prepayments includes $2,301,160 (2006: $5,388,749) in connection with capital expenditure [note 37(b)].

13. DEFERRED TAX ASSETS AND LIABILITIES

(a) Deferred tax assets:

Deferred tax assets are attributable to the following:

	Group		Society	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Investments	12,896	(6,410)	-	-
Other receivables	(49,246)	(1,293)	-	-
Property, plant and equipment	(1,444)	(1,120)	-	-
Employee benefit asset	181	2,678	-	-
Other liabilities	211,643	-	-	-
Employee benefit obligation	2,400	1,233	-	-
Unrealised foreign exchange losses	600	-	-	-
Utilised tax value of loss carry forwards	-	7,407	-	-
	7,030	2,495	-	-

Movement in temporary differences during the year for the Group:

	Balance at Jan 1, 2007	Recognised in income	Recognised in equity	Balance at Jan 1, 2007
	$'000	$'000	$'000	$'000
Investments	(6,410)	-	19,306	12,896
Other receivables	(1,293)	(47,953)	-	(49,246)
Property, plant and equipment	(1,120)	(324)	-	(1,444)
Employee benefit asset	2,678	2,497	-	181
Other liabilities	-	41,643	-	41,643
Employee benefit obligation	1,233	1,167	-	2,400
Unrealised foreign exchange losses	-	600	-	600
Utilised tax value of loss carry-forwards	7,407	(7,407)	-	-
	2,495	(14,771)	19,306	7,030

Deferred tax assets of $15,844,000 (2006: $13,488,000) 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.

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

(b) Deferred tax liabilities:

Deferred tax liabilities are attributable to the following:

	Group		Society	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Investments	(33,289)	(19,459)	(26,011)	-
Investment properties	(18,815)	-	(18,815)	(5,806)
Other receivables	(122)	(69,145)	-	-
Employee benefit asset	(249,161)	(197,434)	(252,167)	(197,434)
Claims equalisation	-	(1,102)	-	-
Property, plant and equipment	9,747	(14,704)	10,286	(14,453)
Other liabilities	14,656	66,305	14,656	10,967
Employee benefit obligation	42,867	35,550	42,867	34,950
Tax value of losses carried forward	-	8,567	-	-
	(234,117)	(191,422)	(229,184)	(171,776)

Movement in temporary differences during the year:

Group:

	Balance at Jan 1, 2007 $'000	Recognised in income $'000	Recognised in equity $'000	Balance at Jan 1, 2007 $'000
Investments	(19,459)	12,181	(26,011)	(33,289)
Investment properties	-	(18,815)	-	(18,815)
Other receivable	(69,145)	69,023	-	(122)
Employee benefit asset	(197,434)	(51,727)	-	(249,161)
Claims equalisation	(1,102)	1,102	-	-
Property, plant and equipment	(14,704)	24,451	-	9,747
Other liabilities	66,305	(51,649)	-	14,656
Employee benefit obligation	35,550	7,317	-	42,867
Tax value of losses carried forward	8,567	(8,567)	-	-
	(191,422)	(16,684)	(26,011)	(234,117)

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

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

Society:

	Balance at Jan 1, 2007	Recognised in income	Recognised in equity	Balance at Jan 1, 2007
	$'000	$'000	$'000	$'000
Investments	-	-	(26,011)	(26,011)
Investment properties	(5,806)	(13,009)	-	(18,815)
Employee benefits asset	(197,434)	(54,733)	-	(252,167)
Property, plant and equipment	(14,453)	24,739	-	10,286
Other liabilities	10,967	3,689	-	14,656
Employee benefit obligation	34,950	7,917	-	42,867
	(171,776)	(31,397)	(26,011)	(229,184)

No deferred tax liability, in respect of the undistributed profits of subsidiaries amounting to $42,356,000 (2006: $42,035,000), has been recognised as the Society controls whether the liability will be incurred, and it is satisfied that a liability will not be incurred in the foreseeable future.

14. EMPLOYEE BENEFIT ASSET/OBLIGATION

The Group and the Society provide for post-retirement pension benefits through a defined-contribution pension scheme, administered by a life assurance company and two defined-benefit pension schemes, administered by trustees. All the schemes are funded by contributions from the Group and the Society 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, the Society's and employees' accumulated contributions plus interest and, therefore, the Group has no further liability to fund benefits.

The two defined-benefit pension schemes, under which retirement benefits are calculated by reference to, inter alia, final salary, were most recently actuarially valued as at December 31, 2007.

The Group and the Society also provide 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	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Employee benefit asset (i)	756,500	658,100	756,500	658,100
Post-retirement medical benefit obligation (ii)	142,700	127,600	128,600	116,500

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

(i) Employee benefit asset:

	Group & Society 2007 $'000	2006 $'000
(a) Amount recognised in the balance sheet:		
Present value of funded obligations	(1,048,200)	(1,080,100)
Fair value of scheme assets	2,380,900	2,023,600
	1,332,700	943,500
Unrecognised actuarial gains	(576,200)	(285,400)
Unrecognised amount of scheme assets due to limitation in economic benefit	-	-
	756,500	658,100
Scheme assets consist of the following:		
Equity securities	281,000	360,600
Government securities	1,455,500	963,000
Resale agreements	305,300	393,900
Property investments	48,000	34,500
Net current assets	291,100	271,600
	2,380,900	**2,023,600**
(b) Movements in the net asset recognised in the balance sheet:		
Net asset at January 1	658,100	574,900
Contributions paid	4,200	4,600
Income recognised in the statement of revenue	94,200	78,600
Net asset at December 31	756,500	658,100
(c) Movement in scheme assets:		
Fair value of scheme assets January 1	2,023,600	1,919,300
Contributions paid into the scheme	30,200	31,400
Benefits paid by the scheme	(89,000)	(42,700)
Expected return on scheme assets	199,400	191,400
Actuarial gain/(loss) on plan assets	216,700	(75,800)
Fair value of scheme assets December 31	2,380,900	2,023,600
(d) Income recognised in the statement of revenue and expenses:		
Current service costs	28,800	24,200
Interest on obligation	128,900	107,000
Expected return on scheme assets	(199,400)	(191,400)
Net actuarial gain recognised	(18,600)	(18,400)
Gain on curtailment/settlement	(33,900)	-
	(94,200)	(78,600)
Actual return on plan assets	11.00%	6.65%

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

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

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

	2007 %	2006 %
Discount rate at December 31	13.0	12.0
Expected return on plan assets at December 31	11.0	10.0
Future salary increases	10.0	9.0
Future pension increases	5.0	5.0

(e) Historical information:

Defined benefit pension plan:

	2007 $'000	2006 $'000	2005 $'000	2004 $'000	2003 $'000
Present value of the defined benefit	(1,048,200)	(1,080,100)	(877,100)	(759,700)	(597,500)
Fair value of plan assets	2,380,900	2,023,600	1,919,300	1,732,900	1,225,000
	1,332,700	943,500	1,042,200	973,200	627,500
Experience adjustments arising on plan liabilities	26,100	(9,600)	4,900	7,400	(5,200)
Experience adjustments arising on plan assets	216,700	(75,800)	12,900	369,600	112,300

(ii) Employee benefit obligation:

The employee benefit obligation represents the present value of the Group's and the Society's constructive obligation to provide medical benefits.

(a) Obligation recognised in the balance sheet:

	Group		Society	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Present value of obligations	122,400	127,600	110,000	116,500
Unrecognised actuarial gain	20,300	-	18,600	-
	142,700	127,600	128,600	116,500

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

	Group		Society	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Balance at beginning of year	127,600	97,000	116,500	88,100
Contributions paid	(1,700)	(1,600)	(1,700)	(1,600)
Expense recognised in the revenue and expenses account	16,800	32,200	13,800	30,000
Balance at end of year	142,700	127,600	128,600	116,500

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	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Actuarial losses	3,800	13,600	3,800	13,500
Current service costs	8,100	6,800	6,500	5,600
Gains on curtailment	(10,600)	-	(10,600)	-
Interest on obligations	15,500	11,800	14,100	10,900
	16,800	32,200	13,800	30,000

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

	2007 %	2006 %
Discount rate	13.0	12.0
Medical claims growth	12.0	11.0

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 $4,200,000 in contributions to the defined-benefit schemes in 2008.

(e) Post-employment medical benefits:

	2007 $'000	2006 $'000	2005 $'000	2004 $'000	2003 $'000
Present Value of the Defined Benefit Obligation:					
Group	122,400	126,900	95,000	96,700	73,600
Directors' Pension Plan	14,300	13,000	11,000	9,600	-
Concessionary Mortgage Loans	1,400	1,400	1,000	1,000	-
Fair Value of Plan Assets	138,100	141,300	107,000	107,300	73,600
Experience Adjustments Arising on Plan Liabilities:					
Group	15,800	(3,800)	21,900	1,900	(3,100)
Directors' Pension Plan	800	(300)	(100)	800	-
Concessionary Mortgage Loans	40	(400)	(100)	(100)	-
	16,640	(4,500)	21,700	2,600	(3,100)

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

(ii) Employee benefit obligation (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 Increase	One Percentage Point Increase	One Percentage Point Increase
Effect on the Aggregate Service & Interest Cost	7,000	5,000	5,900	(4,400)
Effect on the Defined Benefit Obligation	30,000	22,400	26,800	(20,100)

15. INTEREST IN SUBSIDIARIES

	Society	
	2007 $'000	2006 $'000
Shares, at cost [see note 1(b)]	232,566	232,566
Current accounts	32,889	(1,859)
	265,455	230,707

16. INTANGIBLE ASSETS

(a) Goodwill arising on consolidation

	Group		Society	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
At beginning and end of the year	7,940	7,940	-	-
(b) Computer Software Cost:				
At beginning of the year	124,535	104,991	99,636	87,529
Additions	16,407	19,322	6,254	12,107
Adjustments	-	220	-	-
Improvements in progress	86,001	-	86,001	-
At end of year	226,943	124,533	191,891	99,636
Depreciation:				
At beginning of the year	81,774	67,995	73,842	63,559
Charge for the year	17,517	13,778	12,418	10,283
Eliminated on disposal	-	-	-	-
	99,291	81,773	86,260	73,842
Carrying value	127,652	42,760	105,631	25,794
Total intangible assets	135,592	50,700	105,631	25,794

17. INVESTMENT PROPERTIES

	Group $'000	Society $'000
Cost:		
December 31, 2005	245,213	362,532
Additions	12,036	12,036
December 31, 2006	257,249	374,568
Additions	13,979	13,979
December 31, 2007	271,228	388,547
Depreciation:		
December 31, 2005	21,219	21,219
Charge for the year	5,352	5,352
December 31, 2006	26,571	26,571
Charge for the year	5,575	5,575
December 31, 2007	32,146	32,146
Net book values:		
December 31, 2007	239,082	356,401
December 31, 2006	230,678	347,997
December 31, 2005	223,994	341,313

Included in investment properties is land at cost of $41,091,000 (2006: $34,175,000) for the Group, net of intra-group profit of $117,320,000 recorded during 2000; and $41,091,000 (2006: $34,175,000) for the Society.

The fair value of investment properties, as determined by Victoria Mutual (Property Services) Limited, on the open-market value basis in the current and prior years, was $1,074,000,000 (2006: $1,077,325,000) for the Group and the Society.

18. PROPERTY, PLANT AND EQUIPMENT

Group:

	Leasehold and Freehold Land and Buildings	Office Furniture & Equipment	Motor Vehicles	Improvements In Progress	Total
	$'000	$'000	$'000	$'000	$'000
December 31, 2005	256,430	689,196	13,570	-	959,196
Translation adjustment *	11,741	7,792	-	-	19,533
Additions	28,057	46,917	-	-	74,974
Disposals	-	* (4,863)	-	-	* (4,863)
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
Cost:					
Depreciation					
December 31, 2005	48,491	457,288	6,298	-	512,077
Translation adjustment *	-	6,549	-	-	6,549
Charge for year	9,116	55,132	1,838	-	66,086
Eliminated on disposals	(4,352)	* (5,618)	-	-	* (9,970)
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
Net book values:					
December 31, 2007	203,439	207,933	3,943	10,770	426,085
December 31, 2006	242,973	225,691	5,434	-	474,098
December 31, 2005	207,939	231,908	7,272	-	447,119

The Group's freehold land and buildings include land at cost of $27,161,792 (2006: $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, 2006 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	Office Furniture & Equipment	Motor Vehicles	Improvements In Progress	Total
	$'000	$'000	$'000	$'000	$'000
Cost:					
December 31, 2005	208,498	611,901	13,257	-	833,656
Additions	4,245	43,744	-	-	47,989
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
Depreciation:					
December 31, 2005	32,186	398,288	6,140	-	436,614
Charge for the year	4,754	48,944	1,765	-	55,463
December 31, 2006	36,940	447,232	7,905	-	492,077
Charge for the year	4,724	51,274	1,733	-	57,731
December 31, 2007	41,664	498,506	9,638	-	549,808
Net book values:					
December 31, 2007	171,079	192,852	3,619	10,770	378,320
December 31, 2006	175,803	208,413	5,352	-	389,568
December 31, 2005	176,312	213,613	7,117	-	397,042

The Society's freehold land and buildings include land at a cost of $23,807,012 (2006: $23,807,012).

The freehold buildings in Jamaica were appraised for insurance purposes by Victoria Mutual (Property Services) Limited, which 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	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Fair values:				
Jamaica	2,134,100	2,000,100	959,300	922,775
United Kingdom	101,213	93,900	-	-

19. SHAREHOLDERS' SAVINGS

	Group		Society	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
B shares	16,726,850	11,413,621	16,726,850	11,413,621
C shares	20,634,386	21,912,125	20,801,984	22,058,277
	37,361,236	33,325,746	37,528,834	33,471,898
Deferred shares [notes 26(i) and 27]	92,189	105,020	92,189	105,020
	37,453,425	33,430,766	37,621,023	33,576,918

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

19. SHAREHOLDERS' SAVINGS (CONT'D)

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

	Group		Society	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
On demand to 3 months	31,172,305	28,596,355	31,339,903	28,742,507
Three to 12 months	1,905,534	1,686,685	1,905,534	1,686,685
Over 12 months	4,283,397	3,042,706	4,283,397	3,042,706
	37,361,236	33,325,746	37,528,834	33,471,898

20. DEPOSITORS' SAVINGS

	Group		Society	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Due to depositors	345,910	263,582	345,910	263,582
Percentage of the Society's mortgage loan balances			1.68%	1.84%

21. OTHER LIABILITIES

	Group		Society	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Due to reinsurers	175,348	207,352	-	-
Clients funds	30,833	31,001	-	-
Deposits – private treaty sales	16,337	31,149	16,337	31,149
Accrued expenses and other payables	728,766	598,110	356,340	201,279
	951,284	867,612	372,677	232,428

22. REPURCHASE AGREEMENTS

The Group and the Society sell Government and corporate securities and agree to repurchase them on a specified date and at a specified price ('repurchase agreements' or 'repos'). The Group and the Society, on receiving payment from the purchaser, sometimes deliver the underlying securities to the purchaser, although title is not formally transferred unless the Group and the Society fail to repurchase the securities on the date specified or to honour other conditions.

	Group		Society	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Denominated in Jamaica dollars	3,586,511	2,979,513	-	-
Denominated in United States dollars	1,962,681	1,732,365	-	-
	5,549,192	4,711,878	-	-

At December 31, 2007, securities obtained under resale agreements and certain investments (see notes 8 and 10) and interest accrued thereon are pledged by a subsidiary as collateral for repurchase agreements. These financial instruments have a carrying value of $6,085,052,000 (2006: $5,486,535,751) for the Group.

23. INSURANCE UNDERWRITING PROVISIONS

	Group	
	2007 $'000	2006 $'000
Unearned premiums	489,637	411,744
Outstanding claims	264,086	237,556
	753,723	649,300

24. LOANS PAYABLE

	Group & Society	
	2007 $'000	2006 $'000
United States dollar loan [see (a) below]	342,250	324,750
United States dollar loan [see (b) below]	684,500	649,500
United States dollar loan [see (c) below]	-	615,986
United States dollar loan [see (d) below]	-	76,503
	1,026,750	1,666,739
Interest payable	18,518	47,657
	1,045,268	**1,714,396**

(a) This represents a US$5 million loan, which bears interest at LIBOR plus 1.1% per annum. The loan will mature June 30, 2008. The loan is secured by term deposits amounting to £ (2006: £3,911,895) (see note 7).

(b) This comprises two loans:

Loan # 1 - US$5 million which bears interest at 5.86% (2006: 6.09%) per annum payable semi-annually. The loan matures on March 13, 2008 and is secured by term deposits amounting to £4,036,000 (2006: £3,688,136) (see note 7).

Loan #2 - US$5 million which bears interest at 4.84% per annum, payable semi-annually. The loan matures on August 18, 2008 and is secured by term deposits amounting to £ 5,339,000 (2006: £8,000,000) (see note 7).

(c) Loan of US$9.484 million loan was fully repaid on September 30, 2007.

(d) Loan of US$1.816 million loan was fully repaid as at December 31, 2007.

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.

26. RESERVES (CONT'D)

(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(s) 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 & Society	
	2007 $'000	2006 $'000
Permanent capital fund (note 25)	2,582,885	2,216,213
Reserve fund [note 26(i)]	318,260	277,519
Retained earnings reserve [note 26(ii)]	559,222	559,222
Deferred shares (note 19)	92,189	105,020
Total capital base [note 6(c)]	**3,552,556**	**3,157,974**

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 Society'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).

28. FINANCIAL INSTRUMENTS (CONT'D)

(a) Fair value (cont'd):

The fair values of investments are as follows:

(i) Investments – Jamaica Government Securities:

	Group		Society	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
At fair value through profit & loss:				
Quoted securities	-	-	-	-
Held-to-maturity securities:				
Securities denominated in United States dollars:				
Bonds	440,599	2,596,729	-	2,164,759
Securities denominated in Jamaica dollars:				
Bonds	-	2,370,119	-	2,312,072
Treasury bills	-	525,181	-	525,181
Local registered stock	-	65,152	-	65,152
Debentures	-	889,600	-	889,600
	440,599	6,446,781	-	5,956,764
Available-for-sale securities:				
Securities denominated in United States dollars:				
Bonds	3,835,907	2,497,213	2,438,372	1,189,718
Securities denominated in Jamaica dollars:				
Bonds	2,582,070	1,367,520	2,403,325	470,340
Treasury bills	1,913,141	160,349	684,353	92,452
Local registered stock	388,826	-	368,389	-
Debentures	900,444	753,162	466,275	544,866
	9,620,388	4,778,244	6,360,714	2,297,376
	10,060,987	11,225,025	6,360,714	8,254,140

28. FINANCIAL INSTRUMENTS (CONT'D)

(a) Fair value (cont'd):

(ii) Investments – Other

	Group 2007 $'000	Group 2006 $'000	Society 2007 $'000	Society 2006 $'000
Loans and receivables:				
Bank deposits	1,037,424	6,480,560	10,333	2,148,695
Bonds	-	-	-	1,195,730
Available-for-sale:				
Treasury bills	1,481,849	-	1,481,849	-
Bonds	879,420	1,516,115	879,420	323,718
Ordinary shares - quoted	294,300	192,068	266,198	180,550
Ordinary shares - unquoted	39	39	39	39
Units in unit trusts	5,358	5,103	5,358	4,664
	3,698,390	8,193,885	2,643,197	3,853,396

29. NET INTEREST INCOME

	Group 2007 $'000	Group 2006 $'000	Society 2007 $'000	Society 2006 $'000
Interest income				
Investment securities	2,519,572	2,489,980	-	2,312,072
Loans to customers	2,078,637	1,890,320	-	525,181
Dividends	6,457	36,786	-	889,600
	4,604,666	6,446,781	-	5,956,764
Interest expense				
Finance charges	104,408	1,367,520	2,403,325	470,340
To shareholders	2,307,530	160,349	684,353	92,452
To depositors	45,148	-	368,389	-
Other	10,271	753,162	466,275	544,866
	2,467,357	4,778,244	6,360,714	2,297,376
Net interest income	2,137,309	11,225,025	6,360,714	8,254,140

30. NET FEE AND COMMISSION INCOME

	Group		Society	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Fee and commission income				
Reinsurance	90,860	68,068	-	-
Customers	50,922	60,111	18,098	33,899
Other	27,995	15,917	27,995	15,916
	169,777	144,096	46,093	49,815
Fee and commission expenses				
Reinsurance	23,601	24,114	-	-
Other	5,261	100	5,126	-
Inter-bank transaction fees	28,761	21,610	28,761	21,610
	57,623	45,824	33,887	21,610

31. OTHER OPERATING REVENUES

	Group		Society	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Insurance premiums	633,621	586,981	-	-
Other income	432,932	253,169	337,647	265,441
Rent	27,283	26,475	32,128	30,593
Gain on sale of investments	75,286	7,810	75,286	4,077
Gain on disposal of property, plant and equipment	2	143	2	143
	1,169,124	874,578	445,063	300,254

32. PERSONNEL COSTS

	Group		Society	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Salaries	744,997	665,954	587,542	514,839
Pension scheme contributions	4,316	4,009	3,686	3,349
Statutory payroll contributions	86,648	80,287	71,930	67,058
Other	266,663	237,780	239,952	214,384
	1,102,624	988,030	903,110	799,630

33. OTHER OPERATING EXPENSES

	Group		Society	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Direct operating expenses for investment property that generated rental income	39,150	48,624	39,150	48,624
Administration	736,665	703,015	737,365	712,043
Audit fees	23,300	20,248	10,175	7,000
Directors' fees [note 36(d)]	9,820	6,590	4,020	3,700
Specific provision for losses	37,966	(10,893)	36,437	21,554
Underwriting expenses	560,277	571,802	-	-
	1,407,178	1,339,386	827,147	792,921

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, 33 1/3% 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		Society	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
(i) Current tax expense:				
Current tax at 30%	87,700	93,385	87,700	93,385
Current tax at 25% and 33 1/3%				
- current year	41,735	-	-	-
- prior year's under provision	(129)	-	-	-
Bonds	129,306	98,055	87,700	93,385
(ii) Deferred tax expense:				
Origination and reversal of temporary differences [notes 13(a) and (b)	29,631	(3,454)	31,398	2,257
Tax benefit of unused tax losses	9,301	18,964	-	-
	38,932	15,510	31,398	2,257
Actual tax expense recognised	168,238	113,565	119,098	95,642

(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 $42,356,000 (2006: $42,666,000).

In his April 2005, 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, 2006. 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.

34. INCOME TAX EXPENSE (CONT'D)

(c) Reconciliation of effective tax charge:

The effective tax rate of 20.52 (2006: 17.28%) for the Group and 20.21% (2006: 19.15%) 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		Society	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Surplus before income tax	819,680	657,419	589,383	499,380
Computed "expected" income tax using local tax rate	234,721	182,411	176,815	149,814
Tax effect of treating the following items differently -				
Depreciation charge and capital allowances	(24,875)	2,538	(24,887)	3,348
Tax exempt income	(5,394)	(9,039)	1,283	2,107
Preference dividends payment	(2,847)	(6,021)	-	(3,174)
Prior year adjustments	-	(55,667)	-	(55,963)
Disallowed expenses	3,010	1,197	1,206	1,886
Unrealised exchange gain	23,159	(1,884)	(21,827)	-
Interest receivable	2	(7)	-	-
Tax losses utilised	320	2,407	-	-
Interest payable	(1)	6	-	-
Other	(13,539)	(2,376)	(13,492)	(2,376)
Actual tax expense	168,238	113,565	119,098	95,642

35. SURPLUS FOR THE YEAR

	Group	
	2007 $'000	2006 $'000
Dealt with in the financial statements of:		
The Society	470,285	403,738
Subsidiaries	181,157	140,116
	651,442	543,854

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".

36. RELATED PARTY TRANSACTIONS (CONT'D)

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

	2007 $'000	2006 $'000
Subsidiaries:		
Resale agreements	1,745,951	3,987,576
Shareholders' savings	(178,478)	(172,871)
Key management personnel:		
Mortgage loans	43,541	12,230
Other loans	1,390	2,131
Shareholders' savings	(10,940)	(3,946)
Non-executive Directors - mortgage loans	**9,506**	**6,742**

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 over property of the respective borrowers. Other balances are not secured and no guarantees have been obtained.

No impairment losses have been recorded against balances outstanding during the year with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relatives at the year end.

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

	2007 $'000	2006 $'000
Directors:		
Interest from loans	1,375	1,065
Key management personnel:		
Interest from loans	1,562	404
Interest expense	(297)	-
Subsidiaries:		
Interest and dividends from investments	424,553	443,829
Other operating revenue	14,232	10,582
Interest expense	(10,883)	(5,755)
Other operating expenses	(226,702)	(33,609)

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		Society	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Short-term employee benefits	57,020	94,177	53,457	54,536
Long service leave	240	365	240	365
Post employment benefits	625	160	625	160
	57,885	94,702	54,322	55,061

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 against 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		Society	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Within one year after balance sheet date	6,244	4,108	3,866	4,108
Subsequent years	5,870	540	-	540

(b) Commitments for capital expenditure for the Group and the Society amount to approximately $3,000,000 (2006: $2,800,000) at balance sheet date in respect of total project costs of approximately $5,500,000 (2006: $8,000,000). Of this amount, $2,301,160 (2006: $5,388,749) 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 2 -7 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, 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)]:

	2007 J$	2006 J$
United States Dollar	68.45	64.95
Canadian Dollar	68.00	55.50
Pound Sterling	134.95	125.20

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 $8,776,367,007 at year-end (2006: $7,305,102,784).

Corporate Data

VMBS MANAGEMENT TEAM

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

Noel Hann, JD, F.A.I.A., M.C.M.I.
Senior Vice-President, Group Risk & Compliance

Allan Lewis, A.S.A., Ed M., MBA, B.Sc.
Senior Vice-President, Group Strategy

Michelle Wilson-Reynolds, MBA, B.Sc. (Hons.)
Senior Vice-President, Group Marketing & Corporate Affairs

Hugh Reid, F.C.A., F.C.C.A., FLMI, M.Sc., B.Sc. (Hons.)
Senior Vice-President & Chief Operating Officer

Janice E. McKenley, F.C.C.A., F.C.A., MBA (Hons.), B.Sc. (Hons.)
Senior Vice-President & Group Chief Financial Officer

Beverley Strachan, MBA, B.Sc (Hons.), Dip Ed.
Vice-President, Group Human Resource Administration

Paulette Francis-Smellie, LL.B (Hons.)
Vice-President & Corporate Secretary

Paulene Lyle, M.Sc., B.Sc (Hons.), PMP, Project +
Vice-President, Information Technology

Courtney Lodge, MBA, B.A (Hons)
Vice-President, Branch Distribution

Gavin Lowe, Diploma- Management Studies
Assistant Vice-President, Operations

Horace Bryan, M. Sc., B. Sc. (Hons.)
Assistant, Vice-President, Centralized Services

Joan Brown, F.C.C.A., MBA,
Assistant Vice-President, Group Accountant

Sandra J.E. Morgan, Ph.D., MBA, B.Sc.
Head, Customer Experience

MANAGERS OF SUBSIDIARIES

Brian Campbell, MBA
General Manager, Victoria Mutual (Property Services) Ltd.

Ian Rowlands, A.C.I.I.,
General Manager, Victoria Mutual Insurance Company Ltd.

Marlene Parker, B.Sc (Hons.)
General Manager, VM Money Transfer Services Ltd.

Devon Barrett, MBA, B.Sc
General Manager, Victoria Mutual Wealth Management Ltd.

EXTERNAL AUDITORS

Patrick Chin, F.C.A
Linroy Marshall, F.C.A.
Chartered Accountants, KPMG

MEMBERS OF ADVISORY COUNCIL- WESTERN REGION

Jeanne P. Robinson-Foster, B.A. LL.B (Hons), C.L.E
Hon. Roylan Barrett, C.D., A.C.I.I.,J.P.
Dalkeith Hannah, F.R.I.C.S., F.J.I.Q.S.

MEMBERS OF ADVISORY COUNCIL-CENTRAL REGION

Richard L. Donaldson
Rudolph L. Jobson, J.P.
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Pauline Haughton, M.B.A., B. Sc., J.P.

PANEL OF ATTORNEYS-AT-LAW

Delroy Chuck & Company
Dunn Cox
Phillips, Malcolm, Morgan & Matthies
M.N. Hamaty & Company
O.G. Harding & Company
G. Anthony Levy & Company
Livingston, Alexander & Levy
Murray & Tucker
Myers, Fletcher & Gordon
Nunes, Scholefield, DeLeon & Company
Rattary, Patterson, Rattary
Robb, Clarke & Mullings
Robertson, Smith, Ledgister & Company
Robinson, Phillips & Whitehourne
Tenn, Russell, Chin-Sang, Hamilton & Ramsey
Watt, King & Robinson

BANKERS

Bank of Nova Scotia
Bank of Nova Scotia Jamaica Ltd.
Barclays Bank PLC
First Caribbean International Bank of Jamaica Ltd.
Citibank N.A.
Merill Lynch International Bank
National Commercial Bank Jamaica Ltd.
RBTT Bank Jamaica Ltd.

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TELECARE CENTRE

1-876-754-VMBS (8627)
1-888-YES-VMBS (937-8627) - From Jamaica
1-866-967-VMBS (8627) - Toll Free from USA and Canada
0-800-068-VMBS (8627) - Free Phone from the UK
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Saturdays: 10:00 am - 6:00 pm
Sundays: 10:00 am - 3:00 pm
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