Statement I

Chartered Accountants

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Deloitte
& Touche

AUDITORS' REPORT

To the members of

CAPITAL & CREDIT MERCHANT BANK LIMITED

We have audited the financial statements set out on Statements II to VII. These financial statements are the responsibility of the directors and management. The directors and management are required to select suitable accounting policies and then apply them consistently, make judgements and estimates that are reasonable and prudent, follow applicable accounting standards, and prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group and the Bank will continue in business. The directors and management are responsible for keeping proper accounting records, for safeguarding the assets of the Group and the Bank, and for the prevention and detection of fraud and other irregularities. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors and management, as well as evaluating the overall financial statements presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, proper accounting records have been kept and the financial statements, which are in agreement therewith, present fairly in all material respects the financial position of the Group and the Bank as at December 31, 2002 and the net profit, changes in equity and cash flows of the Group and the Bank for the year then ended and have been prepared in accordance with accounting standards generally accepted in Jamaica and comply with the provisions of the Companies Act applicable to banking companies and the Financial Institutions Act.

Deloitte & Touche

Chartered Accountants
Kingston, Jamaica,
February 18, 2003

Deloitte
& Touche
Tohmatsu

Donald S. Reynolds, T. Sydney Fernando, Carey O. Metz, Audley L. Gordon, Winston G. Robinson, Fagan E. Calvert

Capital & Credit Merchant Bank and Its Subsidiary

2002 Consolidated Balance Sheet

As at December 31, 2002

Statement II

	Notes	2002 $'000	2001 $'000
ASSETS			
CASH RESOURCES			
Cash and bank balances	3	703,155	472,539
INVESTMENTS	4	19,157,691	4,151,207
LOANS (after provision for loan losses)	5(a)	492,741	323,351
OTHER ASSETS			
Accounts receivable	6	636,387	580,840
Income tax recoverable		20,441	66,667
Owed by fellow subsidiary		-	1,286
Customers' liability under acceptances, guarantees and letters of credit as per contra		1,049,554	703,802
Fixed assets	7	28,173	22,578
Other asset	8	15,000	15,000
		1,749,555	1,390,173
GOODWILL ON CONSOLIDATION	9	2,088	4,175
		22,105,230	6,341,445
LIABILITIES AND SHAREHOLDERS' EQUITY			
DEPOSITS	10	2,167,076	1,141,345
SECURITIES SOLD UNDER REPURCHASE AGREEMENTS	11	16,194,392	1,909,627
DUE TO OTHER FINANCIAL INSTITUTIONS		1,186,711	1,489,816
OTHER LIABILITIES			
Accounts payable		178,847	85,527
Income tax payable		3,180	-
Owed to holding company		-	9,274
Liabilities under acceptances, guarantees and letters of credit as per contra		1,049,554	703,802
Other		24,947	288
		1,256,528	798,891
DEFERRED TAXATION	12(b)	105,491	91,556
SHAREHOLDERS' EQUITY			
Share capital	13	250,000	250,000
Statutory reserve fund	14	164,983	137,142
Retained earnings reserve	15	523,020	322,020
Unappropriated profit		257,029	201,048
		1,195,032	910,210
		22,105,230	6,341,445

The Notes on Statement VII form an integral part of the Financial Statements.

Approved on behalf of the Board.

....)
Ryland T. Campbell)
)
....)
Andrew B. Cocking) Directors
)
....)
Kelvin St. C. Roberts)

2002 Consolidated Proift & Loss Account

Year Ended December 31, 2002

Statement III

	Notes	2002 $'000	2001 $'000
NET INTEREST INCOME AND OTHER REVENUE			
Interest earned on investments		833,379	179,086
Interest on loans		98,039	81,087
Total interest income		931,418	260,173
Interest expense		626,141	211,676
Net interest income		305,277	48,497
Fees and other income	16	351,184	451,435
Net interest income and other revenue		656,461	499,932
NON-INTEREST EXPENSES			
Salaries, personnel expenses and professional services		170,296	128,129
Other operating expenses		115,895	91,838
Provision for loan losses	5(c)	14,099	15,367
Litigation settlement		-	10,951
Depreciation		9,101	8,984
Amortization of goodwill on acquisition		2,087	2,088
Total non-interest expenses		311,478	257,357
PROFIT BEFORE TAXATION		344,983	242,575
Taxation	12(a)	60,161	28,698
NET PROFIT	17	284,822	213,877
Earnings per stock unit of 50 cents	18	57¢	43¢

The Notes on Statement VII form an integral part of the Financial Statements.

Capital & Credit Merchant Bank and Its Subsidiary

2002 Consolidated Statement of Changes in Equity

Year Ended December 31, 2002

Statement IV

	Notes	Share Capital	Statutory Reserve Fund	Retained Earnings Reserve	Unappropriated Profit	Total
		$′000	$′000	$′000	$′000	$′000
Balance, December 31, 2000		250,000	104,813	172,020	169,500	696,333
Net profit for the year		-	-	-	213,877	213,877
Transfer to statutory reserve fund	14	-	32,329	-	(32,329)	-
Transfer to retained earnings reserve	15	-	-	150,000	(150,000	-
Balance, December 31, 2001		250,000	137,142	322,020	201,048	910,210
Net profit for the year		-	-	-	284,822	284,822
Transfer to statutory reserve fund	14	-	27,841	-	(27,841)	-
Transfer to retained earnings reserve	15	-	-	201,000	(201,000)	-
Balance, December 31, 2002		250,000	164,983	523,020	257,029	1,195,032

The Notes on Statement VII form an integral part of the Financial Statements.

2002 Consolidated Statement of Cash Flows

Year Ended December 31, 2002

Statement V

	2002	2001
	$'000	$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit	284,822	213,877
Non-cash items		
Depreciation	9,101	8,984
Provision for loan losses	22,204	35,776
Deferred tax adjustment	13,935	27,139
(Profit) loss on disposal of fixed assets	(36)	6,546
Amortisation of goodwill	2,087	2,088
	332,113	294,410
(Increase) decrease in operating assets		
Accounts receivable	(55,547)	(181,421)
Income tax recoverable	46,226	(66,279)
Owed by holding company	-	4,711
Owed by fellow subsidiary	1,286	(424)
(Decrease) increase in operating liabilities		
Accounts payable	117,979	43,208
Income tax payable	3,180	(68,223)
Due to other financial institutions	(303,105)	1,222,252
Owed to holding company	(9,274)	12,713
Cash provided by operating activities	132,858	1,260,947
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans granted (net)	(191,594)	171,777
Investments (net)	(15,006,484)	(3,493,003)
Acquisition of fixed assets	(14,766)	(10,130)
Proceeds from disposal of fixed assets	106	28,219
Net cash on acquisition of subsidiary	-	(31,051)
Cash used in investing activities	(15,212,738)	(3,334,188)
CASH FLOWS FROM FINANCING ACTIVITIES		
Customer deposits (net)	1,025,731	238,660
Securities sold under repurchase agreements	14,284,765	1,850,166
Cash provided by financing activities	15,310,496	2,088,826
INCREASE IN CASH RESOURCES	230,616	15,585
OPENING CASH RESOURCES	472,539	456,954
CLOSING CASH RESOURCES	703,155	472,539

The Notes on Statement VII form an integral part of the Financial Statements.

Capital & Credit Merchant Bank

2002 Balance Sheet

Year Ended December 31, 2002

Statement VI

	Notes	2002 $'000	2001 $'000
ASSETS			
CASH RESOURCES			
Cash and bank balances	3	690,959	472,229
INVESTMENTS	4	13,961,454	3,998,201
LOANS (after provision for loan losses)	5(a)	492,741	323,351
OTHER ASSETS			
Accounts receivable	6	512,968	578,970
Income tax recoverable		20,441	66,667
Owed by holding company		-	1,382
Owed by fellow subsidiary		-	1,286
Customers' liabilities under acceptances, guarantees and letters of credit as per contra		1,049,554	703,802
Fixed assets	7	26,116	21,585
		1,609,079	1,373,692
		16,754,233	6,167,473
LIABILITIES AND STOCKHOLDERS' EQUITY			
DEPOSITS	10	2,187,877	1,141,345
SECURITIES SOLD UNDER REPURCHASE AGREEMENTS	11	10,901,184	1,743,375
DUE TO OTHER FINANCIAL INSTITUTIONS		1,186,711	1,489,816
OTHER LIABILITIES			
Accounts payable		140,479	83,512
Income tax payable		-	-
Owed to wholly-owned subsidiary		-	1,918
Liabilities under acceptances, guarantees and letters of credit as per contra		1,049,554	703,802
Other		288	288
		1,190,321	789,520
DEFERRED TAXATION	12(b)	97,866	91,556
STOCKHOLDERS' EQUITY			
Share capital	13	250,000	250,000
Statutory reserve fund	14	164,983	137,142
Retained earnings reserve	15	523,020	322,020
Unappropriated profit		252,271	202,699
		1,190,274	911,861
		16,754,233	6,167,473

The Notes on Statement VII form an integral part of the Financial Statements.

Approved on behalf of the Board.

....)
Ryland T. Campbell)
) Directors
....)
Andrew B. Cocking)
....)
Kelvin St. C. Roberts

Statement VII.I

1 GROUP IDENTIFICATION

(a) Capital & Credit Merchant Bank Limited ("The Bank") is incorporated in Jamaica and is a wholly-owned subsidiary of Capital & Credit Holdings Limited, which is also incorporated in Jamaica.

During 2001 the Bank acquired the shares of Capital & Credit Securities Limited (formerly Capital & Credit Asset Management Limited) making the company a wholly-owned subsidiary of the Bank. The subsidiary is also incorporated in Jamaica.

The Bank's main business is that of taking deposits, granting loans and trading in foreign currencies and Government securities.

The subsidiary's main business is that of dealing in securities, stock-broking, portfolio planning, pension fund management and investment advisory services.

(b) i) The Bank is licensed under the Financial Institutions Act and the Securities Act and regulated by the Bank of Jamaica (the Supervisor) and the Financial Services Commission.

ii) Capital & Credit Securities Limited is licensed under the Securities Act and regulated by the Financial Services Commission and the Jamaica Stock Exchange.

(c) These financial statements have been expressed in Jamaican dollars.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Accounting convention, principles and standards

These financial statements have been prepared under the historical cost convention. The accounting principles followed by the Group are those generally accepted in Jamaica and these financial statements comply in all material respects with the requirements of applicable statements of standard accounting practice issued by the Institute of Chartered Accountants of Jamaica.

(b) Consolidation

The consolidated financial statements present the results of operations and financial position of the Bank and its subsidiary (collectively referred to as "the Group"). The excess of the cost of shares in subsidiary over the value of the net assets acquired is classified as goodwill arising on consolidation. Goodwill is being amortised over three years.

Inter-group transactions have been eliminated.

(c) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and any adjustments that maybe necessary would be reflected in the year in which actual results are known.

Statement VII.2

2 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(d) Investments

(i) Quoted securities

These are stated at the lower of cost or market value on a portfolio basis.

(ii) Government securities

Investments in treasury bills, local registered stocks, eurobonds and other treasuries are stated at cost.

Interest on securities is recorded on an accrual basis, and is shown as part of accounts receivable.

(e) Loans

Loans are stated net of an allowance for credit losses.

A loan is classified as non-performing when, in management's opinion there has been deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of the full amount of principal and interest.

Loans are classified non-current if they are non-performing in excess of ninety days. When a loan is classified as non-current, recognition of interest in accordance with the terms of the original loan ceases, and interest is taken into account on the cash basis.

(f) Provision for loan losses.

The Bank maintains an allowance for credit losses, which consists of specific provisions and general provisions for doubtful credits.

Specific provision for loan losses is based on an assessment of non-performing loans. In assessing each loan, collateral held and other factors including past loan loss experience, business and economic conditions are considered. Valuation of collateral held by the Bank is assessed in accordance with guidelines issued by the Supervisor.

General provisions for doubtful credits are established against the loan portfolio where a prudent assessment by the Bank of adverse economic trends suggests that losses may occur, but where such losses cannot yet be determined on an item-by -item basis. The Supervisor requires that such a provision should not be less than 0.5% for certain residential mortgages and not less than 1% for all other loans.

(g) Fixed assets and depreciation

Fixed assets are stated at cost.

Depreciation is calculated on the straight line basis on cost over the estimated lives of the assets. Annual depreciation rates are based on the following estimated useful lives:

Leasehold improvements	-	3 – 5 years
Furniture, fixtures and office equipment	-	5 years
Computer equipment	-	3 years
Motor vehicles	-	5 years

No depreciation is provided on paintings and artwork.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Statement VII.3

2 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(h) Off balance sheet assets and liabilities

Securities purchased by the Bank either on behalf of, or for subsequent on-trading to clients have been treated as off balance sheet items. The corresponding liability is treated in a similar manner.

The net interest income accruing to the Bank is included in the statement of income as other income.

(i) Assets purchased/sold under resale/repurchase agreements

The purchase and sale of securities under resale and repurchase agreements are treated as collaterised lending and borrowing transactions.

The related interest income and interest expense are recorded on the accrual basis.

(j) Guarantees and Letters of Credit

The Bank's potential liability under acceptances is reported as a liability. The Bank's recourse against the customer in the event of a call on these commitments is reported as an asset.

(k) Deferred taxation

The Group provides for the deferred tax effects of transactions in the same year that such transactions enter into the determination of net profit regardless of when they are recognised for tax purposes. The deferred tax liability is cal culated at current rates.

(l) Interest and dividend income

Interest income and expenses are recorded on the accrual basis. In the case of loans if the collection of interest income is considered doubtful, or payment is outstanding for over ninety days, interest is taken into account on a cash basis.

Dividend income from investments is recognized when the shareholders' right to receive payment has been established.

(m) Foreign currencies

Transactions in foreign currencies have been converted to Jamaican dollars at the rates of exchange ruling at the dates of those transactions. Assets and liabilities denominated in foreign currencies are translated to Jamaican dollars at exchange rates current at balance sheet date. Exchange gains and losses are credited to, or charged against income of the year.

(n) Financial instruments

Financial instruments carried on the balance sheet include cash resources, investments, loans, other assets (excluding income tax recoverable, goodwill and fixed assets), deposit liabilities, acceptances, guarantees, letters of credit, and other liabilities (excluding income tax payable and deferred taxation). The fair values of the financial instruments are disclosed in Note 22.

(o) Reclassification

In order to conform with the current year presentation, certain items in the prior year financial statements have been reclassified.

3 CASH RESOURCES

Cash resources include $127,011,267 (2001: $117,963,437) held under Section 14(i) of the Financial Institutions Act, at the Bank of Jamaica as a Cash Reserve. Accordingly, it is not available for investment or other use by the Bank.

Statement VII.4

4 INVESTMENTS

	The Group					
	Remaining Term to Maturity					
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Carrying Value 2002	Carrying Value 2001
	$'000	$'000	$'000	$'000	$'000	$'000
Government of Jamaica securities	218,995	403,217	2,136,698	2,817,074	5,575,984	2,416,956
Foreign securities	-	2,191,710	7,307,152	3,725,839	13,224,701	1,590,987
Securities purchased under resale agreements	142,875	-	-	-	142,875	-
Other	-	13,200	23,900	931	38,031	7,796
	361,870	2,608,127	9,467,750	6,543,844	18,981,591	4,015,739
Quoted securities – at cost					176,100	135,468
					19,157,691	4,151,207
Market value of quoted securities					296,199	211,340

	The Bank					
	Remaining Term to Maturity					
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Carrying Value 2002	Carrying Value 2001
	$'000	$'000	$'000	$'000	$'000	$'000
Government of Jamaica securities	218,995	64,555	1,366,841	2,387,409	4,037,800	2,228,436
Foreign securities	-	2,191,710	4,248,952	2,706,439	9,147,101	1,590,987
Securities purchased under resale agreement		211,495			211,495	-
Other	-	13,200	23,900	931	38,031	239
	218,995	2,480,960	5,639,693	5,094,779	13,434,427	3,819,662
Investment in subsidiary					364,315	64,315
Quoted securities – at cost					162,712	114,224
					13,961,454	3,998,201
Market value of quoted securities					281,543	191,720

Statement VII.5

4 **INVESTMENTS (Cont'd)**

The interest rates on a significant portion of Government of Jamaica Local Registered Stocks are adjusted on interest payment dates by reference to the existing six months Treasury Bill rate which is the primary reference point for interest rates in the economy. Consequently, the carrying value of Government of Jamaica securities approximates its fair value.

Government securities totalling $22,000,000 are held by the Bank of Jamaica, $21,000,000 as security in the event of an overdraft on the bank's primary dealer account, and $1,000,000 to facilitate stock-broking activities of the bank's subsidiary.

5 **LOANS**

(a)

	The Group and The Bank					
	2002			2001		
	Gross	Third Party Participation	Net	Gross	Third Party Participation	Net
	$'000	$'000	$'000	$'000	$'000	$'000
Loans	1,519,776	968,544	551,232	1,026,764	659,021	367,743
Less Loan loss provision	58,491	-	58,491	44,392	-	44,392
	1,461,285	968,544	492,741	982,372	659,021	323,351

(b)

	The Group and the Bank					
	Remaining Term to Maturity					
	Within 3 months	3 to 12 Months	1 to 5 Years	Over 5 Years	Carrying Value 2002	Carrying Value 2001
	$'000	$'000	$'000	$'000	$'000	$'000
Individuals	6,493	5,669	61,565	-	73,726	53,014
Businesses	62,534	92,066	289,750	33,156	477,506	314,729
	69,027	97,735	351,315	33,156	551,232	367,743

Loans for the group include non-performing loans in the amount of $128,369,000 (2001:$65,150,000).

Statement VII.6

5 LOANS (Cont'd)

	The Group and The Bank	
	2002	2001
	$'000	$'000
(c) Loan loss provision		
Balance, January 1	44,392	28,618
Provision for the year	22,204	35,776
	66,596	64,394
Recoveries during the year	(8,105)	(18,825)
Written off during the year	-	(1,177)
Balance, December 31	58,491	44,392

The amount charged in the statement of income comprises:	$'000	$'000
Provision for year	22,204	35,776
Recoveries	(8,105)	(18,825)
Reduction in provision	-	(1,584)
Net charge for year	14,099	15,367

6 ACCOUNTS RECEIVABLE

	The Group		The Bank	
	2002	2001	2002	2001
	$'000	$'000	$'000	$'000
Interest receivable on investments	294,454	47,456	213,627	47,284
Interest receivable on loans	32,418	24,477	32,418	24,477
Income receivable off balance sheet trading	203,795	470,602	203,795	470,602
Withholding tax recoverable	7,936	1,508	7,936	-
Owed by wholly-owned subsidiary	-	-	2	-
Brokerage	21,558	-	-	-
Other receivables	76,226	36,797	55,190	36,607
	636,387	580,840	512,968	578,970

Statement VII.7

7 FIXED ASSETS

	The Group				
	Furniture, Fixtures and Equipment	Paintings and Artwork	Leasehold Improvements	Motor Vehicles	TOTAL
	$'000	$'000	$'000	$'000	$'000
At cost					
January 1	33,407	1,738	28,878	2,254	66,277
Additions	7,118	729	6,684	235	14,766
Disposals	-	-	-	(183)	(183)
December 31	40,525	2,467	35,562	2,306	80,860
Depreciation					
January 1	24,320	-	17,566	1,813	43,699
Charge for year	4,760	-	4,187	154	9,101
On disposals	-	-	-	(113)	(113)
December 31	29,080	-	21,753	1,854	52,687
Net book value					
December 31, 2002	11,445	2,467	13,809	452	28,173
December 31, 2001	9,087	1,738	11,312	441	22,578

	The Bank				
	Furniture, Fixtures and Equipment	Paintings and Artwork	Leasehold Improvements	Motor Vehicles	TOTAL
	$'000	$'000	$'000	$'000	$'000
At cost					
January 1	32,528	1,625	28,560	2,254	64,967
Additions	6,222	224	6,504	235	13,185
Disposals	-	-	-	(183)	(183)
December 31	38,750	1,849	35,064	2,306	77,969
Depreciation					
January 1	24,114	-	17,455	1,813	43,382
Charge for year	4,382	-	4,048	154	8,584
On disposals	-	-	-	(113)	(113)
December 31	28,496	-	21,503	1,854	51,853
Net book value					
December 31, 2002	10,254	1,849	13,561	452	26,116
December 31, 2001	8,414	1,625	11,105	441	21,585

8 OTHER ASSET

This represents one qualifying share held in the Jamaica Stock Exchange Limited (JSE) at cost. The qualifying share entitles Capital & Credit Securities Limited to operate as a broker/dealer and be a member of the Council of the JSE.

Statement VII.8

9 GOODWILL ON CONSOLIDATION

Goodwill represents the excess of the cost of shares in subsidiary over the value of the net assets acquired.

	2002	2001
	$'000	$'000
Value on acquisition	6,263	6,263
Amortisation	4,175	2,088
	2,088	4,175

Goodwill is being amortized over three years.

10 DEPOSITS

The Group

	Remaining Term to Maturity				
	Within 3 months	3 to 12 Months	1 to 5 Years	Carrying Value 2002	Carrying Value 2001
	$'000	$'000	$'000	$'000	$'000
Total	1.402,435	286,514	478,127	2,167,076	1,141,345
Personal				677,201	459,497
Financial institutions				191,145	351,385
Commercial and business enterprises				1,298,730	330,463
				2,167,076	1,141,345

The Bank

	Remaining Term to Maturity				
	Within 3 months	3 to 12 Months	1 to 5 Years	Carrying Value 2002	Carrying Value 2001
	$'000	$'000	$'000	$'000	$'000
Total	1.402,435	307,315	478,127	2,187,877	1,141,345
Personal				677,201	459,497
Financial institutions				211,946	351,385
Commercial and business enterprises				1,298,730	330,463
				2,187,877	1,141,345

Statement VII.9

11 SECURITIES SOLD UNDER REPURCHASE AGREEMENT

	The Group				
	Remaining Term to Maturity				
	Under 3 Months	3 to 12 Months	1 to 5 Years	Carrying Value 2002	Carrying Value 2001
	$'000	$'000	$'000	$'000	$'000
Total	12,411,680	3,770,839	11,873	16,194,392	1,909,627
Personal				543,387	256,366
Financial institutions				9,403,415	378,166
Commercial and business enterprises				6,247,590	1,275,095
				16,194,392	1,909,627

	The Bank				
	Remaining Term to Maturity				
	Within 3 months	3 to 12 Months	1 to 5 Years	Carrying Value 2002	Carrying Value 2001
	$'000	$'000	$'000	$'000	$'000
Total	7,148,522	3,752,662	-	10,901,184	1,743,375
Personal				125,661	115,669
Financial institutions				9,102,150	378,166
Commercial and business enterprises				1,673,373	1,249,540
				10,901,184	1,743,375

12 INCOME TAX

(a) The charge for the year comprises:

	The Group		The Bank	
	2002	2001	2002	2001
	$'000	$'000	$'000	$'000
Tax on profit for year at 33 1/3%	39,372	-	39,372	-
Tax on dividends at 10%	237	1,016	237	1,016
Tax on dividends at 20%	-	543	-	543
Provisions for prior years	6,617	-	6,617	-
Deferred tax adjustment	13,935	27,139	6,310	27,139
	60,161	28,698	52,536	28,698

The tax charge for the year is disproportionate to the reported profits mainly because of the interest on tax-free bonds.

Statement VII.10

12 INCOME TAX (Cont'd)

(b) Deferred taxation comprises:

	The Group		The Bank	
	2002	2001	2002	2001
	$'000	$'000	$'000	$'000
Tax loss	(12,790)	(24,941)	-	(24,941)
Capital allowances in excess of depreciation	842	184	755	184
Interest receivable	221,352	181,018	196,302	181,018
Interest payable	(103,913)	(64,705)	(99,191)	(64,705)
	105,491	91,556	97,866	91,556

(c) Tax losses amounting to approximately $38,370,000 relating to the subsidiary, (subject to the agreement of the Commissioner, Taxpayer Audit and Assessment) are available for set-off against future taxable profits.

13 SHARE CAPITAL

	2002	2001
	$'000	$'000
Authorised:		
600,000,000 ordinary shares of 50¢ each	300,000	300,000
Issued and fully paid:		
500,000,000 ordinary stock units of 50¢ each	250,000	250,000

14 STATUTORY RESERVE FUND

Under the Financial Institutions Act 1992 the Bank is required to transfer to a reserve fund a minimum of 15% of the net profit each year until the amount to the credit of the reserve fund is equal to 50% of the Bank's paid up capital. Thereafter, 10% of the net profit each year is to be transferred to the reserve fund until the amount at the credit of the reserve fund is equal to the Bank's paid up capital. The transfer for the year was at the prescribed rate of 10% (2001:15%).

15 RETAINED EARNINGS RESERVE

The Financial Institutions Act permits the transfer of net profits to a retained earnings reserve. Such transfers are made at the discretion of the Bank's Board of Directors and must be notified to the Bank of Jamaica.

On April 19, 2002 and December 6, 2002 the Board of Directors by resolution authorised the transfers of $141,000,000 and $60,000,000 respectively from unappropriated profits to retained earnings reserve.

16 FEES AND OTHER INCOME

Fees and other income consist primarily of gains on foreign currency transactions and gains on trading activities.

17 NET PROFIT

(a) Dealt with in the accounts of:

	2002	2001
	$'000	$'000
The Bank	265,226	213,440
The subsidiary	19,596	437
	284,822	213,877

Statement VII.11

17 NET PROFIT (Cont'd)

(b) The net profit is stated after taking account of the following items:

	The Group		The Bank	
	2002	2001	2002	2001
	$'000	$'000	$'000	$'000
Directors' emoluments				
- Fees	1,832	1,985	1,832	1,985
- Management	14,187	12,169	14,187	12,169
Audit fees	1,900	1,805	1,500	1,451
Depreciation	9,101	8,984	8,584	8,667

18 EARNINGS PER STOCK UNIT

The calculation of earnings per stock unit is based on the profits after taxation and the number of stock units in issue during the year.

19 OFF BALANCE SHEET ASSETS AND LIABILITIES

At December 31, 2002 the Bank had invested at various rates of interest funds belonging to its clients totalling approximately $8,418,851,000 (2001: $9,005,920,026). These liabilities as well as the related assets are not reflected in these financial statements other than by way of this note.

20 PENSION FUND

On July 1, 1996, a defined contribution superannuation fund ("The Fund") was established for the purpose of securing pensions on retirement for the qualified present and future employees of the Group. Under the plan, employees who are members of the Fund will contribute 5% of earnings as a basic contribution and have the option to contribute an additional amount of 5%. The Group contributes at a rate of 5% of members' earnings (See note 24(b)).

Retirement benefits payable by the Fund will be based on the contributions made to the Fund together with investment earnings thereon.

21 RELATED PARTY TRANSACTIONS

	2002	2001
	$'000	$'000
Related party balances and transactions are as follows:		
The Group		
Securities sold under Repurchase Agreement		
- On Balance Sheet	10,542	-
- Off Balance Sheet	9,183	-
Deposits	1,123	2,224
Management fees paid	12,000	12,000
Interest received	-	207
Interest paid	2,276	1,068
Fees charged	592	1,080

These transactions occurred in the normal course of business.

	2002	2001
	$'000	$'000
The Bank		
Securities sold under Repurchase Agreement		
- Off Balance Sheet	517,266	-
Securities purchased under Resale Agreement	211,495	-
Deposits	21,924	2,224
Interest received	3,142	207
Management fees paid	12,000	12,000
Interest paid	20,977	18,117
Fees charged	592	-
Preference dividend received	11,100	-

These transactions occurred in the normal course of business.

Statement VII.12

22 FINANCIAL INSTRUMENTS

(a) Fair value

Fair value amounts represent estimates of the consideration that would currently be 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. The calculation of estimated fair value is based on the market conditions at a specific point in time and may not be reflective of future fair values.

Changes in interest rates are the main cause of changes in the fair value of the Group's and the Bank's financial instruments. The majority of the Group's and Bank's financial instruments are carried at historical cost and are not adjusted to reflect increases or decreases in fair value due to market fluctuations, including those due to interest rate changes.

The following tables set out the fair values of on-balance sheet financial instruments of the Group and the Bank using the valuation methods and assumptions described below. The fair values disclosed do not reflect the value of assets and liabilities that are not considered financial instruments, such as land, buildings and equipment.

Fair values were estimated as follows:

The carrying values of cash resources, other assets, acceptances, guarantees and letters of credit, amounts due to other financial institutions and other liabilities are assumed to approximate their fair values, due to their short-term nature.

The fair value of investments is assumed to be equal to the estimated market value of investments provided in tables below. These values are based on quoted market prices, when available; when not available other valuation techniques are used.

The estimated fair value of loans reflects changes in the general level of interest rates that have occurred since the loans were originated. The particular valuation methods used are as follows:

i) For floating rate loans, book value is assumed to be equal to fair value as the interest rates on these loans are periodically repriced to market.

ii) For match funded loans the carrying value is assumed to be equal to their fair value as gains and losses offset each other.

The carrying values of deposits which are payable on demand or notice are assumed to be equal to their fair values. Fair values of fixed rate deposits with a remaining term to maturity exceeding six months or term deposits payable within six months are determined by discounting the contractual cash flows, using market interest rates currently offered for deposits with similar terms and risks.

Statement VII.13

22 FINANCIAL INSTRUMENTS (Cont'd)

(a) Fair value (Cont'd)

	The Group			
	Carrying Value 2002 $'000	Fair Value 2002 $'000	Carrying Value 2001 $'000	Fair Value 2001 $'000
Financial Assets				
Cash resources	703,155	703,155	472,539	472,539
Investments	19,157,691	19,335,778	4,151,207	4,227,144
Loans	492,741	492,741	323,351	323,351
Customers' liabilities on acceptances and guarantees	1,049,554	1,049,554	703,802	703,802
Other assets	656,463	656,463	597,126	597,126
	22,059,604	22,237,691	6,248,025	6,323,962
Financial Liabilities				
Deposits	2,167,026	2,167,026	1,141,345	1,141,345
Securities sold under repurchase agreements	16,199,468	16,199,468	1,909,627	1,909,627
Due to other financial institutions	1,186,711	1,186,711	1,489,816	1,489,816
Liabilities on acceptances and guarantees	1,049,554	1,049,554	703,802	703,802
Other liabilities	203,794	203,794	95,089	95,089
	20,806,553	20,806,553	5,339,679	5,339,679

	The Bank			
	Carrying Value 2002 $'000	Fair Value 2002 $'000	Carrying Value 2001 $'000	Fair Value 2001 $'000
Financial Assets				
Cash resources	690,959	690,959	472,229	472,229
Investments	13,961,454	14,124,588	3,998,201	4,075,761
Loans	492,741	492,741	323,351	323,351
Customers' liabilities on acceptances and guarantees	1,049,554	1,049,554	703,802	703,802
Other assets	512,968	512,968	581,638	581,638
	16,707,676	16,870,810	6,079,221	6,156,781
Financial Liabilities				
Deposits	2,187,877	2,187,877	1,141,345	1,141,345
Securities sold under repurchase agreements	10,901,184	10,901,184	1,743,375	1,743,375
Due to other financial institutions	1,186,711	1,186,711	1,489,816	1,489,816
Liabilities under acceptances, guarantees and letters of credit as per contra	1,049,554	1,049,554	703,802	703,802
Other liabilities	140,479	140,479	85,718	85,718
	15,465,805	15,465,805	5,164,056	5,164,056

Statement VII.14

22 **FINANCIAL INSTRUMENTS (Cont'd)**

(b) Interest rate risk

(i) The Group and the Bank are exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarises the Group's and the Bank's exposure to interest rate risks. Included in the table are the Group's and the Bank's assets, liabilities and equity at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

	The Group						
	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Non-Interest Bearing $'000	Total $'000
Assets							
Cash resources	576,144	106,902	-	-	-	20,109	703,155
Investments in Government of Jamaica and other Securities	1,183,871	1,349,047	11,171,576	3,828,057	1,449,065	176,075	19,157,691
Loans less provision for losses	28,888	10,489	97,735	322,472	33,157	-	492,741
Income tax recoverable	-	-	-	-	-	20,441	20,441
Customers' liabilities on acceptances and guarantees	541,091	503,566	4,897	-	-	-	1,049,554
Fixed assets	-	-	-	-	-	28,173	28,173
Other assets	-	-	-	-	-	653,475	653,475
Total assets	2,329,994	1,970,004	11,274,208	4,150,529	1,482,222	878,273	22,105,230
Liabilities							
Deposits	922,168	480,268	286,514	478,126	-	-	2,167,076
Securities sold under Repurchase Agreement	11,900,107	511,574	3,770,838	11,873	-	-	16,194,392
Due to other financial institutions	187,456	14,072	891,785	48,727	44,671	-	1,186,711
Liability on acceptances and guarantees	541,091	503,566	4,897	-	-	-	1,049,554
Other liabilities	-	-	-	-	-	206,974	206,974
Deferred taxation	-	-	-	-	-	105,491	105,491
Shareholders' equity	-	-	-	-	-	1,195,032	1,195,032
Total liabilities	13,550,822	1,509,480	4,954,034	538,726	44,671	1,507,497	22,105,230
On balance sheet interest sensitivity gap	(11,220,828)	460,524	6,320,174	3,611,803	1,437,551	(609,224)	-
Cumulative interest sensitivity gap	(11,220,828)	(10,760,304)	(4,440,130)	(828,327)	609,224	-	-
On balance sheet interest sensitivity gap (2001)	528,434	(334,044)	128,492	(145,584)	55,000	(232,298)	-
Cumulative interest sensitivity gap (2001)	528,434	194,390	322,882	177,298	232,298	-	-

Statement VII.15

22 FINANCIAL INSTRUMENTS (Cont'd)

(b) Interest rate risk (Cont'd)

The Bank

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Non-Interest Bearing $'000	Total $'000
Assets							
Cash resources	563,948	106,902	-	-	-	20,109	690,959
Investments in Government of Jamaica and other securities	1,050,996	1,339,047	11,044,409	-	-	527,002	13,961,454
Loans less provision for losses	28,888	10,489	97,735	322,472	33,157	-	492,741
Income tax recoverable	-	-	-	-	-	20,441	20,441
Customers' liabilities on acceptances and guarantees	541,091	503,566	4,897	-	-	-	1,049,554
Fixed assets	-	-	-	-	-	26,116	26,116
Other assets	-	-	-	-	-	512,968	512,968
Total assets	2,184,923	1,960,004	11,147,041	322,472	33,157	1,106,636	16,754,233
Liabilities							
Deposits	922,168	480,268	307,315	478,126	-	-	2,187,877
Securities sold under Repurchase Agreement	6,936,033	212,489	3,752,662	-	-	-	10,901,184
Due to other financial institutions	187,456	14,072	891,785	48,727	44,671	-	1,186,711
Liability on acceptances and guarantees	541,091	503,566	4,897	-	-	-	1,049,554
Other liabilities	-	-	-	-	-	140,767	140,767
Deferred taxation	-	-	-	-	-	97,866	97,866
Shareholders' equity	-	-	-	-	-	1,190,274	1,190,274
Total liabilities	8,586,748	1,210,395	4,956,659	526,853	44,671	1,428,907	16,754,233
On balance sheet interest sensitivity gap	(6,401,825)	749,609	6,190,382	(204,381)	(11,514)	(322,271)	-
Cumulative interest sensitivity gap	(6,401,825)	(5,652,216)	538,166	333,785	322,271	-	-
On balance sheet interest sensitivity gap (2001)	149,522	(3,216,532)	205,348	1,421,317	1,649,503	(209,158)	-
Cumulative interest sensitivity gap (2001)	149,522	(3,067,010)	(2,861,662)	(1,440,345)	209,158	-	-

Statement VII.16

22 FINANCIAL INSTRUMENTS (Cont'd)

(b) Interest rate risk (Cont'd)

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

	2002					
	Immediately Rate Sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Average
	%	%	%	%	%	%
Cash resources	1.00	1.50	-	-	-	1.09
Investments (1)	16.24	18.28	16.46	7.64	6.07	12.84
Loans (2)	15.24	15.45	17.51	15.35	12.03	14.30
Deposits (3)	7.25	6.89	11.50	15.55	-	9.68
Securities sold under Repurchase agreement	5.3	16.61	6.12	14.41	-	6.90
Due to other financial institutions	2.83	2.83	3.44	9.82	6.46	7.51

	2001					
	Immediately Rate Sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Average
	%	%	%	%	%	%
Cash resources	3.78	1.50	-	-	-	2.85
Investments (1)	-	18.66	16.17	14.42	10.6	12.48
Loans (2)	18.10	9.00	21.50	25.91	11.25	16.70
Deposits (3)	8.78	8.19	9.31	15.00	-	12.06
Securities sold under Repurchase agreement	-	9.78	10.50	-	-	9.86
Due to other financial institutions	3.81	6.51	-	10.00	-	6.69

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

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

(3) Yields are based on contractual interest rates.

22 FINANCIAL INSTRUMENTS (Cont'd) Statement VII.17

(c) Foreign exchange risks

Foreign currency risk is incurred on transactions that are denominated in a currency other than the Jamaican dollar. The main currencies giving rise to the risk are the United States dollar, the Canadian dollar and the British Pound.

Net exposure is kept to an acceptable level by matching foreign assets with liabilities as far as possible.

The following foreign currency balances are included in these financial statements:

	The Group					
	2002			2001		
	US$ '000	Cdn$ '000	£ '000	US$ '000	Cdn$ '000	£ '000
Total assets	367,819	20	68	90,228	56	258
Total liabilities	(364,221)	(21)	(22)	(92,674)	(21)	(246)
Net exposure	(3,598)	(1)	46	(2,446)	35	12

	The Bank					
	2002			2001		
	US$ '000	Cdn$ '000	£ '000	US$ '000	Cdn$ '000	£ '000
Total assets	275,061	20	68	87,769	56	258
Total liabilities	(272,040)	(21)	(22)	(90,383)	(21)	(246)
Net exposure	(3,021)	(1)	46	(2,614)	35	12

(d) Credit risk

Credit risk is the risk of default by an obligator. The risk is managed primarily by reviews of the financial status of each obligator. The primary concentration of the Group's credit risks relates to investments in government securities. In respect of loans, the exposure is to a number of individuals and businesses in different sectors and geographic areas and this, in effect, mitigates the credit risk.

(e) Credit exposure

The following table summarises the credit exposure by sector net of participation:

	The Group and The Bank	
	2002 $'000	2001 $'000
Agriculture, fishing and mining	49,490	15,594
Construction, land development and real estate acquisition	43,710	-
Distribution	34,736	32,868
Electricity, gas & water	36,106	-
Government and public entities	68,569	13,959
Manufacturing	60,884	74,788
Personal	82,822	54,263
Professional and other services	63,490	57,625
Tourism and entertainment	111,425	118,646
Total	551,232	367,743
Total provision	58,491	44,392
Net	492,741	323,351

Statement VII.18

23 CONTINGENCIES AND COMMITMENTS

(a) Litigation

The Bank is involved in a legal matter incidental to the normal conduct of its business. Based on legal advice, the Directors are of the opinion that the outcome will have no material effect on the financial position of the Bank.

(b) Operating Leases

The Bank entered into an agreement expiring August 14, 2004 for the leasing of office space. The subsidiary entered into an agreement expiring June 2007 for the leasing of office space. The total annual rentals to be paid in equal monthly instalments are as follows:

	The Group	The Bank
	$'000	$'000
2003	8,424	6,639
2004	8,901	6,938
2005	2,056	-
2006	2,056	-
2007	2,056	-

(c) Capital Commitments

Capital expenditure authorized and committed at December 31, 2002 not provided for in these financial statements in relation to the group and the bank amounted to $12,000,000.

24 OTHER DISCLOSURES - EMPLOYEES

	The Group	
	2002	2001
(a) Average number of persons employed by the group during the year:		
Operations and processing	36	24
Business services	22	18
Administration	26	25
	84	67
	$'000	$'000
(b) Staff costs incurred during the year in respect of these employees were:		
Salaries and wages	123,931	89,145
Statutory contributions	11,257	9,039
Pension contributions	4,073	3,040
	139,261	101,224

	The Bank	
	2002	2001
(a) Average number of persons employed by the Bank during the year:		
Operations and processing	30	22
Business services	17	16
Administration	23	22
	70	60
	$'000	$'000
(b) Staff costs incurred during the year in respect of these employees were:		
Salaries and wages	108,221	84,925
Statutory contributions	9,846	8,621
Pension contributions	3,528	2,861
	121,595	96,407