Auditors' Report

Statement I

Chartered Accountants

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AUDITORS' REPORT

To the members of

CAPITAL & CREDIT MERCHANT BANK LIMITED

We have audited the accompanying financial statements set out on Statements II to VIII and have received all the information and explanations which we considered necessary. These financial statements are the responsibility of the Group's Management. 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 management, as well as evaluating the overall financial statements presentation. We believe that 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 state of the affairs of the Bank and the Group as at December 31, 2003, and of the results of operations, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the provisions of the Companies Act, the Financial Institutions Act and the Securities Act.

Deloitte & Touche
Chartered Accountants

Kingston, Jamaica,
February 24, 2004

Deloitte
Touche
Tohmatsu

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

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2003

Statement II

	Notes	2003 $'000	Restated 2002 $'000
ASSETS			
CASH RESOURCES			
Cash and bank balances	3	1,279,149	732,111
INVESTMENT IN SECURITIES	4		
Trading securities		671,211	128,841
Securities available-for-sale		13,730,641	3,166,955
Securities held-to-maturity		1,950,771	1,230,200
Originated debt		20,669,291	21,710,261
		37,021,914	26,236,257
SECURITIES PURCHASED UNDER RESALE AGREEMENTS		87,551	906,578
LOANS (after provision for loan losses)	5	1,829,557	1,473,011
OTHER ASSETS			
Accounts receivable	6	1,219,732	826,037
Income tax recoverable		18,736	20,441
Customers' liability under acceptances, guarantees and letters of credit as per contra		54,511	57,086
Property and equipment	7	89,212	28,173
Other asset	8	15,000	15,000
		1,397,191	946,737
GOODWILL ON CONSOLIDATION	9	-	2,088
		41,615,362	30,296,782
LIABILITIES AND STOCKHOLDERS' EQUITY			
DEPOSITS	10	2,154,609	2,167,076
SECURITIES SOLD UNDER REPURCHASE AGREEMENTS	11	18,732,156	23,904,469
LOAN PARTICIPATION		1,184,863	968,544
DUE TO OTHER FINANCIAL INSTITUTIONS		16,349,293	1,391,298
OTHER LIABILITIES			
Accounts payable	12	860,072	415,914
Liabilities under acceptances, guarantees and letters of credit as per contra		54,511	57,086
		914,583	473,000
DEFERRED TAXATION	13	190,781	136,841
STOCKHOLDERS' EQUITY			
Share capital	14	292,250	250,000
Share premium		365,299	-
Statutory reserve fund	15	196,706	164,983
Retained earnings reserve	16	723,020	523,020
Fair value reserve	17	81,859	62,701
Loan loss reserve	5	30,973	11,726
Unappropriated profits		398,970	243,124
		2,089,077	1,255,554
		41,615,362	30,296,782

The Notes on Statement VIII form an integral part of the Financial Statements.
The financial statements on Statements II to VIII were approved and authorized for issue by the Board of Directors on February 24, 2004 and are signed on its behalf by:

Ryland T. Campbell Chairman	Curtis A. Martin President & CEO	Andrew B. Cocking Director	Kelvin St. C. Roberts Director

CONSOLIDATED PROFIT & LOSS ACCOUNT YEAR ENDED DECEMBER 31, 2003

Statement III

	Notes	2003 $'000	Restated 2002 $'000
NET INTEREST INCOME AND OTHER REVENUE			
Interest on investments		3,484,505	2,356,132
Interest on loans		250,037	188,484
Total interest income		3,734,542	2,544,616
Interest expense		3,101,689	2,069,188
Net interest income		632,853	475,428
Commission and fee income		73,298	7,312
Net gains on securities trading		71,575	60,400
Foreign exchange trading and translation		169,645	16,238
Dividend income		29,357	22,044
Other income		49,290	71,357
		393,165	177,351
Net interest income and other revenue		1,026,018	652,779
NON-INTEREST EXPENSES			
Staff costs	18	231,607	153,452
Loan loss expense	5	2,735	2,373
Property expense		38,003	28,607
Depreciation	7	18,229	9,101
Amortisation of goodwill on acquisition	9	2,088	2,087
Other operating expenses		178,607	109,857
Total non-interest expenses		471,269	305,477
PROFIT BEFORE TAXATION		554,749	347,302
Taxation	13	89,483	60,161
NET PROFIT	19	465,266	287,141
Earnings per stock unit of 50 cents	20	84¢	57¢

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY YEAR ENDED DECEMBER 31, 2003

Statement IV

	Notes	Share Capital $'000	Share Premium $'000	Statutory Reserve Fund $'000	Retained Earnings Reserve $'000	Fair Value Reserve $'000	Loan loss Reserve $'000	Unappropriated Profits $'000	Total $'000
Balance at December 31, 2001 (as previously reported)		250,000		137,142	322,020			201,048	910,210
Effects of adopting IFRS	28								
IAS 39 - Financial instruments recognition and measurement						46,416		(1,624)	44,792
IAS 19 – Employee benefits			-					(2,874)	(2,874)
Balance at December 31, 2001 as restated		250,000	-	137,142	322,020	46,416	-	196,550	952,128
Unrealised gains on available-for-sale investments net of taxes not recognized in profit and loss account			-			16,285			16,285
Net profit for the year as restated		-		-	-			287,141	287,141
Transfer to statutory reserve fund	15	-		27,841	-			(27,841)	-
Transfer to retained earnings reserve	16	-	-	-		201,000	-	(201,000)	-
Transfer to loan loss reserve	5	-	-	-	-	-	11,726	(11,726)	-
Balance at December 31, 2002 as restated		250,000	_	164,983	523,020	62,701	11,726	243,124	1,255,554
Unrealised gains on available-for-sale investments net of taxes not recognized in profit and loss account		-		-		19,158			19,158
Net profit for the year								465,266	465,266
Shares issued		42,250	365,299						407,549
Interim dividend declared	27							(58,450)	(58,450)
Transfer to statutory reserve fund	15			31,723				(31,723)	-
Transfer to retained earnings reserve	16	-	-	-	200,000	-		(200,000)	-
Transfer to loan loss reserve	5	-	-	-	-	-	19,247	(19,247)	-
Balance at December 31, 2003		292,250	365,299	196,706	723,020	81,859	30,973	398,970	2,089,077

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

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2003

Statement V

	Note	2003 $'000	Restated 2002 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		465,266	287,141
Interest received		3,452,616	2,354,411
Interest paid		(2,738,162)	(1,953,419)
Interest income		(3,734,542)	(2,544,616)
Interest expense		3,101,689	2,069,188
Depreciation		18,229	9,101
Gain on sale of property and equipment		-	(36)
Accounts receivable		(111,769)	(27,592)
Loans receivable		(359,281)	(493,012)
Loan loss expense		2,735	2,373
Accounts payable		22,180	45,602
Deferred taxation		44,361	13,935
Income tax charge		45,122	46,226
Income tax paid		(43,416)	-
Amortisation of goodwill		2,088	2,087
Net cash provided by/(used in) operating activities		167,116	(188,611)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on sale of property and equipment		-	106
Acquisition of property and equipment		(79,268)	(14,766)
Increase in investment in securities		(10,805,065)	(12,890,815)
Securities purchased under resale agreements		819,027	(906,578)
Cash used in investing activities		(10,065,306)	(13,812,053)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of ordinary shares		407,549	-
Deposits		(12,467)	1,025,731
Securities sold under repurchase agreements		(5,172,313)	12,988,923
Loan participation		216,319	309,523
Due to other financial institutions		14,957,995	(98,518)
Cash provided by financing activities		10,397,083	14,225,659
INCREASE IN CASH AND CASH EQUIVALENTS		498,893	224,995
OPENING CASH AND CASH EQUIVALENTS		605,100	380,105
CLOSING CASH AND CASH EQUIVALENTS	21	1,103,993	605,100

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

BALANCE SHEET AT DECEMBER 31, 2003

Statement VI

	Notes	2003 $'000	Restated 2002 $'000
ASSETS			
CASH RESOURCES			
Cash and bank balances	3	1,250,506	719,915
INVESTMENT IN SECURITIES	4		
Securities available-for-sale		2,007,026	3,166,955
Securities held-to-maturity		1,344,997	1,112,129
Originated debt		16,623,418	16,695,748
		19,975,441	20,974,832
SECURITIES PURCHASED UNDER RESALE AGREEMENTS		461,999	1,118,073
INVESTMENT IN SUBSIDIARY (Shares at cost)		316,715	364,315
LOANS (after provision for loan losses)	5	1,829,557	1,473,011
OTHER ASSETS			
Accounts receivable	6	573,334	709,062
Income tax recoverable		40,653	20,441
Customers' liabilities under acceptances, guarantees and letters of credit as per contra		54,511	57,086
Property and equipment	7	85,274	26,116
		753,772	812,705
		24,587,990	25,462,851
LIABILITIES AND STOCKHOLDERS' EQUITY			
DEPOSITS	10	2,154,609	2,187,877
SECURITIES SOLD UNDER REPURCHASE AGREEMENTS	11	2,404,945	19,115,448
LOAN PARTICIPATION		1,184,863	968,544
DUE TO OTHER FINANCIAL INSTITUTIONS		16,349,293	1,391,298
OTHER LIABILITIES			
Accounts payable	12	330,796	355,555
Liabilities under acceptances, guarantees and letters of credit as per contra		54,511	57,086
		385,307	412,641
DEFERRED TAXATION	13	149,763	129,216
STOCKHOLDERS' EQUITY			
Share capital	14	292,250	250,000
Share premium		365,299	-
Statutory reserve fund	15	196,706	164,983
Retained earnings reserve	16	723,020	523,020
Fair value reserve	17	97,757	62,701
Loan loss reserve	5	30,973	11,726
Unappropriated profits		253,205	245,397
		1,959,210	1,257,827
		24,587,990	25,462,851

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

The financial statements on Statements II to VIII were approved and authorized for issue by the Board of Directors on February 24, 2004 and are signed on its behalf by:

Ryland T. Campbell Chairman	Curtis A. Martin President & CEO	Andrew B. Cocking Director	Kelvin St. C. Roberts

PROFIT & LOSS ACCOUNT YEAR ENDED DECEMBER 31, 2003

Statement VII

	Notes	2003 $'000	Restated 2002 $'000
NET INTEREST INCOME AND OTHER REVENUE			
Interest on investments		2,516,693	2,225,756
Interest on loans		250,037	188,484
Total interest income		2,766,730	2,414,240
Interest expense		2,370,321	1,985,169
Net interest income		396,409	429,071
Commission and fee income		29,362	3,578
Net gains on securities trading		61,941	58,243
Foreign exchange trading and translation		152,148	12,692
Dividend income		64,895	30,571
Other income		5,600	72,072
Total other operating income		313,946	177,156
Net interest income and other revenue		710,355	606,227
NON-INTEREST EXPENSES			
Staff costs	18	170,774	134,753
Loan loss expense	5	2,735	2,373
Property expenses		28,675	24,159
Depreciation	7	16,980	8,584
Other operating expenses		147,739	98,017
Total non-interest expenses		366,903	267,886
PROFIT BEFORE TAXATION		343,452	338,341
Taxation	13	26,224	52,536
NET PROFIT	19	317,228	285,805
Earnings per stock unit of 50 cents	20	57¢	57¢

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

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2003

Statement VIII.1

1 **GROUP IDENTIFICATION**

(a) Capital & Credit Merchant Bank Limited ("the Bank") is incorporated in Jamaica and is a 78% subsidiary of Capital & Credit Holdings Limited, which is also incorporated in Jamaica. The registered office of the Bank is 6 – 8 Grenada Way, Kingston 5.

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

The Bank's wholly owned subsidiary, Capital & Credit Securities Limited is also incorporated in Jamaica.

The subsidiary's main business is that of dealing in securities, stockbroking, 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 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

(a) Basis of preparation

Jamaica adopted International Financial Reporting Standards (IFRS) as its national accounting standards, effective for accounting periods beginning on or after July 1, 2002. The Group's financial statements for the year ended December 31, 2003 have been prepared in accordance and comply with IFRS and comparative information has been restated to conform with the provisions of IFRS. The Group has opted for early adoption of IFRS 1 – First-Time Adoption of IFRS, and has applied provisions of that standard in the preparation of these financial statements. The effect of adopting IFRS on the equity and net profit previously reported is detailed in Note 28.

These financial statements are prepared in accordance with International Accounting Standards and International Financial Reporting Standards (IFRS) and have been prepared under the historical cost convention as modified by the revaluation of available-for-sale investment securities, investment securities held-for-trading and all derivative contracts.

(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 has been amortised over three years.

Inter-group transactions have been eliminated.

(c) Use of estimates

The preparation of financial statements in conformity with IFRS 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 may differ from the estimates and any adjustments that may be necessary will be reflected in the year in which actual results are known.

Statement VIII.2

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(d) Foreign currency translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the dates of the transactions. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rate.

Exchange differences resulting from the settlement of transactions at rates different from those at the original dates of the transactions, and unrealised foreign exchange differences on unsettled foreign currency monetary assets and liabilities are recognised in the profit and loss account.

(e) Interest and fees

Interest income and expense are recognised in the profit and loss account for all interest-bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investments and discount or premium on financial instruments.

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

Fee and commission income is recognised on an accrual basis. Loan origination fees for loans which are likely to be drawn down are deferred, together with related direct costs, and recognised as an adjustment to the effective yield on the loan.

(f) Investment in securities

Investments are recognised on a trade-date basis and are initially measured at cost, including transaction costs.

Investments are classified into the following categories: originated debt, held-to-maturity, available-for-sale securities and trading securities. Management determines the appropriate classification of investments at the time of purchase.

Securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Available-for-sale securities are those intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates or market prices. They are measured at fair value based on quoted bid prices or amounts derived from cash flow models. Unrealised gains and losses arising from changes in fair value of available-for-sale securities are recognised in stockholders' equity in the fair value reserve. When the securities are disposed of or impaired, the related accumulated unrealised gains or losses included in the fair value reserve are transferred to the profit and loss account.

Trading securities are those which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit-taking exists. They are initially recognized at cost, which includes transaction costs, and subsequently re-measured at fair value based on quoted bid prices. All related realized and unrealized gains and losses are included in net gains on securities trading.

Statement VIII.3

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(f) Investment in securities (Cont'd)

Loans and advances which are provided directly to a borrower, and government or other securities which are purchased directly from the issuer, are classified as originated debt. These include bonds and treasury bills, mortgages and demand loans. They are initially recorded at cost, which is the cash given to originate the debt including any transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

A financial asset is considered impaired if its carrying amount exceeds its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the original effective interest rate. The recoverable amount of a financial asset carried at fair value is the present value of expected future cash flows discounted at the current market interest rate for a similar financia1 asset.

(g) Loans and provisions for credit losses

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

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 as 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.

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

General provisions for doubtful credits are established against the loan portfolio where a prudent assessment by the Group 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. If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited as a reduction of the provision for loan losses.

Statutory and other regulatory loan loss reserve requirements that exceed the provision required under IAS 39 (Financial Instruments) are dealt with in a non-distributable loan loss reserve as a transfer from unappropriated profits.

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

Statement VIII.4

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(h) Investment in subsidiary

Investment by the Bank in its subsidiary is stated at cost.

(i) Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and any recognized impairment losses.

Depreciation is calculated on the straight- line basis on cost over the estimated useful 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
Building	-	40 years

No depreciation is provided on land, paintings and artwork.

Property and equipment are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expenditure is incurred.

(j) Computer software development costs

Costs associated with maintaining computer software programmes are recognised as an expense over the expected period of usage (not expected to exceed 12 months). Costs that are directly associated with identifiable and unique software products controlled by the Group that will probably generate economic benefits exceeding costs beyond one year, are recognised as assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of 3 years.

(k) Leases

(i) Group as the lessee

To date, the leases entered into by the Group are operating leases as a significant portion of the risks and reward of ownership are retained by the lessor. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(ii) Group as the lessor

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

Statement VIII.5

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(l) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including cash and bank balances at Bank of Jamaica (excluding statutory reserves), due to or from other banks and investment securities.

(m) Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost (including transaction costs) and subsequently are re-measured at their fair value.

Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39. Therefore, changes in the fair value of such derivatives are included in income as they arise.

(n) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the greater of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than the carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

(o) Sale and repurchase agreements

Securities sold subject to repurchase agreements are retained in the financial statements as trading or investment securities and the counterparty liability is included in due to other financial institutions and securities sold under repurchase agreements.

The difference between sale and repurchase price is treated as interest and accrued over the life of the repurchase agreements using the effective yield method.

(p) Borrowings

Borrowings are recognised initially at cost, being their issue proceeds net of transaction costs incurred. Subsequently borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective yield method.

Statement VIII.6

2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

(q) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

(r) Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from the net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates currently enacted, which are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also charged or credited in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(s) Share capital

(i) Share issue costs

Incremental external costs directly attributable to the issue of new shares, are deducted from share premium.

(ii) Dividends on ordinary stock units

Dividends on ordinary stock units are recognised in the period in which they are declared.

(t) Employee benefits

(i) Pension obligations

The Group pays fixed contributions into a defined contribution Superannuation Fund and will have no legal or constructive obligations to pay further pension benefits.

The regular contributions constitute costs for the year in which they are due and are included in staff costs.

Statement VIII.7

2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

(t) Employee benefits (Cont'd)

(ii) Employee Share Ownership Plan

The Bank has an Employee Share Ownership Plan (ESOP) for eligible employees. When the options are exercised, the par value of the shares is credited to share capital and the excess of the fair value over the par value is included in share premium. The difference between the fair value and the option price is included in staff cost.

(iii) Leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave for services rendered by employees up to the balance sheet date.

(u) Acceptances

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

(v) Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the Group acts in a fiduciary capacity such as nominee, trustee or agent.

(w) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3 CASH RESOURCES

Cash resources include $175,156,000 (2002: $127,011,267) held under Section 14(i) of the Financial Institutions Act, at the Bank of Jamaica as a Cash Reserve. This amount includes a Special Deposit of 5% of prescribed liabilities on which interest is paid at 5% to the Bank. Accordingly, these amounts are not available for investment or other use by the Group.

Statement VIII.8

4 INVESTMENT IN SECURITIES

	The Group		The Bank	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
Trading securities				
Government of Jamaica securities	573,729	-	-	-
Equity securities	47,187	13,388	-	-
Other securities	50,295	115,453	-	-
	671,211	128,841	-	-
Available-for-sale securities				
Government of Jamaica securities	11,822,383	538,484	98,768	538,484
Other securities	1,908,258	2,628,471	1,908,258	2,628,471
	13,730,641	3,166,955	2,007,026	3,166,955
Securities held-to-maturity				
Government of Jamaica securities	1,950,771	1,230,200	1,344,997	1,112,129
Originated debt				
Government of Jamaica securities	4,126,690	8,725,628	1,289,123	7,788,715
US Government agencies and other securities	16,542,601	12,984,633	15,334,295	8,907,033
	20,669,291	21,710,261	16,623,418	16,695,748
	37,021,914	26,236,257	19,975,441	20,974,832

The interest rates of 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. The securities classified as originated debt and available-for-sale have been valued at amortised cost or at market value respectively. Market value is computed using the current market quotations for similar securities derived from accumulation of data for the market and the compilation of a monthly yield curve.

Government securities totalling $140,134,000 are held by the Bank of Jamaica, $139,134,000 as security in the event of an overdraft on the Bank and subsidiary's primary dealer accounts, and $1,000,000 to facilitate stockbroking activities of the subsidiary.

Gross gains of $2,994,000 (2002: $NIL) for the Bank and the Group were realized on sales of available-for-sale securities during the year.

5 LOANS

(a)

	The Group and the Bank	
	2003	2002
	$'000	$'000
Loans	1,872,529	1,519,776
Less: Loan loss provision	42,972	46,765
	1,829,557	1,473,011

(b)

	The Group and the Bank					
	Remaining Term to Maturity					
	Under 3 months	3 to 12 Months	1 to 5 Years	Over 5 Years	Carrying Value 2003	Carrying Value 2002
	$'000	$'000	$'000	$'000	$'000	$'000
Individuals	9,816	14,620	100,905	-	125,341	106,222
Businesses	426,760	814,018	475,172	31,238	1,747,188	1,413,554
	436,576	828,638	576,077	31,238	1,872,529	1,519,776

Loans for the group include non-performing loans in the amount of $71,294,000 (2002:$128,369,000).

Statement VIII.9

5 LOANS (Cont'd)

(c) Loan loss provision

	2003	2002
	$'000	$'000
Balance, January 1	46,765	44,392
Provision for the year	10,260	10,478
	57,025	54,870
Recoveries during the year	(7,525)	(8,105)
Written off during the year	(6,528)	-
Balance, December 31	42,972	46,765

The amount charged in the profit and loss account comprises:

	$'000	$'000
Expense for the year	10,260	10,478
Recoveries	(7,525)	(8,105)
Net charge for year	2,735	2,373

(d) Loan loss reserve

	2003	2002
	$'000	$'000
Regulatory loan loss provision	73,945	58,491
Less: Provision based on IAS 39	42,972	46,765
Balance, December 31	30,973	11,726

The amount in excess of the loan loss provision based on IAS 39 (Financial Instruments) requirements has been transferred to a non-distributable Loan loss reserve.

6 ACCOUNTS RECEIVABLE

	The Group		The Bank	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
Interest receivable on investments	1,016,479	702,135	399,731	621,308
Interest receivable on loans	84,312	32,418	84,312	32,418
Withholding tax recoverable	51,263	7,936	51,263	-
Owed by wholly-owned subsidiary	-	-	2,807	2
Owed by fellow subsidiary	16	-	16	-
Accounts receivable - Brokerage	24,111	21,558	-	-
Other receivables	43,551	61,990	35,205	55,334
	1,219,732	826,037	573,334	709,062

The Directors are of the opinion that the carrying amount of accounts receivable approximates its fair value.

Statement VIII.10

7 PROPERTY AND EQUIPMENT

	The Group						
	Land	Building	Furniture, Fixtures and Equipment	Paintings and Artwork	Leasehold Improvements	Motor Vehicles	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At cost							
January 1	-	-	40,592	2,467	35,581	2,306	80,946
Additions	2,968	20,391	39,127	5,489	11,293	-	79,268
December 31	2,968	20,391	79,719	7,956	46,874	2,306	160,214
Depreciation							
January 1	-	-	29,147	-	21,772	1,854	52,773
Charge for year	-	- *	12,031	-	6,038	160	18,229
December 31	-	-	41,178	-	27,810	2,014	71,002
Net book value							
December 31, 2003	2,968	20,391	38,541	7,956	19,064	292	89,212
December 31, 2002	-	-	11,445	2,467	13,809	452	28,173

* No depreciation was charged on the building as utilization only commenced at the end of the financial year.

	The Bank						
	Land	Building	Furniture, Fixtures and Equipment	Paintings & Artwork	Leasehold Improvements	Motor Vehicles	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At cost							
January 1	-	-	38,750	1,849	35,064	2,306	77,969
Additions	2,968	20,391	36,032	5,454	11,293	-	76,138
December 31	2,968	20,391	74,782	7,303	46,357	2,306	154,107
Depreciation							
January 1	-	-	28,496	-	21,503	1,854	51,853
Charge for year	-	- *	10,954	-	5,866	160	16,980
December 31	-	-	39,450	-	27,369	2,014	68,833
Net book value							
December 31, 2003	2,968	20,391	35,332	7,303	18,988	292	85,274
December 31, 2002	-	-	10,254	1,849	13,561	452	26,116

* No depreciation was charged on the building as utilization only commenced at the end of the financial year.

Statement VIII.11

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 (the subsidiary) to operate as a broker/dealer and be a member of the Council of the JSE.

9 GOODWILL ON CONSOLIDATION

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

	2003	2002
	$'000	$'000
Gross amount at acquisition	6,263	6,263
Amortisation		
Balance at January 1	4,175	2,088
Amortisation for the year	2,088	2,087
Balance at December 31	6,263	4,175
Net balance at December 31	-	2,088

Goodwill has been amortised over three years.

10 DEPOSITS

The Group

	Within 3 months	3 to 12 Months	1 to 5 Years	Carrying Value 2003	Carrying Value 2002
	Remaining Term to Maturity				
	$'000	$'000	$'000	$'000	$'000
Total	1,230,015	413,058	511,536	2,154,609	2,167,076
Personal				1,092,123	677,201
Financial institutions				300,121	191,145
Commercial and business enterprises				762,365	1,298,730
				2,154,609	2,167,076

The Bank

	Within 3 months	3 to 12 Months	1 to 5 Years	Carrying Value 2003	Carrying Value 2002
	Remaining Term to Maturity				
	$'000	$'000	$'000	$'000	$'000
Total	1,230,015	413,058	511,536	2,154,609	2,187,877
Personal				1,092,123	677,201
Financial institutions				300,121	211,946
Commercial and business enterprises				762,365	1,298,730

Statement VIII.12

11 SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

	The Group				
	Remaining Term to Maturity				
	Under 3 Months	3 to 12 Months	1 to 5 Years	Carrying Value 2003	Carrying Value 2002
	$'000	$'000	$'000	$'000	$'000
Total	16,127,749	2,572,678	31,729	18,732,156	23,904,469
Personal				3,123,008	1,365,245
Financial institutions				6,429,091	10,217,619
Commercial and business enterprises				9,180,057	12,321,605
				18,732,156	23,904,469

	The Bank				
	Remaining Term to Maturity				
	Within 3 months	3 to 12 Months	1 to 5 Years	Carrying Value 2003	Carrying Value 2002
	$'000	$'000	$'000	$'000	$'000
Total	2,116,629	266,070	22,246	2,404,945	19,115,448
Personal				1,365,108	947,519
Financial institutions				563,858	10,420,541
Commercial and business enterprises				475,979	7,747,388
				2,404,945	19,115,448

12 ACCOUNTS PAYABLE

	The Group		The Bank	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
Interest payable	675,264	311,737	192,410	297,572
Dividends payable	58,450	-	58,450	-
Brokerage payable	23,859	21,468	-	-
Withholding tax payable	5,559	12,791	-	6,431
Prime accounts	4,072	24,947	-	-
Other payable	92,868	44,971	79,936	51,552
	860,072	415,914	330,796	355,555

The Directors are of the opinion that the carrying amount of accounts payable approximates its fair value.

Statement VIII.13

13 INCOME TAX

(a) Deferred income taxes

Deferred income taxes are calculated on all temporary differences under the balance sheet liability method using the current tax rate of 33 1/3%.

	The Group		The Bank	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
Analysis for financial reporting purposes				
Deferred tax liability	415,869	253,502	213,899	228,407
Deferred tax assets	(225,088)	(116,661)	(64,136)	(99,191)
	190,781	136,841	149,763	129,216

The movement for the year in the deferred tax position is as follows:

	The Group		The Bank	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
Net liability at January 1	136,841	114,763	129,216	114,763
Deferred tax expenses	44,361	13,935	3,019	6,310
Deferred tax revaluation reserve charged to equity	9,579	8,143	17,528	8,143
Net liability at December 31	190,781	136,841	149,763	129,216
Deferred tax liabilities				
Property and equipment capital allowances in excess of accounting depreciation	3,857	842	3,674	755
Interest receivable	366,930	221,310	161,347	196,302
Available-for-sale investments	40,929	31,340	48,878	31,350
Trading investment revaluation	4,153	-	-	-
	415,869	253,492	213,899	228,407
Deferred tax assets				
Interest payable	225,088	103,681	64,136	99,191
Tax losses available	-	12,970	-	-
	225,088	116,651	64,136	99,191

(b) Tax charge for the year

Total charge for the year comprises:

	The Group		The Bank	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
Income tax at 33 1/3% of taxable income	45,122	39,372	23,205	39,372
Tax on dividends at 10%	-	237	-	237
Provision for prior years	-	6,617	-	6,617
Deferred tax adjustment	44,361	13,935	3,019	6,310
	89,483	60,161	26,224	52,536

Statement VIII.14

13 INCOME TAX (Cont'd)

(c) The charge for the year is reconciled to the profit and loss account as follows:

	The Group			
	2003		2002	
	$'000	%	$'000	%
Profit before tax	554,749		347,302	
Tax at the domestic income tax rate	184,916	33.3	115,767	33.3
Tax effect of expenses not deductible in determining taxable profit	474,131	85.5	292,695	84.3
Tax effect of expenses deductible only for tax purpose	(480,856)	(86.7)	(311,500)	(89.7)
Tax effect of non-taxable income	(120,279)	(21.7)	(45,461)	(13.1)
Increase in opening deferred tax liability	44,361	8.0	13,935	4.0
Effect of tax losses	(12,790)	(2.3)	(5,275)	(1.5)
Tax expense and effective tax rate for the year	89,483	16.1	60,161	17.3

	The Bank			
	2003		2002	
	$'000	%	$'000	%
Profit before tax	343,452		338,341	
Tax at the domestic income tax rate	114,484	33.3	112,780	33.3
Tax effect of expenses not deductible in determining taxable profit	287,692	83.8	280,337	82.9
Tax effect of expenses deductible only for tax purpose	(278,428)	(81.1)	(284,788)	(84.2)
Tax effect of non-taxable income	(100,543)	(29.3)	(45,461)	(13.4)
Increase in opening deferred tax liability	3,019	0.9	6,310	1.9
Effect of tax losses	-	-	(24,940)	(7.4)
Other adjustments	-	-	8,298	2.5
Tax expense and effective tax rate for the year	26,224	7.6	52,536	15.6

Statement VIII.15

14 SHARE CAPITAL

	2003	2002
	$'000	$'000
Authorised:		
600,000,000 ordinary shares of 50¢ each	300,000	300,000
Issued and fully paid: 584,500,000 (2002: 500,000,000) ordinary stock units of 50¢ each	292,250	250,000

The Bank had an Initial Public Offering of its shares during the period April 10 to April 30, 2003. Arising from the offer, 82,000,000 new ordinary shares were issued to the public, bringing the issued share capital of the Bank to 582,000,000 ordinary stock units. The Bank's shares were then listed on the Jamaica Stock Exchange.

An additional 2,500,000 ordinary shares were issued to the Employee Share Ownership Plan on August 1, 2003 for the benefit of participating employees. This increased the issued share capital to 584,500,000 ordinary stock units. The Bank's shares were also listed on the Trinidad & Tobago Stock Exchange on October 1, 2003.

15 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% (2002:10%).

16 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 March 21, 2003 the Board of Directors by resolution authorised the transfer of $200,000,000 (2002: $201,000,000) from unappropriated profits to retained earnings reserve.

17 FAIR VALUE RESERVE

Fair value reserve represents the excess of the market value of Securities Available-for-Sale at the period end over the historical cost net of the deferred tax effect.

18 STAFF COSTS

		The Group		The Bank	
		2003	2002	2003	2002
		$'000	$'000	$'000	$'000
(a)	Staff costs incurred during the year in respect of employees were:				
	Salaries and wages	177,486	123,931	126,018	108,221
	Statutory contributions	19,071	11,257	14,507	9,846
	Pension contributions	5,808	4,073	4,244	3,528
	Other staff benefits	29,242	14,191	26,005	13,158
		231,607	153,452	170,774	134,753

The value of compensation under the ESOP included in other staff benefits was $2,500,000.

		2003	2002	2003	2002
(b)	Average number of persons employed by the Group during the year:				
	Operations and processing	36	36	30	30
	Business services	20	22	13	17
	Administration	44	26	31	23
		100	84	74	70

Statement VIII.16

19 NET PROFIT

(a) Dealt with in the accounts of:

	2003	2002
	$'000	$'000
The Bank	317,228	285,805
The subsidiary	148,038	1,336
	465,266	287,141

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

	The Group		The Bank	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
Directors' emoluments				
- Fees	2,769	1,832	2,769	1,832
- Management	19,501	14,736	19,501	14,736
Audit fees - current year	3,428	2,200	2,096	1,700
- prior year	500	-	300	-
Depreciation	18,229	9,101	16,980	8,584

20 EARNINGS PER STOCK UNIT

The calculation of earnings per stock unit is based on the net profit after taxation of $465,266,000 divided by the weighted average number of 50 cents stock units in issue in the period amounting to 555,708,333 ordinary stock units. See Note 14 for increases in share capital in the year.

The comparative earnings per stock unit is based on net profit of $287,141,000 and the 500,000,000 ordinary stock units in issue during the year.

21 CASH AND CASH EQUIVALENTS

	2003	2002
	$'000	$'000
Cash and balances with banks including Bank of Jamaica	1,279,149	732,111
Less: statutory cash reserves (Note 3)	175,156	127,011
	1,103,993	605,100

22 SEGMENTAL FINANCIAL INFORMATION

The Group is organized into two main business segments:

a) Banking and related services which include taking deposits, granting loans and other credit facilities and foreign currency trading.

b) Financial and related services which include securities trading, stock-broking, portfolio planning, pension fund management and investment advisory services.

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

Statement VIII.17

22 SEGMENTAL FINANCIAL INFORMATION (Cont'd)

	2003			
	Banking & Related Services	Financial & Related Services	Consolidated Adjustments	Group
	$'000	$'000	$'000	$'000
External revenues	611,748	414,270	-	1,026,018
Revenue from other segments	36,666	-	(36,666)	-
	648,414	414,270	(36,666)	1,026,018
Operating expenses	366,903	102,278	2,088	471,269
Profit before tax	281,511	311,992	(38,754)	554,749
Income tax expense				89,483
Net profit				465,266
Segment assets	24,587,990	17,936,494	(909,122)	41,615,362
Segment liabilities	22,628,780	17,489,912	(592,407)	39,526,285
Other segment items:				
Capital expenditure	76,138	3,130		79,268
Depreciation	16,980	1,249		18,229
Loan loss expense	2,735			2,735

	2002			
	Banking & Related Services	Financial & Related Services	Consolidated Adjustments	Group
	$'000	$'000	$'000	$'000
External revenues	536,884	115,895	-	652,779
Revenue from other segments	30,571	2,573	(33,144)	-
	567,455	118,468	(33,144)	652,779
Operating expenses	267,886	35,504	2,087	305,477
Profit before tax	299,569	82,964	(35,231)	347,302
Income tax expense				60,161
Net profit				287,141
Segment assets	25,462,851	5,939,085	(1,105,154)	30,296,782
Segment liabilities	24,205,024	5,579,131	(742,927)	29,041,228
Other segment items:				
Capital expenditure	13,185	1,581		14,766
Depreciation	8,584	517		9,101
Loan loss expense	2,373			2,373

Statement VIII.18

23 PENSION FUND

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 defined), 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 (as defined). (See note 18).

Retirement benefits payable by the Fund will be based on the contributions made to the Fund together with investment earnings thereon. As a defined contribution plan, there were no adjustments arising under IFRS.

24 RELATED PARTY TRANSACTIONS AND BALANCES

The following transactions were carried out with related parties including companies connected by virtue of common directorship and the Bank's parent company:

	The Group		The Bank	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
Interest received	-	-	36,001	3,142
Management fees paid	24,000	12,000	24,000	12,000
Interest paid	36,498	2,276	127,351	20,977
Fees charged	-	592	-	592
Preference dividends received	-	-	36,666	11,100

Year end balances with related parties are as follows:

	The Group		The Bank	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
Securities sold under repurchase agreements	20,000	-	193,242	517,266
Securities purchased under resale agreements	-	19,725	394,448	211,495
Deposits	5,270	1,123	5,270	21,924

These transactions occurred in the normal course of business.

25 FINANCIAL INSTRUMENTS

a) Fair values

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. A market price, where an active market (such as a recognized stock exchange) exists, is the best evidence of the fair value of a financial instrument. Market prices are not available for some of the financial assets and liabilities of the Group. Fair values in the financial statements have therefore been estimated using present values or other estimation and valuation techniques based on market conditions existing at balance sheet date. Generally, considerable judgement is necessarily required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented in these

25 FINANCIAL INSTRUMENTS (Cont'd)

a) Fair values (Cont'd)

financial statements are not necessarily indicative of the amounts that the Group would realise in a current market exchange.

The following methods and assumptions have been used:

(i) financial investments classified as available-for-sale are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques;

(ii) the fair value of liquid assets and other assets maturing within one year is assumed to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities;

(iii) the fair value of demand deposits and other accounts with no specific maturity is assumed to be the amount payable on demand at the balance sheet date;

(iv) the fair value of variable rate financial instruments is assumed to approximate their carrying amounts; and

(v) the fair value of fixed rate loans is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. For match-funded loans the fair value is assumed to be equal to their carrying value, as gains and losses offset each other. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values as the impact of credit risk is recognised separately by deducting the amount of the provisions for credit losses from both book and fair values.

The following tables present the fair value of financial instruments based on the above-mentioned valuation methods and assumptions. The following financial assets are not carried at fair value:

	The Group			
	Carrying Value	Fair Value	Carrying Value	Fair Value
	2003	2003	2002	2002
	$'000	$'000	$'000	$'000
Financial Assets				
Investment in securities				
- Held to maturity	1,950,771	1,770,926	1,230,200	1,115,325
- Originated debt	20,669,291	20,222,024	21,710,261	21,706,020

	The Bank			
	Carrying Value	Fair Value	Carrying Value	Fair Value
	2003	2003	2002	2002
	$'000	$'000	$'000	$'000
Financial Assets				
Investment in securities				
- Held to maturity	1,344,997	1,265,854	1,112,129	1,001,917
- Originated debt	16,623,418	16,172,100	16,695,748	16,673,153
Investment in subsidiary	316,715	447,382	364,315	359,954

b) Interest rate risk

The Group and the Bank are exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase or decrease as a result of such changes and create losses in the event that unexpected movements arise. The management sets limits on the level of mismatch of interest rate repricing that may be undertaken. This is monitored on a periodic basis.

Statement VIII.20

25 FINANCIAL INSTRUMENTS (Cont'd)

(b) Interest rate risk (Cont'd)

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

	The Group						
	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Assets							
Cash resources	1,245,057	-	-	-	-	34,092	1,279,149
Investment in securities							
- Trading	118,528	169,699	200,359	142,438	-	40,187	671,211
- Available for sale	991,115	2,104,531	4,480,541	4,223,236	1,513,995	417,223	13,730,641
- Held-to-maturity	-	-	-	128,312	1,822,459	-	1,950,771
- Originated debt	3,400,852	7,834,713	5,005,129	2,897,568	1,531,029	-	20,669,291
Securities purchased under resale agreements	-	87,551	-	-	-	-	87,551
Loans after provision for loan losses	285,335	131,651	834,577	546,784	31,210	-	1,829,557
Other assets	-	-	-	-	-	1,397,191	1,397,191
Total	6,040,887	10,328,145	10,520,606	7,938,338	4,898,693	1,888,693	41,615,362

	The Group						
	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Liabilities and Stockholders' equity							
Deposits	438,977	791,038	413,058	511,536	-	-	2,154,609
Securities sold under repurchase agreements	12,463,154	4,471,231	1,766,042	31,729	-	-	18,732,156
Loan participation	265,808	905,879	13,176	-	-	-	1,184,863
Due to other financial institutions	14,767,621	20,478	1,494,534	42,769	23,891	-	16,349,293
Other liabilities	-	-	-	-	-	914,583	914,583
Deferred taxation	-	-	-	-	-	190,781	190,781
Stockholders' equity	-	-	-	-	-	2,089,077	2,089,077
Total	27,935,560	6,188,626	3,686,810	586,034	23,891	3,194,441	41,615,362
Interest sensitivity gap	(21,894,673)	4,139,519	6,833,796	7,352,304	4,874,802	(1,305,748)	-
Cumulative interest sensitivity gap	(21,894,673)	(17,755,154)	(10,921,358)	(3,569,054)	1,305,748	-	-
2002							
Interest sensitivity gap	(11,215,213)	460,525	6,320,173	3,611,802	1,437,551	(614,838)	
Cumulative interest sensitivity gap	(11,215,213)	(10,754,688)					

Statement VIII.21

25 FINANCIAL INSTRUMENTS (Cont'd)

(b) Interest rate risk (Cont'd)

(i) (Cont'd)

	The Bank						
	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Securities	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Assets							
Cash resources	1,216,414	-	-	-	-	34,092	1,250,506
Investment in Securities							
- Available-for-sale	-	-	1,589,802	-	-	417,224	2,007,026
- Held-to-maturity	-	-	-	60,415	1,284,582	-	1,344,997
- Originated debt	3,164,509	7,671,390	4,712,893	1,026,294	48,332	-	16,623,418
Securities purchased under resale agreements	275,617	120,831	65,551	-	-	-	461,999
Investment in Subsidiary	-	-	-	-	-	316,715	316,715
Loans after provision for losses	285,335	131,651	834,577	546,784	31,210	-	1,829,557
Other assets	-	-	-	-	-	753,772	753,772
Total	4,941,875	7,923,872	7,202,823	1,633,493	1,364,124	1,521,803	24,587,990
Liabilities and Stockholders' equity							
Deposits	438,977	791,038	413,058	511,536	-	-	2,154,609
Securities sold under repurchase agreements	1,690,557	665,065	27,077	22,246	-	-	2,404,945
Loan participation	265,808	905,879	13,176	-	-	-	1,184,863
Due to other financial institutions	14,767,621	20,478	1,494,534	42,769	23,891	-	16,349,293
Other liabilities	-	-	-	-	-	385,307	385,307
Deferred taxation	-	-	-	-	-	149,763	149,763
Stockholders' equity	-	-	-	-	-	1,959,210	1,959,210
Total	17,162,963	2,382,460	1,947,845	576,551	23,891	2,494,280	24,587,990
Interest sensitivity gap	(12,221,088)	5,541,412	5,254,978	1,056,942	1,340,233	(972,477)	-
Cumulative interest sensitivity gap	(12,221,088)	(6,679,676)	(1,424,698)	(367,756)	972,477	-	
2002							
Interest sensitivity gap	(12,158,274)	3,145,043	9,449,643	155,699	250,602	(842,713)	
Cumulative interest sensitivity gap	(12,158,274)	(9,013,231)	436,412	592,111	842,713	-	

Statement VIII.22

25 FINANCIAL INSTRUMENTS (Cont'd)

(b) Interest rate risk (Cont'd)

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

	The Group					
	2003					
	Immediately Rate Sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Average
	%	%	%	%	%	%
Cash resources	0.59	-	-	-	-	0.59
Investment in securities (1)	10.93	33.80	28.85	12.14	9.57	13.87
Loans (2)	13.24	15.57	17.40	14.35	12.08	14.30
Deposits (3)	9.22	8.47	11.51	8.05	-	9.11
Securities sold under repurchase agreements	11.13	15.48	21.31	18.31	-	13.41
Due to other financial institutions	1.36	8.06	7.16	8.87	4.77	1.92

	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
Investment in securities (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 agreements	5.30	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

(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.

Statement VIII.23

25 FINANCIAL INSTRUMENTS (Cont'd)

(b) Interest rate risk (Cont'd)

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

The Bank

2003

	Immediately Rate Sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Average
	%	%	%	%	%	%
Cash resources	0.60	-	-	-	-	0.58
Investment in securities (1)	1.63	36.25	31.13	6.53	11.44	12.08
Loans (2)	13.24	15.54	17.40	14.35	12.03	14.30
Deposits (3)	9.22	8.47	11.51	8.05	-	9.11
Securities purchased under resale agreements	9.96	9.25	27.23	-	-	12.23
Securities sold under repurchase agreements	6.83	10.30	20.34	17.40	-	8.04
Due to other financial Institutions	1.36	8.06	7.16	8.87	4.77	1.92

2002

	Immediately Rate Sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Average
	%	%	%	%	%	%
Cash resources	1.0	1.50	-	-	-	0.91
Investment in securities (1)	-	18.28	16.49	18.28	9.90	14.94
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 agreements	5.92	16.93	6.15	-	-	6.90
Due to other financial institutions	2.83	2.83	3.44	9.82	6.46	7.51

(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.

Statement VIII.24

25 FINANCIAL INSTRUMENTS (Cont'd)

(c) Foreign exchange risk

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 Sates 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					
	2003			2002		
	US$ '000	Cdn$ '000	£ '000	US$ '000	Cdn$ '000	£ '000
Total assets	522,976	131	290	367,819	20	68
Total liabilities	(530,450)	(85)	(128)	(364,221)	(21)	(22)
Net exposure	(7,474)	46	162	3,598	(1)	46

	The Bank					
	2003			2002		
	US$ '000	Cdn$ '000	£ '000	US$ '000	Cdn$ '000	£ '000
Total assets	348,670	131	290	275,061	20	68
Total liabilities	(357,505)	(85)	(128)	(272,040)	(21)	(22)
Net exposure	(8,835)	46	162	3,021	(1)	46

(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.

The following table summarises the credit exposure to businesses and governments by sector:

	The Group and the Bank	
	2003	2002
	$'000	$'000
Agriculture, fishing and mining	25,000	49,490
Construction, land development and real estate acquisition	221,240	52,474
Distribution	158,390	49,867
Electricity, gas & water	163,121	137,622
Government and public entities	856,646	767,392
Manufacturing	48,935	60,884
Personal	115,165	106,223
Professional and other services	111,563	102,294
Tourism and entertainment	172,469	193,530
Total	1,872,529	1,519,776
Total provision	42,972	46,765
Net	1,829,557	1,473,011

(e) Liquidity risk

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

The tables below analyse assets and liabilities of the Group into relevant maturity groupings based on the

Statement VIII.25

25 FINANCIAL INSTRUMENTS (Cont'd)

(e) Liquidity risk (Cont'd)

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for financial institutions ever to be completely matched since business transacted is often of uncertain terms and of different types.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

	The Group				
	Remaining Term to Maturity				
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total 2003
	$'000	$'000	$'000	$'000	$'000
Assets					
Cash Resources	1,103,991	-	175,158	-	1,279,149
Investment in securities					
- Trading securities	288,227	200,359	142,438	40,187	671,211
- Available-for-sale	1,724,951	6,309,391	5,278,775	417,524	13,730,641
- Originated debt	499,740	292,736	8,126,015	11,750,800	20,669,291
- Held-to-maturity	-	-	128,317	1,822,454	1,950,771
Securities purchased under resale agreements	22,000	65,551	-	-	87,551
Loans after provision for loan losses	362,630	828,638	576,078	62,211	1,829,557
Other assets	1,382,191	-	-	15,000	1,397,191
Total	5,383,730	7,696,675	14,426,781	14,108,176	41,615,362
Liabilities and Stockholders' equity					
Deposits	1,230,015	413,058	511,536	-	2,154,609
Securities sold under repurchase agreements	16,127,769	2,572,678	31,709	-	18,732,156
Loan participation	1,184,863	-	-	-	1,184,863
Due to other financial institutions	955	16,259,092	89,246	-	16,349,293
Other liabilities	914,583	-	-	-	914,583
Deferred taxation	-	-	190,781	-	190,781
Stockholders' equity	-	-	-	2,089,077	2,089,077
Total	19,458,185	19,244,828	823,272	2,089,077	41,615,362
Total Liquidity Gap	(14,074,455)	(11,548,153)	13,603,509	12,019,099	-
Cumulative Gap	(14,074,455)	(25,622,608)	(12,019,099)	-	-
2002					
Total Liquidity Gap	(19,043,735)	790,640	18,039,625	(213,470)	
Cumulative Liquidity Gap	(19,043,735)	(18,523,095)	(213,470)	-	

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25 FINANCIAL INSTRUMENTS (Cont'd)

(e) Liquidity risk (Cont'd)

	The Bank				
	Remaining Term to Maturity				
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
					2003
	$'000	$'000	$'000	$'000	$'000
Assets					
Cash Resources	1,075,348	-	175,158	-	1,250,506
Investment in securities					
Available-for-sale	733,836	98,767	1,174,423	-	2,007,026
Originated debt	100,074	500	6,254,741	10,268,103	16,623,418
Held-to-maturity	-	-	60,415	1,284,582	1,344,997
Securities purchased under resale agreements	396,448	65,551	-	-	461,999
Loans after provision for loan losses	362,630	828,638	576,078	62,211	1,829,557
Investment in subsidiary	-	-	-	316,715	316,715
Other Assets	753,772	-	-	-	753,772
Total	3,422,108	993,456	8,240,815	11,931,611	24,587,990
Liabilities and Stockholders' equity					
Deposits	1,230,015	413,058	511,536	-	2,154,609
Securities sold under repurchase agreements	2,116,629	266,070	22,246	-	2,404,945
Loan participation	1,184,863	-	-	-	1,184,863
Due to other financial institutions	955	16,259,092	89,246	-	16,349,293
Other Liabilities	385,307	-	-	-	385,307
Deferred tax	-	-	149,763	-	149,763
Stockholders' equity	-	-	-	1,959,210	1,959,210
Total	4,917,769	16,938,220	772,791	1,959,210	24,587,990
Total Liquidity Gap	(1,495,661)	(15,944,764)	7,468,024	9,972,401	-
Cumulative Gap	(1,495,661)	(17,440,425)	(9,972,401)	-	-
2002					
Total Liquidity Gap	(14,250,957)	559,761	14,706,690	(1,015,494)	
Cumulative Liquidity Gap	(14,250,957)	(13,691,196)	1,015,494	-	

Statement VIII.27

26 CONTINGENCIES AND COMMITMENTS

(a) Litigation

The Group 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 Group.

(b) Operating Leases

The Group has entered into lease agreements for office space expiring August 2004, April 2007 and June 2007 and for motor vehicles expiring March 2006.

The total annual rentals to be paid are as follows:

	The Group	The Bank
	$'000	$'000
2004	14,139	12,176
2005	8,050	5,994
2006	7,399	5,343
2007	7,426	5,370

27 DIVIDENDS

On December 5, 2003, the Directors declared and approved the payment of an interim dividend of 10 cents per stock unit payable on January 26, 2004 to stockholders on record at January 13, 2004.

28 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

As at January 1, 2003 the Group adopted International Financial Reporting Standards. Prior to that date the Group and the Bank prepared financial statements in accordance with accounting principles generally accepted in Jamaica.

The financial statements for the year ended December 31, 2001 and December 31, 2002 (the immediately preceding comparative periods) have been restated to reflect the financial position and results under IFRS. The financial effects of conversion from Jamaica GAAP to IFRS are set out as follows:

A Effect on stockholders' equity at December 31, 2001

Note		The Group		
		Previous GAAP $'000	Effect of transition to IFRS $'000	IFRS $'000
	ASSETS			
	CASH RESOURCES			
(a)	Cash and bank balances	472,539	25,529	498,068
(a)(b)	**INVESTMENT IN SECURITIES**	4,151,207	9,178,856	13,330,063
(f)	**LOAN** (after provision for loan losses)	323,351	659,021	982,372
	OTHER ASSETS			
(a)	Accounts receivable	580,840	27,400	608,240
	Income tax recoverable	66,667	-	66,667
	Customers' liabilities under acceptances, guarantees and letters of credit as per contra	703,802	-	703,802
	Owed by fellow subsidiary	1,286	-	1,286
	Property and equipment	22,578	-	22,578
	Other asset	15,000	-	15,000
		1,390,173	27,400	1,417,573
	GOODWILL ON CONSOLIDATION	4,175	-	4,175
	Total assets	6,341,445	9,890,806	16,232,251

Statement VIII.28

28 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Cont'd)

A Effect on stockholders' equity at December 31, 2001 (Cont'd)

		The Group		
Note		Previous GAAP $'000	Effect of transition to IFRS $'000	IFRS $'000
	LIABILITIES AND STOCKHOLDERS' EQUITY			
	DEPOSITS	1,141,345	-	1,141,345
(a)	**SECURITIES SOLD UNDER REPURCHASE AGREEMENTS**	1,909,627	9,005,919	10,915,546
(f)	**LOAN PARTICIPATION**	-	659,021	659,021
	DUE TO OTHER FINANCIAL INSTITUTIONS	1,489,816	-	1,489,816
	OTHER LIABILITIES			
(a)	Accounts payable	85,527	160,740	246,267
	Liabilities under acceptances, guarantees and letters of credit as per contra	703,802	-	703,802
	Other	9,562	-	9,562
		798,891	160,740	959,631
(e)	**DEFERRED TAX**	91,556	23,208	114,764
	STOCKHOLDERS' EQUITY			
	Share capital	250,000	-	250,000
	Statutory reserve fund	137,142	-	137,142
	Retained earnings reserve	322,020	-	322,020
(b)	Fair value reserve	-	46,416	46,416
	Unappropriated profits	201,048	(4,498)	196,550
		910,210	41,918	952,128
	Total liabilities and stockholders' equity	6,341,445	9,890,806	16,232,251

		The Bank		
Note		Previous GAAP $'000	Effect of transition to IFRS $'000	IFRS $'000
	ASSETS			
	CASH RESOURCES			
(a)	Cash and bank balances	472,229	25,529	497,758
(a)(b)	**INVESTMENT IN SECURITIES**	3,998,201	9,180,480	13,178,681
(f)	**LOAN** (after provision for loan losses)	323,351	659,021	982,372
	OTHER ASSETS			
(a)	Accounts receivable	578,970	27,400	606,370
	Income tax recoverable	66,667	-	66,667
	Owed by holding company	1,382	-	1,382
	Owed by fellow subsidiary	1,286	-	1,286
	Customers' liabilities under acceptances, guarantees and letters of credit as per contra	703,802	-	703,802
	Property and equipment	21,585	-	21,585
		1,373,692	27,400	1,401,092
	Total assets	6,167,473	9,892,430	16,059,903

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28 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Cont'd)

A Effect on stockholders' equity at December 31, 2001 (Cont'd)

Note		The Bank		
		Previous GAAP $'000	Effect of transition to IFRS $'000	IFRS $'000
	LIABILITIES AND STOCKHOLDERS' EQUITY			
	DEPOSITS	1,141,345	-	1,141,345
(a)	**SECURITIES SOLD UNDER REPURCHASE AGREEMENTS**	1,743,375	9,005,919	10,749,294
(f)	**LOAN PARTICIPATION**	-	659,021	659,021
	DUE TO OTHER FINANCIAL INSTITUTIONS	1,489,816	-	1,489,816
	OTHER LIABILITIES			
(a)	Accounts payable	83,512	160,406	243,918
	Owed to wholly-owned subsidiary	1,918	-	1,918
	Liabilities under acceptances, guarantees and letters of credit as per contra	703,802	-	703,802
	Other	288	-	288
		789,520	160,406	949,926
(e)	**DEFERRED TAX**	91,556	23,208	114,764
	STOCKHOLDERS' EQUITY			
	Share capital	250,000	-	250,000
	Statutory reserve fund	137,142	-	137,142
	Retained earnings reserve	322,020	-	322,020
(b)	Fair value reserve	-	46,416	46,416
	Unappropriated profits	202,699	(2,540)	200,159
		911,861	43,876	955,737
	Total liabilities and stockholders' equity	6,167,473	9,892,430	16,059,903

Statement VIII.30

28 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Cont'd)

B Effect on stockholders' equity at December 31, 2002

Note		The Group		
		Previous GAAP $'000	Effect of transition to IFRS $'000	IFRS $'000
	ASSETS			
	CASH RESOURCES			
(a)	Cash and bank balances	703,155	28,956	732,111
(a)(b)	**INVESTMENT IN SECURITIES**			
	Investments	19,157,691	(19,157,691)	-
	Trading securities	-	128,841	128,841
	Securities available-for-sale	-	3,166,955	3,166,955
	Securities held-to-maturity	-	1,230,200	1,230,200
	Originated debt	-	21,710,261	21,710,261
		19,157,691	7,078,566	26,236,257
(a)	**SECURITIES PURCHASED UNDER RESALE AGREEMENTS**	-	906,578	906,578
(f)	**LOANS (after provision for loan losses)**	492,741	980,270	1,473,011
	OTHER ASSETS			
(a)	Accounts receivable	636,387	189,650	826,037
	Income tax recoverable	20,441	-	20,441
(a)	Customers' liabilities under acceptances guarantees and letters of credit as per contra	1,049,554	(992,468)	57,086
	Property and equipment	28,173	-	28,173
	Other	15,000	-	15,000
		1,749,555	(802,818)	946,737
	GOODWILL ON CONSOLIDATION	2,088	-	2,088
	Total assets	22,105,230	8,191,552	30,296,782

Note		The Group		
		Previous GAAP $'000	Effect of transition to IFRS $'000	IFRS $'000
	LIABILITIES AND STOCKHOLDERS' EQUITY			
	DEPOSITS	2,167,076	-	2,167,076
(a)	**SECURITIES SOLD UNDER REPURCHASE AGREEMENTS**	16,194,392	7,710,077	23,904,469
(f)	**LOAN PARTICIPATION**	-	968,544	968,544
(a)	**DUE TO OTHER FINANCIAL INSTITUTIONS**	1,186,711	204,587	1,391,298
	OTHER LIABILITIES			
(a)	Accounts payable	206,974	208,940	415,914
(a)	Liabilities under acceptances, guarantees and letters of credit as per contra	1,049,554	(992,468)	57,086
		1,256,528	(783,528)	473,000
(e)	**DEFERRED TAX**	105,491	31,350	136,841
	STOCKHOLDERS' EQUITY			
	Share capital	250,000	-	250,000
	Statutory reserve fund	164,983	-	164,983
	Retained earnings reserve	523,020	-	523,020
(b)	Fair value reserve	-	62,701	62,701
(g)	Loan loss reserve	-	11,726	11,726
	Unappropriated profits	257,029	(13,905)	243,124
		1,195,032	60,522	1,255,554
	Total liabilities and stockholders' equity	22,105,230	8,191,552	30,296,782

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2003

Statement VIII.31

28 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Cont'd)

B Effect on stockholders' equity at December 31, 2002 (Cont'd)

		The Bank		
Note		Previous GAAP $'000	Effect of transition to IFRS $'000	IFRS $'000
	ASSETS			
	CASH RESOURCES			
(a)	Cash and bank balances	690,959	28,956	719,915
(a)(b)	**INVESTMENT IN SECURITIES**			
	Investments	13,597,139	(13,597,139)	-
	Securities available-for-sale	-	3,166,955	3,166,955
	Securities held-to-maturity	-	1,112,129	1,112,129
	Originated debt	-	16,695,748	16,695,748
		13,597,139	7,377,693	20,974,832
(a)	**SECURITIES PURCHASED UNDER RESALE AGREEMENTS**	-	1,118,073	1,118,073
	INVESTMENT IN SUBSIDIARY	364,315	-	364,315
(f)	**LOANS (after provision for loan losses)**	492,741	980,270	1,473,011
	OTHER ASSETS			
(a)(d)	Accounts receivable	512,968	196,094	709,062
	Income tax recoverable	20,441	-	20,441
(a)	Customers' liabilities under acceptances guarantees and letters of credit as per contra	1,049,554	(992,468)	57,086
	Property and equipment	26,116	-	26,116
		1,609,079	(796,374)	812,705
	Total assets	16,754,233	8,708,618	25,462,851
	LIABILITIES AND STOCKHOLDERS' EQUITY			
	DEPOSITS	2,187,877	-	2,187,877
(a)	**SECURITIES SOLD UNDER REPURCHASE AGREEMENTS**	10,901,184	8,214,264	19,115,448
(f)	**LOAN PARTICIPATION**	-	968,544	968,544
(a)	**DUE TO OTHER FINANCIAL INSTITUTIONS**	1,186,711	204,587	1,391,298
	OTHER LIABILITIES			
(a)	Accounts payable	140,479	215,076	355,555
(a)	Liabilities under acceptances, guarantees and letters of credit as per contra	1,049,554	(992,468)	57,086
	Other	288	(288)	-
		1,190,321	(777,680)	412,641
(e)	**DEFERRED TAX**	97,866	31,350	129,216
	STOCKHOLDERS' EQUITY			
	Share capital	250,000	-	250,000
	Statutory reserve fund	164,983	-	164,983
	Retained earnings reserve	523,020	-	523,020
(b)	Fair value reserve	-	62,701	62,701
(g)	Loan loss reserve	-	11,726	11,726
	Unappropriated profits	252,271	(6,874)	245,397
		1,190,274	67,553	1,257,827
	Total liabilities and stockholders' equity	16,754,233	8,708,618	25,462,851

Statement VIII.32

28 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Cont'd)

C Effect on profit and loss account for year ended December 31, 2002

		The Group		
		Previous	Transition to	
Note		GAAP	IFRS	IFRS
		$'000	$'000	$'000
	NET INTEREST INCOME AND OTHER REVENUES			
(a)	Interest earned on investments	833,379	1,522,753	2,356,132
	Interest earned on loans	98,039	90,445	188,484
		931,418	1,613,198	2,544,616
	Interest expense	626,141	(1,443,047)	(2,069,188)
	Net interest income	305,277	170,151	475,428
(a)(b)	Other income	351,184	(279,827)	71,357
	Commission and fee income	-	7,312	7,312
	Gain on security trading	-	60,400	60,400
	Foreign exchange trading and translation	-	16,238	16,238
	Dividend income	-	22,044	22,044
		351,184	(173,833)	177,351
	NET INTEREST INCOME AND OTHER REVENUES	656,461	(3,682)	652,779
	NON-INTEREST EXPENSES			
(c)	Salaries, personnel expenses and professional fees	170,296	(170,296)	-
	Staff costs	-	153,452	153,452
	Property expense	-	28,607	28,607
	Loan loss expense	14,099	(11,726)	2,373
	Depreciation	9,101	-	9,101
	Amortisation of goodwill	2,087	-	2,087
(a)	Other operating expenses	115,895	(6,038)	109,857
		311,478	(6,001)	305,477
	PROFIT BEFORE TAXATION	344,983	2,319	347,302
	Taxation	60,161	-	60,161
	NET PROFIT	284,822	2,319	287,141

Statement VIII.33

28 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Cont'd)

C Effect on profit and loss account for year ended December 31, 2002 (Cont'd)

		The Bank		
Note		Previous GAAP $'000	Transition to IFRS $'000	IFRS $'000
	NET INTEREST INCOME AND OTHER REVENUES			
(a)	Interest earned on investments	703,003	1,522,753	2,225,756
(b)	Interest earned on loans	98,039	90,445	188,484
	Total interest income	801,042	1,613,198	2,414,240
(a)	Interest expense	(542,122)	(1,443,047)	(1,985,169)
	Net interest income	258,920	170,151	429,071
(a)(d)	Fees and other income	346,178	(346,178)	-
	Commission and fee income	-	3,578	3,578
	Gain on securities trading	-	58,243	58,243
	Foreign exchange trading and translation	-	12,692	12,692
	Dividend income	-	22,044	22,044
	Other income	-	80,599	80,599
	Total other operating income	346,178	(169,022)	177,156
	NET INTEREST INCOME AND OTHER REVENUES	605,098	1,129	606,227
	NON-INTEREST EXPENSES			
(c)	Salaries, personnel expenses and professional fees	151,053	(151,053)	-
	Staff costs	-	134,753	134,753
	Property expenses	-	24,159	24,159
	Loan loss expense	14,099	(11,726)	2,373
	Depreciation	8,584	-	8,584
(a)	Other operating expenses	100,413	(2,396)	98,017
	Total non-interest expenses	274,149	(6,263)	267,886
	PROFIT BEFORE TAXATION	330,949	7,392	338,341
	Taxation	52,536	-	52,536
	NET PROFIT	278,413	7,392	285,805

Statement VIII.34

28 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Cont'd)

D BRIEF DESCRIPTION OF EACH ITEM OF DIFFERENCE:

(a) Assets and liabilities previously treated as off balance sheet items were included in the relevant classification as they qualify as assets and liabilities under IFRS. Certain assets previously shown were removed in accordance with IFRS. Additionally, net income from off-balance sheet transactions have now been shown gross.

(b) Financial assets classified as originated debt and available-for-sale under IFRS are carried at their amortised cost and fair values respectively. Originated debt are carried at their amortised cost using the effective yield method. The unrealized gains/losses as a result of the re-measurement of the available-for-sale investments to fair value are recognized net of their deferred tax effect in the fair value reserve.

(c) The amounts of approximately $2,924,000 for 2001 and $4,784,000 for 2002 were recognized for outstanding vacation leave in accordance with IAS 19.

(d) Loan origination fees which were previously recognized as fee income at time of loan origination are now deferred and recognized as an adjustment to the effective yield on the loan.

(e) Provision for deferred tax is now made in full using the liability method. Deferred tax was adjusted as a result of re-measurement of available-for-sale securities.

(f) Loan participation amounts previously netted against loans granted are now shown as a liability.

(g) The excess of the regulatory provision over the amount required under IAS 39 (financial instruments) is transferred to a non-distributable loan loss reserve account in stockholders' equity.