

# Bank of Nova Scotia Jamaica Limited 2000

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## Notes to the Financial Statements

31 October 2000

### 1. Identification

The Bank of Nova Scotia Jamaica Limited ("the Bank") is incorporated under the laws of Jamaica. It is a 70% subsidiary of The Bank of Nova Scotia, which is incorporated in Canada.

The Bank is licensed and these financial statements have been prepared in accordance with the provisions of the Banking Act, 1992.

The Bank's subsidiaries, which together with the Bank are referred to as 'the Group', are as follows:

	Holding	Financial Year End
Subsidiaries		
Scotiabank Jamaica Trust and Merchant Bank Limited	100%	31 October
Scotia Jamaica Investment Management Limited	100%	31 October
The Scotia Jamaica Building Society	100%	31 October
Scotia Jamaica Life Insurance Company Limited	100%	31 October
Scotia Jamaica Insurance Agency Limited	100%	31 October
Brighton Holdings Limited	100%	31 October

The principal activities of the Group are the provision of financial services, the administration of trust accounts and the provision of life insurance.

These financial statements are presented in Jamaican dollars.

## 2. Summary of Significant Accounting Policies

The preparation of financial statements in conformity with Jamaican generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Where necessary, certain comparative amounts have been reclassified to conform to current year presentation

### (a) Accounting convention

These financial statements have been prepared in accordance with and comply with Jamaican Accounting Standards, and have been prepared under the historical cost convention, modified for the inclusion of certain fixed assets and investments at valuation.

### (b) Basis of consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the Bank and its subsidiaries, after eliminating intercompany transactions and balances.

### (c) Financial instruments

Financial instruments carried on the balance sheet include cash resources, investments, loans, leased assets, other assets, deposits, cheques and other instruments in transit, acceptances, guarantees and letters of credit, securities sold under repurchase agreements, obligations under finance leases and other liabilities.

The fair values of the Bank's financial instruments are discussed in Note 25.

### (d) Actuarial valuation

The policy reserves have been calculated using the Policy Premium Method (PPM) of valuation. Under this method explicit allowance is made for all future benefits and

expenses under the policies. The premiums, benefits and expenses for each policy are projected and the resultant future cash flows are discounted back to the valuation date to determine the reserves.

The process of calculating policy reserves necessarily involves the use of estimates concerning such factors as mortality and morbidity rates, future investment yields and future expense levels. Consequently, these liabilities include reasonable provisions for adverse deviations from the estimates.

An actuarial valuation is prepared annually. The actuarial surplus, net of taxation, is transferred from the life assurance fund to the profit and loss account.

(e) Interest and fees

Interest income and expense are recorded on the accrual basis except that, where collection of interest income is considered doubtful or payment is outstanding for more than 90 days, interest is taken into account on the cash basis.

Fee income is recognised as earned when received.

(f) Premium income

Premiums are recognised as earned when due.

(g) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Jamaican dollars at the exchange rates prevailing at the balance sheet date. That is, in the case of each currency, the mid-point between the buying and selling rates at that date.

Transactions in foreign currencies are translated at the rates of exchange ruling at the dates of those transactions.

Gains and losses arising from fluctuations in exchange rates are included in the revenue and expense statement.

(h) Investments

- (i) Investments in Government of Jamaica securities are generally stated at cost. Investments that are issued at a discount or premium are carried at amortised costs with premiums and discounts being amortised to income over the period to maturity.
- (ii) Quoted securities are stated at market value and the resulting appreciation or depreciation is booked to the profit and loss account.
- (iii) Unquoted securities are stated at cost.

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

The purchase and sale of securities under resale and repurchase agreements are treated as collateralised lending and borrowing transactions. The related interest income and interest expense is recorded on the accrual basis.

(j) Loans

Loans are stated net of any unearned income and of an allowance for credit losses.

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

When a loan is classified as impaired, recognition of interest in accordance with the terms of the original loan ceases, and interest is taken into account on the cash basis.

(k) Provision for loan losses

The Bank maintains an allowance for credit losses, which in management's opinion, is adequate to absorb all credit related losses in its portfolio of both on and off-balance sheet items. The allowance consists of specific provisions and general provisions for doubtful credits.

Specific provisions are established as a result of reviews of individual loans and is based on an assessment which takes into consideration all factors, including collateral held and business and economic conditions. Collateral held by the Bank is valued on the basis of guidelines issued by the Supervisor.

General provisions for doubtful credits are established against the loan portfolio in respect of the Bank's core business lines 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 provision should not be less than 0.5% for certain residential mortgages and not less than 1% for all other credits.

Loans that are secured by a guarantee or irrevocable undertaking of the Government of Jamaica are classified as sovereign risk and are not considered to be impaired if they are contractually in arrears.

(l) Fixed assets

Land and buildings are stated at independent valuations obtained in 1994 and 1999, with subsequent additions at cost. Other fixed assets are shown at cost. Depreciation and amortization are calculated by the straight-line method at rates estimated to write off the assets over their expected useful lives as follows:

Buildings	40 years
Furniture, fixtures and equipment	10 years
Computer equipment	5 years
Motor vehicles	5 years
Leasehold improvements	Period of lease

(m) Deferred taxation

Taxation payable due to timing differences between charges allowed for taxation purposes and those shown in these financial statements is provided for only to the extent that there is a reasonable probability that the liabilities will arise in the foreseeable future.

(n) Pension plan costs

Ordinary contributions by the Group to fund benefits under the pension plan operated by trustees for employees of the Group are charged as an expense in the year in which they are due. Special contributions are charged as an expense when paid.

(o) Finance leases

Assets that are financed by leasing agreements that give rights approximating to ownership are treated as if they have been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor. Depreciation on the relevant assets is charged to operating profit. Lease payments are treated as consisting of capital and interest elements and the interest is charged to the profit and loss account using the annuity method.

Income from finance leases is credited to the profit and loss account on the interest method. The gross investments in finance leases net of unearned income is recorded as a receivable balance.

(p) Assets held in trust

Assets held in trust, other than deposits, which are not beneficially owned by the Group but for which the Group has responsibility in accordance with trust agreements are excluded from the balance sheet.

(q) Acceptances

The Group's potential liability under acceptances is reported as a liability in the Balance Sheet. The Group has equal and offsetting claims against its customers in the event of a call on these commitments, which are reported as an asset.

3. Other Revenue

	The Group		The Bank	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Retail banking fees	244,745	157,402	244,735	158,146

Credit related fees	294,622	224,210	290,636	220,798
Commercial and depository fees	501,334	385,749	418,886	316,945
Gain on foreign exchange trading	364,705	355,586	364,227	355,520
Premium income	<u>1,584,334</u>	<u>1,345,948</u>	<u>-</u>	<u>-</u>
Total	<b><u>2,989,740</u></b>	<b><u>2,468,895</u></b>	<b><u>1,318,484</u></b>	<b><u>1,051,409</u></b>

4. Salaries, Pension Contributions and Other Staff Benefits

	The Group		The Bank	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Wages and salaries	1,788,980	1,534,577	1,681,717	1,304,800
Payroll taxes	162,722	150,208	155,040	144,044
Pension costs	152,840	139,549	145,746	133,553
Other staff benefits	<u>461,277</u>	<u>412,086</u>	<u>439,016</u>	<u>533,432</u>
	2,565,819	2,236,420	2,421,519	2,115,829
Termination costs (Note 5)	76,419	-	76,419	-
	<b><u>2,642,238</u></b>	<b><u>2,236,420</u></b>	<b><u>2,497,938</u></b>	<b><u>2,115,829</u></b>

Average number of persons employed during the year:

	The Group		The Bank	
	2000 No.	1999 No.	2000 No.	1999 No.
Full-time	1,364	1,408	1,287	1,331
Part-time	<u>327</u>	<u>349</u>	<u>325</u>	<u>347</u>
	<b><u>1,691</u></b>	<b><u>1,757</u></b>	<b><u>1,612</u></b>	<b><u>1,678</u></b>

5. Exceptional Items

	The Group		The Bank	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Termination costs	(76,419)	-	(76,419)	-

Deficit on revaluation of buildings	(25,892)	-	-	-
Gain on sale of investment in - Sigma Unit Trust	<u>-</u>	<u>183,620</u>	<u>-</u>	<u>183,620</u>
	<u>(102,311)</u>	<u>183,620</u>	<u>(76,419)</u>	<u>183,620</u>

#### 6. Profit before Taxation

In arriving at the profit before taxation, the following have been charged/(credited):

	The Group		The Bank	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Directors' Emoluments				
Fees	2,814	2,216	1,814	1,431
Other	13,360	12,520	13,360	12,520
Auditors' remuneration -				
Current year	9,002	8,396	5,465	5,060
Prior year	(15)	(78)	-	-
Depreciation	<u>191,262</u>	<u>179,823</u>	<u>184,616</u>	<u>173,326</u>

#### 7. Taxation

Income tax is computed on the profit for the year as adjusted for tax purposes.  
The charge for taxation comprises:

	The Group		The Bank	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Current income tax -				
Charge for the current year	1,060,357	888,317	925,227	797,966
Adjustment for (over)/under provision of prior year's charge	12,177	(402)	(12,177)	-
Tax credit on bonus issue of shares	-	(850)	-	-
Deferred income tax	<u>(120,388)</u>	<u>28,357</u>	<u>(104,360)</u>	<u>25,858</u>
	<u>927,792</u>	<u>915,422</u>	<u>808,690</u>	<u>823,824</u>

The tax charge for the year is disproportionate to the reported results mainly because of the deduction of interest on Government of Jamaica tax-free bonds.



8. Net Profit and Unappropriated Profits Attributable to Stockholders

2000	1999
\$'000	\$'000

(a) The net profit is dealt with as follows in the financial statements of:

The Bank	2,101,560	1,641,956
The Subsidiaries	<u>455,624</u>	<u>389,095</u>
	<b><u>2,557,184</u></b>	<b><u>2,031,051</u></b>

(b) The unappropriated profits are dealt with as follows in the financial statements of:

The Bank	221,076	69,681
The Subsidiaries	<u>817,679</u>	<u>566,205</u>
	<b><u>1,038,755</u></b>	<b><u>635,886</u></b>

9. Earnings Per Stock Unit

The earnings per stock unit calculation is based on the profit after taxation and 1,463,616,000 ordinary stock units in issue at the end of both years.

10. Statutory Reserves.

Cash includes \$7,828,252,000 (1999: \$8,826,617,000) for the Group and \$7,645,502,000 (1999: \$8,141,983,000) for the Bank. This amount is held under section 14 (i) of the Banking Act, 1992, substantially on a non-interest-bearing basis at Bank of Jamaica as a cash reserve; accordingly, it is not available for investment or other use by the Bank.

11. Investments

	The Group				
	Remaining Term to Maturity				
Carrying	Within 3	3 to 12	1 to 5	Over	Carrying

Value	Months	Months	Years	5 Years	Value
1999					2000
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Government of Jamaica 22,506,382	2,073,796	6,339,133	11,320,933	2,346,972	22,080,834
Government of Canada 183,573	97,281	122,607	-	-	219,888
Other 127,786	18,393	142,354	550	-	161,297
<b>22,817,741</b>	<b>2,189,470</b>	<b>6,604,094</b>	<b>11,321,483</b>	<b>2,346,972</b>	<b>22,462,019</b>

Carrying Value	The Bank Remaining Term to Maturity				Carrying Value
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	
1999					2000
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Government of Jamaica 18,662,136	1,919,424	5,210,303	8,465,704	1,746,972	17,342,403
Government of Canada 183,552	97,281	122,607	-	-	219,888
Other 11,165	9,825	-	550	-	10,375
Subsidiaries 264,238	-	-	-	264,238	264,238

**19,121,091**                                 **2,026,530**         **5,332,910**         **8,466,254**         **2,011,210**         **17,836,904**

Included in the Government of Jamaica balance, is a US\$20,000,000 Bond due in year 2005 @ 10.875%, fixed. The Bond, which was issued on the international capital market is currently trading at 97%. No provision has been made in the financial statements to reflect the current market value of this investment as the Bond was acquired in June 1998 with the intention of holding it to maturity.

12. Loans

Carrying Value	The Group				Carrying Value
	Within 3 Months	Remaining 3 to 12 Months	Term to Maturity 1 to 5 Years	Over 5 Years	
1999					2000
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Business and Government	6,157,073	1,790,556	4,454,652	1,541,534	13,943,815
Personal and credit cards	2,907,702	1,234,742	2,571,663	1,071,302	7,785,409
Residential mortgages	70,043	31,382	173,999	1,146,064	1,421,488
Government securities purchased under resale agreements	4,902,215	4,207,228	61,780	-	9,171,223
<u>9,933,153</u>	<u>14,037,033</u>	<u>7,263,908</u>	<u>7,262,094</u>	<u>3,758,900</u>	<u>32,321,935</u>
<u>29,129,068</u>					
Less: Provision for loan losses					<u>1,620,758</u>
<u>1,248,709</u>					
<u>27,880,359</u>					<u>30,701,177</u>

Carrying Value	The Bank Remaining Term to Maturity				Carrying Value
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	
1999	\$'000	\$'000	\$'000	\$'000	\$'000
Business and Government	6,111,066	1,760,417	4,428,628	1,296,854	13,596,965
Personal and credit cards	2,911,693	1,234,743	2,571,662	1,071,302	7,789,400
Government securities purchased under resale agreements	65,000	1,330,000	-	-	1,395,000
<u>2,072,017</u>	<u>9,087,759</u>	<u>4,325,160</u>	<u>7,000,290</u>	<u>2,368,156</u>	<u>22,781,365</u>
19,838,329					
Less: Provision for loan losses					<u>1,508,845</u>
<u>1,161,997</u>					<u>21,272,520</u>
<b><u>18,676,332</u></b>					

The number of accounts are:

1999	No.	The Group		The Bank
		2000	1999	
Business and Government	11,234	10,666	11,142	
Personal and credit cards	86,687	66,002	86,687	
Residential mortgages	1,011	901	-	
-				

Government securities purchased under resale agreements	<u>5</u>	<u>7</u>	<u>3</u>
<u>5</u>	<u>98,937</u>	<u>77,576</u>	<u>97,832</u>
<b><u>76,585</u></b>			

13. Provision for Loan Losses

	The Group		The Bank	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Total Non-Performing Loans	1,217,056	1,324,321	1,106,949	1,217,280
Provision at beginning of year	1,248,709	661,032	1,161,997	617,715
Charged against revenue during the year	531,492	835,998	499,478	790,131
Bad debts written off	(205,581)	(268,809)	(198,644)	(266,295)
Recoveries of bad debts	46,138	20,488	46,014	20,446
At end of year	<u>1,620,758</u>	<u>1,248,709</u>	<u>1,508,845</u>	<u>1,161,997</u>
These comprise:				
Specific provisions	988,088	950,041	917,406	883,637
General provisions	632,670	298,668	591,439	278,360
	<b><u>1,620,758</u></b>	<b><u>1,248,709</u></b>	<b><u>1,508,845</u></b>	<b><u>1,161,997</u></b>

14. Leased Assets

	2000	1999
	\$'000	\$'000
Gross investment in finance leases	50,630	53,835
Less: Unearned income	6,345	7,540
Net investment in finance leases	<b><u>44,258</u></b>	<b><u>46,295</u></b>

	2000
	\$'000
Minimum lease payments are receivables as follows:	
In year ending 2001	30,377
2002	19,005

2003	952
2004	<u>296</u>

15. Fixed Assets

	<b>The Group</b>				
	Freehold Land and Buildings	Leasehold Improvements	Furniture, Fixtures, Motor Vehicles & Equipment	Capital Work-In- Progress	Total
At Cost or Valuation -					
1 November 1999	1,089,461	44,854	1,080,977	340,586	2,555,878
Additions	33,708	114	117,921	358,098	509,841
Deficit on revaluation	(30,711)	-	-	-	(30,711)
Disposals	-	-	(112,705)	(56,253)	(168,958)
Transfers	430,096	285	132,957	(563,338)	-
31 October 2000	<u>1,522,554</u>	<u>45,253</u>	<u>1,219,150</u>	<u>79,093</u>	<u>2,866,050</u>
Depreciation -					
1 November 1999	111,393	27,963	539,952	-	679,308
Charge for the year	28,784	7,482	154,996	-	191,262
Revaluation adjustment	(4,818)	-	-	-	(4,818)
On disposals	-	-	(62,561)	-	(62,561)
31 October 2000	<u>135,359</u>	<u>35,445</u>	<u>632,387</u>	<u>-</u>	<u>803,191</u>
Net Book Value -					
31 October 2000	<u><b>1,387,195</b></u>	<u><b>9,808</b></u>	<u><b>586,763</b></u>	<u><b>79,093</b></u>	<u><b>2,062,859</b></u>
31 October 1999	<u><b>978,068</b></u>	<u><b>16,891</b></u>	<u><b>541,025</b></u>	<u><b>340,586</b></u>	<u><b>1,876,570</b></u>

	<b>The Bank</b>				
	Freehold Land and Buildings \$'000	Leasehold Improvements \$'000	Furniture, Fixtures, Motor Vehicles & Equipment \$'000	Capital Work-In- Progress \$'000	Total \$'000

At Cost or Valuation -

1 November 1999	982,320	44,469	1,042,827	340,586	2,410,202
Additions	33,708,114	112,144	355,244	501,210	
Disposals	-	-	(112,469)	(56,253)	(168,722)
Transfers	430,096	285	132,957	(563,338)	-
31 October 2000	<u>1,446,124</u>	<u>44,868</u>	<u>1,175,459</u>	<u>76,239</u>	<u>2,742,690</u>
Depreciation -					
1 November 1999	97,830	27,845	521,489	-	647,164
Charge for the year	26,997	7,444	150,175		184,616
On disposals			(62,403)	-	(62,403)
31 October 2000	<u>124,827</u>	<u>35,289</u>	<u>609,261</u>		<u>769,377</u>
Net Book Value -					
31 October 2000	<u><b>1,321,297</b></u>	<u><b>9,579</b></u>	<u><b>566,198</b></u>	<u><b>76,239</b></u>	<u><b>1,973,313</b></u>
31 October 1999	<u><b>884,490</b></u>	<u><b>16,624</b></u>	<u><b>521,338</b></u>	<u><b>340,586</b></u>	<u><b>1,763,038</b></u>

Land and buildings were professionally valued as at 31 March 1994 by Property Consultants Limited, Estate Brokers and Appraisers, of Kingston, Jamaica - land at fair market value and buildings at depreciated replacement cost (note 23).

Buildings in Brighton Holdings Limited were professionally valued as at 30 November 1999 by Allison Pitter & Company, Chartered Surveyors of Kingston, Jamaica at depreciated replacement cost.

#### 16. Other Assets

These include interest receivable of \$2,093,358,000 (1999: \$2,037,540,000) for the Group and \$1,615,725,000 (1999: \$1,515,411,000) for the Bank.

#### 17. Deposits

	The Group					
	Remaining Term of Maturity				Carrying Value 2000	Carrying Value 1999
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Personal	43,080,749	795,648	393	-	43,876,790	7,467,576
Banks and financial						

institutions	258,620	178,592	455,041	311,769	1,204,022	1,193,814
Due to parent	59,213	103,636	499,833	184,595	847,277	790,688
Other	15,187,876	578,885	271,583	468,971	16,507,315	17,070,205
	<b>58,586,458</b>	<b>1,656,761</b>	<b>1,226,850</b>	<b>965,335</b>	<b>62,435,404</b>	<b>56,522,283</b>

**The Bank**

Remaining Term of Maturity

	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Carrying Value 2000	Carrying Value 1999
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Personal	40,291,949	686,299	-	-	40,978,248	33,866,135
Banks and financial institutions	231,874	177,285	448,200	221,071	1,078,430	1,071,212
Due to parent	59,214	103,636	499,833	184,594	847,277	790,688
Other	15,001,977	314,006	267,984	468,972	16,052,939	16,642,872
	<b>55,585,014</b>	<b>1,281,226</b>	<b>1,216,017</b>	<b>874,637</b>	<b>58,956,894</b>	<b>52,370,957</b>

The number of accounts are:

	The Group		The Bank	
	2000	1999	2000	1999
	No.	No.	No.	No.
Personal	903,452	846,952	889,329	833,495
Banks and financial institutions	176	174	57	56
Due to parent	1	1	1	1
Other	42,436	39,816	42,147	39,499
	<b>946,065</b>	<b>886,943</b>	<b>931,534</b>	<b>873,051</b>

18. Due to Parent Company

This is a US\$ denominated ten year, non-revolving term loan from the parent company for on-lending. The principal is repayable in ten installments commencing 31 December 1998. Interest on the loan is at 30 day LIBOR + 1%. The Bank earns a margin of approximately



2-3% when these funds are on-lent.

#### 19. Other Liabilities

These include interest payable at \$330,699,000 (1999: \$370,437,000) for the Group and \$125,590,000 (1999: \$121,637,000) for the Bank.

#### 20. Capital

	2000 \$'000	1999 \$'000
Authorised:		
Ordinary shares of \$1 each	<u>1,500,000</u>	<u>1,500,000</u>
Issued and fully paid:		
Ordinary stock units of \$1 each	<u>1,463,616</u>	<u>1,463,616</u>

#### 21. Reserve Fund

As required by the relevant Acts, the Group makes transfers of a minimum of 15% of 10% of net profits, depending on the circumstances, to the reserve fund. No transfers were made during the year, as all members of the Group have attained the required statutory levels.

#### 22. Retained Earnings Reserve

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

#### 23. Capital Reserves

	The Group		The Bank	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
These comprise:				
Unrealised surplus on revaluation of fixed assets -	500,143	500,143	475,503	475,503
Capital reserve arising on consolidation, net	67	67	-	-
Reserves of subsidiary capitalised				

through bonus issue of shares	16,548	13,148	-	-
Unrealised gain on revaluation of Investments	<u>135</u>	<u>135</u>	<u>-</u>	<u>-</u>
	<b><u>516,893</u></b>	<b><u>513,493</u></b>	<b><u>475,503</u></b>	<b><u>475,503</u></b>

24. Dividends

Dividends comprise:

	2000	1999
	\$'000	\$'000
Interim dividends paid, \$0.45 (1999 - \$0.375)	658,627	548,856
Interim dividends payable, \$0.37 (1999 - \$0.275)	<u>541,538</u>	<u>402,494</u>
	<b><u>1,200,165</u></b>	<b><u>951,350</u></b>

Tax of \$193,412,595 (1999: \$112,888,470) has been withheld from the interim dividends paid and the dividend payable is subject to the deduction of withholding tax.

25. 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. Many of the Bank's financial instruments lack an available trading market. Therefore, these instruments have been valued using present value or other valuation techniques and may not necessarily be indicative of the amounts realizable in an immediate settlement of the instruments. In addition, the calculation of estimated fair value is based on 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 Bank's financial instruments. The majority of the 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 fair values of cash resources, other assets, cheques and other instruments in transit, acceptances, guarantees and letters of credit, securities sold under repurchase agreements and other liabilities are assumed to approximate their carrying 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 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, fair value is assumed to be equal to book value as the interest rates on these loans automatically reprice to market.
- (ii) For match funded loans the fair value is assumed to be equal to their carrying value as gains and losses offset each other.
- (iii) For all other loans, fair value is ascertained by discounting the expected future cash flows of these loans at current market rates for loans with similar terms and risks.

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

The fair value and the carrying value of the policyholders' fund are assumed to be the same based on the results of the annual actuarial valuation (Note 2(d)).

The book value of financial assets and financial liabilities held for purposes other than trading may exceed their fair value due primarily to changes in interest rates. In such instances, the Group and the Bank do not reduce the book value of these financial assets and financial liabilities to their fair values as it is the Group's and the Bank's intention to hold them to maturity.

	The Group			
	Carrying Value 2000 \$'000	Fair Value 2000 \$'000	Carrying Value 1999 \$'000	Fair Value 1999 \$'000
Financial Assets				
Cash resources	27,606,752	27,606,752	20,697,248	20,697,248
Investments	22,462,019	22,266,515	22,817,741	22,785,803
Loans	30,701,177	30,106,385	27,880,359	27,199,152
Leased assets	44,285	44,285	46,295	46,295
Customers' liabilities under acceptances, guarantees and letters of credit	2,487,268	2,487,268	2,072,071	2,072,071
Other assets	2,978,319	2,978,319	2,263,211	2,263,211
Financial Liabilities				
Deposits	62,435,404	62,432,160	56,522,283	56,519,470
Cheques and other instruments 'in transit	720,692	720,692	644,307	644,307
Acceptances, guarantees and letters of credit	2,487,268	2,487,268	2,072,071	2,072,071
Securities sold under repurchase agreements	8,701,050	8,701,050	8,016,576	8,016,576
Obligations under finance leases	-	-	42,274	42,274
Other liabilities	1,797,016	1,797,016	1,271,425	1,271,425
Policyholders' fund	<u>3,392,513</u>	<u>3,392,513</u>	<u>1,751,924</u>	<u>1,751,924</u>

The Bank

	Carrying Value 2000 \$'000	Fair Value 2000 \$'000	Carrying Value 1999 \$'000	Fair Value 1999 \$'000
Financial Assets				
Cash resources	27,507,713	27,507,713	19,997,895	19,997,895
Investments	17,572,666	17,396,266	18,856,853	18,823,639
Loans	21,272,520	20,659,025	18,676,332	17,993,717
Customers' liabilities under acceptances, guarantees and letters of credit	2,171,424	2,171,424	1,880,636	1,880,636
Other assets	2,260,006	2,260,006	1,677,279	1,677,279
Financial Liabilities				
Deposits	58,956,894	58,954,611	52,370,957	52,369,461
Cheques and other instruments in transit	735,458	735,458	606,816	606,816
Acceptances, guarantees and letters of credit	2,171,424	2,171,424	1,880,636	1,880,636
Securities sold under repurchase agreements	2,589,151	2,589,151	1,079,705	1,079,705
Obligations under finance leases	-	-	42,274	42,274
Other liabilities	1,316,920	1,316,920	893,625	893,625

(b) Interest rate risk

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

	The Group					
	Immediately rate sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non rate sensitive
Total	2000	2000	2000	2000	2000	2000
2000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
\$'000						

Cash resources	1,299,161	11,900,506	6,457,351	-	-	7,949,734
27,606,752						
Investments	-	9,608,541	6,156,988	6,335,035	429,522	( 68,067) (2)
22,462,019						
Loans	7,970,529	11,332,098	6,030,921	4,234,482	1,532,663	( 399,516) (3)
30,701,177						
Other assets	-	-	-	-	-	7,614,510 (4)
7,614,510						
Leased assets	33,371	-	-	-	-	10,914
44,285						
Total assets	<u>9,303,061</u>	<u>32,841,145</u>	<u>18,645,260</u>	<u>10,569,517</u>	<u>1,962,185</u>	<u>15,107,575</u>
88,428,743						
Deposits	41,829,051	8,825,660	1,313,078	921,263	691,719	8,854,633
62,435,404						
Securities sold under repurchase agreements	-	6,238,774	2,462,276	-	-	
8,701,050						
Other liabilities	-	-	-	-	-	5,546,514 (4)
5,546,514						
Policyholders' fund	-	1,326,593	2,201,083	-	-	(135,163)
3,392,513						
Shareholders' equity	-	-	-	-	-	8,353,262 (4)
8,353,262						
Total liabilities and shareholders' equity	<u>41,829,051</u>	<u>16,391,027</u>	<u>5,976,437</u>	<u>921,263</u>	<u>691,719</u>	<u>22,619,246</u>
88,428,743						
Total interest rate sensitivity gap	<u>(32,525,990)</u>	<u>16,450,118</u>	<u>12,668,823</u>	<u>9,648,254</u>	<u>1,270,466</u>	<u>(7,511,671)</u>
=						
Cumulative gap	<u>(32,525,990)</u>	<u>(16,075,872)</u>	<u>(3,407,049)</u>	<u>6,241,205</u>	<u>7,511,671</u>	<u>-</u>
=						
As at 31 October 1999						
Total interest rate sensitivity gap	<u>(28,341,747)</u>	<u>15,509,629</u>	<u>12,572,300</u>	<u>4,129,419</u>	<u>715,908</u>	<u>(4,585,509)</u>
=						

Cumulative gap	(28,341,747)	(12,832,118)	(259,818)	3,869,601	4,585,509	-
=						

Total	The Bank					
	Immediately rate sensitive (1)	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non rate sensitive
	2000	2000	2000	2000	2000	2000
Cash resources	1,278,284	11,897,589	6,457,351	-	-	7,874,489
27,507,713						
Investments	-	7,419,506	4,476,547	5,245,301	429,522	66,020 (2)
17,836,904						
Loans	7,679,125	5,279,501	3,058,569	4,127,000	1,513,293	(849,968) (3)
21,272,520						
Other assets	-	-	-	-	-	6,490,827 (4)
6,490,827						
<u>Total assets</u>	<u>8,957,409</u>	<u>24,596,596</u>	<u>13,992,467</u>	<u>9,372,301</u>	<u>1,942,815</u>	<u>14,246,376</u>
73,107,964						
Deposits	41,134,111	6,225,737	978,712	917,174	690,043	9,011,117
58,956,894						
Securities sold under repurchase agreements	-	2,135,549	453,602	-	-	-
2,589,151						
Other liabilities	-	-	-	-	-	4,765,340 (4)
4,765,340						
Shareholders'equity	-	-	-	-	-	6,796,579 (4)
6,796,579						
<u>Total liabilities and shareholders'equity</u>	<u>41,134,111</u>	<u>8,361,286</u>	<u>1,432,314</u>	<u>917,174</u>	<u>690,043</u>	<u>20,573,036</u>
73,107,964						

Total interest rate sensitivity gap	<u>(32,176,702)</u>	<u>16,235,310</u>	<u>12,560,153</u>	<u>8,455,127</u>	<u>1,252,772</u>	<u>(6,326,660)</u>
=						
Cumulative gap	<u>(32,176,702)</u>	<u>(15,941,392)</u>	<u>(3,381,239)</u>	<u>5,073,888</u>	<u>6,326,660</u>	<u>-</u>
=						

As at 31 October 1999

Total interest rate sensitivity gap	<u>(27,913,770)</u>	<u>16,220,944</u>	<u>11,717,274</u>	<u>3,707,393</u>	<u>683,884</u>	<u>(4,415,725)</u>
=						
Cumulative gap	<u>(27,913,770)</u>	<u>(11,692,826)</u>	<u>24,448</u>	<u>3,731,841</u>	<u>4,415,725</u>	<u>-</u>
=						

- (1) This represents those financial instruments whose interest rates change concurrently with a change in the underlying interest rate basis, for example, base rate loans.
- (2) This includes financial instruments such as common shares.
- (3) This includes impaired loans.
- (4) This includes non-financial instruments.

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

	The Group					
	2000					
	Immediately rate sensitive %	Within 3 Months %	3 to 12 Months %	1 to 5 Years %	Over 5 Years %	Average %
Cash resources	6.5	11.8	13.5	-	-	12.0
Investments	-	19.6	19.6	17.0	5.5	18.6
Loans (i)	20.2	21.4	21.0	21.7	13.3	20.6
Leased assets	23.4	-	-	-	-	23.4
Deposits (2)	7.9	11.4	9.2	8.4	8.0	8.5
Securities sold under repurchase agreements (2)	-	16.2	18.2		-	16.7



Policyholders' funds	-	15.0	15.9	15.6
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The Bank 2000						
	Immediately rate sensitive %	Within 3 Months %	3 to 12 Months %	1 to 5 Years %	Over 5 Years %	Average %
Cash resources	6.5	11.8	13.5	-	-	12.0
Investments	-	19.6	19.5	16.4	5.5	18.3
Loans (1)	20.0	25.8	23.7	21.8	13.1	21.8
Deposits (2)	7.8	10.4	7.7	8.4	8.0	6.9
Securities sold under repurchase agreements (2)	-	16.9	19.7	-	-	17.4

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

The Group 1999						
	Immediately rate sensitive %	Within 3 Months %	3 to 12 Months %	1 to 5 Years %	Over 5 Years %	Average %
Cash resources	5.2	11.4	5.8	-	-	10.3
Investments (1)	-	22.3	21.6	14.4	-	21.5
Loans (2)	22.3	20.8	23.1	25.2	17.3	21.9
Leased assets	30.4	-	-	-	-	30.4
Deposits (3)	8.8	12.4	9.9	10.1	10.0	9.5
Securities sold under repurchase agreements (3)	-	18.5	20.0	-	-	18.6
Policyholders' fund	-	17.8	18.0	-	-	18.0

The Bank  
1999

	Immediately rate sensitive %	Within 3 Months %	3 to 12 Months %	1 to 5 Years %	Over 5 Years %	Average %
Cash resources	5.2	11.4	5.8	-		6.3
Investments (1)	-	22.3	21.6	11.1	-	21.0
Loans (2)	22.0	22.4	26.5	25.2	17.2	22.7
Deposits (3)	8.7	11.0	7.5	10.0	10.0	7.6
Securities sold under repurchase agreements (3)	13.5	19.4	20.0			17.9

(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.

(c) Credit exposure

The following table summarizes the credit exposure of the Group and the Bank to individuals, businesses and governments by sector:

	<b>The Group</b>			
	Loans (1)	Acceptances, Guarantees and Letters of Credit	Total	Total
	\$'000	\$'000	2000	\$'000
Agriculture, fishing and mining	1,140,100	39,139	1,179,239	1,068,752
Construction and real estate	1,024,697	204,485	1,229,182	1,218,461
Distribution	1,829,371	137,925	1,967,296	1,654,258

Financial institutions	763,916	1,073,183	1,837,099	1,415,259
Government and public entities	3,912,515	145,774	4,058,289	3,776,945
Manufacturing	1,580,222	437,634	2,017,856	21,120,340
Personal	7,570,978	355,899	7,926,877	6,157,639
Professional and other services	1,905,146	42,929	1,948,075	1,853,424
Tourism and entertainment	2,435,680	50,300	2,485,980	1,052,867
Total	<u>22,162,625</u>	<u>2,487,268</u>	24,649,893	20,317,945
General provision			632,670	298,668
			<u>24,017,223</u>	<u>20,019,277</u>

**The Bank**

	Loans (i)	Acceptances, Guarantees and Letters of Credit	Total 2000	Total 1999
	\$'000	\$'000	\$'000	\$'000
Agriculture, fishing and mining	1,135,238	39,139	1,174,377	1,063,528
Construction and real estate	1,010,357	198,985	1,209,342	1,218,461
Distribution	1,700,978	110,375	1,811,353	1,544,220
Financial institutions	763,916	1,073,183	1,837,099	1,344,399
Government and public entities	3,912,515	145,774	4,058,289	3,817,264
Manufacturing	1,505,461	437,634	1,943,095	2,117,056
Personal	6,186,617	84,071	6,270,688	4,964,478
Professional and other services	1,789,578	31,963	1,821,541	1,667,070
Tourism and entertainment	2,435,309	50,300	2,485,609	1,052,465
Total	<u>20,439,969</u>	<u>2,171,424</u>	22,611,393	18,788,941
General provision			591,439	278,360
			<u>22,019,954</u>	<u>18,510,581</u>

(1) Excludes assets purchased under resale agreements

(d) Foreign exchange risk

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

The Group ensures that the net exposure is kept to an acceptable level by matching foreign assets with liabilities as far as possible.

Net current foreign currency assets were as follows:

	The Group		The Bank	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
United States dollars	645,424	446,818	643,459	445,632
Canadian dollars	7,881	4,618	7,881	4,618
Pounds sterling	<u>31,482</u>	<u>20,889</u>	<u>31,396</u>	<u>20,795</u>

#### 26. Pension Plan

Trustees administer a contributory pension plan for employees of the Group. Benefits to members are based on the highest 60 consecutive months' salary, subject to a maximum salary of \$1,250,000 per annum for service before 1 November 1987 and 2/3 of final salary for service thereafter.

An actuarial valuation of the fund as of 31 October 1998 disclosed a surplus in respect of past services. The employers contribute at 11 1/4% of salary plus a special contribution of \$11,800,000 per annum for ten years commencing 31 October 1996.

The employers' contributions for the year were as follows:

	The Group		The Bank	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Ordinary contributions	139,926	127,482	133,945	121,753
Special contributions	<u>11,800</u>	<u>11,800</u>	<u>11,800</u>	<u>11,800</u>
	<b><u>151,726</u></b>	<b><u>139,282</u></b>	<b><u>145,745</u></b>	<b><u>133,553</u></b>

#### 27. Commitments

	The Group		The Bank	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000

Capital expenditure:

Authorised and contracted for 8,630      208,656      8,630      208,656

28. Assets held in Trust

At 31 October 2000, assets held in trust, which are not beneficially owned by the Group, but for which the Group has responsibility in accordance with trust agreements amounted to \$9,564,685,000 (1999 - \$8,531,187,000).

29. Related Party Transactions

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

Balances and transactions with connected parties are as follows:

	The Group		The Bank	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Loans outstanding	1,901,554	1,582,967	1,901,554	1,582,967
Deposits	491,040	1,997,978	491,040	1,997,978
Interest and other income	364,738	305,493	364,545	305,397
Interest paid	<u>28,438</u>	<u>36,188</u>	<u>28,438</u>	<u>36,188</u>

Certain loans to connected persons are secured by a guarantee from the parent company.

30. Contingencies

(i) On 7th April 1999, a writ was filed by the National Commercial Bank Jamaica Limited ("NCB") in which they set out a claim for payment of the sum of US\$13,286,000 in connection with an alleged undertaking given to NCB by Scotiabank Jamaica Trust and Merchant Bank Limited (SJTMB). Legal Opinion has been obtained which states that SJTMB has a strong defence to the claim. Consequently, no provision has been made for this amount in these financial statements.

(ii) The Group is also involved in certain other legal proceedings incidental to the normal

conduct of its business. Management believes that none of these legal proceedings, individually or in the aggregate, will have a material effect on the Group.

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