

# National Commercial Bank Jamaica Limited - 2001

## Notes to the Financial Statements

30 September 2001

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### 1. Identification and Principal Activities

National Commercial Bank Jamaica Limited ("the Bank") is incorporated in Jamaica and licensed under the Banking Act, 1992.

On 1 December 2000 by virtue of a Scheme of Arrangement under section 192 of the Companies Act between N.C.B. Group Limited, the Bank and their shareholders:

- (a) The Bank became a 75% subsidiary of the Financial Sector Adjustment Company Limited (FINSAC). FINSAC owns its stock units in the Bank through two subsidiaries - Atrium Holdings Limited (67%) and Atrium XS Holdings Limited (8%). If within 3 years, FINSAC has not entered into an agreement for the sale of at least 67% of the shares in the Bank, or alternatively, if within that time FINSAC has entered into an agreement for the sale of less than 73% plus one of the shares in the Bank, FINSAC will if requested by the Board of the Bank offer 2% of the shares in the Bank to non-FINSAC shareholders at the price at which the shares are trading on the Stock Exchange or at a price to be determined by an independent arbiter appointed by the Court in the event that the shares are not then trading as aforesaid;
- (b) Ordinary shareholders of N.C.B. Group Limited acquired one ordinary share in the Bank for each ordinary share held in N.C.B. Group Limited and N.C.B. Group Limited became a wholly-owned subsidiary of FINSAC;
- (c) N.C.B. Group Limited's shares were delisted from the Jamaica Stock Exchange and the

Bank's ordinary shares were listed;

- (d) The 12 1/2% redeemable non-cumulative preference shares and zero coupon redeemable preference shares with a total par value of \$5.3 billion held by FINSAC were converted into 940,151,975 new ordinary shares in the Bank;
- (e) The redeemable convertible preference shares with a par value of \$450 million held by Financial Institutions Services Limited (FIS) were redeemed using a non-interest bearing promissory note that was issued by FIS as consideration for the shares;
- (f) The shares in N.C.B. (investments) Limited, Omni Insurance Services Limited, Edward Gayle and Company Limited, West Indies Trust Company Limited, Data-Cap Processing Limited, N.C.B. Jamaica (Nominees) Limited held by N.C.B. Group Limited were transferred to the Bank for nominal consideration; and
- (g) Investment properties held by N.C.B. (Investments) Limited were transferred to N.C.B. Group Limited at their book values.

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

	<u>Principal Activities</u>	<u>Percentage ownership by Bank</u>
		<u>30 September</u>
		<u>2001</u>
Data-Cap Processing Limited	Data Processing	100
Edward Gayle and Company Limited	Primary Dealer and Stock Broker	50.50
Mutual Security Insurance Brokers Limited	Insurance Brokers	100
N.C.B. (investments) Limited	Money Market Trading	100
N.C.B. Jamaica (Nominees) Limited	Securities' Nominee	100
N.C.B. Cayman Limited	Commercial Banking	100
Omni Insurance Services Limited	Life Insurance	100
West Indies Trust Company Limited	Investment and Pension Fund Management	100

Subsequent to the Scheme of Arrangement, it was agreed that the shares in Mutual Security

Insurance Brokers Limited would be transferred to the Bank by FINSAC for nominal consideration.

Effective 9 April 2001, the Bank acquired the remaining 26% of the ordinary shares in Omni Insurance Services Limited.

With the exception of N.C.B. Cayman Limited, which is incorporated in the Cayman Islands, all subsidiaries are incorporated in Jamaica.

All amounts are stated in Jamaican dollars unless otherwise indicated.

## **2. Significant Accounting Policies**

### **(a) Basis of preparation**

These financial statements have been prepared in accordance with and comply with Jamaican Accounting Standards, and have been prepared under the historical cost convention as modified by the revaluation of investments in subsidiaries, investment property and certain fixed assets and investments.

### **(b) Use of estimates**

The preparation of financial statements in conformity with Jamaican generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts 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.

### **(c) 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.

The various subsidiaries acquired by virtue of the Scheme of Arrangement (Note 1) have been consolidated using the "pooling of interests" method since they were entities under common control and were acquired as a result of a group reorganisation. The consolidated balance

sheet as at 30 September 2000 and the consolidated profit and loss account for the year then ended have been restated to include the assets, liabilities and results of operations of these subsidiaries.

Any differences between the value of the net assets of subsidiaries acquired and the cost of those investments are dealt with in capital reserve.

**(d) Financial instruments**

Financial instruments carried on the balance sheet include cash resources, investments, loans, other assets, deposits, cheques and other instruments in transit, acceptances, guarantees and letters of credit, obligations under repurchase agreements, obligations under credit card and cash advances securitization arrangements, and other liabilities.

The fair values of financial instruments are discussed in note 25.

**(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 90 days or longer, interest is taken into account on the cash basis.

Fee income is recognised as earned when received.

**(f) Foreign currency balances**

Foreign currency balances included in these financial statements are translated at rates of exchange prevailing at the balance sheet date. These rates represent the weighted average rates at which the Bank trades in foreign currencies. Transactions during the year are at rates prevailing on transaction dates. Gains or losses are credited or charged to the profit and loss account.

Assets and liabilities of the foreign subsidiary are translated into Jamaican dollars at year end rates and items affecting the profit and loss account are translated at average rates. The resultant gains or losses arising on translation of the foreign subsidiary are reflected in capital reserve.

**(g) Cash and cash equivalents**

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and at Bank of Jamaica and fixed deposits and balances with other banks and financial institutions.

**(h) Investment properties**

These are intended for resale and are stated at expected net realisable value.

Gains or loss arising from the revaluation of investment properties are dealt with in the profit and loss account.

**(i) Investments in subsidiaries**

Investments by the Bank in subsidiaries are stated at valuation, based on the underlying book values of the subsidiaries' net assets.

Changes in the carrying amounts arising on revaluation of the investment in subsidiaries are reflected in the capital reserve.

**(j) Investments**

- (i) Investments in Government of Jamaica securities are stated at lower of cost or market value.
- (ii) Quoted securities are stated at market value. Changes in market value and gains and losses on disposal of these investments are dealt with in the profit and loss account.
- (iii) Unquoted securities are stated at cost less reductions to net realisable value where appropriate.
- (iv) Promissory notes and other investments are stated cost less any provision for anticipated losses.

(v) FIS and FINSAC bonds have been stated at cost plus interest earned up to the balance sheet date.

**(k) Securities purchased under agreement to resell/obligations under purchase 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.

**(l) 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 a cash received basis.

**(m) 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. 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 are 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 Bank of Jamaica. General provisions for doubtful debts of 1 % are established against the loan portfolio in respect of performing loans.

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.

**(n) Fixed assets**

Fixed assets are carried either at:

- (i) Cost, or
- (ii) Valuation as determined by independent professional valuers, or
- (iii) Net realisable value where they are intended for resale.

Depreciation is calculated on the straight line basis at annual rates that will write off the carrying value of each asset over the period of its expected useful life. Annual depreciation rates are as follows:

Freehold buildings	2-5%
Leasehold improvements	Period of lease
Computer equipment	33 1/3%
Office equipment and furniture	20.00%
Other equipment	10.00%
Motor vehicles	20%-25%
Leased assets	Shorter of period of lease or useful life of asset

Gains or losses on disposal of fixed assets are determined by reference to their carrying amount and are taken into account in determining net profit.

**(o) Finance leases**

(i) As Lessee

The fair values of the assets at the inception of the leases have been capitalised as fixed assets and corresponding obligations to the lessor have been recorded. Interest expense is recognised over the term of the lease in a manner that produces a constant rate of charge on the lease obligation.

(ii) As Lessor

The gross investment in finance leases net of unearned income is recorded as a receivable balance. Income is recognised over the term of the lease in a manner that produces a constant rate of return on the net investment in the leases.

**(p) Life assurance fund**

The life assurance fund is determined after making provision for any outstanding claims and reserves for policy benefits, taking into account the discounted value of both future benefits and future premiums as determined annually by an independent actuary in accordance with generally accepted standards of valuation.

**(q) Certificates of participation sold**

These reflect the Group's liability under agreements where promissory note investments are sold and repurchased in the short term. Gains arising on these repurchase agreements are credited to the profit and loss account over the period of the agreements.

**(r) Acceptance, guarantees, indemnities and credits**

The potential liability under acceptances is reported as a liability in the balance sheet. There are equal and offsetting claims against its customers in the event of a call on these commitments, which are reported as an asset.

**(s) Funds under management and 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.

**(t) Retirement plans**

The Bank and its subsidiaries operate a number of retirement plans, the assets of which are generally held in separate trustee-administered funds. The pension plans are funded by payments from employees and by the relevant companies, taking into account the recommendations of actuaries.

The employers' contributions are expensed in the period to which they relate.

**(u) 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.

**(v) Comparative information**

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

**3. Staff Costs**

	<u>The Group</u>		<u>The Bank</u>	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Wages and salaries	2,005,031	1,680,305	1,876,919	1,548,749
Statutory contributions	188,511	154,609	177,279	142,087
Pension costs	59,627	51,332	56,574	50,019
Allowances and benefits	298,002	337,553	271,930	316,802
	<u>2,551,171</u>	<u>2,223,799</u>	<u>2,382,702</u>	<u>2,057,657</u>
	=====	=====	=====	=====

The number of persons employed as at 30 September:

	<u>The Group</u>		<u>The Bank</u>	
	2001	2000	2001	2000
Full-time	2,150	2,075	1,993	1,843
Part-time	12	38	10	32
Contract	404	693	374	661
	<u>2,566</u>	<u>2,806</u>	<u>2,377</u>	<u>2,536</u>
	=====	=====	=====	=====

**4. Profit before Exceptional and Extraordinary Items**

The following have been charged:

	<u>The Group</u>		<u>The Bank</u>	
	2001	2000	2001	2000

	\$'000	\$'000	\$'000	\$'000
Directors' emoluments -				
Fees	963	378	863	278
Management remuneration	20,895	10,696	20,895	10,696
Compensation for loss of office	-	18,895	-	18,895
Auditors' remuneration -				
Current year	11,083	12,499	6,400	6,000
Prior year	67	18	-	268
Depreciation	404,470	292,520	383,141	275,546
	=====	=====	=====	=====

#### 5. Exceptional Items

	The Group		The Bank	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Reversal of overprovision for costs to achieve "Year 2000" compliance	-	118,823	-	118,823
Provision for decline in value of invest	(328,308)	(25,000)	(328,308)	-
Provision for anticipated losses on loans receivable	-	(111,699)	-	-
Staff termination costs	-	(18,188)	-	(18,188)
Provision for restructuring costs (Note 17(e))	(665,027)	(240,000)	(665,027)	(240,000)
Provision for diminution in value of investment properties	-	(40,000)	-	-
(Loss)/gain on sale of fixed assets and investment properties	(642)	5,434	-	-
Recovery of bad debts	38,678	-	-	-
Assumption of loan for Jamaica Orange Co. Ltd.	(70,865)	-	-	-
Write-off of shareholder's loan in Club Jamaica Beach Resort Limited	-	23,809	-	-
	=====	=====	=====	=====
	(1,026,164)	(286,821)	(993,335)	(139,365)

#### 6. Taxation

Taxation in these financial statements is based on the profit for the year adjusted for taxation purposes and comprises:

	<u>The Group</u>		<u>The Bank</u>	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	Restated \$'000
Income tax at 33 1/3%	17,401	22,918	-	-
Tax on premium income at 1 Y2%	8,468	4,915	-	-
Investment income tax at 7Y2%	14,864	14,038	-	-
Tax credit on issue of bonus shares	(4,125)	(4,375)	-	-
Over provision in prior year	-	(1,882)	-	-
	<u>36,608</u>	<u>35,614</u>	<u>-</u>	<u>-</u>
	=====	=====	=====	=====

The taxation charges were incurred by group companies that generated taxable profits.

- (a) The tax credit on the issue of bonus shares by West Indies Trust Company Limited and Edward Gayle and Company Limited, is computed at the rate of 25% of the nominal value of the shares issued during the year. The maximum nominal value available for the credit is 50% of the after-tax profit for the year of each company.
- (b) The income tax charge for the year ended 30 September 2000 was computed with the inclusion of interest income on the Series Wand Series 'B' Financial Institutions Services Limited (FIS) bonds (Note 12(b)). By an order dated 28 July 1998, the Minister of Finance remitted any income tax which may apply to or arise in respect of the "issue" or trading" of these bonds. Clarification was subsequently obtained that the remission of income tax under the order includes tax relating to interest income from these bonds. The income tax provision made at 30 September 2000 was restated upon receipt of this clarification.

The income tax charge for the year ended 30 September 2001 has been computed after remission of income tax relating to interest income of approximately \$701,000,000 from the FIS bonds and the Government of Jamaica Local Registered Stocks that were issued to replace the FIS bonds (Note 12(b)).

(c) Subject to agreement with the Commissioner of Income Tax, losses available indefinitely for offset against future profits of certain subsidiaries amount to approximately \$410,234,000 (2000 - \$430,716,000).

**7. Extraordinary Items**

	2001 \$'000	2000 \$'000
Loss on disposal of subsidiaries	(2,322)	-
Write-off of balances receivable from subsidiaries so	(23,206)	-
Loss on disposal of associated company	-	(1,250)
	<u>(25,528)</u>	<u>(1,250)</u>
	=====	=====

**8. Net Profit Attributable to Stockholders of National Commercial Bank Jamaica Limited**

	2001 \$'000	2000 \$'000
Dealt with in the financial statements of:		
The Bank	77,951	1,190,323
Subsidiaries	291,963	324,623
	<u>369,914</u>	<u>1,514,946</u>
	=====	=====

**9. Retained Earnings**

	2001 \$'000	2000 \$'000
Reflected in the financial statements of:		
The Bank	447,636	381,685
Subsidiaries	16,068	(186,257)
	<u>463,704</u>	<u>195,428</u>
	=====	=====

## 10. Earnings Per Ordinary Stock Unit

Earnings per ordinary stock unit is based on 1,973,410,262 ordinary stock units, being the number of stock units in issue at the end of the year and the net profit attributable to stockholders both before and after extraordinary items, after deducting preference dividends payable, if any. No preference dividends were payable in respect of the years ended 30 September 2000 and 2001. The comparative figure for the previous year has been restated to reflect the ordinary stock units in issue after of the Scheme of Arrangement during the year (Note 1).

## 11. Statutory Reserves and Deposits

Cash includes \$5,670,988,000 (2000 - \$6,717,851,000), which is the required ratio of 10% of prescribed liabilities. The amount is held in a special deposit account at the Bank of Jamaica as cash reserve; accordingly, it is not available for investment, lending or other use by the Group. Amounts placed on special deposit may not be dealt with by the Group and must be maintained as long as the Bank of Jamaica so requires. The Jamaican dollar cash reserve of \$4,255,708,000 (2000 - \$5,057,895,000) is non-interest-bearing.

## 12. Government of Jamaica Securities and Other Investments

	<u>The Group</u>		<u>The Bank</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
FINSAC Bonds and Promissory Notes	-	42,200,319	-	41,063,695
J\$ Denominated				
US\$ Denominated	-	3,421,713	-	3,421,713
Financial Institutions Services Limited (FIS)				
Bonds				
J\$ Denominated	-	3,486,905	-	3,456,905
US\$ Denominated	-	1,197,168	-	1,197,168
Promissory note	-	450,000	-	450,000
	<u>-</u>	<u>50,756,105</u>	<u>-</u>	<u>49,589,481</u>

Government of Jamaica Local Registered				
Stock -				
J\$ Denominated -fixed rate (10% - 15%)	11,508,772	-	11,508,772	-
J\$ Denominated -variable rate	29,794,836	1,837,021	28,390,098	467,264
US\$ Denominated or linked fixed rate (9%-10.5%)	10,329,042	-	10,329,042	-
Treasury bills (15.50% - 21.59%)	702,853	585,468	555,342	583,468
Investment debenture (119%)	607,446	972,050	151,000	195,300
US\$ Tranche 'A' & 'B' debt (4.4375%)	50,487	74,943	50,487	74,943
US\$ bond (9.625% -12%)	1,415,014	406,769	810,362	136,278
Promissory notes	809,731	628,048	-	-
Land bonds	170,000	170,000	170,000	170,000
Education bonds	17,000	17,000	17,000	17,000
Development bonds	310,037	33,387	310,037	33,387
	<u>55,715,218</u>	<u>4,724,686</u>	<u>52,292,140</u>	<u>1,677,640</u>
Promissory notes	1,513,109	2,002,070		
Marketable investments	101,693	63,380	-	-
Unquoted investments	13,936	57,055	13,934	11,479
Foreign securities	145,058	204,492	79,604	52,383
Mortgages	370,294	336,930	-	-
Other	77,775	145,114	69,485	174,919
	<u>2,221,847</u>	<u>2,809,041</u>	<u>163,023</u>	<u>238,781</u>
	<u>57,937,065</u>	<u>58,289,832</u>	<u>52,455,163</u>	<u>51,505,902</u>
	=====	=====	=====	=====

(a) During the year, the FINSAC bonds and promissory notes were replaced with Government of Jamaica (GOJ) Local Registered Stocks (LRS) with a varied mix of interest rates, currencies and maturities. Under the terms of the agreement reached during November 2001, with an effective date of 1 April 2001, the Ministry of Finance and Planning (MOFP) has undertaken to redeem \$10 billion of the \$11.5 billion Jamaican dollar denominated instruments fixed at rates of 10% to 15% per annum by 30 September 2002. \$2 billion of the 10% fixed rate instruments will be redeemed by 28 December 2001. To the extent that the redemption does not occur on the specified dates, the instruments will bear interest at the weighted average yield applicable to the latest six month Treasury Bill tender (WATBY). The MOFP has also undertaken to pay the interest due during the period 1 April 2001 and 30 September 2001 on

the replacement GOJ LRS amounting to approximately \$1.4 billion (before withholding tax) by 30 November 2001.

The FINSAC bonds and promissory notes were issued pursuant to an undertaking by the GOJ. The Jamaican dollar denominated instruments bore interest at the rate of one percent above WATBY. The United States dollar denominated instruments bore interest at rates between 9% and 9.625% per annum. Interest was receivable semi-annually. Interest payments, could at the promisor's option, be satisfied by payment in cash or by the issue of interest notes.

(b) During the year, the FIS bonds were replaced with GOJ LRS with identical interest rates and maturities.

The FIS bonds were negotiable and were guaranteed by the GOJ. They were issued in United States dollar (Series W) and Jamaican dollar (Series V) denominations. The bonds denominated in Jamaican dollars bore interest at one percent above WATBY, while the foreign currency bonds bore interest at 9.625% per annum. Interest on the bonds was receivable semi-annually in cash.

The FIS promissory note was guaranteed by the GOJ and was issued as consideration for redeemable convertible zero-coupon preference shares of \$450,000,000 in the Bank. The note was non-interest bearing and was repayable on or before 14 November 2007. During the year, it was used to redeem the redeemable convertible zero-coupon preference shares (Note 1 (e)).

(c) Included in the Jamaican dollar denominated GOJ LRS are instruments totalling \$21.4 billion in face value which bear interest at WATBY minus four (4) percent up to 31 March 2002, WATBY minus two (2) percent between 1 April 2002 and 31 March 2003, WATBY between 1 April 2003 and 31 March 2005 and WATBY plus one (1) percent thereafter until maturity.

(d) Mortgages include the Jamaican dollar equivalent of US\$7,500,000, which represents a second mortgage to the purchaser of the Wyndham Kingston Hotel. The mortgage is supported by a Financing Note, which was issued on 29 May 1998 and is repayable on 29 May 2003 with the purchaser having the option to extend the repayment date to 29 May 2008. Interest is receivable annually in advance at 7.5% in year 1, 8.5% in year 2 increasing by 0.75% per annum to 14.25% in year 10, if applicable. During the first four years, interest will be received by way of US\$75,000 in cash with the remainder by the issue of additional promissory notes, payable ten years after the date of issue of the mortgage. In the fifth year, interest will be receivable in the form of a promissory note for the total and shall be payable in four equal consecutive quarterly instalments, payable three months after the

fourth anniversary of the issue date and consecutively at the end of each subsequent three month period.

(e) Included in investments are amounts totalling \$1,600,000,000 (2000 - \$1,400,000,000) that are being held by the Bank of Jamaica as security for overdraft facilities on the Bank's operating account.

At year end, the Bank's operating account was not overdrawn at the Bank of Jamaica.

### 13. Investment Properties

	2001 \$'000	2000 \$'000
Balance at beginning of year	472,203	518,282
Provision for diminution in value	(368)	(40,650)
Disposals	<u>(455,744)</u>	<u>(5,429)</u>
Balance at end of year	<u>16,100</u>	<u>472,203</u>

The real estate investments of Omni Insurance Services Limited were revalued at open market value by C.D. Alexander Company Realty Limited as at 30 September 1999. Other investment properties were stated at the directors' estimate of the net realisable value and were disposed of during the year (Note 1 (g)).

### 14. Provision for Loan Losses

Movements during the year were as follows:

	<u>The Group</u>		<u>The Bank</u>	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Non-performing loans - interest not being accrued	1,920,195	2,613,316	1,889,596	2,728,608
	=====	=====	=====	=====
Balance at beginning of year	3,500,665	2,738,404	3,496,060	2,735,118
Provided during the year, net of recoveries	(726,121)	1,292,368	(727,428)	1,388,243
Amounts written off	<u>(115,970)</u>	<u>627,301)</u>	<u>(115,970)</u>	<u>(627,301)</u>



Balance at end of year	2,658,574	3,403,471	2,652,662	3,496,060
	=====	=====	=====	=====
This comprises:				
Specific provision	2,567,261	3,327,909	2,563,561	3,420,498
General provision	91,313	75,562	89,101	75,562
	=====	=====	=====	=====

At 30 September 2001, specific provision has been made for all loans which are in arrears in respect of interest and principal repayments for three months or longer. No interest is accrued in respect of these loans. Specific provision has also been made for loans which, although performing, exhibit signs of credit weakness and non-performing loans in respect of which the Bank is a guarantor. General provision approximates one percent of the performing loan portfolio.

#### 15. Other Assets

These include interest receivable of \$4,105,959,000 (2000 - \$1,247,534,000) for the Group and \$3,408,555,000 (2000 - \$336,779,000) for the Bank. Included in these amounts is interest due between 1 April and 30 September 2001 on the Government of Jamaica Local Registered Stocks issued to replace FINSAC bonds and promissory notes (Note 12(a)).

#### 16. Fixed Assets

	<u>The Group</u>					Total \$'000
	Freehold Land and Buildings \$'000	Leasehold Improvements \$'000	Furniture, Equipment & Vehicles \$'000	Assets Capitalised Under Finance Leases \$'000	Construction in progress \$'000	
Cost or Valuation -						
At 1 October 2000	1,282,000	256,773	924,157	740,666	27,337	3,230,931
Additions	39,196	9,632	67,644	83,750	74,773	274,995
Disposals	(205,772)	(1,257)	(149,125)	(43,449)	-	(399,603)
Transfers	2,534	1,403	(4,574)	10,116	(9,479)	
Reclassification	-	-	(2,123)	-	(1,281)	(3,406)

At 30 September 2001	1,117,958	266,551	835,979	791,083	91,350	3,102,917
Depreciation -						
At 1 October 2000	153,877	195,689	528,735	504,013	-	1,382,312
Charge for the year	24,870	14,019	209,132	156,449	-	404,470
Disposals	(11,718)	(1,258)	(146,641)	(35,526)	-	(195,142)
Transfers	-	-	(2,074)	2,074	-	-
At 30 September 2001	167,029	208,450	589,152	627,010	-	1,591,640
Net Book Value -						
30 September 2001	950,929	58,101	246,827	164,073	91,350	1,511,277
30 September 2000	1,128,123	61,084	395,422	236,653	27,337	1,848,619

**The Bank**

	<b>Assets</b>					
	<b>Capitalised</b>					
	<b>Freehold</b>		<b>Furniture,</b>	<b>Under</b>		
	<b>Land and</b>	<b>Leasehold</b>	<b>Equipment</b>	<b>Finance</b>	<b>Construction</b>	<b>Total</b>
	<b>Buildings</b>	<b>Improvements</b>	<b>&amp; Vehicles</b>	<b>Leases</b>	<b>in progress</b>	<b>\$'000</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Cost or Valuation -						
At 1 October 2000	1,106,138	246,291	714,948	740,664	27,337	2,835,378
Additions	13,313	7,956	49,479	83,750	100,656	255,154
Disposals	(29,910)	-	(3,226)	(43,449)	-	(76,585)
Transfers	2,534	1,403	(4,574)	12,252	(11,615)	-
Reclassification	-	-	(2,126)	-	(1,280)	(3,406)
At 30 September 2001	1,092,075	255,650	754,501	793,217	115,098	3,010,541
Depreciation -						
At 1 October 2000	145,637	190,979	349,759	504,013	-	1,190,388
Charge for the year	24,870	11,978	189,845	156,448	-	383,141
Disposals	(3,477)	-	(2,883)	(35,525)	-	(41,885)
Transfers	-	-	(2,074)	2,074	-	-
At 30 September 2001	167,030	202,957	534,647	627,010	-	1,531,644

Net Book Value -						
30 September 2001	925,045	52,693	219,854	166,207	115,098	1,478,897
	=====					
30 September 2000	960,501	55,312	365,189	236,651	27,337	1,644,990
	=====					

(a) The freehold land and buildings of a subsidiary were revalued at open market value by The C.D. Adexander Realty Company Limited as at 30 June 1990. The surplus has been credited to capital reserve (Note 21).

(b) The freehold land of a subsidiary was revalued at open market value by Allison, Pitter and Company on 22 September 1998. The diminution in value was charged to the profit and loss account.

#### 17. Other Liabilities

These include:

(a) Amounts aggregating \$ 814,472,000 (2000 - \$859,024,000) representing funds provided by GOJ and various funding agencies to the Bank for the purpose of making loans to students of tertiary educational institutions.

(b) Interest payable on customer deposits and liabilities of the Bank amounting to \$687,740,000 (2000 - \$729,453,000).

(c) Interest accrued on promissory notes and certificates of participation of a subsidiary of the Bank totalling \$152,955,000 (2000 - \$ 201,190,000).

(d) An amount of \$228,057,000 (2000 - \$215,350,000) representing a US dollar denominated demand loan from Barclays Bank plc to a subsidiary of the Bank. The interest rate on the loan at 30 September 2001 was based on one year US\$ LIBO.R plus 125 basis points.

(e) Provision for restructuring costs.

**The Group and The Bank**

	2001 \$'000	2000 \$'000
Balance at beginning of year	240,000	55,000
Provided during the year (Note 5)	665,027	240,000
Utilised during the year	<u>(126,910)</u>	<u>(55,000)</u>
Balance at end of year	<u>768,117</u>	<u>240,000</u>

The provision for restructuring costs as at 30 September 2001 is in respect of estimated redundancy costs for approximately 840 employees. The reduction in staff numbers, particularly in processing and administration, will arise as part of a Transformation Initiative that the Bank has commenced to enhance product development capabilities and service delivery. The Initiative will involve, inter alia, the acquisition and installation of a new information technology system. It is expected that the Initiative will be substantially completed by 2005.

(f) Obligation under finance leases. Future payments under these lease commitments are as follows:

	<u>The Group</u>		<u>The Bank</u>	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Total minimum lease payments	144,569	104,989	208,580	257,858
Less: Future interest payments	<u>(38,725)</u>	<u>(21,365)</u>	<u>(44,852)</u>	<u>(55,560)</u>
Net obligations under finance leases	<u>105,844</u>	<u>83,624</u>	<u>163,728</u>	<u>202,298</u>
Payable in the year ending -				
2002	66,320		123,649	
2003	58,342		64,945	
2004	19,907		19,986	

#### 18. Obligations Under Credit Card and Cash Advance Securitization Arrangements

During the year, the Bank entered into an arrangement for the sale of Future Accounts Receivable amounting to US\$125,000,000 in respect of credit card and cash advance transactions

in Jamaica between Visa International Service Association and Master Card International Incorporated and cardholders holding cards issued by banks outside of Jamaica (primarily in the U.S.A.). This took the form of variable funding certificates issued by Citibank N.A. through Citicorp administered commercial paper conduits. The interest is payable quarterly commencing in October 2001 and ending October 2006. Interest is calculated daily based on the weighted average rate applicable to commercial paper transactions administered by the respective conduits. The rate approximates one month US dollar LIBOR plus 250 basis points. Drawdowns under the arrangement totalled US\$90 million during the year.

The Bank also entered into an interest rate swap agreement effective October 2001 with Citibank N.A. whereby the Bank will pay 4.33% per annum fixed and receive three month US dollar LIBOR on a notional amount of US\$45,000,000 every quarter commencing January 2002 and ending July 2006. See also Note 33.

#### 19. Deferred Profit

This represents:

- (a) US\$7.5 million (net of commissions deferred) of the sale proceeds of the Wyndham Kingston Hotel which was financed by a second mortgage from a subsidiary. The amount is being taken to the profit and loss account over the life of the loan based on annual assessments (Note 12(d)).
- (b) Discounts arising on the acquisition of US dollar denominated Eurobond investment instruments maturing between 2005 and 2011. The discounts are being amortised over the remaining life of the securities as an adjustment of yield.

#### 20. Share Capital

	2001 \$'000	2000 \$'000
Authorised	5,750,000	5,750,000
	=====	=====
issued and Fully Paid Up Capital -		
Ordinary stock units of \$1 each	<u>1,973,410</u>	<u>418,333</u>
Redeemable convertible preference shares of \$1 each	-	450,000
Zero coupon redeemable preference shares of \$1 each	-	1,162,667

12 1/2% Redeemable non-cumulative preference shares of \$1 each (The Bank's preference shares)	-	3,670,000
	<u>-</u>	<u>5,282,667</u>
	1,973,410	5,701,000
	=====	=====

During the year, the Bank's share capital was reorganised under the Scheme of Arrangement (Note 1).

## 21. Capital Reserve

	<u>The Group</u>		<u>The Bank</u>	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Realised:				
Capital distribution	151	151	-	-
Surplus on revaluation of fixed assets and investment properties	92,991	92,991	-	-
Surplus on revaluation of subsidiaries (Goodwill)/reserve arising on consolidat	-	-	312,622	-
Retained earnings capitalised	(69,459)	702,823	-	-
Unrealised:				
Surplus on revaluation of fixed assets and investment properties	68,439	62,341	47,904	35,697
Surplus on revaluation of subsidiaries	-	-	392,762	172,531
Gain on translation of foreign subsidiar	119,840	101,666	-	-
	<u>278,462</u>	<u>959,972</u>	<u>753,288</u>	<u>208,228</u>
	=====	=====	=====	=====

## 22. Banking Reserve Fund

This fund is maintained in accordance with the Banking Act 1992 which requires that a minimum of 15% of the net profits, as defined by the Act, of the Bank be transferred to the reserve fund until the amount of the fund is equal to 50% of the paid-up capital of the Bank and thereafter 10% of the said net profits until the amount of the fund is equal to the paid-up capital of the Bank.

## 23. Retained Earnings Reserve

Section 2 of the Banking Act 1992 permits the transfer of any portion of the Bank's net profit to a retained earnings reserve. This reserve constitutes a part of the capital base for the purpose of determining the maximum level of deposit liabilities and lending to customers. The deposit liabilities of the Bank and other indebtedness for borrowed money together with all interest accrued should not exceed twenty-five times its capital base.

## 24. Risk Exposure

The tables below analyse assets and liabilities of the Group and the Bank into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

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 banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

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 rates and exchange rates.

### (a) Liquidity risk

	<u>The Group</u>					<u>Total</u>
	<u>Within 1</u>	<u>1 to 3</u>	<u>3 to 12</u>	<u>1 to 5</u>	<u>Over 5</u>	
	<u>Month</u>	<u>Months</u>	<u>Months</u>	<u>Years</u>	<u>Years</u>	
	2001	2001	2001	2001	2001	2001
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>						
Cash resources	12,197,803	1,975,554	68,657	-	20,000	14,262,014
Securities purchased under agreements to resell	4,692,639	2,659,875	4,722,106	2,177,479	1,503,456	16,189,379
Government of Jamaica securities and other investments	481,026	1,242,742	3,414,705	15,613,623	37,634,893	57,953,165







	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>						
Cash resources	12,023,464	2,016,376	64,896	-	-	14,104,736
Securities purchased under agreements to resell	2,161,592	1,237,303	728,496	-	-	4,127,391
Government of Jamaica securities and other investments	188,549	390,319	1,152,946	13,452,621	38,964,763	54,149,198
Loans and advances less provision for losses	1,901,393	157,048	886,316	3,204,638	2,006,594	8,155,989
Customer liabilities on acceptances, guarantees, Ex-Im Bank discount, etc.	308,590	371,240	588,239	365,628	376,806	2,010,503
Other assets	221,842	1,463,349	1,863,796	59,190	16,509	3,624,686
Fixed assets	-	-	-	-	1,478,897	1,478,897
<b>Total assets</b>	<b>16,805,430</b>	<b>5,635,635</b>	<b>5,284,689</b>	<b>17,082,077</b>	<b>42,843,569</b>	<b>87,651,400</b>
<b>Liabilities</b>						
Deposits and current accounts of customers	50,540,878	4,369,290	2,255,073	1,077,443	-	58,242,684
Amounts due to other banks and financial institutions	18,877	967	25,365	774,445	379,064	1,198,718
Cheques and other instruments in the course of payment	-	772,729	-	-	-	772,729
Obligations under repurchase agreements	3,889,015	4,316,159	125,000	-	-	8,330,174
Liability on acceptances, guarantees, Ex-im Bank discount, etc.	308,590	371,240	588,239	365,628	376,806	2,010,503
Obligations under credit card and cash advance securitization arrangements	178,730	181,288	370,397	3,374,611	-	4,105,026
Other liabilities	779,784	431,797	1,157,910	1,556,876	-	3,926,367
<b>Total liabilities</b>	<b>55,715,874</b>	<b>10,443,470</b>	<b>4,521,984</b>	<b>7,149,003</b>	<b>755,870</b>	<b>78,586,201</b>
<b>Net Liquidity Gap</b>	<b>(38,910,444)</b>	<b>(4,807,835)</b>	<b>762,705</b>	<b>9,933,074</b>	<b>42,087,699</b>	<b>9,065,199</b>
<b>Cumulative Liquidity Gap</b>	<b>(38,910,444)</b>	<b>(43,718,279)</b>	<b>(42,955,574)</b>	<b>(33,022,500)</b>	<b>9,065,199</b>	

**The Bank**

<b>Within 1</b>	<b>1 to 3</b>	<b>3 to 12</b>	<b>1 to 5</b>	<b>Over 5</b>
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	<b>Month</b>	<b>Months</b>	<b>Months</b>	<b>Years</b>	<b>Years</b>	<b>Total</b>
	<b>2000</b>	<b>2000</b>	<b>2000</b>	<b>2000</b>	<b>2000</b>	<b>2000</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Assets</b>						
Cash resources	12,559,193	1,831,790	98,279	-	-	14,489,262
Securities purchased under agreements to resell	500,000	1,162,906	-	-	-	1,662,906
Government of Jamaica securities and other investments	-	465,099	755,590	5,209,878	45,419,432	51,849,999
Loans and advances less provision for losses	3,384,539	30,203	871,882	1,040,230	1,776,342	7,103,196
Customer liabilities on acceptances, guarantees, Ex-Im Bank discount, etc.	89,553	1,661,939	1,022,195	367,757	-	3,141,444
Other assets	114,624	208,012	119,371	187,066	9,569	638,642
Fixed assets	-	-	-	274,613	1,370,377	1,644,990
<b>Total assets</b>	<b>16,647,909</b>	<b>5,359,949</b>	<b>2,867,317</b>	<b>7,079,544</b>	<b>48,575,720</b>	<b>80,530,439</b>
<b>Liabilities</b>						
Deposits and current accounts of customers	46,484,144	3,149,369	2,046,386	882,943	-	52,562,842
Amounts due to other banks and financial institutions	699,594	11,780	77,000	626,431	586,705	2,001,510
Cheques and other instruments in the course of payment	-	710,476	-	-	-	710,476
Obligations under repurchase agreements	4,402,623	6,557,933	-	-	-	10,960,556
Liability on acceptances, guarantees, Ex-Im Bank discount, etc.	89,553	1,661,939	1,022,195	367,757	-	3,141,444
Other liabilities	105,844	867,825	964,466	711,711	226,502	2,876,348
<b>Total liabilities</b>	<b>51,781,758</b>	<b>12,959,322</b>	<b>4,110,047</b>	<b>2,588,842</b>	<b>813,207</b>	<b>72,253,176</b>
<b>Net Liquidity Gap</b>	<b>(35,133,849)</b>	<b>(7,599,373)</b>	<b>(1,242,730)</b>	<b>4,490,702</b>	<b>47,762,513</b>	<b>8,277,263</b>
<b>Cumulative Liquidity Gap</b>	<b>(35,133,849)</b>	<b>(42,733,222)</b>	<b>(43,975,952)</b>	<b>39,485,250</b>	<b>8,277,263</b>	

(b) Interest rate risk

The Group and the Bank are exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on their financial position and cash flows. The tables below summarise the Group's and the Bank's exposure to interest rate risk.

Included in the table are the Group's and the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	<b>The Group</b>						<b>Total</b>
	<b>Within 1</b>	<b>1 to 3</b>	<b>3 to 12</b>	<b>1 to 5</b>	<b>Over 5</b>	<b>Non-Interest</b>	
	<b>Month</b>	<b>Months</b>	<b>Months</b>	<b>Years</b>	<b>Years</b>	<b>Bearing</b>	
	<b>2001</b>	<b>2001</b>	<b>2001</b>	<b>2001</b>	<b>2001</b>	<b>2001</b>	
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Assets</b>							
Cash resources	7,130,738	1,212,191	68,657	-	20,000	5,830,428	14,262,014
Securities purchased under agreements to resell	4,442,087	6,277,933	5,469,359				16,189,379
Government of Jamaica securities and other investments	6,078,600	29,740,616	20,220,593	1,503,746	199,493	210,117	57,953,165
Loans and advances less provision for losses	7,787,159	4,251	56,082	262,556	11,287	158,085	8,279,420
Customer liabilities on acceptances, guarantees, Ex-Im Bank discount, etc.	-	-	-	-		1,817,927	1,817,927
Other assets	-	-	-	-		4,892,303	4,892,303
Fixed assets	-	-	-	-		1,511,277	1,511,277
<b>Total assets</b>	<b>25,438,584</b>	<b>37,234,991</b>	<b>25,814,691</b>	<b>1,766,302</b>	<b>230,780</b>	<b>14,420,137</b>	<b>104,905,485</b>
<b>Liabilities</b>							
Deposits and current accounts of customers	36,178,424	4,436,342	2,896,928	1077443		13,762,837	58,351,974
Promissory notes and certificates of participation	8,546,611	1,848,118	279,629	18,432			10,692,790
Amounts due to other banks and financial institutions	223,122	741,634	20,996	155826	54,775	600	1,196,953
Cheques and other instruments in the course of payment	-	-	-			812,905	812,905
Obligations under repurchase agreements	3,780,443	5,372,937	2,119,861	22923	22,806	-	11,318,970
Liability on acceptances, guarantees, Ex-Im Bank discount, etc.	-	-	-			1,817,927	1,817,927
Obligations under credit card and cash advance securitization arrangements	4,105,026					-	4,105,026

Minority interest in subsidiaries	-	-	-			121,870	121,870
Other liabilities	-	2,633,206	76,530	269,434	-	4,442,701	7,421,871
Total liabilities	52,833,626	15,032,237	5,393,944	1,544,058	77,581	20,958,840	396,000
On balance sheet interest sensitivity gap	(27,395,042)	22,202,754	20,420,747	222,244	153,199	(6,538,703)	9,065,199
Cumulative interest sensitivity gap	(27,395,042)	(5,192,288)	15,228,459	15,450,703	15,603,902	9,065,199	

	<u>The Group</u>						
	<u>Within 1</u>	<u>1 to 3</u>	<u>3 to 12</u>	<u>1 to 5</u>	<u>Over 5</u>	<u>Non-Interest</u>	<u>Total</u>
	<u>Month</u>	<u>Months</u>	<u>Months</u>	<u>Years</u>	<u>Years</u>	<u>Bearing</u>	<u>2000</u>
	<u>2000</u>	<u>2000</u>	<u>2000</u>	<u>2000</u>	<u>2000</u>	<u>2000</u>	<u>2000</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Assets							
Cash resources	5,480,679	2,118,586	88,333	-	20,000	7,097,192	14,804,790
Securities purchased under agreements to resell	2,184,429	3,441,079	2,333,841	1,061,633	-	-	9,020,982
Government of Jamaica securities and other investments	3,005,272	25,223,840	27,950,866	649,071	154,242	1,778,562	58,762,035
Loans and advances less provision for losses	6,853,889	16,758	166,640	213,458	(17,004)	15,893	7,249,634
Customer liabilities on acceptances, guarantees, Ex-Im Bank discount, etc.	-	-	-	-	-	1,577,096	1,577,096
Other assets	-	-	-	-	-	1,572,067	1,572,067
Fixed assets	-	-	-	-	-	1,848,619	1,848,619
Total assets	17,524,269	30,800,263	30,539,680	1,924,162	157,420	13,889,429	94,835,223
Liabilities							
Deposits and current accounts of customers	32,518,228	3,918,254	2,063,380	882,943	-	12,255,385	51,638,190
Promissory notes and certificates of participation	14,189,608	(88,952)	(3,000)	-	-	-	14,097,656
Amounts due to other banks and financial institutions	700,781	884,704	235,525	306,872	91,021	-	2,218,903
Cheques and other instruments in the course of payment	-	-	-	-	-	1,831,664	1,831,664
Obligations under repurchase							

agreements	3,971,603	3,566,074	751,682	24,450		-	8,313,809
Liability on acceptances, guarantees, Ex-Irn Bank discount, etc.	-	-	-	-		1,577,096	1,577,096
Minority interest in subsidiaries	-	-	-	-		136,013	136,013
Other liabilities	30,046	2,453,108	-	31,001	8,659	3,197,570	5,720,384
Total liabilities	51,410,266	10,733,188	3,047,587	1,245,266	99,680	18,997,728	85,533,715
On balance sheet interest sensitivity gap	(33,885,997)	20,067,075	27,492,093	678,896	57,740	(5,108,299)	9,301,508
Cumulative interest sensitivity gap	(33,885,997)	(13,818,922)	13,673,170	14,352,067	14,409,807	9,301,508	

	The Bank						
	Within 1 Month	1 to 3 Months	3 to 12 Months	The Bank 1 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
	2001 \$'000	2001 \$'000	2001 \$'000	2001 \$'000	2001 \$'000	2001 \$'000	2001 \$'000
Assets							
Cash resources	6,911,150	1,251,133	64,896	-	-	5,877,557	14,104,736
Securities purchased under agreements to resell	2,161,592	1,237,303	728,496	-	-	-	4,127,391
Government of Jamaica securities and other investments	4,363,885	28,832,315	18,749,758	321,000	-	1,882,240	54,149,198
Loans and advances less provision for losses	7,774,616	2,335	36,834	214,755	21	127,428	8,155,989
Customer liabilities on acceptances, guarantees, Ex-Im Bank discount, etc.	-	-	-	-	-	2,010,503	2,010,503
Other assets	-	-	-	-	-	3,624,686	3,624,686
Fixed assets	-	-	-	-	-	1,478,897	1,478,897
Total assets	21,211,243	31,323,086	19,579,984	535,755	21	15,001,311	87,651,400
Liabilities							
Deposits and current accounts of customers	35,972,284	4,369,290	2,942,813	1,077,443	-	13,880,854	58,242,684
Amounts due to other banks and							

financial institutions	223,122	741,634	20,996	155,826	54,775	2,365	1,198,718
Cheques and other instruments in the course of payment	-	-	-			772,729	772,729
Obligations under repurchase agreements	3,889,015	4,316,159	125,000		-	-	8,330,174
Liability on acceptances, guarantees, Ex-Im Bank discount etc.	-	-	-			2,010,503	2,010,503
Obligations under credit card and cash advance securitization arrangements	4,105,026	-	-				4,105,026
Other liabilities	-	106,683	98,927	77,142		3,643,615	3,926,367
Total liabilities	44,189,447	9,533,766	3,187,736	1,310,411	54,775	20,310,066	78,586,201
On balance sheet interest sensitivity gap	(22,978,204)	21,789,320	16,392,248	(774,656)	(54,754)	(5,308,755)	9,065,199
Cumulative interest sensitivity gap	(22,978,204)	(1,188,884)	15,203,364	14,428,708	14,373,954	9,065,199	

<b>The Bank</b>						
<b>Within 1</b>	<b>1 to 3</b>	<b>3 to 12</b>	<b>1 to 5</b>	<b>Over 5</b>	<b>Non-Interest</b>	<b>Total</b>
<b>Month</b>	<b>Months</b>	<b>Months</b>	<b>Years</b>	<b>Years</b>	<b>Bearing</b>	<b></b>
<b>2000</b>	<b>2000</b>	<b>2000</b>	<b>2000</b>	<b>2000</b>	<b>2000</b>	<b>2000</b>
<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>

Assets

Cash resources	5,273,699	2,053,336	98,278			7,063,949	14,489,262
Securities purchased under agreements to resell	500,000	1,162,906	-			-	1,662,906
Government of Jamaica securities and other investments	-	23,919,522	27,124,901			805,576	51,849,999
Loans and advances less provision for losses	6,843,165	4,564	18,669	213,458	9,570	13,770	7,103,196
Customer liabilities on acceptances, guarantees, Ex-Im Bank discount, etc.	-	-	-	-		3,141,444	3,141,444
Other assets						638,642	638,642

Fixed assets	-	-	-	-	-	1,644,990	1,644,990
Total assets	12,616,864	27,140,328	27,241,848	213,458	9,570	13,308,371	80,530,439
Liabilities							
Deposits and current accounts of customers	32,398,111	3,878,822	2,046,386	882,943		13,356,580	52,562,842
Amounts due to other banks and financial institutions	699,594	884,704	19,319	306,872	91,021	-	2,001,510
Cheques and other instruments in the course of payment	-	-	-	-		710,476	710,476
Obligations under repurchase agreements	4,402,623	6,557,933				-	10,960,556
Liability on acceptances, guarantees, Ex-Irn Bank discount, etc.	-	-	-	-	-	3,141,444	3,141,444
Other liabilities	-	-	-	258,800	-	2,617,548	2,876,348
Total liabilities	37,500,328	11,321,459	2,065,705	1,448,615	91,021	19,826,048	72,253,176
On balance sheet interest sensitivity gap	(24,883,464)	15,818,869	25,176,143	(1,235,157)	(81,451)	(6,517,677)	8,277,263
Cumulative interest sensitivity gap	(24,883,464)	(9,064,595)	16,111,548	14,876,391	14,794,940	8,277,263	

The tables below summarise the effective interest rate by major currencies for financial instruments of the Group and the Bank.

	<b>The Group</b>							
	<b>2001</b>				<b>2000</b>			
	<b>J\$</b>	<b>US\$</b>	<b>CAN\$</b>	<b>GBP</b>	<b>J\$</b>	<b>US\$</b>	<b>CAN\$</b>	<b>GBP</b>
<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	
<b>Assets</b>								
Cash resources	1.4	2.5	-	2.0	4.3	6.1	-	3.6
Securities purchased under agreements to resell	17.3	9.6	-	-	19.9	10.3	-	-
Government of Jamaica securities and other investments	17.1	8.6	4.3	4.7	22.1	8.4	5.5	5.8
Loans and advances less provision for losse	23.9	9.8	12.0	-	30.5	12.8	12.0	-
<b>Liabilities</b>								
Deposits and current accounts of customers	7.8	4.2	3.0	2.0	8.9	4.6	2.3	3.0



Promissory notes and certificates of participation	15.3	8.8	-	-	17.9	8.6	-	-
Amounts due to other banks and financial institutions	-	3.9	-	-	-	8.5	-	-
Obligations under repurchase agreements	16.5	8.3	-	-	19.7	9.8	-	-

	<b>The Bank</b>							
	<b>2001</b>				<b>2000</b>			
	<b>J\$</b>	<b>US\$</b>	<b>CAN\$</b>	<b>GBP</b>	<b>J\$</b>	<b>US\$</b>	<b>CAN\$</b>	<b>GBP</b>
	%	%	%	%	%	%	%	%
<b>Assets</b>								
Cash resources	1.0	2.3	-	2.0	1.0	6.1	-	3.6
Securities purchased under agreements to re Government of Jamaica securities and other investments	14.5	8.1	-	-	18.3	9.8	-	-
Loans and advances less provision for losses	16.9	8.0	4.3	4.7	22.1	8.0	5.5	5.8
<b>Liabilities</b>	23.9	9.8	12.0	-	30.5	12.9	12.0	-
Deposits and current accounts of customers	7.7	4.2	3.0	2.0	8.9	4.5	2.3	3.0
Amounts due to other banks and financial institutions	-	3.8	-	-	-	8.0	-	-
Obligations under repurchase agreements	16.5	-	-	-	20.9	-	-	-

(c) Foreign exchange risk

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

Total foreign currency assets/(liabilities) were as follows:

	<b>The Group</b>	
	<b>2001</b>	<b>2000</b>

	<u>US\$ '000</u>	<u>CAN\$ '000</u>	<u>GBP '000</u>	<u>US\$ '000</u>	<u>CAN\$ '000</u>	<u>GBP '000</u>
Total assets	586,143	6,231	30,914	359,926	30,385	5,992
Total liabilities	(451,510)	(4,758)	(30,138)	(344,370)	(29,465)	(4,845)
	<u>134,633</u>	<u>1,473</u>	<u>776</u>	<u>15,556</u>	<u>920</u>	<u>1,147</u>
	=====	=====	=====	=====	=====	=====

**The Bank**

	<u>2001</u>			<u>2000</u>		
	<u>US\$ '000</u>	<u>CAN\$ '000</u>	<u>GBP '000</u>	<u>US\$ '000</u>	<u>CAN\$ '000</u>	<u>GBP '000</u>
Total assets	519,379	6,231	30,914	322,350	30,385	5,992
Total liabilities	(403,626)	(4,758)	(30,138)	(314,131)	(29,465)	(4,845)
	<u>115,753</u>	<u>1,473</u>	<u>776</u>	<u>8,219</u>	<u>920</u>	<u>1,147</u>
	=====	=====	=====	=====	=====	=====

(d) Credit exposure

The following tables summarise the credit exposure of the Group and the Bank to businesses and governments by sector:

	<u>The Group</u>				<u>The Bank</u>			
	<u>Loans and</u>		<u>Guarantees</u>		<u>Loans and</u>		<u>Guarantees</u>	
	<u>acceptances</u>	<u>and letters</u>	<u>Total</u>	<u>Total</u>	<u>acceptances</u>	<u>and letters</u>	<u>Total</u>	<u>Total</u>
		<u>of credit</u>	<u>2001</u>	<u>2000</u>		<u>of credit</u>	<u>2001</u>	<u>2000</u>
	<u>\$ '000</u>	<u>\$ '000</u>	<u>\$ '000</u>	<u>\$ '000</u>	<u>\$ '000</u>	<u>\$ '000</u>	<u>\$ '000</u>	
Agriculture, fishing and mining	224,598	55,926	280,524	296,676	224,598	55,926	280,524	344,471
Construction and real estate	823,068	260,264	1,083,332	779,738	792,417	432,410	1,224,827	970,008
Distribution	2,121,673	190,898	2,312,571	1,063,744	2,121,673	190,898	2,312,571	1,113,744
Financial institutions	60,718	205,668	266,386	807,118	60,718	205,668		
Government and public entities	1,451,580	6,870	1,458,450	1,016,200	1,451,580	6,870	1,458,450	1,016,200

Manufacturing	420,055	569,009	989,064	580,712	420,055	569,029	989,084	1,786,337
Personal	3,250,918	41,933	3,292,851	3,054,542	3,151,934	52,057	3,203,991	2,904,942
Professional and other services	1,261,522	222,934	1,484,456	1,654,614	1,261,522	222,934	1,484,456	1,667,054
Tourism and entertainment	1,293,199	70,894	1,364,093	2,335,990	1,293,199	70,894	1,364,093	2,453,419
Other	30,663	193,531	224,194	640,867	30,955	203,817	234,772	658,460
Total	10,937,994	1,817,927	12755921	12,230,201	10,808,651	2,010,503	12,819,154	13,740,700
Total provision	(2,658,574)	-	(2,658,574)	(3,403,471)	(2,652,662)	-	(2,652,662)	(3,496,060)
Net	8,279,420	1817927	10,097,347	8,826,730	8,155,989	2,010,503	10,166,492	10,244,640
	=====	=====	=====	=====	=====	=====	=====	=====

## 25. Fair Values of Financial Instruments

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 Group'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.

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 in the following tables. 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.

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

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

	<b>The Group</b>			
	<b>Carrying</b>	<b>Fair</b>	<b>Carrying</b>	<b>Fair</b>
	<b>Value</b>	<b>Value</b>	<b>Value</b>	<b>Value</b>
	<b>2001</b>	<b>2001</b>	<b>2000</b>	<b>2000</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Financial Assets</b>				
Cash resources	14,262,014	14,262,014	14,804,790	14,804,790
securities purchased under agreements to resell	16,189,379	16,189,379	9,020,982	9,020,982
Government of Jamaica securities and other investments	57,937,065	58,539,495	58,289,832	58,289,832
Loans and advances less provision for losses	8,279,420	8,279,420	7,249,634	7,214,306
Customer liabilities on acceptances, guarantees Ex-Im Bank discount, etc.	1,817,927	1,817,927	1,577,096	1,577,096
Other assets	4,892,303	4,892,303	1,572,067	1,572,067
<b>Financial Liabilities</b>				
Deposits and current accounts of customers	58,351,974	58,351,974	51,638,190	51,638,190

Promissory notes and certificates of participation	10,692,790	10,692,790	14,097,656	14,097,656
Amounts due to other banks and financial institutions	1,196,953	1,196,953	2,218,903	2,218,903
Obligations under repurchase agreements	11,318,970	11,318,970	8,313,809	8,313,809
Obligations under credit card and cash advance securitization arrangements	4,105,026	4,105,026	-	-
Cheques and other instruments in the course of payment	812,905	812,905	1,831,664	1,831,664
Liability on acceptances, guarantees, Ex-Im Bank discount, etc.	1,817,927	1,817,927	1,577,096	1,577,096
Life assurance fund	2,298,466	2,298,466	1,837,539	1,831,539
Other liabilities	4,714,651	4,714,651	3,518,258	3,518,258

	<u>The Bank</u>			
	<u>Carrying</u>	<u>Fair</u>	<u>Carrying</u>	<u>Fair</u>
	<u>Value</u>	<u>Value</u>	<u>Value</u>	<u>Value</u>
	2001	2001	2000	2000
	\$'000	\$'000	\$'000	\$'000

**Financial Assets**

Cash resources	14,104,736	14,104,736	14,489,262	14,489,262
Securities purchased under agreements to resell Government of Jamaica securities and other investments	4,127,391	4,127,391	1,662,906	1,662,906
Loans and advances less provision for losses	52,455,163	53,114,987	51,505,902	51,505,902
Customer liabilities on acceptances, guarantees, Ex-im Bank discount, etc.	8,155,989	8,155,989	7,103,196	7,103,196
Other assets	2,010,503	2,010,503	3,141,444	3,141,444
	3,624,686	3,624,686	638,642	638,642

**Financial Liabilities**

Deposits and current accounts of customers	58,242,684	58,242,684	52,562,842	52,562,842
Amounts due to other banks and financial institutions	1,198,718	1,198,718	2,001,510	2,001,510
Cheques and other instruments in the course of payment	772,729	772,729	710,476	710,476
Obligations under repurchase agreements	8,330,174	8,330,174	10,960,556	10,960,556

Obligations under credit card and cash advance securitization arrangements	4,105,026	4,105,026-	-	
Liability on acceptances, guarantees, Ex-lm Bank discount, etc.	2,010,503	2,010,503	3,141,444	3,141,444
Other liabilities	3,926,367	3,926,367	2,876,348	2,876,348

#### 26. Banking Act

At 30 September 2001 and 30 September 2000:

The Bank was in breach of Section 13(1)(d) of the Banking Act. This section deals with unsecured lending to connected persons.

#### 27. Undertaking to Bank of Jamaica

The Bank, under an agreement dated 10 May 1999, gave an Undertaking to the Bank of Jamaica with regard to the conduct of its affairs. Essentially, the Bank agreed to guidelines governing, inter alia, credit, capital expenditure, treasury management, and senior staff compensation. On 29 March 2001, the Bank of Jamaica released the Bank from certain of these guidelines. The remaining guidelines still in effect include those governing purchases or sales of assets involving connected persons, senior management compensation and treasury management.

#### 28. Related Party Transactions and Balances

Included in these financial statements are transactions and balances with related parties as follows.

	The Group		The Bank	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Loans and advances	861,763	634,877	861,763	752,306
Deposit liabilities	1,576,899	726,443	1,576,899	796,418
Obligations under repurchase agreements	-	-	7,522,005	10,124,820
Obligations under finance leases	60,329	82,687	108,354	145,436
Interest and other income earned	35,328	221,673	97,356	316,805
Interest paid	105,714	37,438	1,774,492	2,204,698
	=====	=====	=====	=====

29. Capital Commitments

	<u>The Group and The Bank</u>	
	2001	2000
	\$'000	\$'000
Capital expenditure authorised but not contracted for	330,389	-
Capital expenditure authorised and contracted for	22,761	158,285
	=====	=====

30. Funds under Management and Held in Trust

At 30 September 2001, two subsidiaries had funds under management and funds held in trust amounting to \$11.4 billion (2000 - \$10.7 billion).

31. Retirement Plans

The Bank operates two pension schemes covering permanent employees as follows:

	NCB Staff Pension Fund(1999) \$'000	NCB 1986 Fund \$'000
Employer's contributions for year	56,642	-
Employees' contributions for year	40,248	-
Total assets	203,330	5,667,030
Number of persons in fund	2,019	1,470
	=====	=====

(a) NCB 1986 Fund

This defined benefit pension plan comprises the following pension funds which have been merged:

- National Commercial Bank Jamaica Staff Non-Contributory Pension Fund (NCB 1975 Fund)
- National Commercial Bank Jamaica Staff Pension Fund 1986 (NCB 1986 Fund)
- Mutual Security Bank Superannuation Scheme (MSB Fund)
- Computer Service and Programming Limited Pension Fund (CSP Fund)

The trustees of the NCB 1975 Fund, the NCB 1986 Fund and the MSB Fund approved the merger of these funds into the NCB 1986 Fund as at 1 October 1999. The members of the CSP Fund approved the merger with the NCB 1986 Fund as at 1 March 2001.

Members of all merged funds will receive pension benefits from the NCB 1986 Fund in respect of service up to the date of merger. Members' accrued rights under each of the funds as at the date of merger, are fully preserved in the NCB 1986 Fund. This Fund is closed to new members.

The last actuarial valuations of the pension funds were as follows:

	Date of Valuation	Funding Status
NCB 1986 Fund (including NCB 1975 Fund and MSB Fund)	September 1999	Adequate
CSP Fund	February 2000	Adequate

(b) NCB Staff Pension Fund (1999)

This defined contribution pension plan was established on 1 October 1999 and covers all permanent employees of the Bank. Employees must make a basic contribution of 5% of pensionable salary and may also make voluntary contributions of no more than 5% while, the Bank contributes 5%.

Certain other subsidiaries have their own retirement plans, all of which are adequately funded in respect of past service benefits.

### 32. Litigation and Contingent Liabilities

(a) Suit has been filed by a customer of the Bank against the Attorney General of Jamaica, the Bank and Mr. Dunbar McFarlane. The customer is claiming damages arising out of an alleged breach of a contract between the customer and the National Insurance Fund of which Mr. Dunbar McFarlane, a director of the Bank, was Chairman, for the sale of certain premises which were mortgaged to the Bank. The customer also claims special damages amounting to approximately \$110 million. In the opinion of the Bank's attorneys, the plaintiff's claims against Mr. McFarlane and the Bank are unlikely to succeed. Consequently, no provision has been made for these claims in these financial statements.

(b) Suit has been filed by a customer against the Bank for damages for breach of fiduciary duty. The suit is in many respects a rebuttal to the Bank's claim against the customer in other proceedings for the sum of



approximately \$32 million. During the year an award was made against the Bank; however, the Bank's attorneys filed an appeal, which was dismissed by the Court of Appeal. The Bank has, however, taken a decision to appeal the matter to the United Kingdom Privy Council. The customer will be seeking to set off his claim against the Bank's claim. Full provision has been made for the claim in the financial statements.

- (c) Suit has been filed against the Bank by a customer for breach of contract and/or negligence for debiting the plaintiffs account. The claim is for \$33.35 million with interest on the said sum at commercial bank rates from 16 May 1997 to date of payment. No provision has been made in these financial statements for this claim as the Bank's attorneys are of the view that the Bank will not be found liable
- (d) There was a suit filed against the Bank by a customer for breach by the Bank, as Mortgagees. The plaintiffs claim is to recover the sum of \$31 million with interest. Full provision has been made in the financial statements.
- (e) Suit has been filed by a customer against the Bank for Special Damages in the sum of \$42 million and damages for breach of fiduciary duty, undue influence and/or negligence. The Bank's attorneys have filed a defence and no other steps have been taken by the plaintiff. No provision has been made in the financial statements.
- (f) A number of other suits claiming damages in excess of \$5 million each have been filed by customers of the Bank. The sums totaled approximately \$39.5 million. In some instances counter claims have been filed by the Bank. No provisions have been made for these claims in the financial statements as the Bank's attorneys are of the view that, in each case, the Bank has a good defence.

### 33. Subsequent Event

On 26 October 2001, the Bank entered into a second interest rate swap agreement effective October 2001 with Citibank N.A. whereby the Bank will pay 3.78% per annum fixed and receive three month US dollar LIBOR on a notional amount of US\$45,000,000 every quarter commencing January 2002 and ending July 2006. See also Note 18.

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