

# Bank of Nova Scotia Jamaica Limited 2002

## Notes to the Financial Statements

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### 1 Identification, Regulation and Licence

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 are all incorporated in Jamaica, are as follows:

<b>Subsidiaries</b>	<b>Holding</b>	<b>Financial Year End</b>
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 December
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, pension funds management and the provision of life insurance.

These financial statements are presented in Jamaican dollars unless otherwise identified.

Pursuant to the issue by the Bank of Jamaica of the Standards of Best Practice - Management or Investment of Customers' Funds, which requires the separation of customers' deposits and managed funds business of licensed entities, one of the Bank's subsidiaries, Scotiabank Jamaica Trust and Merchant Bank Limited, ceased taking deposits on October 1, 2002 and sold its mortgage portfolio (Note 33).

## **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. In particular, the comparatives have been adjusted to take into account the requirements of the new Insurance Act 2001 and the Insurance Regulations 2001.

### **(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 Group's and the Bank's financial instruments are discussed in Note 26.

**(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 statement of revenue and expenses.

**(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) 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 Bank of Jamaica weighted average 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 statement of revenue and expense.

**(g) 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 cost 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 statement of revenue and expenses.

(iii) Unquoted securities are stated at cost.

**(h) 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.

**(i) 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 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.

**(j) Premium income**

Premiums are recognised as earned when due.

**(k) 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 amortisation 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	4 years
Motor vehicles	5 years
Leasehold improvements	Period of lease

**(l) Deferred taxation**

Provision is made for deferred taxation at current tax rates on timing differences between profit as computed for tax purposes and profit as stated in the financial statements, only to the extent that there is a reasonable probability that the liabilities will arise in the foreseeable future.

**(m) 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.

**(n) 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 statement of revenue and expenses using the annuity method.

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

**(o) 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.

**(p) 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**

	<u>The Group</u>		<u>The Bank</u>	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
Retail banking fees	436,732	341,552	436,698	344,733
Credit related fees	381,352	296,370	378,208	292,372
Commercial and depository fees	712,662	629,058	596,820	522,246
Gain on foreign exchange trading	375,911	434,807	375,417	433,980
Premium income	140,982	82,217	-	-
Total	<u>2,047,639</u>	<u>1,784,004</u>	<u>1,787,143</u>	<u>1,593,331</u>
	=====	=====	=====	=====

**4 Salaries, Pension Contributions and Other Staff Benefits**

	<u>The Group</u>		<u>The Bank</u>	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
Wages and salaries	2,066,797	2,012,492	1,861,987	1,844,194
Payroll taxes	216,475	189,548	196,434	177,554
Pension costs	72,294	162,926	67,955	150,197
Other staff benefits	<u>574,881</u>	<u>396,486</u>	<u>542,508</u>	<u>371,686</u>
	2,930,447	2,761,452	2,668,884	2,543,631
Termination costs (Note 5)	<u>81,423</u>	<u>204,151</u>	<u>75,060</u>	<u>204,151</u>
	<u>3,011,870</u>	<u>2,965,603</u>	<u>2,743,944</u>	<u>2,747,782</u>

The number of persons employed during the year:

	<u>The Group</u>		<u>The Bank</u>	
	2002	2001	2002	2001
	No.	No.	No.	No.
Full-time	1,226	1,240	1,087	1,103
Part-time	579	516	565	505
	<u>1,805</u>	<u>1,756</u>	<u>1,652</u>	<u>1,608</u>

#### 5 Exceptional Item

	<u>The Group</u>		<u>The Bank</u>	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
Termination costs	81,423	204,151	75,060	204,151

#### 6 Profit before Taxation

In arriving at the profit before taxation, the following have been charged:

	<u>The Group</u>		<u>The Bank</u>	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
Directors' emoluments -				
Fees	5,095	4,503	3,771	3,074
Other	20,338	17,266	20,338	17,266
Auditors' remuneration -				
Current year	9,414	9,002	5,722	5,465
Prior year	31	-	-	-
Depreciation	249,508	202,365	240,232	194,676

#### 7 Taxation

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

	<u>The Group</u>		<u>The Bank</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Current income tax -				
Charge for the current year	1,229,669	1,153,064	1,107,410	1,060,204
Premium income tax at 1.5%	28,144	31,847	-	-
Investment Income tax at 7.5%	20,332	19,958	-	-
Adjustment for under/(over)				
provision of prior year's charge	(8,731)	26,008	(34,648)	26,008
Deferred income tax	<u>(11,754)</u>	<u>(26,617)</u>	<u>(12,886)</u>	<u>(34,914)</u>
	<u>1,257,660</u>	<u>1,204,260</u>	<u>1,059,876</u>	<u>1,051,298</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

		<u>2002</u>	<u>2001</u>
		<u>\$'000</u>	<u>\$'000</u>
(a)	The net profit is dealt with as follows in the financial statements of:		
	The Bank	2,849,665	2,571,307
	The Subsidiaries	<u>634,211</u>	<u>642,871</u>
		<u>3,483,876</u>	<u>3,214,178</u>
		=====	=====
(b)	The unappropriated profits are dealt with as follows in the financial statements of:		
	The Bank	995,273	578,767
	The Subsidiaries	<u>1,884,798</u>	<u>1,250,587</u>
		<u>2,880,071</u>	<u>1,829,354</u>
		=====	=====

#### 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 \$6,422,032,848 (2001: \$6,325,892,000) for the Group and \$6,337,781,795 (2001: \$6,246,040,000) for the Bank, which 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 Group and the Bank.

## 11 Investments

	<u>The Group</u>					
	<u>Remaining Term to Maturity</u>					
	<u>Within 3</u>	<u>3 to 12</u>	<u>1 to 5</u>	<u>Over</u>	<u>Carrying</u>	<u>Carrying</u>
	<u>Months</u>	<u>Months</u>	<u>Years</u>	<u>5 Years</u>	<u>Value</u>	<u>Value</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Government of Jamaica	2,773,416	4,765,257	18,811,794	437,107	26,787,574	24,878,455
Government of Canada	198,392	103,895	-	-	302,287	287,291
Other		66,540		5,290	71,830	403,837
	<u>2,971,808</u>	<u>4,935,692</u>	<u>18,811,794</u>	<u>442,397</u>	<u>27,161,691</u>	<u>25,569,583</u>

	<u>The Bank</u>					
	<u>Remaining Term to Maturity</u>					
	<u>Within 3</u>	<u>3 to 12</u>	<u>1 to 5</u>	<u>Over</u>	<u>Carrying</u>	<u>Carrying</u>
	<u>Months</u>	<u>Months</u>	<u>Years</u>	<u>5 Years</u>	<u>Value</u>	<u>Value</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Government of Jamaica	2,400,409	2,613,788	14,811,345	134,363	19,959,905	19,313,186
Government of Canada	198,392	103,895	-	-	302,287	287,291
Other	-	-	-	5,155	5,155	8,681
Subsidiaries	-	-	-	264,238	264,238	264,238
	<u>2,598,801</u>	<u>2,717,683</u>	<u>11,481,345</u>	<u>403,756</u>	<u>20,531,585</u>	<u>19,873,396</u>

The Bank of Jamaica holds as security, Government of Jamaica Local Registered Stocks valued \$428,000,000 (2001: \$428,000,000) against possible shortfalls in the operating account.

## 12 Government securities purchased under resale agreements

	<u>The Group</u>					
	<u>Remaining Term to Maturity</u>					
	<u>Within 3</u>	<u>3 to 12</u>	<u>1 to 5</u>	<u>Over</u>	<u>Carrying</u>	<u>Carrying</u>
	<u>Months</u>	<u>Months</u>	<u>Years</u>	<u>5 Years</u>	<u>Value</u>	<u>Value</u>
				2002	2001	
	\$'000	\$'000	\$'000	\$'000	\$'000	
Government securities purchased under resale agreements	10,284,821	3,913,182	42,242	16,294	14,256,539	4,715,189

	<u>The Bank</u>					
	<u>Remaining Term to Maturity</u>					
	<u>Within 3</u>	<u>3 to 12</u>	<u>1 to 5</u>	<u>Over</u>	<u>Carrying</u>	<u>Carrying</u>
	<u>Months</u>	<u>Months</u>	<u>Years</u>	<u>5 Years</u>	<u>Value</u>	<u>Value</u>
				2002	2001	
	\$'000	\$'000	\$'000	\$'000	\$'000	
Government securities purchased under resale agreements	471,146	-	-	-	471,146	3,719,000

### 13 Loans

	<u>The Group</u>					
	<u>Remaining Term to Maturity</u>					
	<u>Within 3</u>	<u>3 to 12</u>	<u>1 to 5</u>	<u>Over</u>	<u>Carrying</u>	<u>Carrying</u>
	<u>Months</u>	<u>Months</u>	<u>Years</u>	<u>5 Years</u>	<u>Value</u>	<u>Value</u>
				2002	2001	
	\$'000	\$'000	\$'000	\$'000	\$'000	
Business and Government	7,490,576	9,849,414	9,159,221	977,067	27,476,278	16,294,016
Personal and credit cards	4,039,646	1,542,742	3,886,944	907,985	10,377,317	8,657,446
Residential mortgages	86,100	49,071	353,230	1,730,702	2,219,103	1,841,075
	11,616,322	11,441,227	1,339,395	3,615,754	40,072,698	26,792,537
Less Provision for loan losses				1,487,479	1,539,523	
				38,585,219	25,253,014	

	The Bank					Carrying Value 2001 \$'000
	Remaining Term to Maturity				Carrying Value 2002 \$'000	
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years		
	\$'000	\$'000	\$'000	\$'000	\$'000	
Business and Government	7,442,714	9,844,364	9,157,187	958,926	27,403,191	15,874,213
Personal and credit cards	4,039,646	1,542,742	3,886,944	907,985	10,377,317	8,657,446
	<u>11,482,360</u>	<u>11,387,106</u>	<u>13,044,131</u>	<u>1,866,911</u>	<u>37,780,508</u>	<u>24,531,659</u>
Less Provision for loan losses					<u>1,411,347</u>	<u>1,442,331</u>
					<u>36,369,161</u>	<u>23,089,328</u>

The number of accounts are:

	The Group		The Bank	
	2002 No.	2001 No.	2002 No.	2001 No.
Business and Government	3,882	3,838	3,874	3,718
Personal and credit cards	93,070	90,277	93,070	90,275
Residential mortgages	1,239	1,149	-	-
	<u>98,191</u>	<u>95,264</u>	<u>96,944</u>	<u>93,993</u>

#### 14 Provisions for Loan Losses

	The Group		The Bank	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Total Non Performing Loans	906,857	911,345	812,566	811,903

Provision at beginning of

year	1,539,523	1,620,758	1,442,331	1,508,845
Charged against revenue during				
the year	95,728	58,937	96,478	60,507
Bad debts written off	(257,390)	(210,994)	(254,237)	(197,570)
Transfer of loan	-	-	20,052	-
Recoveries of bad debts	109,618	70,822	106,723	70,549
At end of year	<u>1,487,479</u>	<u>1,539,523</u>	<u>1,411,347</u>	<u>1,442,331</u>
	=====	=====	=====	=====
These comprise:				
Specific Provisions	723,996	817,076	676,510	744,547
General Provisions	763,483	722,447	734,837	697,784
	<u>1,487,479</u>	<u>1,539,523</u>	<u>1,411,347</u>	<u>1,442,331</u>
	=====	=====	=====	=====

#### 15 Leased Assets

	<b>2002</b>	<b>2001</b>
	<b>\$'000</b>	<b>\$'000</b>
Gross investment in finance leases	56,076	72,715
Less: Unearned income	<u>(11,120)</u>	<u>(14,168)</u>
Net investment in finance leases	<u>44,956</u>	<u>58,547</u>
	=====	=====

Minimum lease payments are receivables as follows:

	<b>2002</b>
	<b>\$'000</b>
In year ending	
2003	17,609
2004	23,012
2005	13,268
2006	2,187
	=====

#### 16 Fixed Assets

	<b>The Group</b>				
			<b>Furniture,</b>		
			<b>Fixtures,</b>		
<b>Freehold</b>				<b>Capital</b>	
<b>Land and</b>	<b>Leasehold</b>	<b>Motor Vehicles</b>		<b>Work-In-</b>	
<b>Buildings</b>	<b>Improvements</b>	<b>&amp; Equipment</b>		<b>Progress</b>	<b>Total</b>

	\$'000	\$'000	\$'000	\$'000	\$'000
At Cost or Valuation -					
1 November 2001	1,578,458	58,917	1,478,071	66,311	3,181,757
Additions	11,561	954	157,296	135,683	305,494
Disposals	(7,638)	-	(7,094)	(4,882)	(19,614)
Transfers	44,623	26,605	78,029	(149,257)	-
31 October 2002	<u>1,627,004</u>	<u>86,476</u>	<u>1,706,302</u>	<u>47,855</u>	<u>3,467,637</u>
Depreciation -					
1 November 2001	163,436	41,836	794,711	-	999,983
Charge for the year	30,189	7,986	211,333	-	249,508
On disposals	(1,007)	-	(5,840)	-	(6,847)
31 October 2002	<u>192,618</u>	<u>49,822</u>	<u>1,000,204</u>	<u>-</u>	<u>1,242,644</u>
Net Book Value					
31 October 2002	<u>1,434,386</u>	<u>36,654</u>	<u>706,098</u>	<u>47,855</u>	<u>2,224,993</u>
31 October 2001	<u>1,415,022</u>	<u>17,081</u>	<u>683,360</u>	<u>66,311</u>	<u>2,181,774</u>

	<b>The Bank</b>				
	<b>Freehold Land and Buildings</b>	<b>Leasehold Improvements</b>	<b>Furniture, Fixtures, Motor Vehicles &amp; Equipment</b>	<b>Capital Work-In- Progress</b>	<b>Total</b>
	\$'000	\$'000	\$'000	\$'000	\$'000
At Cost or Valuation -					
1 November 2001	1,502,028	58,532	1,427,526	65,502	3,053,588
Additions	11,099	954	152,561	135,682	300,296
Disposals	(7,638)	-	(7,094)	(4,882)	(19,614)
Transfers	44,622	26,605	78,029	(149,256)	-
31 October 2002	<u>1,550,111</u>	<u>86,091</u>	<u>1,651,022</u>	<u>47,046</u>	<u>3,334,270</u>
Depreciation -					
1 November 2001	151,118	41,641	765,881	-	958,640
Charge for the year	28,389	7,947	203,896	-	240,232
On disposals	(1,007)	-	(5,840)	-	(6,847)
31 October 2002	<u>178,500</u>	<u>49,588</u>	<u>963,937</u>	<u>-</u>	<u>1,192,025</u>
Net Book Value -					
31 October 2002	<u>1,371,611</u>	<u>36,503</u>	<u>687,085</u>	<u>47,046</u>	<u>2,142,245</u>

31 October 2001	1,350,910	16,891	661,645	65,502	2,094,948
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Land and buildings were professionally valued as at 31 March 1994 by Property Consultants Limited, Real Estate Brokers and Appraisers, of Kingston, Jamaica - land at fair market value and buildings at depreciated replacement cost (note 24).

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.

#### 17 Other Assets

These include interest receivable of \$4,081,773,000 (2001: \$3,233,832,000) for the Group and \$2,460,144,000 (2001: \$2,108,266,000) for the Bank.

#### 18 Deposits

	The Group					
	Remaining Term to Maturity				Carrying Value	Carrying Value
	Within 3 Months	3 to 12 months	1 to 5 Years	Over 5 Years		
\$'000	\$'000	\$'000	\$'000	2002 \$'000	2001 \$'000	
Personal	46,346,484	997,524	-	-	47,344,008	44,757,366
Banks and financial institutions	204,334	218,804	589,592	192,290	1,205,020	1,029,935
Due to parent company	30,824	92,473	1,685,071	47,546	1,855,914	683,581
Other	27,536,361	769,556	876,858	549,274	29,732,049	23,555,798
	74,118,003	2,078,357	3,151,521	789,110	80,136,991	69,726,680

	The Bank					
	Remaining Term to Maturity				Carrying Value	Carrying Value
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years		
\$'000	\$'000	\$'000	\$'000	2002 \$'000	2001 \$'000	
Personal	42,908,982	628,892	-	-	43,537,874	41,230,453
Banks and financial						

institutions	329,541	218,782	585,563	91,221	1,225,107	1,122,616
Due to parent company	30,824	92,473	1,685,071	47,546	1,855,914	683,581
Other	26,960,392	707,272	876,858	549,274	29,093,796	22,874,596
	<u>70,229,739</u>	<u>1,647,419</u>	<u>3,147,492</u>	<u>688,041</u>	<u>75,712,691</u>	<u>65,911,246</u>

The number of accounts are:

	<u>The Group</u>		<u>The Bank</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	No.	No.	No.	No.
Personal	983,857	931,199	965,808	914,923
Banks and financial institutions	385	268	249	98
Due to parent	2	1	2	1
Other	47,435	44,593	47,140	44,316
	<u>1,031,679</u>	<u>976,061</u>	<u>1,013,199</u>	<u>959,338</u>

#### 19 Due to Parent Company

	<u>The Group and The Bank</u>	
	<u>2002</u>	<u>2001</u>
	<u>\$'000</u>	<u>\$'000</u>
Facility 1	621,494	683,581
Facility 11	1,234,420	-
	<u>1,855,914</u>	<u>683,581</u>

- (i) Facility 1 is a US\$ denominated ten year non-revolving term loan from the parent company, for on-lending. The principal is repayable in ten installments which commenced 31 December 1998. Interest on the loan is at 30 day LIBOR + I %.
- (ii) Facility 11 is a US\$ denominated fifteen (15) year non-revolving loan from the parent company, for on-lending. The repayment of the principal commences 31 December 2002 and is subject to an interest rate of LIBOR + 1 %. To date, The Bank has drawn down US\$25 million of this facility.

The bank earns a margin of approximately 2-3% when these funds are on-lent.

**20 Other Liabilities**

These include interest payable of \$943,579,000 (2001: \$728,400,000) for the Group and \$290,987,000 (2001: \$113,272, 000) for The Bank.

**21 Capital**

	<b>2002</b>	<b>2001</b>
	<b>\$'000</b>	<b>\$'000</b>
Authorised.		
Ordinary shares of \$1 each	1,500,000	1,500,000
	=====	=====
Issued and fully paid:		
Ordinary stock units of \$1 each	1,463,616	1,463,616
	=====	=====

**22 Reserve Fund**

As required by the relevant Acts, the Group makes transfers of a minimum of 15% or 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.

**23 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.

**24 Capital and Other Reserves**

	<u><b>The Group</b></u>		<u><b>The Bank</b></u>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Opening balance:				
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	16,548	-	-
Unrealised gain on revaluation of investments	135	135	-	-
General reserve	<u>9,963</u>	<u>-</u>	<u>-</u>	<u>-</u>



	526,856	516,893	475,503	475,503
	=====	=====	=====	=====
Movement during the year				
Transfer from unappropriated profits	-	9,963	-	-
	526,856	526,856	475,503	475,503
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	16,548	-	-
Unrealised gain on revaluation of investments	135	135	-	-
General reserve	9,963	9,963	-	-
	<u>526,856</u>	<u>526,856</u>	<u>475,503</u>	<u>475,503</u>
	=====	=====	=====	=====

## 25 Dividends

Dividends comprise:

	2002	2001
	\$'000	\$'000
Interim dividends paid, \$0.845 (2001- \$0.725)	1,236,756	1,061,121
Interim dividends payable, \$0.305 (2001- \$0.275)	<u>446,403</u>	<u>402,495</u>
	<u>1,683,159</u>	<u>1,463,616</u>
	=====	=====

Tax of \$32,042,000 (2001: \$174,940,000) has been withheld from the interim dividends paid.  
Effective April 30, 2002, withholding tax on dividends was discontinued.

## 26 Financial Instruments

### (a) Fair value

Fair value represents an estimate 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 and 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 Group's and the Bank's financial instruments. The majority of the Group's and the Bank's financial instruments are carried at historical cost as they are held to maturity 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.

	<b>The Group</b>			
	<b>Carrying Value 2002 \$'000</b>	<b>Fair Value 2002 \$'000</b>	<b>Carrying Value 2001 \$'000</b>	<b>Fair Value 2001 \$'000</b>
<b>Financial Assets</b>				
Cash resources	28,556,808	28,556,808	26,243,545	26,243,545
Investments	27,161,691	27,164,745	25,569,583	25,129,438
Securities purchased under resale agreements	14,256,539	14,256,539	14,715,189	14,715,189
Loans	38,585,219	38,411,161	25,253,014	24,918,845
Leased assets	44,956	44,956	58,547	58,547
Customers' liabilities under acceptances, guarantees and letters of credit	5,388,243	5,388,243	1,820,217	1,820,217
Other assets	4,148,741	4,148,741	3,885,870	3,885,870
<b>Financial Liabilities</b>				
Deposits	80,136,991	80,136,186	69,726,680	69,725,461
Cheques and other instruments in transit	611,094	611,094	939,001	939,001
Acceptances, guarantees and				

letters of credit	5,388,243	5,388,243	1,820,217	1,820,217
Securities sold under repurchase agreements	11,566,632	11,566,632	8,392,202	8,392,202
Other liabilities	2,671,034	2,671,034	3,147,776	3,147,776
Policyholders' fund	8,333,463	8,333,463	5,831,100	5,831,100
	=====	=====	=====	=====

	<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>
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
<b>Financial Assets</b>				
Cash resources	28,451,403	28,451,403	26,143,873	26,143,873
Investments	20,531,585	20,611,810	19,873,396	19,603,951
Securities purchased under resale agreements	471,146	471,146	3,719,000	3,719,000
Loans	36,369,161	36,199,773	23,089,328	22,763,226
Customers' liabilities under acceptances, guarantees and letters of credit	4,982,428	4,982,428	1,373,900	1,373,900
Other assets	2,809,827	2,809,827	2,547,584	2,547,584
<b>Financial Liabilities</b>				
Deposits	75,712,691	75,711,887	65,911,246	65,910,026
Cheques and other instruments in transit	563,219	563,219	906,840	906,840
Acceptances, guarantees and letters of credit	4,982,428	4,982,428	1,373,900	1,373,900
Securities sold under repurchase agreements	3,720,601	3,720,601	697,407	697,407
Other liabilities	1,953,026	1,953,026	2,280,426	2,280,426
	=====	=====	=====	=====

**(b) Interest rate risk**

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

	<b>The Group</b>						
	<b>(1)</b>						<b>Total</b>
	<b>2002</b>						
<b>Immediately rate sensitive \$'000</b>	<b>Within 3 Months \$'000</b>	<b>3 to 12 Months \$'000</b>	<b>1 to 5 Years \$'000</b>	<b>Over 5 Years \$'000</b>	<b>Non rate sensitive \$'000</b>	<b>, \$'000</b>	
Cash resources	1,974,948	16,305,133	1,111,322	-	-	9,165,405	28,556,808
Investments	9,244	10,328,805	5,680,681	10,601,466	477,133	64,632	(2) 27,161,691
Securities purchased under resale agreements	333,624	9,947,327	3,916,544	39,607	15,693	3,744	14,256,539
Loans	8,422,464	19,350,199	3,939,877	5,940,652	1,521,028	(589,001)	(3) 38,585,219
Leased assets	44,956	-	-	-	-	-	44,956
Other assets	-	-	-	-	-	12,014,582	(4) 12,014,582
<b>Total assets</b>	<b>10,785,236</b>	<b>55,931,464</b>	<b>14,648,424</b>	<b>16,581,725</b>	<b>2,013,854</b>	<b>20,659,092</b>	<b>120,619,795</b>
Deposits	54,549,172	11,471,236	1,985,862	1,462,421	640,495	10,027,805	80,136,991
Securities sold under repurchase agreements	268,801	9,255,553	2,042,278	-	-	-	11,566,632
Other liabilities	-	-	-	-	-	8,678,168	8,678,168
Policyholders' fund	3,184,962	1,015,806	4,568,661	-	-	(435,966)	8,333,463
Shareholders' equity	-	-	-	-	-	11,904,541	11,904,541
<b>Total liabilities and shareholders equity</b>	<b>58,002,935</b>	<b>21,742,595</b>	<b>8,596,801</b>	<b>1,462,421</b>	<b>640,495</b>	<b>30,174,548</b>	<b>120,619,795</b>
<b>Total Interest rate sensitivity gap</b>	<b>(47,217,699)</b>	<b>34,188,869</b>	<b>6,051,623</b>	<b>15,119,304</b>	<b>1,373,359</b>	<b>(9,515,456)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>(47,217,699)</b>	<b>(13,028,830)</b>	<b>(6,977,207)</b>	<b>8,142,097</b>	<b>9,515,456</b>	<b>-</b>	<b>-</b>
	=====						
	<b>2001</b>						
<b>Total Interest rate sensitivity gap</b>	<b>(41,182,062)</b>	<b>21,480,334</b>	<b>17,246,233</b>	<b>10,516,248</b>	<b>1,845,784</b>	<b>(9,906,537)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>(41,182,062)</b>	<b>(19,701,728)</b>	<b>(2,455,495)</b>	<b>8,060,753</b>	<b>9,906,537</b>	<b>-</b>	<b>-</b>
	=====						

	<b>The Bank</b>						<b>Total</b>
	<b>2002</b>						
	<b>Immediately rate sensitive (1) \$'000</b>	<b>Within 3 Months \$'000</b>	<b>3 to 12 Months \$'000</b>	<b>1 to 5 Years \$'000</b>	<b>Over 5 Years \$'000</b>	<b>Non rate sensitive \$'000</b>	
Cash resources	1,974,947	16,284,697	1,111,322	-	-	9,080,437	28,451,403
Investments		8,321,384	3,062,245	8,594,603	134,363	418,990 (2)	220,531,585
Securities purchased under resale agreements	16,429	454,717	-	-	-	-	471,146
Loans	8,376,550	17,501,434	3,842,755	5,868,079	1,365,475	(585,132) (3)	36,369,161
Other assets	-	-	-	-	-	10,179,446	10,179,446
<b>Total assets</b>	<b>10,367,926</b>	<b>42,562,232</b>	<b>8,016,322</b>	<b>14,462,682</b>	<b>1,499,838</b>	<b>19,093,741</b>	<b>96,002,741</b>
Deposits	53,433,546	8,593,479	1,554,946	1,462,421	640,495	10,027,804	75,712,691
Securities sold under repurchase agreements	269,369	3,438,910	12,322	-	-	-	3,720,601
Other liabilities	-	-	-	-	-	7,498,673	7,498,673
Shareholders' equity	-	-	-	-	-	9,070,776	9,070,776
<b>Total liabilities and shareholders' equity</b>	<b>53,702,915</b>	<b>12,032,389</b>	<b>1,567,268</b>	<b>1,462,421</b>	<b>640,495</b>	<b>26,597,253</b>	<b>96,002,741</b>
<b>Total Interest rate sensitivity gap</b>	<b>(43,334,989)</b>	<b>30,529,843</b>	<b>6,449,054</b>	<b>13,000,261</b>	<b>859,343</b>	<b>(7,503,512)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>(43,334,989)</b>	<b>(12,805,146)</b>	<b>(6,356,092)</b>	<b>6,644,169</b>	<b>7,503,512</b>	<b>-</b>	<b>-</b>
=====							
	<b>2001</b>						
<b>Total Interest rate sensitivtity gap</b>	<b>(38,932,704)</b>	<b>20,790,741</b>	<b>15,795,686</b>	<b>8,839,601</b>	<b>1,431,606</b>	<b>(7,924,930)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>(38,932,704)</b>	<b>(18,141,963)</b>	<b>(2,346,277)</b>	<b>6,493,324</b>	<b>7,924,930</b>	<b>-</b>	<b>-</b>
=====							

- (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:

<b>The Group</b>						
<b>2002</b>						
<b>Immediately</b>	<b>Within 3</b>	<b>3 to 12</b>	<b>1 to 5</b>	<b>Over 5</b>	<b>Average</b>	
<b>rate</b>	<b>Months</b>	<b>Months</b>	<b>Years</b>	<b>Years</b>		
<b>sensitive</b>	<b>Months</b>	<b>Months</b>	<b>Years</b>	<b>Years</b>		
%	%	%	%	%	%	
Cash resources	11.4	6.5	-	-	(4)	6.9
Investments (1)	16.9	16.4	14.1	14.3		
Loans (2)	19.2	19.7	19.9	11.0		
Securities purchased under resale agreements	17.5	16.7	17.6	14.3		
Leased assets	-	-	-	-		
Deposits (3)	8.6	7.7	7.8	7.3		
Securities sold under repurchase agreements (2)	16.9	16.4	-	-		
Policyholder's reserve	14.9	14.0	-	-		

<b>The Bank</b>						
<b>2002</b>						
<b>Immediately</b>	<b>Within 3</b>	<b>3 to 12</b>	<b>I to 5</b>	<b>Over 5</b>	<b>Average</b>	
<b>rate</b>	<b>Months</b>	<b>Months</b>	<b>Years</b>	<b>Years</b>		
<b>sensitive</b>	<b>Months</b>	<b>Months</b>	<b>Years</b>	<b>Years</b>		
%	%	%	%	%	%	
Cash resources	11.4	6.5	-	-	(4)	6.9
Investments (i)	16.8	15.3	13.2	5.5		
Securities purchased under resale agreements	18.5	-	-	-		
Loans (2)	19.3	19.9	20.0	10.8		
Deposits (3)	7.3	6.6	7.8	7.3		
Securities sold under repurchase agreements (2)	17.6	18.7	-	-		

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

<b>The Group</b>						
<b>2001</b>						
<b>Immediately</b>	<b>Within 3</b>	<b>3 to 12</b>	<b>1 to 5</b>	<b>Over 5</b>	<b>Average</b>	
<b>rate</b>	<b>Months</b>	<b>Months</b>	<b>Years</b>	<b>Years</b>		
<b>sensitive</b>						
%	%	%	%	%	%	
Cash resources	2.4	6.8	11.1	-	-	6.2
Investments (i)	-	18.2	16.5	14.0	10.5	16.4
Loans (2)	19.5	20.1	18.7	20.0	14.9	19.7
Leased assets	24.17	-	-	-	-	24.17
Deposits (3)	7.2	10.2	8.4	8.0	7.5	6.7
Securities sold under repurchase agreement (2)	11.5	15.0	15.5	-	-	13.4
Policyholders' fund	14.25	16.01	15.43	-	-	15.38

<b>The Bank</b>						
<b>2001</b>						
<b>Immediately</b>	<b>Within 3</b>	<b>3 to 12</b>	<b>1 to 5</b>	<b>Over 5</b>	<b>Average</b>	
<b>rate</b>	<b>Months</b>	<b>Months</b>	<b>Years</b>	<b>Years</b>		
<b>sensitive</b>						
%	%	%	%	%	%	
Cash resources	2.4	6.8	11.1	-	-	(4) 6.2
Investments (i)	-	18.2	17.9	12.8	8.7	16.2
Loans (2)	19.3	21.8	21.0	20.6	15.1	20.9
Deposits (3)	7.1	8.8	7.4	8.0	6.7	6.6
Securities sold under repurchase agreement (2)	11.5	15.0	15.5	-	-	13.4

(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.
- (4) The calculation of the average yields includes statutory reserves at Bank of Jamaica at 0%.

**(c) Credit exposure**

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

	<u>The Group</u>			
	<u>Loans and Leases</u>	<u>Acceptances, Guarantees and Letters of Credit</u>	<u>Total</u>	<u>Total</u>
	\$'000	\$'000	2002 \$'000	2001 \$'000
Agriculture, fishing and mining	1,354,044	67,081	1,421,125	1,097,145
Construction and real estate	762,248	479,587	1,241,835	1,193,465
Distribution	1,867,556	310,379	2,177,935	1,845,026
Financial institutions	78,671	106,870	185,541	492,159
Government and public entities	17,723,879	3,650,910	21,374,789	6,321,353
Manufacturing	1,426,242	78,708	1,504,950	1,790,329
Personal	12,472,119	492,544	12,964,663	10,913,348
Professional and other services	1,257,229	145,610	1,402,839	1,948,933
Tourism and entertainment	3,175,666	56,554	3,232,220	3,069,543
Total	<u>40,117,654</u>	<u>5,388,243</u>	45,505,897	28,671,301
General provision			(763,483)	(722,447)
			<u>44,742,414</u>	<u>27,948,854</u>
			=====	

	<u>The Bank</u>			
	<u>Loans and Leases</u>	<u>Acceptances, Guarantees and Letters of Credit</u>	<u>Total</u>	<u>Total</u>

	\$'000	\$'000	2002 \$'000	2001 \$'000
Agriculture, fishing and mining	1,354,044	67,081	1,421,125	992,683
Construction and real estate	770,610	479,587	1,250,197	1,120,032
Distribution	1,853,984	303,379	2,157,363	1,720,635
Financial institutions	78,671	106,870	185,541	492,159
Government and public entities	17,703,343	3,650,910	21,354,253	6,303,021
Manufacturing and other activities	1,416,865	169,222	1,586,087	1,704,033
Personal	10,257,384	104,729	10,362,113	8,729,511
Professional and other services	1,169,941	44,095	1,214,036	1,773,943
Tourism and entertainment	3,175,666	56,554	3,232,220	3,069,542
Total	<u>37,780,508</u>	<u>4,982,427</u>	42,762,935	25,905,559
General provision			(734,837)	(697,784)
			<u>42,028,098</u>	<u>25,207,775</u>
			=====	=====

**(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:

	<u>The Group</u>		<u>The Bank</u>	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
United States dollar	1,559	1,751	1,139	1,471
Canadian dollar	229	34	229	34
Pound Sterling	1,095	448	1,092	443
	=====	=====	=====	=====

**(e) Liquidity risk**

The Group and the Bank are exposed to daily calls on their cash resources from various accounts. The Group and the Bank do not maintain cash resources to meet all these needs as experience shows that a minimum level of maturing investments can be predicted

with a significant level of certainty. The following tables summarise the liquidity risk of the Group and the Bank by analysing the 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:

	<b>The Group</b>					<b>Total</b>
	<b>2002</b>					
	<b>Within 3 Months</b>	<b>3 to 12 Months</b>	<b>1 to 5 Years</b>	<b>Over 5 Years</b>	<b>No specific maturity</b>	
Cash resources	27,445,486	1,111,322	-	-	-	28,556,808
Investments	2,971,808	4,935,692	18,811,794	437,107	5,290	27,161,691
Securities purchased under resale agreements	10,284,821	3,913,182	42,242	16,294	-	14,256,539
Loans	10,128,843	11,441,227	13,399,395	3,615,754	-	38,585,219
Leased assets	11,474	31,334	2,148	-	-	44,956
Other assets	8,715,585	185,563	560,996	37,948	2,514,490	12,014,582
<b>Total assets</b>	<b>59,558,017</b>	<b>21,618,320</b>	<b>32,816,575</b>	<b>4,107,103</b>	<b>2,519,780</b>	<b>120,619,795</b>
Deposits	74,118,003	2,078,357	3,151,521	789,110	-	80,136,991
Securities sold under repurchase agreements	9,524,354	2,042,278	-	-	-	11,566,632
Other liabilities	8,215,138	239,086	-	-	223,944	8,678,168
Life assurance reserve	(66,682)	157,558	1,917,643	6,324,944	-	8,333,463
Shareholders' equity	-	-	-	-	11,904,541	11,904,541
<b>Total liabilities and shareholders' equity</b>	<b>91,790,813</b>	<b>4,517,279</b>	<b>5,069,164</b>	<b>7,114,054</b>	<b>12,128,485</b>	<b>120,619,795</b>
<b>Total liquidity gap</b>	<b>(32,232,796)</b>	<b>17,101,041</b>	<b>27,747,411</b>	<b>(3,006,951)</b>	<b>(9,608,705)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>(32,232,796)</b>	<b>(15,131,755)</b>	<b>12,615,656</b>	<b>9,608,705</b>	<b>-</b>	<b>-</b>
	=====					
	<b>2001</b>					
<b>Total liquidity gap</b>	<b>(32,479,516)</b>	<b>21,507,372</b>	<b>18,956,785</b>	<b>12,458</b>	<b>(7,997,099)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>(32,479,516)</b>	<b>(10,972,144)</b>	<b>7,984,641</b>	<b>7,997,099</b>	<b>-</b>	<b>-</b>
	=====					

	<b>The Bank</b>			
	<b>2002</b>			
	<b>Within 3</b>	<b>3 to 12</b>	<b>1 to 5</b>	<b>Over 5 No specific</b>

	<b>Months</b>	<b>Months</b>	<b>Years</b>	<b>Years</b>	<b>maturity</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Cash resources	27,340,081	1,111,322	-	-	-	28,451,403
Investments	2,598,801	2,717,683	14,811,345	134,363	269,393	20,531,585
Securities purchased under resale agreements	471,146	-	-	-	-	471,146
Loans	10,071,013	11,387,106	13,044,131	1,866,911	-	36,369,161
Other assets	7,135,663	43,085	558,841	1,122	2,440,735	10,179,446
<b>Total assets</b>	<b>47,616,704</b>	<b>15,259,196</b>	<b>28,414,317</b>	<b>2,002,396</b>	<b>2,710,128</b>	<b>96,002,741</b>
Deposits	70,229,739	1,647,419	3,147,492	688,041	-	75,712,691
Securities sold under repurchase agreements	3,708,279	12,322	-	-	-	3,720,601
Other liabilities	7,239,554	86,713	-	-	172,406	7,498,673
Shareholders' equity	-	-	-	-	9,070,776	9,070,776
<b>Total liabilities and</b>						
shareholders' equity	<b>81,177,572</b>	<b>1,746,454</b>	<b>3,147,492</b>	<b>688,041</b>	<b>9,243,182</b>	<b>96,002,741</b>
Total liquidity gap	(33,560,868)	13,512,742	25,266,825	1,314,355	(6,533,054)	-
Cumulative gap	(33,560,868)	(20,048,126)	5,218,699	6,533,054	-	-
=====						
<b>2001</b>						
Total liquidity gap	(31,165,252)	17,311,600	17,036,272	2,437,660	(5,620,280)	-
Cumulative gap	(31,165,252)	(13,853,652)	3,182,620	5,620,280	-	-
=====						

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities are fundamental to the management of the group. It is unusual for financial institutions ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

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.

## 27 Pension Plan

Trustees administer a contributory pension plan for employees of the Group. Benefits to

members are based on the final pensionable salary (the average of the best of three consecutive years remuneration, with no salary cap) as follows:

- (i) Per year of contributory service - 1 3/4% of final pensionable salary;
- (ii) Per year of non-contributory service
  - a) 1 1/2 % of final pensionable salary for employees who started to contribute on 1 November 1971, and
  - b) 1 1/4 % of final pensionable salary for employees who started to contribute after 1 November 1971

The maximum pension is the lesser of 70% of the average of the final pensionable salary and 2/3 of salary on retirement.

An actuarial valuation of the fund as of 31 October 2001 disclosed a surplus in respect of past services. The employees contribute 3% of salary up to \$250,000 per annum plus 6% of salary thereafter.

The employers' contributions for the year were as follows:

	<u>The Group</u>		<u>The Bank</u>	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
Ordinary contributions	62,477	139,261	57,055	127,266
Special contributions	-	11,800	-	11,800
	<u>62,477</u>	<u>151,061</u>	<u>57,055</u>	<u>139,066</u>
	=====	=====	=====	=====

## 28 Commitments

	<u>The Group</u>		<u>The Bank</u>	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
Capital expenditure:				
Authorised and contracted for	-	19,021	-	19,021
	<u>-</u>	<u>19,021</u>	<u>-</u>	<u>19,021</u>
	=====	=====	=====	=====

## 29 Assets Under Management

### (a) Nominal amount

Assets under management, which are not beneficially owned by the Group, but which the Group manages on behalf of pension funds, have been excluded from the balance sheet.

At balance sheet date, the book value of these assets amounted to \$8,987,847,000 (2001 - \$7,933,883,000). Included in this amount is \$6,975,131,000 (2001 - \$6,209,322,000) for connected parties.

**(b) Remaining term to maturity of investment assets under management**

	<u>Remaining Term to Maturity</u>				<u>2002</u>	<u>2001</u>
	<u>Within 3</u>	<u>3 to 12</u>	<u>1 to 5</u>	<u>Over 5</u>	<u>Total</u>	<u>Total</u>
	<u>Months</u>	<u>Months</u>	<u>Years</u>	<u>years</u>		
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Government of Jamaica securities						
GOJ bond	-	-	-	520,000	520,000	30
GOJ US\$ bonds	-	167,415	666,354	72,154	905,923	311,097
GOJ debenture	54,789	335,886	138,896	-	529,571	736,572
Local registered stock	201,589	233,495	2,253,976	2,887,058	5,576,118	5,028,830
Securities purchased under resale agreements	793,670	328,984	-	-	1,112,654	1,461,594
Deposits						
BOJ certificate of deposit	-	-	-	-	-	65,866
Cash	5,001	-	-	-	5,001	2,730
Cash US\$	3,888	11,139	-	-	15,027	912
Other						
Equities	-	-	-	288,360	288,360	300,086
Real estate	-	-	-	24,793	24,793	24,992
Sigma Unit Trust	-	-	-	400	400	400
	<u>1,058,937</u>	<u>1,076,919</u>	<u>3,059,226</u>	<u>3,792,765</u>	<u>8,987,847</u>	<u>7,933,883</u>

**(d) Interest rate risk**

Average effective yields by the earlier of the contractual re-pricing or maturity dates:

	<u>2002</u>					
	<u>Immediately</u>	<u>Within 3</u>	<u>3 to 12</u>	<u>1 to 5</u>	<u>Over 5</u>	<u>Weighted</u>
	<u>rate</u>	<u>Months</u>	<u>Months</u>	<u>Years</u>	<u>Years</u>	<u>Average</u>
	<u>sensitive</u>	<u>Months</u>	<u>Months</u>	<u>Years</u>	<u>Years</u>	<u>Average</u>
	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
Cash resources	6.47	-	-	-	-	6.47

Investments	-	18.77	16.82	16.50	12.25	14.81
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**2001**

	<b>2001</b>					<b>Weighted Average</b>
	<b>Immediately Rate Sensitive</b>	<b>Within 3 Months</b>	<b>3 to 12 Months</b>	<b>1 to 5 Years</b>	<b>Over 5 Years</b>	
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	
Cash resources	5.03	-	-	-	-	5.03
Investments	-	19.13	16.43	15.65	15.13	16.21

**30 Assets Held in Trust**

At 31 October 2002, 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 \$10,109,285,000; (2001 -97,472,812,000.00)

**31 Related Party Transactions and Balances**

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:

	<b>The Group</b>		<b>The Bank</b>	
	<b>2002 \$'000</b>	<b>2001 \$'000</b>	<b>2002 \$'000</b>	<b>2001 \$'000</b>
Loans outstanding	3,337,637	1,865,508	3,337,637	1,865,508
Deposits	5,626,182	3,405,361	5,616,686	3,404,557
Interest earned	164,995	156,143	164,995	156,143
Interest paid	155,996	102,206	155,089	102,098
Other income	81,904	19,555	81,904	19,555
Other fees	71,058	68,691	53,666	66,685

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

**32 Contingencies**

- (i) On 7 April 1999, a writ was filed by 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.

### **33 Subsequent Events**

- (a) Subsequent to the balance sheet date, one of The Bank's subsidiaries, Scotiabank Jamaica Trust and Merchant Bank Limited, relinquished its licence under the Financial Institutions Act to the Rank of Jamaica and changed its name to Scotia Jamaica Investment Management Limited.
  - (b) Subsequent to the balance sheet date, one of The Bank's subsidiaries, Scotia Jamaica Insurance Agency Limited, obtained approval from the Financial Services Commission to operate as a broker and a Facultative Placement Broker and changed its name to Scotia Jamaica General Insurance Brokers Limited.
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