

JAMAICA MONEY MARKET BROKERS LTD.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED FEBRUARY 28, 2003

1. Identification

Jamaica Money Market Brokers Limited ('the company') is incorporated in Jamaica. It has four wholly-owned subsidiaries, JMMB Securities Limited, JMMB Unit Trust Managers Limited and JMMB Insurance Brokers Limited, all incorporated in Jamaica, and Cayman Valugrowth Fund, incorporated in The Cayman Islands. Only one of the subsidiaries, JMMB Securities Limited, has commenced trading. The company and its subsidiaries are collectively referred to in these financial statements as "group". The company also has a 45% interest in two associated companies, Caribbean Money Market Brokers Limited and CMMB Securities Limited, both incorporated in Trinidad and Tobago.

The principal activities of the group and its associated companies are brokering, dealing in money market instruments, operating foreign exchange cambios and managing funds on behalf of clients.

The company is exempt from the provisions of the Money Lending Act.

2. Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with Jamaican generally accepted accounting principles ("GAAP"), which are substantially codified in statements of standard accounting practice issued by the Institute of Chartered Accountants of Jamaica, and the provisions of the Companies Act ("the Act"). The accounting policies conform, in all material respects, to GAAP and the Act. The preparation of the financial statements in conformity with GAAP and the Act requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities at the balance sheet date and the income and expenses for

the year then ended. Actual amounts could differ from these estimates.

Where necessary, prior year comparatives have been reclassified to conform to the current year's presentation.

These financial statements are presented in thousands of Jamaican dollars (\$'000), unless otherwise stated.

Basis of consolidation:

The consolidated financial statements combine the financial position, results of operations and cash flows of the company and its trading subsidiary, JMMB Securities Limited (note 1), after eliminating all significant intra-group amounts. Other subsidiaries are included at cost.

3. Significant accounting policies

(a) Interest in associated companies:

The group's interest in its associated companies has been accounted for by the equity method.

(b) Depreciation:

Fixed assets, with the exception of freehold land, on which no depreciation is provided, are depreciated on the straight-line basis at annual rates estimated to write off the assets over their expected useful lives. The depreciation rates are as follows:

| | |
|--|--|
| Freehold buildings | 2 1/2 % |
| Leasehold improvements | The shorter of the estimated useful life and the period of the lease |
| Motor vehicles | 20% |
| Computer equipment and software | 33 1/3% |
| Equipment (other than computers), furniture and fittings | 10% |

(c) Investments:

Although the company and group present an unclassified balance sheet, for measurement purposes only, investments which are readily realisable and intended to be held for not more than one year are classified as short-term assets, while other investments are

classified as long-term assets. Short-term investments are carried in the balance sheet at the lower of cost and market value, determined on the aggregate portfolio basis in total. Where quoted market prices are readily available they are used; if quoted market prices are not available, market values are estimated using another generally accepted alternative method. Long-term investments are carried in the balance sheet at amortised cost, with premiums and discounts being amortised over the remaining period to maturity; however, the carrying amount of all long-term investments is reduced to recognise a decline which is other than temporary in the value of the investments. Such reductions, if any, are determined and made for each investment individually and, together with gains and losses on disposals, are included in other income or other expenses, as appropriate.

(d) Foreign currencies:

Foreign currency balances at the balance sheet date are translated at the rates of exchange ruling on that date.

Transactions in foreign currencies are converted 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 group revenues and expenses.

(e) Revenue recognition:

Income and expenses are recorded on the accrual basis, except that where collectibility of interest income is considered doubtful, it is recorded when received.

(f) Allowance for notes receivable losses:

The allowance for notes receivable losses is maintained at a level considered adequate to provide for probable losses. The provision is increased by amounts charged to earnings and reduced by net charge-offs. The level of allowance is based on management's evaluation of the portfolio, which takes into account prevailing and anticipated business and economic conditions and the net realisable value of securities held.

(g) Resale and repurchase agreements:

Transactions involving purchases of securities under resale agreements ('resale agreements' or 'reverse repos') or sales of securities under repurchase agreements ('repurchase agreements' or 'repos') are accounted for as short-term collateralised financing. It is the policy of the group to obtain possession of collateral with a market

value equal to or in excess of the principal amount loaned under resale agreements.

(h) Pension scheme costs:

Pension scheme costs included in the statement of revenue and expenses represent contributions to the scheme which the company operates to provide retirement pensions for the group's employees (note 22). Contributions to the scheme, made on the basis provided for in the rules, are accrued and charged off when due.

(i) Cash and cash equivalents:

Cash and cash equivalents comprise bank balances, money market accounts and very short-term securities with other broker/dealers.

4. Cash and cash equivalents

Cash and cash equivalents for the company and the group include:

- (a) \$4,475,808 (2002: \$4,475,808) deposited at an interest rate of 12% (2002: 12%) under an agreement with a building society which co-ordinates and administers a home ownership assistance programme on behalf of the company for its employees.
- (b) £494,359 (J\$41,447,027) [2002: US\$1,372,052 and £449,209 (J\$93,764,664)] deposited as collateral for certain securities sold under repurchase agreements (note 7).
- (c) US\$2,708,398 (J\$145,224,320) [2002: US\$8,424,897 (J\$399,761,347)] being margins used to collateralise the excess of the fair value of securities sold not yet purchased over the initially recorded amounts.

5. Notes receivable

| | <u>Company and Group</u> | |
|--|--------------------------|----------------|
| | <u>2003</u> | <u>2002</u> |
| | (\$'000) | (\$'000) |
| J\$ promissory notes (0% - 34%) (2002: 14.89% - 20.45%) | 122,109 | 46,746 |
| US\$ promissory notes and debentures (7.75% - 12.00%) US\$2,084,136 (2002: (10% - 12%) US\$5,891,361) | 111,751 | 279,545 |
| | <u>233,860</u> | <u>326,291</u> |
| | ===== | ===== |

Notes receivable are scheduled to mature within one to three months (2002: one to three months) of the balance sheet date. Certain notes receivable are pledged as security for certain repurchase agreements (note 7). Notes receivable include amounts due from related parties (note 20), and an interest-free advance of \$113,042,000 to the company's Employee Share Ownership Plan ("ESOP").

6. Other receivables

Other receivables:

- (a) are shown after a provision for doubtful debts of \$7,732,809 (2002: \$2,521,715); and
- (b) include interest-free loans to the company's ESOP amounting to \$31,576,604 (2002: \$3,891,164). The number of shares held by the ESOP at February 28, 2003 was 73,169,338 (2002: 73,169,338) (see note 13).

7. Resale and repurchase agreements

| | <u>Company and Group</u> | | | |
|---|--------------------------|------------------|----------------|--------------|
| | <u>2003</u> | <u>2002</u> | | |
| | (\$'000) | (\$'000) | | |
| (a) Resale agreements | | | | |
| Denominated in Jamaican dollars | 7,044,957 | 5,691,173 | | |
| Denominated in United States dollars [US\$22.3 million (2002: US\$24.6 million)] | 1,194,415 | 1,167,151 | | |
| Denominated in Pounds Sterling [f96,570 (2002: L15,749)] | 8,096 | 1,055 | | |
| | <u>8,247,468</u> | <u>6,859,379</u> | | |
| | ===== | ===== | | |
| | | | | |
| | | | <u>Company</u> | <u>Group</u> |
| | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> |
| | (\$'000) | (\$'000) | (\$'000) | (\$'000) |
| (b) Repurchase agreements | | | | |

| | | | | |
|---|-------------------|-------------------|-------------------|-------------------|
| Denominated in Jamaican dollars | 22,899,014 | 19,693,832 | 22,890,712 | 19,693,832 |
| Denominated in United States dollars [US\$438.5 million (2002: US\$350.4 million)] | 23,514,440 | 16,625,373 | 23,514,440 | 16,625,373 |
| Denominated in Pounds Sterling [£9.9 million (2002: £5.6 million)] | 829,056 | 373,350 | 829,056 | 373,350 |
| | <u>47,242,510</u> | <u>36,692,555</u> | <u>47,234,208</u> | <u>36,692,555</u> |
| | ===== | ===== | ===== | ===== |

Certain securities and short-term deposits (notes 4, 5 and 8) and interest accrued thereon are pledged as security towards the excess of repurchase agreements over resale agreements or for other borrowings.

Resale and repurchase agreements include balances with related parties as set out in note 20.

8. Investments

| | <u>Company</u> | | <u>Group</u> | |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | <u>2003</u> <u>(\$'000)</u> | <u>2002</u> <u>(\$'000)</u> | <u>2003</u> <u>(\$'000)</u> | <u>2002</u> <u>(\$'000)</u> |
| Government of Jamaica Securities: | | | | |
| Treasury bills | 155,142 | 151,271 | 155,142 | 151,271 |
| Local registered stocks | 14,045,400 | 8,923,339 | 14,045,400 | 8,923,339 |
| Notes and debentures | 8,303,546 | 3,447,374 | 8,303,546 | 3,447,374 |
| Eurobonds | <u>12,152,544</u> | <u>6,010,314</u> | <u>12,152,544</u> | <u>6,010,314</u> |
| | 34,656,632 | 18,532,298 | 34,656,632 | 18,532,298 |
| Other sovereign bonds | 1,208,294 | 5,808,962 | 1,208,294 | 5,808,962 |
| Corporate bonds | 1,353,223 | 38,942 | 1,353,223 | 38,942 |
| Quoted equities | 5,910 | 17,654 | 8,002 | 17,657 |
| Units in unit trusts | 2,769 | 2,694 | 2,769 | 2,694 |
| Interest in money market fund [note 23a] | <u>193,155</u> | <u>57,178</u> | <u>193,155</u> | <u>57,285</u> |
| | 37,419,983 | 24,457,728 | 37,422,075 | 24,457,838 |
| Less: Provisions and unamortised discounts net of premiums | <u>(70,387)</u> | <u>(23,107)</u> | <u>(70,387)</u> | <u>(23,107)</u> |
| | <u>37,349,596</u> | <u>24,434,621</u> | <u>37,351,688</u> | <u>24,434,731</u> |
| | ===== | ===== | ===== | ===== |

Investments mature, in relation to the balance sheet date, as follows:

| | <u>Company</u> | | <u>Group</u> | |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | <u>2003</u> <u>(\$'000)</u> | <u>2002</u> <u>(\$'000)</u> | <u>2003</u> <u>(\$'000)</u> | <u>2002</u> <u>(\$'000)</u> |
| Government of Jamaica securities: | | | | |
| Within 3 months | 345,050 | 353,996 | 345,050 | 353,996 |
| From 3 months to 1 year | 1,804,873 | 892,380 | 1,804,873 | 892,380 |
| From 1 year to 5 years | 12,128,606 | 8,472,928 | 12,128,606 | 8,472,928 |
| Over 5 years | <u>20,341,745</u> | <u>8,812,994</u> | <u>20,341,745</u> | <u>8,812,994</u> |
| | <u>34,620,274</u> | <u>18,532,298</u> | <u>34,620,274</u> | <u>18,532,298</u> |
| Other sovereign bonds and corporate bonds: | | | | |
| From 3 months to 1 year | - | 24,092 | - | 24,092 |
| From 1 year to 5 years | 80,349 | 880,644 | 80,349 | 880,644 |
| Over 5 years | <u>2,448,556</u> | <u>4,921,479</u> | <u>2,448,556</u> | <u>4,921,479</u> |
| | <u>2,528,905</u> | <u>5,826,215</u> | <u>2,528,905</u> | <u>5,826,215</u> |
| Other (see note below) | <u>200,416</u> | <u>76,108</u> | <u>202,509</u> | <u>76,218</u> |
| | <u>37,349,596</u> | <u>24,434,621</u> | <u>37,351,688</u> | <u>24,434,731</u> |
| | ===== | ===== | ===== | ===== |

Note: Other investments are in quoted shares, unit trusts and money market fund for which there are no fixed maturity dates.

Government of Jamaica securities and certain other bonds are pledged as security in the ordinary course of business (note 7).

9. Other asset

This represents one qualifying share held in the Jamaica Stock Exchange Limited ("JSE"), at cost. The qualifying share entitles JMMB Securities Limited to operate as a broker/dealer and be a member of the Council of JSE. Under JSE's constitution, its members are not entitled to dividends from JSE, and are not entitled to its residual assets or the assets of the Compensation Fund, upon a winding up or liquidation, as the assets would be required to be used for development of the securities market in Jamaica.

10. Interest in subsidiaries

| | <u>Company</u> | | <u>Group</u> | |
|--|-----------------|-----------------|-----------------|-----------------|
| | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> |
| | <u>(\$'000)</u> | <u>(\$'000)</u> | <u>(\$'000)</u> | <u>(\$'000)</u> |
| JMMB Securities Limited: | | | | |
| Shares at cost - equity | 10,000 | 10,000 | - | - |
| - preference | 24,000 | - | - | - |
| | <u>34,000</u> | <u>10,000</u> | <u>-</u> | <u>-</u> |
| JMMB Insurance Brokers Limited: | | | | |
| Shares at cost - equity | 10,000 | - | 10,000 | - |
| JMMB Unit Trust Managers Limited | - | - | - | - |
| Cayman Valugrowth Fund | - | - | - | - |
| | <u>44,000</u> | <u>10,000</u> | <u>10,000</u> | <u>-</u> |
| | ===== | ===== | ===== | ===== |

11. Interest in associated companies

| | <u>% Shareholding</u> | <u>Place of incorporation</u> | <u>Principal activities</u> |
|--|-----------------------|-------------------------------|---|
| Caribbean Money Market Brokers Limited | 45 | Trinidad and Tobago | Brokering, dealing in securities in money market instruments and managing funds on behalf of clients. |
| CMMB Securities Limited | 45 | Trinidad and Tobago | Stockbroking |

Caribbean Money Market Brokers Limited commenced operations in August 2000 and CMMB Securities Limited commenced operations on April 12, 2002.

The balance is made up as follows:

| | <u>Company and Group</u> | |
|-----------------------------------|--------------------------|---------------|
| | 2003 | 2002 |
| | (\$'000) | (\$'000) |
| Shares, at cost | 33,421 | 33,421 |
| Share of post-acquisition profits | <u>194,513</u> | <u>33,554</u> |
| | ===== | ===== |
| | 227,934 | 66,975 |

12. Fixed assets

Company

| | <u>Freehold land and buildings</u> | <u>Leasehold improvements</u> | <u>Motor vehicles</u> | <u>Computer equipment and software</u> | <u>Other equipment, furniture and fittings</u> | <u>Construction in progress</u> | <u>Total</u> |
|-------------------------|--|-----------------------------------|---------------------------|--|--|-------------------------------------|----------------|
| | (\$'000) | (\$'000) | (\$'000) | (\$'000) | (\$'000) | (\$'000) | (\$'000) |
| At cost: | | | | | | | |
| February 28, 2002 | 47,588 | 19,154 | 19,899 | 121,042 | 49,771 | 8,070 | 265,524 |
| Additions | 41,291 | 1,324 | 31,070 | 57,619 | 11,021 | 49,213 | 191,538 |
| Transfers | 32,621 | - | - | - | - | (32,621) | - |
| Disposals | - | - | (8,486) | (284) | (80) | - | (8,850) |
| February 28, 2003 | <u>121,500</u> | <u>20,478</u> | <u>42,483</u> | <u>178,377</u> | <u>60,712</u> | <u>24,662</u> | <u>448,212</u> |
| Depreciation: | | | | | | | |
| February 28, 2002 | 5,096 | 10,550 | 10,132 | 65,703 | 14,730 | - | 106,211 |
| Charge for the year | 1,278 | 4,176 | 6,328 | 38,488 | 5,478 | - | 55,748 |
| Eliminated on disposals | - | - | (6,274) | (115) | (43) | - | (6,432) |
| February 28, 2003 | <u>6,374</u> | <u>14,726</u> | <u>10,186</u> | <u>104,076</u> | <u>20,165</u> | <u>-</u> | <u>155,527</u> |
| Net book values: | | | | | | | |
| February 28, 2003 | 115,126 | 5,752 | 32,297 | 74,301 | 40,547 | 24,662 | 292,685 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| February 28, 2002 | 42,492 | 8,604 | 9,767 | 55,339 | 35,041 | 8,070 | 159,313 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

Freehold land and buildings include land at a cost of approximately \$45,845,000 (2002: \$7,271,000).

| Group | Freehold land and buildings (\$'000) | Leasehold improvements (\$'000) | Motor vehicles (\$'000) | Computer equipment and software (\$'000) | Other equipment, furniture and fittings (\$'000) | Construction in progress (\$'000) | Total (\$'000) |
|-------------------------|---|---------------------------------------|-------------------------------|---|---|---|-------------------|
| At cost: | | | | | | | |
| February 28, 2002 | 47,588 | 19,154 | 19,899 | 122,619 | 49,857 | 8,070 | 267,187 |
| Additions | 41,291 | 1,324 | 33,027 | 61,446 | 11,040 | 49,213 | 197,341 |
| Transfers | 32,621 | - | - | - | - | (32,621) | - |
| Disposals | - | - | (8,486) | (284) | (80) | - | (8,850) |
| February 28, 2003 | <u>121,500</u> | <u>2,047</u> | <u>44,440</u> | <u>183,781</u> | <u>60,817</u> | <u>24,662</u> | <u>455,678</u> |
| Depreciation: | | | | | | | |
| February 28, 2002 | 5,096 | 10,550 | 10,132 | 65,783 | 14,731 | - | 106,292 |
| Charge for the year | 1,278 | 4,176 | 6,717 | 39,942 | 5,489 | - | 57,602 |
| Eliminated on disposals | - | - | (6,274) | (115) | (43) | - | (6,432) |
| February 28, 2003 | <u>6,374</u> | <u>14,726</u> | <u>10,575</u> | <u>105,610</u> | <u>20,177</u> | <u>-</u> | <u>157,462</u> |
| Net book values: | | | | | | | |
| February 28, 2003 | 115,126 | 5,752 | 33,865 | 78,171 | 40,640 | 24,662 | 298,216 |
| February 28, 2002 | <u>42,492</u> | <u>8,604</u> | <u>9,767</u> | <u>56,836</u> | <u>35,126</u> | <u>8,070</u> | <u>160,895</u> |

Freehold land and buildings include land at a cost of approximately \$45,845,000 (2002: \$7,271,000).

13. Share capital

| | <u>2003</u> (\$'000) | <u>2002</u> (\$'000) |
|---|-------------------------|-------------------------|
| Authorised: | | |
| 1,466,400,000 (2002: 366,600,000) ordinary stock units of \$0.25 (2002: \$1.00) each | 366,600 | 366,600 |
| | <u>=====</u> | <u>=====</u> |
| Issued and fully paid: | | |

Ordinary stock units of \$0.25 (2002: \$1.00) each:

| | | |
|---|---------|---------|
| At beginning of year - 1,463,386,752 (2002: 214,246,688) | 365,847 | 214,247 |
|---|---------|---------|

Issued during the year:

| | | |
|--|----------------|----------------|
| Bonus issue - nil (2002: 151,600,000) | - | 151,600 |
| At end of year - 1,463,386,752 (2002: 365,846,688) | <u>365,847</u> | <u>365,847</u> |
| | ===== | ===== |

On September 18, 2001 the authorised share capital was increased to 366,600,000 ordinary stock units of \$1.00 each by the creation of 151,600,000 ordinary stock units. The newly created shares, which rank pari passu in all respects with the ordinary shares in existence at that date, were issued as fully paid bonus shares.

On October 25, 2002, the company subdivided its capital into ordinary stock units of \$0.50 each. On November 14, 2002, it further subdivided its capital into ordinary stock units of \$0.25 each.

14. Staff costs

| | <u>Company</u> | | <u>Group</u> | |
|---------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | <u>2003</u> (\$'000) | <u>2002</u> (\$'000) | <u>2003</u> (\$'000) | <u>2002</u> (\$'000) |
| Salaries and profit-related pay | 245,595 | 178,703 | 242,798 | 180,108 |
| Statutory contributions | 21,828 | 16,147 | 22,656 | 16,276 |
| Pension scheme contributions | 7,697 | 483 | 8,021 | 553 |
| Training and development | 35,843 | 20,138 | 35,926 | 20,159 |
| Other | 48,605 | 50,048 | 62,527 | 50,048 |
| | <u>359,568</u> | <u>265,519</u> | <u>371,928</u> | <u>267,144</u> |
| | ===== | ===== | ===== | ===== |

The average number of persons employed during the year was as follows:

| | <u>Company</u> | | <u>Group</u> | |
|-----------|----------------|-------------|--------------|-------------|
| | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> |
| Full time | 157 | 146 | 161 | 149 |
| Part time | 9 | 12 | 10 | 12 |
| | <u>166</u> | <u>158</u> | <u>171</u> | <u>161</u> |

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15. Profit before income tax

The following are among the items charged in arriving at profit before income tax:

| | <u>2003</u> (\$'000) | <u>2002</u> (\$'000) |
|--|-------------------------|-------------------------|
| Depreciation | 55,751 | 36,850 |
| Directors' emoluments: | | |
| Fees | 2,123 | 2,384 |
| Management remuneration | 19,209 | 17,054 |
| Auditors' remuneration | 2,568 | 2,484 |
| Bad debts, less recoveries | 8,805 | 13 |
| Costs of public offer of shares for sale | 34,563 | - |

16. Income tax

The amount for income tax is made up as follows:

| | <u>2003</u> (\$'000) | <u>2002</u> (\$'000) |
|--|-------------------------|-------------------------|
| Provision in respect of current year's charge | 2,143 | - |
| Adjustments in respect of previous years' provisions: | | |
| Adjustment/(claim) of tax credit for bonus share issues | 57,228 | 37,900 |
| Other (over)/under provisions in prior years | (97,743) | 6,950 |
| | (38,372) | (30,950) |
| Share of tax at 35% on profits of associated companies | 82,059 | 18,337 |
| | 43,687 | (12,613) |
| | ===== | ===== |

The credits to the tax provision are in respect of an adjustment to the accounting records so that they reflect the tax position as per the tax returns filed or amended subsequent to the issue of prior periods' financial statements. Arising from the adjustment, there is no tax charge for the group, notwithstanding the profits shown in the statement of revenue and expenses. The reason there is no tax charge is that, in determining the tax liability,

if any, adjustments have been made for certain items, the most significant being tax-free income on investments in certain Government of Jamaica securities and the increase in net accrued interest receivable.

The group has not made any provision for deferred taxation.

Subject to agreement by the Commissioner, Taxpayer Audit and Assessment, at the balance sheet date, tax losses, available for set off against future taxable profits, amounted to approximately \$1,045,366,000 (2002: \$474,000,000) for the group and approximately \$1,045,366,000 (2002: \$472,000,000) for the company.

17. Net profit for the year

Of the net profit for the year, profit of \$895,105,000 (2002: \$552,231,000) is dealt with in the financial statements of the holding company.

18. Earnings per stock unit

Earnings per stock unit ("EPS") is computed by dividing net profit of \$900,465,000 (2002: \$548,956,000) by the weighted average number of 25 cents stock units in issue during the year, numbering 1,463,386,752 [2002: 365,846,688 \$1 stock units (restated to \$1,463,386,752 25 cent stock units for comparison purposes)].

19. Dividends

| | <u>2003</u> (\$'000) | <u>2002</u> (\$'000) |
|--|-------------------------|-------------------------|
| First interim dividend paid: | | |
| in respect of 2002 @ 5 cents per stock unit | - | 18,475 |
| in respect of 2003 @ 8.01 cents per stock unit | 117,181 | - |
| Proposed in respect of 2002 @ 15.48 cents per stock unit | - | 56,621 |
| Final dividend: | | |
| Paid in respect of 2002 @ 6.84 cents per stock unit | 25,032 | - |
| Proposed in respect of 2003 @ 4.30 cents per stock unit | <u>62,912</u> | <u>-</u> |
| | <u>205,125</u> | <u>75,096</u> |
| | ===== | ===== |

20. Related party balances

A related party is one which controls or exercises significant influence over or is controlled or significantly influenced by a group member in making financial and operating decisions, or, along with any group member, is subject to common control or significant influence. Amounts arising from transactions with related parties are set out below.

- (a) The balance sheet includes balances arising in the normal course of business with related parties, as follows:

| | <u>Company</u> | | <u>Group</u> | |
|-----------------------|-----------------|-----------------|-----------------|-----------------|
| | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> |
| | <u>(\$'000)</u> | <u>(\$'000)</u> | <u>(\$'000)</u> | <u>(\$'000)</u> |
| Directors | | | | |
| Other receivables | 245 | - | 245 | - |
| Resale agreements | - | 502 | - | 502 |
| Repurchase agreements | (172,170) | (38,879) | (172,170) | (38,879) |
| | ===== | ===== | ===== | ===== |
| Shareholders | | | | |
| Notes receivable | - | 6,811 | - | 6,811 |
| Resale agreements | - | 15,946 | - | 15,946 |
| Repurchase agreements | (957,715) | (184,918) | (957,715) | (184,918) |
| | ===== | ===== | ===== | ===== |
| Subsidiary | | | | |
| Accounts receivable | 17,215 | - | 17,215 | - |
| | ===== | ===== | ===== | ===== |
| Associated companies | | | | |
| Resale agreements | 179,242 | 181,665 | 179,242 | 181,665 |
| Repurchase agreements | (1,171,708) | (635,592) | (1,171,708) | (635,592) |
| Other Receivables | - | - | 38,723 | - |
| Accounts receivable | 7,359 | - | - | - |
| | ===== | ===== | ===== | ===== |

- (b) The statement of group revenue and expenses includes the following income earned from, and expenses incurred in, transactions with related parties, in the ordinary course of business:

| | <u>2003</u> | <u>2002</u> |
|--------------------|-------------|-------------|
| | (\$'000) | (\$'000) |
| Directors | | |
| Interest income | (10,038) | (3,136) |
| Interest expense | 8,572 | 4,212 |
| | ===== | ===== |
| Shareholders | | |
| Interest income | (4,101) | (1,621) |
| Interest expense | 45,903 | 12,912 |
| | ===== | ===== |
| Associated company | | |
| Interest income | (10,849) | (21,126) |
| Interest expense | 46,342 | 47,794 |
| Consultancy fees | 11,070 | 6,580 |
| | ===== | ===== |

21. Financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

For the purposes of the financial statements, financial assets have been determined to include cash and cash equivalents, interest receivable, notes receivable, other receivables, resale agreements and investments. Financial liabilities comprise bank overdrafts, interest payable, accounts payable, and repurchase agreements. Information relating to fair values and financial instruments risks is summarized below.

(a) Fair values:

Fair value amounts represent estimates of the arm's length consideration that would be currently agreed between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. Where quoted market prices are not available, the fair values of these instruments have been determined using a generally accepted alternative method. However, considerable judgement is required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented below are not necessarily indicative of the amounts that the group would receive on realisation of its financial assets or pay to settle its financial liabilities.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value.

| Financial instrument | Method |
|---|---|
| Cash and cash equivalents, interest Other receivable, notes receivable, receivables, resale agreements, bank overdrafts, accounts payable, interest payable and repurchase agreements | Assumed to approximate their carrying values, due to their short-term nature. |
| Sovereign non-Jamaican bonds, corporate bonds, quoted shares and units in unit trusts | Quoted market prices. |
| Government of Jamaica securities and certificates of deposit: | |
| - Traded overseas | Estimates provided by overseas broker. |
| - Other | Estimated by discounting future cash flows using current yields of similar instruments. |
| Interest in money market fund | Assumed to be the carrying value because of the short-term nature and variable interest rate. |

The estimated fair values of investments, which are the only financial instruments whose estimated fair values, in some cases, differ from their carrying values, are as follows:

Company

| | <u>2003</u> | | <u>2002</u> | |
|----------------------------------|---------------------------------------|-----------------------------------|---------------------------------------|-----------------------------------|
| | <u>Carrying value</u> (\$'000) | <u>Fair value</u> (\$'000) | <u>Carrying value</u> (\$'000) | <u>Fair value</u> (\$'000) |
| Government of Jamaica securities | 34,620,274 | 34,268,028 | 18,532,298 | 18,676,282 |

| | | | | |
|-------------------------------|-----------|-----------|-----------|-----------|
| Other sovereign bonds | 1,173,718 | 983,900 | 5,445,419 | 5,215,111 |
| Corporate bonds | 1,355,187 | 1,345,802 | 380,796 | 368,904 |
| Quoted shares | 5,910 | 21,993 | 17,654 | 27,671 |
| Interest in money market fund | 193,155 | 193,155 | 57,178 | 57,178 |
| Unit trusts | 1,351 | 1,455 | 1,276 | 1,340 |
| | ===== | ===== | ===== | ===== |

Group

| | <u>2003</u> | | <u>2002</u> | |
|----------------------------------|--|--|--|--|
| | <u>Carrying</u> <u>value</u> <u>(\$'000)</u> | <u>Fair</u> <u>value</u> <u>(\$'000)</u> | <u>Carrying</u> <u>value</u> <u>(\$'000)</u> | <u>Fair</u> <u>value</u> <u>(\$'000)</u> |
| Government of Jamaica securities | 34,620,274 | 34,268,028 | 18,532,298 | 18,676,282 |
| Other sovereign bonds | 1,173,718 | 983,900 | 5,826,215 | 5,584,015 |
| Corporate bonds | 1,355,187 | 1,345,802 | - | - |
| Quoted shares | 8,002 | 23,862 | 17,657 | 27,674 |
| Interest in money market fund | 193,155 | 193,155 | 57,285 | 57,285 |
| Unit trusts | 1,351 | 1,455 | 1,276 | 1,340 |
| | ===== | ===== | ===== | ===== |

In respect of the company and the group, except where impairment is considered to be other than temporary, the carrying value has not been reduced to fair value as these are sovereign debts and/or the group has the positive intent and ability to hold them to maturity.

(b) Financial instruments risks:

The group does not use derivatives as a risk management strategy at this time. Accordingly, exposure to credit, interest rate, foreign currency, liquidity and market risks arises in the ordinary course of the group's operations.

(i) Interest rate risk:

Interest rate risk arises when there is a mismatch between interest-earning assets and interest-bearing liabilities which are subject to interest rate adjustment within a specified period.

The excess of short-term interest bearing liabilities over short-term interest earning assets is managed by ensuring, to the extent it is under the group's control, stability in the group's client base and investing mainly in marketable securities.

The following tables summarise the carrying amount of the balance sheet assets, liabilities and equity to arrive at the company's and group's interest rate gap, based on the earlier of contractual repricing and maturity dates.

Company

| | <u>Within 3 months</u> (\$'000) | <u>More than 3 months less than 12 months</u> (\$'000) | <u>More than 12 months</u> (\$'000) | <u>Non-rate sensitive</u> (\$'000) | <u>Total</u> (\$'000) |
|--|--|---|--|---|--------------------------|
| 2003 | | | | | |
| Cash and cash equivalents | 1,462,809 | 123,529 | - | 1,809 | 1,588,147 |
| Interest receivable | - | - | - | 1,317,929 | 1,317,929 |
| Income tax recoverable | - | - | - | 173,811 | 173,811 |
| Notes receivable | 120,818 | 113,042 | - | - | 233,860 |
| Other receivables | - | - | - | 413,545 | 413,545 |
| Resale agreements | 7,811,622 | 435,846 | - | - | 8,247,468 |
| Investments | 793,307 | 1,173,973 | 35,373,637 | 8,679 | 37,349,596 |
| Interest in subsidiaries | - | - | - | 44,000 | 44,000 |
| Interest in associated companies | - | - | - | 227,934 | 227,934 |
| Fixed assets | - | - | - | 292,685 | 292,685 |
| Total assets | <u>10,188,556</u> | <u>1,846,390</u> | <u>35,373,637</u> | <u>2,480,392</u> | <u>49,888,975</u> |
| Interest payable | - | - | - | 594,493 | 594,493 |
| Accounts payable | - | - | - | 122,364 | 122,364 |
| Proposed dividend | - | - | - | 62,912 | 62,912 |
| Repurchase agreements | 38,856,506 | 7,024,088 | 1,361,916 | - | 47,242,510 |
| Shareholders' equity | - | - | - | 1,866,696 | 1,866,696 |
| Total liabilities and shareholders' equity | <u>38,856,506</u> | <u>7,024,088</u> | <u>1,361,916</u> | <u>2,646,465</u> | <u>49,888,975</u> |
| Total interest rate | | | | | |

| | | | | | |
|---|-------------------|------------------|------------|------------------|-------------------|
| sensitivity gap | (28,667,950) | (5,177,698) | 34,011,721 | (166,073) | - |
| Cumulative gap | (28,667,950) | (33,845,648) | 166,073 | - | - |
| | ===== | ===== | ===== | ===== | ===== |
| <u>2002</u> | | | | | |
| Total assets | 14,467,563 | 6,669,607 | 16,106,079 | 1,781,230 | 39,024,479 |
| Total liabilities and shareholders' equity | <u>31,951,486</u> | <u>4,763,239</u> | <u>-</u> | <u>2,309,754</u> | <u>39,024,479</u> |
| Total interest rate sensitivity gap | (17,483,923) | 1,906,368 | 16,106,079 | (528,524) | - |
| Cumulative gap | (17,483,923) | (15,577,555) | 528,524 | - | - |
| | ===== | ===== | ===== | ===== | ===== |

The following table shows the range of effective yields by the earlier of contractual repricing and maturity dates:

Company and Group

| | <u>Up to 3 months (%)</u> | <u>More than 3 months, Up to 12 months (%)</u> | <u>More than 12 months (%)</u> |
|--------------------------------|-------------------------------|--|------------------------------------|
| <u>2003</u> | | | |
| J\$ cash and cash equivalents | 5.00 - 15.00 | 14.90 - 17.50 | - |
| US\$ cash and cash equivalents | 2.00 - 3.00 | - | - |
| J\$ notes receivable | 0 - 34.00 | - | - |
| US\$ notes receivable | 7.75 - 12.00 | - | - |
| J\$ resale agreements | 16.00 - 31.50 | 14.00 - 30.00 | - |
| US\$ resale agreements | 8.25 | - | - |
| J\$ investments | 19.39 - 21.95 | 15.60 - 23.50 | 15.90 - 19.00 |
| US\$ investments | - | - | 7.45 - 13.70 |
| J\$ repurchase agreements | 12.50 - 30.00 | 17.00 - 18.00 | 14.00 - 23.54 |
| US\$ repurchase agreements | 2.00 - 12.70 | - | - |
| UK investments | - | - | 9.95 - 11.77 |

| | | | |
|--------------------------|-------------|-------|-------|
| UK repurchase agreements | 1.50 - 8.60 | - | - |
| | ===== | ===== | ===== |

2002

| | | | |
|--------------------------------|---------------|---------------|---------|
| J\$ cash and cash equivalents | 12.00 | - | - |
| US\$ cash and cash equivalents | 1.70 - 2.00 | - | - |
| J\$ notes receivable | 17.00 - 23.00 | - | - |
| US\$ notes receivable | 10.90 - 14.00 | - | - |
| J\$ resale agreements | 15.00 - 19.50 | 15.00 - 19.90 | - |
| US\$ resale agreements | 8.00 - 11.50 | - | - |
| J\$ investments | 15.00 - 21.50 | 15.00 - 21.00 | - |
| US\$ investments | 3.00 - 10.00 | 11.00 - 13.20 | - 13.70 |
| J\$ repurchase agreements | 14.00 - 17.00 | 14.00 - 18.00 | - |
| US\$ repurchase agreements | 9.00 - 11.00 | 9.00 - 11.00 | - |
| UK investments | 9.90 - 11.60 | 10.30 - 11.30 | - |
| UK repurchase agreements | 5.00 - 7.00 | 6.50 - 7.00 | - |
| | ===== | ===== | ===== |

(ii) Credit risk:

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to suffer a financial loss.

The group's financial instruments that are exposed to credit risk consist primarily of interest-bearing investments and cash and short-term deposits.

The group maintains cash and short term deposits with major financial institutions which management believes to be strong and financially sound. The majority of the group's investments are in Government of Jamaica securities.

The group holds investments in the securities of other Governments, the repayment of which is dependent on the financial stability of those countries' national economies.

With the exception of investments in Government of Jamaica securities, there are no significant concentrations of credit risk.

(iii) Foreign currency risk:

The group is exposed to foreign currency risk on transactions that it undertakes in foreign currencies that give rise to the net currency gains and losses recognized during the year. Such exposures comprise the assets and liabilities of the group that are not denominated in its functional currency. The group ensures that the risk is kept to an acceptable level by monitoring its value at risk exposure.

At the balance sheet date, net foreign currency assets/(liabilities) were as follows:

| | <u>Company</u> | | <u>Group</u> | |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|
| | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> |
| | <u>(\$'000)</u> | <u>(\$'000)</u> | <u>(\$'000)</u> | <u>(\$'000)</u> |
| United States dollars | 15,134 | (7,089) | 15,134 | (7,091) |
| Great Britain pounds | 2,496 | 3,946 | 3,946 | 5,215 |
| Euros | 4,275 | 1,447 | 4,275 | 3,946 |
| Trinidad and Tobago dollars | (76,942) | - | 2,702 | 1,447 |
| Canadian dollars | 830 | - | 830 | - |
| | ===== | ===== | ===== | ===== |

(iv) Market risk:

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The market risk of the group's trading portfolio is reviewed regularly utilising Value At Risk (VAR), in addition to other quantitative and qualitative risk measures and analyses. The measures include the measurement of the portfolios sensitivity to changes in interest rates and prices. A report summarising the VAR for the group's portfolio is submitted to the board monthly.

(v) Liquidity risk:

Liquidity risk, also referred to as funding risk, is the risk that the group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at or close to its fair value. Prudent liquidity risk management requires the group to maintain sufficient cash and marketable securities, and have funding available through an adequate amount of committed facilities. The group manages this risk through (i) the maintenance of high levels of liquid

investments and (ii) the forecasting and monitoring of the levels of cash investments and payouts.

22. Post-employment benefits

Pensions are the only post-employment benefits to which the group is committed. To better secure the payment of promised benefits, the company operates a defined-contribution pension scheme for the group's employees who have satisfied certain minimum service requirements. The scheme is funded by equal contributions of employer and employee of 5% of pensionable salaries with an option for employees to contribute up to an additional 5% of pensionable salaries.

The scheme is administered by trustees and the assets are held separately from those of the group; some of the assets are included in funds being managed by the company [note 23(a)]. The scheme is subject to triennial actuarial valuations. The most recent actuarial valuation, which was conducted as at December 31, 1999, disclosed a surplus and, as a result, the company opted to take a contribution holiday, which commenced in April 2001 and ended in January 2002.

The contributions for the year amounted to \$7,696,801 (2002: \$482,599) for the company and \$8,020,470 (2002: \$552,849) for the group.

Benefits are computed by reference to the annuity that can be purchased by the amount standing to the credit of the member's account at the date of retirement.

23. Managed funds

- (a) The company acts as agent and earns fees for managing clients' funds on a non-recourse basis under a management agreement. This includes some of the assets of the company's pension fund (note 22). Although the company is the custodian of the securities in which the clients participate, it has no legal or equitable right or interest in these securities. Accordingly, the securities in which the clients' funds are invested have been excluded from these financial statements.

At February 28, 2003, for the company and the group, funds managed in this way amounted to \$5,122,166,099 (2002: \$5,322,345,362) which includes pension scheme contributions (note 22), inclusive of accrued interest, amounting to \$36,929,792 (2002: \$16,452,611) for the company and the group. The financial statements include the

following assets held in/(liabilities payable to) the managed funds:

| | <u>Company</u> | | <u>Group</u> | |
|--------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | <u>2003</u> (\$'000) | <u>2002</u> (\$'000) | <u>2003</u> (\$'000) | <u>2002</u> (\$'000) |
| Other receivables (net) | 182,105 | - | 182,105 | - |
| Investments (see note 8) | 193,155 | 57,178 | 193,155 | 57,285 |
| Accounts payable | - | (23,064) | - | (23,064) |
| Interest payable | (26,335) | - | (26,335) | - |
| Repurchase agreements | (2,177,566) | (2,102,810) | (2,177,566) | (2,102,810) |
| | ===== | ===== | ===== | ===== |

- (b) The company buys and/or negotiates promissory notes and debentures and then sells participations in them to investor, to whom it issues certificates of participation. The company has no legal or equitable right or interest in the securities sold but which remain in the company's custody for the purpose of collecting and distributing entitlements to beneficial holders; accordingly, they have been excluded from these financial statements.

At February 28, 2003, the face value of these certificates amounted to \$313,263,277 (2002: \$218,919,837) for the company and the group.

24. Commitments

(a) Capital commitments:

At the balance sheet date, amounts committed for capital expenditure but not contracted, for which no provision has been made in these financial statements, amounted to approximately \$6,356,000 (2002: \$29,000,000) for the company and the group.

(b) Lease commitments:

Commitments under non-cancellable operating lease agreements, expiring between 2003 and 2007, amounted to \$12,918,161 at February 28, 2003 (2002: \$20,771,000). The lease rentals are payable as follows:

| <u>Company and Group</u> | |
|--------------------------|-------------|
| <u>2003</u> | <u>2002</u> |
| (\$'000) | (\$'000) |

| | | |
|------------------|---------------|---------------|
| Within one year | 4,480 | 8,439 |
| Subsequent years | <u>8,438</u> | <u>12,332</u> |
| | <u>12,918</u> | <u>20,771</u> |
| | ===== | ===== |