Bank of Nova Scotia Jamaica Limited 2003

Notes to the Financial Statements

31 October, 2003

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1. Identification, Regulation and Licence

The Bank of Nova Scotia Jamaica Limited ("The Bank") is incorporated and domiciled in Jamaica. It is a 70% subsidiary of The Bank of Nova Scotia, which is incorporated and domiciled in Canada. The registered office of The Bank is located at the Scotiabank Centre, corner of Duke and Port Royal Streets, Kingston.

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

The Bank is listed on the Jamaica Stock Exchange.

The Bank's subsidiaries, which are all incorporated and domiciled in Jamaica, are as follows:

Subsidiaries	Principal Activities	Holding	Financial Year End
Scotia Jamaica Investment Management Limited (formerly Scotiabank Jamaica Trust and Merchant Bank Limited)	Investment and Pension Fund Management	100%	31 October

The Scotia Jamaica Building Society	Mortgage financing	100%	31 October
Scotia Jamaica Life Insurance Company Limited	Life Insurance	100%	31 December
Scotia Jamaica General Insurance Brokers Limited (formerly Scotia Jamaica Insurance Agency Limited)	Insurance Brokers	100%	31 October
Scotia Jamaica Financial Services Limited (formerly Scotia Jamaica Investment Management Limited)	Non-trading	100%	31 October
Brighton Holdings Limited	Non-trading	100%	31 October

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

2. Summary of Significant Accounting Policies

(a) Basis of preparation

Jamaica adopted International Financial Reporting Standards (IFRS) as its national accounting standards effective for accounting periods beginning on or after 1 July 2002. The financial statements for the year ended 31 October 2003 have therefore been prepared in accordance with and comply with IFRS and comparative information has been restated to conform with the provisions of IFRS. IFRS 1 - First-time adoption of IFRS has been adopted early.

The effects of adopting IFRS on equity and net profit as previously reported are detailed in Note 44. The financial statements have been prepared under the historical cost convention as modified for the revaluation of available-for-sale financial assets.

The preparation of financial statements in conformity with IFRS 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.

(b) Basis of consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the Bank and its subsidiaries, after eliminating inter-company transactions, balances and unrealised gains and losses.

(c) Policyholders' reserve

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.

(d) Interest income and expense

Interest income and expense are recognised in the statement of revenue and expenses for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investments and accrued discount or premium on treasury bills and other discounted instruments.

Where collection of interest income is considered doubtful, or payment is outstanding for more than 90 days, the banking regulations stipulate that interest should be taken into account on the cash basis. IFRS requires that when loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognized based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. However such amounts under IFRS are considered to be immaterial.

(e) Sale and repurchase agreements

Securities sold under agreements to repurchase (repurchase agreements) and securities purchased under agreements to resell (reverse repurchase agreements) are treated as collateralised financing transactions. The difference between the sale/purchase and repurchase/resale price is treated as interest and accrued over the life of the agreements using the effective yield method.

(f) Premium Income

Premiums are recognised as earned when due.

(g) Fee and commission income

Fee and commission income is recognised on an accrual basis. Loan origination fees, for loans which are probable of being drawn down, are recognised in the statement of revenue and expenses immediately as they are not considered material for deferral.

(h) 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, being the mid-point between the Bank of Jamaica's (the central bank) 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 expenses.

(i) Investments

Investments are classified into the following two categories: originated debts and available-for-sale securities. Management determines the appropriate classification of investments at the time of purchase.

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

Investments purchased on the secondary market, which are intended to be held for an indefinite period of time and may be sold in response to liquidity needs or changes in interest rate or exchange rate, are classified as available-for-sale. These investments are initially recognised at cost but are subsequently re-measured at fair value based on amounts derived from cash flow models. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. When securities are disposed of or impaired, the related accumulated fair value adjustments are included in the statement of revenue and expenses as gains and losses from investment securities.

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

All purchases and sales of investment securities are recognised at settlement date.

(j) Investment in subsidiaries

Investments by the Bank in subsidiaries are stated at cost.

(k) Loans and allowance for impairment losses

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

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

An allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

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. As required by statutory regulations, 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. Interest income on impaired loans has not been recognised, as they are not considered material.

Statutory and other regulatory loan loss reserve requirements that exceed these amounts are dealt with in a non-distributable loan loss reserve as an appropriation of unappropriated profits.

(l) Provisions

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

Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

(m) Fiduciary activities

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

(n) Acceptances and guarantees

The Group's potential liability under acceptances and guarantees 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.

(o) Property, plant and equipment

Land is stated at historical cost. All other property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses.

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

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

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

(p) Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities and provisions for pensions and other post retirement benefits and any allowance for impairment losses.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax related to fair value re-measurement of available-for-sale investments, which is charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the statement of revenue and expenses account together with the deferred gain or loss.

(q) Leases

(i) As Lessee

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

(ii) As Lessor

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease in a manner which reflects a constant periodic rate of return on the net investment in the lease.

(r) Pension asset and other post-retirement benefits

(i) Pension asset

The Group has established a defined benefit pension plan. The asset in respect of the defined benefit pension plan is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of plan assets, adjusted for unrecognised actuarial gains/losses and past service cost.

The defined benefit obligation is calculated annually by independent actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using interest rates on government securities which have terms to maturity approximating the terms of the related liability. The pension plan is a final salary plan and the charge representing the net periodic pension cost less employee contributions, is included in staff costs.

Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to the pension plan are charged or credited to income over the service lives of the related employees.

(ii) Other post-retirement obligations

Group companies provide post-retirement health care benefits to its retirees. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using a methodology similar to that for defined benefit pension plans. These obligations are valued annually by independent qualified actuaries.

(s) Employee share ownership plan

The Bank has an Employee Share Ownership Plan (ESOP) for certain eligible employees. The Bank currently pays all the administrative and other expenses of the Plan. The Bank provides a fixed benefit to each participant, which is linked to the number of years of service. This benefit is recorded in salaries and staff benefits expense in the statement of revenue and expenses with a corresponding accrual in expenses and other liabilities in the balance sheet.

(t) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances which mature within 90 days from the date of acquisition including cash and balances at Bank of Jamaica (excluding statutory cash reserves), amounts due from other banks, investment securities and amounts due to other banks.

(u) Comparative information

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year. In particular, comparatives have been adjusted or extended to take into account the requirements of IFRS (Note 44).

3. Segmental Financial Information

The Group is organised into three main business segments:

(a) Financial Services - This incorporates retail and corporate banking services.

(b) Investment Management Services - This includes investments and pension fund management and the administration of trust accounts.

(c) Insurance Services - This incorporates the provision of life insurance.

(d) Other operations of the Group comprise general insurance brokerage and property rental.

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

The Group's operations are located solely in Jamaica.

			2003			
	Financial Services	Investment Management Services	Insurance Services	Other	Consolidation Adjustments	Group

	$'000	$'000	$'000	$'000	$'000	$'000
External revenues	11,379,402	408,740	2,577,763	94,643		14,460,548
Revenue from other segments	8,382	6,477	-	-	(14,859)	-
	11,387,784	415,217	2,577,763	94,643	(14,859)	14,460,548
Operating expenses	(5,279,854)	(119,164)	(1,697,524)	(71,462)	14,859	(7,153,145)
Profit before tax	6,107,930	296,053	880,239	23,181	-	7,307,403
Income tax expense						(1,850,733)
Net profit						5,456,670
Segment assets	120,287,802	21,658,832	13,562,249	251,522	(7,605,518)	148,154,887
Segment liabilities	105,371,917	20,818,889	11,567,739	145,194	(7,405,228)	130,498,511
Other segment items:						
Capital expenditure	479,482	2,835	8,524	1,534	-	492,375
Depreciation	268,808	2,088	2,744	3,120	-	276,760

2002

	Financial Services $'000	Investment Management Services $'000	Insurance Services $'000	Other $'000	Consolidation Adjustments $'000	Group $'000
External revenues	8,797,855	281,539	1,459,873	72,314	-	10,611,581
Revenue from external segments	20,043	6,230	-	-	(26,273)	-
	8,817,898	287,769	1,459,873	72,314	(26,273)	10,611,581
Operating expenses	(4,070,404)	(98,329)	(1,107,312)	(53,074)	26,273	(5,302,846)
Profit before tax	4,747,494	189,440	352,561	19,240	-	5,308,735
Income tax expense						(1,438,953)
Net profit						3,869,782

Segment assets	108,994,653	18,839,031	9,489,394	215,648	(10,171,293)	127,367,433
Segment liabilities	96,565,819	18,207,338	8,369,738	127,545	(9,968,783)	113,301,657
Other segment items:						
Capital expenditure	301,290	253	2,328	1,623	-	305,494
Depreciation	235,900	1,810	1,780	2,209	-	241,699

4. Net Foreign Exchange Trading Income

Foreign exchange net trading income includes gains and losses arising from foreign currency trading activities.

5. Net Fee and Commission Income

	The Group		The Bank	
	2003 $'000	**2002 $'000**	**2003 $'000**	**2002 $'000**
Fee and commission income -				
Retail banking fees	528,593	436,696	528,593	436,696
Credit related fees	397,495	381,040	395,974	378,210
Commercial and depository fees	842,159	709,585	648,777	579,300
	1,768,247	1,527,321	1,573,344	1,394,206
Fee and commission expenses	(305,474)	(203,141)	(290,006)	(195,129)
	1,462,773	1,324,180	1,283,338	1,199,077

6. Salaries, Pension Contributions and Other Staff Benefits

	The Group		The Bank	
	2003 $'000	**2002 $'000**	**2003 $'000**	**2002 $'000**
Wages and salaries	2,812,994	2,292,818	2,559,068	2,073,425
Payroll taxes	226,076	214,475	207,133	196,434

Pension costs (Note 23)	(157,042)	(528,365)	(157,042)	(528,365)
Other post retirement benefits (Note 23)	55,583	32,040	55,583	32,040
Other staff benefits	598,879	613,185	565,562	582,450
	3,536,490	2,624,153	3,230,304	2,355,984

The number of persons employed during the year:

	The Group		The Bank	
	2003 No.	2002 No.	2003 No.	2002 No.
Full - time	1,224	1,226	1,084	1,087
Part - time	627	579	617	565
	1,851	1,805	1,701	1,652

7. Change in Policyholders' Reserve

(a) Reserve for future benefits

	The Group	
	2003 $'000	2002 $'000
Composition by line of business		
Ordinary life	11,436,851	8,318,303
Creditor life	37,732	15,160
	11,474,583	8,333,463

(b) Change in policyholders' reserves

	The Group	
	2003 $'000	2002 $'000
Policyholders' benefits payments	11,055	3,025
Interest expense	1,530,314	1,013,008

Transfer from actuarial reserves	(99,819)	(117,440)
	1,441,550	898,593

8. Profit before Taxation

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

	The Group		The Bank	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
Directors' emoluments -				
Fees	7,561	5,095	3,300	3,771
Other	35,206	20,338	29,215	20,338
Auditors' remuneration -				
Current year	11,440	9,414	8,152	5,722
Prior year	-	31	-	-
Depreciation	276,760	241,699	266,780	233,184

9. Taxation

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

	The Group		The Bank	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
Current income tax -				
Income tax at 33 1/3%	1,574,815	1,166,885	1,493,119	1,107,410
Income tax at 30%	111,563	62,784	-	-
Premium income tax at 1.5%	31,987	28,144	-	-
Investment income tax at 7.5%	56,611	20,332	-	-
Adjustment for under / (over) provision of prior year's charge	1,686	(8,731)	1,268	(34,648)
Deferred income tax (Note 22)	74,071	169,539	82,265	173,821
	1,850,733	1,438,953	1,576,652	1,246,583

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(b) Reconciliation of applicable tax charges to effective tax charge

	The Group		The Bank	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
Profit before taxation	7,307,403	5,308,735	5,695,656	4,481,711
Tax calculated at 33 1/3%	2,435,801	1,769,678	1,898,552	1,493,904
Effect of different tax regime applicable to life insurance and mortgage financing subsidiaries	(218,783)	(77,753)	-	-
Income not subject to tax - tax free investment	(337,339)	(215,479)	(309,661)	(205,991)
Expenses not deductible for tax purposes	12,921	15,159	1,214	4,296
Net effect of other charges and allowances	(41,867)	(52,652)	(13,453)	(45,626)
Income tax expense	1,850,733	1,438,953	1,576,652	1,246,583

10. Net Profit and Unappropriated Profits Attributable to Stockholders

	2003	2002
	$'000	$'000
(a) The net profit is dealt with as follows in the financial statements of:		
The Bank	4,119,004	3,235,128
The Subsidiaries	1,337,666	634,654
	5,456,670	3,869,782

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

The Bank	3,112,971	2,405,295
The Subsidiaries	3,467,236	1,860,569
	6,580,207	4,265,864

11. Earnings per Stock Unit

Basic earnings per stock unit is calculated by dividing the net profit attributable to stockholders by the weighted average number of ordinary stock units in issue during the year.

	2003	**2002**
Net profit attributable to stockholders ($'000)	5,456,670	3,869,782
Weighted average number of ordinary stock units in issue ('000)	1,463,616	1,463,616
Basic earnings per stock unit	$3.73	$2.64

12. Cash and Balances at Bank of Jamaica

(a) Statutory reserves

Cash includes $7,141,147,000 (2002: $6,442,033,000) for the Group and $7,108,187,000 (2002: $6,337,782,000) for the Bank, which is held under Section 14 (i) of the Banking Act, 1992, substantially on a non-interest-bearing basis at the regulators, the Bank of Jamaica, as a cash reserve; accordingly, it is not available for investment or other use by the Group and the Bank. This represents 9% (9% - 2002) of the Bank's prescribed liabilities.

(b) Special reserves

Effective 15 January 2003, the Bank is required by the Bank of Jamaica (BOJ) under Section 28A of the Bank of Jamaica Act, to maintain with the BOJ, a special deposit wholly in the form of cash, representing 5% of the prescribed liabilities of $2,472,150,000 at 31 October 2003. Interest at a rate of 6% per annum is earned on this reserve.

13. Amounts due from Other Banks

	The Group		The Bank	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
Items in course of collection from other banks	700,652	3,788,515	700,652	3,788,515
Placements with other banks	14,222,543	11,114,453	14,196,889	11,093,918
	14,923,195	14,902,968	14,897,541	14,882,433
Loans and advances to other banks	319,000	-	319,000	-
	15,242,195	14,902,968	15,216,541	14,882,433

14. Accounts with Parent and Fellow Subsidiaries

These represent intercompany accounts held with the parent company and fellow subsidiaries in the normal course of business.

15. Cash and Cash Equivalents

	The Group		The Bank	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
Cash and balances with Bank of Jamaica	16,623,234	16,982,874	16,589,965	16,898,004
Less: statutory reserves (Note 12)	(9,613,297)	(6,442,033)	(9,580,337)	(6,337,782)
	7,009,937	10,540,841	7,009,628	10,560,222
Government and bank notes other than Jamaica	252,824	173,046	252,824	173,046
Treasury bills	485,735	302,287	485,735	302,287
Amounts due from other banks	15,242,195	14,902,968	15,216,541	14,882,433
Accounts with parent and fellow subsidiaries	3,224,980	286,435	3,224,980	286,434

Cheques and other instruments in transit	(2,674,641)	(2,333,552)	(2,674,641)	(2,285,676)
	23,541,030	23,872,025	23,515,067	23,918,746

16. Investment Securities

	The Group		The Bank	
	2003	**2002**	**2003**	**2002**
	$'000	**$'000**	**$'000**	**$'000**
Available-for-sale				
Government of Jamaica	4,738,117	2,379,409	2,966,985	2,137,192
Other foreign government	476,870	302,287	476,870	302,287
Other	5,155	5,155	5,155	5,155
Government of Jamaica	5,220,142	2,686,851	3,449,010	2,444,634
Originated debt :				
Government of Jamaica	25,910,118	24,626,934	17,713,539	17,854,373
Other	135	135	-	-
	25,910,253	24,627,069	17,713,539	17,854,373
	31,130,395	27,313,920	21,162,549	20,299,007

The Bank of Jamaica holds as security, Government of Jamaica Local Registered Stocks valued at $908,000,000 (2002 - $456,000,000) for the Group and $880,000,000 (2002: $428,000,000) for the Bank against possible shortfalls in the operating account.

Gross gains realised on sales or maturities of available-for-sale investment securities were as follows:

	The Group		The Bank	
	2003	**2002**	**2003**	**2002**
	$'000	**$'000**	**$'000**	**$'000**
Gross gains	561	714	10,416	1,345

17. Government Securities Purchased under Resale Agreements

The Group and the Bank enter into reverse repurchase agreements collateralised by Government of Jamaica securities. These agreements may result in credit exposure in the event that the counterparty to the transaction is unable to fulfill its contractual obligations.

18. Loans, after Allowance for Impairment Losses

	The Group		The Bank	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
Business and Government	33,044,599	27,579,309	33,030,020	27,503,362
Personal and credit cards	12,908,470	10,260,963	12,908,470	10,260,963
Residential mortgages	2,754,850	2,219,102	-	-
	48,707,919	40,059,374	45,938,490	37,764,325
Less: allowance for impairment losses (Note 19)	(655,350)	(680,955)	(612,525)	(646,055)
	48,052,569	39,378,419	45,325,965	37,118,270

19. Impairment Losses for Loans

Allowance for impairment losses

	The Group		The Bank	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
Total Non-performing Loans	963,695	906,857	892,846	812,566
Provision at beginning of year	680,955	730,929	646,055	674,968
Charged against revenue during the year	86,525	97,798	76,987	98,549
Bad debts written off	(221,183)	(257,390)	(217,478)	(254,237)

Transfer of loans	-	-	-	20,052
Recoveries of bad debts	109,053	109,618	106,961	106,723
At end of year	655,350	680,955	612,525	646,055
These comprise:				
Specific provisions	357,448	437,450	319,934	407,010
General provisions	297,902	243,505	292,591	239,045
	655,350	680,955	612,525	646,055

A loan is classified as impaired if its book value exceeds the present value of the cash flows actually expected in future periods - interest payments, principal repayments as well as liquidation of collateral. Provisions for credit losses are made, on all impaired loans. Uncollected interest not accrued in these financial statements on impaired loans was estimated at $67,009,000 as at 31 October 2003 (2002 - $62,818,000) for The Bank and $73,551,000 as at 31 October (2002 - $68,792,000) for the Group.

The Bank's loan loss provisioning requirements amounted to $1,377,817,000 (2002 - $1,411,347,000). This includes the amounts required to meet the Bank of Jamaica loan loss provisioning requirement. The provisions shown in the table above represent provisions based on IAS 39 (Financial Instruments) requirements. A non-distributable loan loss reserve was established to represent the excess of the Bank's provision and the IAS 39 requirements.

20. Lease Receivables

	The Group	
	2003	**2002**
	$'000	**$'000**
Gross investment in finance leases		
Not later than one year	20,068	38,468
Later than one year and not later than five years	5,595	14,748
	25,663	53,216
Less: Unearned income	3,518	11,120
Net investment in finance leases	22,145	42,096

Net investment in finance leases may be classified as follows:

Not later than one year	16,316	32,818
Later than one year and not later than five years	5,829	9,278
	22,145	42,096

The provision for uncollectible finance lease receivables amounted to $49,000 as at 31 October 2003 (2002 - $20,599,000).

21. Property, Plant and Equipment

The Group

	Note	Freehold Land and Buildings $'000	Leasehold Improvements $'000	Furniture, Fixtures, Motor Vehicle & Equipment $'000	Capital Work-In-Progress $'000	Total $'000
At Cost -						
1 November 2002 as previously reported		1,627,004	86,476	1,706,302	47,855	3,467,637
Effects of adopting IAS 16	44	(499,522)	-	-	-	(499,522)
As restated		1,127,482	86,476	1,706,302	47,855	2,968,115
Additions		27,589	2,644	148,886	313,256	492,375
Disposals		(4,173)	-	(4,743)	-	(8,916)
Transfers		32,970	5,905	160,066	(198,941)	
Write-offs		-	-	-	(14,044)	(14,044)
31 October 2003		1,183,868	95,025	2,010,511	148,126	3,437,530
Depreciation -						
1 November 2002 as previously reported		192,618	49,822	1,000,204	-	1,242,644
Effects of adopting IAS 16	44	(71,820)	-	-	-	(71,820)
As restated		120,798	49,822	1,000,204	-	1,170,824
Charge for the year		25,000	8,429	243,331		276,760
On disposals		-	-	(3,655)	-	(3,655)
31 October 2003		145,798	58,251	1,239,880	-	1,443,929

Net Book Value -					
31 October 2003	1,038,070	36,774	770,631	148,126	1,993,601
31 October 2002	1,006,684	36,654	706,098	47,855	1,797,291

The Bank

	Note	Freehold Land and Buildings $'000	Leasehold Improvements $'000	Furniture, Fixtures, Motor Vehicle & Equipment $'000	Capital Work-In-Progress $'000	Total $'000
At Cost -						
1 November 2002 as previously reported		1,550,111	86,091	1,651,022	47,046	3,334,270
Effects of adopting IAS 16	44	(475,312)	-	-	-	(475,312)
As restated		1,074,799	86,091	1,651,022	47,046	2,858,958
Additions		27,307	2,644	132,492	313,256	475,699
Disposals		(4,173)	-	(4,237)	-	(8,410)
Transfers		32,970	5,905	160,066	(198,941)	-
Write-offs		-	-	-	(14,044)	(14,044)
31 October 2003		1,130,903	94,640	1,939,343	147,317	3,312,203
Depreciation -						
1 November 2002 as previously reported		178,500	49,588	963,937	-	1,192,025
Effects of adopting IAS 16	44	(66,456)	-	-	-	(66,456)
As restated		112,044	49,588	963,937	-	1,125,569
Charge for the year		23,756	8,429	234,595		266,780
On disposals		-	-	(3,367)	-	(3,367)
31 October 2003		135,800	58,017	1,195,165	-	1,388,982
Net Book Value -						
31 October 2003		995,103	36,623	744,178	147,317	1,923,221

31 October 2002	962,755	36,503	687,085	47,046	1,733,389

22. Deferred Income Taxes

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of:

- 30% for The Scotia Jamaica Building Society;
- 7.5% for Scotia Jamaica Life Insurance Company Limited and
- 33 1/3% for the Bank and all other subsidiaries.

The movement on the deferred tax income tax account is as follows:

	The Group		**The Bank**	
	2003	**2002**	**2003**	**2002**
	$'000	**$'000**	**$'000**	**$'000**
Balance as at 1 November	(952,488)	(786,994)	(942,940)	(773,262)
Charged to statement of revenue and expenses	(74,071)	(169,539)	(82,265)	(173,821)
Available-for-sale investments				
- fair value re-measurement	35,171	3,847	34,598	3,695
- transfer to net profit	187	238	3,472	448
Other differences	(2,851)	-	(2,545)	-
Balance as at 31 October	(994,052)	(952,448)	(989,680)	(942,940)

Deferred income tax assets and liabilities are attributable to the following items:

	The Group		**The Bank**	
	2003	**2002**	**2003**	**2002**
	$'000	**$'000**	**$'000**	**$'000**

Deferred income tax assets				
Pensions and other post retirement benefits	75,849	63,411	75,849	63,411
Impairment losses on loans	9,031	6,015	-	-
Available-for-sale investments	31,324	-	27,259	-
	116,204	69,426	103,108	63,411
Deferred income tax liabilities				
Pensions and other post retirement benefits	992,078	916,399	992,078	916,399
Accelerated tax depreciation	76,285	62,765	73,244	60,068
Available-for-sale investments	6,913	10,947	-	10,810
Allowance for loan impairment	28,697	25,689	27,466	19,074
Other temporary differences	6,283	6,074	-	-
	1,110,256	1,021,874	1,092,788	1,006,351

The deferred tax charge in the statement of revenue and expenses comprises the following temporary differences:

	The Group		**The Bank**	
	2003	**2002**	**2003**	**2002**
	$'000	**$'000**	**$'000**	**$'000**
Accelerated tax depreciation	13,519	(4,007)	13,176	(5,432)
Pensions and other post-retirement benefits	60,696	188,517	60,696	188,517
Allowance for loan impairment	(144)	(17,118)	8,393	(9,264)
Other temporary differences	-	2,147	-	-
	74,071	169,539	82,265	173,821

Deferred income tax liabilities have not been established for the withholding tax and other taxes that would be payable on the unappropriated profits of subsidiaries, as such amounts are permanently reinvested; such unappropriated profits totalled $3,467,236,000 at 31 October 2003 (2002 - $1,860,569,000).

23. Retirement Benefit Asset

Amounts recognised in the balance sheet:

	The Group and The Bank	
	2003	2002
	$'000	$'000
Pension scheme	2,977,805	2,749,198
Other post retirement benefits	(235,183)	(190,232)
	2,742,622	2,558,966

(a) Pension Scheme

The Group has established a pension scheme covering all permanent employees. The pension scheme is a final salary (the average of the best three consecutive years remuneration, with no salary cap) defined benefit plan and is fully funded. The assets of the plan are held independently of the Group's assets in a separate trustee fund. The scheme is valued by independent actuaries annually using the Projected Unit Credit Method. The latest actuarial valuation was carried out as at 31 July 2003.

The amounts recognised in the balance sheet are determined as follows:

	The Group and The Bank	
	2003	2002
	$'000	$'000
Present value of funded obligations	2,415,022	2,617,040
Fair value of plan assets	(9,529,737)	(8,198,615)
Unrecognised actuarial losses	1,541,925	533,290
	(5,572,790)	(5,048,285)
Limitation on recognition of surplus due to uncertainty of obtaining future benefits	2,594,985	2,299,087
Asset in the balance sheet	(2,977,805)	(2,749,198)

Pension plan assets include the Bank's ordinary stock units with a fair value of $734,391,000

(2002 $630,790,000).

The amounts recognised in the statement of revenue and expenses are as follows:

	The Group and The Bank	
	2003	**2002**
	$'000	**$'000**
Current service cost, net of employee contributions	(5,150)	21,273
Interest cost	336,100	279,681
Expected return on plan assets	(783,890)	(649,323)
Losses / (gains) on curtailment	295,898	(179,996)
Included in staff costs	(157,042)	(528,365)

The actual return on plan assets was $1,225,400,000 (2002: $1,323,256,000).

Movement in the asset recognised in the balance sheet:

	The Group and The Bank	
	2003	**2002**
	$'000	**$'000**
At 1 November	(2,749,198)	(2,159,108)
Total income	(157,042)	(528,365)
Contributions paid	(71,565)	(61,725)
At 31 October	(2,977,805)	(2,749,198)

The principal actuarial assumptions used were as follows:

	The Group and The Bank	
	2003	**2002**
Discount rate	16.0%	12.5%
Expected return on plan assets	10.5%	9.5%

Future salaries increases	9.5%	8.0%
Future pension increases	6.5%	3.5%

(b) Other Post-Retirement Benefits

In addition to pension benefits, the Bank offers retiree medical and life insurance benefits that contribute to the health care and life insurance coverage of employees and beneficiaries after retirement. The method of accounting and frequency of valuations are similar to those used for defined benefit pension scheme.

In addition to the assumptions used for the pension scheme, the main actuarial assumption is a long-term increase in health costs of 10% per year (2002 - 8.5%).

The amounts recognised in the balance sheet are as follows:

	The Group and The Bank	
	2003	**2002**
	$'000	**$'000**
Present value of unfunded obligations	146,806	182,142
Unrecognised actuarial losses	88,377	8,090
Liability in the balance sheet	235,183	190,232

The amounts recognised in the statement of revenue and expenses are as follows:

	The Group and The Bank	
	2003	**2002**
	$'000	**$'000**
Current service cost	18,999	10,486
Interest cost	36,584	21,554
Total included in staff costs	55,583	32,040

Movements in the amounts recognised in the balance sheet:

Liability at beginning of year	190,232	165,692
Total expense, as above	55,583	32,040
Contributions paid	(10,632)	(7,500)
Liability at end of year	235,183	190,232

24. Other Assets

	The Group		The Bank	
	2003	**2002**	**2003**	**2002**
	$'000	**$'000**	**$'000**	**$'000**
Accounts receivable and prepayments	109,288	48,532	64,628	8,621
Withholding tax recoverable	877,910	482,931	428,090	292,915
Interest receivable	4,629,846	3,567,614	2,010,337	2,460,143
Other	931,735	63,777	969,866	62,262
	6,548,779	4,162,854	3,472,921	2,823,941

25. Deposits by the Public

	The Group		The Bank	
	2003	**2002**	**2003**	**2002**
	$'000	**$'000**	**$'000**	**$'000**
Personal	51,899,402	47,966,199	48,623,416	43,521,813
Other	35,167,930	28,981,409	35,167,931	28,981,408
	87,067,332	76,947,608	83,791,347	72,503,221

26. Amounts due to Other Banks and Financial Institutions

These represent deposits from other banks and financial institutions in the normal course of business.

27. Amounts due to Subsidiaries

These represent accounts held by subsidiaries in the normal course of business.

28. Due to Parent Company

	The Group and The Bank	
	2003	2002
	$'000	$'000
Facility 1	605,572	621,494
Facility 11	2,109,955	1,234,420
	2,715,527	1,855,914

(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 + 1 %.

(ii) Facility 1l is a US$ denominated fifteen (15) year non-revolving loan from the parent company, for on-lending. The repayment of the principal commenced 31 December 2002 and is subject to an interest rate of LIBOR + 1 %. To date, The Bank has drawn down US$35 million of this facility.

29. Other Liabilities

	The Group		The Bank	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
Interest payable	1,605,770	765,267	233,928	290,987
Provisions (Note 30)	103,245	39,983	100,565	35,673
Withholding tax payable	270,454	244,412	208,216	171,842
Accrued liabilities	466,548	359,433	364,606	340,201
Prepaid letters of credit	179,341	126,485	179,341	126,485
Other	154,132	2,229,679	111,419	2,143,650
	2,779,490	3,765,259	1,198,075	3,108,838

30. Provisions

	The Group		The Bank	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
At beginning of year	39,983	38,790	35,673	34,609
Provided during the year	270,229	121,406	264,315	110,733
Utilised during the year	(206,967)	(120,213)	(199,423)	(109,669)
At end of year	103,245	39,983	100,565	35,673
Comprising:				
Provision for 2002	-	39,983	-	35,673
Provision for 2003	103,245		100,565	-
	103,245	39,983	100,565	35,673

The above provisions represent accrued vacation and redundancy.

31. Share Capital

	Number of Units $'000	Total $'000
At 31 October 2002	1,463,616	1,463,616
At 31 October 2003	1,463,616	1,463,616

The total authorised number of ordinary shares at year end was 1,500 million shares (2002: 1,500 million shares) with a par value of $1 per share (2002: $1 per share). All issued shares are fully paid.

32. Reserve Fund

As required by the relevant Acts, the Group makes transfers of a minimum of 15% or 10% of net profit, depending on the circumstances, to the reserve fund. All members of the Group have attained the required statutory levels.

During the year, one of the Bank's subsidiaries relinquished its licence under the Financial Institution Act to the Bank of Jamaica. Accordingly, the amount in the reserve fund has been transferred to unappropriated profits.

33. 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. Any re-transfer must be approved by the Bank of Jamaica.

34. Cumulative Remeasurement Result from Available-For-Sale Financial Assets

This represents the unrealised surplus or deficit on the revaluation of available-for-sale investments.

35. Loan Loss Reserve

This is a non-distributable loan loss reserve which represents the excess of the loan loss provision over IAS 39 requirements.

36. Other Reserves

	The Group		**The Bank**	
	2003	**2002**	**2003**	**2002**
	$'000	**$'000**	**$'000**	**$'000**
Opening and closing balance:				
Capital reserve arising on consolidation, net	67	67	-	-
Reserves of subsidiary capitalised through bonus issue of shares	16,548	16,548	-	-
General reserve	10,099	10,099	-	-
	26,714	26,714	-	-

37. Financial Risk Management

(a) Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market price is used to determine fair value where an active market exists as it is the best evidence of the fair value of a financial instrument. However, market prices are not available for a significant number of the financial assets and liabilities held and issued by the Group. Therefore, for financial instruments where no market price is available, the fair values presented have been estimated using present value or other estimation and valuation techniques based on market conditions existing at balance sheet dates.

The values derived from applying these techniques are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates. The following methods and assumptions have been used:

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

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

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

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

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

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

(a) Fair value

	The Group			
	Carrying Value 2003 $'000	**Fair Value 2003 $'000**	**Carrying Value 2002 $'000**	**Fair Value 2002 $'000**
Financial Assets				
Investment securities				
- originated debts	25,910,253	25,604,898	24,627,069	24,664,657
Financial Liabilities				
Deposits by the public	91,314,603	91,320,449	80,136,990	80,120,885
	==========	==========	==========	==========

	The Bank			
	Carrying Value 2003 $'000	**Fair Value 2003 $'000**	**Carrying Value 2002 $'000**	**Fair Value 2002 $'000**
Financial Assets				
Investment securities				
- originated debts	17,713,539	17,539,640	17,854,373	17,888,446
Investment in subsidiaries	258,238	40,883,778	264,238	34,793,576
Financial Liabilities				
Deposits by the public	88,080,060	88,101,209	75,712,691	72,711,887
	==========	==========	==========	==========

(b) Interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The management sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

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

	The Group 2003						
	Immediately rate sensitive	**Within 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Non rate sensitive**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash resources	5,311,698	17,828,140	4,643,675	-	-	7,559,720	35,343,233
Investment securities							
Available-for-sale	-	234,604	953,472	4,026,911	-	5,155	5,220,142
Originated debts	1,847	11,856,046	9,105,138	4,843,215	103,872	135	25,910,253
Securities purchased under resale agreements	108,031	4,561,745	12,579,253	-	-	-	17,249,029
Loans (3)	11,164,447	20,160,922	3,299,468	10,539,078	2,582,184	306,470	48,052,569

Lease receivables (4)	22,145	-	-	-	-	-	22,145
Other assets	-	-	-	-	-	16,357,516	16,357,516
Total assets	16,608,168	54,641,457	30,581,006	19,409,204	2,686,056	24,228,996	148,154,887
Deposits	71,942,791	12,369,196	2,699,533	3,316,148	86,935	-	91,314,603
Securities sold under repurchase agreements	123,734	6,817,756	8,351,506	-	-	-	15,292,996
Other liabilities	-	-	-	-	-	12,416,329	12,416,329
Policyholders' fund	4,960,566	962,629	6,101,373	-	-	(549,985)	11,474,583
Shareholders' equity	-	-	-	-	-	17,656,376	17,656,376
Total liabilities and shareholders'equity	77,027,091	20,149,581	17,152,412	3,316,148	986,935	29,522,720	148,154,887
Total interest rate sensitivity gap	(60,418,923)	34,491,876	13,428,594	16,093,056	1,699,121	(5,293,724)	-
Cumulative gap	(60,418,923)	(25,927,047)	(12,498,453)	3,594,603	5,293,724	-	-

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2002

Total interest rate sensitivity gap	(43,427,218)	34,007,279	6,264,015	15,060,804	1,330,718	(13,235,598)	-
Cumulative gap	(43,427,218)	(9,419,939)	(3,155,924)	11,904,880	13,235,598	-	-

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	The Bank 2003						
	Immediately rate sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years5	Over Years	Non rate sensitive	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash resources	5,311,232	17,820,565	4,625,597	-	-	7,526,916	35,284,310
Investment securities (2)							
-Available-for-sale	-	173,929	385,365	2,884,561	-	5,155(5)	3,449,010
-Originated debts	-	9,554,914	6,126,302	2,026,181	6,142	-	17,713,539
Investment in subsidiaries	-	-	-	-	-	258,238	258,238
Securities purchased under resale agreements	-	42,466	-	-	-	-	42,466
Loans (3)	11,145,998	17,993,867	3,259,613	10,477,075	2,169,800	279,612	45,325,965
Other assets (4)	-	-	-	-	-	12,815,213	12,815,213
Total assets	16,457,230	45,585,741	14,396,877	15,387,817	2,175,942	20,885,134	114,888,741

Deposits	71,207,178	10,347,745	2,312,528	3,297,620	914,989	-	88,080,060
Securities sold under repurchase agreements	-	2,921,373	179,372	-	-	-	3,100,745
Other liabilities	-	-	-	-	-	10,292,571	10,292,571
Shareholders' equity	-	-	-	-	-	13,415,365	13,415,365
Total liabilities and shareholders' equity	71,207,178	13,269,118	2,491,900	3,297,620	914,989	23,707,936	114,888,741
Total interest rate sensitivity gap	(54,749,948)	32,316,623	11,904,977	12,090,197	1,260,953	(2,822,802)	-
Cumulative gap	(54,749,948)	(22,433,325)	(10,528,348)	1,561,849	2,822,802	-	-

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2002

Total interest rate sensitivity gap	(39,546,475)	30,442,211	6,568,345	13,000,261	859,343	(11,323,685)	-
Cumulative gap	(39,546,475)	(9,104,264)	(2,535,919)	10,464,342	11,323,685	-	-

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(1) This represents those financial instruments wbose 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 equity investments.

(3) This includes impaired loans.

(4) This includes non-financial instruments.

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

The Group
2003

	Immediately rate sensitive	**Within 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Average**
	%	%	%	%	%	%
Cash resources (4)	0.02	10.96	28.17	-	-	9.23
Investment securities (1)						
Available-for-sale	-	16.95	21.62	16.50	-	17.44
Originated debts	25.02	28.31	22.78	14.07	17.07	23.66
Securities purchased under resale agreements	22.27	23.75	30.93	-	-	28.98
Loans (2)	22.70	29.68	25.89	22.32	10.99	25.07
Lease receivables	27.32	-	-	-	-	27.32
Deposits (3)	6.69	10.46	11.18	9.03	9.63	7.45
Securities sold under repurchase agreement(2)	18.88	21.86	30.19	-	-	26.38
Policyholders' reserve	18.81	14.00	20.49	-	-	20.20

The Bank

	%	%	%	%	%	%
Cash resources (4)	0.02	10.96	28.28	-	-	9.25
Investment securities (1)						
Available-for-sale	-	12.71	4.25	11.54	-	10.77
Originated debts	-	28.00	22.36	1.24	18.00	22.98

Securities purchased under resale agreements	-	21.09	-	-	-	21.09
Loans (1)	22.72	31.09	26.03	22.38	10.87	25.58
Deposits (3)	6.64	10.09	10.29	9.03	9.69	7.26
Securities sold under repurchase agreements (2)	-	21.51	36.00	-	-	22.35

The Group

2002

	Immediately rate sensitive	**Within 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Average**
	%	%	%	%	%	%
Cash resources (4)	1.65	11.42	6.48	-	-	6.27
Investment securities (1)						
Available-for-sale	-	9.52	12.89	-	-	11.16
Originated debts	19.88	17.93	17.12	14.12	13.76	15.96
Securities purchased under resale agreements	19.15	17.72	16.67	17.56	14.25	17.45
Loans (2)	17.41	19.23	19.73	19.86	11.00	18.57
Lease receivables	24.27	-	-	-	-	24.27
Deposits (3)	6.39	8.58	7.71	7.82	7.33	5.97
Securities sold under repurchase agreements (2)	18.63	17.06	16.20	-	-	16.95
Policyholders' reserve	13.00	14.87	14.03	-	-	14.47

The Bank

	%	%	%	%	%	%
Cash resources (4)	1.65	11.44	6.48	-	-	6.29
Investment securities (1)						

Available-for-sale	-	9.48	11.82	-	-	10.51
Originated debts	-	18.54	17.02	13.15	5.50	15.51
Securities purchased under resale agreements	19.50	18.50	-	-	-	18.53
Loans (2)	17.37	19.32	19.85	19.95	10.77	18.63
Deposits (3)	6.31	7.34	6.63	7.82	7.33	5.64
Securities sold under repurchase agreements (2)	19.90	17.61	18.65	-	-	17.78

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

(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 Group and the Bank take on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk is inherent in traditional banking products - loans, commitments to lend, and contracts to support counterparties' obligations to third parties such as letters of credit. Positions in tradeable assets such as bonds also carry credit risk.

The Group and the Bank structure the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product and industry sector are approved quarterly by the management.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures. Actual exposures against limits are monitored daily. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. Other than exposure on Government of Jamaica securities, there is no significant concentration of liquid funds.

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

The Group

	Loans and Leases	**Acceptances, Guarantees and Letters of Credit**	**Total 2003**	**Total 2002**
	$'000	**$'000**	**$'000**	**$'000**
Agriculture, fishing and mining	1,403,465	212,156	1,615,621	1,421,125
Construction and real estate	2,230,935	134,083	2,365,018	1,241,835
Distribution	2,567,172	685,990	3,253,162	2,177,935
Financial institutions	96,146	87,735	183,881	185,541
Government and public entities	18,286,115	2,581,065	20,867,180	21,374,789
Manufacturing	1,621,423	95,205	1,716,628	1,504,950
Personal	15,614,063	792,861	16,406,924	12,964,663
Professional and other services	1,626,724	79,306	1,706,030	1,402,839
Tourism and entertainment	5,284,021	52,726	5,336,747	3,216,036
Total	48,730,064	4,721,127	53,451,191	45,489,713
General provision			(297,902)	(243,505)
			55,153,289	45,246,208

The Bank

	Loans and Leases	Acceptances, Guarantees and Letters of Credit	Total 2003	Total 2002
	$'000	$'000	$'000	$'000
Agriculture, fishing and mining	1,403,465	212,156	1,615,621	1,421,125
Construction and real estate	2,213,405	134,083	2,347,488	1,250,197
Distribution	2,565,065	685,990	3,251,055	2,157,363
Financial institutions	113,574	87,735	201,309	185,541
Government and public entities	18,282,065	2,581,066	20,863,131	21,354,253
Manufacturing and other activities	1,613,795	95,205	1,709,000	1,586,087
Personal	12,863,263	409,892	13,273,155	10,362,115
Professional and other services	1,599,837	79,305	1,679,142	1,214,036
Tourism and entertainment	5,284,021	52,726	5,336,747	3,216,036
Total	45,938,490	4,338,158	50,276,648	42,746,753
General provision			(292,591)	(239,045)
			49,984,057	42,507,708

(d) Currency risk

The Group and the Bank take on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. 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.

The following were the foreign currency spot positions as at 31 October 2003:

	The Group 2003	The Bank 2003
	$'000	$'000
United States dollar	2,863	1,977

Canadian dollar	878	878
Pound Sterling	67	41
	==========	=========

(e) Liquidity risk

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

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

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group and the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

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

The Group

2003

	Within 3 Months $'000	**3 to 12 Months $'000**	**1 to 5 Years $'000**	**Over 5 Years $'000**	**No specific maturity $'000**	**Total $'000**
Cash resources	30,699,557	4,643,676	-	-	-	35,343,233

Investments securities						
Available-for-sale	173,929	953,472	4,087,586	-	5,155	5,220,142
Originated debts	2,444,486	9,207,363	13,554,397	703,872	135	25,910,253
Securities purchased under resale agreements	4,669,776	12,579,253	-	-	-	17,249,029
Loans	11,688,391	8,237,318	23,207,423	4,919,437	-	48,052,569
Lease receivables	5,990	11,904	4,251	-	-	22,145
Other assets	4,840,418	3,167,844	3,007,208	222,345	5,119,701	16,357,516
Total assets	54,522,547	38,800,830	43,860,865	5,845,654	5,124,991	148,154,887
Deposits	81,644,618	2,870,438	5,529,380	1,270,167	-	91,314,603
Securities sold under repurchase agreements	6,941,490	8,351,506	-	-	-	15,292,996
Other liabilities	5,729,948	2,520,086	2,634,510	218,743	1,313,042	12,416,329
Policyholders' reserve	-	11,474,583	-	-	-	11,474,583
Shareholders' equity	-	-	-	-	17,656,376	17,656,376
Total liabilities and shareholders' equity	94,316,056	25,216,613	8,163,890	1,488,910	18,969,418	148,154,887
Total liquidity gap	(39,793,509)	13,584,217	35,696,975	4,356,744	(13,844,427)	-
Cumulative gap	(39,793,509)	(26,209,292)	9,487,683	13,844,427	-	-

2002

Total liquidity gap	(31,434,824)	8,927,762	29,985,283	3,315,378	(10,793,599)	-
Cumulative gap	(31,434,824)	(22,507,062)	7,478,221	10,793,599	-	-

The Bank

2003

	Within 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	No specific maturity $'000	Total $'000
Cash resources	30,658,713	4,625,597	-	-	-	35,284,310
Investment securities						
Available-for-sale	173,929	385,365	2,884,561	-	5,155	3,449,010
Originated debts	2,351,085	7,312,247	7,444,065	606,142	-	17,713,539
Subsidiary companies	-	-	-	-	258,238	258,238
Securities purchased under resale agreements	42,466	-	-	-	-	42,466
Loans	11,639,358	8,159,595	22,747,042	22,779,970	-	45,325,965
Other assets	3,660,345	1,269,535	2,634,510	218,743	5,032,080	12,815,213
Total assets	48,525,896	21,752,339	35,710,178	3,604,855	5,295,473	114,888,741
Deposits	78,887,578	2,482,863	5,511,397	1,198,222	-	88,080,060
Securities sold under repurchase agreements	2,921,373	179,372	-	-	-	3,100,745
Other liabilities	4,834,768	1,308,943	2,634,510	218,743	1,295,607	10,292,571
Shareholders' equity	-	-	-	-	13,415,365	13,415,365
Total liabilities and shareholders' equity	86,643,719	3,971,178	8,145,907	1,416,965	14,710,972	114,888,741
Total liquidity gap	(38,117,823)	17,781,161	27,564,271	2,187,890	(9,415,499)	-
Cumulative gap	(38,117,823)	(20,336,662)	7,227,609	9,415,499	-	-

2002

Total liquidity gap	(32,548,702)	13,514,167	25,444,731	1,314,355	(7,724,551)	-
Cumulative gap	(32,548,702)	(19,034,535)	6,410,196	7,724,551	-	-

< Market>

Market risk is the risk that the value of the financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security, its issuer or factors affecting all securities traded in the market. The Group and the Bank manages its risk through the Assets and Liabilities Committee which carries out extensive research and monitors the price movement of securities on the local and international market.

(g) Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount.

The Group and the Bank manages this risk by ensuring, as far as possible, that financial assets and liabilities are matched to mitigate any significant adverse cash flows.

38. Commitments

	The Group		The Bank	
	2003	**2002**	**2003**	**2002**
Capital expenditure:				
Authorised and not contracted for	90,000	-	90,000	-
	========	========	========	========

39. Pledged Assets

Assets are pledged as collateral under repurchase agreements with counterparties. In addition, mandatory reserve deposits are also held by the BOJ in accordance with statutory requirements. These deposits are not available to finance the Group's and the Bank's day-to-day operations.

The Group

	Asset		Related Liability	
	2003	**2002**	**2003**	**2002**
	$'000	**$'000**	**$'000**	**$'000**

Statutory reserves at Bank of Jamaica (Note 12)	9,613,297	6,442,033	-	-
Securities sold under repurchase agreements	3,637,000	4,700,000	3,100,746	3,720,601
Investment securities (Note 16)	908,000	456,000	-	-
	14,158,297	11,598,033	3,100,746	3,720,601

	The Bank			
	Asset		Related Liability	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
Statutory reserves at Bank of Jamaica (Note 12)	9,580,337	6,337,782	-	-
Securities sold under repurchase agreements	3,637,000	4,700,000	3,100,746	3,720,601
Investment securities (Note 16)	880,000	428,000	-	-
	14,097,337	11,465,782	3,100,746	3,720,601

40. Fiduciary Activities

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. At the balance sheet date, the Group had investment custody accounts amounting to approximately $19,927,020,000 (2002 - $18,487,560,000).

41. Related Party Transactions and Balances

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

	The Group		The Bank	
	2003	**2002**	**2003**	**2002**
	$'000	**$'000**	**$'000**	**$000**
Interest earned	282,640	164,995	282,640	164,995
Interest paid	161,185	155,996	160,462	155,089
Other income	32,780	81,904	32,660	81,904
Other fees	97,618	71,058	86,969	53,666
	=========	=========	=========	=========

Year-end balances with related parties are as follows:

	The Group		The Bank	
	2003	**2002**	**2003**	**2002**
	$'000	**$'000**	**$'000**	**$000**
Loans outstanding	5,841,632	3,337,637	5,825,547	3,337,637
Deposits	8,623,527	5,626,182	8,619,662	5,616,686
	===========	===========	===========	===========

No provisions have been recognised in respect of loans given to related parties.

Certain loans to related parties are secured by a guarantee from the parent company.

42. Litigation and Contingent Liabilities

(a) The Bank and its subsidiaries are subject to various claims, disputes and legal proceedings, in the normal course of business. Provision is made for such matters when, in the opinion of management and its legal counsel, it is probable that a payment will be made by the Group, and the amount can be reasonably estimated.

In respect of claims asserted against the Group which have not been provided for, management is of the opinion that such claims are either without merit, can be successfully defended or will result in exposure to the Group which is immaterial to both financial position and results of operations.

(b) 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 Scotia Jamaica Investment Management Limited (formerly Scotiabank Jamaica Trust and Merchant Bank Limited). Legal opinion has been obtained which states that the Company has a strong defence to the claim. Consequently, no provision has been made for this amount in these financial statements.

43. Dividends Per Share

Interim dividends are not recorded as liabilities until they have been ratified at the quarterly board meeting. At the meeting on 27 November 2003, a dividend in respect of 2003 of $0.78 per share (2002 : actual dividend $0.305 per share) amounting to a total of $1,141,620,000 (2002 - $446,403,000) is to be proposed.

44. Financial Effects of Adopting International Financial Reporting Standards

The Group adopted International Financial Reporting Standards effective 1 November 2002. Prior to that date, the financial statements of the Group and the Bank were prepared in accordance with Jamaican Generally Accepted Accounting Principles (JGAAP). The financial statements for the years ended 31 October 2001 and 31 October 2002 (the immediately preceding comparative period) have been restated to reflect the financial position and results under IFRS. The financial effects of conversion from Jamaican GAAP to IFRS are set out as follows:

(i) Effect on stockholders' equity as at 1 November 2001:

		The Group	
	Previous JGAAP	Effect of Transition to IFRS	IFRS
	$'000	$'000	$'000

ASSETS			
Cash resources	26,243,545	-	26,243,545
Investment securities (a)	25,569,583	30,782	25,600,365
Government securities purchased under resale agreements	14,715,189	-	14,715,189
Loans, after allance for impairment losses (b)	25,253,014	844,574	26,097,588
Lease receivable	58,547	-	58,547
Other assets (c),(d),(e)	8,125,136	1,723,602	9,848,738
Total Assets	99,965,014	2,598,958	102,563,972
LIABILITIES			
Deposits	69,726,680	-	69,726,680
Other liabilities (d),(e),(f),(g)	14,303,410	821,980	15,125,390
Policyholders' fund	5,831,100	-	5,831,100
STOCKHOLDERS' EQUITY (a),(b),(c),(f)	10,103,824	1,776,978	11,880,802
	99,965,014	2,598,958	102,563,972

(ii) Effect on stockholders' equity as at 1 November 2001:

The Bank

	Previous JGAAP $'000	**Effect of Transition to IFRS $'000**	**IFRS $'000**
ASSETS			
Cash resources	26,143,873	-	26,143,873
Investment securities (a)	19,609,158	41,136	19,650,294
Investments in subsidiaries	264,238	-	264,238
Government securities purchased under resale agreements	3,719,000	-	3,719,000
Loans, after allowance for impairment losses (b)	23,089,328	782,790	23,872,118

Other assets (c),(d),(e)	6,248,492	1,743,050	7,991,542
Total Assets	79,074,089	2,566,976	81,641,065
LIABILITIES			
Deposits	65,911,246	-	65,911,246
Other liabilities (d),(e),(f),(g)	5,258,573	802,729	6,061,302
STOCKHOLDERS' EQUITY (a),(b),(c),(f)	7,904,270	1,764,247	9,668,517
	79,074,089	2,566,976	81,641,065

(iii) Effect on stockholders' equity as at 31 October 2002:

	The Group		
	Previous JGAAP $'000	**Effect of Transition to IFRS $'000**	**IFRS $'000**
ASSETS			
Cash resources	32,345,323	-	32,345,323
s securities (a)	27,297,566	16,354	27,313,920
Government securities purchased under resale agreements	14,120,663	-	14,120,663
Loans, after allowance for impairment losses (a)	38,588,078	790,341	39,378,419
Lease receivables	42,096	-	42,096
Other assets (c),(d),(e)	12,014,582	2,152,430	14,167,012
Total Assets	124,408,308	2,959,125	127,367,433
LIABILITIES			
Deposits	80,136,990	-	80,136,990
Other liabilities(d),(e),(f),(g)	24,033,314	797,890	24,831,204
Policyholders' funds	8,333,463	-	8,333,463
STOCKHOLDERS' EQUITY (a),(b),(c),(f)	11,904,541	2,161,235	14,065,776
	124,408,308	2,959,125	127,367,433

(iv) Effect on stockholders' equity as at 31 October 2002:

	Previous JGAAP $'000	Effect of Transition to IFRS $'000	IFRS $000
ASSETS			
Cash resources	32,239,917	-	32,239,917
Investment securities	20,267,347	31,660	20,299,007
Investments in securities	264,238	-	264,238
Government securities purchased under resale agreement	471,145	-	471,145
Loans, after allowance for impairment losses	36,369,161	749,109	37,118,270
Other assets (c),(d),(e)	10,179,446	2,172,921	12,352,367
Total Assets	99,791,254	2,953,690	102,744,944
LIABILITIES			
Deposits	75,712,691	-	75,712,691
Other liabilities (d),(e),(f),(g)	15,007,787	785,853	15,793,640
STOCKHOLDERS' EQUITY (a),(b),(c),(g)	9,070,776	2,167,837	11,238,613
	99,791,254	2,953,690	102,744,944

(v) Reconciliation of net profit at 31 October 2002

	Previous JGAAP $'000	The Group Effect of Transition to IFRS $'000	IFRS $000
Net Interest Income and Other Revenue	10,342,105	171,678	10,513,783
Expenses	5,600,569	(395,521)	5,205,048
Profit before Taxation	4,741,536	567,199	5,308,735
Taxation	1,257,660	181,293	1,438,953
Net Profit	3,483,876	385,906	3,869,782

The Bank

	Previous JGAAP $'000	Effect of Transition to IFRS $'000	IFRS $'000
Net Interest Income and Other Revenue	8,199,273	177,004	8,376,277
Expenses	4,289,732	(395,166)	3,894,566
Profit before Taxation	3,909,541	572,170	4,481,711
Taxation	1,059,876	186,707	1,246,583
Net Profit	2,849,665	385,463	3,235,128

Brief descriptions of each item of difference:

(a) Financial assets classified as originated loans and available-for-sale under IFRS are carried at their amortised cost and fair values respectively. Originated loans are carried at their amortised cost using the effective yield method. The unrealised gains/losses as a result of the re-measurement of the available-for-sale investments to fair value are recognised in the cumulative re-measurement result from available-for-sale financial assets.

(b) A loan loss reserve was established to represent the difference in the loan loss provision between IAS 39 requirements and the Bank of Jamaica regulatory requirements loan loss provision which amounted to for the Group $806,524,000 (2001 - $844,574,000) and the Bank $765,292,000 (2001- $782,490,000).

(c) Assets are carried at historical cost less depreciation and impairment losses. As a result, assets previously carried at revalued amounts are restated to their original cost. Net adjustments amounted to for the Group $427,702,000 (2001 - $435,506,000) and the Bank $408,856,000 (2001 - $416,058,000).

(d) Provision for deferred tax is now made in full using the liability method. Deferred tax was recognised as a result of re-measurement of available-for-sale securities, loan loss provision, pension and post-retirement benefits and accelerated tax depreciation, which amounted to for the Group $1,201,399,000 (2001- $1,020,106,000) and the Bank $1,192,029,000 (2001 - $1,005,321,000).

(e) Provision for pension obligations, which was not required under previous Jamaican GAAP, is now made in full. The provision for pension obligations is determined by independent actuaries using the Projected Unit Credit Method. The amount recognised in the balance sheet for the Group's and the Bank's pension scheme and post requirement obligations based on the latest actuarial valuation were $2,749,198,000 (2001 - $2,159,108,000) and $190,232,000 (2001 - $165,292,000 respectively for the Bank and the Group.

(f) IAS 10 determines when an enterprise should adjust its financial statements for events after the balance sheet date. Where dividends to holders of equity shares are proposed or declared after the balance sheet date, an enterprise should not recognise those dividends as a liability at the balance date. Accordingly, dividend payable for the year ended 31 October 2002 $446,403,000 (2001 - $402,494,000) have been reclassified and shown as proposed dividends as a separate component of stockholders' equity.

(g) Companies are required to recognise outstanding vacation under a defined benefit plan, as a result, for the Group $39,983,000 (2001 - $38,790,000) and the Bank $35,673,000 (2001 - $34,609,000) were accrued in other liabilities.