

# NATIONAL COMMERCIAL BANK JAMAICA LIMITED

Quarter ended December 31, 2003

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The Board of Directors has today released the following un-audited results for the Group for the quarter ended December 31 2003.

	<b>QUARTER ENDED 31 12 2003 \$'000</b>	<b>Restated QUARTER ENDED 31 12 2002 \$'000</b>
REVENUE	6,349,407	4,064,788
EXPENSE	<u>5,379,283</u>	<u>3,685,774</u>
<b>Operating Profit</b>	970,124	379,014
Taxation	(223,916)	101,900
<b>Net Profit</b>	<u>746,208</u>	<u>480,914</u>
<b>Earnings per Stock Unit</b>	<b>\$0.30</b>	<b>\$0.19</b>

## HIGHLIGHTS FOR QUARTER ENDED DECEMBER 2003

The Directors are pleased to present the un-audited results of the Group for the quarter ended December 31 2003.

Net profit for the Group for the quarter ended December 31 2003 was J\$746.2 million compared to J\$481.0 million for the corresponding quarter in the previous year. This positive performance is mainly attributable to a J\$1.4 billion increase in net interest income when compared to the corresponding quarter in the previous year.

## PERFORMANCE AT A GLANCE

	December 2003	December 2002
Return on Average Equity	22.7%	16.0%
Return on Average Asset	2.0%	1.6%
Growth in Revenue	56.2%	15.2%
Cost Income Ratio	68.4%	78.6%
Net Asset Value per Share	\$5.4	\$4.9

## **REVENUES**

Total revenues for the Group increased by J\$2.3 billion or 56.2% compared to the corresponding quarter in the previous year. The increase in revenues is attributable to the following.

- Growth in income from loans of J\$561 million or 98%.
- Growth in income from securities of J\$1.9 billion or 70%.
- Growth in net fees and commissions of J\$74.5 million or 23%.

Net operating income (net interest income and net fees and commissions) of J\$3.18 billion exceeded the amount for the corresponding quarter in the previous year of J\$1.97 billion by J\$1.2 billion or 62%.

## **LOAN PORTFOLIO**

One of the major revenue drivers for the Group is loans and advances which increased by J\$3.7 billion or 14.0% during the quarter. In spite of this significant loan growth the quality of the portfolio has not deteriorated. The aggregate amount of non-performing loans amounted to J\$1.56 billion compared to J\$1.50 billion as at September 30 2003 and J\$1.51 billion at December 31 2002. Non-performing loans now represent 4.9% of gross loans compared to 5.3% at September 2003 and 7.8% as at December 31 2002.

At December 31 2003 provision for credit losses of J\$2.1 billion was 134% of non-performing loans compared to 144% as at September 2003. Provisions for credit losses that exceed the amounts required by International Financial Reporting Standards (IFRS) are credited to a non-distributable reserve - Loan Loss Reserve. As at December 31 2003 the balance in the Loan Loss Reserve was J\$150.5 million. The Banks provisioning policy is in compliance with the Bank of Jamaica regulations.

## **BALANCE SHEET**

The Group's total assets now stand at J\$150.7 billion, J\$4.8 billion or 3% in excess of the balance as at September 30 2003. This increase in assets is attributable to growth in the following earning assets:

- Loans and advances - J\$3.7 billion
- Reverse repurchase agreements - J\$1.5 billion
- Deposits with other banks and the Bank of Jamaica - J\$3.9 billion.

The asset growth was funded mainly by increases in customers' deposits and repurchase agreements.

## **CAPITAL**

At December 31 2003 total stockholders equity was J\$13.4 billion, an increase of J\$547 million or 4.3% when compared to the end of the previous financial year. National Commercial Bank is one of the best capitalized banks in Jamaica as evidenced by the international benchmark of capital adequacy, the Risk-based Capital Ratio which was 19.51% at December 31, 2003 (27.41% at December 31, 2002).

## **DIVIDENDS**

At the Board of Directors meeting held 22 January 2004, an interim dividend of 9 cents per share (total cost J\$222,008,654.52) was approved for the quarter ended 31 December 2003.

The dividend is payable on Monday, 23 February 2004 for shareholders on record as at Friday, 6 February 2004.

## **BASIS OF PREPARATION**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and have been prepared under the historical cost convention as modified by the revaluation of available-for-sale investment securities, investment securities held for trading, derivative contracts, investment property and certain fixed assets.

There have been no changes in accounting policies since the most recent annual accounts as at 30 September 2003.

## **CONSOLIDATED PROFIT AND LOSS**

	<b>QUARTER ENDED 31.12.2003 \$'000</b>	<b>Restated QUARTER ENDED 31.12.2002 \$'000</b>
<b>Operating Income</b>		
Interest income from loans	1,133,166	572,635
Interest income from securities	<u>4,588,681</u>	<u>2,703,400</u>

Total interest income	5,721,847	3,276,035
Interest expense	<u>(3,167,417)</u>	<u>(2,097,224)</u>
Net interest income	2,554,430	1,178,811
Net fee and commission income	398,836	324,326
Net trading income	189,059	415,122
Other operating income	<u>39,665</u>	<u>49,305</u>
	<u>3,181,990</u>	<u>1,967,564</u>
<b>Operating Expenses</b>		
Staff costs	1,187,487	945,244
Provision for credit losses	34,777	41,473
Depreciation	144,626	74,584
Other operating expenses	<u>844,976</u>	<u>527,249</u>
	<u>2,211,866</u>	<u>1,588,550</u>
<b>Profit before Taxation</b>	970,124	379,014
Taxation	<u>(223,916)</u>	<u>101,900</u>
<b>Net Profit</b>	746,208	480,914
	=====	=====
<b>EARNINGS PER STOCK UNIT</b>	<b>\$0.30</b>	<b>\$0.19</b>

## CONSOLIDATED BALANCE SHEET

	December 2003 \$'000	September 2003 \$'000
<b>ASSETS</b>		
Cash and balances at Bank of Jamaica	14,604,091	10,641,638
Due from other banks	8,130,528	9,117,248

Trading securities	105,864	1,906,270
Reverse repurchase agreements	7,327,717	5,832,957
Loans and advances, net of provision for credit losses	30,109,922	26,400,147
Investment securities	76,453,321	78,538,460
Investment properties	28,200	28,200
Property, plant and equipment	4,043,390	3,911,816
Deferred tax assets	4,771	120,426
Retirement benefit asset	6,009	6,009
Income tax recoverable	297,469	87,505
Other assets	6,293,194	6,368,703
Customers' liability on acceptances, guarantees, indemnities and credits	<u>3,313,902</u>	<u>2,926,786</u>
<b>Total assets</b>	<u>150,718,378</u>	<u>145,886,165</u>

**LIABILITIES**

Due to other banks	4,617,896	6,257,208
Customer deposits	72,115,273	69,688,968
Derivative financial instruments	105,139	128,909
Promissory notes and certificates of participation	10,030,057	10,119,549
Repurchase agreements	31,103,458	29,624,741
Obligations under credit card and cash advance securitization arrangements	4,396,839	4,576,979
Other borrowed funds	1,266,727	1,129,249
Income tax payable	55,684	234,569
Deferred tax liabilities	560,124	437,966
Policyholders' liabilities	4,795,154	4,287,658
Other liabilities	4,761,333	3,423,494
Retirement benefit obligations	178,257	178,257
Liability on acceptances, guarantees, indemnities and credits	<u>3,313,902</u>	<u>2,926,786</u>
<b>Total liabilities</b>	<u>137,299,843</u>	<u>133,014,333</u>

**STOCKHOLDERS' EQUITY**

Share capital	2,466,763	2,466,763
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Share premium	4,453,752	4,453,752
Fair value and other reserves	(322,272)	(270,773)
Loan loss reserve	150,459	72,891
Banking reserve fund	1,078,000	1,078,000
Retained earnings reserve	1,218,761	1,218,761
Retained earnings	4,373,072	3,852,438
<b>Total stockholders' equity</b>	<u>13,418,535</u>	<u>12,871,832</u>
<b>Total equity and liabilities</b>	<u>150,718,378</u>	<u>145,886,165</u>

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Retained Earnings	Total	Share	Share	Share Fair Value	Banking	Retained		
		Capital	Premium	Redemption Reserve Fund	Loan Loss Reserve	Earnings Reserve		
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		
Balance as at 1.10.02 as restated	2,956,147	2,466,763	4,453,752	-	340,244	83,674	759,000	911,897
Currency translation differences	-	-	-	-	71,714	-	-	-
Unrealised gains/(losses) on available-for-sale investments, net of taxes	-	-	-	-	(669,670)	-	-	-
Reclassified and reported in profit	-	-	-	-	(48,031)	-	-	-
	<u>(48,031)</u>							



Net gains/(losses) not recognised in Consolidated Profit and Loss Account	-	-	-	(645,987)	-	-	-
- (645,987)							
Net profit	-	-	-	-	-	-	-
2,804,391 2,804,391							
Bonus issue of shares in subsidiary	-	-	-	34,970	-	-	-
(34,970) -							
Dividends paid	-	-	-	-	-	-	-
(1,258,049) (1,258,049)							
Transfer from Loan Loss Reserve	-	-	-	-	(10,783)	-	-
10,783 -							
Transfer to Banking Reserve Fund	-	-	-	-	-	319,000	-
(319,000) -							
Transfer to Retained Earnings Reserve	-	-	-	-	-	-	306,864
(306,864) -							
Balance at 30.09.03	2,466,763	4,453,752	-	(270,773)	72,891	1,078,000	1,218,761
3,852,438 12,871,832							
Currency translation differences	-	-	-	1,777	-	-	-
- 1,777							
Unrealised gains/(losses) on available-for-sale investments, net of taxes	-	-	-	(53,276)	-	-	-
- (53,276)							
Reclassified and reported in profit	-	-	-	-	-	-	-
- -							

Net gains/(losses) not recognised in Consolidated Profit and Loss Account	-	-	-	(51,499)	-	-	-
- (51,499)							
Net profit	-	-	-	-	-	-	-
746,208	746,208						
Dividends paid	-	-	-	-	-	-	-
(148,006)	(148,006)						
Transfer to Loan Loss Reserve	-	-	-	-	77,568	-	-
(77,568)	-			)			
Transfer to Banking Reserve Fund	-	-	-	-	-	-	-
-	-						
Transfer to Retained Earnings Reserve	-	-	-	-	-	-	-
-	-						
Balance at 31.12.03	2,466,763	4,453,752	-	(322,272)	150,459	1,078,000	1,218,761
4,373,072	13,418,535						

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## CONSOLIDATED STATEMENT OF CASH FLOWS

	Dec. 2003	Restated Dec 2002
	\$'000	\$'000
<b>Cash Flows from Operating Activities</b>		
Net cash provided by operating activities	<u>1,162,696</u>	<u>7,392,570</u>
<b>Cash Flows from Investing Activities</b>		
Acquisition of property, plant and equipment, net	(258,747)	(533,017)

Investment securities	<u>3,913,890</u>	<u>(4,842,964)</u>
Net cash provided by/(used in) investing activities	3,655,143	(5,375,981)
<b>Cash Flows from Financing Activities</b>		
Repayments under credit card and cash advance securitization arrangements	(321,207)	(232,550)
Other borrowed funds	137,478	(284,846)
Dividends paid	<u>(148,006)</u>	<u>(123,338)</u>
Net cash used in financing activities	<u>(331,735)</u>	<u>(640,734)</u>
Net increase in cash and cash equivalents	4,486,104	1,375,855
Cash and cash equivalents at beginning of year	<u>4,803,138</u>	<u>6,076,221</u>
<b>Cash and cash equivalents at end of period</b>	<u>9,289,242</u>	<u>7,452,076</u>
	=====	=====
<b>Comprising:</b>		
Cash and balances at Bank of Jamaica	5,776,610	4,220,513
Due from other banks	8,130,528	6,319,377
Due to other banks	<u>(4,617,896)</u>	<u>(3,087,814)</u>
	<u>9,289,242</u>	<u>7,452,076</u>
	=====	=====

## SEGMENT REPORTING

The Group is organized into three main business segments:

- (a) Banking - This incorporates retail and corporate banking services.
- (b) Wealth management - This incorporates investment management, pension fund management and trustee services.
- (c) Insurance - This incorporates life insurance and insurance brokerage services.

Other operations of the Group include data processing and money remittance services.

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

The Group's operations are located mainly in Jamaica. The operations of subsidiaries located overseas account for less than 10 per cent of the Group's external operating revenue, assets and capital expenditures.

<b>Quarter ended</b> <b>31 December 2003</b>	<b>Banking</b> <b>\$'000</b>	<b>Wealth</b> <b>Management</b> <b>\$'000</b>	<b>Insurance</b> <b>\$'000</b>	<b>Other</b> <b>\$'000</b>	<b>Eliminations</b> <b>\$'000</b>	<b>Consolidated</b> <b>\$'000</b>
External revenue	4,831,244	1,282,886	232,720	2,557	-	6,349,407
Revenue from other Segments	10,380	596,797	96,003	11,920	(715,100)	-
Total revenue	<u>4,841,624</u>	<u>1,879,683</u>	<u>328,723</u>	<u>14,477</u>	<u>(715,100)</u>	<u>6,349,407</u>
Segment result	667,158	239,191	65,097	(1,322)		970,124
Tax						<u>(223,916)</u>
Net profit						746,208
Segment assets	122,357,667	40,981,089	5,310,608	62,414	(17,993,400)	150,718,378
Segment liabilities	108,411,789	38,798,346	4,972,091	65,502	(14,947,886)	137,299,843
Depreciation	137,386	5,427	1813			144,626

Quarter ended 31 December 2002	Banking \$'000	Wealth Management \$'000	Insurance \$'000	Other \$'000	Eliminations \$'000	Consolidated \$'000
External revenue	2,990,545	914,090	156,444	3,709	-	4,064,788
Revenue from other Segments	37,668	208,148	33,397	5,800	(285,013)	-
Operating revenue	3,028,213	1,122,238	189,841	9,509	(285,013)	4,064,788
Segment result	249,898	69,130	64,099	(4,113)	-	379,014
Tax						101,900
Net profit						480,914
Segment assets	100,708,758	28,643,661	3,893,384	34,393	(7,574,721)	125,705,475
Segment liabilities	88,227,087	27,601,456	3,541,537	17,336	(6,358,081)	113,029,335
Depreciation	69,323	2,653	2,602	6	-	74,584

## DEFERRED INCOME TAXES

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 7.5% for the insurance subsidiary and 33 1/3% for the Bank and all other subsidiaries. Assets and liabilities recognized on the balance sheet are as follows:

The Group

The Bank

	Dec. 2003 \$'000	Sept. 2003 \$'000	Dec. 2003 \$'000	Sept. 2003 \$'000
Deferred income tax assets	(4,771)	(120,426)	-	-
Deferred tax liabilities	<u>560,124</u>	<u>437,966</u>	<u>497,150</u>	<u>422,349</u>
Net liability	<u>555,353</u> =====	<u>317,540</u> =====	<u>497,150</u> =====	<u>422,349</u> =====

The movement in the net deferred income tax balance is as follows:

	The Group		The Bank	
	Dec. 2003 \$'000	Sept. 2003 \$'000	Dec. 2003 \$'000	Sept. 2003 \$'000
Net liability at beginning of year	317,540	218,141	422,349	163,491
Deferred tax expense	199,067	383,139	90,796	389,259
Deferred tax debited/(credited) to stockholders' equity	<u>38,746</u>	<u>(283,740)</u>	<u>(15,995)</u>	<u>(130,401)</u>
Net liability at end of period	<u>555,353</u> =====	<u>317,540</u> =====	<u>497,150</u> =====	<u>422,349</u> =====

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

	The Group		The Bank	
	Dec. 2003 \$'000	Sept. 2003 \$'000	Dec. 2003 \$'000	Sept. 2003 \$'000
Deferred income tax assets:				
Property, plant and equipment	-	50	-	-
Investment securities	302,823	295,389	176,810	160,815
Loan loss provisions	38,889	56,460	38,889	56,460
Pensions and other post-retirement benefits	59,419	59,419	59,419	59,419
Interest payable	542,975	425,646	-	-
Interest rate swap	35,046	42,970	35,046	42,970
Tax loss carry forwards	-	5,919	-	-
Accrual for staff profit share	-	73,686	-	73,686
Other temporary differences	<u>41,486</u>	<u>38,027</u>	<u>35,786</u>	<u>34,617</u>

	1,020,638	997,566	345,950	427,967
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
Deferred income tax liabilities:				
Property, plant and equipment	165,201	159,731	157,629	157,629
Investment securities	877	8,226	-	-
Obligations under securitization arrangements	39,876	47,092	39,876	47,092
Interest receivable	723,853	446,774	-	-
Unrealized foreign exchange gains	645,595	651,358	645,595	645,595
Other temporary differences	589	1,925	-	-
	<u>1,575,991</u>	<u>1,315,106</u>	<u>843,100</u>	<u>850,316</u>

Deferred income taxes are recognized for tax loss carry forwards only to the extent that realization of the related tax benefit is probable. Group subsidiaries have tax losses, subject to agreement with the Commissioner of Taxpayer Audit and Assessment, aggregating NIL (Sept. 2003 - \$17,757,000) available for indefinite offset against future taxable income in respect of which a deferred tax asset has been recognized.