

# NATIONAL COMMERCIAL BANK JAMAICA LIMITED

## for the Nine Months ended June 30, 2004

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### Consolidated Profit & Loss Account

	Note	Quarter Ended 30 June 2004 \$'000	Year to Date 30 June 2004 \$'000	Quarter Ended 30 June 2003 \$'000	Year to Date 30 June 2003 \$'000
<b>Operating Revenue</b>					
Interest income from loans		1,279,394	3,635,308	756,161	1,976,056
Interest income from securities		<u>3,969,088</u>	<u>12,964,220</u>	<u>3,729,483</u>	<u>8,277,646</u>
Total interest income		5,248,482	16,599,528	4,485,644	10,253,702
Interest expense		<u>(2,777,614)</u>	<u>(9,125,931)</u>	<u>(2,741,774)</u>	<u>(7,035,362)</u>
Net interest income		2,470,868	7,473,597	1,743,870	3,218,340
Net fee and commission income		406,057	1,360,834	361,339	1,297,093

Net trading income	4	434,334	1,039,912	799,948	2,547,602
Other operating income		<u>103,002</u>	<u>136,152</u>	<u>(38,515)</u>	<u>130,013</u>
		<u>3,414,261</u>	<u>10,010,495</u>	<u>2,866,642</u>	<u>7,193,048</u>
<b>Operating Expenses</b>					
Staff costs		1,058,786	3,322,613	863,501	2,935,574
Provision for credit losses		78,236	307,750	29,092	58,271
Depreciation		162,157	471,195	142,267	371,373
Other operating expenses		<u>882,628</u>	<u>2,473,286</u>	<u>854,317</u>	<u>2,393,468</u>
		<u>2,181,807</u>	<u>6,574,844</u>	<u>1,889,177</u>	<u>5,758,686</u>
<b>Operating profit</b>		<b><u>1,232,454</u></b>	<b><u>3,435,651</u></b>	<b><u>977,465</u></b>	<b><u>1,434,362</u></b>
Share of profits of associated companies		<u>29,606</u>	<u>29,606</u>	<u>-</u>	<u>-</u>
<b>Profit before taxation</b>		<b><u>1,262,060</u></b>	<b><u>3,465,257</u></b>	<b><u>977,465</u></b>	<b><u>1,434,362</u></b>
Taxation	5	<u>(285,664)</u>	<u>(593,316)</u>	<u>(111,914)</u>	<u>122,436</u>
<b>Net Profit</b>		<b><u>976,396</u></b>	<b><u>2,871,941</u></b>	<b><u>865,551</u></b>	<b><u>1,556,798</u></b>
<b>EARNINGS PER STOCK UNIT</b>	6		<b><u>\$ 1.16</u></b>		<b><u>\$ 0.63</u></b>

## Consolidated Balance Sheet

	Note	June 2004 \$'000	September 2003 \$'000
<b>ASSETS</b>			
Cash and balances at Bank of Jamaica	7	12,217,592	10,641,638
Due from other banks		11,145,446	9,117,248
Trading securities		241,037	1,906,270
Reverse repurchase agreements	8	20,031,665	5,832,957
Loans and advances, net of provision for credit losses	9	33,090,578	26,400,147
Investment securities		74,797,434	78,538,460
Investment in associated companies	10	1,179,971	-
Investment properties		28,200	28,200
Property, plant and equipment		4,253,886	3,911,816
Deferred tax assets	11	130	120,426
Retirement benefit asset		6,009	6,009
Income tax recoverable		49,932	87,505
Other assets	12	6,881,124	6,368,703

Customers' liability on acceptances, guarantees, indemnities and credits		<u>3,824,273</u>	<u>2,926,786</u>
<b>Total Assets</b>		<b><u>167,747,277</u></b>	<b><u>145,886,165</u></b>
<b>LIABILITIES</b>			
Due to other banks		7,963,545	6,257,208
Customer deposits		76,049,366	69,688,968
Derivative financial instruments		54,322	128,909
Promissory notes and certificates of participation		9,930,012	10,119,549
Repurchase agreements		37,040,816	29,624,741
Obligations under credit card and cash advance securitization arrangements	13	4,116,406	4,576,979
Other borrowed funds		1,166,172	1,129,249
Income tax payable		503,223	234,569
Deferred tax liabilities	11	553,096	437,966
Policyholders' liabilities		6,515,597	4,287,658
Other liabilities	14	3,912,567	3,423,494
Retirement benefit obligations		178,257	178,257
Liability on acceptances, guarantees, indemnities and credits		<u>3,824,273</u>	<u>2,926,786</u>

<b>Total Liabilities</b>		<b><u>151,807,651</u></b>	<b><u>133,014,333</u></b>
<b>STOCKHOLDERS' EQUITY</b>			
Share capital	15	2,466,763	2,466,763
Share premium		4,453,752	4,453,752
Fair value and other reserves		1,035,124	(270,773)
Loan loss reserve	16	98,196	72,891
Banking reserve fund	17	1,078,000	1,078,000
Retained earnings reserve	18	2,518,761	1,218,761
Retained earnings		<u>4,289,030</u>	<u>3,852,438</u>
<b>Total Stockholders' Equity</b>		<b><u>15,939,626</u></b>	<b><u>12,871,832</u></b>
<b>Total Equity and Liabilities</b>		<b><u>167,747,277</u></b>	<b><u>145,886,165</u></b>
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### Consolidated Statement of Changes in Stockholders' Equity

Loan Loss Reserve	Banking Reserve Fund	Retained Earnings Reserve	Retained Earnings	Total	Note	Share Capital	Share Premium	Share Redemption Reserve Fund	Fair Value and Other Reserves
<u>Reserve</u>	<u>Fund</u>	<u>Reserve</u>	<u>Earnings</u>	<u>Total</u>		<u>Capital</u>	<u>Premium</u>	<u>Reserve Fund</u>	<u>Reserves</u>
\$'000	\$'000	\$'000	\$'000	\$'000		\$'000	\$'000	\$'000	\$'000

Balance as at 1 October 2002, as restated	2,466,763	4,453,752	-	340,244
83,674 759,000 911,897 2,956,147 11,971,477				
Currency translation differences				79,925
79,925				
Unrealised gains/(losses) on available-for-sale				
-				
investments, net of taxes				(1,030,438)
(1,030,438)				
Reclassified and reported in profit				
-				
Net gains/(losses) not recognised in Consolidated				
Profit and Loss Account				(950,513)
- (950,513)				
Net Profit				
1,556,798 1,556,798				
Dividends paid				
(962,037) (962,037)				
Retained earnings capitalised				13,471
(13,471)				
Transfer from Loan Loss Reserve				
103,533 (103,533)				
Transfer to Banking Reserve Fund				
Transfer to Retained Earnings Reserve				
-				
Balance at 30 June 2003	2,466,763	4,453,752	-	(596,798)
187,207 759,000 911,897 3,433,904 11,615,725				
=====				
Balance as at 1 October 2003	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				5,128
5,128				
Other				7,390
7,390				
Unrealised gains/(losses) on available-for-sale				
-				

investments, net of taxes													1,244,828
1,244,828													
Reclassified and reported in profit													48,551
48,551													
Net gains/(losses) not recognised in Consolidated Profit and Loss Account													1,305,897
1,305,897													
Net profit													
2,871,941		2,871,941											
Dividends paid													
(1,110,044)		(1,110,044)											
Transfer to Loan Loss Reserve													
25,305			(25,305)										
Transfer to Banking Reserve Fund													
Transfer to Retained Earnings Reserve													
1,300,000		(1,300,000)											
Balance at 30 June 2004													
98,196	1,078,000	2,518,761	4,289,030	15,939,626		2,466,763	4,453,752		-				1,035,124

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### Consolidated Statement of Cash Flows

	Note	June 2004 \$'000	June 2003 \$'000
<b>Cash Flows from operating activities</b>			
Net cash (used in)/provided by operating activities	19	<u>(973,810)</u>	<u>10,601,923</u>
<b>Cash Flows from Investing Activities</b>			
Acquisition of property, plant and equipment, net		(785,360)	(6,276,083)
Investments		<u>4,481,761</u>	<u>(1,450,982)</u>
Net cash provided by/(used in) investing activities		<u>3,696,401</u>	<u>(7,727,065)</u>

**Cash Flows from Financing Activities**

Repayments under credit card and cash advance securitization arrangements	(592,046)	(76,237)
Other borrowed funds	36,923	(95,683)
Dividends paid	(1,110,044)	(962,037)
Net cash provided by/(used in) financing activities	<u>(1,665,167)</u>	<u>(1,133,957)</u>
Net increase/(decrease) in cash and cash equivalents	1,057,424	1,740,901
Cash and cash equivalents at beginning of period	<u>4,803,137</u>	<u>5,451,432</u>
<b>Cash and cash equivalents at end of period</b>	<u><u>5,860,561</u></u>	<u><u>7,192,333</u></u>

**Comprising:**

Cash and balances at Bank of Jamaica	2,678,660	2,087,951
Due from other banks	11,145,446	9,352,495
Due to other banks	<u>(7,963,545)</u>	<u>(4,248,113)</u>
	<u>5,860,561</u>	<u>7,192,333</u>

**Profit and Loss Account**

	Quarter Ended 30 June 2004	Year to Date 30 June 2004	Quarter Ended 30 June 2003	Year to Date 30 June 2003
Note	\$'000	\$'000	\$'000	\$'000
<b>Operating Revenue</b>				
Interest income from loans	1,277,028	3,628,369	754,125	1,969,016
Interest income from securities	<u>2,183,586</u>	<u>7,838,029</u>	<u>2,689,509</u>	<u>5,436,738</u>
Total Interest Income	3,460,614	11,466,398	3,443,634	7,405,754
Interest expense	<u>(1,407,917)</u>	<u>(5,522,202)</u>	<u>(1,994,419)</u>	<u>(4,747,549)</u>
Net interest income	2,052,697	5,944,196	1,449,215	2,658,205
Net fee and commission income	389,195	1,080,087	318,205	1,141,850



Net trading income	4	252,086	852,132	718,145	2,455,598
Other operating income		<u>27,970</u>	<u>78,545</u>	<u>31,745</u>	<u>63,505</u>
		<u>2,721,948</u>	<u>7,954,960</u>	<u>2,517,310</u>	<u>6,319,158</u>
<b>Operating Expenses</b>					
Staff costs		939,155	2,985,675	793,935	2,700,596
Provision for credit losses		78,236	307,779	29,092	58,271
Depreciation		153,516	447,148	137,347	352,660
Other operating expenses		<u>699,784</u>	<u>2,218,204</u>	<u>790,144</u>	<u>2,182,246</u>
		<u>1,870,691</u>	<u>5,958,806</u>	<u>1,750,518</u>	<u>5,293,773</u>
<b>Profit before Taxation</b>		<b>851,257</b>	<b>1,996,154</b>	<b>766,792</b>	<b>1,025,385</b>
Taxation	5	<u>(173,357)</u>	<u>(264,153)</u>	<u>(116,005)</u>	<u>147,582</u>
<b>Net Profit</b>		<b>677,900</b>	<b>1,732,001</b>	<b>650,787</b>	<b>1,172,967</b>
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## Balance Sheet

	Note	June 2004 \$'000	September 2003 \$'000
<b>ASSETS</b>			
Cash and balances at			
Bank of Jamaica	7	11,909,706	10,577,615
Due from other banks		11,015,925	9,441,706
Reverse repurchase agreements	8	121,176	570,538
Loans and advances, net of provision for credit losses	9	32,975,874	26,274,740
Investment securities		47,658,756	58,366,96
Investment in subsidiaries		1,456,970	1,456,970
Investment in associated companies	10	1,148,446	-
Property, plant and equipment		4,185,032	3,793,908
Deferred tax assets		-	-

Income tax recoverable		-	87,505
Other assets	12	3,169,779	4,505,131
Customers' liability on acceptances, guarantees, indemnities and credits		<u>3,824,273</u>	<u>2,926,786</u>
<b>Total Assets</b>		<b><u>117,465,937</u></b>	<b><u>118,001,864</u></b>
<b>LIABILITIES</b>			
Due to other banks		7,963,545	6,257,208
Customer deposits		76,253,343	70,671,943
Derivative financial instruments		54,322	128,909
Repurchase agreements		9,100,393	17,858,101
Obligations under credit card and cash advance securitization arrangements	13	4,116,406	4,576,979
Other borrowed funds		1,058,271	1,165,392
Income tax payable		459,331	-
Deferred tax liabilities	11	186,672	422,349
Other liabilities	14	1,461,218	2,371,185
Retirement benefit obligations		178,257	178,257
Liability on acceptances, guarantees, indemnities and credits		<u>3,824,273</u>	<u>2,926,786</u>
<b>Total liabilities</b>		<b><u>104,656,031</u></b>	<b><u>106,557,109</u></b>
<b>STOCKHOLDERS' EQUITY</b>			
Share capital	15	2,466,763	2,466,763
Share premium		3,998,968	3,998,968
Fair value and other reserves		784,798	41,604
Loan loss reserve	16	98,196	72,891
Banking reserve fund	17	1,078,000	1,078,000
Retained earnings reserve	18	2,518,761	1,218,761
Retained earnings		<u>1,864,420</u>	<u>2,567,768</u>
<b>Total stockholders' equity</b>		<b><u>12,809,906</u></b>	<b><u>11,444,755</u></b>
<b>Total equity and liabilities</b>		<b><u>117,465,937</u></b>	<b><u>118,001,864</u></b>

## Statement of Changes in Stockholders' Equity

Banking	Retained	Earnings	Retained	Note	Share Fair Value			
					Share	Share	Redemption	and Other
Loss	Reserve	Fund	Earnings	Total	Capital	Premium	Reserve Fund	Reserves
Reserve	Fund	Reserve	Earnings	Total	\$'000	\$'000	\$'000	\$'000
\$'000	\$'000	\$'000	\$'000	\$'000				
<b>Balance as at 1 October 2002, as restated</b>					2,466,763	3,998,968	-	438,132
83,674	759,000	911,897	2,311,363	10,969,797				
Unrealised gains/(losses) on available-for-sale investments, net of taxes								(164,019)
(164,019)						(164,019)		
Reclassified and reported in profit								
Net gains/(losses) not recognised in Profit and Loss Account								(164,019)
(164,019)								
Net Profit								
1,172,966	1,172,966							
Dividends paid								
(962,037)	(962,037)							
Transfer from Loan Loss Reserve								
103,533				103,533				
Transfer to Banking Reserve Fund								
Transfer to Retained Earnings Reserve								
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<b>Balance at 30 June 2003</b>					2,466,763	3,998,968		274,113
187,207	759,000	911,897	2,522,292	11,120,240				
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<b>Balance as at 1 October 2003</b>					2,466,763	3,998,968		41,604
72,891	1,078,000	1,218,761	2,567,768	11,444,755				
Unrealised gains/(losses) on available-for-sale								

investments, net of taxes									694,643
694,643									
Reclassified and reported in profit									48,551
48,551									
Net gains/(losses) not recognised in									
Profit and Loss Account									743,194
743,194									
Net profit									
1,732,001	1,732,001								
Dividends paid									
(1,110,044)	(1,110,044)								
Transfer to Loan Loss Reserve									
25,305		(25,305)							
Transfer to Banking Reserve Fund									
Transfer to Retained Earnings Reserve									
1,300,000	(1,300,000)								
<b>Balance at 30 June 2004</b>						<b>2,466,763</b>	<b>3,998,968</b>		<b>784,798</b>
<b>98,196</b>	<b>1,078,000</b>	<b>2,518,761</b>	<b>1,864,420</b>	<b>12,809,906</b>					

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## STATEMENT OF CASH FLOW

	Note	June 2004 \$'000	June 2003 \$'000
<b>Cash Flows from operating activities</b>			
Net cash (used in)/provided by operating activities	19	<u>(6,791,168)</u>	<u>10,071,868</u>
<b>Cash Flows from Investing Activities</b>			
Acquisition of property, plant and equipment, net		(810,367)	(1,405,915)
Investments		<u>9,770,326</u>	<u>(5,127,503)</u>
Net cash provided by/(used in) investing activities		<u>8,959,959</u>	<u>(6,533,418)</u>

**Cash Flows from Financing Activities**

Repayments under credit card and cash advance securitization arrangements	(592,046)	(76,237)
Other borrowed funds	(107,121)	(95,683)
Dividends paid	(1,110,044)	(962,037)
Net cash used in financing activities	<u>(1,809,211)</u>	<u>(1,133,957)</u>
Net increase/(decrease) in cash and cash equivalents	359,580	2,404,493
Cash and cash equivalents at beginning of period	<u>5,063,574</u>	<u>6,116,561</u>
<b>Cash and cash equivalents at end of period</b>	<u>5,423,154</u>	<u>8,521,054</u>
	=====	=====
<b>Comprising:</b>		
Cash and balances at Bank of Jamaica	2,370,774	1,732,673
Due from other banks	11,015,925	11,198,120
Due to other banks	<u>(7,963,545)</u>	<u>(4,409,739)</u>
	<u>5,423,154</u>	<u>8,521,054</u>
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**Notes to the Financial Statements****1. Identification and Principal Activities**

National Commercial Bank Jamaica Limited ("the Bank") is incorporated in Jamaica and licensed under the Banking Act, 1992. The Bank is a 75% subsidiary of AIC (Barbados) Limited. The ultimate parent company is Portland Holdings Inc., incorporated in Canada. The Bank's registered office is located at 32 Trafalgar Road Kingston 10, Jamaica.

The Bank is listed on the Jamaica Stock Exchange and the Trinidad and Tobago Stock Exchange.

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

<u>Principal Activities</u>	<u>Percentage ownership by Bank</u>
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30 June 2004

Data Cap Processing	Data Processing	100
NCB Capital Markets Limited (formerly Edward Gayle and Company Limited)	Primary Dealer and Stock Broker	100
Mutual Security Insurance Brokers Limited	Insurance Brokers	100
NCB (Cayman) Limited	Commercial Banking	100
NCB (Investments) Limited	Money Market Trading	100
NCB Jamaica (Nominees) Limited	Securities' Nominee	100
NCB Insurance Company Limited	Life Insurance	100
West Indies Trust Company Limited	Investment and Pension Fund Management and Trustee Services	100
Senvia Money Services (UK) Limited (formerly NCB Remittance Services Limited)	Money Remittance	100

All subsidiaries are incorporated in Jamaica with the exception of NCB (Cayman) Limited and Senvia Money Services (UK) Limited, which are incorporated in the Cayman Islands and the United Kingdom respectively.

The associated companies are as follows:

	<u>Principal Activities</u>	<u>Percentage Ownership</u>
Dyoll Group Limited	General Insurance Underwriting	44
Kingston Wharves Limited	Public Wharves and Port Security Services	43

The associated companies were acquired during the quarter ended 31 March 2004 and are accounted for by the equity method.

All amounts are stated in Jamaican dollars unless otherwise indicated.

## **2. Significant Accounting Policies**

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

These financial statements have been prepared in accordance with 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 properties and certain fixed assets.

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

**(b) Comparative information**

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current period. In particular, comparatives have been adjusted to take into account the requirements of IFRS.

**3. Segment Reporting**

The Group is organised 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.

**Nine Months Ended**

<b>30 June 2004</b>	<b>Banking</b>	<b>Wealth Management</b>	<b>Insurance</b>	<b>Other</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
External revenue	13,515,378	4,923,440	676,271	21,337		19,136,426
Revenues from other segments	18,498	1,212,143	302,279	25,172	(1,558,092)	
Total revenue	<u>13,533,876</u>	<u>6,135,583</u>	<u>978,550</u>	<u>46,509</u>	<u>(1,558,092)</u>	19,136,426
Segment result	2,040,466	1,211,209	187,690	(3,714)		3,435,651
Share of profits in associates			11,726	17,880		<u>29,606</u>

						3,465,257
Tax						(593,316)
Net Profit						<u>2,871,941</u>
Segment assets	121,326,557	48,297,663	7,390,704	206,144	(9,473,791)	167,747,277
Segment liabilities	104,846,691	44,976,949	6,716,656	217,515	(4,950,160)	151,807,651
Depreciation	447,877	16,159	5,450	1,709		471,195
External revenue	11,108,750	2,627,839	489,077	2,544		14,228,210
Revenues from other segments	8,122	5,940	5,342	8,339	(27,743)	
Total revenue	<u>11,116,872</u>	<u>2,633,779</u>	<u>494,419</u>	<u>10,883</u>	<u>(27,743)</u>	<u>14,228,210</u>
Segment result	1,072,146	233,679	146,313	(17,776)		1,434,362
Tax						<u>122,436</u>
Net Profit						<u>1,556,798</u>
Segment assets	115,397,169	33,619,037	4,015,564	16,093	(17,686,405)	135,361,458
Segment liabilities	102,093,788	31,819,708	3,941,445	30,856	(15,349,039)	122,536,758
Depreciation	353,155	9,318	7,666	1,234		371,373

#### 4. Net Trading Income

	The Group		The Bank	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Foreign exchange translation and trading	717,991	1,734,310	707,650	1,696,188
Fixed Income	270,463	37,317	136,290	6,639
Equities	51,458	775,975	8,192	752,771
	<u>1,039,912</u>	<u>2,547,602</u>	<u>852,132</u>	<u>2,455,598</u>



Foreign exchange translation and trading income includes gains and losses arising from translation of assets and liabilities denominated in foreign currency as well as those arising from foreign currency trading activities.

#### 5. Taxation

	<u>The Group</u>		<u>The Bank</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Current:				
Income tax at 33 1/3%	585,122	16,881	584,645	-
Premium tax at 1 1/2%	32,964	11,419	-	-
Investment income tax at 7 1/2%	(6,535)	3,958	-	-
Deferred tax (Note 11)	(29,060)	(154,694)	(320,492)	(147,582)
	<u>582,491</u>	<u>(122,436)</u>	<u>264,153</u>	<u>(147,582)</u>
Associated Companies	<u>10,825</u>			
	<u>593,316</u>	<u>(122,436)</u>	<u>264,153</u>	<u>(147,582)</u>

#### 6. 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 period.

	<b>2004</b>	<b>2003</b>
Net profit attributable to stockholders (\$'000)	2,871,941	1,556,798
Weighted average number of ordinary stock units in issue ('000)	2,466,763	2,466,763
Basic earnings per stock unit (\$)	1.16	0.63

#### 7. Cash and Balances at Bank of Jamaica

	<u>The Group</u>		<u>The Bank</u>	
	<u>June 2004</u>	<u>Sept. 2003</u>	<u>June 2004</u>	<u>Sept. 2003</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Cash in hand and at bank	2,474,201	1,920,305	2,166,774	1,856,282
Balances with the Bank of Jamaica other than statutory reserves	<u>204,459</u>	<u>22,792</u>	<u>204,000</u>	<u>22,792</u>

Included in cash and cash equivalents	2,678,660	1,943,097	2,370,774	1,879,074
Statutory reserves with the Bank of Jamaica interest-bearing	5,018,337	4,593,657	5,018,337	4,593,657
Statutory reserves with the Bank of Jamaica non-interest bearing	4,520,595	4,104,884	4,520,595	4,104,884
	<u>12,217,592</u>	<u>10,641,638</u>	<u>11,909,706</u>	<u>10,577,615</u>
	=====	=====	=====	=====

Statutory reserves with the Bank of Jamaica represent the required ratio of 9% (2003- 9%) of prescribed liabilities. They are not available for investment, lending or other use by the Group.

Effective 15 January 2003, the Bank is required by the Bank of Jamaica under section 28A of the Bank of Jamaica Act, to maintain a special deposit wholly in the form of cash, representing 5% of prescribed liabilities. This special deposit earns interest at 6% per annum.

#### 8. Reverse Repurchase Agreements

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

At 30 June 2004, the Group and the Bank held \$20,125,628,000 (Sept. 2003 - \$7,441,192,000) and \$121,176,000 (Sept. 2003 - \$570,538,000) respectively of securities, mainly representing Government of Jamaica debt securities, as collateral for reverse repurchase agreements.

#### 9. Loans and Advances

	<u>The Group</u>		<u>The Bank</u>	
	<u>June 2004</u>	<u>Sept. 2003</u>	<u>June 2004</u>	<u>Sept. 2003</u>
	\$'000	\$'000	\$'000	\$'000
Gross loans and advances	35,208,639	28,563,664	35,082,330	28,426,623
Provision for credit losses	(2,118,061)	(2,163,517)	(2,106,456)	(2,151,883)
	<u>33,090,578</u>	<u>26,400,147</u>	<u>32,975,874</u>	<u>26,274,740</u>
	=====	=====	=====	=====

The movement in the provision for credit losses determined under the requirements of IFRS is as follows:

	<u>The Group</u>		<u>The Bank</u>	
	<u>June 2004</u>	<u>Sept. 2003</u>	<u>June 2004</u>	<u>Sept. 2003</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Balance at beginning of period	2,163,517	1,972,328	2,151,883	1,963,506
Provided during the period	602,483	1,906,596	602,512	1,903,784
Recoveries	(294,733)	(1,700,035)	(294,733)	(1,700,035)
Net charge to profit	307,750	206,561	307,779	203,749
Write-offs	(353,206)	(15,372)	(353,206)	(15,372)
Balance at end of period	<u>2,118,061</u>	<u>2,163,517</u>	<u>2,106,456</u>	<u>2,151,883</u>

The aggregate amount of non-performing loans on which interest was not being accrued amounted to \$1,472,056,000 as at 30 June 2004 (Sept-2003-\$1,503,254,000).

The provision for credit losses determined under Bank of Jamaica regulatory requirements is as follows:

	<u>The Group</u>		<u>The Bank</u>	
	<u>June 2004</u>	<u>Sept. 2003</u>	<u>June 2004</u>	<u>Sept. 2003</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Specific provision	1,949,131	1,994,136	1,937,526	1,982,502
General provision	267,126	242,272	267,126	242,272
	<u>2,216,257</u>	<u>2,236,408</u>	<u>2,204,652</u>	<u>2,224,774</u>
Excess of regulatory provision over IFRS provision reflected in non-distributable loan loss reserve (Note 16)	98,196	72,891	98,196	72,891

#### 10. Investment in Associated Companies

	<u>The Group</u>	
	<u>2004</u>	<u>2003</u>
	<u>\$'000</u>	<u>\$'000</u>
Investment in Associated Companies	<u>1,179,971</u>	<u>-</u>

Comprised of:

Share of net assets of associated companies	1,674,375	-
Goodwill net of amortisation	258,564	-
Negative goodwill net of amortisation	<u>(752,968)</u>	<u>-</u>
	<u>1,179,971</u>	<u>-</u>
	=====	=====

Movement during the period:

	<b>2004</b>	<b>2003</b>
	<b>\$'000</b>	<b>\$'000</b>
At beginning of period	-	
Cost of acquisition	1,148,446	-
Amortisation of goodwill	(18,469)	-
Amortisation of negative goodwill	13,892	-
Share of net profit	18,781	-
Increase in reserves	20,022	-
Dividend Received	<u>(2,701)</u>	<u>-</u>
Balance at end of period	<u>1,179,971</u>	<u>-</u>
	=====	=====

Goodwill/(negative goodwill) arising on consolidation represents the difference between the cost of acquisition and the fair value of the net identifiable assets acquired. The fair values of the identifiable assets and liabilities on acquisition are assumed to approximate their carrying values.

Goodwill is amortised on a straight-line basis over its estimated useful life of 5 years. Negative goodwill is amortised on a straight-line basis over the remaining weighted average useful life of the identifiable depreciable non-monetary assets acquired, estimated to be 23 years.

#### **11. 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 recognised on the balance sheet are as follows:

	<u>The Group</u>		<u>The Bank</u>	
	<u>June 2004</u>	<u>Sept. 2003</u>	<u>June 2004</u>	<u>Sept. 2003</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Deferred income tax assets	(130)	(120,426)	-	-
Deferred tax liabilities	553,096	437,966	186,672	422,349
Net liability	<u>552,966</u>	<u>317,540</u>	<u>186,672</u>	<u>422,349</u>

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

	<u>The Group</u>		<u>The Bank</u>	
	<u>June 2004</u>	<u>Sept. 2003</u>	<u>June 2004</u>	<u>Sept. 2003</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Net liability at beginning of period	317,540	218,141	422,349	163,491
Deferred tax expense (note 5)	(29,060)	383,139	(320,492)	389,259
Deferred tax debited/(credited) to stockholders' equity	<u>264,486</u>	<u>(283,740)</u>	<u>84,815</u>	<u>(130,401)</u>
Net liability at end of period	<u>552,966</u>	<u>317,540</u>	<u>186,672</u>	<u>422,349</u>

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

	<u>The Group</u>		<u>The Bank</u>	
	<u>June 2004</u>	<u>Sept. 2003</u>	<u>June 2004</u>	<u>Sept. 2003</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Deferred income tax assets:				
Property, plant and equipment	-	50	-	-
Investment securities	76,690	295,389	76,000	160,815
Loan loss provisions	56,475	56,460	56,310	56,460
Pensions and other post-retirement benefits	59,419	59,419	59,419	59,419
Interest payable	276,437	425,646	-	-
Interest rate swap	18,107	42,970	18,107	42,970
Tax loss carry forwards	8,569	5,919	-	-
Accrual for staff profit share	-	73,686	-	73,686
Other	<u>44,636</u>	<u>38,027</u>	<u>43,260</u>	<u>34,617</u>

	540,333	997,566	253,096	427,967
	=====	=====	=====	=====
Deferred income tax liabilities:				
Property, plant and equipment	207,637	159,731	202,003	157,629
Investment securities	43,771	8,226	-	-
Obligations under securitization arrangements	26,640	47,092	26,640	47,092
Interest receivable	541,294	446,774	-	-
Unrealised foreign exchange gains	211,125	651,358	211,125	645,595
Other	62,832	1,925	-	-
	<u>1,093,299</u>	<u>1,315,106</u>	<u>439,768</u>	<u>850,316</u>
	=====	=====	=====	=====

Deferred income taxes are recognised for tax loss carry forwards only to the extent that realisation of the related tax benefit is probable. Group subsidiaries have tax losses, subject to agreement with the Commissioner of Taxpayer Audit and Assessment, aggregating \$57,130,000 (Sept. 2003-\$17,757,000) available for indefinite offset against future taxable income in respect of which a deferred tax asset has been recognised.

## 12. Other Assets

	<u>The Group</u>		<u>The Bank</u>	
	June 2004	Sept. 2003	June 2004	Sept. 2003
	\$'000	\$'000	\$'000	\$'000
Accounts receivable and prepayments	1,570,816	1,031,276	608,512	426,685
Interest receivable	2,819,473	4,987,290	851,265	3,608,276
Withholding tax recoverable	2,490,835	350,137	1,710,002	470,170
	<u>6,881,124</u>	<u>6,368,703</u>	<u>3,169,779</u>	<u>4,505,131</u>
	=====	=====	=====	=====

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

In 2001, the Bank entered into an arrangement for the sale of Future Accounts Receivable

amounting to US\$125,000,000 in respect of credit card and cash advance transactions in Jamaica between Visa International Service Association and Master Card International Incorporated and cardholders holding cards issued by banks outside of Jamaica (primarily in the U.S.A.). This took the form of variable funding certificates issued by Citibank N.A. through Citicorp administered commercial paper conduits. The interest is payable quarterly commencing in October 2001 and ending October 2006. Interest is calculated daily based on the weighted average rate applicable to commercial paper transactions administered by the respective conduits. The rate approximates one month US dollar LIBOR plus 250 basis points.

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

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

The fair value of these interest rate swaps at 30 June 2004 is negative US\$897,000 (30 September 2003- Negative US\$2,166,000).

#### 14. Other Liabilities

	<u>The Group</u>		<u>The Bank</u>	
	<u>June 2004</u>	<u>Sept. 2003</u>	<u>June 2004</u>	<u>Sept. 2003</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Interest Payable	1,515,595	2,032,588	801,993	1,583,414
Provisions	137,000	140,000	137,000	140,000
Accrued Liabilities	429,942	373,569	239,641	331,770
Other	<u>1,830,029</u>	<u>877,337</u>	<u>282,584</u>	<u>316,001</u>
	<u>3,912,566</u>	<u>3,423,494</u>	<u>1,461,218</u>	<u>2,371,185</u>

**15. Share Capital**

	<b>June 2004</b>	<b>Sept. 2003</b>
	<b>\$'000</b>	<b>\$'000</b>
Authorised	5,750,000	5,750,000
	=====	=====
Issued and Fully Paid Up		
2,466,762,828 Ordinary stock		
units of \$1 each	2,466,763	2,466,763
	=====	=====

**16. Loan Loss Reserve**

This is a non-distributable reserve representing the excess of the provision for credit losses determined using the Bank of Jamaica's regulatory requirements over the amount determined under IFRS.

**17. Banking Reserve Fund**

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

**18. Retained Earnings Reserve**

Section 2 of the Banking Act 1992 permits the transfer of any portion of the Bank's net profit to a retained earnings reserve. This reserve constitutes a part of the capital base for the purpose of determining the maximum level of deposit liabilities and lending to customers.

The deposit liabilities of the bank and other indebtedness for borrowed money together with all interest accrued should not exceed twenty five times its capital base.

**19. Cash Flows from Operating Activities**

The Group

The Bank



	June 2004 \$'000	June 2003 \$'000	June 2004 \$'000	June 2003 \$'000
Net profit	2,871,941	1,556,798	1,732,002	1,172,967
Adjustments to reconcile net profit to cash flow provided by/(used in) operating activities:				
Depreciation of property, plant and equipment	471,195	371,373	447,148	352,660
Provision for credit losses	307,750	58,271	307,779	58,271
Amortisation of deferred expense	60,764	72,113	60,764	72,113
Deferred tax expense/(credit)	(29,060)	(154,694)	(320,492)	(147,582)
Fair value (gains)/losses on trading securities	(49,487)	635,890	-	635,890
Gain on sale of property, plant and equipment	(27,905)	(695)	(27,905)	(695)
Gain on sale of investments	(210,563)	(756,268)	(210,563)	(756,268)
Fair Value (gains)/losses on interest rate swap	(74,587)	18,437	(74,587)	18,437
Amortisation of goodwill	18,469	-	-	-
Amortisation of negative goodwill	(13,892)	-	-	-
Changes in operating assets and liabilities:				
Statutory reserves at Bank of Jamaica	(840,390)	(3,093,260)	(840,390)	(3,093,260)
Reverse repurchase agreements	(14,198,708)	5,073,819	449,362	2,020,136
Loans and advances	(6,998,181)	(7,612,014)	(7,008,913)	(8,047,836)
Customer deposits	6,360,398	5,303,161	5,581,400	5,592,683
Repurchase agreements	7,416,075	11,899,348	(8,757,708)	11,490,185
Promissory notes and certificates of participation	(189,537)	(1,917,240)	-	-
Policyholders liabilities	2,227,939	599,025	-	-
Other	1,923,969	(1,452,141)	1,870,935	704,167
Net cash provided by/(used in) operating activities	(973,810)	10,601,923	(6,791,168)	10,071,868

## **20. 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 30 June 2004, the Group had financial assets under administration of approximately \$26.4billion (30 June 2003 - \$18billion)