To the Members of
FIRST GLOBAL BANK LIMITED
(Formerly Trafalgar Commercial Bank Limited)

Auditors' Report

We have audited the financial statements, set out on pages 2 to 23, and have obtained all the information and explanations which we required. The financial statements are the responsibility of the directors and management. In preparing the financial statements, the directors and management are required to select suitable accounting policies and apply them consistently, make judgements and estimates that are reasonable and prudent, follow applicable accounting standards and apply the going concern basis, unless it is inappropriate to presume that the company will continue in business for the foreseeable future. The directors and management are responsible for keeping proper accounting records, for safeguarding the assets of the company, and for the prevention and detection of fraud and other irregularities. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain all the information and explanations which we consider necessary to provide us with reasonable assurance that the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the directors and management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, proper accounting records have been kept and the financial statements, which are in agreement therewith and have been prepared in accordance with generally accepted accounting principles in Jamaica, give a true and fair view of the state of affairs of the company as at December 31, 2002, and of its profit and cash flows for the year then ended, and comply with the provisions of the Companies Act applicable to banking companies.

January 28, 2003

FIRST GLOBAL BANK LIMITED
(Formerly Trafalgar Commercial Bank Limited)

Balance Sheet
December 31, 2002

	Notes	2002	2001
ASSETS			
Cash resources	4	295,734,903	269,862,074
Investments, at cost	5	4,266,081,231	1,642,062,700
Loans, net of provision for probable losses	6,21	476,212,656	318,490,739
Securities purchased under resale agreements	21	894,217,406	463,191,007
Cheques and other instruments in-transit, net		210,112,653	119,900,646
Other assets	7,21	247,981,737	139,754,073
Taxation recoverable		1,226,286	1,226,286
Customers' liability under guarantees, as per contra		51,827,462	16,272,878
Fixed assets	8	37,457,015	15,925,012
		$6,480,851,349	2,986,685,415
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Deposits	9,21	1,314,798,223	1,104,445,508
Securities sold under repurchase agreements	21	4,494,066,253	1,606,916,375
Obligations under finance leases	10,21	10,632,587	2,125,928
Other liabilities	11,21	241,698,824	96,177,063
Guarantees, per contra		51,827,462	16,272,878
		6,113,023,349	2,825,937,752
SHAREHOLDERS' EQUITY			
Share capital	12	222,300,000	137,300,000
Reserve fund	13	145,528,000	23,447,663
Retained earnings		-	-
		367,828,000	160,747,663
		$6,480,851,349	2,986,685,415

On behalf of the Board

______________________ Director
D. Orane

______________________ Director
A. Shirley

______________________ Director
D. Wehby

______________________ Secretary
R. Spence Dunn

FIRST GLOBAL BANK LIMITED
(Formerly Trafalgar Commercial Bank Limited)

Statement of Revenue and Expenses
Year ended December 31, 2002
(with comparative figures for the fifteen months ended December 31, 2001)

	Notes	2002	2001
Interest income:			
Loans		104,073,579	96,097,561
Deposits	21	45,829,413	32,117,588
Securities		465,026,738	263,806,586
		614,929,730	392,021,735
Interest expense:			
Deposits	21	64,297,055	75,514,074
Other	21	394,020,322	200,367,274
		458,317,377	275,881,348
Net interest income		156,612,353	116,140,387
Provision for loan losses, net	6	(10,000,000)	(58,338,768)
		146,612,353	57,801,619
Non-Interest income:			
Fees and commissions		62,770,803	38,314,461
Foreign exchange gains		34,551,733	37,188,309
Other	21	51,803,182	7,745,565
		149,125,718	83,248,335
Net revenue		295,738,071	141,049,954
Non-interest expenses:			
Employee compensation and benefits	14	(74,790,273)	(58,713,862)
Depreciation		(6,903,892)	(6,595,590)
Other operating expenses	21	(83,203,644)	(49,490,936)
General administration expenses	21	(8,759,925)	(4,240,412)
		(173,657,734)	(119,040,800)
Net profit for the year/period	15	$122,080,337	22,009,154
Earnings per share	16	$1.78	0.41

FIRST GLOBAL BANK LIMITED
(Formerly Trafalgar Commercial Bank Limited)

Statement of Changes in Shareholders' Equity
Year ended December 31, 2002
(with comparative figures for the fifteen months ended December 31, 2001)

	Share capital (note 12)	Reserve fund (note 13)	Retained earnings	Total
Balances at September 30, 2000	80,000,000	4,181,884	(2,743,375)	81,438,509
Share capital issued	57,300,000	-	-	57,300,000
Net profit, being total gains recognised for the period	-	-	22,009,154	22,009,154
Transfer to reserve fund	-	19,265,779	(19,265,779)	-
Balances at December 31, 2001	137,300,000	23,447,663	-	160,747,663
Share capital issued	85,000,000	-	-	85,000,000
Net profit, being total gains recognised for the year	-	-	122,080,337	122,080,337
Transfer to reserve fund	-	122,080,337	(122,080,337)	-
Balances at December 31, 2002	$222,300,000	145,528,000	-	367,828,000

The accompanying notes form an integral part of the financial statements.

FIRST GLOBAL BANK LIMITED
(Formerly Trafalgar Commercial Bank Limited)

Statement of Cash Flows
Year ended December 31, 2002
(with comparative figures for the fifteen months ended December 31, 2001)

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the year/period	122,080,337	22,009,154
Adjustments to reconcile net profit for the year/period to net cash provided by operating activities:		
Depreciation	6,903,892	6,595,590
Loss on disposal of fixed assets	2,352,230	54,058
Provision for probable loan losses	10,000,000	58,338,768
Interest receivable	(69,548,082)	(83,362,189)
Interest payable	45,179,587	29,631,030
Net cash provided by operating activities	116,467,964	33,266,411
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments	(2,624,018,531)	(1,329,245,796)
Loans	(167,721,917)	(56,696,594)
Securities purchased under resale agreements	(431,026,399)	(246,449,637)
Other assets	(38,679,582)	(4,650,757)
Taxation recoverable	-	(1,226,286)
Additions to fixed assets	(30,991,197)	(6,271,593)
Proceeds from disposal of fixed assets	203,072	482,609
Proceeds from share capital issued	85,000,000	57,300,000
Net cash used by investing activities	(3,207,234,554)	(1,586,758,054)
CASH FLOWS FROM FINANCING ACTIVITIES		
Deposits	210,352,715	581,797,559
Loan and notes payable	-	(16,678,000)
Securities sold under repurchase agreements	2,887,149,878	1,087,375,133
Cheques and other items in transit, net	(90,212,007)	(77,351,679)
Obligations under finance leases	8,506,659	644,777
Other liabilities	100,342,174	39,638,657
Net cash provided by financing activities	3,116,139,419	1,615,426,447
Net increase in cash resources	25,872,829	61,934,804
Cash resources at beginning of year/period	269,862,074	207,927,270
Cash resources at end of year/period	$ 295,734,903	269,862,074

The accompanying notes form an integral part of the financial statements.

1. The company

The company is incorporated under the laws of Jamaica and its principal activities are the provision of commercial banking and related financial services.

The company up to September 30, 2000 was 51% owned by Trafalgar Development Bank Limited (TDB) and 49% by Grace, Kennedy & Company Limited (GK). As of that date, the company became a wholly-owned subsidiary of GK, incorporated in Jamaica. The company's name was changed with the approval of the Registrar of Companies on December 11, 2001, from Trafalgar Commercial Bank Limited to First Global Bank Limited.

2. Bank licence

The company is licensed, and the financial statements are delivered, under the Banking Act (Act). During the year ended December 31, 2002, the company did not comply with Sections 13(1) (d) and 13 (1) (f) of the Act and Bank of Jamaica primary prudential ratio requirement.

These non-compliances were rectified as at December 31, 2002 and arrangements are in place to correct the deficiency in the primary prudential ratio subsequent to the year-end.

Except for the foregoing, all other provisions of the Act have been met.

3. Basis of preparation and significant accounting policies

Basis of preparation:

The financial statements are prepared under the historical cost convention and in accordance with the provisions of the Companies Act and the Banking Act. The Banking Act states that, except as otherwise directed in writing by the Supervisor of Banks and Financial Institutions ("Supervisor"), the financial statements shall be prepared in accordance with Jamaican generally accepted accounting principles ("GAAP"). The financial statements conform, in all material respects, to GAAP, which is substantially codified in Statements of Standard Accounting Practice issued by the Institute of Chartered Accountants of Jamaica.

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, contingent assets and liabilities at the balance sheet date and the revenue and expenses for the year/period then ended. Actual amounts could differ from these estimates.

The financial statements are presented in Jamaica dollars. Where necessary, prior year's comparatives have been reclassified to conform with the 2002 presentation.

Significant accounting policies:

(a) Depreciation:

Fixed assets are depreciated on the straight-line method at annual rates, ranging from 5% to 20%, estimated to write off the assets over their expected useful lives. Leasehold

3. Basis of preparation and significant accounting policies (cont'd)

Significant accounting policies: (cont'd)

(b) Interest:

Interest income and expenses are recorded on the accrual basis, except that, where collection of interest income is considered doubtful or payment is outstanding for 90 days or more, the cash basis is used. Accrued interest on loans which are in arrears for 90 days and over is excluded from income in accordance with the Banking Act.

(c) Provision for probable loan losses:

The provision for probable loan losses is maintained at a level which management considers adequate to provide for potential losses. The level of the provision is based on the requirements of the Banking Act, management's evaluation of the composition of the loan portfolio, past experience, the anticipated net realisable value of security held and the prevailing and anticipated economic conditions. Amounts are written off from the provision whenever management concludes that such amounts may not be recovered.

General provisions for doubtful credits are established against the loan portfolio where a prudent assessment by the company of adverse economic trends suggests that losses may occur and such losses cannot be determined on an item-by-item basis. This provision is maintained at the minimum 1% established by the Supervisor.

(d) Foreign currencies:

The exchange rate of the Jamaica dollar against other currencies is established on a daily basis. Foreign currency balances outstanding at the balance sheet date are translated at the rates of exchange ruling on that date. Transactions in foreign currencies are converted at the rates of exchange ruling at the dates of those transactions.

Gains and losses arising from fluctuations in exchange rates are included in the statement of revenue and expenses.

(e) Investments:

Investments are carried at cost, however, the carrying amount is reduced to recognise a decline which is other than temporary in the value of the investments. Such reductions, if any, are determined and made for each investment individually and, together with gains and losses on disposals, are included in the statement of revenue and expenses.

(f) Repurchase and reverse repurchase agreements:

A repurchase agreement ("Repo")/reverse repurchase agreement ("Reverse repo") is a short-term transaction whereby securities are sold/bought with simultaneous agreements for repurchasing/reselling the securities on a specified date and at a specified price.

Repurchase and reverse repurchase agreements are accounted for as short-term collateralised borrowing and lending, respectively.

3. Basis of preparation and significant accounting policies (cont'd)

Significant accounting policies: (cont'd)

(g) Leased assets:

Fixed assets acquired under finance leasing arrangements are included at cost, less accumulated depreciation calculated to write them off over the period of the leases.

Interest is charged so as to arrive at a constant rate of charge over the period of the leases.

4. Cash resources

	2002	2001
Notes and coins	38,417,142	44,679,149
Money at call and on deposit at Bank of Jamaica [see (a) below]	73,017,075	103,192,717
Current accounts with foreign banks	184,300,686	121,990,208
	$295,734,903	269,862,074

(a) $25,948,620 (2001: $87,143,593) of the deposits at Bank of Jamaica is held in compliance with section 14(1) of the Banking Act, which requires that every licensee maintains in the form of a deposit with Bank of Jamaica, a cash reserve not less on the average than 5% of its prescribed liabilities. The reserve for Jamaica dollar prescribed liabilities is held on a non-interest-bearing basis and no portion of the cash reserves is available for investment or other use by the company. The actual percentage in force at the end of the year was 9% (2001: 10%) (see note 25).

(b) Cash resources are due within three months after balance sheet date.

5. Investments, at cost

	2002	2001
Securities issued by Government of Jamaica:		
Treasury bills [see (a) below]	141,859,773	70,379,398
Local registered stocks	1,583,198,371	146,077,326
Debenture	65,650,000	70,004,499
US$ denominated promissory notes	48,464,959	73,540,802
Global and US$ Indexed bonds	1,100,799,803	940,653,851
Education bond	1,000,000	1,000,000
Development Bank of Jamaica bond	10,088,325	5,163,795
Certificates of deposit [see (a) below]	1,310,000,000	332,723,029
Shares – Automated Payments Limited [see (b) below]	5,020,000	2,520,000
	$4,266,081,231	1,642,062,700

5. Investments, at cost (cont'd)

Investments are due from the date of the balance sheet as follows:

	2002	2001
Within 3 months	1,278,661,278	211,526,533
From 3 months to 1 year	987,243,826	272,883,933
From 1 year to 5 years	736,281,357	677,859,056
Over 5 years	1,263,894,770	479,793,178
	$4,266,081,231	1,642,062,700

(a) Treasury bills amounting to $30,000,000 (2001: $10,000,000) and certificates of deposit amounting to $117,000,000 (2001: $Nil) are held by Bank of Jamaica as security for overdraft, if any. At the balance sheet, there was no overdraft with Bank of Jamaica.

(b) Shares in Automated Payments Limited represents a 16.67% holding in that company, established and co-owned by commercial banks to provide automated clearing facilities within the commercial banking system.

6. Loans, net of provision for probable losses

Loans, net of provision for probable losses, are due from the date of the balance sheet as follows:

	2002	2001
Within 3 months	274,324,097	201,792,944
From 3 months to 1 year	24,631,345	14,465,772
From 1 year to 5 years	177,257,214	102,232,023
	$476,212,656	318,490,739

	Number of Accounts			
	2002	2001	2002	2001
Professional & other services	132	100	265,242,158	210,472,333
Individuals	324	129	145,580,896	73,373,559
Agriculture	1	-	130,085	-
Manufacturing	17	4	23,405,457	11,607,783
Transportation	18	4	39,611,507	12,410,965
Distribution	4	1	2,171,097	5,617,587
Tourism & entertainment	1	2	71,456	5,008,512
	497	240	$476,212,656	318,490,739

Delinquent loans and advances on which interest is no longer accrued amounted to $8,138,072 (2001: $105,054,107) as at balance sheet date.

6. Loans, net of provision for probable losses (cont'd)

Loans are shown after deducting provision for probable loan losses of $23,754,216 (2001: $102,287,494), as follows:

	2002	2001
Provision made during the year/period	10,000,000	90,333,677
Provision no longer required	-	(31,994,909)
Net charge for the year/period	10,000,000	58,338,768
At beginning of the year/period	102,287,494	47,021,174
Net loan balances written off during the year/period	(88,533,278)	(3,072,448)
At end of the year/period	$ 23,754,216	102,287,494
Comprised of:		
Specific provisions	18,754,216	99,087,494
General provision	5,000,000	3,200,000
	$ 23,754,216	102,287,494

In the previous period, the company and GK signed an Option Agreement, dated July 2, 2001, under which GK acquired the option to purchase loans with a principal balance of $35,029,841 for $35,210,000. These loans were sold with the relevant securities, and the effective date of the sale was June 30, 2001. GK exercised the option and, on the basis of this, the sale of the loans was booked in the financial statements and the provision for probable loan losses of $30,019,368 was prudently retained and re-allocated to the residual loan portfolio as a buffer against existing and potential problem loans.

7. Other assets

	2002	2001
Interest receivable	164,600,772	95,052,690
Withholding tax recoverable	26,635,204	13,026,874
Sundry	56,745,761	31,674,509
	$247,981,737	139,754,073

Sundry includes the company's contributions to the National Housing Trust, amounting to $49,567 (2001: $49,567), recoverable in the years 2001/4.

FIRST GLOBAL BANK LIMITED
(Formerly Trafalgar Commercial Bank Limited)

Notes to the Financial Statements (Continued)
December 31, 2002
(with comparative figures as at and for the fifteen months ended December 31, 2001)

8. Fixed assets

	Computer equipment	Office equipment, fixture & fittings & motor vehicles	Leasehold improvements	Leased assets	Total
At cost:					
December 31, 2001	26,641,749	18,372,835	7,055,272	3,140,000	55,209,856
Additions	18,778,112	1,907,350	-	10,305,735	30,991,197
Disposals	-	(6,313,316)	(7,055,272)	-	(13,368,588)
December 31, 2002	45,419,861	13,966,869	-	13,445,735	72,832,465
Depreciation:					
December 31, 2001	18,543,843	14,415,794	5,353,373	971,834	39,284,844
Charge for the year	3,434,234	1,273,629	115,769	2,080,260	6,903,892
Eliminated on disposals	-	(5,344,144)	(5,469,142)	-	(10,813,286)
December 31, 2002	21,978,077	10,345,279	-	3,052,094	35,375,450
Net book values:					
December 31, 2002	$23,441,784	3,621,590	-	10,393,641	37,457,015
December 31, 2001	$ 8,097,906	3,957,041	1,701,899	2,168,166	15,925,012

9. Deposits

Deposits are due from the date of the balance sheet as follows:

	2002	2001
Within 3 months	294,872,180	1,095,006,330
From 3 months to 1 year	1,019,926,043	7,939,178
Over 1 year	-	1,500,000
	$1,314,798,223	1,104,445,508

Deposits are comprised as follows:

	Number of Accounts			
	2002	2001	2002	2001
Financial institutions	46	34	403,092,880	500,920,435
Commercial & Business enterprises	555	541	636,042,555	385,072,494
Others	2,541	2,370	275,662,788	218,452,579
	3,142	2,945	$1,314,798,223	1,104,445,508

10. Obligations under finance leases

	2002	2001
2002	-	1,300,838
2003	5,031,134	1,094,420
2004	4,454,715	518,000
2005	3,936,714	-
2006	1,640,298	-
Total future minimum lease payments	15,062,861	2,913,258
Less: Future interest charges	(4,430,274)	(787,330)
Present value of minimum lease payments	$10,632,587	2,125,928
Due from the date of the balance sheet as follows:		
Within 1 year	2,879,855	806,620
After 1 year	7,752,732	1,319,308
	$10,632,587	2,125,928

11. Other liabilities

	2002	2001
Interest payable	80,295,836	35,116,249
Manager's cheques	88,682,382	44,815,322
Other	72,720,606	16,245,492
	$241,698,824	96,177,063

12. Share capital

	2002	2001
Authorised, issued and fully paid:		
26,666,666 20% cumulative non-redeemable convertible preference shares of $1 each	26,666,666	26,666,666
57,300,000 20% non-cumulative non-redeemable preference shares of $1 each	57,300,000	57,300,000
138,333,334 (2001: 53,333,334) Ordinary shares of $1 each	138,333,334	53,333,334
	$222,300,000	137,300,000

At Extraordinary General Meetings held during the year, resolutions were passed to effect the following:

(i) On September 27, 2002 (2001: July 13, 2001) the authorised share capital of the company was increased to $192,300,000 (2001: $137,300,000) by the creation of 55,000,000 ordinary shares (2001: 57,300,000 20% non-cumulative non-redeemable preference shares) of $1 each, ranking *pari passu* in all respects with the existing ordinary shares. GK subscribed for these shares which were issued on those dates.

FIRST GLOBAL BANK LIMITED
(Formerly Trafalgar Commercial Bank Limited)

Notes to the Financial Statements (Continued)
December 31, 2002
(with comparative figures as at and for the fifteen months ended December 31, 2001)

12. Share capital (cont'd)

(ii) On December 9, 2002, the company resolved to vary the issued share capital of the company by converting the 26,666,666 20% cumulative non-redeemable convertible preference shares and the 57,300,000 20% non-cumulative non-redeemable preference shares to 83,966,666 ordinary shares of $1 each to rank *pari passu* in all respects with the existing ordinary shares. The formalities of the conversion are not yet completed.

(iii) On December 23, 2002, the authorised share capital of the company was further increased to $222,300,000 by the creation of 30,000,000 ordinary shares of $1 each ranking *pari passu* in all respects with the existing ordinary shares. GK subscribed for these shares which were issued on that date.

13. Reserve fund

Subject to section 8 of the Banking Act, the company is required to transfer 15% or more of the company's net profit in each year to a Reserve Fund until the amount of credit in the Fund equals 50% of the paid-up capital, and thereafter 10% of net profits until the amount of credit in the Fund is equal to the paid-up capital. 100% (2001: 87.5%) of net profit for the year/period has been transferred to the Reserve Fund.

14. Employee numbers and costs

At the end of the year/period, the company has 53 (2001: 40) employees and related staff costs are as follows:

	2002 $	2001 $
Salaries and wages (note 15)	61,902,056	48,679,493
Statutory payroll contributions 5,007,266	4,563,041	
Pension scheme contributions	2,024,690	1,231,494
Other staff costs	5,856,261	4,239,828
	$74,790,273	58,713,856

15. Net profit for the year/period

Net profit for the year/period is stated after charging:

		2002 $	2001 $
Directors' emoluments	- fees	500,000	441,000
	- management remuneration	5,020,000	3,643,000
Auditors' remuneration	- current year/period	900,000	900,000
	- prior year	-	42,000
Loss on disposal of fixed assets		2,352,230	54,058
Redundancy costs [included in salaries and wages (note 14)]		-	1,282,885

FIRST GLOBAL BANK LIMITED
(Formerly Trafalgar Commercial Bank Limited)

Notes to the Financial Statements (Continued)
December 31, 2002
(with comparative figures as at and for the fifteen months ended December 31, 2001)

16. Earnings per share

The computation of earnings per share is based on net profit for the year of $122,080,337 (2001: $22,009,154), divided by 68,538,813 (2001: 53,333,334) being the average number of issued and fully paid $1.00 ordinary shares during the year/period. No preference dividend was declared nor proposed during the year (see note 18).

17. Taxation

(a) The company has pre-tax profits of $122,080,337 (2001: $22,009,154). The effective tax rate was nil% (2001: Nil%) compared to a statutory rate of $33^1/_3$% (2001: $33^1/_3$%). The actual tax expense differed from the expected tax expense for the year/period as follows:

	2002	2001
Computed "expected" tax expense	40,693,446	7,336,385
Difference between profit for financial statements and tax reporting purposes on:-		
Depreciation and capital allowances	(4,055,285)	680,011
Currency translation gains	(1,279,341)	(956,041)
Tax-free income	(31,234,823)	(8,177,770)
Other disallowed expenses	2,314,882	1,117,415
Tax losses set-off	(6,438,879)	-
Actual tax expense	$ -	-

(b) Taxation losses, subject to agreement by the Commissioner of Taxpayer Audit and Assessment, available for set-off against future taxable profits, amounted to approximately $6,722,000 (2001: $31,314,000).

18. Preference dividends

Preference dividends are an allowable charge against profits for taxation purposes in accordance with the Income Tax Act.

The preference shareholders, TDB and GK (see note 16), have decided to waive their cumulative dividends in order to strengthen the capital base of the Bank. Arrears of dividends waived up to December 31, 2002 amounted to $33,333,333 (2001: $28,000,000).

19. Pension scheme

The parent company and its local subsidiaries participate in a joint contributory pension scheme, which is open to all permanent employees and administered by trustees. The scheme commenced on January 1, 1975 and is funded by employee contributions at 5% of salary with the option to contribute an additional 5% and employer contributions at 10% of salary to February 2001, and 5% since that date, as recommended by independent actuaries. Pension at normal retirement age is based on 2% of final 3-year average salary per year of pensionable service, plus any declared bonus pension.

The latest actuarial valuation carried out as at December 31, 1999 by Coke and Associates/Eckler Partners, showed that the scheme was adequately funded at that date.

As at May 31, 2001, employees' contributions to the scheme which is operated by the former parent company, Trafalgar Development Bank Limited, were repaid by First Life Insurance Company Limited. Employer contributions were repaid on December 13, 2001.

20. Funds under management

As at December 31, 2002, the company had brokered funds totalling $6,274,243 (2001: $7,654,244) and managed funds totalling $1,642,730,254 (2001: $621,919,178). The company manages these funds, on a non-recourse basis, on behalf of investors. The company has no legal or equitable right or interest in these funds and, accordingly, they have been excluded from the financial statements.

The Supervisor of commercial banks and other institutions licensed under the Financial Institutions Act, requires them to separate brokered and managed funds from their operations. Consequently, the company has reached an agreement with the Supervisor for the separation of these funds.

21. Related party balances and transactions

Two parties are considered to be related when:

(a) one party is able to exercise control or significant influence over the other party; or

(b) both parties are subject to common control or significant influence from the same source.

The balance sheet includes balances, arising in the normal course of business, with director, parent, fellow subsidiaries and related companies as follows:

	2002	2001
	$	$
Loans, net of provision for probable losses:		
Fellow subsidiaries	-	32,108,712
Securities purchased under resale agreements:		
Fellow subsidiary	50,969,700	47,151,311
Other assets:		
Fellow subsidiary	8,379	406,741
Deposits:		
Parent company	63,280,487	581
Fellow subsidiaries	131,868,250	270,833,747
Director	3,411,968	1,315,831
Related company	398,695	12,947,544
Securities sold under repurchase agreements:		
Parent company	5,429,750	1,245,698
Fellow subsidiaries	330,189,706	93,540,712
Director	7,028,263	-
Related company	32,075,624	26,500,000
Obligations under finance leases:		
Fellow subsidiary	10,442,598	2,125,928
Other liabilities:		
Parent company	382,478	33,617
Fellow subsidiaries	5,065,641	4,343,968

21. Related party balances and transactions (cont'd)

The Statement of Revenue and Expenses includes the following income earned from, and expenses incurred in, transactions with the parent, fellow subsidiaries and related companies. The transactions arose in the normal course of business.

	2002 $	2001 $
Revenue:		
Income from deposits:		
Parent company - TDB	-	21,703
- GK	1,723,795	1,373,011
Other related companies	4,592	509,387
Fellow subsidiaries	4,053,913	1,022,016
Other operating income:		
Fellow subsidiaries	1,655,000	900,000
Expenses:		
Interest:		
Parent company - TDB	-	6,513,962
- GK	7,439,139	2,624,297
Related companies	7,416,347	1,332,144
Fellow subsidiaries	62,034,288	27,418,535
Other operating expenses:		
Fellow subsidiaries	6,488,353	2,208,706
General administration expenses:		
Parent company	5,574,679	1,612,201

22. Financial instruments

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

(a) Fair value:

Fair value amounts represent estimates of the arm's length consideration that would be currently agreed upon between knowledgeable, willing parties who are under no compulsion to act and is evidenced by a quoted market price, if one exists. Many of the company's financial instruments lack an available trading market. Therefore, these instruments have been valued using present value or other valuation techniques and may not necessarily be indicative of the amounts realisable in an immediate settlement of the instruments.

22. Financial instruments (cont'd)

(a) Fair value: (cont'd)

Determination of fair value:

The fair value of cash resources, securities purchased under resale agreements, cheques and other instruments in transit, interest receivable, other assets, customers liability under guarantees, as per contra, securities sold under repurchase agreements, other liabilities and guarantees, per contra are assumed to approximate their carrying values due to their short-term nature.

The fair value of investments is assumed to be equal to the estimated market values of the investments as provided in note 5. The estimated fair values of loans are assumed to be the principal receivable less any provision for losses.

The fair value of obligations under finance lease, deposits payable on demand or after notice, and deposits with a variable or floating rate payable on a fixed date are assumed to be equal to their carrying values. The estimated fair values of fixed rate deposits payable within a year are assumed to approximate their carrying values, due to their short-term nature.

(b) Financial instrument risks:

Exposure to interest rate, market, foreign currency, credit, liquidity and cash flow risks arises in the ordinary course of the company's business. Derivative financial instruments are not presently used to reduce exposure to fluctuations in interest and foreign exchange rates.

(i) Interest rate risk:

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Position risk is the exposure of the company to the effect of price changes on the market value of its portfolio of financial instruments, both on and off balance sheet.

The company manages these risks by establishing limits for the average modified duration of its portfolio, that is, the percentage change in the price of each type of financial instrument held for a given change in interest rates.

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22. Financial instruments (cont'd)

(b) Financial instrument risks: (cont'd)

(i) Interest rate risk (cont'd):

The following table summarises the carrying amounts of financial assets and liabilities to arrive at the company's interest rate gap based on the earlier of contractual repricing and maturity dates.

	2002				
	Within 3 months $	3 to 12 months $	Over 12 months $	Non-rate sensitive $	Total $
Assets					
Cash resources	-	-	-	295,734,903	295,734,903
Investments	1,278,661,278	987,243,826	2,000,176,127	-	4,266,081,232
Loans, net of provision for probable losses	274,324,097	24,631,345	177,257,214	-	476,212,656
Securities purchased under resale agreements	894,217,406	-	-	-	894,217,406
Cheques and other items in transit	-	-	-	210,112,653	210,112,653
Other assets	-	-	-	247,981,737	247,981,737
Customers' liabilities under guarantees, as per contra	-	-	-	51,827,462	51,827,462
Total financial assets	2,447,202,781	1,011,875,171	2,177,433,341	805,656,755	6,442,168,049
Deposits	294,872,180	1,019,926,043	-	-	1,314,798,223
Securities sold under repurchase agreements	4,027,069,957	466,996,296	-	-	4,494,066,253
Obligations under finance lease	705,848	2,174,008	7,752,731	-	10,632,587
Other liabilities	-	-	-	241,698,824	241,698,824
Guarantees, per contra	-	-	-	51,827,462	51,827,462
Total financial liabilities	4,322,647,985	1,489,096,347	7,752,731	293,526,826	6,113,023,349
Total interest rate sensitivity gap	(1,875,445,204)	(447,221,176)	2,169,680,610	512,129,929	329,144,160
Cumulative gap	(1,875,445,204)	(2,352,666,380)	(182,985,769)	329,144,160	329,144,160

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22. Financial instruments (cont'd)

(b) Financial instrument risks: (cont'd)

(i) Interest rate risk: (cont'd)

	2001				
	Within 3 months $	3 to 12 months $	Over 12 months $	Non-rate sensitive $	Total $
Assets					
Cash resources	-	-	-	269,862,074	269,862,074
Investments	211,526,533	272,883,933	1,157,652,234	-	1,642,062,700
Loans, net of provision for probable losses	201,792,944	14,465,772	102,232,023	-	318,490,739
Securities purchased under resale agreements	463,191,007	-	-	-	463,191,007
Cheques and other items in transit	-	-	-	119,900,646	119,900,646
Other assets	-	-	-	139,754,073	139,754,073
Customers' liabilities under guarantees, as per contra	-	-	-	16,272,878	16,272,878
Total financial assets	876,510,484	287,349,705	1,259,884,257	545,789,671	2,969,534,117
Deposits	1,084,556,772	18,388,736	1,500,000	-	1,104,445,508
Securities sold under repurchase agreements	1,401,595,338	205,321,037	-	-	1,606,916,375
Obligations under finance leases	181,149	625,471	1,319,308	-	2,125,928
Other liabilities	-	-	-	96,177,063	96,177,063
Guarantees, per contra	-	-	-	16,272,878	16,272,878
Total financial liabilities	2,486,333,259	224,335,244	2,819,308	112,449,941	2,825,937,752
Total interest rate sensitivity gap	(1,609,822,775)	63,014,461	1,257,064,949	433,339,730	143,596,365
Cumulative gap	(1,609,822,775)	(1,546,808,314)	(289,743,365)	143,596,365	143,596,365

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

	2002			
	Within 3 months (%)	3 to 12 months (%)	Over 12 months (%)	Total (%)
Investments	17.55	15.87	13.26	15.15
Loans, net of provision for probable losses	33.61	25.26	21.89	28.81
Securities purchased under resale agreements	8.96	-	-	8.96
Deposits	8.70	3.40	-	5.92
Securities sold under repurchase agreements	13.81	14.88	-	13.92
Obligations under finance leases	24.59	24.24	23.00	23.28

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22. Financial instruments (cont'd)

(b) Financial instrument risks: (cont'd)

(i) Interest rate risk: (cont'd)

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

	2001			
	Within 3 months (%)	3 to 12 months (%)	Over 12 months (%)	Total (%)
Investments	18.71	18.56	12.43	12.95
Loans, less provision for probable losses	30.61	24.63	21.84	27.52
Securities purchased under resale agreements	11.34	19.04	-	14.70
Deposits	7.77	10.11	16.67	7.82
Securities sold under repurchase agreements	10.56	14.75	-	11.09
Obligations under finance leases	27.89	27.89	27.89	27.89

Interest is earned on cash resources held with Bank of America in instances where the daily cleared funds exceed US$50,000. As at December 31, 2002, the interest rate applicable was 0.92% (2001: 1.17%) per annum.

(ii) Market risk:

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The company manages this risk by applying the relevant hedging techniques and maintaining the appropriate gapping strategy. The company has also established limits for specific financial instruments with regard to liquidity and tenure. The company's investment portfolio presently consists mainly of Government of Jamaica instruments denominated in both US and Jamaica dollars, which are all tradable. The company's loans are adequately secured. At the balance sheet date, financial instruments subject to this risk amounted to $5,636,511,293 (2001: $2,423,744,447).

(iii) Foreign currency risk:

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The company incurs foreign currency risk on transactions that are denominated in a currency other than the Jamaica dollar, mainly the US dollar. The company is exposed to significant foreign currency risk. The company ensures that the net exposure is kept to an acceptable level by monitoring on a daily basis all currency positions and ensuring adherence to predetermined limits. The company further manages this risk by maximising foreign currency earnings and holding foreign

22. Financial instruments (cont'd)

(b) Financial instrument risks: (cont'd)

(iii) Foreign currency risk: (cont'd)

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

Currency	2002	2001
United States dollars	1,008,283	1,633,584
Canadian dollars	50,187	49,198
Pounds sterling	(67,513)	23,606

(iv) Credit risk:

Credit risk is the risk that one or both parties to a financial instrument will fail to discharge an obligation resulting in loss to the other party.

The company has significant concentrations of credit risk in investments, loans and securities purchased under resale agreement. The company manages this risk by screening its customers, establishing credit limits, obtaining collaterals for loans and the rigorous follow-up of receivables; ensuring investments and securities purchased under resale agreements are low-risk or held with sound financial institutions or related companies. At the balance sheet date, there were no other significant concentrations of credit risk and the maximum exposure to credit risk is represented by the carrying balance of each financial asset.

The following table summarises the credit exposure to individuals and businesses by sector:

	2002		
	Loans	Guarantees and letters of credit	Total
Professional & other services	265,242,158	44,343,355	309,585,513
Individuals	145,580,896	1,625,860	147,206,756
Agriculture	130,085	-	130,085
Manufacturing	23,405,457	-	23,405,457
Transportation	39,611,507	5,858,247	45,469,754
Distribution	2,171,097	-	2,171,097
Tourism	71,456	-	71,456
	$476,212,656	51,827,462	528,040,118

22. Financial instruments (cont'd)

(b) Financial instrument risks: (cont'd)

(iv) Credit risk (cont'd):

	2001		
	Loans	Guarantees and letters of credit	Total
Professional & other services	210,472,333	6,696,924	217,169,257
Individuals	73,373,559	2,680,066	76,053,625
Manufacturing	11,607,783	-	11,607,783
Transportation	12,410,965	5,000,000	17,410,965
Distribution	5,617,587	1,895,888	7,513,475
Tourism	5,008,512	-	5,008,512
	$318,490,739	16,272,878	334,763,617

(v) Liquidity risk:

Liquidity risk, also referred to as funding risk, is the risk that the company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at, or close to, its fair value. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities. Due to the nature of the underlying businesses, the management of the company aims at maintaining flexibility in funding by having adequate credit facilities and marketable financial instruments. The company also has in place the appropriate limits with regard to liquid instruments and total assets and continues to apply the appropriate gapping strategy.

(vi) Cash flow risk:

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

The company manages this risk through budgetary measures ensuring, as far as possible, that financial assets and liabilities are matched to mitigate any significant adverse cash flows.

23. Litigation

The company has been sued by two of its customers who have alleged that they are not indebted to the company and have sought declarations to that effect. The suit claims unquantified damages for fraud and breach of contract. The company has filed a defence to the claim, denied the allegations and counter claimed for the debt owing. A trial date has not yet been set.

The company's lawyers are unable to provide a meaningful opinion as to outcome of the suit, as it will depend on oral evidence given at the trial, and the judge's opinion as to the truth of that evidence. No provision has been made in the financial statements in this regard.

24. Lease commitments:

The company had operating lease commitments at December 31, 2002, payable to a fellow subsidiary as follows:

	2002	2001
Within one year	8,186,824	-
Subsequent years	24,560,473	-
	$32,747,297	-

25. Subsequent event

Effective January 10, 2003, commercial banks and other institutions licensed under the Financial Institutions Act are required to deposit 5% of their Jamaica dollar prescribed deposit liabilities with the Bank of Jamaica. This is in addition to the 9% cash reserve requirement [see note 4 (a)] bringing the total reserve requirement to 14%. The additional amount required to be deposited with the Bank of Jamaica is $19,287,350 which has been met and will earn interest at 6% per annum.