FIRST GLOBAL BANK LIMITED

INDEX

December 31, 2004

DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements for the year ended December 31, 2004.

The statement of revenue and expenses shows profit before taxation of $601,945,000 and net profit of $471,038,000. Net profit increased by 172% over last year. The retained earnings at December 31, 2004 amounted to $83,935,000.

ACTIVITIES

The company is licensed under the Banking Act. The main activities of the company during the year are the provision of commercial banking and related financial services.

DIRECTORS

During the year under review, the directors of the company were:-

Mr. Douglas Orane	-	Chairman
Mr. Donald Wehby	-	Deputy Chairman
Mr. Wayne Wray	-	President (appointed May 25, 2004)
Mr. Joseph Issa		
Mr. Orville Walker		
Ms. Beverly Lopez		
Mrs. Rema Spence Dunn	-	Secretary
Mr. Adrian Wallace	-	Resigned May 25, 2004
Mr. Gordon Shirley	-	Resigned May 25, 2004
Mr. Milverton Reynolds	-	Appointed May 25, 2004

APPROPRIATIONS

Appropriations of retained earnings were as follows:

	2004 $'000	2003 $'000
Net profit for the year	471,038	172,576
Retained earnings brought forward	-	377
	471,038	172,953
Transfer to reserve fund	(47,104)	(175,271)
Transfer to retained earnings reserve	(322,703)	-
Transfer (to)/from loan loss reserve	(17,296)	2,318
Retained earnings to be carried forward	83,935	-

DIVIDENDS

The directors do not recommend the payment of a dividend.

SHARE CAPITAL

At an extraordinary general meeting held on March 26, 2004, resolutions were passed to effect the following:

(i) To increase the authorised share capital by $235,384,764 to $627,684,764 by the creation of 235,384,764 additional ordinary shares of $1.00 each, such shares to rank *pari passu* in all respects with the existing ordinary shares.

(ii) To issue, as fully paid, the 235,384,764 ordinary shares to Grace, Kennedy & Company Limited as consideration for their shares held in George & Branday Limited.

BUSINESS COMBINATION AND DISPOSAL OF SUBSIDIARIES

During the year, under a scheme of reorganization by Grace, Kennedy & Company Limited, and by Vesting Order, dated April 1, 2004, from the Minister of Finance, the assets and liabilities of George & Branday Limited, a merchant bank, were transferred to the company with effect from April 1, 2004. Under the same scheme of reorganization, the company disposed of its two subsidiaries, FGB Securities Limited and George & Branday Securities Limited, to Grace, Kennedy & Company Limited.

AUDITORS

The auditors, Messrs. KPMG Peat Marwick, have indicated their willingness to continue in office in accordance with Section 153 of the Companies Act.

On behalf of the Board
FIRST GLOBAL BANK LIMITED

Donald Wehby
Deputy Chairman

March 17, 2005

To the Members of
FIRST GLOBAL BANK LIMITED

Auditors' Report

We have audited the financial statements of First Global Bank Limited ("the company") as at and for the year ended December 31, 2004, set out on pages 2 to 33, and have obtained all the information and explanations which we required. The financial statements are the responsibility of the company's management. 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 reasonable assurance about whether 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. 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 International Financial Reporting Standards, give a true and fair view of the state of affairs of the company as at December 31, 2004, and of its results of operations and cash flows for the year then ended, and comply with the provisions of the Companies Act applicable to banking companies.

March 17, 2005

FIRST GLOBAL BANK LIMITED

Balance Sheets
Year ended December 31, 2004

	Notes	Company 2004	Company 2003	Group 2003
		$'000	$'000	$'000
ASSETS				
Cash resources	4	637,626	416,372	422,971
Investments	5	11,076,635	6,251,139	7,978,024
Loans, net of provision for probable losses	6	2,356,765	703,920	703,920
Securities purchased under resale agreements		619,798	459,547	564,547
Cheques and other instruments in-transit, net		225,305	287,334	287,334
Other assets	7	648,862	369,224	508,889
Taxation recoverable		1,226	1,226	1,226
Customers' liability under guarantees, as per contra		303,261	74,232	74,232
Deferred tax assets	8	10,351	264	9,314
Employee benefit asset	9	44,661	14,217	14,217
Property, plant and equipment	10	47,523	41,383	41,550
		15,972,013	8,618,858	10,606,224
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Deposits	11	4,575,491	1,801,362	1,801,362
Due to specialised banks	12	101,482	29,320	29,320
Securities sold under repurchase agreements		8,471,553	5,711,398	7,536,207
Obligations under finance leases	13	5,651	7,803	7,803
Deferred tax liabilities	8	75,731	9,418	15,744
Income tax payable		90,871	10,099	10,099
Other liabilities	14	451,892	245,707	353,926
Employee benefit obligation	9	25,600	7,087	7,087
Guarantees, per contra		303,261	74,232	74,232
		14,101,532	7,896,426	9,835,780
SHAREHOLDERS' EQUITY				
Share capital	15	627,685	392,300	392,300
Reserve fund	16	550,710	320,799	320,799
Fair value reserve	17	117,032	4,032	16,645
Loan loss reserve	18	22,597	5,301	5,301
Retained earnings reserve	19	468,522	-	-
Retained profits		83,935	-	35,399
		1,870,481	722,432	770,444
		15,972,013	8,618,858	10,606,224

The financial statements on pages 2 to 33 were approved by the Board of Directors on March 17, 2005 and signed on its behalf by:

__________________________ Director
D. Orane

__________________________ Secretary
R. Spence Dunn

__________________________ Director
D. Wehby

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

FIRST GLOBAL BANK LIMITED

Statements of Revenue and Expenses
Year ended December 31, 2004

	Notes	Company 2004	Company 2003	Group 2003
		$'000	$'000	$'000
Interest income from:				
Loans		367,381	185,074	185,074
Deposits		37,821	35,207	32,771
Securities		1,636,808	988,491	1,126,981
		2,042,010	1,208,772	1,344,826
Interest expense on:				
Deposits		(243,571)	(72,278)	(71,575)
Other		(1,075,258)	(849,637)	(960,043)
		(1,318,829)	(921,915)	(1,031,618)
Net interest income		723,181	286,857	313,208
Provision for loan losses, net	6	(30,949)	(9,638)	(9,638)
		692,232	277,219	303,570
Other income:				
Fees and commissions		169,109	47,335	47,512
Foreign exchange gains		42,287	100,462	100,462
Gain on disposal of subsidiaries		83,935	-	-
Other		51,023	26,115	26,899
		346,354	173,912	174,873
Net revenue		1,038,586	451,131	478,443
Operating expenses:				
Employees compensation and benefits	20	(203,136)	(104,991)	(104,991)
Depreciation		(16,987)	(11,862)	(11,881)
Other		(183,913)	(115,359)	(116,284)
General administration expenses		(32,605)	(15,342)	(15,342)
		(436,641)	(247,554)	(248,498)
Profit before taxation	21	601,945	203,577	229,945
Taxation	22	(130,907)	(31,001)	(21,970)
Net profit for the year		471,038	172,576	207,975
Dealt with in the financial statements of:				
The company				172,576
Subsidiary				35,399
				207,975
Earnings per share	23	$0.82	$0.54	$0.65

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

FIRST GLOBAL BANK LIMITED

Statements of Changes in Shareholders' Equity
Year ended December 31, 2004

	Share capital $'000 (note 15)	Reserve fund $'000 (note 16)	Fair value reserve $'000 (note 17)	Loan loss reserve $'000 (note 18)	Retained earnings reserve $'000	Retained profits $'000	Total $'000
Company:							
Balances at December 31, 2002	222,300	145,528	44,385	7,619	-	377	420,209
Share capital issued	170,000	-	-	-	-	-	170,000
Changes in fair value of available-for-sale investments, net of taxation	-	-	(40,353)	-	-	-	(40,353)*
Net profit for the year	-	-	-	-	-	172,576	172,576*
Transfer to reserve fund	-	175,271	-	-	-	(175,271)	-
Transfer from loan loss reserve	-	-	-	(2,318)	-	2,318	-
Balances at December 31, 2003	392,300	320,799	4,032	5,301	-	-	722,432
Reserves arising on the merger with George & Branday Limited	-	182,807	(70,127)	-	145,819	-	258,499
Share capital issued	235,385	-	-	-	-	-	235,385
Changes in fair value of available-for-sale investments, net of taxation	-	-	183,127	-	-	-	183,127*
Net profit for the year	-	-	-	-	-	471,038	471,038*
Transfer to reserves	-	47,104	-	-	322,703	(369,807)	-
Transfer to loan loss reserve	-	-	-	17,296	-	(17,296)	-
Balances at December 31, 2004	627,685	550,710	117,032	22,597	468,522	83,935	1,870,481
Group:							
Balances at December 31, 2002	222,300	145,528	44,385	7,619	-	377	420,209
Share capital issued	170,000	-	-	-	-	-	170,000
Changes in fair value of available-for-sale investments, net of taxation	-	-	(27,740)	-	-	-	(27,740)*
Net profit for the year	-	-	-	-	-	207,975	207,975*
Transfer to reserve fund	-	175,271	-	-	-	(175,271)	-
Transfer from loan loss reserve	-	-	-	(2,318)	-	2,318	-
Balances at December 31, 2003	392,300	320,799	16,645	5,301	-	35,399	770,444

* Total recognized gains - $654,165,000 (2003: company $132,223,000, group $180,235,000)
The accompanying notes form an integral part of the financial statements.

FIRST GLOBAL BANK LIMITED

Statement of Cash Flows
Year ended December 31, 2004

	Company 2004 $'000	Company 2003 $'000	Group 2003 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the year	471,038	172,576	207,975
Adjustments to reconcile net profit for the year to net cash provided/(used) by operating activities:			
Depreciation	16,987	11,862	11,881
Loss/(gain) on disposal of property, plant and equipment	121	(68)	(68)
Gain on disposal of subsidiaries	(83,935)	-	-
Provision for probable loan losses	30,949	9,638	9,638
Deferred tax, net	81,291	902	(8,129)
Employee benefits, net	(405)	(517)	(517)
Interest receivable	(28,712)	(100,830)	(209,748)
Interest payable	(158,516)	81,339	138,621
Net cash provided by operating activities	328,818	174,902	149,653
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments	355,316	(1,979,010)	(3,686,975)
Loans	(1,296,683)	(229,726)	(229,726)
Securities purchased under resale agreements	610,452	434,670	329,670
Other assets	(46,293)	(20,413)	(51,159)
Additions to property, plant and equipment	(15,404)	(15,981)	(16,167)
Proceeds from disposal of property, plant and equipment	1,017	262	261
Proceeds from disposal of subsidiaries	98,935	-	-
Proceeds from share capital issued	-	170,000	170,000
Net cash used by investing activities	(292,660)	(1,640,198)	(3,484,096)
CASH FLOWS FROM FINANCING ACTIVITIES			
Deposits	936,336	486,564	486,564
Due to specialised banks	8,533	29,320	29,320
Securities sold under repurchase agreements	(1,128,873)	1,217,332	3,042,141
Cheques and other items in transit, net	62,029	(77,221)	(77,221)
Obligations under finance leases	(2,152)	(2,830)	(2,830)
Income tax payable	80,772	10,099	10,099
Other liabilities	81,174	(77,331)	(26,394)
Net cash provided by financing activities	37,819	1,585,933	3,461,679
Net increase in cash resources	73,977	120,637	127,236
Cash resources from George & Branday Limited, net of bank overdraft	147,277	-	-
Cash resources at beginning of year	416,372	295,735	295,735
Cash resources at end of year	637,626	416,372	422,971

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

1. The company

First Global Bank Limited ("company" or "bank") is a limited liability company incorporated and domiciled in Jamaica and is a wholly-owned subsidiary of Grace, Kennedy & Company Limited (GK), also incorporated in Jamaica. The company's principal place of business is located at 28 Barbados Avenue, Kingston 5, Jamaica W.I.

The principal activities of the company are the provision of commercial banking and related financial services.

During the year, under a scheme of reorganization by GK, the company merged its operations with George & Branday Limited (G&B), a limited liability company incorporated and domiciled in Jamaica. G&B is a wholly-owned subsidiary of GK and its principal activities comprised securities trading, trade finance services, funds management and dealing in foreign exchange. The merged entities now operate under the name of First Global Bank Limited. By Vesting Order, dated April 1, 2004, the Minister of Finance gave approval for the transfer of the assets and liabilities of G&B to the company with effect from April 1, 2004 [see notes 3(k), 15 and 27].

2. Bank licence

The company is licensed, and the financial statements are delivered, under the Banking Act (Act). During the year ended December 31, 2004, the company did not, at all times, comply with the Bank of Jamaica ("Regulator") primary prudential ratio requirement, however, this was rectified before year-end.

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

3. Basis of preparation and significant accounting policies

(a) Basis of preparation:

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and their interpretations adopted by the International Accounting Standards Board (IASB) and comply with the provisions of the Companies Act and the Banking Act. The significant accounting policies used in the preparation of the financial statements are set out in notes 3(b) to 3(l) and conform to the Companies Act and, in all material respects, IFRS.

The financial statements are presented in Jamaican dollars and are prepared on the historical cost basis, except for available-for-sale investments which are stated at fair value.

The preparation of the financial statements in accordance with IFRS requires the directors and management to make estimates and assumptions that affect the reported amount of assets, liabilities, contingent assets and contingent liabilities at the balance sheet date and the income and expenses for the year then ended. Actual amounts could differ from those estimates.

(b) Property, plant and equipment:

(i) Owned assets:

Items of property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses [note 3(i)].

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

(b) Property, plant and equipment (cont'd):

(ii) Leased assets:

Leases for which the company assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired under finance leasing arrangements are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses [note 3(i)].

Lease payments are allocated between the liability and finance charge so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charge, are included in finance lease obligations. The interest portion of the finance charge is charged to the statement of revenue and expenses over the lease period.

(iii) Depreciation is calculated on the straight-line method at annual rates, ranging from 10% to 20%, estimated to write off the assets over their expected useful lives. Leased assets are depreciated over the shorter of the lease period or useful life of the assets.

(c) Income and expenses:

(i) Interest income:

Interest income is recorded on the accrual basis using the effective yield method, 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.

IFRS requires that when collection of loans becomes doubtful, such loans are to be written down to their recoverable amounts after which interest income is to be recognised based on the rate of interest that was used to discount the future cash flows in arriving at the recoverable amount. The difference between the basis of interest recognition of the Banking Act and IFRS has been assessed as immaterial.

(ii) Other income:

Fees and commission are recognised on the accrual basis upon completion of transactions to which they relate.

(iii) Interest and other expenses:

These are recorded on the accrual basis.

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

(d) 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 will not be recovered.

General provisions for doubtful credits are established against the loan portfolio where a prudent assessment by management 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 Regulator.

IFRS only permits specific loan loss provisions and requires that the future cash flows of impaired loans be discounted and the increase in the present value be reported as interest income. The loan loss provision required under the Banking Act that is in excess of the requirements of IFRS is treated as an appropriation of retained earnings and included in a non-distributable loan loss reserve (note 18).

(e) Foreign currencies:

The exchange rates of the Jamaican dollar against other currencies are established on a daily basis using rates at which the bank trades and which are not materially different from the Bank of Jamaica weighted average rates. 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, except for those on investments which are included in fair value reserve (note 17).

(f) Related parties:

Two parties are considered to be related when:

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

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

Balances and transactions with related parties are disclosed in note 25.

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

(g) Taxation:

(i) Income tax:

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of revenue and expenses, except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to income tax payable in respect of previous years.

(ii) Deferred tax:

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(h) Financial instruments:

(i) Classification of investments:

Management determines the classification of investments at the time of purchase and takes account of the purpose for which the investments were made. Investments are classified as originated loans and receivables, and available-for-sale.

Originated loans and receivables are created by providing money to a debtor other than those created with the intention of short-term profit taking. Originated loans and receivables are recognised on the day they are transferred to the company.

Available-for-sale instruments are those that are not held for trading purposes, or originated by the company. Available-for-sale assets are recognised on the date the company commits to purchase the assets. From this date, any gains and losses arising from changes in fair value of the assets are recognised in equity.

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

(h) Financial instruments (cont'd):

(ii) Measurement:

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition, all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably determined, is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities and originated loans and receivables are measured at amortised cost, less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Based on the above guidelines, the company's investments are measured as follows:

[i] Loans are classified as originated loans and receivables and are stated at amortised cost, less provision for losses as appropriate.

[ii] Government of Jamaica securities purchased on the primary market, securities purchased under resale agreements and interest-bearing deposits are stated at historical or amortised cost.

[iii] Government of Jamaica securities purchased on the secondary market are classified as available-for-sale and measured at fair value. Appreciation and depreciation are carried to fair value reserve.

[iv] Securities purchased/sold under resale/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. Repos and reverse repos are accounted for as short-term collateralised borrowing and lending, respectively, and are carried at cost.

The difference between the purchase/sale and resale/repurchase considerations is recognised on the accrual basis over the period of the agreements, using the effective yield method, and is included in interest.

[v] Investment in subsidiaries:

Investment in subsidiaries is stated at cost.

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

(h) Financial instruments (cont'd):

(iii) Fair value measurement principles:

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. Where a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques or a generally accepted alternative method.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

(iv) Gains and losses on subsequent measurement:

Gains and losses arising from a change in the fair value of available-for-sale assets are recognised directly in equity (note 17). When the financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognised in equity is transferred to the statement of revenue and expenses.

(v) Trade and other payables:

Trade and other payables, including provisions, are stated at their cost. A provision is recognised in the balance sheet when the company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(vi) Cash resources:

Cash resources, including short-term deposits, with maturities ranging between three and twelve months from balance sheet date, are shown at cost.

(vii) Trade and other receivables:

These are stated at their cost, less impairment losses [note 3(i)].

(viii) Derecognition:

A financial asset is derecognised when the company loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expired or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the company commits to sell the assets.

Originated loans and receivables are derecognised on the day they are transferred by the company.

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

(i) Impairment:

The carrying amounts of the company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of revenue and expenses.

(i) Calculation of recoverable amount:

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment:

In respect of other assets, an impairment loss is reversed, if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Employee benefits:

Employee benefits are all forms of consideration given by the company in exchange for service rendered by employees. These include current or short-term benefits such as salaries, bonuses, NIS contributions, annual leave, and non-monetary benefits such as medical care and housing; post-employment benefits such as pensions and medical care; other long-term employee benefits such as termination benefits.

Employee benefits that are earned as a result of past or current service are recognised in the following manner: Short-term employee benefits are recognised as a liability, net of payments made, and charged as expense. The expected cost of vacation leave that accumulates is recognised when the employee becomes entitled to the leave. Post employment benefits are accounted for as described below.

Employee benefits comprising pensions and other post-employment assets and obligations included in the financial statements are actuarially determined by a qualified independent actuary, appointed by management. The appointed actuary's report outlines the scope of the valuation and the actuary's opinion. The actuarial valuations are conducted in accordance with IAS 19, and the financial statements reflect the company's post-employment benefit asset and obligations as computed by the actuary. In carrying out their audit, the auditors rely on the actuary's report.

(i) Pension obligations:

The company participates in a defined benefit plan operated by its parent company. The scheme is generally funded through payments to a trustee-administered fund as determined by periodic actuarial calculations. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

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

(j) Employee benefits (cont'd):

(i) Pension obligations (cont'd):

The liability in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date, minus the fair value of plan assets, together with adjustments for actuarial gains/losses and past service cost. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credited method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability.

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

(ii) Equity compensation benefits:

The company participates in a share options scheme operated by the parent company. Share options are granted to management and key employees with more than three years of service. Options are granted at the market price of the shares on the date of the grant and are exercisable at that price. Options are exercisable beginning one year from the date of grant and have a contractual option term of five years. The company does not make a charge to staff costs in connection with share options.

(iii) Termination benefits:

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The company recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan, without possibility of withdrawal, or provision of termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(iv) Profit-sharing and bonus plans:

A liability for employee benefits in the form of profit-sharing and bonus plans is recognised in other provisions when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there is a formal plan and the amounts to be paid are determined before the time of issuing the financial statements; or
- past practice has created a valid expectation by employees that they will receive a bonus/profit-sharing and the amount can be determined before the time of issuing the financial statements.

Liabilities for profit-sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

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

(k) Business combination:

The merger of First Global Bank Limited and George & Branday Limited has been accounted for using the purchase method (see notes 1, 15 and 27).

(l) Consolidation of Subsidiaries:

The group financial statements for the previous year include the financial statements of the company and its wholly-owned subsidiary, FGB Securities Limited. The subsidiary is incorporated and domiciled in Jamaica. Under a scheme of reorganization, on January 1, 2004, the company's interest in the subsidiary was sold to a fellow subsidiary (see note 28).

4. Cash resources

	Company		Group
	2004	2003	2003
	$'000	$'000	$'000
Notes and coins	83,926	75,360	81,959
Money at call and on deposit at Bank of Jamaica [see (a) and (b) below]	372,872	222,714	222,714
Due from other financial institutions	104,282	-	-
Current accounts with foreign banks	76,546	118,298	118,298
	637,626	416,372	422,971

(a) $318,300,446 (2003: $189,139,667) of 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 Jamaican dollar prescribed liabilities is held on a non-interest-bearing basis. No portion of the cash reserve is available for investment or other use by the company. The actual cash reserve percentage in force at the end of the year was 9% (2003: 9%).

(b) The deposit at Bank of Jamaica includes a special reserve of $48,839,727 (2003: $33,358,000 for the company and group). The special reserve represents 5% of the company's Jamaican dollar prescribed deposit liabilities and earns interest at 6% per annum. This reserve is in addition to the cash reserve mentioned in (a) above, bringing the total reserve requirement to 14%.

(c) Cash resources are those defined as due within three months after balance sheet date.

5. Investments

	Company		Group
	2004	2003	2003
	$'000	$'000	$'000
Available-for-sale securities, stated at fair value:			
Issued by Government of Jamaica:			
Local registered stocks and treasury bills	1,331,423	443,576	850,865
Global and US$ indexed bonds	2,356,346	1,620,983	2,091,222
	3,687,769	2,064,559	2,942,087
Originated loans and receivables, stated at amortised cost:			
Government of Jamaica securities:			
Local registered stocks and treasury bills [see (a) below]	1,534,690	1,025,723	1,051,713
Debenture	1,281,840	804,358	946,858
Global and US$ indexed bonds	3,617,990	2,072,570	2,451,437
Debenture – Parent company	98,935	-	-
Development Bank of Jamaica bond	7,391	9,409	9,409
Certificates of deposit	843,000	259,500	571,500
Unquoted equities:			
Automated Payments Limited [see (b) below]	5,020	5,020	5,020
Subsidiaries [note 3(k)]	-	10,000	-
	7,388,866	4,186,580	5,035,937
	11,076,635	6,251,139	7,978,024

(a) Local Registered Stock amounting to $200,000,000 (2003: $100,000,000 for the company and $135,000,000 for the group) 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, which was established, and is co-owned, by commercial banks to provide automated clearing facilities within the commercial banking system.

6. Loans, net of provision for probable losses

The company's (2003: company's and group's) loan portfolio, less provision for losses, is concentrated as follows:

	Number of accounts			
	2004	2003	2004	2003
			$'000	$'000
Public sector	2	-	1,100,134	-
Professional & other services	292	303	847,787	414,041
Individuals	549	285	300,043	222,003
Agriculture	7	1	9,669	-
Manufacturing	22	7	49,886	36,185
Transportation	13	11	17,317	30,592
Distribution	18	2	23,936	1,047
Tourism & entertainment	6	1	7,993	52
	909	610	2,356,765	703,920

Delinquent loans and advances on which interest is no longer accrued amounted to $5,576,000 (2003: $4,122,000 for the company and group) 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 $40,625,000 (2003: $23,021,000 for company and group), as follows:

	2004 $'000	2003 $'000
Provision made during the year	48,245	7,320
Transfer (from)/to loan loss reserve (note 18)	(17,296)	2,318
Charged against revenue for the year	30,949	9,638
Provision at beginning of the year	23,021	16,135
Assumed from George & Branday Limited	5,295	-
Net loan balances written off during the year	(18,640)	(2,752)
At end of the year	40,625	23,021

Provision made in accordance with Bank of Jamaica provisioning requirements is as follows:

	2004 $'000	2003 $'000
Specific provisions	40,625	23,021
General provision (see note 18)	22,597	5,301
	63,222	28,322

In keeping with IFRS, the general provision is included in loan loss reserve and treated as an appropriation of retained earnings (note 18).

7. Other assets

	Company		Group
	2004 $'000	2003 $'000	2003 $'000
Interest receivable	428,425	265,430	374,349
Withholding tax recoverable	143,393	37,470	44,123
Due from fellow subsidiaries	36,644	-	-
Sundry	40,400	66,324	90,417
	648,862	369,224	508,889

Sundry includes the company's contributions to the National Housing Trust, amounting to $80,036 (2003: $50,000 for the company and group), recoverable in the years 2001/4. All other assets are considered to be recoverable within one year.

8. Deferred tax (assets) and liabilities

Deferred tax assets and liabilities are attributable to the following:

Company:

	Assets		Liabilities		Net	
	2004	2003	2004	2003	2004	2003
	$'000	$'000	$'000	$'000	$'000	$'000
Employee benefit asset, net	(2,009)	-	14,887	2,374	12,878	2,374
Property, plant and equipment	(1,269)	-	2,328	5,028	1,059	5,028
Investments	-	-	58,516	2,016	58,516	2,016
Other liabilities	(7,073)	(264)	-	-	(7,073)	(264)
Net tax (assets)/liabilities	(10,351)	(264)	75,731	9,418	65,380	9,154

Group:

	Assets	Liabilities	Net
	2003	2003	2003
	$'000	$'000	$'000
Employee benefit asset, net	-	2,374	2,374
Property, plant and equipment	-	5,047	5,047
Investments	-	8,323	8,323
Other liabilities	(264)	-	(264)
Tax losses brought forward	(9,050)	-	(9,050)
Net tax (assets)/liabilities	(9,314)	15,744	6,430

Movements on net deferred tax during the year are as follows:

	Company		Group
	2004	2003	2003
	$'000	$'000	$'000
Net deferred tax liability at beginning of year	9,154	28,428	28,428
Assumed from George & Branday Limited	6,788	-	-
Recognised in revenue – tax charge/(income) (note 22)	18,141	902	(8,128)
Recognised in equity	31,297	(20,176)	(13,870)
Net deferred tax liability at end of year	65,380	9,154	6,430

9. Employee benefits

(a) Plan asset/obligations

	Pension asset		Obligations	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Present value of funded obligations	59,372	22,871	27,214	6,622
Unrecognised actuarial gains/(losses)	3,921	14,441	(1,614)	465
Fair value of plan assets	(107,954)	(51,529)	-	-
Recognised (asset)/liability	(44,661)	(14,217)	25,600	7,087

(b) Movements in net asset/obligation recognised in the balance sheet:

	Pension asset		Obligations	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Net (asset)/obligation at January 1	(14,217)	(11,998)	7,087	5,385
Assumed from George & Branday	(24,011)	-	12,485	-
Contributions received	(689)	(313)	(104)	-
(Income)/expense recognised in the statement of income and expense	(5,744)	(1,906)	6,132	1,702
Net (asset)/obligation at December 31	(44,661)	(14,217)	25,600	7,087

(c) (Income)/expense recognised in the statement of revenue and expenses:

	Pension asset		Obligations	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Current service cost	(129)	(1,089)	1,407	979
Interest on obligation	6,649	1,837	1,352	723
Actuarial (gains)/losses recognized	(207)	-	3,373	-
Expected return on plan assets	(12,057)	(2,654)	-	-
	(5,744)	(1,906)	6,132	1,702
Actual return on plan assets	5.50%	43.1%		

(d) Principal actuarial assumptions (expressed as weighted averages):

	2004	2003
	%	%
Discount rate at December 31	12.5-15.0	15.0
Expected return on plan assets at December 31	12.0	10.0
Future salary increase:		
Pension and group life plan	9.5	9.5
Gratuity plan	9.5	9.5
Future pension increases	3.5	3.5
Medical claims growth:		
Insured plan	9.5	12.5
Self insured plan	9.5	12.5

10. Property, plant and equipment

Company:

	Computer equipment $'000	Office equipment, fixture & fittings & motor vehicles $'000	Leased assets $'000	Total $'000
At cost:				
December 31, 2003	48,375	26,023	13,446	87,844
Assumed from George & Branday	-	33,278	-	33,278
Additions	7,328	6,061	2,015	15,404
Disposals	(112)	(300)	(1,800)	(2,212)
December 31, 2004	55,591	65,062	13,661	134,314
Depreciation:				
December 31, 2003	28,333	12,059	6,069	46,461
Assumed from George & Branday	-	24,417	-	24,417
Charge for the year	8,334	5,537	3,116	16,987
Eliminated on disposals	(50)	(154)	(870)	(1,074)
December 31, 2004	36,617	41,859	8,315	86,791
Net book values:				
December 31, 2004	18,974	23,203	5,346	47,523
December 31, 2003	20,042	13,964	7,377	41,383

Group:

	Computer equipment $'000	Office equipment, fixture & fittings & motor vehicles $'000	Leased assets $'000	Total $'000
Net book values:				
December 31, 2003	20,189	13,984	7,377	41,550

11. Deposits

The deposit portfolio for the company (2003: company and group) is comprised as follows:

	Number of accounts 2004	Number of accounts 2003	2004 $'000	2003 $'000
Financial institutions	49	54	734,223	586,027
Commercial and Business enterprises	1,000	1,103	1,203,869	673,673
Personal	5,412	3,779	1,911,105	-
Others	105	-	726,294	541,662
	6,566	4,936	4,575,491	1,801,362

12. Due to specialised banks

These represent loans from Development Bank of Jamaica Limited (DBJ) for the purpose of on-lending to customers approved by DBJ. The loans bear interest at 10% per annum, and are repayable in equal monthly instalments. The loans are secured by promissory notes duly executed by the company.

13. Obligations under finance leases

	Company 2004 $'000	Company and Group 2003 $'000
Due from the date of the balance sheet as follows:		
2004	-	4,589
2005	4,775	4,071
2006	1,780	1,697
Total future minimum lease payments	6,555	10,357
Less: Future interest charges	(904)	(2,554)
Present value of minimum lease payments	5,651	7,803
Due within 12 months	3,964	2,878
Due after 12 months	1,687	4,925
	5,651	7,803

14. Other liabilities

	Company		Group
	2004 $'000	2003 $'000	2003 $'000
Interest payable	261,727	161,635	218,917
Manager's cheques	159,285	40,045	40,045
Accruals	8,513	-	-
Withholding tax payable	17,552	-	-
Other	4,815	-	-
Provisions [see (i) below]	-	44,027	94,964
	451,892	245,707	353,926

(i) Provisions are broken down as follows:

	Company		Group
	2004 $'000	2003 $'000	2003 $'000
Balance at beginning of year	44,027	72,721	72,721
Provisions made during the year	-	218,274	269,211
Provisions used during the year	(44,027)	(246,968)	(246,968)
Balance at end of year	-	44,027	94,964

15. Share capital

	2004 $'000	2003 $'000
Authorised, issued and fully paid:		
627,684,764 (2003: 392,300,000) ordinary shares of $1 each	627,685	392,300

At an Extraordinary General Meeting held on March 26, 2004, a resolution was passed to increase the authorised share capital of the company to $627,684,764 by the creation of 235,384,764 ordinary shares of $1 each, ranking *pari passu* in all respects with the existing ordinary shares. The 235,384,764 ordinary shares were issued to GK as consideration for the shares in G&B following the business combination (see notes 1 and 27).

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

(i) On April 8, 2003, the authorised share capital of the company was increased to $292,300,000 by the creation of 40,000,000 ordinary shares of $1 each ranking *pari passu* in all respects with the existing ordinary shares

(ii) On July 24, 2003 the authorised share capital of the company was further increased to $392,300,000 by the creation of 100,000,000 ordinary shares of $1 each ranking *pari passu* in all respects with the existing ordinary shares.

GK subscribed for all the shares, which were created and issued on the respective dates.

16. Reserve fund

Subject to section 8 of the Banking Act, the company is required to transfer 15% or more of its 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. 10% of net profit for the year has been transferred to the Reserve fund. All the net profits for 2003 were transferred to the Reserve fund.

17. Fair value reserve

This represents the unrealised gains/losses on the revaluation of available-for-sale investments, net of taxation [see note 3(h)(iv)].

18. Loan loss reserve

This is a non-distributable reserve representing general loan loss provision.

	2004 $'000	Company and Group 2003 $'000
Balance at beginning of year	5,301	7,619
Transferred from/(to) general provision for loans (note 6)	17,296	(2,318)
Balance at end of year	22,597	5,301

19. Retained earnings reserve

Transfers to the retained earnings reserve are made at the discretion of the Board. All such transfers are notified to the Bank of Jamaica. The directors authorized the transfer of 68.51% of the current year's profits to this reserve. During 2003, 50% of net profits of George & Branday Limited was transferred to this reserve.

20. Employee numbers and costs

At the end of the year, the company has 133 (2003: 73 for company and group) full-time and 10 (2003: 8 for company and group) part-time employees. Related staff costs are as follows:

	Company 2004 $'000	Company and Group 2003 $'000
Salaries and wages	176,383	88,711
Statutory payroll contributions	15,530	7,258
Contributions for pension and other plans	2,728	(204)
Other staff costs	8,495	9,226
	203,136	104,991

21. Profit before taxation

Profit before taxation is stated after charging/(crediting):

	Company		Group
	2004 $'000	2003 $'000	2003 $'000
Directors' emoluments			
- fees	556	700	700
- management remuneration	7,372	6,238	6,238
Auditors' remuneration	2,000	1,000	1,100
Loss/(gain) on disposal of property, plant and equipment	121	(68)	(68)

22. Income tax

(a) Recognised in the statement of revenue and expenses:

	Company		Group
	2004 $'000	2003 $'000	2003 $'000
(i) Current tax expense:			
Income tax at 33⅓%	112,766	30,099	30,098
(ii) Deferred taxation:			
Origination and reversal of temporary differences (note 8)	18,141	902	(8,128)
Total taxation recognised in statement of revenue and expenses	130,907	31,001	21,970

22. Income tax (cont'd)

(b) The effective tax rate for the company was 21.7% (2003: company 15.2% and group 9.6%) compared to a statutory rate of 33⅓% (2003: 33⅓%). The actual tax expense differed from the expected tax expense for the year as follows:

	Company		Group
	2004	2003	2003
	$'000	$'000	$'000
Profit before taxation	601,945	203,577	229,945
Computed "expected" tax expense	200,648	67,791	76,580
Difference between profit for financial statements and tax reporting purposes on:-			
Depreciation and capital allowances	2,798	140	140
Tax-free income	(53,649)	(41,917)	(43,836)
Others	9,088	11,605	(4,296)
Profit on disposal of subsidiaries	(27,978)	-	
Tax losses set-off	-	(6,618)	(6,618)
Actual tax expense	130,907	31,001	21,970

23. Earnings per share

The computation of earnings per share is based on net profit for the year of $471,038,000 for the company (2003: $172,576,000 for the company and $207,975,000 for the group), divided by 572,869,134 (2003: 321,065,090) being the average number of issued and fully paid ordinary shares during the year.

24. Funds under management

As at December 31, 2004, the company had brokered funds totalling $Nil (2003: $1,515,000). The company managed those funds, on a non-recourse basis, on behalf of investors. The company had no legal or equitable right or interest in these funds and, accordingly, they were excluded from the financial statements.

25. Related party balances and transactions

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

	2004	2003
	$'000	$'000
Loans, net of provision for probable losses:		
Parent company	5,989	-
Fellow subsidiaries	60,287	34,367
Related company	9,096	9,580
Securities purchased under resale agreements:		
Parent company	-	70,000
Fellow subsidiaries	-	220,000
Other assets:		
Parent company	107,259	45
Fellow subsidiary	29,523	97,770
Deposits:		
Parent company	53,955	-
Fellow subsidiaries	306,650	226,443
Director	5,970	2,606
Related company	1,738	3,589
Securities sold under repurchase agreements:		
Parent company	32,128	41,561
Fellow subsidiaries	596,070	312,051
Director	11,821	8,060
Related company	101,916	63,608
Obligations under finance leases:		
Fellow subsidiary	5,651	7,330
Other liabilities:		
Parent company	1,731	45,714
Fellow subsidiaries	33,205	7,168
Related company	7,357	372

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

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

	2004 $'000	2003 $'000
Revenue:		
Income from reverse repos:		
Parent company	13,652	15,872
Related companies	6,990	81
Fellow subsidiaries	26,739	65,435
Income from loan:		
Parent company	1,070	-
Related companies	6,990	-
Other operating income:		
Fellow subsidiaries	37,040	2,056
Expenses:		
Interest:		
Parent company	66,733	8,274
Related companies	9,023	9,487
Fellow subsidiaries	108,025	69,390
Other operating expenses:		
Fellow subsidiaries	24,519	12,617
General administration expenses:		
Parent company	22,121	11,477

26. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one enterprise and 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 on between knowledgeable, willing parties who are under no compulsion to act and is best 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.

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, securities sold under repurchase agreements, other liabilities, are assumed to approximate their carrying values due to their short-term nature.

26. Financial instruments (cont'd)

(a) Fair value (cont'd):

Determination of fair value (cont'd):

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

The fair value of loans, 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. No derivative financial instruments are presently used to reduce exposure to financial instrument risks.

(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 this risk 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.

26. Financial instruments (cont'd)

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

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

The following tables summarise the carrying amounts of financial assets and liabilities to arrive at the interest rate gap based on the earlier of contractual repricing and maturity dates.

	2004				
	Within 3 months $'000	3 to 12 months $'000	Over 12 months $'000	Non-rate sensitive $'000	Total $'000
Assets					
Cash resources	-	-	-	637,626	637,626
Investments	2,157,281	2,579,274	6,340,080	-	11,076,635
Loans, net of provision for probable losses	368,625	270,821	1,717,319	-	2,356,765
Securities purchased under resale agreements	472,796	97,002	50,000	-	619,798
Cheques and other items in transit	-	-	-	225,305	225,305
Other assets	-	-	-	648,862	648,862
Customers' liabilities under guarantees, as per contra	-	-	-	303,261	303,261
Total financial assets	2,998,702	2,947,097	8,107,399	1,815,054	15,868,252
Liabilities					
Deposits	3,907,325	662,121	6,045	-	4,575,491
Due to specialized banks	-	-	101,482	-	101,482
Securities sold under repurchase agreements	7,585,467	886,086	-	-	8,471,553
Obligations under finance lease	890	3,030	1,731	-	5,651
Other liabilities	-	-	-	434,340	434,340
Guarantees, per contra	-	-	-	303,261	303,261
Total financial liabilities	11,493,682	1,551,237	109,258	737,601	13,891,778
Total interest rate sensitivity gap	(8,494,980)	1,395,860	7,998,141	1,077,453	1,976,474
Cumulative gap	(8,494,980)	(7,099,120)	899,021	1,976,474	-

	2003				
Company:					
Total interest rate sensitivity gap	(4,106,510)	(833,858)	4,836,411	827,223	721,266
Cumulated gap	(4,106,510)	(4,942,368)	(105,957)	721,266	-
Group:					
Total interest rate sensitivity gap	(4,771,248)	(619,208)	5,291,575	865,268	766,387
Cumulated gap	(4,771,248)	(5,390,456)	(98,881)	766,387	-

26. 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:

	2004			
	Within 3 months (%)	3 to 12 months (%)	Over 12 months (%)	Total (%)
Investments	16.98	14.06	13.06	14.05
Loans, net of provision for probable losses	28.96	15.07	15.10	18.12
Securities purchased under resale agreements	6.52	6.41	22.13	7.76
Deposits	5.29	8.42	13.80	5.76
Due to specialised banks	-	-	10.00	10.00
Securities sold under repurchase agreements	14.46	15.81	-	14.61
Obligations under finance leases	23.92	15.39	4.76	19.39

Company:

	2003			
	Within 3 months (%)	3 to 12 months (%)	Over 12 months (%)	Total (%)
Investments	19.51	23.77	13.50	16.52
Loans, net of provision for probable losses	22.37	21.80	22.84	22.54
Securities purchased under resale agreements	23.97	-	-	23.97
Deposits	5.59	8.91	-	5.76
Securities sold under repurchase agreements	12.07	22.21	-	13.52
Due to specialized banks	-	-	10.00	10.00
Obligations under finance leases	23.85	23.22	22.60	22.90

Group:

	2003			
	Within 3 months (%)	3 to 12 months (%)	Over 12 months (%)	Total (%)
Investments	24.00	21.43	15.46	18.32
Loans, net of provision for probable losses	22.37	21.80	22.84	22.54
Securities purchased under resale agreements	21.12	-	-	21.12
Deposits	5.59	8.91	-	5.76
Securities sold under repurchase agreements	13.28	21.71	-	14.94
Due to specialized banks	-	-	10.00	10.00
Obligations under finance leases	23.85	23.22	22.60	22.90

26. Financial instruments (cont'd)

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

(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. Management has also established limits for specific financial instruments with regard to liquidity and tenure. The investment portfolio presently consists mainly of Government of Jamaica instruments denominated in both US and Jamaican dollars, which are all tradable. The loans are adequately secured. At the balance sheet date, financial instruments subject to this risk amounted to $11,691,413,000 (2003: $6,710,686,000).

(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 Jamaican dollar, mainly the US dollar. The company is exposed to significant foreign currency risk. Management 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 currency balances.

At the balance sheet date, the company (2003: company and group) has net foreign currency assets/(liabilities) as follows:

	2004 '000	2003 '000
Currency		
United States dollars	5,814	911
Canadian dollars	416	(6)
Pounds sterling	445	(46)
Euro	444	-

26. Financial instruments (cont'd)

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

(iv) Credit risk:

Credit risk is the risk that one party 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 collateral for loans and reverse repos, and the rigorous follow-up of receivables; ensuring investments and securities purchased under resale agreements are low-risk or, are 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:

	2004		
	Loans	Guarantees and letters of credit	Total
	$'000	$'000	$'000
Public sector	1,100,134	-	1,100,134
Professional & other services	847,787	238,767	1,086,554
Individuals	300,043	31,368	331,411
Agriculture	9,669	-	9,669
Manufacturing	49,886	-	49,886
Transportation	17,317	23,126	40,443
Distribution	23,936	-	23,936
Tourism	7,993	10,000	17,993
	2,356,765	303,261	2,660,026

	2003		
	Loans	Guarantees and letters of credit	Total
	$'000	$'000	$'000
Professional & other services	414,040	36,888	450,928
Individuals	222,003	4,894	226,897
Manufacturing	36,185	-	36,185
Transportation	30,592	32,450	63,042
Distribution	1,048	-	1,048
Tourism	52	-	52
	703,920	74,232	778,152

26. Financial instruments (cont'd)

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

(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 business, the management of the company aims at maintaining flexibility in funding by having adequate credit facilities and marketable financial instruments. The company has in place the appropriate limits with regard to liquid instruments and total assets and continues to apply the appropriate gapping strategy to ensure there is adequate cash resources to meet maturing and call instruments.

(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 by ensuring, as far as possible, that cash flows from financial assets and liabilities are matched to mitigate any significant adverse cash flows.

27. Business combination

The book values of assets, liabilities and reserves, which approximate fair values under IFRS, of George & Branday Limited (G&B) at the date of the business combination were as follows:

	G&B $'000
ASSETS	
Cash resources	149,729
Investments	5,012,685
Loans, net of provision for probable losses	387,111
Securities purchased under resale agreements	771,703
Other assets	150,816
Taxation recoverable	53,817
Customers' liability under guarantees, as per contra	209,466
Deferred tax assets	25,065
Employee benefit asset	24,011
Property, plant and equipment	8,861
	6,793,264
LIABILITIES AND SHAREHOLDERS' EQUITY	
LIABILITIES	
Deposits	1,837,793
Due to specialised banks	63,629
Securities sold under repurchase agreements	3,890,028
Other liabilities	283,527
Employee benefit obligation	12,485
Bank Overdraft	2,452
Guarantees, per contra	209,466
	6,299,380
SHAREHOLDERS' EQUITY	
Share capital	235,385
Reserve fund	182,807
Fair value reserve	(70,127)
Retained earnings reserve	145,819
	493,884
	6,793,264

28. Disposal of subsidiaries

The company disposed of its subsidiaries during the year. The subsidiaries at January 1, 2004, the date of disposal, had assets, liabilities and equity as follows:

	$'000
Total assets	10,532,634
Liabilities	10,438,699
Shareholders' equity	93,935
Total liabilities and shareholders' equity	10,532,634

29. 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 the 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.