

GUYANA NATIONAL CO-OPERATIVE BANK



**REPORT & ACCOUNTS
YEAR ENDED 31 DECEMBER 2002**



Office of the Auditor General

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AG:108/2003

8 July 2003

**REPORT OF THE AUDITOR GENERAL
TO THE MEMBERS OF
GUYANA NATIONAL COOPERATIVE BANK
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002**

Chartered Accountants, Deloitte and Touche, have audited on my behalf the financial statements of Guyana National Cooperative Bank for the year ended 31 December 2002, as set out on pages 2 to 19. The audit was conducted in accordance with the Financial Administration and Audit (Amendment) Act 1993.

The preparation of the financial statements, including assertions relating to their completeness, accuracy and validity, and compliance with applicable laws and regulations is the responsibility of Management. My responsibility is to express an independent opinion on the statements based on these assertions and to report my opinion to you.

As required by the Financial Administration and Audit (Amendment) Act 1993, I have reviewed the audit plan and procedures, work papers, report and opinion of the Chartered Accountants. I have also had detailed discussions with the Chartered Accountants on all matters of significance to the audit. I concur with the opinion, as attached hereto, of Chartered Accountants, Deloitte and Touche.


B. BALRAM
AUDITOR GENERAL (Ag.)

OFFICE OF THE AUDITOR GENERAL
63 HIGH STREET
KINGSTON
GEORGETOWN
GUYANA

REPORT OF THE AUDITORS
TO THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF
GUYANA NATIONAL CO-OPERATIVE BANK
FOR THE YEAR ENDED 31 DECEMBER 2002.

We have audited the financial statements set out on pages 2 to 19. These financial statements are the responsibility of the management of the bank. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Office of the Auditor General's auditing standards and International Standards on Auditing. Those standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The previous year's audit was sub-contracted to another firm of Accountants, who expressed a qualified report thereon.

These financial statements have been prepared using International Accounting Standards applicable to a going concern which contemplate the realization of assets and liquidation of liabilities in the normal course of business. However as explained in Note 23 the Government of Guyana has taken a decision to privatize the Bank and certain identified assets and liabilities were sold and transferred to National Bank of Industry and Commerce Limited on 15 March 2003. The going concern assumption is therefore no longer applicable and the bank is required to prepare its financial statements on a liquidation basis. As a consequence, the amounts and classification of assets and liabilities in the financial statements may need to be adjusted.

Except for the effect of the failure to account for the assets and liabilities of the bank on a liquidation basis, the financial statements give a true and fair view of the state of affairs of the bank as at 31 December 2002, its loss and cash flows for the year then ended in accordance with International Accounting Standards, the Financial Institutions Act 1995 and the Companies Act 1991.

- 1 (a) -

Without qualifying our opinion further, we draw attention to the bank's accumulated provision for loan losses which at 31 December 2002, amounted to \$7,051M or 83% of the gross loans and advances portfolio.

DeLoitte & Touche
DELOITTE & TOUCHE
CHARTERED ACCOUNTANTS

77 Brickdam,
Stabroek,
Georgetown

4 June 2003

GUYANA NATIONAL CO-OPERATIVE BANK

Corporate Information

Directors
Mohamed Sattaur, Chairman
Chandraballi Bisheswar
Denise deSouza
John Flanagan, General Manager
Leonard Forde
Ronald Mann
Dharamkumar Seeraj
Omar Shariff
Basil Williams

**Secretary &
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Auditors
Auditor General
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Kingston
Georgetown

Deloitte & Touche
Chartered Accountants
77 Brickdam
Stabroek
Georgetown

GUYANA NATIONAL CO-OPERATIVE BANK
 PROFIT AND LOSS ACCOUNT
 FOR THE YEAR ENDED 31 DECEMBER 2002

	<u>Notes</u>	<u>2002</u>	<u>2001</u>
		G\$ 000	G\$ 000
Interest income			
Loans and advances		141,926	175,610
Securities		262,815	479,106
Bank deposits		<u>11,611</u>	<u>33,341</u>
		<u>416,352</u>	<u>688,057</u>
Interest expense			
Deposits		583,371	817,440
Other interest charges		<u>4,502</u>	<u>4,761</u>
		<u>587,873</u>	<u>822,201</u>
Net interest expense		<u>(171,521)</u>	<u>(134,144)</u>
Fee and commission income		65,120	60,670
Net gains from trading in foreign currencies		38,657	51,875
Losses on disposal of fixed assets		(281)	(5,950)
Other income		<u>32,293</u>	<u>38,065</u>
		<u>135,789</u>	<u>144,660</u>
Total operating income/(loss)		<u>(35,732)</u>	<u>10,516</u>
Administrative expenses - staff costs		286,610	281,980
Administrative expenses - other		220,610	197,651
Severance pay and others		230,166	-
Depreciation		<u>59,172</u>	<u>76,717</u>
		<u>796,558</u>	<u>556,348</u>
Operating loss before provisions		(832,290)	(545,832)
Provisions net of recoveries		<u>75,452</u>	<u>47,312</u>
Loss before taxation		(756,838)	(498,520)
Taxation	3	<u>(10,824)</u>	<u>(16,773)</u>
Loss after taxation	4	<u>(767,662)</u>	<u>(515,293)</u>
Loss per share in dollars	5	<u>307.06</u>	<u>206.12</u>

"The accompanying notes form an integral part of these financial statements"

GUYANA NATIONAL CO-OPERATIVE BANK

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2002

	<u>Note</u>	<u>Share capital</u> G\$ 000	<u>Revaluation reserve</u> G\$ 000	<u>Other reserve</u> G\$ 000	<u>Pre-acquisition reserve</u> G\$ 000	<u>Retained earnings</u> G\$ 000	<u>Total</u> G\$ 000
Balance at 31 December 2000		250,000	608,415	159,403	1,623,143	117,236	2,758,197
Net loss after taxation		-	-	-	-	(515,293)	(515,293)
Transfer between reserves		-	-	-	(515,293)	515,293	-
Debenture interest capitalised		-	-	55,088	-	-	55,088
At 31 December 2001		250,000	608,415	214,491	1,107,850	117,236	2,297,992
Net loss after taxation		-	-	-	-	(767,662)	(767,662)
Transfer		-	-	-	(767,662)	767,662	-
Debenture interest capitalised		-	-	39,028	-	-	39,028
Fixed assets revalued	14	-	313,205	-	-	-	313,205
Balance at 31 December 2002		<u>250,000</u>	<u>921,620</u>	<u>253,519</u>	<u>340,188</u>	<u>117,236</u>	<u>1,882,563</u>

"The accompanying notes form an integral part of these financial statements"

GUYANA NATIONAL CO-OPERATIVE BANK

BALANCE SHEET

AT 31 DECEMBER 2002

	<u>Notes</u>	<u>2002</u> G\$ 000	<u>2001</u> G\$ 000
Assets			
Cash and balances with banks	6	5,040,560	2,834,146
Items in course of collection from banks		109,122	24,161
Treasury bills		2,369,526	4,793,012
Government debentures	7	5,494,623	5,563,837
Loans and advances	8	1,462,737	1,512,796
Property, plant and equipment	9	1,652,668	1,370,430
Receivable from Ministry of Finance	10	119,602	-
Taxes recoverable		26,586	26,586
Other assets	11	7,222	36,357
Total assets		<u>16,282,646</u>	<u>16,161,325</u>
Liabilities			
Demand deposits		1,481,391	1,316,632
Savings and term deposits		12,468,942	12,127,539
Taxes payable		29,395	31,355
Other liabilities	12	420,355	387,807
Total liabilities		<u>14,400,083</u>	<u>13,863,333</u>
Capital and reserves			
Share capital	13	250,000	250,000
Revaluation reserve	14	921,620	608,415
Other reserve	14	253,519	214,491
Pre-acquisition reserve	14	340,188	1,107,850
Retained earnings		117,236	117,236
Shareholders' funds		<u>1,882,563</u>	<u>2,297,992</u>
Total liabilities and shareholders' funds		<u>16,282,646</u>	<u>16,161,325</u>

Director

Director

"The accompanying notes form an integral part of these financial statements".

GUYANA NATIONAL CO-OPERATIVE BANK

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2002

	<u>Notes</u>	<u>2002</u> G\$ 000	<u>2001</u> G\$ 000
Operating activities			
Loss before taxation		(756,838)	(498,520)
Adjustments for			
Depreciation		59,172	76,717
Provision for bad and doubtful debts		(129,029)	(61,199)
Loss on disposal of fixed assets		6,608	5,950
Net cash flow from trading activities		(820,087)	(477,052)
Net change in items in course of collection		(84,961)	3,902
Net (increase)/decrease in treasury bills		2,423,486	(63,871)
Net decrease in loans		179,088	42,997
Net decrease in other assets		29,135	36,393
Net increase/(decrease) in deposits		506,162	(107,563)
Net increase in other liabilities		32,548	122,828
Receivable from consolidated fund		(119,602)	-
Cash provided by operating activities		2,145,769	(442,366)
Taxes paid and adjusted		(12,784)	(13,576)
Net cash provided by/(used in) operating activities		2,132,985	(455,942)
Investing activities			
Decrease in investments		108,242	-
Additions to fixed assets		(34,813)	(10,317)
Proceeds from disposal of fixed assets		-	8,206
Net cash provided by/(used in) investing activities		73,429	(2,111)
Net increase/(decrease) in cash and cash equivalents		2,206,414	(458,053)
Cash and cash equivalents at beginning of year		2,834,146	3,292,199
Cash and cash equivalents at end of year		5,040,560	2,834,146

"The accompanying notes form an integral part of these financial statements"

GUYANA NATIONAL CO-OPERATIVE BANK

NOTES ON THE ACCOUNTS

I. Significant accounting policies

(a) Accounting convention

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain properties and are prepared in accordance with International Accounting Standards adopted by the Institute of Chartered Accountants of Guyana.

(b) Depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation. Freehold land is not depreciated and all other assets are depreciated on the straight line method at rates estimated to write them off over their expected useful lives. The annual rates applied are as follows:

Buildings	-	2.5%
Office furniture and equipment	-	25%
Motor vehicles	-	20%
Plant and equipment	-	25%
Computer equipment	-	10 - 20%

(c) Loans and interest

Loans are stated net of unearned interest and provision for losses. Loans are classified and provisions are established based on the guidelines set out in the Financial Institutions Act 1995. These include considerations such as the current status of the facility, adequacy of collateral, track record of the borrower, the nature and characteristics of the project being financed and general economic conditions.

Loans and advances are classified as non-performing if no payments have been received within the preceding ninety days, or any overdraft limit has expired or been exceeded for a period of ninety days. Specific provisions are established on individual loans to recognize anticipated losses, and doubtful loans are written off when the possibility of further recovery seems remote.

GUYANA NATIONAL CO-OPERATIVE BANK

NOTES ON THE ACCOUNTS

1. Significant accounting policies – cont'd

(c) Loans and interest – cont'd

Interest income is recorded as it accrues, except in the case of non-accrual loans, including doubtful debts, where interest is recognized on a cash receipts basis. Payments received on non-accrual loans, including doubtful debts, are first applied to outstanding interest unless the recovery of the principal is doubtful, in which the payment is applied against principal.

(d) Translation of foreign currencies

Foreign currency transactions during the year are translated at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Guyana dollars at the rates ruling at the balance sheet date. Gains and losses are accounted for in the profit and loss account.

(e) Taxation

Deferred tax liabilities are recognized for corporation taxes payable in future periods in respect of taxable temporary differences. Deferred tax assets are recognized in respect of deductible temporary differences, unused tax losses and unused tax credits, but only to the extent that it is probable that taxable profit will be available for offset. Deferred tax assets not booked amounted to G\$3,186,492,000 (2001 G\$2,849,885,000).

(f) Cash and cash equivalents

Cash and cash equivalents are comprised of cash, balance due by banks, deposits with Bank of Guyana and cheques and other items in transit.

(g) Investments

From 2002 investments are recognized in the financial statements to comply with International Accounting Standards No. 39 – Financial Instruments – Recognition and Measurement.

The bank's investment has been classified as "investments held to maturity" financial assets.

GUYANA NATIONAL CO-OPERATIVE BANK

NOTES ON THE ACCOUNTS

I. Significant accounting policies – cont'd

(g) Investments – cont'd

"Investments held to maturity" are carried at cost. Any gain or loss on these investments is recognized in the profit and loss account when the asset is de-recognised or impaired.

(h) Pension plan

GNCB has a defined contribution plan which is administered by Clico Life Insurance S.A. Limited in the form of an interest bearing Executive Flexible Pension Annuity (EFPA).

The bank employed 360 persons at 31 December 2002 and 366 persons in 2001. The bank's contribution to the plan was G\$8,850,241 in 2002 (2001 - G\$9,084,679)

GUYANA NATIONAL CO-OPERATIVE BANK

NOTES ON THE ACCOUNTS

2. Incorporation

Guyana National Co-operative Bank ("GNCB") was incorporated on 23 February 1970 by a special act of parliament, the Guyana National Co-operative Bank Act 10 of 1970. Its stated purpose was to provide banking services and to help accelerate economic and social development in Guyana. Subsequently the bank was reconstituted under the Co-operative Financial Institutions Act (COFA) 1976, by an Order passed in 1977.

GNCB is the first indigenous Bank in Guyana and 95.3% of the capital is owned by the Government of Guyana. The remaining 4.7% is owned by three hundred and twenty seven local Co-operative Societies and Credit Unions.

In accordance with Parliamentary Orders numbers 1 and 2 of 1995, the bank merged with Guyana Co-operative Agricultural and Industrial Development Bank (GAIBANK).

In 1995 the Financial Institutions Act was passed. This Act also applies to the bank and supercedes a number of provisions contained in the COFA Act.

Branch network

The bank provided banking services through branches at:

Georgetown	Corriverton	Vreed-en-Hoop
Rose Hall	New Amsterdam	Kwakwani
Anna Regina	Linden	

Mobile banking services were provided at Charity and Suddie in the Essequibo region.

GUYANA NATIONAL CO-OPERATIVE BANK

NOTES ON THE ACCOUNTS

2. Incorporation - cont'd

Management

On 1 February 1999 the Government of Guyana and ICC Bank plc/ICC Consultants of Dublin, Ireland signed a contract for the provision of management services to the bank. Under the contract an international management team, with adequate autonomy, was put in place. The position of General Manager was held by the consultants during the year. Remuneration of these management services is paid by the Government of Guyana and is not included in the bank's financial statements.

The overall objective of the contract is to enhance operational efficiency and improve the financial performance of the bank.

GUYANA NATIONAL CO-OPERATIVE BANK

NOTES ON THE ACCOUNTS

3	Taxation		
		<u>2002</u>	<u>2001</u>
		GS 000	GS 000
	Corporation tax - 2% of turnover	<u>10,824</u>	<u>16,773</u>
4	Loss after taxation	<u>(767,662)</u>	<u>(515,293)</u>
	After charging		
	Auditors' remuneration	3,400	4,050
	Depreciation	59,172	76,717
	Directors' expenses	575	340
	Directors' fees	<u>478</u>	<u>288</u>
5	Loss per share		
	Calculated as follows:		
	Net loss after taxation	<u>(767,662)</u>	<u>(515,293)</u>
	Ordinary shares issued and fully paid	<u>2,500,000</u>	<u>2,500,000</u>
	Loss per share in dollars	<u>307.06</u>	<u>206.12</u>
6	Cash and balances with banks		
	Cash	327,796	351,759
	Statutory deposit with Bank of Guyana	3,846,593	1,571,799
	Balances with other banks in Guyana	292,468	266,504
	Balances with foreign banks	<u>573,703</u>	<u>644,084</u>
		<u>5,040,560</u>	<u>2,834,146</u>

GUYANA NATIONAL CO-OPERATIVE BANK

NOTES ON THE ACCOUNTS

7 Government debentures		
	<u>2002</u>	<u>2001</u>
	<u>Cost</u>	<u>Cost</u>
	G\$ 000	G\$ 000
Held to maturity	<u>5,549,276</u>	<u>5,563,837</u>
Principal amounts receivable	<u>2002</u>	<u>2001</u>
	G\$ 000	G\$ 000
Principal amounts receivable	5,314,836	5,349,331
Interest capitalised	<u>234,440</u>	<u>214,506</u>
	<u>5,549,276</u>	<u>5,563,837</u>
Maturing within one year	1,061,520	609,964
Maturing after one year	<u>4,487,756</u>	<u>4,953,873</u>
	<u>5,549,276</u>	<u>5,563,837</u>

The balance at 31 December 2002 represents five Government of Guyana debentures issued by the Ministry of Finance to cover losses of the bank in accordance with section 51 (3) of the COFA Act as described in Note 10. Each debenture is for a term of fifteen years. Interest accrues at one percent per annum and is capitalised for the first five years of each debenture. The debentures are repayable in twenty equal half yearly instalments commencing five years from the date of issue. The debentures are not transferrable and are redeemable only with the Government of Guyana.

8 Loans and advances		
	<u>2002</u>	<u>2001</u>
	G\$ 000	G\$ 000
(a) Loans	8,252,397	8,413,405
Overdrafts	<u>261,087</u>	<u>279,167</u>
	8,513,484	8,692,572
Provision for losses (b)	<u>7,050,747</u>	<u>7,179,776</u>
	<u>1,462,737</u>	<u>1,512,796</u>
including in the above are non-accrual loans totalling	<u>7,772,419</u>	<u>7,903,701</u>
(b) Movement in provision for losses		
Balance at 1 January	7,179,776	7,240,975
Net recoveries in provision	(75,452)	(47,312)
Bad debt written off	<u>(53,577)</u>	<u>(13,887)</u>
At 31 December	<u>7,050,747</u>	<u>7,179,776</u>

GUYANA NATIONAL CO-OPERATIVE BANK

NOTES ON THE ACCOUNTS

9 Property, plant and equipment	Land and buildings	Equipment and furniture	Motor vehicles	Total
	GS 000	GS 000	GS 000	GS 000
Cost or valuation				
At 1 January 2002	1,254,285	428,635	62,524	1,745,444
Additions	5,400	29,413	-	34,813
Revaluation surplus	282,082	-	-	282,082
Disposals	(5,700)	(23,568)	(2,021)	(31,289)
At 31 December 2002	<u>1,536,067</u>	<u>434,480</u>	<u>60,503</u>	<u>2,031,050</u>
Depreciation:				
At 1 January 2002	37,486	282,552	54,976	375,014
Charge for the year	18,112	38,245	2,815	59,172
Disposals	(919)	(21,741)	(2,021)	(24,681)
Eliminated on revaluation	(31,123)	-	-	(31,123)
At 31 December 2002	<u>23,556</u>	<u>299,056</u>	<u>55,770</u>	<u>378,382</u>
Net book values:				
At 31 December 2002	<u>1,512,511</u>	<u>135,424</u>	<u>4,733</u>	<u>1,652,668</u>
At 31 December 2001	<u>1,216,799</u>	<u>146,083</u>	<u>7,548</u>	<u>1,370,430</u>
			<u>2002</u>	<u>2001</u>
			GS 000	GS 000
10 Receivable from consolidated fund			<u>64,249</u>	<u>-</u>

(a) Under Section 51 (1) of the COFA Act, the bank shall maintain a reserve fund and shall, out of the net surplus for each year and before any dividend is declared, transfer to that fund a sum equal to not less than twenty-five percent of the such surplus whenever the amount of the reserve fund is less than the paid-up capital of the institution

(b) Under Section 51 (3) of the COFA Act Chapter 75:01, if the reserve fund in any year is insufficient to cover any losses of the bank, an amount equivalent to the deficiency is charged to the consolidated fund. A decision has been taken by the Directors to transfer the amount of \$778,872 (2001 - \$515,293M) from the pre-acquisition reserve to retained earnings to offset the current year loss incurred. Consequently, there will be no charge on the Consolidated Fund for the current year's loss.

(c) Section 51 (3) of the COFA Act further states that where a COFA institution claims from the consolidated fund, in any succeeding year any net surplus accrued to the bank it shall pay to the Consolidated Fund such sums as may be agreed with the minister, together with interest thereon at such rate to be determined by the minister, until the agreed amount is fully repaid. The bank has accumulated amounts totalling \$5,563.8M collected from this fund in respect to previous years losses under this Act

GUYANA NATIONAL CO-OPERATIVE BANK

NOTES ON THE ACCOUNTS

11	Other assets		
		<u>2002</u>	<u>2001</u>
		GS 000	GS 000
	Accrued interest on loans	2,542	3,800
	Receivable from government corporations	19,235	21,565
	Other	33,170	58,717
		<u>54,947</u>	<u>84,082</u>
	Less provision for doubtful amounts	<u>(47,725)</u>	<u>(47,725)</u>
		<u>7,222</u>	<u>36,357</u>
12	Other liabilities		
		<u>2002</u>	<u>2001</u>
		GS 000	GS 000
	Accrued expenses	264,169	37,408
	Drafts and settlements	50,770	176,173
	Deposit interest	55,698	79,030
	Other liabilities	49,718	95,196
		<u>420,355</u>	<u>387,807</u>
13	Share capital		
		<u>2002</u>	<u>2001</u>
	Authorised		
	Number of ordinary shares	<u>2,500,000</u>	<u>2,500,000</u>
		GS 000	GS 000
	Issued and fully paid		
	2,500,000 ordinary shares of GS100 each	<u>250,000</u>	<u>250,000</u>

GUYANA NATIONAL CO-OPERATIVE BANK

NOTES ON THE ACCOUNTS

14 Reserves

	<u>Revaluation</u> G\$ 000	<u>Pre-acquisition</u> G\$ 000	<u>Other</u> G\$ 000	<u>Total</u> G\$ 000
Balance at 1 January 2002	608,415	1,107,850	214,491	1,930,756
Debenture interest capitalised	-	-	39,028	39,028
Funds transferred between reserves	-	(767,662)	-	(767,662)
Revaluation of fixed assets	<u>313,205</u>	<u>-</u>	<u>-</u>	<u>313,205</u>
Balance at 31 December 2002	<u>921,620</u>	<u>340,188</u>	<u>253,519</u>	<u>1,515,327</u>

(a) Revaluation - the bank carried out a revaluation of the land and buildings in 1999 and the surplus arising was credited to this reserve in 2000. In October 2002 land and buildings were further revalued by Rodrigues Architects Ltd. The surplus arising was credited to revaluation reserve in 2002.

(b) Pre-acquisition - the bank was merged with Guyana Co-operative Agricultural and Industrial Development Bank (GAIBANK) in 1995. The balance in this reserve represents the equity contribution remaining after the completion of all transactions relating to the merger, and the transfer of funds between reserves.

(c) Other - this amount represents capitalised interest on Government debentures

15 Deferred taxation

Components of deferred tax assets

Minimum corporation tax, tax losses carried forward, and fixed assets

Movement in taxable temporary differences

	<u>Minimum Corporation tax</u> G\$ 000	<u>Tax losses</u> G\$ 000	<u>Fixed assets</u> G\$ 000	<u>Total</u> G\$ 000
At 31 December 2000	163,828	2,537,600	(51,280)	2,650,148
Movement in 2001	<u>16,773</u>	<u>208,436</u>	<u>(25,472)</u>	<u>199,737</u>
At 31 December 2001	180,601	2,746,036	(76,752)	2,849,885
Movement in 2002	<u>10,824</u>	<u>324,411</u>	<u>1,372</u>	<u>336,607</u>
At 31 December 2002	<u>191,425</u>	<u>3,070,447</u>	<u>(75,380)</u>	<u>3,186,492</u>

16 Off balance sheet items

The balance sheet does not include certain balances where in the opinion of management the bank bears no financial responsibility as it acts as intermediary. These balances are instead disclosed in Note 17.

GUYANA NATIONAL CO-OPERATIVE BANK

NOTES ON THE ACCOUNTS

	<u>2002</u> G\$ 000	<u>2001</u> G\$ 000
17 Contingent liabilities		
Letters of credit	1,856	1,856
Endorsements and guarantees	533	48,311
Line of credit facilities	<u>164,247</u>	<u>164,247</u>
	<u>166,636</u>	<u>214,414</u>

18 Financial risk management

(a) Foreign exchange risk

Foreign exchange exposures arise from the bank's holding of foreign currency denominated in financial assets and liabilities. The bank's exposure to currency risk is minimal. Management sets limits on the level of exposure by currency, which is monitored daily.

	<u>2002</u> G\$ 000	<u>2001</u> G\$ 000
United States dollars	4,384	4,279
British pounds	80	239
Canadian dollars	72	39
Eastern Caribbean dollars	45	96
Euro	1	-
Barbados dollars	<u>-</u>	<u>1</u>
Liabilities		
United States dollars	<u>128</u>	<u>220</u>

(b) Interest rate risk

The bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flow. Interest margins may increase as a result of such changes but may reduce in the event that unexpected movements arise. Management's policy to manage this risk is to have constant monitoring of market movements and setting future rates.

(c) Liquidity risk

Liquidity risk is the risk that the bank will be unable to meet financial commitments arising from cash flows generated from its business entities. This risk can arise from mismatches in the timing of cash flows relating to assets and liabilities. The bank maintained its mandatory requirements for its liquidity position as set by Bank of Guyana

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18 Financial risk management - cont'd

(d) Fair value

Fair value of financial assets and liabilities approximate to the carrying value.

(i) Cash resources

The fair value is assumed to approximate to carrying value due to the short maturity value of these instruments.

(ii) Investments

Investments securities purchased with the intention of being held to maturity are carried at amortised cost and reflects fair value.

(iii) Loans and advances

Loans and advances are shown net of specific and other provisions for impairment. The fair value approximates to carrying value since inherent rates of interest in the portfolio approximate to market conditions.

(iv) Deposits

Deposits liabilities payable on demand are assumed to equal their fair value. Deposits payable on fixed date are at rates which reflect market conditions and are assumed to have fair values which approximate carrying values given their short maturity periods.

19 Concentration of assets and liabilities

The bank's main activity is the provision of commercial banking services and credit is concentrated in Guyana. A contributory factor to the high bad debt provision level is the fact that forty-five percent of the portfolio is concentrated in the rice sector (paddy growing and milling)

	<u>2002</u> G\$ 000	<u>2001</u> G\$ 000
Loans and advances		
Agriculture and mining	3,041,382	3,057,441
Manufacturing	3,301,814	3,378,432
Personal sector	853,935	837,214
Other	<u>1,316,353</u>	<u>1,419,485</u>
	<u>8,513,484</u>	<u>8,692,572</u>
Deposits		
Agriculture and mining	72,992	65,935
State sector	1,289,218	1,188,685
Other financial institutions	748,180	375,010
Personal sector	10,983,527	10,974,674
Non-residents	214,958	230,019
Other	<u>641,458</u>	<u>609,848</u>
	<u>13,950,333</u>	<u>13,444,171</u>

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20 Maturities

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities are fundamental to the management of the bank. The maturities of assets and liabilities and the ability to replace maturing interest bearing liabilities at an acceptable cost, are important factors in assessing the liquidity of the bank and its exposure to changes in interest rates and exchange rates.

21 Related party transactions

Loans and advances

	<u>2002</u>	<u>2001</u>
	G\$ 000	G\$ 000
Loans and advances	197,402	201,131
Deposits (Savings Co-op)	12,060	13,020
Deposits (Demand)	<u>1,380</u>	<u>1,735</u>

Related parties include directors and staff. The rates of interest and charges have been similar to transactions involving third parties in the normal course of business.

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	<u>2002</u>	<u>2001</u>
	G\$ 000	G\$ 000
22 Balances excluded from the accounts	<u>5,769</u>	<u>5,769</u>

This amount represents monies received on behalf of customers and deposited in the External Payments Deposits Scheme with the Bank of Guyana.

23 Going concern

These accounts have been prepared using the International Accounting Standards applicable to a going concern which contemplate the realisation of assets and liquidation of liabilities in the normal course of business.

The Government of Guyana has privatised the bank and by agreement certain identified assets and liabilities were sold and transferred to National Bank of Industry and Commerce Limited on 15 March 2003.