

FIRST LIFE INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 December 1995

1. Identification and Activity

The company is a 73.42% owned subsidiary of Pan-Jamaican Investment Trust Limited, a company incorporated in Jamaica.

The main activity of the company is the provision of ordinary life, group and health insurance and group pension administration. The principal activities of the subsidiaries are detailed in note 2.

2. Significant Accounting Policies

(a) Consolidation

The consolidated financial statements include the financial statements of the company, its subsidiaries and its associated companies to the extent explained in note 2(b).

	Principal Activities	Proportion of issued equity capital held by	
		Company	Subsidiaries
Subsidiaries			
Jamaica Property Company Limited	Office rental	100%	
Jamaica Property Development Limited	Property Management		100%
Jamaica Property Management Limited	Property Management		100%
Pan Caribbean Merchant Bank Limited	Merchant Banking	100%	
Pan Caribbean Investments Limited	Financial Services		100%
Portfolio Partners Limited	Investment Management	100%	
Associated Companies			
St Andrew Developers Limited	Property Development	33 1/3%	33 1/3%
Impan Properties Limited	Office Rental		20%
Knutsford Holding Limited	Office Rental		28%

(b) Investment in subsidiaries and associated companies

Investment in subsidiaries is stated at valuation, based on the underlying values of the subsidiaries' net assets. The associated companies are accounted for by the equity method. By this method, the group's share of profits is included in the group profit before taxation and the tax attributable to the share of profits is included in the group's tax charge.

The group's investment in St. Andrew Developers Limited is intended to be short term and, as such, this is accounted for on the equity method.

(c) Foreign currency translation

Transactions in foreign currencies are converted at the rate of exchange ruling at the date of the transaction. Balances due or payable in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Gains or losses arising are dealt with in the profit and loss account.

(d) Investments

- i) Real estate is stated at market value and is not depreciated; any fluctuation arising from the periodic revaluations is taken to the investment reserve.
- ii) Construction projects in progress are stated at cost.
- iii) Mortgages are stated at the aggregate of the unpaid principal.
- iv) Securities:
 - (a) Quoted equities are stated at market value; any fluctuation arising from the revaluations is taken to the investment reserve.
 - (b) Unquoted equities are stated at cost with adjustment for any permanent diminution in value.
 - (c) Government of Jamaica and other securities are stated at amortised cost with provision made for any anticipated loss on realisation.
- v) Loans on policies are stated at the aggregate of the unpaid balances.
- vi) Deposits are stated at cost.

(e) Depreciation

Depreciation is calculated on the straight-line basis at such rates as will write off the carrying value of assets held at the beginning of the year over their expected useful lives. The rates are as follows:

Leasehold improvements	Life of lease
Equipment	10%
Furniture, fixtures, fittings	10% & 12 1/2%
Computer software	10%
Motor vehicles	14.29% & 20%

(f) Prepaid commissions

Prepaid commissions are written off over the first year of each policy during which time they are recoverable, should the policies be lapsed.

(g) Deferred expenses

Deferred expenses are being written off over the expected period of benefit.

(h) Reserve for future benefits

The reserve for future benefits payable by the company is calculated based on the details of the business in force at the end of the company's accounting year, and represents the amount required together with future premiums and interest, to provide for future benefits on insurance and annuity contracts. These reserves are calculated on a modified basis, using interest and mortality assumptions appropriate to the policies in force. Any adjustment to the reserves is reflected in the year to which it relates.

(i) Special reserve

The difference between the reserve for future benefits as calculated by the company and as calculated under statutory provisions is included in the special reserve. This reserve is not distributable.

(j) Investment reserve

Realised and unrealised gains and losses on securities, investment in subsidiaries and investment properties are taken to the investment reserve, a percentage of which is taken annually to the business revenue account.

(k) Inventories

Inventories are valued on the first-in, first-out basis at the lower of cost and net realisable value.

(l) Finance leases

The gross investment in finance leases net of unearned income is recorded as a receivable balance.

3. Taxation

The taxation charge for the year is comprised as follows:

	The Group		The Company	
	1995	1994	1995	1994
	\$'000	\$'000	\$'000	\$'000
Premium tax at 1/2%	2,088	2,278	2,088	2,278
Investment income tax at 7 1/2%	7,059	5,465	7,059	5,465
Income tax at 33 1/3%	241	634	-	-
	9,388	8,377	9,147	7,743
Stamp duties	8,204	5,264	8,204	5,264
	17,592	13,641	17,351	13,007

Subject to agreement with the Commissioner of Income Tax, the group has losses available for offset against future taxable profits amounting to approximately \$9,172,000.

4. Consolidated Profit and Loss Account

	1995	1994
	\$'000	\$'000
(a) This is stated after charging:		
Directors' emoluments -		
Fees	27	27*
Management remuneration	1,503	1,479*
Auditors' remuneration -		
Current year	5,188	3,422
Prior year	1,099	1,228
Depreciation	12,731	7,653
Amortisation of deferred expenses	336	1,558
Pension costs	5,952	4,712
Share issue expense	1,009	1,081
Levy on banking profits	307	-
Redundancy cost	2,150	-

(b) Net profit dealt with in the financial statements
of the holding company was

162,314 181,190

*Restated for comparative purposes

5. Earnings Per Stock Unit

Earnings per stock unit is calculated based on the net profit for the year and 300,000,000 stock units in issue after the bonus issue (note 10). The earnings per stock unit for 1994 has been restated accordingly.

6. Investments

	The Group		The Company	
	1995 \$'000	1994 \$'000	1995 \$'000	1994 \$'000
Real estate (including investment properties)	1,801,798	1,488,079	39,062	14,500
Construction projects in progress	-	94,397	-	94,397
Mortgages	20,699	20,776	19,883	19,911
Quoted equities	33,544	65,449	33,753	61,502
Unquoted equities	2,281	3,391	181	181
Government of Jamaica and other securities	51,598	59,351	109,744	46,748
Loans on policies	19,924	19,987	19,924	19,987
Loans and leases	316,070	225,716	172,563	150,694
Deposits	66,375	120,628	79,536	111,652
	2,312,289	2,097,774	474,646	519,572

Investment properties were valued at current market value as at 31 December 1995 by The C. D. Alexander Company Realty Limited, property appraisers and valuers.

Included in loans and leases are the group's and the company's investments in finance leases as follows:

	The Group 1995 \$'000	The Company 1995 \$'000
Minimum lease payments receivable less provision for losses	111,042	91,165
Less unearned finance income	35,324	27,552
	75,718	63,613

Minimum lease payments are receivable in the years ending 31 December:

	\$'000
1996	78,063
1997	21,064
1998	9,426
1999	2,489
	111,042

7. Investment in Subsidiaries and Associated Companies

	The Group		The Company	
	1995 \$'000	1994 \$'000	1995 \$'000	1994 \$'000
SUBSIDIARY COMPANIES:				
At valuation				
Jamaica Property Company Limited	-	-	1,838,574	1,548,169
Pan Caribbean Merchant Bank Limited	-	-	40,638	38,749
Portfolio Partners Limited	-	-	15,700	(4,102)
	-	-	1,894,912	1,582,816

ASSOCIATED COMPANIES:

St. Andrew Developers Limited				
Shareholding at cost	266	266	133	133
Share of losses	(20,150)	(19,872)	(10,075)	(9,933)
Current account	23,187	37,481	2,943	11,173
	3,303	17,875	(6,999)	1,373
Impan Properties Limited				
Shareholding at cost	20	20	-	-
Share of losses	(244)	(766)	-	-
Share of capital reserve	1,093	1,093	-	-
Current account	(1,178)	(1,574)		
	(309)	(1,227)	-	-
Knutsford Holdings Limited				
Shareholding at cost	1	1	1	1
Share of losses	(4,783)	(5,023)	(2,551)	(2,679)
Share of capital reserve	97,660	69,264	52,085	36,941
Current account	20,577	19,451	10,847	10,847
	113,455	83,693	60,382	45,110
	116,449	100,341	1,948,295	1,629,299

8. Fixed Assets

	THE GROUP					
	Leasehold Improvements	Furniture, Fixtures & Equipments	Assets Capitalised under Finance Leases	Motor Vehicles	Capital Work in Progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At Cost -						
1 January 1995	12,999	72,304	3,766	12,807	3,161	105,037
Additions	5,483	25,713	1,552	2,348	5,796	40,892
Disposals	(1,073)	(393)	-	(1,627)	-	(3,093)
31 December 1995	17,409	97,624	5,318	13,528	8,957	142,836
Depreciation -						
1 January 1995	3,330	21,914	490	1,555	-	27,289
Charge for the year	2,118	7,584	1,120	1,909	-	12,731
Relieved on disposals	(704)	(54)	-	(547)	-	(1,305)
31 December 1995	4,744	29,444	1,610	2,917	-	38,715
Net Book Value -						
31 December 1995	12,665	68,180	3,708	10,611	8,957	104,121
31 December 1994	9,669	50,390	3,276	11,252	3,161	77,748

THE COMPANY

	Leasehold Improvements	Furniture & Fixtures	Computer Hardware & Software	Motor Vehicles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
At cost -					
1 January 1995	11,632	3,791	13,133	9,714	40,270
Additions	4,244	2,833	6,389	649	14,115
Disposals	(1,073)	-	-	(1,282)	(2,355)
31 December 1995	14,803	8,624	19,522	9,081	52,030
Depreciation -					
1 January 1995	3,330	2,547	7,100	1,359	14,336
Charge for the year	2,117	576	1,523	1,350	5,566
Relieved on disposals	(703)	-	-	(484)	(1,187)
31 December 1995	4,744	3,123	8,623	2,225	18,715
Net Book Value -					
31 December 1995	10,059	5,501	10,899	6,856	33,315
31 December 1994	8,302	3,244	6,033	8,355	25,934

9. Other Assets	The Group		The Company	
	1995 \$'000	1994 \$'000	1995 \$'000	1994 \$'000
Premiums receivable	32,465	26,554	32,465	26,554
Due by salesmen	8,192	14,751	8,192	14,751
Prepaid commissions	9,507	5,092	9,508	5,092
Accrued interest	63,345	72,623	51,810	60,468
Other receivables	58,090	39,102	9,971	6,998
Taxation recoverable	1,874	2,331	-	-
Deferred expenses	8,134	4,006	4,372	2,961
Inventories	4,487	3,042	-	-
Customers' liabilities under guarantees	22,933	2,632	-	-
Cash at bank and in hand	136,781	122,537	20,216	18,334
	345,808	292,670	136,534	135,158

Cash at bank and in hand includes a subsidiary's statutory cash reserve with the Bank of Jamaica amounting to \$25,064,000 (1994 - \$29,819,000).

10. Share Capital

	1995 \$'000	1994 \$'000
Authorised:		
Ordinary shares of \$1 each	307,000	157,000
"C" 8 1/2% Cumulative Redeemable Preference Shares of \$1 each	1,403	1,403
"D" 8 1/2% Cumulative Redeemable Preference Shares of \$1 each	1,597	1,597
	310,000	160,000
Issued and fully paid:		
Ordinary stock units of \$1 each	300,000	150,000

During the year, the company increased its authorised share capital by the creation of 150,000,000 ordinary shares of \$1.00 each; such shares to rank pari passu in all respects with the existing ordinary shares. These shares were then issued to shareholders on record at 24 February 1995 by way of a bonus issue in the ratio of one new share for each existing stock unit held out of the unappropriated profits of the company. These shares were converted to ordinary stock units.

11. Share Premium

The share premium arose from the issue of ordinary shares at a premium as follows:

	1995 \$'000	1994 \$'000
1987 and prior years	6,570	6,570
1993	43,153	43,153
	49,723	49,723

12. Capital Redemption Reserve

This arose on the redemption of 1,596,900 'D' and 1,403,100 'C' preference shares out of profits in 1993 and 1992 respectively.

13. Special Reserve

	1995 \$'000	1994 \$'000
Balance at beginning of year	24,881	22,431
Movement during the year	20,492	2,450
Balance at end of year	45,373	24,881

14. Statutory Banking Reserves

	The Group	
	1995	1994
	\$'000	\$'000
Retained earnings reserve	4,250	-
Banking reserve fund	5,757	5,007
	10,007	5,007

These reserves are maintained by a subsidiary in accordance with the Financial Institutions Act, 1992.

15. Investment Reserve

	1995	1994
	\$'000	\$'000
Realised and unrealised gains on investments (net)	1,647,774	1,397,079
Accumulated transfer to business revenue account	(677,646)	(506,323)
The company	970,128	890,756
Arising on consolidation	(13,259)	(8,041)
Accumulated transfer to profit and loss account	(7,194)	(4,100)
The group	949,675	878,615

16. Reserve for Future Benefits

	The Group		The Company	
	1995	1994	1995	1994
	\$'000	\$'000	\$'000	\$'000
Ordinary life	103,073	86,383	103,073	86,383
Annuities	13,248	14,528	13,248	14,528
Group life and health	43,497	29,648	43,497	29,648
Equity fund	9,751	13,131	9,751	13,131
Opportunity fund	70,080	47,246	70,080	47,246
Real estate fund	124,557	154,732	124,557	154,732
Farmers' plan	5,121	3,786	5,121	3,786
	369,327	349,454	369,327	349,454

Included in the ordinary life reserve is a provision for Acquired Immune Deficiency Syndrome (AIDS) claims.

17. Other Liabilities

	The Group		The Company	
	1995	1994	1995	1994
	\$'000	\$'000	\$'000	\$'000
Bank overdrafts	8,212	15,742	1,054	3,183
Benefits payable to policyholders	6,465	7,850	6,465	7,850
Premiums received in advance	42	18	42	18
Other liabilities	79,130	164,086	39,285	117,784

Taxation payable	14,864	12,980	14,774	12,346
Amounts due to other banks	77,958	17,971	-	-
Customers' liabilities under guarantees	22,933	2,632	-	-
Customers' deposits and savings accounts	133,487	175,269	-	-
Promissory notes	38,768	-	38,768	-
Current portion of long term liabilities	-	120	-	-
	381,859	396,668	100,388	141,181

Security for the bank overdrafts includes certain specific securities and investment properties owned by the subsidiaries as well as the unlimited guarantee of the holding company.

The promissory notes are the equivalent of US\$975,000 and are repayable by March 1996. Interest is charged at 15% per annum.

18. Due to/(from) Holding Company and Subsidiaries

	The Group		The Company	
	1995 \$'000	1994 \$'000	1995 \$'000	1994 \$'000
Holding company:				
Current account	14,916	11,743	3,053	11,627
Variable rate long term loans 1982-1988	18,555	22,048	-	-
12% long term loan	2,114	3,316	-	-
Other	-	6,451	-	-
	35,585	43,558	3,053	11,627
Subsidiaries				
Portfolio Partners Limited	-	-	(392)	(5,374)
Pan Caribbean Merchants Bank Limited	-	-	16,303	14,195
Jamaica Property Company Limited	-	-	11,576	19,388
	-	-	27,487	28,209

35,585 43,558 30,540 39,836

19. Unsecured Debentures and Mortgages

	The Group		The Company	
	1995	1994	1995	1994
	\$'000	\$'000	\$'000	\$'000
9 1/4% First mortgage debenture 1971 - 1995	-	120	-	-
Less: Current portion	-	120	-	-
	-	-	-	-

20. Pension

The company administers contributory pension schemes for its employees and the employees of its subsidiaries, with benefits based on the employees' earnings during recognised service.

The latest valuation of the pension scheme as at 31 December 1989 indicated that the current contribution rate is sufficient to fund the pension obligations in the future as they accrue.

21. Lease Commitments

The group and the company have annual lease commitments as follows:

	The Group	The Company
	\$'000	\$'000
Year ending 31 December 1996	3,586	3,392
1997	1,212	1,212

22. Assets Under Management

Assets under management, which are not beneficially owned by certain subsidiaries, but which are managed by these subsidiaries on behalf of investors, have been excluded from the balance sheet. At balance sheet date, the book value of these assets amounted to \$783,913,000 (1994 - \$509,113,000). Assets under management include J\$160,543,000 which is denominated in United States Dollars.

23. Related Party Transactions

The following related party transactions have been included in these financial statements:

	1995 \$'000	1994 \$'000
Management and other fees paid to holding company	11,554	8,536
Rental income earned from holding company	1,668	1,577

The group, in the normal course of business, offers financial services to fellow subsidiaries.