

FIRST LIFE INSURANCE COMPANY LIMITED 1996

NOTES TO THE FINANCIAL STATEMENTS

31 December 1996

1. Identification and Activity

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

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

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). The subsidiaries and associated companies are incorporated in Jamaica.

	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 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%
Motor vehicles	14.29% & 20%
Leased assets	Life of lease

(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 by the company's actuary 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 the policy premium method, 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.

(m) Deferred taxation

Deferred taxation is provided at current tax rates only to the extent that there is reasonable probability that the timing differences will reverse in the foreseeable future.

3. Taxation

The taxation charge for the year is comprised of:

	The Group		The Company	
	1996	1995	1996	1995
	\$'000	\$'000	\$'000	\$'000
Premium tax at 1 1/2%	2,754	2,088	2,754	2,088
Investment income tax at 7 1/2%	8,584	7,059	8,584	7,059
Income tax at 33 1/3%	299	241	-	-
Prior years' underprovision	<u>3,535</u>	<u>-</u>	<u>3,535</u>	<u>-</u>
	15,172	9,388	14,873	9,147
Share of tax charge of associated company	74	-	-	-
	15,246	9,388	14,873	9,147
Stamp duties	<u>7,096</u>	<u>8,204</u>	<u>7,096</u>	<u>8,204</u>
	<u>22,342</u>	<u>17,592</u>	<u>21,969</u>	<u>17,351</u>

Subject to agreement with the Commissioner of Income Tax, the group has losses available for offset against future taxable profits amounting to approximately \$15,612,000 (1995 - \$9,172,000).

4 Consolidated Profit and Loss Account

	1996 \$'000	1995 \$'000
(a) This is stated after charging:		
Directors' emoluments -		
Fees	24	27
Management remuneration	1,909	1,503
Auditors' remuneration		
Current year	6,365	5,188
Prior year	972	1,099
Depreciation	18,342	12,731
Amortisation of deferred expenses	1,083	336
Pension costs	4,588	5,952
Share issue expense	-	1,009
Levy on banking profits	-	307
Redundancy cost	<u>1,900</u>	<u>2,150</u>
 (b) Net profit dealt with in the financial statements of the holding company was	 <u>134,675</u>	 <u>162,177</u>

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 during each year.

6. Investments

	The Group		The Company	
	1996 \$'000	1995 \$'000	1996 \$'000	1995 \$'000
Real estate	1,548,758	1,801,798	127,000	39,062
Property held for development	40,567	-	-	-
Assets held under repurchase agreements	165,200	-	165,200	-
Mortgages	22,695	20,699	21,679	19,883
Quoted equities	30,777	33,544	29,296	33,753
Unquoted equities	2,281	2,281	181	181
Government of Jamaica and other securities	158,533	51,598	174,472	109,744
Loans on policies	23,435	19,924	23,435	19,924
Loans and leases	272,113	316,070	187,215	172,563
Deposits	<u>7,759</u>	<u>66,375</u>	<u>3,411</u>	<u>79,536</u>
	<u>2,272,118</u>	<u>2,312,289</u>	<u>731,889</u>	<u>474,646</u>

Investment properties were valued at current market value as at 31 December 1996 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		The Company	
	1996 \$'000	1995 \$'000	1996 \$'000	1995 \$'000
Minimum lease payments	83,177	111,042	68,394	91,166
receivable less provision for losses	(32,148)	(35,324)	(22,772)	(27,552)
Less unearned finance income	<u>51,029</u>	<u>75,718</u>	<u>45,622</u>	<u>63,614</u>

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

	The Group		The Company	
	1996 \$'000	1995 \$'000	1996 \$'000	1995 \$'000
1996	-	78,063	-	57,540
1997	40,295	21,064	33,837	19,136
1998	23,293	9,426	19,728	10,761
1999	13,154	2,489	9,555	3,465
2000	3,975	-	2,814	264
2001	2,460	-	2,460	-
	<u>83,177</u>	<u>111,042</u>	<u>68,394</u>	<u>91,166</u>

7. Investment in Subsidiaries and Associated Companies

	The Group		The Company	
	1996 \$'000	1995 \$'000	1996 \$'000	1995 \$'000
Subsidiary companies				
At valuation				
Jamaica Property Company Limited	-	-	1,463,219	1,838,574
Pan Caribbean Merchant Bank Limited	-	-	44,941	40,638
Portfolio Partners Limited	-	-	5,703	15,700
	-	-	<u>1,513,863</u>	<u>1,894,912</u>

Associated companies				
St. Andrew Developers Limited				
Shareholding at cost	266	266	133	133
Share of losses	(16,498)	(20,150)	(8,249)	(10,075)
Current account	<u>11,019</u>	<u>23,187</u>	<u>1,733</u>	<u>2,943</u>
	<u>(5,213)</u>	<u>3,303</u>	<u>(6,383)</u>	<u>(6,999)</u>
Impan Properties Limited				
Shareholding at cost	20	20	-	-
Share of profit/(losses)	198	(244)	-	-
Share of capital reserve	7,945	1,093	-	-
Current account	<u>(8,663)</u>	<u>(1,178)</u>	-	-
	<u>(500)</u>	<u>(309)</u>	-	-
Knutsford Holdings Limited				
Shareholding at cost	1	1	1	1
Share of losses	(1,551)	(4,783)	(806)	(2,551)
Share of capital reserve	80,516	97,660	42,942	52,085
Current account	<u>19,747</u>	<u>20,577</u>	<u>10,847</u>	<u>10,847</u>
	<u>98,713</u>	<u>113,455</u>	<u>52,984</u>	<u>60,382</u>
	<u>93,000</u>	<u>116,449</u>	<u>1,560,464</u>	<u>1,948,295</u>

8. Fixed Assets

The Group

	Assets Capitalised					Total \$'000
	Leasehold Improvements \$'000	Furniture Fixtures & Equipment \$'000	Assets under Finance Leases \$'000	Motor Vehicles \$'000	Capital Work in Progress \$'000	
At Cost -						
1 January 1996	17,409	97,624	5,318	13,528	8,957	142,836
Additions	436	8,111	2,647	56	10,334	21,584
Transfers	(2,606)	2,606	-	-	-	-
Disposals	(1,714)	(511)	-	(1,891)	-	(4,116)
31 December 1996	<u>13,525</u>	<u>107,830</u>	<u>7,965</u>	<u>11,693</u>	<u>19,291</u>	<u>160,304</u>

Depreciation -

1 January 1996	4,744	29,444	1,610	2,917	-	38,715
Charge for the year	3,524	9,700	2,282	2,836	-	18,342
Relieved on disposals	(1,714)	(358)	-	(910)	-	(2,982)
31 December 1996	<u>6,554</u>	<u>38,786</u>	<u>3,892</u>	<u>4,843</u>	<u>-</u>	<u>54,075</u>
Net Book Value						
31 December 1996	6,971	69,044	4,073	6,850	19,291	106,229
31 December 1995	12,665	68,180	3,708	10,611	8,957	104,121

The Company

	Leasehold	Furniture	Computer	Motor	Total
	Improvements	& Fixture	Hardware	Vehicles	
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000

At cost -

1 January 1996	14,803	8,624	19,522	9,081	52,030
Additions	436	609	2,159	1,183	4,387
Disposals	(1,714)	-	-	(2,293)	(4,007)
31 December 1996	<u>13,525</u>	<u>9,233</u>	<u>21,681</u>	<u>7,971</u>	<u>52,410</u>
Depreciation -					
1 January 1996	4,744	3,123	8,623	2,225	18,715
Charge for the year	3,524	853	1,828	2,200	8,405
Relieved on disposals	(1,714)	-	-	(942)	(2,656)
31 December 1996	<u>6,554</u>	<u>3,976</u>	<u>10,451</u>	<u>3,483</u>	<u>24,464</u>
Net Book Value -					
31 December 1996	6,971	5,257	11,230	4,488	27,946
31 December 1995	10,059	5,501	10,899	6,856	33,315

9. Other Assets

	The Group		The Company	
	1996 \$'000	1995 \$'000	1996 \$'000	1995 \$'000
Premiums receivable	31,504	32,465	31,504	32,465
Due from salesmen	5,253	8,192	5,253	8,192
Prepaid commissions	4,285	9,507	4,285	9,508
Accrued interest	34,195	63,345	34,195	51,810
Other receivables	58,640	58,090	10,116	9,971
Taxation recoverable	1,333	1,874	-	-
Deferred expenses	9,882	8,134	5,562	4,372
Inventories	2,619	4,487	-	-
Customers' liabilities under guarantees	27,912	22,933	-	-
Cash at bank and in hand	94,326	136,781	33,563	20,216
	<u>269,949</u>	<u>345,808</u>	<u>124,478</u>	<u>136,534</u>

Cash at bank and in hand includes a subsidiary's statutory cash reserve with the Bank of Jamaica amounting to \$17,524,000 (1995 - \$25,064,000).

10. Share Capital

Authorised:	1996 \$'000	1995 \$'000
Ordinary shares of \$1 each	307,000	307,000
"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	<u>1,597</u>	<u>1,597</u>
	<u>310,000</u>	<u>310,000</u>
Issued and fully paid:		
Ordinary stock units of \$1 each	<u>300,000</u>	<u>300,000</u>

11. Share Premium

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

	1996	1995
1987 and prior years	6,570	6,570
1993	<u>43,153</u>	<u>43,153</u>
	<u>49,723</u>	<u>49,723</u>

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

	1996	1995
	\$'000	\$'000
Balance at beginning of year	45,373	24,881
Movement during the year	<u>(12,554)</u>	<u>20,492</u>
	<u>32,819</u>	<u>45,373</u>

Balance at end of year

14. Statutory Banking Reserves

	1996	1995
	\$'000	\$'000
Retained earnings reserve	5,500	4,250
Banking reserve fund	<u>6,875</u>	<u>5,757</u>
	<u>12,375</u>	<u>10,007</u>

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

15. Investment Reserve

Realised and unrealised gains on investments (net)	1996	1995
Accumulated transfer to business revenue account	1,410,382	1,647,774
The company	<u>(787,557)</u>	<u>(677,646)</u>
Arising on consolidation		
Accumulated transfer to profit and loss account	622,825	970,128
	<u>(12,407)</u>	<u>(13,259)</u>
	<u>(6,323)</u>	<u>(7,194)</u>
The group	<u>604,095</u>	<u>949,675</u>

16. Reserve for Future Benefits

	The Group		The Company	
	1996	1995	1996	1995
	\$'000	\$'000	\$'000	\$'000
Ordinary life	118,439	103,073	118,439	103,073
Annuities	14,780	13,248	14,780	13,248
Group life and health	51,273	43,497	51,273	43,497
Equity fund	8,277	9,751	8,277	9,751
Opportunity fund	75,176	70,080	75,176	70,080
Real estate fund	109,611	124,557	109,611	124,557
Farmers' plan	6,406	5,121	6,406	5,121
	<u>383,962</u>	<u>369,327</u>	<u>383,962</u>	<u>369,327</u>

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

17. Other Liabilities	The Group		The Company	
	1996 \$'000	1995 \$'000	1996 \$'000	1995 \$'000
Bank overdrafts	3,012	8,212	-	1,054
Benefits payable to policyholders	10,144	6,465	10,144	6,465
Premiums received in advance	42	42	42	42
Other liabilities	118,631	79,130	42,514	39,285
Taxation payable	11,132	14,864	11,119	14,774
Amounts due to other banks	44,541	77,958	-	-
Customers' liabilities under guarantees	32,342	22,933	-	-
Customers' deposits and savings accounts	92,697	133,487	-	-
Promissory notes	-	38,768	-	38,768
Current portion of long term loan	5,839	-	-	-
	<u>318,380</u>	<u>381,859</u>	<u>63,819</u>	<u>100,388</u>

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.

18. Due to/(from) Holding Company and Subsidiaries	The Group		The Company	
	1996 \$'000	1995 \$'000	1996 \$'000	1995 \$'000
Holding company:				
Current account	20,053	14,916	13,123	3,053
Variable rate long term loans 1982-1988	15,017	18,555	-	-
12% long term loan	747	2,114	-	-
	<u>35,817</u>	<u>35,585</u>	<u>13,123</u>	<u>3,053</u>

Subsidiaries:

Portfolio Partners Limited	-	-	6,308	(392)
Pan Caribbean Merchant Bank Limited	-	-	5,661	16,303
Jamaica Property Company Limited	-	-	(20,211)	<u>11,576</u>
	-	-	(8,242)	<u>27,487</u>
	<u>35,817</u>	<u>35,585</u>	<u>4,881</u>	<u>30,540</u>

19. Long Term Loan

	1	996	1995
		\$'000	\$'000
CIBC Jamaica Limited (US\$500,000)		17,500	-
Less: Current portion		<u>5,839</u>	-
		<u>11,661</u>	-

This represents a subsidiary's loan which is secured by a mortgage over properties owned by that subsidiary. The loan is repayable in monthly instalments over three years commencing January 1997. Interest is charged at 14% per annum.

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 1997	2,595	13,589
1998	-	<u>11,033</u>

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 \$1,720,024,000 (1995 -\$783,913,000). Assets under management include J\$576,510,636 (1995 -J\$160,543,000) which are denominated in United States Dollars.

23. Related Party Transactions

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

	1996	1995
	\$'000	\$'000
Management and other fees paid to holding company	12,285	11,554
Rental income earned from holding company	<u>3,325</u>	<u>1,668</u>

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