

CIBC JAMAICA LIMITED 1997

Notes to the Financial Statements

31 October 1997

1. Company Identification

The Company, which is incorporated in Jamaica, is a 55.17% subsidiary of CIBC West Indies Holdings Limited, a company incorporated in Barbados. The ultimate parent company is Canadian Imperial Bank of Commerce (CIBC), a company incorporated in Canada.

The Company is licensed and these financial statements are prepared in accordance with the Banking Act, 1992.

The principal activities of the Company and its subsidiary companies are banking and other financial services.

These financial statements are presented in Jamaican dollars (J\$).

2. Significant Accounting Policies

(a) Accounting convention

These financial statements are prepared under the historical cost

convention as modified by the revaluation of certain fixed assets.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiary companies, CIBC Trust and Merchant Bank Jamaica Limited and CIBC Building Society.

All significant inter-company transactions have been eliminated. The Company and its subsidiary companies are collectively referred to as "Group".

(c) Depreciation

Group premises and equipment, with the exception of freehold land on which no depreciation is provided, are depreciated on the straight line method at rates varying between 2.5% and 25% which are estimated to write off the cost of the assets over their expected useful lives. Leasehold improvements are amortised over the term of each lease.

(d) Interest

Interest income and expenses are recorded on the accrual basis, except, where collection of interest income is considered doubtful it is recorded on the cash basis.

(e) Income under finance leases

Income under finance leases is recognised in a manner which produces a constant rate of return on the net investment in leases.

(f) Provision for loan losses

The provision for loan losses is maintained at a level considered adequate to provide for potential loan losses. The level of the provision is based on management's evaluation of potential losses in the loan portfolio, as well as prevailing and anticipated economic conditions.

(g) Foreign currencies

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 rate of exchange ruling on the dates of those transactions.

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

(h) Investments

These are shown at the lower of cost and market value.

3. Profit Before Taxation

Profit before taxation is stated after charging:

	The Group		The Company	
	1997 J\$'000	1996 J\$'000	1997 J\$'000	1996 J\$'000
Depreciation and amortization				
Directors' emoluments - Fees	21,658	33,423	20,752	32,965
Management remuneration	138	46	138	46
Management fees (Mote 19)	6,744	7,369	6,744	7,369
Auditors' remuneration	15,830	-	15,830	-
CIBC technical and credit agreements (Note 19)	2,550	2,240	1,850	1,650
	<u>15,417</u>	<u>2,223</u>	<u>15,417</u>	<u>1,306</u>

4. Taxation

The tax charge is based on the profit for the year adjusted for taxation purposes and comprises:

	The Group		The Company	
	1997	1996	1997	1996

	J\$'000	J\$'000	J\$'000	J\$'000
Income tax at 33 1/3%	59,560	65,745	45,782	60,046
Prior year under/(over) provision	<u>145</u>	<u>(875)</u>	-	<u>(856)</u>
	<u>59,705</u>	<u>64,870</u>	<u>45,782</u>	<u>59,190</u>

The taxation charge for the Group and the Company are disproportionate to the reported results mainly as a result of:

- (a) capital allowances for taxation purposes exceeding the depreciation by approximately \$382,000 for the Group and \$9,795,000 for the Company and
- (b) tax free income amounting approximately \$31,804,000 for the Group and \$11,508,000 for the Company.

5. Dividends

	1997 \$'000	1996 \$'000
Interim dividend for 1997 at J\$0.12 (1996 -J\$0.12) per stock unit - gross	23,200	23,200
Final dividend for 1997 at J\$0.15 (1996-J\$0.15) per stock unit - gross	<u>29,000</u> 52,200	<u>29,000</u> 52,200

6. Earnings Per Stock Unit

The calculation of earnings per ordinary 50 cents stock unit is based on the net profit for the year of \$151,978,000 (1996 - \$126,592,000) and 193,333,000 ordinary stock units in issue for both years.

7. Cash Resources

	The Group		The Company	
	1997 \$'000	1996 \$'000	1997 \$'000	1996 \$'000
Notes, coins and money at				
Bank of Jamaica	2,009,175	1,700,015	1,960,936	1,671,564
Foreign currencies	68,535	69,417	68,535	69,417
Accounts with other banks	1,154,820	589,920	965,918	574,185
Account with ultimate parent company	11,426	-	11,426	-
Account with subsidiary-	-	-	7,000	-
	<u>3,243,956</u>	<u>2,359,352</u>	<u>3,013,815</u>	<u>2,315,166</u>

Cash resources include J\$1,913,139,000 (1996 -J\$1,586,387,000) for the Group and J\$1,864,900,000 (1996 - J\$ 1,557,938,000) for the Company, as required under section 14 (i) of both the Banking Act, 1992 and the Financial Institutions Act,1992, which are held substantially on a non-interest-bearing basis at Bank of Jamaica as a cash reserve; accordingly, these amounts are not available for investment or other use by the Group and the Company.

8. Investments

	The Group		The Company	
	1997 J\$'000	1996 J\$'000	1997 J\$'000	1996 J\$'000
Securities issued or guaranteed by				
Government of Jamaica:				
Treasury bills	676,570	378,639	671,491	367,015
Equity investment bonds	136,240	56,253	136,240	56,253
Local registered stocks	415,496	582,496	415,496	582,496
Capital investment bonds	100	100	-	-
US dollar bond	907	-	-	-
Securities issued or guaranteed by				
Government of Canada:				
Treasury bills	30,968	6,293	30,968	6,293

Accrued interest	52	49	52	49
Securities issued or guaranteed by Government of U.S.A.:				
Debentures	125,649	119,674	125,649	119,674
Securities issued or guaranteed by Government of Republic of Trinidad & Tobago:				
US dollar bond	190,231	-	-	-
Other	17,864	19,701	17,864	19,701
Accrued interest	<u>32,419</u>	<u>81,285</u>	<u>32,320</u>	<u>80,187</u>
	1,626,496	1,244,490	1,430,080	1,231,668
Interest in subsidiary companies' shares at cost	<u>-</u>	<u>-</u>	<u>36,744</u>	<u>21,744</u>
	<u>1,626,496</u>	<u>1,244,490</u>	<u>1,466,824</u>	<u>1,253,412</u>

Government of Jamaica Treasury Bills include deposit of \$nil (1996 -J\$123,299,000) placed by the Company with Bank of Jamaica as a special deposit under section 28A of the Bank of Jamaica Act. These securities could not be dealt with by the Company and had to be maintained as long as the Bank of Jamaica so required.

9. Provision for Loan Losses

Movements during the year were as follows:

	The Group		The Company	
	1997 J\$'000	1996 J\$'000	1997 J\$'000	1996 J\$'000
Balance at beginning of year	48,830	54,690	48,597	54,690
Provided during the year	81,516	77,532	80,574	77,299
Amounts written off	<u>(48,051)</u>	<u>(83,392)</u>	<u>(48,051)</u>	<u>(83,392)</u>
Balance at end of year	<u>82,295</u>	<u>48,830</u>	<u>81,120</u>	<u>48,597</u>

10. Net Investment in Leases

	1997 J \$'000	1996 J\$'000
Total minimum lease payments receivable	72,153	82,176
Unearned income	<u>21,202</u>	<u>29,588</u>
	50,951	52,588
Less provision for losses	<u>1,175</u>	<u>162</u>
	49,776	52,426

Comprised as follows:

Current portion	21,851	2,550
Long term portion	<u>27,925</u>	<u>49,876</u>
	49,776	52,426

Future minimum lease payments are receivable as follows:

	1997 J\$'000	1996 J\$'000
Year ending 31 October		
1997	-	38,914
1998	35,328	29,842
1999	24,370	12,294
2000	12,300	1,126
2001 and after	<u>155</u>	<u>-</u>
	<u>72,153</u>	<u>82,176</u>

11. Premises and Equipment

The Group

Furniture,
Computer

	Land	Buildings	Leasehold Improvements	Equipment and Motor Vehicles	Total
	J\$'000	J\$'000	J\$'000	J\$'000	J\$'000
Cost or Valuation -					
1 November 1996	3,900	32,649	57,451	203,225	297,225
Additions	-	-	1,027	28,114	29,141
Disposals	-	(92)	-	(338)	(430)
Transfer	-	-	(11)	11	-
31 October 1997	<u>3,900</u>	<u>32,557</u>	<u>58,467</u>	<u>231,012</u>	<u>325,936</u>
at cost	-	22,027	58,467	231,012	311,506
At valuation	<u>3,900</u>	<u>10,530</u>	-	-	<u>14,430</u>
	<u>3,900</u>	<u>32,557</u>	<u>58,467</u>	<u>231,012</u>	<u>325,936</u>
Depreciation -					
1 November 1996	-	5,171	15,569	93,846	114,586
Charge for the year	-	1,259	3,740	16,659	21,658
Eliminated on disposals	-	-	-	(178)	(178)
31 October 1997	<u>-</u>	<u>6,430</u>	<u>19,309</u>	<u>110,327</u>	<u>136,066</u>
Net Book Value -					
31 October 1997	<u>3,900</u>	<u>26,127</u>	<u>39,158</u>	<u>120,685</u>	<u>189,870</u>
31 October 1996	<u>3,900</u>	<u>27,478</u>	<u>41,882</u>	<u>109,379</u>	<u>182,639</u>

The Company

	Land	Buildings	Leasehold Improvements	Furniture, Computer Equipment and Motor Vehicles	Total
	J\$'000	J\$'000	J\$'000	J\$'000	J\$'000
Cost or Valuation					
1 November 1996	3,900	31,821	57,452	201,134	294,307
Additions	-	-	1,027	27,354	28,381

Disposals	-	(92)	-	(338)	(430)
Transfer	-	-	(11)	11	-
31 October 1997	<u>3,900</u>	<u>31,729</u>	<u>58,468</u>	<u>228,161</u>	<u>322,258</u>
At cost	-	21,949	58,468	228,161	308,578
At valuation	<u>3,900</u>	<u>9,780</u>	-	-	<u>13,680</u>
	<u>3,900</u>	<u>31,729</u>	<u>58,468</u>	<u>228,161</u>	<u>322,258</u>

Depreciation -

1 November 1996	-	5,013	15,568		113,542
Charge for the year	-	1,198	3,749	15,805	20,752
Disposals	-	-	-	(177)	(177)
31 October 1997	<u>-</u>	<u>6,211</u>	<u>19,317</u>	<u>108,589</u>	<u>134,117</u>
Net Book Value -					
31 October 1997	<u>3,900</u>	<u>25,518</u>	<u>39,151</u>	<u>119,572</u>	<u>188,141</u>
31 October 1996	<u>3,900</u>	<u>26,808</u>	<u>41,884</u>	<u>108,173</u>	<u>180,765</u>

Land and buildings are stated at open market value as at 25 July 1988, as appraised by C.D. Alexander Company Realty Limited, real estate brokers and appraisers, amounting to J\$14,430,000 for the Group and J\$ 13,680,000 for the Company.

Subsequent additions and other fixed assets are shown at cost.

12. Other Assets

	The Group		The Company	
	1997 J\$ '000	1996 J\$ '000	1997 J\$ '000	1996 J\$ '000
Cheques and other items in transit, net	241,535	-	241,535	-
Interest receivable	73,898	21,857	55,745	18,264
Other	<u>126,901</u>	<u>92,238</u>	<u>118,042</u>	<u>84,247</u>
	<u>442,334</u>	<u>114,095</u>	<u>415,322</u>	<u>102,511</u>

13. Sundry Liabilities

	The Group		The Company	
	1997 J\$'000	1996 J\$'000	1997 J\$'000	1996 J\$'000
Cheques and other items in transit, net	-	80,134	-	80,134
Interest payable	63,137	78,553	56,394	72,121*
Notes payable	1,431	8,204	1,431	8,204
Withholding tax	26,400	36,395	26,400	35,101
Dividend proposed	29,000	29,000	29,000	29,000
Other	<u>66,510</u>	<u>47,250</u>	<u>27,955</u>	<u>12,212*</u>
	<u>186,478</u>	<u>279,536</u>	<u>141,180</u>	<u>236,772</u>

14. Share Capital

	1997 J\$'000	1996 J\$'000
Authorised 200,000,000 Ordinary shares of J\$0.50 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid 193,333,332 Ordinary Stock units of J\$0.50 each	<u>96,667</u>	<u>96,667</u>

15. Capital Reserves

	The Group		The Company	
	1997 J\$'000	1996 J\$'000	1997 J\$'000	1996 J\$'000
At beginning of year	19,458	14,458	12,833	12,833
Transfer from retained earnings	<u>-</u>	<u>5,000</u>	<u>-</u>	<u>-</u>
	<u>19,458</u>	<u>19,458</u>	<u>12,833</u>	<u>12,833</u>

Comprised of:

Unrealised -
Capitalisation of retained earnings in

subsidiary	5,000	5,000	-	-
Surplus on revaluation of premises	6,188	6,188	5,493	5,493
Arising on consolidation	<u>930</u>	<u>930</u>	<u>-</u>	<u>-</u>
	12,118	12,118	5,493	5,493
Realised -				
Profit on sale of fixed asset	<u>7,340</u>	<u>7,340</u>	<u>7,340</u>	<u>7,340</u>
At end of year	<u>19,458</u>	<u>19,458</u>	<u>12,833</u>	<u>12,833</u>

* Reclassified for comparative purposes

16. Reserve Fund

	The Group		The Company	
	1997 J\$'000	1996 J\$'000	1997 J\$'000	1996 J\$'000
Balance at beginning of year	107,758	104,741	96,667	96,667
Transfer from retained earnings	<u>4,620</u>	<u>3,017</u>	-	-
Balance at end of year	<u>112,378</u>	<u>107,758</u>	<u>96,667</u>	<u>96,667</u>

The fund is maintained in accordance with the Banking Act for the Company, the Financial Institutions Act for CIBC Trust and Merchant Bank Jamaica Limited and the Bank of Jamaica (Building Societies) Regulations 199S for CIBC Building Society. These require that minimum prescribed percentages of net profit be transferred to the reserve fund until the amount in the fund is equal to paid up share capital.

17. Retained Earnings Reserve

	The Group		The Company	
	1997 J\$'000	1996 J\$'000	1997 J\$'000	1996 J\$'000
Balance at beginning of the year	185,823	35,823	185,823	35,823
Transfer from retained earnings	<u>220,843</u>	<u>150,000</u>	<u>220,843</u>	<u>150,000</u>

Balance at end of year	<u>406,666</u>	<u>185,823</u>	<u>406,666</u>	<u>185,823</u>
------------------------	----------------	----------------	----------------	----------------

Section 2 of both the Banking Act, and the Financial Institutions Act permits the transfer of any portion of net profit to a retained earnings reserve. This reserve constitutes a part of the capital base for the purpose of determining the maximum level of deposit liabilities and lending to customers.

Transfers to the retained earnings reserve are made at the discretion of the Board; such transfers must be notified to the Bank of Jamaica.

18. Building Society Reserve

	The Group	
	1997	1996
	J\$'000	J\$'000
Balance at beginning of year	6,017	-
Transfer from retained earnings	<u>11,000</u>	<u>6,017</u>
Balance at end of year	<u>17,017</u>	<u>6,017</u>

In accordance with the Income Tax Act, CIBC Building Society may transfer amounts not exceeding 5% of its prescribed assets to a reserve on a tax free basis.

19. Related Party Transactions

During the year, the company entered into the following transactions with related parties:

	1997	1996
	J\$'000	J\$'000
Transactions with CIBC West Indies Holdings Limited:		
Interest expense	2,551	3,302
Management fees paid (Note 3)	15,830	-
Transactions with ultimate parent company:		
Interest income	2,467	1,035
Banking support services (Note 3)	15,417	1,306

Transaction with other CIBC entity:

Interest expense	<u>4,926</u>	<u>6,690</u>
------------------	--------------	--------------

20. National Housing Trust Contributions

The contributions charged to profit and loss account, amounting to J\$134,000 for the Group and J\$122,000 for the Company up to 31 July 1979, are recoverable in the years 2001/4.

21. Pension Scheme

The Company operates contributory (supplementary plan) and non-contributory (basic plan) pension schemes for all employees who have satisfied certain minimum service requirements.

The pension benefits are computed at 1.5% (basic plan) and 2.0 % (supplementary plan) of the best consecutive 5 years' earnings in the last 10 years, multiplied by the years of credited service. Provision is also made for survivor, termination and disability benefits.

The latest actuarial valuation was completed as at 31 October 1996. This revealed a combined funds past service deficiency of \$91,600,000 for normal retirement age of 65 years. The actuaries have recommended that as of 1 November 1996:

- (a) the employer's contribution rate be set at 10% of members' pensionable salaries, or
- (b) that a fixed amount be paid by the employer over 20 years, in order to fund the deficiency and meet future service liability.

Recommendation (a) was implemented during the year.

Total contributions charged against income for the year were J\$22,190,000 (1996 -J\$10,200,000) for the Group and J\$21,007,000 (1996 -J\$9,748,000) for the Company.

22. Assets Held in Trust by Subsidiary Company

Assets held in trust, which are not beneficially owned by a subsidiary company, but for which the subsidiary company has responsibility in accordance with trust agreements, have been excluded from the group balance sheet. At the balance sheet date, the book value of these assets amounted to J\$4,722,725,000 (1996 J\$934,309,000).

23. Lease Commitments

The Company has obligations under long term operating leases for buildings, motor vehicles and equipment. Future minimum lease payments for such commitments are as follows:

	J\$ '000
Year ending 31 October	
1998	57,032
1999	63,731
2000	61,657
2001	68,450
2002	78,762
Beyond 2002	33,336
	<u>362,968</u>

24. Banking Act

At 31 October 1997, the Company was in breach of Section 13.1 (f) of the Banking Act, which deals with the maximum credit facilities that a bank may grant to any one person or group. This breach was in respect of three customers and arose from a recent decision by the Bank of Jamaica that it would no longer accept parent company guarantees for the excess over the maximum allowable credit facilities. The Company is in the process of rectifying this breach.

