

# FIRST LIFE INSURANCE COMPANY 1997

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## Notes to the Financial Statements

31 December, 1997

### 1. Identification and Activity

The company is a 73% 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 and associated companies are detailed in note 2(b).

These financial statements are expressed in Jamaican dollars.

### 2. Significant Accounting Policies

#### (a) Accounting convention

These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain securities, investment in subsidiaries and investment properties.

(b) 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(c). 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 Holdings Limited	Office Rental		28%

Goodwill arising on consolidation is dealt with in the investment reserve (note 15).

(c) Investment in subsidiaries and associated companies

Investments by the holding company in subsidiaries are 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. In the group's and company's balance sheet, the investments are included at cost plus the share of reserves arising since acquisition of the investment.

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

(d) 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.

(e) Investments

- i) Real estate includes investment property and land awaiting development. Investment property is revalued annually and land awaiting development is revalued periodically.

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) Property development in progress is stated at the lower of cost and net realisable value.

- iii) Mortgages are stated at the aggregate of the unpaid principal.

- iv) Securities:

- (a) Quoted securities are stated at market value; any fluctuation arising from the changes in market value is taken to the investment reserve.
- (b) Unquoted securities 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 losses on realisation.
- (d) Assets held under repurchase agreements are stated at cost.
  - v) Loans on policies are stated at the aggregate of the unpaid balances.
  - vi) Deposits are stated at cost.
  - vii) Equity investment is stated at the cost of the investment plus the share of the reserves arising since acquisition of the investment.

(f) Fixed assets and depreciation

Fixed assets are stated at cost. 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%
Computer hardware & software	20%
Furniture, fixtures, fittings	10% & 12 1/2%
Motor vehicles	14.29% & 20%
Leased assets	Life of lease

Gains and losses arising on disposal of fixed assets are dealt with in the profit and loss account.

Repair and maintenance expenditure are charged to the profit and loss account.

Improvement expenditure is included in the cost of the related asset or in leasehold improvement as is appropriate.

(g) 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.

(h) Deferred expenses

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

(i) 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.

(j) Special reserve

This represents:

- (a) The sum of the negative reserves which have been offset in the reserve for future benefits, and
- (b) The difference between the cash surrender value (CSV) of the policies and the reserve for future benefits, where the CSV is greater.

(k) 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.

(l) Inventories

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

(m) Finance leases

The gross investment in finance leases net of unearned income is recorded as a receivable balance. Income is recognised over the term of the lease in a manner that produces a constant rate of return on the net investment in the lease.

(n) 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.

(o) Property development in progress

Development expenditure comprise acquisition, development, construction, selling and other direct costs incurred in respect of real estate projects.

(p) Retirement benefit plans

Retirement benefits are actuarially determined based on career earnings. Employers' contributions to fund past service deficiencies and future service liabilities are made monthly and are charged to the profit and loss account.

(q) Premium income

Premiums are recognised as earned when due and are stated net of reinsurance premiums.

(r) Provision for credit losses

The provision for credit losses is based on management's evaluation of the potential losses in the credit portfolio, taking into consideration the business and economic conditions.

### 3. Taxation

The taxation charge for the year is comprised of:

	The Group		The Company	
	1997 \$'000	1996 \$'000	1997 \$'000	1996 \$'000
Premium tax at 1 1/2%	2,837	2,754	2,837	2,754
Investment income tax at 7 1/2%	8,774	8,584	8,774	8,584
Income tax at 33 1/3%	-	299	-	-
Prior years' (over)/underprovision	( 464)	3,535	-	3,535
	<u>11,147</u>	<u>15,172</u>	<u>11,611</u>	<u>14,873</u>
Share of tax charge of associated company	-	74	-	-
	<u>11,147</u>	<u>15,246</u>	<u>11,611</u>	<u>14,873</u>
Stamp duties	2,136	7,096	2,136	7,096
	<u><b>13,283</b></u>	<u><b>22,342</b></u>	<u><b>13,747</b></u>	<u><b>21,969</b></u>

Subject to agreement with the Commissioner of Income Tax, the group has losses available for offset against future taxable profits amounting to approximately \$14,723,000 (1996 - \$15,612,000)

#### 4. Consolidated Profit and Loss Account

	1997 \$'000	1996 \$'000
(a) This is stated after charging/(crediting):		
Directors' emoluments -		
Fee	45	24
Management remuneration	2,140	1,909
Auditors' remuneration -		
Current year	6,295	6,365
Prior year	70	972
Depreciation	15,776	18,342
Provision for credit losses	6,229	896
Amortisation of deferred expenses	2,725	1,083
Pension costs	8,999	4,588
Interest income	(131,781)	(158,533)
Redundancy cost	-	1,900
	<u>153,280</u>	<u>134,675</u>
(b) Net profit dealt with in the financial statements of the holding company was	<u>153,280</u>	<u>134,675</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 throughout each year.

#### 6. Investments

	The Group		The Company	
	1997 \$'000	1996 \$'000	1997 \$'000	1996 \$'000
Real estate	1,582,248	1,548,758	-	127,000
Property development in progress	23,278	40,566	-	-
Equity investment	55,710	52,984	55,710	52,984
Assets held under repurchase agreements	82,944	165,200	63,408	165,200
Mortgages	22,739	22,695	21,777	21,679
Quoted securities	36,004	30,777	33,143	29,296
Unquoted securities	8,342	2,281	181	181

Government of Jamaica and other securities	397,820	158,533	380,448	174,472
Loans on policies	27,154	23,435	27,154	23,435
Loans and leases	280,720	272,113	402,219	187,215
Commercial paper	10,000	-	10,000	-
Deposits	3,487	7,759	3,487	3,411
	<u>2,530,446</u>	<u>2,325,101</u>	<u>997,527</u>	<u>784,873</u>

Investment properties were valued at current market value as at 31 December 1997 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	
	1997 \$'000	1996 \$'000	1997 \$'000	1996 \$'000
Minimum lease payments	85,242	83,177	56,834	68,394
receivable less provision for losses	(21,059)	(32,148)	(13,010)	(22,772)
Less unearned finance income	<u>64,183</u>	<u>51,029</u>	<u>43,824</u>	<u>45,622</u>

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

	The Group		The Company	
	1997 \$'000	1996 \$'000	1997 \$'000	1996 \$'000
1997	-	40,295	-	33,837
1998	40,388	23,293	28,366	19,728
1999	28,250	13,154	19,012	9,555
2000	13,426	3,975	6,278	2,814
2001	3,178	2,460	3,178	2,460
	<u>85,242</u>	<u>83,177</u>	<u>56,834</u>	<u>68,394</u>



7. Investment in Subsidiaries and Associated Companies

	The Group		The Company	
	1997 \$'000	1996 \$'000	1997 \$'000	1996 \$'000
Subsidiary companies				
At valuation				
Jamaica Property Company Limited	-	-	1,506,451	1,463,219
Pan Caribbean Merchant Bank Limited	-	-	48,977	44,941
Portfolio Partners Limited	-	-	1,800	5,703
	<u>-</u>	<u>-</u>	<u>1,557,228</u>	<u>1,513,863</u>
Associated companies				
St. Andrew Developers Limited				
Shareholding at cost	266	266	133	133
Share of losses	(11,039)	(16,498)	(5,518)	(8,249)
Current account	<u>9,021</u>	<u>11,019</u>	<u>1,733</u>	<u>1,733</u>
	<u>(1,752)</u>	<u>(5,213)</u>	<u>(3,652)</u>	<u>(6,383)</u>
Impan Properties Limited				
Shareholding at cost	20	20	-	-
Share of profit	154	198	-	-
Share of capital reserve	7,945	7,945	-	-
Current account	<u>8,803</u>	<u>(8,663)</u>	<u>-</u>	<u>-</u>
	<u>684</u>	<u>(500)</u>	<u>-</u>	<u>-</u>
Knutsford Holdings Limited				
Shareholding at cost	1	1	-	-
Share of profit/(losses)	1,714	(745)	-	-
Share of capital reserve	37,500	37,574	-	-
Current account	<u>6,410</u>	<u>8,900</u>	<u>-</u>	<u>-</u>
	<u>45,625</u>	<u>45,730</u>	<u>-</u>	<u>-</u>
	<b><u>43,189</u></b>	<b><u>40,017</u></b>	<b><u>1,553,576</u></b>	<b><u>1,507,480</u></b>

## 8. Fixed Assets

	THE GROUP					
	Assets Capitalised					
	Leasehold	Furniture,	Finance	Motor	Capital	Total
	Improvements	Furniture,	Leases	Vehicles	Work in	
	\$'000	Equipment	\$'000	\$'000	Progress	\$'000
		\$'000			\$'000	
At Cost -						
1 January 1997	13,525	107,830	7,965	11,693	19,291	160,304
Additions	2,075	12,880	-	1,519	5,598	22,072
Disposals	(2,472)	(1,866)	(373)	1,938	-	(6,649)
31 December 1997	<u>13,128</u>	<u>118,844</u>	<u>7,592</u>	<u>11,274</u>	<u>24,889</u>	<u>175,727</u>
Depreciation -						
1 January 1997	6,554	38,786	3,892	4,843	-	54,075
Charge for the year	2,404	9,287	2,116	1,969	-	15,776
Relieved on disposals	(1,536)	(1,739)	(373)	(1,139)	-	(4,787)
31 December 1997	<u>7,422</u>	<u>46,334</u>	<u>5,635</u>	<u>5,673</u>	<u>-</u>	<u>65,064</u>
Net Book Value -						
31 December 1997	<b><u>5,706</u></b>	<b><u>72,510</u></b>	<b><u>1,957</u></b>	<b><u>5,601</u></b>	<b><u>24,889</u></b>	<b><u>110,663</u></b>
31 December 1996	<b><u>6,971</u></b>	<b><u>69,044</u></b>	<b><u>4,073</u></b>	<b><u>6,850</u></b>	<b><u>19,291</u></b>	<b><u>106,229</u></b>

	THE COMPANY				
	Computer				
	Leasehold	Furniture	Hardware	Motor	Total
	Improvements	& Fixtures	& Software	Vehicles	
	\$'000	\$'000	\$'000	\$'000	\$'000
At Cost -					
1 January 1997	13,525	9,233	21,681	7,971	52,410
Additions	2,475	207	1,391	771	4,844
Disposals	2,472	(1,836)	-	(763)	(5,071)
31 December 1997	<u>13,528</u>	<u>7,604</u>	<u>23,072</u>	<u>7,979</u>	<u>52,183</u>

Depreciation -					
1 January 1997	6,554	3,976	10,451	3,483	24,464
Charge for the year	2,404	914	2,007	1,420	6,745
Relieved on disposals	(1,536)	(1,733)	-	(763)	4,032
31 December 1997	<u>7,422</u>	<u>3,157</u>	<u>12,458</u>	<u>4,140</u>	<u>27,177</u>

Net Book Value -

31 December 1997	<u>6,106</u>	<u>4,447</u>	<u>10,614</u>	<u>3,839</u>	<u>25,006</u>
31 December 1996	<u>6,971</u>	<u>5,257</u>	<u>11,230</u>	<u>4,488</u>	<u>27,946</u>

**9. Other Assets**

	The Group		The Company	
	1997	1996	1997	1996
	\$'000	\$'000	\$'000	\$'000
Premiums receivable	29,537	31,504	29,537	31,504
Due from salesmen	2,242	5,253	2,242	5,253
Prepaid commissions	2,576	4,285	2,576	4,285
Accrued interest	49,772	34,195	58,639	34,195
Other receivables	45,195	58,640	12,999	10,116
Taxation recoverable	1,015	1,333	-	-
Deferred expenses	12,466	9,882	7,890	5,562
Inventories	2,876	2,619	-	-
Customers' liabilities under guarantees	26,462	27,912	-	-
Cash at bank and in hand	<u>86,842</u>	<u>94,326</u>	<u>25,668</u>	<u>33,563</u>
	<u>258,983</u>	<u>269,949</u>	<u>139,551</u>	<u>124,478</u>

Cash at bank and in hand includes a subsidiary's statutory cash reserve with the Bank of Jamaica amounting to \$25,222,000 (1996 - \$17,524,000). This amount is held on a non-interest bearing basis and is not available for investment or use by the subsidiary.

**10. Share Capital**

	1997	1996
	\$'000	\$'000
Authorised:		
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>
	<b><u>310,000</u></b>	<b><u>310,000</u></b>
Issued and fully paid: Ordinary stock units of \$1 each	<b><u>300,000</u></b>	<b><u>300,000</u></b>

#### 11. Share Premium

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

	1997	1996
	\$'000	\$'000
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

	1997	1996
	\$'000	\$'000
Balance at beginning of year	32,819	45,373
Movement during the year	<u>11,001</u>	<u>(12,554)</u>
Balance at end of year	<b><u>43,820</u></b>	<b><u>32,819</u></b>

#### 14. Statutory Banking Reserves

	Retained Earnings Reserve	Banking Reserve Fund	Total
	\$'000	\$'000	\$'000
Balance at beginning of year	5,500	6,875	12,375
Transfer from profit and loss	<u>2,750</u>	<u>1,181</u>	<u>3,931</u>
Balance at end of year	8,250	8,056	16,306

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

**15. Investment Reserve**

	1997 \$'000	1996 \$'000
Realised and unrealised gains on investments (net)	1,462,280	1,424,339
Accumulated transfer to business revenue account	<u>(887,089)</u>	<u>(787,557)</u>
The company	575,191	636,782
Arising on consolidation	(32,425)	(22,415)
Accumulated transfer to profit and loss account	5,199	3,685
The group	<u><b>547,965</b></u>	<u><b>618,052</b></u>

**16. Reserve for Future Benefits**

	The Group & The Company	
	1997 \$'000	1996 \$'000
Ordinary life	140,703	118,439
Annuities	18,303	14,780
Group life and health	74,114	51,273
Equity fund	9,384	8,277
Opportunity fund	79,469	75,176
Real estate fund	41,068	109,611
Farmers' plan	5,910	6,406
	<u><b>368,951</b></u>	<u><b>383,962</b></u>

**17. Other Liabilities**

	The Group		The Company	
	1997 \$'000	1996 \$'000	1997 \$'000	1996 \$'000
Bank overdrafts	8,761	3,012	99	-
Benefits payable to policyholders	14,667	10,144	14,667	10,144

Premiums received in advance	42	42	42	42
Other liabilities and accrued expenses	77,812	118,631	49,655	42,514
Taxation payable	7,498	11,132	5,836	11,119
Amounts due to other banks	41,809	44,541	-	-
Customers' liabilities under guarantees	26,462	32,342	-	-
Customers' deposits and savings accounts	107,562	92,697	-	-
Short term loan	16,773	-	16,773	-
Current portion of long term loan	6,077	5,839	-	-
	<u>307,463</u>	<u>318,380</u>	<u>87,072</u>	<u>63,819</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	
	1997	1996	1997	1996
Holding company:	\$'000	\$'000	\$'000	\$'000
Current account	25,946	20,053	4,414	13,123
Variable rate long term loans				
1982-1988	-	15,017	-	-
12% long term loan	-	747	-	-
	<u>25,946</u>	<u>35,817</u>	<u>4,414</u>	<u>13,123</u>
Subsidiaries:				
Portfolio Partners Limited	-	-	6,183	6,308
Pan Caribbean Merchant Bank Limited	-	-	-59	5,661
Jamaica Property Company Limited	-	-	13,048	(20,211)
	<u>-</u>	<u>-</u>	<u>19,172</u>	<u>(8,242)</u>
	<u>25,946</u>	<u>35,817</u>	<u>23,586</u>	<u>4,881</u>

## 19. Long Term Loans

	The Group		The Company	
	1997	1996	1997	1996
	\$'000	\$'000	\$'000	\$'000
CIBC Jamaica Limited (a)	11,586	17,500	-	-
Allied Insurance Brokers Limited (b)	6,578	-	6,578	-
	18,164	17,500	6,578	-
	(6,077)	(5,839)	-	-
	<u>12,087</u>	<u>11,661</u>	<u>6,578</u>	<u>-</u>

(a) 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 a rate of prime plus 2%, the applicable rate at the year end being 14% per annum. The loan is denominated in United States dollars.

(b) This represents an unsecured loan which is repayable monthly over 3 years commencing December 1997. Interest is charged at a rate of 12% per annum and 25% thereafter on outstanding amounts in the event of default in payment.

## 20. Retirement Plans

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.

### (a) First Life Insurance Company Limited

The latest actuarial valuation which was carried out at 31 December 1995, revealed a past service surplus of \$4,084,000. The actuary has recommended that the employer contribute at a rate of 3.1% of members' earnings until the next valuation date which should be no later than 31 December 1998. The employees contribute at 5%. Effective 1 January 1998, the company implemented the actuary's recommendation.

### (b) Jamaica Property Company Limited

The latest actuarial valuation which was carried out at 31 December 1995 revealed that there was inadequate funding to provide the benefits under the plan and that there was a deficiency of \$3,248,000 as at that date.

In order to restore the solvency of the scheme, the actuaries have recommended that, allowing for members contribution at the rate of 5% of earnings, the employer should contribute 6% of members' pensionable earnings and that the valuation be conducted no later than 31 December 1998. The company has adopted the recommendation.

(c) Pan Caribbean Merchant Bank Limited

Based on the latest actuarial valuation which was carried out at 31 December 1995, the scheme is adequately funded. The employer contributes at 3.3% and the employees at 5% of pensionable earnings.

## 21. Lease Commitments

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

	The Group \$'000	The Company \$'000
Year ending 31 December 1998	<u>-</u>	<u>11,033</u>

## 22. Capital Commitments

Capital expenditure authorised and committed at 31 December 1997 not provided for in these financial statements, amounted to:

Group & Company	
1997 \$'000	1996 \$'000
<u>16,831</u>	<u>-</u>

## 23. 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 \$2,196,813,000 (1996 - \$1,720,024,000). Assets under management include \$155,120,895 (1996 - \$576,510,636) which are denominated in United States Dollars.

#### 24. Related Party Transactions and Balances

(a) The following related party transactions and balances have been included in these financial statements:

	1997	1996
	\$'000	\$'000
Management and other fees paid to holding company	15,690	16,267
Rental income earned from holding company	28	3,325
Leases with holding company and fellow subsidiaries	7,352	4,413
Loans to holding company and fellow subsidiaries	12,181	51,774
Loan from holding company	11,580	21,353

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

(b) A subsidiary has pledged certain of its freehold land and buildings as security for First Mortgage Debenture Stocks issued by the ultimate holding company under a joint trust deed.

At 31 December 1997, the balance outstanding was \$11,580,000.

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