

LIFE OF JAMAICA LIMITED 1997

Notes to Consolidated Financial Statement

1. The company

The company is incorporated under the Laws of Jamaica. At December 31, 1996, it was a 51% subsidiary of ICWI Investments Limited, the ultimate holding company being ICWI Group Limited, both of which are incorporated in Jamaica. The shareholding of ICWI Investments Limited was reduced to 37.5% during the year.

The principal activities are the underwriting of long term life insurance and health insurance business and the management of superannuation funds. The company and its subsidiaries are collectively referred to as "the group". The principal activities of the subsidiaries are detailed in note 9.

These financial statements are presented in Jamaican dollars.

2. Significant accounting policies

(a) Accounting convention:

The financial statements are prepared under the historical cost convention, modified for the inclusion of securities in the unit linked policyholders funds, certain quoted securities, real estate investments and certain fixed assets at market value.

(b) Basis of consolidation:

The consolidated financial statements include the financial statements of the company and its subsidiaries made up to December 31, 1997. Reserves arising on consolidation are taken direct to investment reserves.

All significant intercompany transactions are eliminated.

(c) Investments:

The company's investments and those of its life insurance subsidiaries are stated as follows:

- (i) Investments in subsidiaries and associated companies are recorded on the equity basis [see notes 9(b) and 10(b)].
- (ii) Real estate investments are stated at open market values, determined by Chartered Surveyors or with reference to anticipated sales proceeds, if lower.
- (iii) Mortgages and interest bearing loans are stated at cost, less provision for losses as appropriate.
- (iv) The company's government and other fixed interest securities, unquoted securities, interest bearing deposit and unquoted securities are stated at cost, except where they form part of unit linked policyholders' funds. Government and other fixed term investments of the life insurance subsidiaries are stated at amortised cost
- (v) Unit trust holdings are stated at market value.
- (vi) Quoted equities are stated at market value.
- (vii) All unit linked policyholder investments are stated at market value.

Investments held by non-life insurance subsidiary companies are stated at cost.

(d) Unit linked investments:

Realised profits and losses, together with unrealised appreciation and depreciation on investments related to unit linked policies are carried to the statement of operations.

(e) Investment reserves:

Realised profits and losses together with unrealised appreciation and depreciation on investments, excluding those relating to unit linked policies, are carried to the investment reserves.

Transfers are made from the investment reserves to the statement of operations at the discretion of the directors, having regard to the advice of the actuaries.

(f) Reinsurance ceded:

Provision for future policy benefits, premiums and policy benefits are recorded net of amounts ceded to, and recoverable from, reinsurers.

Amounts recoverable from reinsurers are estimated in a manner consistent with the policy liability associated with the reinsured policy.

(g) Depreciation:

Depreciation is charged on a straight line basis, at annual rates as follows:

Freehold buildings	5 %
Furniture, fixtures and equipment (including those classified as investments)	10% and 20%
Motor vehicles	20%
Leasehold improvements	10-20%

No depreciation is charged in respect of:

Land
Properties held as investments

(h) Prepaid commissions:

Commissions paid prior to December 31, 1997 in respect of premiums due for payment subsequent to that date are deferred. These commissions are written off over the first year of each policy during which time they are recoverable, should the policies be lapsed.

(i) Actuarial valuation:

Policy liabilities have been calculated using the policy premium method. Policy liabilities represent the amount which, together with future premiums and investment income, will be sufficient to pay future benefits, dividends and expenses on insurance and annuity contracts. The process of calculating policy liabilities necessarily involves the use of estimates concerning such factors as mortality and morbidity rates, future investment yields, future expense levels and rates of surrender; consequently, policy liabilities include reasonable provisions for adverse deviations from those estimates. As the probability of deviation from estimates declines, these provisions will be included in future income to the extent not required to cover adverse experience.

An actuarial valuation is prepared annually.

(j) Policy benefits:

These include inter alia provision for claims incurred but not reported at the balance sheet date, computed on the basis of the company's claims lag experience.

(k) Provision for loan losses:

Provisions for loan losses are based on loan loss experience and other factors including the character of the loan portfolio and business and economic conditions.

(l) Interest:

Interest income is recorded on the accrual basis. In the banking subsidiary which was sold during the year, if collection of interest is doubtful or payment is outstanding for more than 180 days interest is taken into account on a cash basis.

(m) Foreign currencies:

The group's foreign currency assets and liabilities and items in the foreign subsidiary's revenue account are translated at the rates of exchange ruling at the balance sheet date.

Transactions in foreign currency are converted at the rates of exchange ruling at the dates of those transactions.

Gains and losses arising from fluctuations in exchange rates are included in statement of operations. Unrealised gains and losses arising on translation of the shareholders' funds in the foreign subsidiary are transferred to investment reserves [see note 8].

3. Share capital

	Thousands of Dollars			
	Authorised	Issued	Authorised	Issued
Ordinary shares, converted and issued as stock units, of 10 cents each				
Preference shares	54,081	54,081	40,000	39,750
(redeemable cumulative):				
8.17% "A" shares of \$1 each	1,700	-	1,700	-
8.17% "B" shares of \$1 each	300	-	300	-
10.37% "C" shares of \$1 each	975	228	975	228
10.37% "D" shares of \$1 each	175	-	175	-
12.5% shares of \$1 each	<u>1,056,684</u>	<u>1,056,684</u>	<u>-</u>	<u>-</u>
	1,113,915	1,110,993	43,150	39,978

The 10.37% "C" cumulative redeemable preference shares, which are redeemable by year 2000 at an annual amount of \$57,500 were redeemed in full on March 8, 1998. No redemption took place during 1997.

During the year the authorised share capital was increased from \$43,150,000 to \$1,113,915,303 by the creation of an additional 140,816,330 ordinary shares of 10 cents each, and 1,056,683,670 12 1/2% Cumulative Redeemable Preference Shares of \$1 each. The ordinary shares rank pari passu in all respects with the existing ordinary shares of 90 cents each.

Ordinary stock units totalling 143,316,330 were issued of 90 cents each.

The new preference shares rank in priority to any other preference shares in issue in respect of income and in priority to any dividend or return of capital on any other class of shares. The fixed cumulative preference dividend on the capital to be paid out of profits at the rate of 12.5% per annum until July 1, 2002 (the first redemption date) and thereafter at 2% above the weighted average clearing rate of the Government of Jamaica's last six month Treasury Bills issued immediately prior to the date of payment of a dividend until June 30, 2004 (the last redemption date). The first payment is to be made on June 30, 1998.

The ordinary stock units and preference shares were issued on December 19, 1997.

4. Share Premium

The share premium arose on the issue, during the year, of 143,316,330 ordinary stock units at a premium of 90 cents per stock unit (see note 3).

5. Superannuation funds

Amounts totalling approximately \$11,974,000 at December 31, 1997 (1996: \$11,513,000) which are managed by the company under the Pooled Pension Funds and other segregated funds are not included in these financial statements.

6. Other liabilities

(a) The other liabilities are as follows:

	<u>Thousands of Dollars</u>			
	The Company		The Group	
	1997	1996	1997	1996
Benefits payable to policyholders	307,069	291,492	701,938	683,682
Bank loans and overdrafts				
[see note 6(b)]	222,953	32,972	317,609	54,751
Customers' deposits and current accounts	-	-	-	10,672,124
Collateral deposits	-	-	-	2,926
Customers' liabilities under acceptances				
guarantees of credit	-	-	-	580,974

Debentures	-	-	-	2,384
Due to other banks	-	-	-	1,195,396
Interest on customer deposits	-	-	-	169,342
Long term liabilities	-	-	-	34,188
Miscellaneous	631,500	524,997	917,588	1,149,831
Premiums not applied	102,318	72,505	106,098	76,394
Due to parent company	-	-	-	944
Portfolio transfer payables	-	139,744	-	139,744
Reinsurance payable	53,482	53,268	76,023	74,813
Short-term loans	852,603	1,510,641	837,588	975,587
Shareholders' dividends	2,421	2,508	2,421	2,508
	<u>2,172,346</u>	<u>2,628,127</u>	<u>2,959,265</u>	<u>15,815,588</u>

(b) Bank loans and overdraft for the company and the group at December 31, 1996 include a loan of US\$700,000 (J\$24,514,000) in respect of which final repayment was made in October 1997.

7. Bank loan

In the prior year this balance represented a loan denominated in U.S. currency, negotiated on behalf of the Pooled Hotel and Tourism Fund for the purchase of hotel properties. The loan, which attracted interest at 1.5% and 3% above the LIBOR which at December 31, 1996 was 5.54%, was repaid during the year.

8. Investment reserves

This includes unrealised foreign exchange losses arising on translation of the equity of the foreign subsidiary amounting to \$4,539,420 (1996: gains of \$76,224,000).

9. Investment in subsidiaries

(a) The principal operating subsidiary companies are as follows:

<u>Names of companies</u>	<u>Principal activities</u>	Proportion of issued equity capital held by	
		<u>Company</u>	<u>Subsidiaries</u>
Incorporated in Jamaica: LOJ Property Management Ltd.	Property management	100%	
Incorporated in Grand Cayman: Global Life Assurance Company Limited	Life insurance	100%	
Aviation Services Limited	Aviation services		100%
Incorporated in Puerto Rico: Atlantic Southern Insurance Company Limited	Life insurance		92%
Incorporated in The Bahamas: Global Bahamas Holdings Limited	Holding company		53%
Global Life Assurance Bahamas Limited	Life insurance		53%

The company sold its 60% interest in Citizens Bank Limited during the year. As a result Hitek Software Engineers Limited and Lested Developments Limited which were subsidiaries at December 31, 1996, are associated companies at December 31, 1997. (see note 10).

9. Investment in subsidiaries

(b) The investment in subsidiary companies is represented as follows:

	Thousands of Dollars	
	1997	1996
Shares of equity, net of dividends paid from pre-acquisition profits	444,386	462,425
Loan and current accounts	<u>13,364</u>	<u>109,770</u>
	457,750	572,195

(c) At December 31, 1996, an adjustment was made in the consolidated statement of operations to reflect the group's net carrying of Citizens Bank Limited (reflected above) to cost. This was done as the subsidiary was sold subsequent to December 31, 1996 for a consideration which exceeded cost.

(d) Atlantic Southern Insurance Company Limited (ASICO) has incurred operating losses in 1995, 1996 and 1997 and the regulatory authority in Puerto Rico has determined that as a result of its operations for the year 1997 its capital is impaired to the extent of US\$1,042,000 (1996: US\$345,840) [see note 19(b)].

10. Investment in associated companies

Name of companies	Principal activity	Equity capital held by Company
Incorporated in Jamaica St. Andrew Developers Limited	Real Estate Development	33.30%
Lested Developments Limited	Real Estate	35.00%
Hitek Software Engineers Limited	Software Development	33.30%

(b) The investment in associated companies is represented as follows:

	Thousands of Dollars			
	The Company		The Group	
	1997	1996	1997	1996
Shares at cost	2	133	2	133
Post acquisition reserves	(596)	(8,383)	(596)	(8,383)
Loans and current accounts	<u>10,979</u>	<u>615</u>	<u>10,979</u>	<u>615</u>
	<u>10,385</u>	<u>(7,635)</u>	<u>10,385</u>	<u>(7,635)</u>

(c) The Statement of Operations includes the group's share of losses of St. Andrew Developers Limited based on the unaudited financial statements for the year to December 31, 1997. The results of this associate are insignificant to the group.

11. Fixed Assets

The Company:

	Thousands of Dollars				
	Freehold land and buildings	Leasehold Improvements	Furniture fixtures & equipment	Motor vehicles	Total
At cost:					
December 31, 1996	6,226	11,245	259,687	70,915	348,073
Additions	-	-	22,557	3,007	25,564
Disposals	(4,281)	-	(22,288)	(26,835)	(53,404)
December 31, 1997	<u>1,945</u>	<u>11,245</u>	<u>259,956</u>	<u>47,087</u>	<u>320,233</u>

Accumulated depreciation:

December 31, 1996	1,610	3,602	134,135	34,618	173,965
Charge for the year	199	953	31,806	13,412	46,370
Eliminated on disposals	(1,353)	-	(11,302)	(18,178)	(30,833)
December 31, 1997	<u>456</u>	<u>4,555</u>	<u>154,639</u>	<u>29,852</u>	<u>189,502</u>

Net Book Values:

December 31, 1997	<u>1,489</u>	<u>6,690</u>	<u>105,317</u>	<u>17,235</u>	<u>130,731</u>
December 31, 1996	<u>4,616</u>	<u>7,643</u>	<u>125,552</u>	<u>36,297</u>	<u>174,108</u>

Thousands of Dollars

	Freehold land end buildings	Furniture Leasehold Improvements	fixtures & equipment	Motor vehicles	Total
At cost or valuation:					
December 31, 1996	13,976	160,433	626,214	152,611	953,234
Adjustment on sale of subsidiary	(7,750)	(134,516)	(237,145)	(48,475)	(427,886)
Translation adjustment	-	163	1,438	303	1,904
Additions	-	90	46,434	3,178	49,702
Disposals	(4,281)	-	(22,484)	(45,451)	(72,216)
December 31, 1997	<u>1,945</u>	<u>26,170</u>	<u>414,457</u>	<u>62,166</u>	<u>504,738</u>
Accumulated depreciation:					
December 31, 1996	1,892	59,753	319,051	69,114	449,810
Adjustment on sale of subsidiary	(282)	(48,394)	(125,476)	(16,473)	(190,625)
Translation adjustments	-	83	648	168	899
Charge for the year	199	3,222	51,897	15,897	71,314
Eliminated on disposals	(1,353)	-	(11,485)	(32,655)	(45,493)
December 31, 1997	<u>456</u>	<u>14,664</u>	<u>234,635</u>	<u>36,150</u>	<u>285,905</u>
Net Book values:					
December 31, 1997	<u>1,489</u>	<u>11,506</u>	<u>179,822</u>	<u>26,016</u>	<u>218,833</u>
December 31, 1996	<u>12,084</u>	<u>100,680</u>	<u>307,163</u>	<u>83,497</u>	<u>503,424</u>

Freehold property of a subsidiary was revalued by LOJ Property Management Limited (a fellow subsidiary) on an open market basis at March 31, 1996.

Freehold land and buildings include freehold land at cost of \$172,000 (1996: \$527,000) for the company and \$172,000 (1996: \$757,000 for the group.

12. Other assets

(a) The other assets are as follows:

	Thousands of Dollars			
	The Company		The Group	
	1997	1996	1997	1996
Bank and cash balances	30,958	32,706	150,159	2,605,963
Customers' liabilities under acceptances, guarantees and letters of credit	-	-	-	580,974
Deferred expenses [see note 12(b)]	305,603	253,471	319,559	279,877
Goodwill [see note 12(c)]	20,782	25,284	166,906	204,186
Interest receivable on bank loans	-	-	-	519,513
Other receivables	788,898	407,595	1,341,317	1,039,641
Premiums due and unpaid	165,122	197,769	269,843	325,534
Prepaid commission	44,284	90,688	44,284	90,688
Portfolio transfer receivables	-	-	-	257,106
Taxation recoverable	-	49	133	12,236
Value of business acquired	-	-	-	96,550
	<u>1,355,647</u>	<u>1,007,562</u>	<u>2,292,201</u>	<u>6,012,268</u>

(b) Deferred expenses:

	Thousands of Dollars			
	The Company		The Group	
	1997	1996	1997	1996
Re-engineering project in progress 1997/2001	27,611	24,070	27,611	24,070
Space reconfiguration expenses 1996/2001	6,691	9,535	6,691	9,535
Systems development in progress 1998/2003	259,010	219,866	268,008	225,072
Systems development expenses (1993/1997)	-	-	-	11,730
Portfolio acquisition costs 1997/1999	12,291	-	12,291	-
Subsidiaries pre-incorporated costs (1993/1998)	-	-	4,958	9,470
	<u>305,603</u>	<u>253,471</u>	<u>319,559</u>	<u>279,877</u>

The deferred expenses are scheduled for write off in equal annual instalments over the periods indicated above.

(c) Goodwill:

	Thousands of Dollars			
	The Company		The Group	
	1997	1996	1997	1996
On purchase of subsidiary and associated company	-	-	-	2,519
On purchase of insurance portfolio	<u>20,782</u>	<u>25,284</u>	<u>166,906</u>	<u>201,186</u>
	<u>20,782</u>	<u>25,284</u>	<u>166,906</u>	<u>204,186</u>

Goodwill is scheduled for write off in equal installments by 2004.

The balance at December 31, 1997 includes translation adjustments of \$6,592,400 (1996: \$22,657,000) for the group.

13. Provision for future policy benefits

	The Group	
	Thousands of Dollars	
	1997	1996
Balance at beginning of year	<u>7,035,696</u>	<u>7,652,537</u>
Foreign exchange adjustment	178,825	(531,790)
Decrease in provision	(330,881)	(85,051)
Net adjustment for the year	(152,056)	(616,841)
Balance at the end of year	<u>6,883,640</u>	<u>7,035,696</u>

Reinsurance ceded:

In the normal course of events, the Company limits the amount of loss on any one policy by reinsuring certain levels or risk in various areas of exposure with other insurers.

Reinsurance ceded does not discharge the Company's Liability as the principal insurer. Failure of reinsurers to honour their obligations could result in losses to the Company; consequently, a contingent liability exists should an assuming company be unable to meet its obligations.

14. Taxation

Taxation comprises:

	Thousands of Dollars	
	1997	1996
Premium tax	27,175	28,388
Income tax	-	8,321
Prior year over provision	-	(76)
	<u>27,175</u>	<u>36,633</u>

Premium tax at 1.5% is payable on net life insurance premiums of the company.

Investment Income Tax at 7.5% is payable on net investment income of the company adjusted for taxation purposes. Income tax is payable at 33 1/2% on profits of non life insurance subsidiaries adjusted for taxation purposes.

Losses available for offset against future taxable income, subject to the agreement of the Commissioner of Income Tax amount to approximately \$50,738,000 (1996: \$50,224,000) for the company and \$50,738,000 (1996: \$665,713,000) for the group.

15. Extraordinary income

	The Group	
	Thousands of Dollars	
	1997	1996
Gain on sale of subsidiary	253,024	-
Gain on sale of associate	-	33,768
	<u>253,024</u>	<u>33,768</u>

16. Disclosure of expenses

	Thousands of Dollars	
	1997	1996
Directors' remuneration - fees	2,085	2,723
- for management	11,834	15,738
Depreciation	71,314	144,188
Auditors' remuneration - current year	18,063	23,004
- prior year	901	1,027
Deferred expenses amortised	71,104	46,282
Goodwill amortised	32,860	46,256
Corporate office reimbursements - ultimate parent company	36,298	42,548
Redundancy	<u>1,563</u>	<u>117,433</u>

17. Profit/(loss) per ordinary stock unit

The calculation of profit/(loss) per stock unit is based on profits/(losses) before and after extraordinary income as shown below and on the weighted average of 402,211,770 ordinary stock units in issue during the year (1996:397,500,000

	Thousands of Dollars	
	1997	1996
Losses before extraordinary income	(160,911)	(1,086,852)
Profits/(losses) after extraordinary income	<u>92,113</u>	<u>(1,053,084)</u>

18. Related party balances and transactions

These include the balances and transactions arising in the normal course of business, with parent companies, subsidiaries and related companies/parties as noted below. (For purpose of disclosure the Life of Jamaica Pooled Pension Investment Fund is referred to as a related party).

[i] Investments, other assets and other liabilities:

	Thousands of Dollars			
	The Company		The Group	
	1997	1996	1997	1996
Other assets:				
Bank balances, subsidiaries	-	658	-	-
Parent company (note[ii])	-	92,613	-	92,613
Related companies [note (ii)]	<u>108,953</u>	<u>3,104</u>	<u>-</u>	<u>3,104</u>
	<u>108,953</u>	<u>96,375</u>	<u>-</u>	<u>95,717</u>
Other assets:				
Bank overdraft, subsidiaries	-	8,458	-	-
Other amounts payable:				
Parent company	-	-	-	944
Related companies	4,190	-	4,190	8,640
Subsidiaries	1,419	-	-	-
Current account, related party	73,591	15,726	73,591	15,726
Related party - other	44,764	-	44,764	-

Short term loan payable:				
Subsidiaries	1,316	535,054	-	-
Related companies	114,873	96,935	-	96,935
	<u>240,153</u>	<u>656,173</u>	<u>122,542</u>	<u>122,245</u>

[ii] Related companies:

This includes \$101,228,000 (1996: \$83,741,000) receivable under a promissory note from ICWI Group Limited (formerly the ultimate parent company), which assumed the liability of one of its other subsidiaries. It is repayable plus a one time interest charge of 10% (chargeable in 1997) by contribution of 30% of dividends received from the company, starting in the year 2002, until the debt is extinguished, but not beyond the year 2012.

[iii] Transactions:

The financial statements include the following transactions with related parties.

	Thousands of Dollars			
	The Company		The Group	
	1997	1996	1997	1996
Life of Jamaica Pooled Pension Investment Funds				
Property rental	31,952	34,614	31,952	34,614
Sale of real estate	-	501,502	-	501,502
Interest received	-	44,844	-	44,844
	<u>9,779</u>	<u>63,714</u>	<u>9,779</u>	<u>63,714</u>
Subsidiaries				
Interest paid	7,056	112,632	7,056	-
Lease rental	1,997	3,503	1,997	-
Interest received	<u>4,025</u>	<u>4,395</u>	<u>4,025</u>	-
Related companies				
Interest paid	24,664	21,883	24,664	21,883
Lease rental income	<u>3,083</u>	<u>2,025</u>	<u>3,083</u>	<u>2,025</u>

19. Contingent liabilities and capital commitments

(a) The company and the group are contingently liable in respect of:

[I] Guarantees by the company of loans to subsidiaries totalling US\$1,355,000. Of this amount US\$855,000 is guaranteed jointly with the parent company and the loan is secured on property owned by a subsidiary.

[ii] Quantified claims amounting to approximately \$48,000,000 (1996: \$44,900,000) against the company, and the group have been filed. In addition, the company is one of seven defendants to a suit filed by former employees of Air Jamaica Limited, who are claiming entitlement to the surplus in the pension fund of Air Jamaica Limited, which was managed by the company. The Government of Jamaica has undertaken to indemnify the company for any loss, claim, award, action or costs which may arise as a result of the appeal of the case.

Although the amount of the ultimate exposure, if any, cannot be determined at this time, the directors are of the opinion based upon the advice of counsel, that the final outcome of the threatened or filed suits will not have a material adverse effect on the financial position of the group.

[iii] Guarantees given by a subsidiary to meet the terms of the life insurance contracts and annuity contracts transferred to another subsidiary and previous associate on the purchase of the Manulife portfolios, in the event that these entities become insolvent or otherwise be unable to honour the claims of the policyholders and annuitants. This obligation covers a period of ten years, from 1993.

(b) The company and the group have a commitment in respect of an undertaking to make a loan of US\$1,042,000 (1996: US\$345,000) to its subsidiary [see note 9(d)].

20. Pension schemes

The Group operates four pension schemes and these are described as follows:

(i) The company operates a contributory pension scheme for members of its staff, with benefits based on earnings during recognised service. The scheme is subject to triennial actuarial valuation and the last valuation at December 1996, disclosed a surplus.

- (ii) Global Bahamas Holdings Limited operates two contributory pension schemes for employees in the Bahamas and another which has two segments. One scheme covers all administrative employees and is a defined benefit plan, and the other covers all agents and has two segments: (a) A money purchase plan in respect of the members' own contribution, and (b) A defined benefit plan with benefits paid for by the employer.

The money purchase benefits vest immediately while the defined benefits plans' benefits vest fully after ten years.

An actuarial valuation at December 31, 1995 revealed adequate funding.

- (iii) Atlantic Southern Insurance Company Limited operates its own defined benefit non-contributory pension plan covering substantially all its employees who become 100% vested after five years of credited service. The plan is valued annually and the actuarial valuation at December 31, 1994 revealed adequate funding.

Contribution for the year were \$13,996,622 for the company (1996: \$27,032,000) and \$27,212,066 (1996: \$44,457,000) for the group.

21. Year 2000 computer compliance issues

The company has embarked on a programme to ensure that all systems and operations will be year 2000 compliant.

An initial assessment of the application systems and their status in terms of compliance has been prepared and reviewed with all divisions. It has been determined that the vast majority of the systems are year 2000 compliant. The directors expect that the core systems will be year 2000 compliant by the end of 1998 and that all personal computers and desktop software will be upgraded to be compliant by mid 1999.

Year 2000 computer application test conditions will be defined and agreed and all systems tested for compliance.
