

CIBC Jamaica Limited 1998

Notes to the Financial Statements

31 October 1998

1. Company identification and principal activities

The Company, which is incorporated in Jamaica, is a 56.65% (1997 - 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.

CIBC Trust and Merchant Bank Jamaica Limited and CIBC Building Society are wholly-owned subsidiaries of the company and are incorporated in Jamaica.

The Company is licensed and these financial statements are prepared in accordance with the Banking Act, 1992 and the Banking (Amendment) Act, 1997.

The principal activities of the Company and its subsidiaries 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 have been 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 subsidiaries.

All significant inter-company transactions have been eliminated. The Company and its subsidiaries are 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 basis over their expected useful lives. The annual rates of depreciation are as follows:

Buildings	2.5%
Leasehold improvements	10%
Furniture & fixtures	6.7%
Computer equipments	14-20%
Motor vehicles	50%

(d) Interest

Interest income and expenses are recorded on the accrual basis, except, where collection of interest income is considered doubtful or payment is outstanding for more than 90 days for the Company and CIBC Trust and Merchant Bank Jamaica Limited and 180 days for CIBC Building Society (1997-180 days for the Group), 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 during the year 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

(i) Investments in Government of Jamaica securities are stated at cost plus accrued interest.

(ii) Unquoted securities are stated at cost.

(i) Assets purchased/sold under resale/repurchase agreements

The purchase and sale of securities under resale and repurchase agreements are treated as collateralised lending and borrowing transactions. The related interest income and interest expense are recorded on the accrual basis.

3. Profit before Taxation

Profit before taxation is stated after charging:	The Group		The Company	
	1998 J\$'000	1997 J\$'000	1998 J\$'000	1997 J\$'000
Depreciation and amortization				
Directors' emoluments	37,452	21,658	37,019	20,752
Fees				
Management remuneration	812	138	812	138
Management fees (Note 20)	9,261	6,744	9,261	6,744
Auditors' remuneration	22,360	15,830	22,360	15,830
CIBC technical and credit agreement fees (Note 20)	2,960	2,550	2,050	1,850
	<u>13,586</u>	<u>14,952</u>	<u>13,586</u>	<u>14,952</u>

4. Taxation

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

	The Group		The Company	
	1998 J\$'000	1997 J\$'000	1998 J\$'000	1997 J\$'000

Income tax	30,066	59,560	-	45,782
Prior year(over)/under provision	(9,573)	145	(9,573)	-
	<u>20,493</u>	<u>59,705</u>	<u>(9,573)</u>	<u>45,782</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 depreciation by approximately J\$28,470,000 for the Group and J\$40,255,000 for the Company and
- (b) tax free income amounting to approximately J\$54,731,000 for the Group and J\$44,016,000 for the Company

Subject to the agreement of the Commissioner of Income Tax, the company has tax losses amounting to J\$28,250,000 which may be carried forward indefinitely for offset against future taxable income.

5. Dividends

	1998 J\$'000	1997 J\$'000
Interim dividend for 1998 at J\$0.08 (1997 - J\$0.12) per stock unit - gross	15,467	23,200
Final dividend for 1998 at J\$0.12 (1997 - J\$0.15) per stock unit - gross	<u>23,200</u>	<u>29,000</u>
	<u>38,667</u>	<u>52,200</u>

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 J\$124,771,000 (1997 -J\$151,978,000) and 193,333,332 ordinary stock units in issue for both years.

7. Cash Resources

	The Group		The Company	
	1998 J\$'000	1997 J\$'000	1998 J\$'000	1997 J\$'000
Notes, coins and money at Bank of Jamaica	2,357,201	2,009,175	2,302,501	1,960,936
Foreign currencies	48,045	68,535	48,045	68,535

Accounts with other banks, net	267,364	1,154,820	260,355	965,918
Account with ultimate parent company	-	11,426	68,928	11,426
Account with subsidiary	-	-	-	7,000
	<u>2,672,610</u>	<u>3,243,956</u>	<u>2,679,829</u>	<u>3,013,815</u>

Cash resources include J\$2,260,785,000 (1997-J\$1,913,139,000) for the Group and J\$2,206,085,000 (1997-J\$1,864,900,000) for the Company, as required under section 14 (i) of both the Banking Act, 1992 and the Financial Institutions Act, 1992, respectively, and section 13 of the Bank of Jamaica (Building Societies) Regulations, 1995, 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				1998 Total	1997 Total
	Years to maturity					
	Within 1 year	Over 1 to 5 years	Over 5 to 10 years	Over 10 years		
Securities issued or guaranteed by Governments			J\$'000		J\$'000	
Treasury bills	849,763	247,210	-	-	1,096,973	861,673
Debentures	163,763	68,240	100	-	232,103	256,124
Debt securities	<u>206,457</u>	<u>593,607</u>	<u>-</u>	<u>1,829</u>	<u>801,893</u>	<u>508,699</u>
	<u>1,219,983</u>	<u>909,057</u>	<u>100</u>	<u>1,829</u>	<u>2,130,969</u>	<u>1,626,496</u>
	The Company					
	Years to maturity					
	Within 1 year	Over 1 to 5 years	Over 5 to 10 years	Over 10 years	1998 Total	1997 Total
Securities issued or guaranteed by Governments			J\$'000			J\$'000
Treasury bills	775,469	190,240	-	-	965,709	772,991
Debentures	140,000	6,240	-	-	146,240	148,390

Debt securities	<u>206,457</u>	<u>573,746</u>	<u>-</u>	<u>1,829</u>	<u>782,032</u>	<u>508,699</u>
	<u>1,121,926</u>	<u>770,226</u>	<u>-</u>	<u>1,829</u>	<u>1,893,981</u>	<u>1,430,080</u>
Interest in subsidiary companies						
Shares at cost					<u>36,744</u>	<u>36,744</u>
					<u>1,930,725</u>	<u>1,466,824</u>

9. Loans, Less provision for Losses

The Group						
	Years to maturity				1998 Total	1997 Total
	Within 1 year	Over 1 to 5 years	Over 5 to 10 years	Over 10 years		
		J\$'000				J\$'000
Mortgages	11,622	13,101	56,583	176,225	257,531	167,443
Personal Loans	499,293	931,177	88,143	9,711	1,528,324	1,304,338
Business loans	1,019,557	617,996	119,441	26,989	1,783,983	1,724,995
Government securities purchased under resale agreements	<u>966,495</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>966,495</u>	<u>1,066,204</u>
	<u>2,496,967</u>	<u>1,562,274</u>	<u>264,167</u>	<u>212,925</u>	<u>4,536,333</u>	<u>4,262,980</u>
Less: Allowance for credit losses					<u>(109,831)</u>	<u>(82,295)</u>
Balance, end of year					<u>4,426,502</u>	<u>4,180,685</u>

The Company						
	Years to maturity				1998 Total	1997 Total
	Within 1 year	Over 1 to 5 years	Over 5 to 10 years	Over 10 years		
		J\$'000				J\$'000

Personal loans	499,273	929,856	88,143	9,711	1,526,983	1,303,761
Business loans	1,019,557	609,882	119,441	-	1,748,880	1,695,976
Government securities purchased under resale agreements	<u>610,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>610,000</u>	<u>1,016,100</u>
Less: Allowance for credit losses	<u>2,128,830</u>	<u>1,539,738</u>	<u>207,584</u>	<u>9,711</u>	<u>3,885,863</u>	<u>4,015,837</u>
Balance, end of year					<u>3,782,320</u>	<u>3,934,717</u>

Movements during the year were as follows:

	The Group		The Company	
	1998	1997	1998	1997
Balance at beginning of year	J\$'000	J\$'000	J\$'000	J\$'000
Provided during the year	82,295	48,830	81,120	48,597
Amounts written off	135,630	81,516	129,042	80,574
Balance at end of year	<u>(108,094)</u>	<u>(48,051)</u>	<u>(106,619)</u>	<u>(48,051)</u>
	<u>109,831</u>	<u>82,295</u>	<u>103,543</u>	<u>81,120</u>

As at 31 October 1998 loans with principal balances outstanding of J\$346,838,000 (1997 J\$353,322,000) for the group and J\$335,158,000 (1997 J\$353,322,000) for the company were in non-performing status.

10. Net Investment in Leases

	1998	1997
Total minimum lease payments receivable	J\$'000	J\$'000
Unearned income	78,568	72,153
	<u>(24,291)</u>	<u>(21,202)</u>
Less: Provision for losses	54,277	50,951
	<u>(1,687)</u>	<u>(1,175)</u>
	<u>52,590</u>	<u>49,776</u>

Future minimum lease payments are receivable as follows:

	1998	1997
	J\$'000	J\$'000
1998	-	35,328
1999	41,185	24,370
2000	20,882	12,300
2001	9,957	155
2002 and after	6,544	-
	<u>78,568</u>	<u>72,153</u>

11. Premises and Equipment

	The Group				
	Land	Buildings	Leasehold Improvements J\$'000	Furniture, Computer Equipment and Motor Vehicles	Total
Cost or Valuation					
1 November 1997	3,900	32,557	58,467	231,012	325,936
Additions	-	-	1,907	148,619	150,526
Disposals	-	(828)	-	(18)	(846)
31 October 1998	<u>3,900</u>	<u>31,729</u>	<u>60,374</u>	<u>379,613</u>	<u>475,616</u>
At cost	-	21,199	60,374	379,613	461,186
At valuation:	<u>3,900</u>	<u>10,530</u>	-	-	<u>14,430</u>
	<u>3,900</u>	<u>31,729</u>	<u>60,374</u>	<u>379,613</u>	<u>475,616</u>
Depreciation					
1 November 1997	-	6,430	19,309	110,327	136,066
Charge for year	-	794	5,415	31,243	37,452
Relieved on disposal	-	(219)	-	(9)	(228)
31 October 1998	<u>-</u>	<u>7,005</u>	<u>24,724</u>	<u>141,561</u>	<u>173,290</u>
Net Book Value					
31 October 1998	<u>3,900</u>	<u>24,724</u>	<u>35,650</u>	<u>238,052</u>	<u>302,326</u>

	<u>3,900</u>	<u>26,127</u>	<u>39,158</u>	<u>120,685</u>	<u>189,870</u>
	Land	Buildings	Leasehold Improvements	The Company Furniture, & Computer Equipment & Motor Vehicles	Total
	J\$'000				
Cost or Valuation					
1 November 1997	3,900	31,729	58,468	228,147	322,244
Additions	-	-	1,906	147,758	149,664
31 October 1998	<u>3,900</u>	<u>31,729</u>	<u>60,374</u>	<u>375,905</u>	<u>471,908</u>
At cost	-	21,949	60,374	375,905	458,228
At valuation	<u>3,900</u>	<u>9,780</u>	-	-	13,680
	<u>3,900</u>	<u>31,729</u>	<u>60,374</u>	<u>375,905</u>	<u>471,908</u>
Depreciation					
1 November 1997	-	6,211	19,309	108,583	134,103
Charge for the year	-	794	5,415	30,810	37,019
31 October 1998	<u>-</u>	<u>7,005</u>	<u>24,724</u>	<u>139,393</u>	<u>171,122</u>
Net Book Value					
31 October 1998	<u>3,900</u>	<u>24,724</u>	<u>35,650</u>	<u>236,512</u>	<u>300,786</u>
31 October 1997	<u>3,900</u>	<u>25,518</u>	<u>39,159</u>	<u>119,564</u>	<u>188,141</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

Company

The Group

The

1997		1998	1997	1998
J\$'000		J\$'000	J\$'000	J\$'000
241,535	Cheques and other items in transit, net	56,197	241,535	56,197
55,745	Interest receivable	110,723	73,898	75,717
55,196*	Prepayments and deferred items	176,759	55,196*	175,852
<u>62,846*</u>	Other	<u>210,716</u>	<u>71,705*</u>	<u>162,554</u>
<u>415,322</u>		<u>554,395</u>	<u>442,334</u>	<u>470,320</u>

13. Deposits

The Group

Payable on a fixed date

1997	Payable on	Payable	Within	Over 1 to	Over 5 to	Over 10	1998
Total	demand	after notice	1 year	5 years	10 years	years	Total
6,047,127	Individuals	865,302	3,116,848	2,070,409	-	-	6,052,559
2,576,692	Business and Governments	<u>1,390,730</u>	<u>759,726</u>	<u>606,509</u>	<u>-</u>	<u>-</u>	<u>2,756,965</u>
<u>8,623,819</u>		<u>2,256,032</u>	<u>3,876,574</u>	<u>2,676,918</u>	<u>-</u>	<u>-</u>	<u>8,809,524</u>

The Company

Payable on a fixed date

1997	Payable on demand	Payable after notice	Within 1 year	Over 1 to 5 years	Over 5 to 10 years	Over 10 years	1998 Total
Total							
Individuals	782,892	3,140,774	1,685,137	-	-	-	5,608,803
5,702,682							
Business and Governments	1,467,301	765,558	311,657	-	-	-	2,544,516
2,373,425							
8,076,107	2,250,193	3,906,332	1,996,794	-	-	-	8,153,319

* Reclassified for comparative purposes

14. Sundry Liabilities

	The Group		The Company	
	1998 J\$'000	1997 J\$'000	1998 J\$'000	1997 J\$'000
Interest payable	62,403	63,137	62,403	56,394
Notes payable	29,550	1,431	29,550	1,431
Withholding tax	23,984	26,400	23,984	26,400
Dividend proposed	23,200	29,000	23,200	29,000
Other	171,293	66,510	55,767	27,955
	310,430	186,478	194,904	141,180

15. Share Capital

	1998 J\$'000	1997 J\$'000
Authorised 200,000,000 Ordinary shares of J\$0.50 each	100,000	100,000
Issued and fully paid 193,333,332 Ordinary Stock units of J\$0.50 each	96,667	96,667

16. Capital Reserves

	The Group		The Company	
	1998 J\$'000	1997 J\$'000	1998 J\$'000	1997 J\$'000
At beginning of year	19,458	19,458	12,833	12,833
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	930	930	-	-
	<u>12,118</u>	<u>12,118</u>	<u>5,493</u>	<u>5,493</u>
Realised				
Profit on sale of fixed assets	7,340	7,340	7,340	7,340
At end of year	<u>19,458</u>	<u>19,458</u>	<u>12,833</u>	<u>12,833</u>

17. Reserve Fund

	The Group		The Company	
	1998 J\$'000	1997 J\$'000	1998 J\$'000	1997 J\$'000
Balance at beginning of year	112,378	107,758	96,667	96,667
Transfer from retained earnings	<u>7,471</u>	<u>4,620</u>	<u>-</u>	<u>-</u>
Balance at end of year	<u>119,849</u>	<u>112,378</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, 1995 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.

18. Retained Earnings Reserve

	The Group		The Company	
	1998	1997	1998	1997

	J\$'000	J\$'000	J\$'000	J\$'000
Balance at beginning of year	406,666	185,823	406,666	185,823
Transfer from retained earnings	<u>41,114</u>	<u>220,843</u>	<u>-</u>	<u>220,843</u>
Balance at end of year	<u>447,780</u>	<u>406,666</u>	<u>406,666</u>	<u>406,666</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.

19. Building Society Reserve

	The Group	
	1998 J\$'000	1997 J\$'000
Balance at beginning of year	17,017	6,017
Transfer from retained earnings	<u>13,300</u>	<u>11,000</u>
Balance at end of year	<u>30,317</u>	<u>17,017</u>

In accordance with the Income Tax Act, CIBC Building Society may transfer amounts from profits to a general reserve on a tax free basis until this reserve is equal to 5% of prescribed assets.

20. Related Party Transactions

In the ordinary course of business, the Company provides to its connected persons normal banking services on terms similar to those offered to persons not connected to the Company.

Transactions with connected parties are as follows:

1998 J\$'000	1997 J\$'000
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Transactions and balances with CIBC West Indies Holdings Limited:

Interest expense	-	2,551
Management fees paid	22,360	15,830
Due to CIBC West Indies Holdings, net	44,628	-

Transactions and balances with other CIBC entities:

Interest income	7,016	2,467
Interest expense	16,502	4,926
Banking support services	13,586	14,952
Due to CIBC entities	38,992	-
Deposits with CIBC entities	60,425	-

Transactions and balances with directors:

Loans outstanding	259	691
Deposits with CIBC entities	3,419	3,960
Interest income	245	290
Interest expense	<u>13</u>	<u>2</u>

21. 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.

22. 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 J\$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

Total contributions charged against income for the year were J\$24,789,000 (1997 - J\$22,190,000) for the Group and J\$23,533,000 (1997 - J\$21,007,000) for the Company.

23. 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\$10,404,237,000 (1997-J\$4,722,725,000)

24. Commitments

(i) Lease

The company has obligations under long-term non-cancellable leases for buildings. Future minimum lease payments for such commitments for each of the five succeeding years and thereafter are as follows:

	1998 J\$'000	1997 J\$'000
Year ending 31 October 1998		
1999	-	57,032
2000	86,456	63,731
2001	74,307	61,657
2002	67,974	68,450
2003	73,910	78,762
2004 and thereafter	2,306	33,336
	<u>28,696</u>	<u>-</u>

(ii) Capital

The Group		The Company	
1998 J\$'000	1997 J\$'000	1998 J\$'000	1997 J\$'000

Capital expenditure:

Authorised and contracted for	<u>12,960</u>	<u>23,199</u>	<u>4,103</u>	<u>23,199</u>
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(iii) Other

Leases approved by a subsidiary company but not yet disbursed to customers at 31 October 1998 amounted to J\$86,154,000 (1997 - J\$51,049,000).
