

First Life Insurance Company Limited 1998

Notes to the Financial Statements

1. Identification and Activity

The company is a 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.

Subsidiaries	Principal Activities	Proportion of issued equity capital held by	
		Company	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 sheets, 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 business revenue 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. Development expenditure comprise acquisition, development, construction, selling and other direct costs incurred in respect of real estate projects.

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.

v) Government of Jamaica and other securities are stated at cost with provision made for any anticipated losses on realisation.

vi) Assets held under repurchase agreements are stated at cost.

vii) Loans on policies are stated at the aggregate of the unpaid balances.

viii) Deposits are stated at cost.

ix) 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 business revenue account.

Repair and maintenance expenditure are charged to the business revenue 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) 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 business revenue account.

(p) Premium income

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

(q) 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	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
Premium tax at 1 1/2%	2,375	2,837	2,375	2,837
Investment income tax at 7 1/2%	10,963	8,774	10,963	8,774
Income tax at 33 1/3%	3,861	-	-	-
Prior years' over provision	-	(464)	-	-
	<u>17,199</u>	<u>11,147</u>	<u>13,338</u>	<u>11,611</u>
Stamp duties	3,025	2,136	3,025	2,136
	<u>20,224</u>	<u>13,283</u>	<u>16,363</u>	<u>13,747</u>

Subject to agreement with the Commissioner of Income Tax, the group has losses available for offset against future taxable profits amounting to approximately \$16,861,000 (1997 - \$14,723,000).

4. Consolidated Profit and Loss Account

	1998 \$'000	1997 \$'000
(a) This is stated after charging/(crediting):		
Directors' emoluments		
Fees	46	45
Management remuneration	2,261	2,140
Auditors' remuneration -		
Current year	6,259	6,295
Prior year	(257)	70
Depreciation		
Provision for credit losses	15,846	15,776
Amortisation of deferred expenses	10,063	6,229
Pension costs	5,857	2,725
Interest income	5,071	8,999
Redundancy cost	(163,899)	(131,781)
	<u>6,000</u>	<u>-</u>
(b) Net profit dealt with in the financial statements of the holding company was	<u>160,775</u>	<u>153,280</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	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
Real estate	1,563,575	1,582,248	-	-
Property development in progress	18,309	23,278	-	-
Equity investment	54,655	55,710	54,655	55,710
Assets held under repurchase agreements	30,636	82,944	30,636	63,408
Mortgages	25,656	22,739	25,456	21,777
Quoted securities	33,922	36,004	33,922	33,143
Unquoted securities	1,881	8,342	181	181
Government of Jamaica and other securities	886,785	493,415*	770,782	476,043*
Loans on policies	24,642	27,154	24,642	27,154
Loans and leases	148,484	185,125*	279,469	306,624*
Commercial paper	-	10,000	-	10,000
Deposits	2,835	3,487	2,835	3,487
	<u>2,791,380</u>	<u>2,530,446</u>	<u>1,222,578</u>	<u>997,527</u>

(a) Investment properties were valued at current market value as at 31 December 1998 by The C.D. Alexander Company Realty Limited, property appraisers and valuers.

(b) Included in loans and leases are the group's and the company's investments in finance leases as follows:

	The Group		The Company	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
Minimum lease payments				
receivable less provision for losses	63,586	85,242	35,808	56,834
Less unearned finance income	(16,691)	(21,059)	(7,748)	(13,010)
	<u>46,895</u>	<u>64,183</u>	<u>28,060</u>	<u>43,824</u>

*Reclassified for comparative purposes

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

	The Group		The Company	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
1998	-	40,388	-	28,366
1999	36,848	28,250	23,166	19,012
2000	20,564	13,426	8,928	6,278
2001	5,582	3,178	3,366	3,178
2002	592	-	348	-
	<u>63,586</u>	<u>85,242</u>	<u>35,808</u>	<u>56,834</u>

7. Investment in Subsidiaries and Associated Companies

	The Group		The Company	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
Subsidiary companies -				
At valuation				
Jamaica Property Company Limited	-	-	1,485,504	1,506,451
Pan Caribbean Merchant Bank Limited	-	-	66,041	48,977
Portfolio Partners Limited	-	-	(2,757)	1,800
	<u>-</u>	<u>-</u>	<u>1,548,788</u>	<u>1,557,228</u>
Associated companies -				
St. Andrew Developers Limited	266	266	133	133
Shareholding at cost	(9,865)	(11,039)	(4,931)	(5,518)
Share of losses	6,008	9,021	733	1,733
Current account	<u>(3,591)</u>	<u>(1,752)</u>	<u>(4,065)</u>	<u>(3,652)</u>
Impan Properties Limited				
Shareholding at cost	20	20	-	-
Share of profit	122	154	-	-
Share of capital reserve	7,945	7,945	-	-
Current account	<u>8,774</u>	<u>(8,803)</u>	<u>-</u>	<u>-</u>

	(687)	(684)	-	-
Knutsford Holdings Limited				
Shareholding at cost	1	1	-	-
Share of profit	1,067	1,714	-	-
Share of capital reserve	37,468	37,500	-	-
Current account	9,508	6,410	-	-
	<u>48,044</u>	<u>45,625</u>	<u>-</u>	<u>-</u>
	<u>43,766</u>	<u>43,189</u>	<u>1,544,723</u>	<u>1,553,576</u>

8. Fixed Assets

THE GROUP

	Leasehold Improvements \$'000	Furniture, Fixtures & Equipment \$'000	Assets Capitalised under Finance Leases \$'000	Motor Vehicles \$'000	Capital Work in Progress \$'000	Total \$'000
At Cost						
1 January 1998	13,128	118,844	7,592	11,274	24,889	175,727
Additions	-	14,092	627	5,371-		20,090
Transfers	-	5,560	-	-	(5,560)	-
Disposals	-	(2,026)	-	(3,044)	-	(5,070)
31 December 1998	<u>13,128</u>	<u>136,470</u>	<u>8,219</u>	<u>13,601</u>	<u>19,329</u>	<u>190,747</u>
Depreciation -						
1 January 1998	7,422	46,334	5,635	5,673	-	65,064
Charge for the year	2,319	9,800	1,696	2,031	-	15,846
Relieved on disposals	-	(2,026)	-	(2,534)	-	(4,560)
31 December 1998	<u>9,741</u>	<u>54,108</u>	<u>7,331</u>	<u>5,170</u>	<u>-</u>	<u>76,350</u>
Net Book Value -						
31 December 1998	<u>3,387</u>	<u>82,362</u>	<u>888</u>	<u>8,431</u>	<u>19,329</u>	<u>114,397</u>
31 December 1997	<u>5,706</u>	<u>72,510</u>	<u>1,957</u>	<u>5,601</u>	<u>24,889</u>	<u>110,663</u>

	The COMPANY				
	Leasehold Improvements \$'000	Furniture & Fixtures \$'000	Computer Hardware & Software \$'000	Motor Vehicles \$'000	Total \$'000
At Cost -					
1 January 1998	13,528	7,604	23,072	7,979	52,183
Additions	-	163	1,529	1,159	2,851
Disposals	-	-	-	(1,645)	(1,645)
31 December 1998	<u>13,528</u>	<u>7,767</u>	<u>24,601</u>	<u>7,493</u>	<u>53,389</u>
Depreciation -					
1 January 1998	7,422	3,157	12,458	4,140	27,177
Charge for the year	2,319	750	2,105	1,461	6,635
Relieved on disposals	-	-	-	(1,296)	(1,296)
31 December 1998	<u>9,741</u>	<u>3,907</u>	<u>14,563</u>	<u>4,305</u>	<u>32,516</u>
Net Book Value -					
31 December 1998	3,787	3,860	10,038	3,188	20,873
31 December 1997	6,106	4,447	10,614	3,839	25,006

9. Other Assets

	The Group		The Company	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
Premiums receivable	54,158	29,537	54,158	29,537
Due from salesmen	1,767	2,242	1,767	2,242
Prepaid commissions	1,796	2,576	1,796	2,576
Accrued interest	73,760	49,772	63,031	58,639
Other receivables	47,430	45,195	12,235	12,999
Taxation recoverable	521	1,015	-	-
Deferred expenses	17,874	12,466	17,187	7,890
Inventories	2,681	2,876	-	-
Customers' liabilities under guarantees	26,484	26,462	-	-
Cash at bank and in hand	92,001	86,842	29,897	25,668
	<u>318,472</u>	<u>258,983</u>	<u>180,071</u>	<u>139,551</u>

Cash at bank and in hand includes a subsidiary's statutory cash reserve with the Bank of Jamaica amounting to \$ 16,165,000 (1997 - \$25,222,000). This amount is held on a non-interest bearing basis and is not available for investment or use by the subsidiary.

10. Share Capital

	1998 \$'000	1997 \$'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>
	<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:

	1998 \$'000	1997 \$'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

	1998	1997
	\$'000	\$'000
Balance at beginning of year	43,820	32,819
Movement during the year	<u>2,665</u>	<u>11,001</u>
Balance at end of year	<u>46,485</u>	<u>43,820</u>

14. Statutory Banking Reserves

	Retained Earnings Reserve \$'000	Banking Reserve Fund \$'000	Total \$'000
Balance at beginning of year	8,250	8,056	16,306
Transfer from profit and loss account	9,724	4,060	13,784
Transfer to investment reserve	(10,000)	-	(10,000)
Balance at end of year	<u>7,974</u>	<u>12,116</u>	<u>20,090</u>

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

15. Investment Reserve

	1998	1997
	\$'000	\$'000
Realised and unrealised gains on investments (net)	1,437,617	1,451,101*
Accumulated transfer to business revenue account	(955,788)	(887,089)
The company	481,829	564,012
Arising on consolidation	(42,131)	(32,425)
Transfer from statutory banking reserves	10,000	-
Accumulated transfer to profit and loss account	<u>6,231</u>	<u>5,199</u>
The group	<u>455,929</u>	<u>536,786</u>

16. Reserve for Future Benefits

	The Group & The Company	
Ordinary life	151,669	137,110*
Annuities	27,693	18,303
Group life and health	75,161	74,114
Equity fund	7,296	9,384
Opportunity fund	80,332	79,469
Money Market fund	6,552	3,593*
Real estate fund	32,089	41,068
Farmers' plan	5,562	5,910
	<u>386,354</u>	<u>368,951</u>

*Reclassified for comparative purposes

17. Other liabilities

	The Group		The Company	
	1998	1997	1998	1997
	\$'000	\$'000	\$'000	\$'000
Bank overdrafts	19,298	8,761	7,476	99
Benefits payable to policyholders	14,337	14,667	14,337	14,667
Premiums received in advance	21	42	21	42
Other liabilities and accrued expenses	90,890	88,991	65,648	60,834
Taxation payable	7,552	7,498	3,803	5,836
Amounts due to other banks	52,397	41,809	-	-
Customers' liabilities under guarantees	26,484	26,462	-	-
Customers' deposits and savings account	154,796	107,562	-	-
Short term loan	-	16,773	-	16,773
Current portion of long term loan	5,694	6,077	-	-
	<u>371,469</u>	<u>318,642</u>	<u>91,285</u>	<u>98,251</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	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
Holding company: Current account	<u>17,193</u>	<u>25,946</u>	<u>626</u>	<u>4,414</u>
Subsidiaries: Portfolio Partners Limited	-	-	5,189	6,183
Pan Caribbean Merchant Bank Limited	-	-	45	(59)
Jamaica Property Company Limited	-	-	(8,892)	13,048
	<u>17,193</u>	<u>25,946</u>	<u>(3,658)</u>	<u>19,172</u>
			<u>(3,032)</u>	<u>23,586</u>

19. Long Term Loans

	The Group		The Company	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
George & Branday Limited (a)	2,505	-	2,505	-
CIBC Jamaica Limited (b)	5,694	11,586	-	-
Citibank N.A. (US\$ 330,000) (c)	12,823	-	12,823	-
Allied Insurance Brokers (d)	<u>3,334</u>	<u>6,578</u>	<u>3,334</u>	<u>6,578</u>
	<u>24,356</u>	<u>18,164</u>	<u>18,662</u>	<u>6,578</u>
Current portion	<u>(5,694)</u>	<u>(6,077)</u>	<u>-</u>	<u>-</u>
	<u>18,662</u>	<u>12,087</u>	<u>18,662</u>	<u>6,578</u>

(a) This represents an unsecured loan which is repayable in twenty four monthly instalments commencing August 1998. Interest is charged at 23% per annum and at 28% per annum in the event of default in payment.

(b) 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.

- (c) This loan is secured by a letter of set-off in respect of Local Registered Stock 2000B with a face value of \$13m and is repayable in 12 quarterly instalments commencing January 1999. Interest is chargeable at the Bank's prime rate plus 2% and was 12% at the year end.
- (d) 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. Capital Commitments

Capital expenditure authorised and committed at 31 December 1998 not provided for in these financial statements, amounted to:

Group & Company	
1998	1997
\$'000	\$'000
<u>1,710</u>	<u>16,831</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 \$4,449,374,000 (1997 \$2,196,813,000). Assets under management include \$796,041,000 (1997 - \$155,120,895) which are denominated in United States Dollars.

23. Related Party Transactions and Balances

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

	1998	1997
	\$'000	\$'000
Management and other fees paid to holding company	8,532	15,690
Rental income earned from holding company	-	28
Leases with holding company and fellow subsidiaries	10,054	7,352
Loans to holding company and fellow subsidiaries	5,603	12,181
Loan from holding company	<u>4,885</u>	<u>11,580</u>

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 1998, the balance outstanding was \$5,694,000.
