

# FIRST LIFE INSURANCE COMPANY

## Notes to the Financial Statements

31 December 2001

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### 1 Identification and Activity

The company is a 73% owned subsidiary of Pan-Jamaican Investment Trust Limited. Both companies are incorporated and resident in Jamaica and are limited by shares.

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(c).

These financial statements are expressed in Jamaican dollars.

### 2 Significant Accounting Policies

#### (a) Basis of preparation

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

**(b) Use of estimates**

The preparation of financial statements in conformity with Jamaican generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**(c) 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(d). The subsidiaries and associated companies, which are incorporated and resident in Jamaica, are as follows:

<b>Subsidiaries</b>	<b>Principal Activities</b>	<b>Proportion of issued equity capital held by</b>	
		<b>Company</b>	<b>Subsidiaries</b>
Jamaica Property Company Limited	Office rental	100%	
Jamaica Property Development Limited	Property Management		100%
Jamaica Property Management Limited	Property Management		100%
Trafalgar Development Bank	Development Banking	70%	
Pan Caribbean Merchant Bank Limited	Merchant Banking		100%
Pan Caribbean Investments Limited	Financial Services		100%
Portfolio Partners Limited	Investment Banking	100%	

<b>Associated Companies</b>	<b>Principal Activities</b>	<b>Proportion of issued equity capital held by</b>	
		<b>Company</b>	<b>Subsidiaries</b>
St Andrew Developers Limited	Property Development	33 1/3%	33 1/3%
Impan Properties Limited	Office Rental		20%
Knutsford Holdings Limited	Office Rental		28%

During the year, the company increased its 29% holding in Trafalgar Development Bank (TDB) Limited to 70%, which changed its status from an associated company to a subsidiary. The company also disposed of its 100% shareholding in Pan Caribbean Merchant Bank Limited to TDB, in pursuance of a scheme of reorganisation comprised in an Agreement for the Exchange of Shares (note 30). Goodwill arising on consolidation is dealt with in the investment reserve.

**(d) 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 by the equity method.

**(e) Financial instruments**

Financial instruments carried on the balance sheet include investments, cash, premiums receivable, other receivables, interest receivable, intercompany receivables and payables, due to financial and other institutions, bank overdrafts, other liabilities and long term loans.

The fair values of the group's financial instruments are discussed in Note 27.

**(f) Foreign currency translation**

Transactions in foreign currencies are converted at the rates of exchange ruling at the dates of the transactions. Balances receivable 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 statement of operations.

**(g) Income recognition**

(i) Premiums

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

(ii) Other income

All other income are recognised on the accruals basis.

**(h) 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 comprises 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; adjustment for any permanent diminution in value is taken to the investment reserve.

(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.

Gains and losses arising from the sale of investments (carried at cost or valuation) are dealt with in the investment reserve

**(i) 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
Furniture, fixtures, fittings	10%-20%
Equipment	10%
Computer hardware & software	10%- 33 1/3 %
Leased assets	Life of lease
Motor vehicles	20%

Gains and losses arising on disposal of fixed assets are dealt with in the statement of operations.

Repair and maintenance expenditure is charged to the statement of operations.

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

**(j) 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.

**(k) Reserve for future benefits**

The reserve for future benefits payable by the company is calculated by the 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. Ordinary life reserves are calculated on the policy premium method, using interest, inflation, and mortality assumptions appropriate to the policies in force. Any adjustment to the reserves is reflected in the year to which it relates.

**(l) Intangible assets**

(i) Goodwill

This represents purchased goodwill which is being written off over the expected period of benefit, which has been assessed at seven years.

(ii) Deferred expenses

These are being written off over the expected period of benefit.

**(m) Cash and cash equivalents**

These comprise cash at bank and in hand, deposits and investments maturing within three months net of bank overdrafts.

**(n) 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.

**(o) 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 statement of operations.

**(p) Inventories**

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

**(q) 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.

**(r) 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.

**(s) 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 business and economic conditions.

**(t) 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 statement of operations

**(u) Comparative information**

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

**3 Responsibilities of the Appointed Actuary and External Auditors**

The Board of Directors pursuant to the Insurance Act appoints the actuary. His responsibility is to carry out an annual valuation of the company's policy liabilities in accordance with accepted actuarial practice and regulatory requirements and report thereon to the policyholders and shareholders. In performing the valuation, the actuary makes assumptions as to the future rates of interest, asset defaults, mortality, morbidity, claims experience, policy termination, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the company and the insurance policies in force.

The shareholders pursuant to the Companies Act appoint the external auditors. Their responsibility is to conduct an independent and objective audit of the financial statements in accordance with auditing standards issued by the Institute of Chartered Accountants of Jamaica and report thereon to the shareholders. In carrying out their audit, the auditors also make use of the work of the appointed actuary and his report on the policy liabilities.

**4 Income - Insurance**

	<b>The Group and The Company</b>	
	<b>2001</b>	<b>2000</b>
	<b>\$'000</b>	<b>\$'000</b>
Premiums, net	1,286,366	1,304,882
Investments, net	294,989	285,674
Other	32,371	31,916
	<u>1,613,726</u>	<u>1,622,472</u>
	=====	=====

**5 Policyholder Benefits and Reserves**

	<b>The Group and The Company</b>	
	<b>2001</b>	<b>2000</b>
	<b>\$'000</b>	<b>\$'000</b>
Policyholders' benefit payments	890,599	890,016
Deposit administration fund withdrawals	52,726	36,048
Change in reserves for future:		
Policyholders' benefits	64,207	129,856
Deposit administration fund benefits	176,720	177,018
	<u>240,927</u>	<u>306,874</u>
	<u>1,184,252</u>	<u>1,232,938</u>
	=====	=====

## 6 Taxation

The taxation charge for the year is comprised of:

	<u>The Group</u>		<u>The Company</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Premium tax at 1 1/2%	6,885	7,732	6,885	7,732
Investment income tax at 7 1/2%	22,344	20,633	22,344	20,633
Income tax at 33 1/3%	-	5,036	-	-
	<u>29,229</u>	<u>33,401</u>	<u>29,229</u>	<u>28,365</u>
Prior year overprovision	(1,916)	-	-	-
Stamp duties	<u>42</u>	<u>71</u>	<u>42</u>	<u>71</u>
	<u>27,355</u>	<u>33,472</u>	<u>29,271</u>	<u>28,436</u>
	=====	=====	=====	=====

Subject to agreement with the Commissioner of Income Tax, the group has losses available for offset against future taxable profits amounting to approximately \$78,391,000 (2000 - \$16,206,000)

## 7 Net Profit

	<u>2001</u>	<u>2000</u>
	<u>\$'000</u>	<u>\$'000</u>
(a) This is stated after charging/(crediting):		
Directors' emoluments -		
Fees	112	118
Management remuneration (included in staff costs)	17,602	15,510
Auditors' remuneration -		
Current year	7,719	6,127
Prior year	(80)	(273)
Depreciation	18,039	15,845
Provision for credit losses	98,927	2,200
Amortisation of deferred expenses	17,149	15,884
Amortisation of goodwill	10,108	11,018
Staff costs (Note 8)	211,774	170,616
Gain on foreign exchange	(30,450)	(24,922)
Interest income	(312,644)	(294,148)
Interest expense -		

Bank and other	150,068	39,066
Holding company	3,625	2,016
	<u>153,693</u>	<u>41,082</u>
	=====	=====

(b) The net profit is dealt with as follows in the financial statements of:

The holding company	305,068	200,642
The subsidiaries	<u>80,039</u>	<u>65,193</u>
	<u>385,107</u>	<u>265,835</u>
	=====	=====

## 8 Staff Costs

	<u>The Group</u>		<u>The Company</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Wages and salaries	148,594	123,346	87,688	76,771
Statutory contributions	14,341	11,064	8,678	7,411
Pension costs	6,492	3,845	3,922	2,062
Other	<u>42,347</u>	<u>32,361</u>	<u>12,980</u>	<u>11,401</u>
	<u>211,774</u>	<u>170,616</u>	<u>113,268</u>	<u>97,645</u>
	=====	=====	=====	=====
Average number of employees:				
	No.	No.	No.	No.
Regular	199	208	126	138
Contract	<u>-</u>	<u>2</u>	<u>-</u>	<u>-</u>
	<u>199</u>	<u>210</u>	<u>126</u>	<u>138</u>
	===	===	===	===

## 9 Earnings Per Stock Unit

The calculation of basic earnings per stock unit is based on the net profit attributable to stockholders and the weighted average number of ordinary stock units in issue during the year.

	<u>The Group</u>	
	<u>2001</u>	<u>2000</u>
Net profit attributable to stockholders (\$'000)	385,107	265,835
Weighted average number of ordinary stock units (thousands)	300,000	300,000
Basic earnings per stock unit	<u>\$1.28</u>	<u>\$0.89</u>
	=====	=====

For fully diluted earnings per stock unit, the weighted average number of ordinary stock units in issue is adjusted to assume conversion of all dilutive potential ordinary stock units. The net profit is also adjusted to reflect the after tax effect of income arising from the conversion of such potential ordinary stock units.

	<u>The Group</u>	
	2001	2000
Net profit attributable to stockholders (\$'000)	385,107	265,835
Interest earned on income from conversion (net of tax) (\$'000)	<u>666</u>	<u>666</u>
Net profit used to determine fully diluted earnings per stock unit (S'000)	385,773	266,501
	=====	=====
Weighted average number of ordinary stock units (thousands)	300,000	300,000
Adjustment for assumed conversion of share options	<u>2,000</u>	<u>2,000</u>
Weighted average number of ordinary stock units for fully diluted earnings per stock units	302,000	302,000
	=====	=====
Fully diluted earnings per stock unit	\$1.28	\$0.88
	=====	=====

## 10 Fixed Assets

	<u>The Group</u>						
	<u>Assets</u>						
	<u>Capitalised</u>						
	<u>Freehold</u>	<u>Leasehold</u>	<u>Furniture,</u>	<u>under</u>	<u>Motor</u>	<u>Capital</u>	<u>Total</u>
	<u>Premises</u>	<u>Improvements</u>	<u>Fixtures &amp; Equipment</u>	<u>Finance Leases</u>	<u>Vehicles</u>	<u>Work in Progress</u>	<u>\$'000</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
At Cost -							
1 January 2001	-	13,128	164,712	3,491	15,232	17,766	214,329
Additions	-	-	7,488	884	129	10,043	18,544
Adjustment on reorganisation of group	26,578	970	15,699	-	12,756	-	56,003
Reclassifications/transfers	-	401	(591)	-	190	(14,393)	(14,393)
Disposals	(26,578)	(970)	(13,615)	-	(13,078)	-	(54,241)

31 December 2001	-	13,529	173,693	4,375	15,229	13,416	220,242
Depreciation -							
1 January 2001	-	12,987	76,219	2,258	10,991	-	102,455
Charge for the year	-	542	15,317	570	1,610	-	18,039
Adjustment on reorganisation of group	-	279	6,138	-	11,051	-	17,468
Relieved on disposals	-	(279)	(6,205)	-	(11,627)	-	(18,111)
31 December 2001	-	13,529	91,469	2,828	12,025	-	119,851
Net Book Value							
31 December 2001	-	-	82,224	1,547	3,204	13,416	100,391
31 December 2000	-	141	88,493	1,233	4,241	17,766	111,874

	<u>The Company</u>				
	<u>Leasehold</u>	<u>Computer</u>		<u>Motor</u>	<u>Total</u>
	<u>Improvements</u>	<u>Furniture &amp; Fixtures</u>	<u>Hardware &amp; Software</u>		
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
At Cost -					
1 January 2001	13,528	9,909	42,567	7,404	73,408
Additions	-	473	5,636	-	6,109
Disposals	-	-	-	(1,183)	(1,183)
31 December 2001	13,528	10,382	48,203	6,221	78,334
Depreciation -					
1 January 2001	12,986	5,553	20,275	3,243	42,057
Charge for the year	542	917	3,991	1,307	6,757
Relieved on disposal	-	-	-	(1,183)	(1,183)
31 December 2001	13,528	6,470	24,266	3,367	47,631
Net Book Value -					
31 December 2001	-	3,912	23,937	2,854	30,703
31 December 2000	542	4,356	22,292	4,161	31,351

## 11 Goodwill

	<b>The Group and The Company</b>	
	<b>2001</b>	<b>2000</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance at 1 January	65,125	67,088
Goodwill purchased	-	9,055
Amortised during the year	<u>(10,108)</u>	<u>(11,018)</u>
Balance at 31 December	55,017	65,125
	=====	=====

This represents goodwill arising on the purchase of the group life and health insurance portfolios of Jamaica Mutual Life Assurance Society, Dyoll Life Limited, Crown Eagle Life Insurance Company Limited and Horizon Life Limited.

## 12 Investment in Subsidiaries and Associated Companies

	<b>The Group</b>		<b>The Company</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Subsidiary companies -				
At valuation				
Jamaica Property Company Limited	-	-	1,534,551	1,425,867
Pan Caribbean Merchant Bank Limited	-	-	-	212,010
Portfolio Partners Limited	-	-	(4,109)	(3,928)
Trafalgar Development Bank Limited	-	-	634,402	-
	<u>-</u>	<u>-</u>	<u>2,164,844</u>	<u>1,633,949</u>
Associated companies -				
St Andrew Developers Limited				
Shareholding at cost	266	266	133	133
Share of losses	(8,508)	(8,003)	(5,050)	(4,816)
Current account	4,435	4,855	733	733
	<u>(3,807)</u>	<u>(2,882)</u>	<u>(4,184)</u>	<u>(3,950)</u>
Impan Properties Limited				
Shareholding at cost	20	20	-	-
Share of profit	87	93	-	-
Share of capital reserve	7,945	7,945	-	-

Current account	(8,991)	(8,985)	-	-
	(939)	(927)	-	-
	=====	=====	=====	=====

	<u>The Group</u>		<u>The Company</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Knutsford Holdings Limited				
Shareholding at cost	1	1	-	-
Share of profit	2,806	1,224	-	-
Share of capital reserve	41,770	38,038	-	-
Current account	<u>13,233</u>	<u>9,195</u>	-	-
	<u>57,810</u>	<u>48,458</u>	-	-
Trafalgar Development Bank Limited				
Shareholding at cost	-	70,032	-	70,032
Share of losses	-	(18,280)	-	(20,494)
	-	<u>51,752</u>	-	<u>49,538</u>
	<u>53,064</u>	<u>96,401</u>	<u>2,160,660</u>	<u>1,679,537</u>
	=====	=====	=====	=====

### 13 Investments

	<u>The Group</u>		<u>The Company</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Real estate	1,621,482	1,507,459	-	-
Property development in progress	16,500	16,500	-	-
Equity investments	61,855	55,781	61,855	55,781
Assets held under repurchase agreements	852,540	406,729	790,421	366,329
Mortgages	16,900	20,457	16,700	20,257
Quoted securities	163,055	65,667	112,321	64,815
Unquoted securities	117,514	7,231	181	181
Government of Jamaica and other securities	2,388,074	1,792,502	1,541,159	1,519,184

Loans on policies	30,106	29,082	30,106	29,082
Loans and leases	1,395,233	244,257	411,287	360,632
Deposits	98,931	3,136	3,213	3,136
	<u>6,762,190</u>	<u>4,148,801</u>	<u>2,967,243</u>	<u>2,419,397</u>
	=====	=====	=====	=====

(a) Real estate properties were valued at current market value as at 31 December 2001 by D.C. Tavares & Finson 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:

	<u>The Group</u>		<u>The Company</u>	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Minimum lease payments receivable				
less provision for losses	75,016	72,782	46,412	34,727
Less unearned finance income	<u>(17,388)</u>	<u>(20,461)</u>	<u>(10,860)</u>	<u>(7,776)</u>
	<u>57,628</u>	<u>52,321</u>	<u>35,552</u>	<u>26,951</u>
	=====	=====	=====	=====

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

	<u>The Group</u>		<u>The Company</u>	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
2001	-	32,394	-	18,559
2002	34,989	19,419	21,109	8,414
2003	21,568	11,171	13,790	5,096
2004	13,963	6,457	9,890	2,477
2005	<u>4,496</u>	<u>3,341</u>	<u>1,623</u>	<u>181</u>
	<u>75,016</u>	<u>72,782</u>	<u>46,412</u>	<u>34,727</u>
	=====	=====	=====	=====

**14 Other Assets**

	<u>The Group</u>		<u>The Company</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Premiums receivable	87,804	86,378	87,804	86,378
Due from salesmen	734	3,033	734	3,033
Prepaid commissions	1,044	1,253	1,044	1,253
Accrued interest	161,532	126,006	161,592	111,290
Other receivables	304,552	127,467	158,954	83,692
Taxation recoverable	79,151	82,316	78,830	69,837
Deferred expenses	8,881	20,656	1,854	7,964
Inventories	2,749	3,192	-	-
Customers' liabilities				
under guarantees	260,529	56,121	-	-
Cash at bank and in hand	<u>240,836</u>	<u>155,188</u>	<u>55,771</u>	<u>46,912</u>
	<u>1,147,812</u>	<u>661,610</u>	<u>546,583</u>	<u>410,359</u>
	=====	=====	=====	=====

Cash at bank and in hand includes a subsidiary's statutory cash reserve with the Bank of Jamaica amounting to \$9,531,000 (2000 - \$12,631,000). This amount is held on a non-interest bearing basis and is not available for investment or use by the subsidiary.

**15 Share Capital**

	<u>2001</u>	<u>2000</u>
	<u>\$'000</u>	<u>\$'000</u>
Authorised:		
Ordinary shares of \$1 each	347,000	347,000
"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>350,000</u>	<u>350,000</u>
	=====	=====
Issued and fully paid:		
Ordinary stock units of \$1 each	<u>300,000</u>	<u>300,000</u>
	=====	=====

**16 Share Premium**

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

	2001	2000
	\$'000	\$'000
1987 and prior years	6,570	6,570
1993	43,153	43,153
	<u>49,723</u>	<u>49,723</u>
	=====	=====

**17 Capital Redemption Reserve**

This arose on the redemption of 1,403,100 'C' and 1,596,900 'D' preference shares out of profits in 1992 and 1993 respectively.

**18 Insurance and Banking Reserves**

	<u>Insurance</u>	<u>Banking</u>		
	<u>Special</u>	<u>Retained</u>	<u>Banking</u>	
	<u>Reserve</u>	<u>Earnings</u>	<u>Reserve</u>	
	<u>\$'000</u>	<u>Reserve</u>	<u>Fund</u>	<u>Total</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Balance at beginning of year	103,686	7,974	35,719	147,379
Adjustment on reorganisation of group	-	(7,974)	(35,719)	(43,693)
Transfers	11,253	36,400	14,000	61,653
	<u>114,939</u>	<u>36,400</u>	<u>14,000</u>	<u>165,339</u>
	=====	=====	=====	=====

The retained earnings reserve and banking reserve fund are maintained by a subsidiary in accordance with the Financial Institutions Act, 1992.

**19 General Reserve**

This reserve is maintained by a subsidiary and represents the capitalisation of grants received from USAID and DEG for the purchase of equipment and other assets. The reserve is being written off to the profit and loss account by the amount of annual depreciation provided on the equipment.

**20 Dividends**

	2001	2000
	\$'000	\$'000
Dividends paid for 2001 at J\$0.08 (2000 - J\$0.03) per stock unit - gross	24,000	9,000
Dividends proposed for 2001 at 1\$0.253 (2000 -1\$0.085) per stock unit - gross	<u>76,000</u>	<u>25,500</u>
	<u>100,000</u>	<u>34,500</u>
	=====	=====

**21 Reserve for Future Policyholders' Benefits**

	<b>The Group and The Company</b>	
	2001	2000
	\$'000	\$'000
Balance at start of year	1,024,025	894,169
Increase in reserves	<u>99,968</u>	<u>129,856</u>
Balance at end of year	<u>1,123,993</u>	<u>1,024,025</u>
	=====	=====
Represented by:		
Ordinary life	180,130	182,403
Annuities	63,592	59,247
Group life and health	230,292	209,893
Equity fund	12,232	12,354
Opportunity fund	84,365	79,356
Money market fund	14,529	12,471
Real estate fund	20,907	21,838
Farmers' plan	7,699	6,917
Creditor and mortgage life	206,669	177,994
Group investment funds	<u>303,578</u>	<u>261,552</u>
	<u>1,123,993</u>	<u>1,024,025</u>
	=====	=====

**22 Due to/(from) Holding Company and Subsidiaries**

	<u>The Group</u>		<u>The Company</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Holding company:				
Current account	6,727	7,603	(212)	(387)
Subsidiaries:				
Portfolio Partners Limited	-	-	(18,683)	6,837
Pan Caribbean Merchant Bank Limited	-	-	467	(61)
Jamaica Property Company Limited	-	-	(68,776)	(47,819)
Trafalgar Development Bank Limited	-	-	(29)	-
	<u>-</u>	<u>-</u>	<u>(87,021)</u>	<u>(41,043)</u>
	6,727	7,603	(87,233)	(41,430)
	=====	=====	=====	=====

**23 Long Term Loans**

	<u>Rate</u>	<u>Repayable</u>	<u>The Group</u>		<u>The Company</u>	
			<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	<u>%</u>		<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Secured -						
Citibank N.A. (US\$110,000)	12	2001	-	5,003	-	5,003
Citibank N.A. (US\$1,000,000)	10.25	2004	28,438	45,487	28,438	45,487
Consortium loan	24	2002	248	1,105	248	1,105
Unsecured -						
George & Branday Limited	21	2004	1,293	1,542	1,293	1,542
Consortium loan (US\$65,000)	11	2002	3,306	2,940	3,306	2,940
Other loan	14.75	2002	1,002	1,786	-	-
Office and Secretarial Services Limited	14.50	2002-2004	8,050	11,378	8,050	11,378
Consortium loans	10.25 - 10.75	2002	53,984	-	53,984	-
Consortium loans	16.00 - 16.25	2002	13,865	-	13,865	-
Consortium loan (US\$I,100,000)	11.25	2011	51,614	-	51,614	-
Consortium loan	25	2003	9,388	15,715	-	-
			<u>171,188</u>	<u>84,956</u>	<u>160,798</u>	<u>67,455</u>
Current portion			<u>(101,188)</u>	<u>(41,186)</u>	<u>(94,773)</u>	<u>(34,865)</u>
			<u>70,000</u>	<u>43,770</u>	<u>66,025</u>	<u>32,590</u>
			=====	=====	=====	=====

## 24 Other Liabilities

	The Group		The Company	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Bank overdrafts	22,756	17,180	16,402	11,399
Benefits payable to policyholders	18,543	13,640	18,543	13,640
Premiums received in advance	2,665	6,206	2,665	6,206
Other liabilities and accrued expenses	284,921	171,029	100,832	124,906
Taxation payable	445	1,640	-	-
Dividends payable	76,000	23,587	76,000	23,587
Amounts due to financial and other institutions	1,355,825	137,643	-	-
Customers' liabilities under guarantees	260,529	56,121	-	-
Customers' deposits and savings accounts	305,307	164,331	-	-
Short term loans	-	14,959	-	14,959
Current portion of long term loan	101,188	41,186	94,773	34,865
	<u>2,428,179</u>	<u>647,522</u>	<u>309,215</u>	<u>229,562</u>
	=====	=====	=====	=====

(a) 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. The weighted average effective interest rates on bank overdrafts range between 24.75% and 35% (2000 - 26.75% and 29.5%).

(b) Interest rates on short term loans at 31 December 2000 ranged between 10.25% and 20%

(c) Amounts due to financial and other institutions represent the liabilities of the company's banking subsidiaries to other financial institutions.

## 25 Related Party Transactions and Balances

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

	2001	2000
	\$'000	\$'000
Management and other fees paid to holding company	2,376	3,493
Leases with holding company and fellow subsidiaries	35	477
Loans to holding company and fellow subsidiaries	26,854	26,962
Loan from holding company	3,848	4,334
	=====	=====

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 2001 the balance outstanding was \$3,848,000 (2000 - \$4,334,000)

## 26 Assets under Management

Assets under management, which are not beneficially owned by the company and certain subsidiaries, but which are managed by them on behalf of investors, have been excluded from the balance sheet. The carrying amounts and fair values of assets under management are as follows:

	<u>The Group</u>			
	<u>2001</u>		<u>2000</u>	
	Carrying Amount \$'000	Fair Value \$'000	Carrying Amount \$'000	Fair Value \$'000
<b>Financial Assets</b>				
Cash resources	566,697	566,697	484,737	484,737
Investments	9,405,544	9,501,148	7,175,284	7,177,087
Loans and leases	1,704	1,704	1,967	1,967
Interest and other receivables	565,823	565,823	281,881	281,881
Guarantees	-	-	454,148	454,148
Total Assets	10,539,768	10,635,372	8,398,017	8,399,820
	=====	=====	=====	=====

	<b>The Company</b>			
	<b>2001</b>		<b>2000</b>	
	<b>Carrying Amount \$'000</b>	<b>Fair Value \$'000</b>	<b>Carrying Amount \$'000</b>	<b>Fair Value \$'000</b>
<b>Financial Assets</b>				
Cash resources	546,036	546,036	439,350	439,350
Investments	746,771	753,143	519,993	521,796
Loans and leases	1,704	1,704	1,967	1,967
Interest and other receivables	121,872	121,872	68,652	68,652
Total Assets	<u>1,416,383</u>	<u>1,422,755</u>	<u>1,029,962</u>	<u>1,031,765</u>
	=====	=====	=====	=====

## 27 Financial Instruments

### (a) Interest rate risk

The group is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. Exposure is managed largely by the use of natural hedges that arise by matching interest sensitive assets with liabilities of a similar nature.

### (b) Currency risk

The consolidated balance sheet at 31 December includes aggregate net foreign assets/(liabilities) in respect of transactions arising in the ordinary course of business as follows:

	<b>2001 \$'000</b>	<b>2000 \$'000</b>
United States dollars	11,938	(810)
European currency (Euro)	955	-
Pound sterling	1,114	-
	=====	=====

**(c) Credit risk**

Cash and short term investments are held with substantial financial institutions. A significant portion of investments is held in various government instruments. There are no significant concentrations of risk attaching to other receivables and premiums receivable as these amounts are not concentrated in any given sector or institution and are shown net of provisions for doubtful debts.

**(d) Liquidity risk**

The group has formal asset/liability practices and monitors liquidity on a regular basis. There are no individual contract or policyholders who have the potential to influence the withdrawal of a significant amount of liabilities.

**(e) Fair values**

Fair value represents the amount at which a financial instrument could be exchanged in an arm's-length transaction between willing parties under no compulsion to act, and is best evidenced by a quoted market price if one exists.

The amounts included in the financial statements for cash and cash equivalents, other assets (excluding taxation recoverable and deferred expenses), other liabilities (excluding taxation payable and amounts due to other banks), current portion of long term loans and customer deposits and savings accounts reflect their approximate fair values because of the short term maturity of these instruments.

The estimated fair values of the group's other financial instruments are as follows:

	<u>The Group</u>			
	<u>2001</u>		<u>2000</u>	
	<u>Carrying</u>	<u>Fair</u>	<u>Carrying</u>	<u>Fair</u>
	<u>Amount</u>	<u>Value</u>	<u>Amount</u>	<u>Value</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
<b>Financial assets</b>				
Investments (excluding equity investments, deposits, real estate, assets held under repurchase agreements and property development in progress)	4,110,882	4,111,499	2,159,196	2,159,196
	=====	=====	=====	=====

**Financial liabilities**

Long term loans (including current portion)	171,188	171,188	84,956	84,956
Due to holding company	6,727	6,727	7,603	7,603
Amounts due to financial and other institutions	1,335,825	1,355,825	137,643	137,643
	=====	=====	=====	=====

**The Company**

	2001		2000	
	Carrying	Fair	Carrying	Fair
	Amount	Value	Amount	Value
	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>				
investments (excluding deposits, assets held under repurchase agreements and equity investments)	2,111,754	2,112,371	1,994,151	1,994,151
Due from holding company and subsidiaries	87,233	87,233	41,430	41,430
	=====	=====	=====	=====
<b>Financial liabilities</b>				
Long term loans (including current portion)	160,798	160,798	67,455	67,455
	=====	=====	=====	=====

The estimated fair values have been determined using available market information and appropriate valuation methodologies. However, considerable judgement is necessarily required in interpreting market data to develop estimates of fair value. Market data is not available for a significant portion of the group's financial instruments. Accordingly, the estimates presented above are not necessarily indicative of the ultimate net realisable values or amounts that the group would realise in a current market exchange.

Fair values were estimated as follows:

**Investments**

Fair value of equity instruments is determined based on quoted market prices for these instruments. When quoted market prices are not available, an approximation of fair value is based on the net underlying assets of the investee. Fair value of other investments is based on quoted market prices when available; when not available, other valuation techniques are used.

**Financial liabilities**

The fair values of long-term liabilities either approximate their carrying amounts or are estimated using discounted cash flow analyses based on the group's current incremental borrowing rates for similar types of borrowing arrangements.

**28 Borrowings**

The interest rate exposure of borrowings is as follows:

	The Group		The Company	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Total borrowings				
At fixed rates	1,373,578	160,587	89,643	28,844
At floating rates	153,435	94,151	71,155	53,570
	<u>1,527,013</u>	<u>254,738</u>	<u>160,798</u>	<u>82,414</u>
	=====	=====	=====	=====
	%	%	%	%
Weighted average effective interest rates:				
Due to financial and other institutions	7.53	9.95	-	-
Bank borrowing	17.48	14.00	10.25	11.60
Other	12.70	14.28	12.00	14.00
	=====	=====	=====	=====

**29 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 1999, revealed a past service surplus of \$25,665,000. The actuary has recommended that the employer contribute at a rate of 5% of members' pensionable earnings until the next valuation date which should be no later than 31 December 2002. The employees contribute at 5%. Effective 1 January 2001, the company implemented the actuary's recommendation.

**(b) Jamaica Property Company Limited**

The latest actuarial valuation which was carried out at 31 December 1998 revealed a past service surplus of \$5,087,000.

The actuary has recommended that the employer contribute at a rate of 4% of members' pensionable earnings until the next valuation date which should be no later than 31 December 2001. The employees contribute at 5%. The recommendation has not yet been implemented.

**(c) Trafalgar Development Bank Limited**

The scheme is open to all full-time employees and is funded by a basic employee contribution of 5% and a voluntary contribution up to a maximum of an additional 5%. Employer contributions are 5%. Retirement and death benefits are based on accumulated employer and employee contributions.

An actuarial review showed that the scheme was adequately funded, if the employer's contributions are treated as vested liabilities, as at 31 August 1998.

**(d) Pan Caribbean Merchant Bank Limited**

The latest actuarial valuation, which was carried out as at 31 December 1999, indicated that the scheme was adequately funded as at that date.

### 31 Acquisition of Subsidiary and Reorganisation of Group

(a) Effective 1 January 2001, in pursuance of a scheme of reorganisation comprising an Agreement for Exchange of Shares, the entire share capital of Pan Caribbean Merchant Bank Limited (PCMB) was transferred to Trafalgar Development Bank Limited (TDB) in exchange for 140,613,376 ordinary shares of \$1.00 each in TDB. This resulted in the company holding 68% of the issued share capital of TDB, and this holding was further increased to 70% during the year by the purchase of additional shares. The fair value of net assets approximated to the book value of the net assets acquired.

Details of net assets acquired and reserve on acquisition of subsidiary and reorganisation of group are as follows:

Cash resources	77,759
Investments	424,638
Loans receivable	1,131,510
Other assets	332,784
Due to financial and other institutions	(1,382,679)
Other liabilities	<u>(35,500)</u>
Net asset value of TDB	548,512
Fair value of PCMB's net assets acquired by TDB	<u>252,010</u>
	800,522
Minority interest	<u>(256,167)</u>
Group's share of net assets	544,355
Existing investment in associated company	(51,752)
Capital reserve arising on acquisition	<u>(240,593)</u>
	252,010
Fair value of purchase consideration	<u>(252,010)</u>
	-
Cash and cash equivalents acquired	<u>77,759</u>
Net cash inflow on acquisition	<u>77,759</u>
	=====

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