

Pan-Jamaican Investment Trust Limited

Notes to the Financial Statements

31 December 2002

1. Identification and Activities

The main activity of the company, which is incorporated and domiciled in Jamaica and is limited by shares, is the direction and control of the operations of its subsidiaries and associated companies. The company's income consists mainly of dividends, interest income and management fees earned from its subsidiaries and associated companies.

The principal activities of the subsidiaries and associated companies are detailed in note 2(c).

All amounts are stated in Jamaican dollars unless otherwise identified. At 31 December 2002, the rate of exchange was approximately J\$51 to US\$1 (2001 - J\$47 to US\$1).

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 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 group financial statements comprise the financial statements of the company, its subsidiaries and associated companies made up to 31 December 2002.

The wholly and partly owned subsidiaries at 31 December 2002 are:

	<u>Principal Activities</u>	<u>Proportion of issued equity capital held by</u>	
		Company	Subsidiary
First Life Insurance Company Ltd.	Life and Health Insurance	74%	
Jamaica Property Company Ltd.	Office Rental		100%
Jamaica Property Development Ltd.	Property Management		100%
Jamaica Property Management Ltd.	Property Management		100%
Portfolio Partners Limited	Investment Management		100%
Pan Caribbean Financial Services Ltd.	Development Banking		70%
Pan Caribbean Merchant Banking Ltd.	Merchant Banking		100%
Pan Caribbean Investments Ltd.	Financial Services		100%
Hardware & Lumber Limited	Trading	87%	
H & L True Value Limited	Trading		100%
H & L Agri & Marine Company Ltd.	Trading		100%
Hole-In-The-Wall Limited	Dormant		100%
Office Services Limited	Construction and Janitorial Services		100%
Scotts Preserves Limited	Distribution		100%
Scotts of Jamaica Limited	Dormant		100%
Wherry Wharf Sales Company Limited	Dormant		93%
Jamaican Floral Exports Limited	Horticulture	80%	
Jamaican Heart Limited	Horticulture		100%
Pan-Jamaican Mortgage Society Limited	Financial Services	100%	
Busha Browne's Company (Nassau) Ltd. (Incorporated in the Bahamas)	Dormant	100%	
Busha Browne's Company Limited	Distribution		100%

The associated companies are held by the First Life Group (First Life) and at 31 December 2002 are:

	<u>Principal Activities</u>	<u>Proportion of equity capital held</u>
Impan Properties Limited	Office Rental	20%
Knutsford Holdings Limited	Office Rental	28%
St. Andrew Developers Limited	Property Development	66%

During the year, First Life Insurance Company Limited entered into a joint venture agreement with Life of Jamaica Limited to co-ordinate the administration of their respective employee benefits businesses. A joint venture company, Employee Benefits Administrator Limited was established, with First Life owning 50% of the share capital of that company.

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

The company and all subsidiaries, associated companies and joint venture, except where indicated otherwise, are incorporated and domiciled in Jamaica.

Goodwill and capital reserve arising on consolidation are dealt with in capital reserves.

(d) Investment in subsidiaries and associated companies

Investment by the holding company in subsidiaries is stated at cost.

Associated companies are accounted for by the equity method. By this method, the group's share of profits is included in profit before taxation and the taxation attributable to the share of profits in the group's tax charge. In the group's balance sheet, the investment is shown at cost plus reserves arising since the acquisition date.

(e) Expenses

Expenses are charged to income as incurred except for amounts allocated to lands awaiting development, construction in progress and developments for sale, subject to carrying costs not exceeding realisable value. Expenses which relate to future periods are included in deferred expenditure and amortised over the expected periods of benefit.

(f) Fixed assets and depreciation

Fixed assets are stated at cost. The cost of fixed assets is written off over the expected useful lives of the assets held at the beginning of the year using the straight line method. The expected average useful lives are as follows:

Buildings	20 to 50 years
Leasehold improvements	Life of lease
Plant, equipment and furniture	3 to 15 years
Motor vehicles	5 years
Leased assets	Life of lease

Gains and losses arising on disposal of fixed assets are dealt with in the profit and loss account. Repairs and maintenance expenditure are charged to the profit and loss account.

(g) Investment properties

Freehold land and buildings held for investment are stated at market value. Valuations are revised on the basis of annual appraisals carried out by independent property appraisers and valuers.

(h) Investments

- (i) Quoted equities held by the insurance and banking subsidiaries are stated at market value and for all other subsidiaries are stated at cost with adjustment for any permanent diminution in value;
- (ii) Unquoted equities are stated at cost with adjustment for any permanent diminution in value;
- (iii) Government of Jamaica and other securities are stated at cost after provision for any anticipated losses on realisation;
- (iv) Mortgage loans are stated at the aggregate of the unpaid principal;
- (v) Policy loans are stated at the aggregate of the unpaid balance;
- (vi) Assets held under repurchase agreements are stated at cost;
- (vii) Deposits are stated at cost.

Gains and losses arising from the sale of investments (carried at cost or valuation) are dealt with in the investment reserve or profit and loss account as is appropriate.

(i) Investment reserve

The group's life insurance subsidiary, First Life Insurance Company Limited, reflects unrealised appreciation or depreciation in market values of quoted equities and investment properties and any other unrealised gains or losses in the investment reserve. A percentage of this reserve is transferred annually to the profit and loss account as follows:

Quoted equities	25%
Real estate	10%
All other unrealised gains	7.5%

(j) Reserve for future policyholders' benefits

The reserve for future policyholders' benefits is calculated by the appointed actuary based on the details of business in force at the end of First Life Insurance Company Limited'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, inflation and mortality assumptions appropriate to the policies in force. Any adjustment to the reserves is reflected in the year to which it relates.

(k) Taxation and deferred taxation

Taxation charged in these financial statements is based on the profit for the year adjusted for taxation purposes for all group companies with the exception of the insurance subsidiary. Taxation on the insurance operations is charged on investment income less expenses allowable in earning that income at the rate of 7 1/2%, and on taxable premium income less reinsurance premiums at 1 1/2%. Deferred taxation is recorded only in respect of timing differences which are expected to reverse in the foreseeable future.

(l) Income recognition

(i) Premiums

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

Amounts collected for investment (non-insurance) contracts are reported as policyholders' funds on deposit.

(ii) Sale of goods and services

Sales revenue is recognised upon delivery of products and customer acceptance or performance of services.

(iii) Other income

All other income is recognised on the accruals basis.

(m) Financial instruments

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

The fair values of the group's financial instruments are discussed in Note 21.

(n) Intangible assets

(i) Goodwill

This represents purchased goodwill, which is being written off over the expected period of benefit.

(ii) Deferred expenses

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

(o) Cash and cash equivalents

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

(p) Foreign currency translation

Transactions in foreign currencies are converted at the rate of exchange ruling at the date of each transaction. Balances due or payable in foreign currencies are translated at rates of exchange ruling at the balance sheet date. Losses or gains are reflected in the profit and loss account.

(q) Inventories

Inventories are stated at the lower of cost and net realisable value, cost being determined on the FIFO and average cost bases.

(r) 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.

(s) Provision for credit losses

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.

(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 profit and loss account.

(u) Comparative information

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

3. Taxation

The charge for taxation comprises:	2002 \$'000	2001 \$'000
Income tax at 33 1/3%	8,616	-
Prior year under/(overprovision)	120	(2,398)
Premium tax at 1 1/2%	5,738	5,600
Investment income tax at 7 1/2%	15,698	16,754
Stamp duties	64	42
	<u>30,236</u>	<u>19,998</u>
	=====	=====

Subject to agreement with the Taxpayer Audit and Assessment Department, tax losses available for set off against future profits of certain subsidiaries amount to approximately \$151,758,000 (2001 - \$220,737,000).

4. Net Profit

(a) Group profit before taxation is arrived at after charging/(crediting) the following items:

	2002 \$'000	2001 \$'000
Directors' emoluments -		
Fees	264	192
Management remuneration (included in staff costs)	40,127	34,598
Auditors' remuneration -		
Current year	13,506	12,619
Prior year	(290)	-
Depreciation	34,645	37,158
Amortisation of deferred expenditure	8,111	17,509
Amortisation of goodwill	12,485	10,108
Loss/(gain) on foreign exchange	9,066	(23,841)
Staff costs (Note 5)	460,782	354,754
(Profit)/loss on sale of fixed assets	(1,507)	8,859
Interest income	653,844	574,990
	=====	=====

(b) Net profit dealt with in the financial statements of the holding company	75,828	78,208
	=====	=====
(c) Interest expense		
Mortgage debentures and fixed loans	14,248	23,387
Bank overdraft and other interest	11,338	27,780
Interest on banking operations	<u>125,498</u>	<u>141,377</u>
	151,084	192,544
	=====	=====

5. Staff Costs

	<u>The Group</u>	
	2002	2001
	\$'000	\$'000
Wages and salaries	337,699	266,974
Statutory contributions	30,235	24,061
Pension costs	13,893	12,577
Redundancy costs	30,667	-
Accommodation and other benefits	<u>48,288</u>	<u>51,142</u>
	460,782	354,754
	=====	=====

Number of employees at the end of the year:

	No.	No.
Regular	322	350
Contract	<u>361</u>	<u>308</u>
	683	658
	=====	=====

6. Earnings per Stock Unit

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

	<u>The Group</u>	
	2002	2001
Net profit attributable to stockholders (\$'000)	424,707	264,948
Weighted average number of stock units in issue ('000)	171,702	166,599
Basic earnings per stock unit	\$2.47	\$1.59
	=====	=====

For fully diluted EPS, the weighted average number of 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.

Fully diluted EPS was calculated as follows:

	2002	2001
Net profit attributable to stockholders (\$'000)	424,707	264,948
Interest earned on income from conversion (net of tax) (\$'000)	2,228	666
Dividends on preference shares (\$'000)	54	38
Net profit used to determine diluted earnings per stock unit (\$'000)	426,989	265,652
	=====	=====
Weighted average number of ordinary shares in issue (\$'000)	171,702	166,599
Adjustments for - assumed conversion of preference shares ('000)	39	40
- share options ('000)	2,025	2,000
Weighted average number of shares for diluted earnings per stock unit ('000)	173,766	168,639
	=====	=====
Fully diluted earnings per stock unit	\$2.46	\$1.58

7. Fixed Assets

	<u>The Group</u>					
	Land & Buildings \$'000	Leasehold Improvements \$'000	Work in Progress \$'000	Plant, Equipment & Furniture \$'000	Motor Vehicles \$'000	Total \$'000
Cost -						
1 January 2002	23,544	57,114	13,416	245,282	23,170	362,526
Additions	-	12,727	69,594	41,829	6,586	130,736
Reclassifications and transfers	-	-	(19,906)	22,876	2,745	5,715
Disposals	-	-	-	(1,013)	(11,776)	(12,789)
31 December 2002	23,544	69,841	63,104	308,974	20,725	486,188
Depreciation -						
1 January 2002	23,428	35,576	-	133,064	12,054	204,122
Charge for the year	116	5,251	-	25,551	3,727	34,645
Reclassifications and transfers	-	-	-	(2,582)	2,582	-
On disposals	-	-	-	(779)	(10,864)	(11,643)
31 December 2002	23,544	40,827	-	155,254	7,499	227,124
Net Book Value -						
31 December 2002	-	29,014	63,104	153,720	13,226	259,064
31 December 2001	116	21,538	13,416	112,218	11,116	158,404

<u>The Company</u>				
	Leasehold Improvements \$'000	Plant, Equipment & Furniture \$'000	Motor Vehicles \$'000	Total \$'000
Cost -				
1 January 2002	199	2,916	957	4,072
Additions	-	124	-	124
31 December 2002	199	3,040	957	4,196
Depreciation -				
1 January 2002	184	2,328	957	3,469
Charge for the year	4	194	-	198
31 December 2002	188	2,522	957	3,667
Net Book Value -				
31 December 2002	11	518	-	529
31 December 2001	15	588	-	603

8. Goodwill

<u>The Group</u>		
	2002 \$'000	2001 \$'000
Balance at beginning of year	55,017	65,125
Goodwill purchased	160,000	-
Amortised during the year	<u>(12,485)</u>	<u>(10,108)</u>
Balance at end of year	202,532	55,017
	=====	=====

This comprises:

- (a) Goodwill arising on First Life's 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.

(b) Goodwill arising on First Life's acquisition of a 50% interest in the employee benefits portfolio of Life of Jamaica Limited.

These amounts are being amortised over the expected period of benefit, which has been assessed at 15 years.

9. Investment Properties

Investment properties were valued at current market value as at 31 December 2002 by D.C. Tavares & Finson Realty Limited, property appraisers and valuers.

10. Investments

	<u>The Group</u>		<u>The Company</u>	
	<u>2002</u> <u>\$'000</u>	<u>2001</u> <u>\$'000</u>	<u>2002</u> <u>\$'000</u>	<u>2001</u> <u>\$'000</u>
Associated companies -				
Cost	287	287	-	-
Group's share of -				
Net loss	(3,332)	(5,615)	-	-
Reserves	54,254	49,715	-	-
Current accounts	<u>7,813</u>	<u>8,677</u>	<u>-</u>	<u>-</u>
	59,022	53,064	-	-
Quoted investments	179,361	100,757	5,473	10,552
Unquoted investments	119,440	128,218	956	956
GOJ and other securities	2,469,465	2,159,470	134,124	125,463
Mortgage loans	14,343	16,906	-	-
NHT contributions	<u>58</u>	<u>162</u>	<u>-</u>	<u>12</u>
	<u>2,841,689</u>	<u>2,458,577</u>	<u>140,553</u>	<u>136,983</u>
	=====	=====	=====	=====

(a) Included in investments are Government of Jamaica Local Registered Stocks valued at \$100 million, which have been pledged by the insurance subsidiary with the regulator, the Financial Services Commission, in accordance with the Insurance Regulations, 2001.

(b) The National Housing Trust contributions were made prior to 31 July 1979 and are recoverable in the years 2003 to 2004.

11. Other Insurance and Banking Assets

	<u>The Group</u>	
	2002	2001
	\$'000	\$'000
Loans on policies	32,470	30,106
Loans to customers and lease receivables	1,238,022	1,289,497
Accrued interest	199,953	112,375
Customers' liabilities under guarantees	301,996	260,529
Receivables	265,313	409,244
Cash resources	148,211	126,637
Segregated funds' assets	44,225	33,761
	<u>2,230,190</u>	<u>2,262,149</u>
	=====	=====

- (a) Included in loans to customers and lease receivables at 31 December 2002 is the group's investment in finance leases as follows:

	\$'000
Minimum lease payments receivable, less provision for losses	73,493
Less: Unearned finance income	<u>(14,370)</u>
	59,123
	=====

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

	\$'000
2003	32,751
2004	24,849
2005	14,399
2006	<u>1,494</u>
	73,493
	=====

(b) Cash resources include a subsidiary's statutory cash reserve with the Bank of Jamaica amounting to \$11,055,000 (2001 - \$9,531,000). This amount is held on a non-interest bearing basis and is not available for investment or other use by the subsidiary.

12. Deferred Expenditure

This represents systems development costs related to certain subsidiaries and is being written off over the expected period of benefit.

13. Bank Indebtedness

	<u>The Group</u>		<u>The Company</u>	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
Bank overdrafts	69,694	40,848	-	2,575
Bank indebtedness included in -				
Current maturities	65,522	55,870	23,776	40,564
Long term liabilities	136,127	147,188	41,609	73,053
	<u>201,649</u>	<u>203,058</u>	<u>65,385</u>	<u>113,617</u>
Aggregate amount	271,343	243,906	65,385	116,192
	=====	=====	=====	=====
Amount secured	268,586	198,781	65,385	73,932
	=====	=====	=====	=====

14. Short Term Loans

The short term loan balance at 31 December 2002 includes an amount of \$160,000,000 due to Life of Jamaica (LOJ) Limited as a result of certain terms and conditions of the joint venture agreement between First Life Insurance Company Limited and LOJ. Interest rates on short term loans at 31 December 2002 ranged between 16% and 20%.

15. Share Capital

	2002 \$'000	2001 \$'000
Authorised -		
Ordinary stock units of 10c each	20,000	20,000
10% convertible cumulative redeemable preference shares of 10c each	<u>1,072</u>	<u>1,072</u>
	=====	=====
21,072		21,072
Issued and fully paid -		
Ordinary stock units of 10c each	17,212	17,149
10% convertible cumulative redeemable preference shares of 10c each	<u>4</u>	<u>4</u>
	=====	=====
17,216		17,153

16. Policyholders' Funds

	<u>The Group</u>	
	2002 \$'000	2001 \$'000
Reserve for future policyholders' benefits	701,209	711,771
Benefits payable to policyholders	13,779	18,543
Deposit administration funds	778,124	1,004,852
Policy dividends on deposit	18,825	17,993
Policyholders' funds on deposit	400,658	385,461
Other policyholders' funds	<u>320</u>	<u>292</u>
	=====	=====
1,912,915		2,138,912

The appointed actuary has given his opinion that the actuarial liabilities are adequate to provide for future payments under the terms of the policies in force.

17. Other Insurance and Banking Liabilities

	<u>The Group</u>	
	2002	2001
	\$'000	\$'000
Amounts due to financial and other institutions	1,180,683	1,355,825
Customers' deposits and savings accounts	333,547	302,860
Customers' liabilities under guarantees	301,996	260,529
Payables	307,904	216,424
Premiums received in advance	2,381	2,665
Bank overdraft	6,645	16,402
Segregated funds' liabilities	44,225	33,761
	<u>2,177,381</u>	<u>2,188,466</u>
	=====	=====

18. Long Term Liabilities

	<u>The Group</u>		<u>The Company</u>	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
Secured loans -				
First mortgage debenture stocks				
21% 1984-2001	-	500	-	500
12% 1979-2003	326	550	326	615
22% 1985-2006	-	-	2,387	2,860
22% 1987-2007	-	-	873	986
First mortgage debentures				
22% 1989-2009	-	-	1,000	1,000
Bank of Nova Scotia Jamaica Limited				
21% 2004	1,150	1,751	-	-
Citibank N.A. 2004 (US\$1,000,000) 10.25%	10,194	28,438	-	-
Citibank N.A. (US\$1,400,000)				
Variable rate 2001 - 2005	65,385	67,968	65,385	67,968
Citibank N.A. - 12% 2001 - 2004	21,237	35,548	-	-
Consortium Loan - 15% 2004	-	4,763	-	-
Consortium Loan (US\$ 60,437) - 13% 2003	2,757	2,865	-	-
Manufacturers Merchant Bank Limited				
25% 2000 - 2005	1,413	1,364	-	-
First Caribbean International Bank Limited				
(US\$2,000,000) - LIBOR + 2.875				
2002-2004	99,513	-	-	-
Total secured loans	<u>201,975</u>	<u>143,747</u>	<u>69,971</u>	<u>73,929</u>

	<u>The Group</u>		<u>The Company</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Total secured loans (page 21)	201,975	143,747	69,971	73,929
Unsecured loans -				
First Life Insurance Company Limited 21 %	-	-	20,686	20,688
Bank of Nova Scotia Jamaica Limited 27%	-	19,000	-	19,000
Consortium loans:				
9.5% - 9.75% 2004	143,967	-	-	-
10.25% -10.75% 2002	-	53,984	-	-
10% 1999 - 2003	1,220	3,305	-	-
11.25% 2011	53,263	51,614	-	-
16.00% - 16.25% 2002	-	13,865	-	-
18.80% 2004	15,000	-	-	-
24% 1999 - 2004	-	248	-	-
25% 1999 - 2003	3,630	9,387	-	-
Jamaica Public Service Company Limited				
14% 1999 - 2003	216	1,002	-	-
Total unsecured loans	<u>217,296</u>	<u>152,405</u>	<u>20,686</u>	<u>39,688</u>
	419,271	296,152	90,657	113,617
Less: current portion	<u>256,894</u>	<u>155,045</u>	<u>45,520</u>	<u>40,564</u>
	<u>162,377</u>	<u>141,107</u>	<u>45,137</u>	<u>73,053</u>
	=====	=====	=====	=====

Included in long term liabilities are the group's obligations under finance leases as follows:

	<u>2002</u>	<u>2001</u>
	<u>\$'000</u>	<u>\$'000</u>
In the year ending 31 December		
2002	-	329
2003	884	634
2004	884	634
2005	716	528
Minimum lease payments	<u>2,484</u>	<u>2,125</u>
Less: future interest payments	<u>(1,071)</u>	<u>(761)</u>
Net obligations under finance lease	1,413	1,364
Less: current portion	<u>(648)</u>	<u>(329)</u>
	<u>765</u>	<u>1,035</u>
	=====	=====

19. Insurance and Banking Reserves

	<u>Insurance</u>	<u>Banking</u>			
	<u>Special</u>	<u>Retained</u>	<u>Statutory</u>	<u>General</u>	
	<u>Reserve</u>	<u>Earnings</u>	<u>Reserve</u>	<u>Reserve</u>	<u>Total</u>
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at beginning of year	84,285	26,692	10,266	1,540	122,783
Transfers	(576)	63,359	12,565	4,770	80,118
Balance at end of year	<u>83,709</u>	<u>90,051</u>	<u>22,831</u>	<u>6,310</u>	<u>202,901</u>
	=====	=====	=====	=====	=====

Insurance

The special reserve is maintained by First Life Insurance Company Limited and 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.

The reserve is non-distributable.

Banking

This represents the amount that Pan Caribbean Merchant Bank Limited is required to set aside under the licence under which it operates and is non-distributable.

The general reserve is maintained by Pan Caribbean Financial Services Limited (formerly Trafalgar Development Bank Limited), a subsidiary of First Life Insurance Company Limited. It represents the capitalisation of grants received from United States Agency for International Development (USAID) and Deutsche Investitions-und Entwicklungsgesellschaft mbH (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

	2002	2001
	\$'000	\$'000
Dividends paid for 2002 of \$0.205 (2001 - \$0.10) per stock unit - gross	35,284	17,149
Dividends proposed for 2002 at \$0.215 (2001 - \$0.16) per stock unit - gross	<u>37,005</u>	<u>27,449</u>
	<u>72,289</u>	<u>44,598</u>
	=====	=====

21. Financial Instruments**(a) Interest rate risk**

The group is exposed to various interest rate risks 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 at 31 December 2002 includes aggregate net foreign assets/(liabilities) of approximately US\$12,829,000 (2001 - US\$8,595,000), EUR 1,030,000 (2001 - EUR 955,000), £(162,000) (2001 - £1,105,000), CAN\$38,000 (2001 - nil) and EC\$134,000 (2001 - EC\$203,000).

(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 obligation 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 financial and other institutions), short 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>2002</u>		<u>2001</u>	
	<u>Carrying Amount \$'000</u>	<u>Fair Value \$'000</u>	<u>Carrying Amount \$'000</u>	<u>Fair Value \$'000</u>
Financial assets				
Investments (excluding NHT, and associated companies)	2,782,609	2,989,247	2,405,351	2,405,351
Other insurance and banking assets (excluding cash resources, receivables, accrued interest, customers' liabilities under guarantees and segregated funds' assets)	1,270,492 =====	1,459,337 =====	1,319,603 =====	1,319,603 =====
Financial liabilities				
Long term liabilities (including current portion)	419,271	419,271	296,152	296,152
Amounts due to financial and other institutions	1,180,683 =====	1,180,683 =====	1,355,825 =====	1,355,825 =====

	<u>The Company</u>			
	<u>2002</u>		<u>2001</u>	
	<u>Carrying Amount \$'000</u>	<u>Fair Value \$'000</u>	<u>Carrying Amount \$'000</u>	<u>Fair Value \$'000</u>
Financial assets				
Investments (excluding NHT)	140,553 =====	150,011 =====	136,971 =====	136,971 =====
Financial liabilities				
Long term liabilities (including current portion)	90,657 =====	90,657 =====	113,617 =====	113,617 =====

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. 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.

22. Borrowings

The interest rate exposure of borrowings are as follows:

	<u>The Group</u>		<u>The Company</u>	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Total borrowings:				
At fixed rates	1,506,173	1,482,599	25,272	45,649
At floating rates	<u>406,203</u>	<u>227,160</u>	<u>65,385</u>	<u>70,543</u>
	<u>1,912,376</u>	<u>1,709,759</u>	<u>90,657</u>	<u>116,192</u>
	=====	=====	=====	=====
	%	%	%	%
Weighted avg. effective interest rates:				
Bank borrowing	11.90	13.42	5.18	5.32
Due to financial and other institutions	10.81	7.53	-	-
Other	14.99	14.01	21.00	21.00
	=====	=====	=====	=====

23. Retirement Benefit Plans

The company and its subsidiaries participate in contributory pension plans administered by First Life Insurance Company Limited. Benefits under the plans are based on the employees' earnings during recognised service.

(a) First Life Insurance Company Limited

The latest actuarial valuation that was carried out at 31 December 1999 revealed that the scheme is adequately funded. The actuary has recommended that the employer contribute at a rate of 5% of members' earnings until the next valuation date. 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 that the scheme is adequately funded.

The actuary has recommended that the employer contribute at a rate of 4% of members' pensionable earnings until the next valuation date. The employees contribute at 5%.

(c) Pan Caribbean Financial Services Limited (formerly Trafalgar Development Bank Limited)

The latest actuarial valuation for the company which was carried out at 31 August 1998 revealed that the scheme is adequately funded. Employer contributions are 5%. The basic employee contribution is 5% and there is an option to make voluntary contributions up to a maximum of an additional 5%.

The latest actuarial valuation for the company's subsidiary, Pan Caribbean Merchant Bank Limited, which was carried out as at 31 December 1999, indicated that the scheme is adequately funded.

(d) Hardware and Lumber Limited and its Subsidiaries

The company and most of its subsidiaries participate in a plan whose benefits are based on 2% of final five years' average salary for each year of service. The latest actuarial valuation, which was carried out at 31 December 2002, indicated that the scheme is adequately funded. The actuary has recommended that the employer contribute at the rate of 4% of members' earnings until the next valuation date. The employees contribute at a rate of 5% of earnings.

One subsidiary, Office Services Limited, participates in a plan whose benefits are based on career earnings. The latest actuarial valuation, which was carried out as at 31 December 2002, indicated that the scheme is adequately funded.

During the year contributions made by the group were \$11,020,000 (2001 - \$12,577,000) and by the company were \$2,873,000 (2001 - \$2,199,000).

24. Contingencies

(a) Trafalgar Commercial Bank Limited, a former subsidiary of Trafalgar Development Bank Limited has been sued by two of its customers who have alleged that they are not indebted to the subsidiary and have sought declarations to that effect. The suit claims unquantified damages for fraud and breach of contract.

The subsidiary has filed a defence to the claim, denied the allegations and counter-claimed for the debt owing. A trial date has not been set.

The former subsidiary's lawyers are unable to provide a meaningful opinion as to the prospects of success for the subsidiary, as it will depend on oral evidence given at the trial, and the judge's opinion as to the truth of that evidence.

(b)One of the subsidiaries is involved in certain legal proceedings incidental to the normal conduct of business. Management believes that none of these proceedings, individually or in aggregate, will have a material effect on the company.

25. Off Balance Sheet Activities

(a) Assets under management

Assets under management, which are not beneficially owned by the group, but which are managed 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>31 December 2002</u>		<u>31 December 2001</u>	
	<u>Carrying</u>	<u>Fair Value</u>	<u>Carrying</u>	<u>Fair value</u>
	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Financial Assets				
Cash resources	941,210	941,210	827,697	827,697
Investments	12,421,063	12,368,544	9,723,704	9,819,584
Loans and leases	143,030	188,882	171,448	171,448
Equity investment	68,485	68,485	61,855	61,855
Interest and other receivables	724,963	724,963	613,408	613,408
	<u>14,298,751</u>	<u>14,292,084</u>	<u>11,398,112</u>	<u>11,493,992</u>
	=====	=====	=====	=====

(b) Custody and trust assets

These represent real estate, fixed income and equity investments, which are not beneficially owned by the group. At balance sheet date, the book value of these assets totalled approximately \$3,521,104,000 (2001 - \$3,395,595,000)