LIFE OF JAMAICA LIMITED 1998

Notes to Consolidated Financial Statements

December 31, 1998

1. The company

The company is incorporated under the Laws of Jamaica.

Its principal activities are the underwriting of long term life insurance and health insurance business and the management of superannuation funds. The company and its subsidiaries are collectively referred to as "the group". The principal activities of the subsidiaries are detailed in note 7. These financial statements are presented in Jamaica dollars.

2. Significant accounting policies

(a) Accounting convention:

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

(b) Basis of consolidation:

The consolidated financial statements include the financial statements of the company and its subsidiaries made up to December 31, 1998. Reserves arising on consolidation are taken direct to investment reserves.

All significant intercompany transactions are eliminated.

(c) Investments:

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

(i) Investments in subsidiaries and associated companies are recorded on the equity basis [see notes 7(b) and 8(b)].

(ii) Real estate investments are stated at open market values, determined by Chartered Surveyors or with reference to anticipated sales proceeds, if lower.

(iii) Mortgages and interest bearing loans are stated at cost, less provision for losses as appropriate.

(iv) The company's government and other fixed interest securities, unquoted securities, interest bearing deposits and unquoted equities are stated at cost, except where they form part of unit linked policyholders' funds. Government and other fixed interest securities of the life insurance subsidiaries are stated at amortised cost.

(v) Unit Trust holdings are stated at redemption value.

(vi) Quoted equities are stated at market value.

(vii) All unit-linked policyholder investments are stated at market value.

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

(d) Unit-linked investments:

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

(e) Investment reserves:

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

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

(f) Reinsurance ceded:

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

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

(g) Depreciation:

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

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

No depreciation is charged in respect of:

Freehold land
Properties held as investments [note 2(c) ii]

(h) Prepaid commissions:

Commissions paid prior to December 31, 1998 in respect of premiums due for payment subsequent to that date are deferred. These commissions are written off over the first year of each policy during which time they are recoverable, should the policies be lapsed.

(i) Actuarial valuation:

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

An actuarial valuation is prepared annually.

(j) Policy benefits:

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

(k) Provisions for loan losses:

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

(l) Interest:

Interest income is recorded on the accrual basis.

(m) Foreign currencies:

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

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

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

3. Share capital

	Thousands of Dollars			
	1998		1997	
	Authorised	Issued	Authorised	Issued
Ordinary shares, converted and issued as stock units, of 10¢ each	54,081	54,081	54,081	54,081
Preference shares (redeemable cumulative):				
8.17% "A" shares of $1 each	1,700	-	1,700	-
8.17% "B" shares of $1 each	300	-	300	-
10.37% "C" shares of $1 each	975	-	975	228
10.37% "D" shares of $1 each	175	-	175	-
12.5% shares of $1 each	1,056,684	1,056,684	1,056,684	1,056,684
	1,113,915	**1,110,765**	**1,113,915**	**1,110,993**

The 10.37% "C" cumulative redeemable preference shares, which were redeemable by year 2000 at an annual amount of $57,500, were redeemed in full on March 8, 1998.

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

4. Share premium

The share premium arose on the issue of 143,316,330 ordinary stock units at a premium of 90 cents per stock unit.

5. Superannuation funds

Amounts totalling approximately $11,257,000,000 at December 31, 1998 (1997: $11,974,000,000) which are managed by the company under the Pooled Pension Investment Funds are not included in these financial statements.

6. Other liabilities

(a) The other liabilities are as follows:

	Thousands of Dollars			
	The Company		The Group	
	1998	1997	1998	1997
Benefits payable to policy holders	354,766	307,069	521,910	701,938
Bank loans and overdrafts [see note 6(b)]	62,072	222,953	173,101	317,609
Miscellaneous	174,571	631,500	445,416	917,588
Premiums not applied	210,457	102,318	236,302	106,098
Reinsurance payable	27,198	53,482	90,232	76,023
Short term loans	803,639	852,603	803,639	837,588
Shareholders' dividends	2,812	2,421	2,812	2,421
	1,635,515	**2,172,346**	**2,273,412**	**2,959,265**

(b) Bank loans and overdrafts

These include the following:

	Thousands of Dollars			
	The Company		The Group	
	1998	1997	1998	1997
Bank loans (i)	-	-	49,943	50,493
Mortgage loan (ii)	-	-	26,141	26,765
	-	-	**76,084**	**77,258**

(b)
The loan is denominated in United States dollars and is repayable over ten years. The loan bears interest at prime rate plus 1.75% per annum. It is secured on real estate included in investment properties at a value at $94,257,592.

(ii) This loan is denominated in United States dollars and is repayable over 10 years. The loan bears interest at 10% per annum. It is secured on real estate included investment properties at a value of $43,778,721.

7. Investment in subsidiaries

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

		Proportion of issued equity capital held by	
Names of companies	Principal activities	Company	Subsidiaries
Incorporated in Jamaica:			
LOJ Property Management Ltd.	Property management	100%	
Incorporated in Grand Cayman:			
Global Life Assurance Company Limited	Life insurance	100%	

Incorporated in Puerto Rico:			
Atlantic Southern Insurance Company	Life insurance		92%
Incorporated in The Bahamas:			
Global Bahamas Holdings Limited	Holding company	53%	
Global Life Assurance Bahamas Limited	Life Insurance		53%

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

	Thousands of Dollars 1998	1997
Shares of equity, net of dividends paid from pre-acquisition profits	463,769	444,386
Loans and current accounts	71,985	13,364
	535,754	**457,750**

(c) Global Life Assurance Company Limited has made a loan of US$2.1 million to Atlantic Southern Insurance Company (ASICO) as capital support, at the request of the regulatory authority in Puerto Rico. The loan is repayable out of the subsidiary's surplus funds provided the payment does not reduce the surplus available for its policyholders below the amount required by law or necessary to continue operations. All repayments of interest and principal require the approval of the regulatory authority.

ASICO has incurred recurring operating losses from 1995 to 1998 and has been supported by Global Life Assurance Company to the extent of the loan referred to above. The auditors of the subsidiary have expressed concern about the company's ability to continue as a going concern. Its continuation as a going concern depends on the results of its effort to attain future profitability and the continued financial support of its immediate parent company. (Note 17).

(c) Global Life Assurance Company's investment in ASICO is carried at $423,745,754 (1997: $369,661,171).

8. Investment in associated companies

Name of companies	Principal activity	Equity capital held by Company
Incorporated in Jamaica		
St. Andrew Developers Limited	Real Estate	33.3%
Lested Developments Limited	Operation of a child care centre	35%

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

	Thousands of Dollars	
	The Company 1998	The Group 1997
Shares, at cost	2	2
Share of post acquisition reserves	(558)	(596)
Loans and current accounts	6,735	10,979
	6,179	10,385

(c) The statement of operations includes the group's share of losses of St. Andrew Developers Limited based on the unaudited financial statements for the year to December 31, 1998. The results of this associate are insignificant to the group.

9. Fixed assets

Thousands of Dollars

The Company:

	Freehold land and buildings	Leasehold Improvements	Furniture fixtures & equipment	Motor vehicles	Total
At cost:					
December 31, 1997	1,945	11,245	258,645	48,398*	320,233
Additions	-	-	362,532	3,749	366,281

Disposals	-	-	(11,739)	(9,830)	(21,569)
December 31, 1998	1,945	11,245	609,438	42,317	664,945
Accumulated depreciation:					
December 31, 1997	456	4,555	154,639	29,852	189,502
Charge for the year	98	953	131,390	7,531	139,972
Eliminated on disposals	-	-	(11,049)	(9,285)	(20,334)
December 31, 1998	554	5,508	274,980	28,098	309,140
Net book values:					
December 31, 1998	1,391	5,737	334,458	14,219	355,805
December 31, 1997	1,489	6,690	104,006	18,546*	130,731

Thousands of Dollars

The Group:

	Freehold land and buildings	Leasehold Improvements	Furniture fixtures & equipment	Motor vehicles	Total
At cost or valuation:					
December 31, 1997	1,945	31,294*	418,398*	59,722*	511,359*
Translation adjustment		246	1,864	84	2,194
Additions	-	612	370,081	6,812	377,505
Disposals	-	(5,392)	(12,189)	(10,521)	(28,102)
December 31, 1998	1,945	26,760	778,154	56,097	862,956
Accumulated depreciation:					
December 31, 1997	456	15,611*	239,581*	36,878*	292,526*
Translation adjustments	-	131	1,002	55	1,188
Charge for the year	97	3,745	153,195	9,410	166,447
Eliminated on disposals	-	(2,648)	(11,155)	(9,485)	(23,288)
December 31, 1998	553	16,839	382,623	36,858	436,873
Net book values:					
December 31, 1998	**1,392**	**9,921**	**395,531**	**19,239**	**426,083**
December 31, 1997	**1,489**	**15,683***	**178,817***	**22,844***	**218,833**

Furniture, fixtures and equipment includes systems development cost of $303,374,171 which was transferred from deferred expenses during the year.

Freehold land and buildings include freehold land at cost of $172,000 (1997: $172,000) for the company and $172,000 (1997: $172,000) for the group.

* Reclassified to conform with 1998 presentation.

10. Other assets

(a) The other assets are as follows:

	Thousands of Dollars			
	The Company		The Group	
	1998	1997	1998	1997
Bank and cash balances	18,706	30,958	217,937	150,159
Deferred expenses [see note 10(b)]	46,715	305,603	51,271	319,559
Goodwill [see note 10(c)]	18,310	20,782	140,092	166,906
Other receivables	500,149	788,898	991,865	1,341,317
Premiums due and unpaid	205,682	165,122	283,591	269,843
Prepaid commission	39,978	44,284	39,978	44,284
Taxation recoverable	11,588	-	11,722	133
	841,128	**1,355,647**	**1,736,456**	**2,292,201**

(b) Deferred expenses:

	Thousands of Dollars			
	The Company		The Group	
	1998	1997	1998	1997
Re-engineering project in progress 1997/2001	23,362	34,302	23,362	34,302*
Systems development in progress 1998/2003	23,353	259,010	27,909*	268,008*
Portfolio acquisition costs 1997/1998	-	12,291	-	12,291
Subsidiaries' pre-incorporation costs 1993/1998	-	-	-	4,958
	46,715	305,603	51,271	319,559

*Reclassified to conform with 1998 presentation.

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

(c) Goodwill:

This arose on the purchase on an insurance portfolio and is scheduled for write off in equal instalments by 2004.

The balance at December 31, 1998 includes translation adjustments of $1,894,000 (1997: $6,592,000), for the group.

11. Provision for future policy benefits

	Thousands of Dollars			
	The Company		The Group	
	1998	1997	1998	1997
Balance at beginning of year	2,756,683	3,212,274	6,883,640	7,035,696
Foreign exchange adjustment	-	-	53,499	178,825
Decrease in provision	(359,038)	(455,591)	(341,730)	(330,881)
Net adjustment for the year	(359,038)	(455,591)	(288,231)	(152,056)
Balance at end of year	2,397,645	2,756,683	6,595,409	6,883,640

Reinsurance ceded:

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

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

12. Taxation

Taxation comprises:

	Thousands of Dollars	
	1998	1997
Premium tax	30,459	27,175
Investment Income tax	28,246	-
Prior year over provision	(2,683)	-
	56,022	27,175

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

Investment income tax at 7.5% is payable on net investment income of the company adjusted for taxation purposes. Income tax is payable at 33 1/3% on profits of non life insurance subsidiaries adjusted for taxation purposes.

Losses available for offset against future taxable income, subject to the agreement of the Commissioner of Income Tax, amount to Nil (1997: $1,209,000) for the company and $2,300,000 (1997: $1,498,000) for the group.

13. Extraordinary income

	Thousands of Dollars	
	1998	1997
Profit on sale of subsidiary	-	253,024
Gain on sale of shares in subsidiary	13,440	-
Profit on sale of subsidiary's portfolio	5,001	-
Surplus pension contributions, net of Investment income tax [Note 18 (i)]	68,425	-
	86,866	253,024

14. Disclosure of expenses

	Thousands of Dollars 1998	1997
Directors' remuneration - fees	12,760	2,085
- for management	23,802	11,834
Depreciation	166,447	71,314
Auditors' remuneration - current year	19,616	18,063
- prior year	(120)	901
Deferred expenses amortised	17,013	71,104
Goodwill amortised	35,389	32,860
Corporate office reimbursements, related company	1,552	36,298
Redundancy	**15,517**	**1,563**

(b) Dividends

Arrears of preference dividends to FINSAC Limited for one year to December 31, 1998 amounted to $132,085,000.

When preference share dividends are in arrears for twelve months the holder is entitled to receive notice of and to attend and vote at any general meeting of the company.

15. (Loss)/profit per ordinary stock unit

The calculation of (loss)/profit per stock unit is based on losses before and profit after extraordinary income as shown below and on the 540,816,330 ordinary stock units in issue during the year (1997: weighted average of 402,211,770 units).

	Thousands of Dollars 1998	1997
Losses after preference dividends and before extraordinary income	(69,429)	(160,911)
Profits after extraordinary income	17,344	92,113

16. Related party balances and transactions

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

[i] Investments, other assets and other liabilities:

	Thousands of Dollars			
	The Company		The Group	
	1998	1997	1998	1997
Other assets:				
Current account, related party	667	-	667	-
Surplus pension contribution receivable, related party	70,000	-	70,000	-
Related party - other	15,926	29,253	15,926	29,253
Related companies (note [ii])	107,689	108,953	107,689	108,953
Short term loan receivable: subsidiary	2,103	-	-	-
	196,385	**138,206**	**194,282**	**138,206**

[i] Investments, other assets and other liabilities:

	Thousands of Dollars			
	The Company		The Group	
	1998	1997	1998	1997
Other liabilities:				
Related companies	5,623	4,190	5,623	4,190
Subsidiaries	-	1,419	-	-
Current account, related party	-	73,591	-	73,591
Related party - other	8,311	44,764	8,311	44,764
Short term loan payable:				
Subsidiary	-	1,316	-	-
Related companies	127,775	114,873	127,775	114,873
	141,709	240,153	141,709	237,418

[ii] Related companies:

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

[iii] Transactions:

The financial statements include the following transactions with related parties:

	Thousands of Dollars			
	The Company		The Group	
	1998	1997	1998	1997
Life of Jamaica Pooled Pension Investment Funds				
Investment management fees	111,194	114,347	111,194	114,347
Administration fees	41,208	61,595	41,208	61,595
Property rental	33,197	31,952	33,197	31,952
Sale of FINSAC Limited promissory notes*	389,768	-	389,768	-
Interest received	185	-	185	-
Interest paid	-	9,779	-	9,779
Subsidiaries:				
Interest paid	4,832	7,056	-	-
Lease rental	1,098	1,997	-	-
Interest received	4,025	4,025	-	-
Related companies				
Interest received	101	-	101	-
Interest paid	28,733	24,664	9,603	24,664
Lease rental income	261	3,083	261	3,083

*The price at which the notes were sold was based on an independent valuation.

17. Contingent liabilities and commitments

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

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

[ii] Quantified claims amounting to approximately $48,000,000 (1997:$48,000,000) against the company and the group have been filed.

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

[iv] Global Life Assurance Company Limited has committed itself to providing funds necessary to cover any capital deficiency of Atlantic Southern Insurance Company at December 31, 1998, as determined by the regulatory authorities in Puerto Rico. The amount so determined is US$223,000 (J$8,278,482). (Note 7c).

18. Pension schemes

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

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

The residual surplus in the scheme totalling $70,000,000 gross, after the enhancement of benefits and a 10% contingency reserve were provided, were repatriated to the company. (Note 13).

(ii) Global Bahamas Holdings Limited operates two contributory pension schemes for employees in The Bahamas. One scheme covers all administrative employees and is a defined benefit plan, and the other covers all agents and has two segments:

(a) A money purchase plan in respect of the members' own contributions, and

(b) A defined benefit plan with benefits paid for by the employer.

The money purchase benefits vest immediately while the defined benefits vest fully after ten years. An actuarial valuation at December 31, 1995 revealed adequate funding.

(iii) Atlantic Southern Insurance Company Limited operates its own defined benefit non-contributory pension plan covering substantially all its employees who become 100% vested after five years of credited service. The plan is valued annually and the actuarial valuation at December 31, 1998 revealed adequate funding.

Contributions for the year were $13,625,908 (1997: $16,705,517) for the company and $16,705,517 (1997: $27,212,066) for the group.

19. Year 2000

The year 2000 issue arises because many computerised systems use two digits rather than four to identify a year. Date-sensitive systems may recognise the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the year 2000 issue may be experienced before, on or after January 1, 2000. If the issue is not adequately addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which might affect the company's ability to conduct normal business operations. The issue is being addressed by the management, however, it's not possible to be certain that all aspects of the Year 2000 issue affecting the company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.