

FIRST LIFE INSURANCE COMPANY 2000

Notes to the Financial Statements

31 December 2000

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:

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

Proportion of issued equity capital held by

Principal Activities Company Subsidiaries

Associated Companies

St Andrew Developers Limited	Property Development	33 1/3%	33 1/3%
Impan Properties Limited	Office Rental		20%
Knutsford Holdings Limited	Office Rental		28%
Trafalgar Development Bank Limited	Development Banking	29%	29%

During the year, the company increased its 15% holding in Trafalgar Development Bank Limited to 29% through the acquisition of additional shares, including the 5% holding of one of its subsidiaries.

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 on the equity method.

(e) Financial instruments

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

The fair values of the group's financial instruments are discussed in Note 25.

(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 is 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 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% & 12 1/2%
Equipment	10%
Computer hardware & software	20%
Leased assets	Life of lease
Motor vehicles	14.29% & 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. 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.

(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 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 statement of operations.

3. Income - Insurance

	The Group and The Company	
	2000	1999
	\$'000	\$'000
Premiums, net	1,304,882	1,004,637
Investments, net	285,674	203,696
Other	31,916	15,927
	<u>1,622,472</u>	<u>1,224,260</u>

4. Policyholder Benefits and Reserves

	The Group and The Company	
	2000	1999
	\$'000	\$'000
Policyholders' benefit payments	890,016	831,379
Deposit administration fund withdrawals	36,048	52,966
Change in reserves for future:		
Policyholders' benefits	129,856	(51,668)
Deposit administration fund benefits	177,018	126,687
	<u>306,874</u>	<u>75,019</u>
	<u>1,232,938</u>	<u>959,364</u>

5. Taxation

The taxation charge for the year is comprised of:

	The Group		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Premium tax at 1 1/2%	7,732	4,405	7,732	4,405
Investment income tax at 7 1/2 %	20,633	10,996	20,633	10,996
Income tax at 33 1/3%	<u>5,036</u>	<u>9,380</u>	<u>-</u>	<u>-</u>
	33,401	24,781	28,365	15,401
Stamp duties	<u>71</u>	<u>5,254</u>	<u>71</u>	<u>5,254</u>
	<u>33,472</u>	<u>30,035</u>	<u>28,436</u>	<u>20,655</u>

Subject to agreement with the Commissioner of Income Tax, the group has losses available for offset against future taxable profits amounting to approximately \$16,206,000 (1999 - \$10,563,000).

6. Net Profit

	2000	1999
	\$'000	\$'000
(a) This is stated after charging/(crediting):		
Directors' emoluments -		
Fees	118	71
Management remuneration (included in staff costs)	15,510	13,440
Auditors' remuneration -		
Current year	6,127	5,843
Prior year	(273)	(260)
Depreciation	15,845	14,282
Provision for credit losses	2,200	1,500
Amortisation of deferred expenses	15,884	9,539
Amortisation of goodwill	11,018	4,679
Staff costs (Note 7)	170,616	145,132
Gain/(loss) on foreign exchange	24,922	(5,277)
Interest income	(294,148)	(216,008)
Interest expense -		
Bank and other	36,864	28,508
Holding company	<u>2,016</u>	<u>3,503</u>
	<u>38,880</u>	<u>32,011</u>

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

The holding company	200,642	167,676
The subsidiaries	<u>65,193</u>	<u>37,694</u>
	<u>265,835</u>	<u>205,370</u>

7. Staff Costs

	The Group		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Wages and salaries	123,346	102,304	76,771	63,300
Statutory contributions	11,064	8,872	7,411	6,177
Pension costs	3,845	5,589	2,062	1,738
Other	<u>32,361</u>	<u>28,367</u>	<u>11,401</u>	<u>9,514</u>
	<u>170,616</u>	<u>145,132</u>	<u>97,645</u>	<u>80,729</u>
Average number of employees:				
	No.	No.	No.	No.
Regular	208	196	138	131
Contract	<u>2</u>	<u>2</u>	<u>-</u>	<u>-</u>
	<u>210</u>	<u>198</u>	<u>138</u>	<u>131</u>

8. Earnings Per Stock Unit

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

	The Group	
	2000	1999
Net profit attributable to stockholders (\$'000)	265,835	205,370
Weighted average number of ordinary stock units ('000)	300,000	300,000
Basic earnings per stock unit	<u>\$0.89</u>	<u>\$0.68</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.

	The Group	
	2000	1999
Net profit attributable to stockholders (\$'000)	265,835	205,370
Interest earned on income from conversion (net of tax) (\$'000)	<u>666</u>	<u>-</u>
Net profit used to determine fully diluted earnings per share (\$'000)	<u>266,501</u>	<u>205,370</u>
Weighted average number of ordinary stock units ('000)	300,000	300,000
Adjustment for assumed conversion of share options ('000)	<u>2,000</u>	<u>-</u>
Weighted average number of ordinary stock units for fully diluted earnings per share ('000)	<u>302,000</u>	<u>300,000</u>
Fully diluted earnings per stock unit	<u>\$0.88</u>	<u>\$0.68</u>

9. Fixed Assets

	The Group					
	Assets					
	Leasehold	Furniture,	Capitalised	Motor	Capital	Total
	Improvements	Fixtures & Equipment	under Finance Leases	Vehicles	Work in Progress	\$'000
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At Cost-						
1 January 2000	13,128	145,917	2,597	18,932	27,133	207,707
Additions	1,683	20,053	894	1,184	-	23,814
Reclassifications/ transfers	-	4,677	-	(4,677)	(9,367)	(9,367)
Disposals	(1,683)	(5,935)	-	(207)	-	(7,825)
31 December 2000	<u>13,128</u>	<u>164,712</u>	<u>3,491</u>	<u>15,232</u>	<u>17,766</u>	<u>214,329</u>
Depreciation -						
1 January 2000	11,624	63,895	1,797	10,008	-	87,324

Charge for the year	1,430	12,702	461	1,252	-	15,845
Reclassifications/ transfers	-	128	-	(128)	-	-
Relieved on disposals	(67)	(506)	-	(141)	-	(714)
31 December 2000	12,987	76,219	2,258	10,991	-	(102,455)
Net Book Value -						
31 December 2000	141	88,493	1,233	4,241	17,766	111,874
31 December 1999	1,504	82,022	800	8,924	27,133	120,383

The Company

	Leasehold Improvements \$'000	Furniture Fixtures \$'000	Computer Hardware & Software \$'000	Motor Vehicles \$'000	Total \$'000
At Cost -					
1 January 2000	13,528	8,889	37,509	6,581	66,507
Additions	-	1,020	4,981	900	6,901
Reclassification	-	-	77	(77)	-
31 December 2000	13,528	9,909	42,567	7,404	73,408
Depreciation -					
1 January 2000	11,624	4,674	16,608	2,118	35,024
Charge for the year	1,362	879	3,667	1,125	7,033
31 December 2000	12,986	5,553	20,275	3,243	42,057
Net Book Value -					
31 December 2000	542	4,356	22,292	4,161	31,351
31 December 1999	1,904	4,215	20,901	4,463	31,483

10. Goodwill

	The Group and The Company \$'000
Balance at 31 December 2000	67,088
The Group and Amortised during the year	9,055
Balance at 31 December 2000	<u>(11,018)</u>
	<u>65,125</u>

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.

11. Investment in Subsidiaries and Associated Companies

	The Group		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Subsidiary companies -				
At valuation				
Jamaica Property Company Limited	-	-	1,425,867	1,385,960
Pan Caribbean Merchant Bank Limited	-	-	212,010	101,922
Portfolio Partners Limited	-	-	<u>(3,928)</u>	<u>(3,325)</u>
	<u>-</u>	<u>-</u>	<u>1,633,949</u>	<u>1,484,557</u>
Associated companies -				
St Andrew Developers Limited				
Shareholding at cost	266	266	133	133
Share of losses	(8,003)	(10,010)	(4,816)	(4,900)
Current account	4,855	5,989	733	733
	<u>(2,882)</u>	<u>(3,755)</u>	<u>(3,950)</u>	<u>(4,034)</u>

	The Group		The Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Impan Properties Limited				
Shareholding at cost	20	20	-	-
Share of profit	93	122	-	-
Share of capital reserve	7,945	7,945	-	-
Current account	<u>(8,985)</u>	<u>(9,044)</u>	<u>-</u>	<u>-</u>
	<u>(927)</u>	<u>(957)</u>	<u>-</u>	<u>-</u>
Knutsford Holdings Limited				
Shareholding at cost	1	1	-	-
Share of profit	1,224	1,210	-	-
Share of capital reserve	38,038	33,220	-	-
Current account	<u>9,195</u>	<u>9,702</u>	<u>-</u>	<u>-</u>
	<u>48,458</u>	<u>44,133</u>	<u>-</u>	<u>-</u>
Trafalgar Development Bank Limited				
Shareholding at cost	70,032	46,677	70,032	-
Share of (losses)/profit	<u>(18,280)</u>	<u>2,564</u>	<u>(20,494)</u>	<u>-</u>
	<u>51,752</u>	<u>49,241</u>	<u>49,538</u>	<u>-</u>
	<u>96,401</u>	<u>88,662</u>	<u>1,679,537</u>	<u>1,480,523</u>

12. Investments

	The Group		The Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Real estate	1,507,459	1,479,117	-	-
Property development in progress	16,500	16,500	-	-
Equity investments	55,781	50,555	55,781	50,555
Assets held under repurchase agreements	406,729	72,938	366,329	72,938
Mortgages	20,457	23,215	20,257	23,015
Quoted securities	65,667	30,025	64,815	63,017
Unquoted securities	7,231	2,943	181	181
Government of Jamaica and other securities	1,792,502	1,491,975	1,519,184	1,356,425
Loans on policies	29,082	27,023	29,082	27,023
Loans and leases	244,257	224,241	360,632	313,520
Deposits	3,136	22,365	3,136	22,365
	<u>4,148,801</u>	<u>3,440,897</u>	<u>2,419,397</u>	<u>1,929,039</u>

(a) Real estate were valued at current market value as at 31 December 2000 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:

	The Group		The Company	
	2000	1999	2000	1999
Minimum lease payments receivable less provision for losses	72,782	60,282	34,727	29,533
Less unearned finance income	(20,461)	(18,204)	(7,776)	(8,472)
	<u>52,321</u>	<u>42,078</u>	<u>26,951</u>	<u>21,061</u>

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

	The Group		The Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
2000	-	29,389	-	13,023
2001	32,394	16,677	18,559	7,823
2002	19,419	9,159	8,414	4,373
2003	11,171	2,919	5,096	2,171
2004	6,457	1,782	2,477	1,782
2005	3,341	356	181	356
	<u>72,782</u>	<u>60,282</u>	<u>34,727</u>	<u>29,533</u>

13. Other Assets

	The Group		The Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Premiums receivable	86,378	86,162	86,378	86,162
Due from salesmen	3,033	1,270	3,033	1,270
Prepaid commissions	1,253	1,540	1,253	1,540
Accrued interest	126,006	87,819	111,290	106,972
Other receivables	94,106	66,123	50,331	31,824
Taxation recoverable	82,316	18,316	69,837	17,211
Deferred expenses	20,656	26,749	7,964	11,783
Inventories	3,192	2,786	-	-
Customers' liabilities under guarantees	56,121	286,053	-	-
Cash at bank and in hand	<u>155,188</u>	<u>141,244</u>	<u>46,912</u>	<u>54,010</u>
	<u>628,249</u>	<u>718,062</u>	<u>376,998</u>	<u>310,772</u>

Cash at bank and in hand includes a subsidiary's statutory cash reserve with the Bank of Jamaica amounting to \$12,631,000 (1999 - \$13,807,000). This amount is held on a non-interest bearing basis and is not available for investment or use by the subsidiary.

14. Share Capital

	2000	1999
	\$'000	\$'000
Authorised:		
Ordinary shares of \$1 each	307,000	307,000
"C" 8 1/2% Cumulative Redeemable Preference Shares of \$1 each	1,403	1,403
"D" 8 1/2% Cumulative Redeemable Preference Shares of \$1 each	<u>1,597</u>	<u>1,597</u>
	<u>310,000</u>	<u>310,000</u>
Issued and fully paid:		
Ordinary stock units of \$1 each	<u>300,000</u>	<u>300,000</u>

15. Share Premium

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

	2000	1999
	\$'000	\$'000
1987 and prior years	6,570	6,570
1993	<u>43,153</u>	<u>43,153</u>
	<u>49,723</u>	<u>49,723</u>

16. Capital Redemption Reserve

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

17. Insurance and Banking Reserves

	Insurance Special Reserve \$'000	Banking Retained Earnings Reserve \$'000	Banking Reserve Fund \$'000	Total \$'000
Balance at beginning of year	100,206	7,974	19,116	127,296
Transfers	<u>3,480</u>	<u>-</u>	<u>16,603</u>	<u>20,083</u>
Balance at end of year	<u>103,686</u>	<u>7,974</u>	<u>35,719</u>	<u>147,379</u>

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

18. Dividends

	2000 \$'000	1999 \$'000
Dividends paid for 2000 at J\$0.03 (1999 - nil) per stock unit - gross	9,000	-
Dividends proposed for 2000 at J\$0.085 (1999 - nil) per stock unit - gross	<u>25,500</u>	<u>-</u>
	<u>34,500</u>	<u>-</u>

19. Reserve for Future Policyholders' Benefits

	The Group and The Company	
	2000 \$'000	1999 \$'000
Balance at start of year	894,169	386,354
Benefit reserve of acquired portfolios	-	559,483
Increase/(decrease) in reserves	<u>129,856</u>	<u>(51,668)</u>
Balance at end of year	<u>1,024,025</u>	<u>894,169</u>

Represented by:		
Ordinary life	182,403	169,078
Annuities	59,247	35,016
Group life and health	209,893	224,772
Equity fund	12,354	9,060
Opportunity fund	79,356	78,325
Money market fund	12,471	9,183
Real estate fund	21,838	23,680
Farmers' plan	6,917	6,177
Creditor and mortgage life	177,994	129,732
Group investment funds	<u>261,552</u>	<u>209,146</u>
	<u>1,024,025</u>	<u>894,169</u>

20. Due (from)/to Holding Company and Subsidiaries

	The Group		The Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Holding company:				
Current account	7,603	11,431	(387)	(160)
Subsidiaries:				
Portfolio Partners Limited	-	-	6,837	5,901
Pan Caribbean Merchant Bank Limited	-	-	(61)	(60)
Jamaica Property Company Limited	-	-	(47,819)	(501)
	-	-	<u>(41,043)</u>	<u>5,340</u>
	<u>7,603</u>	<u>11,431</u>	<u>(41,430)</u>	<u>5,180</u>

21. Long Term Loans

	Rate %	Repayable	The Group		The Company	
			2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Secured -						
Citibank N.A. (US\$110,000)	12	2001	5,003	9,101	5,003	9,101
Citibank N.A. (US\$1,000,000)	11.25	2004	45,487	-	45,487	-
Unsecured -						
George & Branday Limited	21	2004	1,542	2,882	1,542	2,882
Consortium loan (US\$65,000)	11	2001	2,940	2,618	2,940	2,618
Other loan	14.55	2002	1,786	1,313	-	-
Consortium Loan	24	2002	1,105	1,785	1,105	1,785
Office and Secretarial Services Limited	14.50	2004	11,378	-	11,378	-
Consortium Loan	25	2003	<u>15,715</u>	<u>20,000</u>	<u>-</u>	<u>-</u>
			84,956	37,699	67,455	16,386
			(41,186)	(5,714)	(34,865)	-
Current portion			<u>43,770</u>	<u>31,985</u>	<u>32,590</u>	<u>16,386</u>

22. Other Liabilities

	The Group		The Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Bank overdrafts	17,180	38,724	11,399	29,274
Benefits payable to policyholders	13,640	11,260	13,640	11,260
Premiums received in advance	6,206	13,678	6,206	13,675
Other liabilities and accrued expenses	137,668	86,509	91,545	55,102
Taxation payable	1,640	18,021	-	12,410
Dividends payable	23,587	-	23,587	-
Amounts due to other banks	137,643	169,850	-	-
Customers' liabilities under guarantees	56,121	286,053	-	-
Customers' deposits and savings accounts	164,331	86,195	-	-
Short term loans	14,959	-	14,959	-
Current portion of long term loan	<u>41,186</u>	<u>5,714</u>	<u>34,865</u>	<u>-</u>
	<u>614,161</u>	<u>716,004</u>	<u>196,201</u>	<u>121,721</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 26.75% and 29.5% (1999 - 29.25% - 30.25%).

(b) Interest rates on short term loans range between 10.25% and 20%.

23. Related Party Transactions and Balances

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

	2000 \$'000	1999 \$'000
Management and other fees paid to holding company	3,493	4,300
Leases with holding company and fellow subsidiaries	477	1,336
Loans to holding company and fellow subsidiaries	26,962	28,366
Loan from holding company	<u>4,334</u>	<u>4,735</u>

The group, in the normal course of business, offers financial services to fellow subsidiaries.

(b) A subsidiary has pledged certain of its freehold land and buildings as security for First Mortgage Debenture Stocks issued by the ultimate holding company under a joint trust deed. At 31 December 2000 the balance outstanding was \$4,334,000 (1999- \$4,735,000).

24. 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. At balance sheet date, the book value of these assets amounted to \$8,928,106,000 (1999 - \$5,021,806,000).

25. 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 2000 includes aggregate net foreign liabilities of approximately US\$810,000 (1999 - US\$1,467,000) in respect of transactions arising in the ordinary course of business.

(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 contracts 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:

	The Group			
	2000 Carrying Amount \$'000	Fair Value \$'000	1999 Carrying Amount \$'000	Fair Value \$'000
Financial assets				
Investments (excluding equity investments, deposits, real estate, assets held under repurchase agreements and property development in progress)	2,159,196	2,159,196	1,799,422	1,799,422
Financial liabilities				
Long term loans (including current portion)	84,956	84,956	37,699	37,699
Due to holding company	7,603	7,603	11,431	11,431
Amounts due to other banks	<u>137,643</u>	<u>137,643</u>	<u>169,850</u>	<u>169,850</u>
	The Company			
	2000 Carrying Amount \$'000	Fair Value \$'000	1999 Carrying Amount \$'000	Fair Value \$'000
Financial assets				
Investments (excluding deposits, assets held under repurchase agreements and equity investments)	1,994,151	1,994,151	1,783,181	1,783,181
Due from holding company and subsidiaries	<u>41,430</u>	<u>41,430</u>	<u>-</u>	<u>-</u>
Financial liabilities				
Due to holding company and subsidiaries	-	-	5,180	5,180
Long term loans (including current portion)	<u>67,455</u>	<u>67,455</u>	<u>16,386</u>	<u>16,386</u>

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.

26. Borrowings

The interest rate exposure of borrowings is as follows:

	The Group		The Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Total borrowings				
At fixed rates	160,587	178,621	28,844	13,768
At floating rates	<u>94,151</u>	<u>67,652</u>	<u>53,570</u>	<u>2,618</u>
	<u>254,738</u>	<u>246,273</u>	<u>82,414</u>	<u>16,386</u>

	%	%	%	%
Weighted average effective interest rates:				
Due to banks and other financial institutions	9.95	9.34	-	-
Bank borrowing	14	18.76	11.60	12
Other	14.28	8	14	19.56

27. 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) Pan Caribbean Merchant Bank Limited

Based on the latest actuarial valuation which was carried out at 31 December 1995, the scheme is adequately funded. The employer contributes at 3.3% and the employees at 5% of pensionable earnings. The valuation effective 31 December 1998 has not been completed.

28. Subsequent Event

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 was transferred to Trafalgar Development Bank Limited (TDB) in exchange for 140,613,376 ordinary shares of \$1.00 each in TDB. As a result, the company now holds 68% of the issued share capital of TDB.

29. Comparative Information

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