

FIRST LIFE INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2002

1 Identification and Activity

The company is a 74% 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, associated companies and joint venture partnership, which are incorporated and resident in Jamaica, are as follows:

	Principal Activities	Proportion of issued equity capital held by	
		Company	Subsidiaries
Subsidiaries			
Jamaica Property Company Limited	Office rental	100%	
Jamaica Property Development Limited	Property Management		100%
Jamaica Property Management Limited	Property Management		100%
Pan Caribbean Financial Services Limited (formerly Trafalgar Development Bank Limited)	Development Banking	71%	
Pan Caribbean Merchant Bank Limited	Merchant Banking		100%
Pan Caribbean Investments Limited	Financial Services		100%
Portfolio Partners Limited	Investment Management	100%	
Associated Companies			
St Andrew Developers Limited	Property Development	33 1/3%	33.33%
Impan Properties Limited	Office Rental		20%
Knutsfard Holdings Limited	Office Rental		28%
Joint Venture			
Employee Benefits Administrator Limited	Employee Benefits Administration	50%	

(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 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 35(e).

(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.

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

- (ii) Other income
All other income is recognised on the accruals basis.

(h) Segregated funds

Segregated funds' assets and liabilities represent funds maintained to meet specific investment objectives of policyholders who bear the investment risk. Investment income and both realised and unrealised gains and losses accrue directly to the policyholders. The assets of each account are segregated and are not subject to claims that arise out of any other business of the company. Deposits, withdrawals, net investment income and realised gains and losses, together with the increase or decrease in the market value of investments related to segregated policies are carried to policyholders' liabilities.

(i) Deposit administration funds

Management fees are earned from the deposit administration funds managed on behalf of policyholders. Income generated by these funds accrues to the company, which in turn pays a guaranteed interest rate to the policyholders.

(j) Investments

(i) Real estate excludes 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.

Gains and losses arising from the sale of investments (carried at cost or valuations) are dealt with in the statement of operations.

(k) 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.

(l) 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.

(m) Benefits payable to policyholders

Benefits payable to policyholders represent the gross cost of all claims notified but not settled on the balance sheet date. Any reinsurance recoverable is shown as a receivable from the reinsurer.

Death claims are recorded in the statement of operations net of reinsurance recoverable.

(n) Reinsurance ceded

Provision for future policy benefits (life assurance fund or policy liabilities), premiums and policy benefits are stated 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. In the normal course of business, the company limits the amount of loss on any one policy by reinsuring certain levels of risks in various areas of exposure with the other insurers.

Reinsurance ceded does not discharge the company's liability as the primary insurer. Failure of the 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.

The retention limits or maximum exposure on insurance policies are as follows:

	2002	2001
	\$'000	\$'000
Ordinary life	1,000	1,000
Group life	2,000	1,000
Group mortgage	2,000	1,000
Personal accident	2,000	1,000
	=====	=====

(o) Reserve for future policyholders' benefits

The reserve for future policyholders' 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. An actuarial valuation is prepared annually. In the event of an actuarial surplus, the surplus is transferred to the statement of operations. In the event of an actuarial deficit, the deficit is transferred from the statement of operations.

(p) 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.

(q) Cash and cash equivalents

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

(r) Special reserve

This represents:

- (a) The sum of the negative reserves which have been offset in the reserve for future policyholders' benefits, and
- (b) The difference between the cash surrender value (CSV) of the policies and the reserve for future policyholders' benefits, where the CSV is greater.

(s) Investment reserve

Unrealised gains and losses on securities, investment in subsidiaries and real estate are taken to the investment reserve.

Net unrealised gains are transferred from the investment reserve to the statement of operations at the following rates on the reducing balance:

Quoted equities	-	25%
Real estate	-	10%
All other gains	-	7 1/2%

(t) Inventories

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

(u) 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.

(v) Taxation

Taxation is accounted for under the taxes payable method whereby income taxes are provided on taxable income rather than on financial statement income. Taxation on Jamaican life assurance business 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%. Taxation on other operations within the group is charged at a rate of 33 1/3% on profit for the year adjusted for taxation purposes.

(w) 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.

(x) 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.

(y) 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.

(z) 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. 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

	<u>The Group</u>		<u>The Company</u>	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
Premiums, net (Note 5)	1,221,005	1,094,055	1,221,005	1,094,055
Investments, net (Note 6)	642,833	552,203	222,010	214,815
Other (Note 7)	455,284	401,245	122,241	71,664
	<u>2,319,122</u>	<u>2,047,503</u>	<u>1,565,256</u>	<u>1,380,534</u>
	=====	=====	=====	=====

5 Net Premium Income

	<u>The Group and</u>	
	<u>The Company</u>	
	2002	2001
	\$'000	\$'000
Ordinary Life	69,508	72,190
Annuities	42,113	7,944
Group Life and Health	998,902	890,209
Creditor Life and Group Mortgage	165,387	184,424
Gross premiums	<u>1,275,910</u>	<u>1,154,767</u>
Less: reinsurance	<u>(54,905)</u>	<u>(60,712)</u>
	<u>1,221,005</u>	<u>1,094,055</u>
	=====	=====

6 Net Investment Income

	<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>
Income				
Policy loans	2,559	2,657	2,559	2,657
Mortgage loans	4,252	4,522	4,252	4,522
Other loans and leases	217,366	183,570	74,178	168,466
Government of Jamaica securities	407,212	328,248	266,327	160,531
Other	294,755	231,816	158,005	77,249
	<u>926,144</u>	<u>750,813</u>	<u>505,321</u>	<u>413,425</u>
Expenses				
Interest expenses	235,062	173,057	235,062	173,057
Investment expenses	48,249	25,553	48,249	25,553
	<u>283,311</u>	<u>198,610</u>	<u>283,311</u>	<u>198,610</u>
	<u>642,833</u>	<u>552,203</u>	<u>222,010</u>	<u>214,815</u>
	=====	=====	=====	=====

7 Other Income

	<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>
Managed funds fees	24,806	19,338	24,806	19,338
Rental income	293,830	276,437	-	-
Gain/(loss) on sale of fixed assets	1,205	(9,871)	435	(190)
Share of results of associated companies	2,148	1,071	306	(234)
Co-insurance	28,582	-	28,582	-
Miscellaneous income	<u>104,713</u>	<u>114,270</u>	<u>68,112</u>	<u>52,750</u>
	<u>455,284</u>	<u>401,245</u>	<u>122,241</u>	<u>71,664</u>
	=====	=====	=====	=====

8 Policyholders' Benefits and Reserves

	<u>The Group and</u>	
	<u>The Company</u>	
	<u>2002</u>	<u>2001</u>
	<u>\$'000</u>	<u>\$'000</u>
Policyholders' benefit payments	887,859	780,877
Change in reserves for future policyholders' benefits	<u>(12,656)</u>	<u>51,928</u>
	<u>875,203</u>	<u>832,805</u>
	=====	=====

9 Taxation

The taxation charge for the year is comprised of.-

	The Group		The Company	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Premium tax at 1 1/2%	5,738	5,600	5,738	5,600
Investment income tax at 7 1/2%	15,698	16,754	15,698	16,754
Income tax at 33 1/3%	654	-	-	-
	<u>22,090</u>	<u>22,354</u>	<u>21,436</u>	<u>22,354</u>
Prior year overprovision	-	(1,916)	-	-
Stamp duties	64	42	64	42
	<u>22,154</u>	<u>20,480</u>	<u>21,500</u>	<u>22,396</u>
	=====	=====	=====	=====

Subject to agreement with the Taxpayer Audit and Assessment Department, the group has losses available for offset against future taxable profits amounting to approximately \$35,275,000 (2001 - \$78,391,000).

10 Net Profit

	2002 \$'000	2001 \$'000
(a) This is stated after charging/(crediting):		
Directors' emoluments -		
Fees	389	112
Management remuneration (included in staff costs)	6,372	17,602
Auditors' remuneration -		
Current year	8,075	7,719
Prior year	(290)	(80)
Depreciation	20,059	18,039
Provision for credit losses	58,664	98,927
Amortisation of deferred expenses	8,111	17,149
Amortisation of goodwill	12,485	10,108
Staff costs (Note 11)	259,997	211,774
Gain/(loss) on foreign exchange	6,844	(30,450)
Interest expense -		
Bank and other	128,781	150,068
Holding company	1,590	3,625
	<u>130,371</u>	<u>153,693</u>
	=====	=====

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

The holding company	409,292	305,068
The subsidiaries	<u>118,028</u>	<u>80,039</u>
	<u>527,320</u>	<u>385,107</u>
	=====	=====

11 Staff Costs

	<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>
Wages and salaries	170,059	148,594	101,587	87,688
Statutory contributions	15,454	14,341	10,163	8,678
Pension costs	6,208	6,492	3,865	3,922
Redundancy costs	29,226	-	29,226	-
Other	39,050	42,347	14,448	12,980
	<u>259,997</u>	<u>211,774</u>	<u>159,289</u>	<u>113,268</u>
	=====	=====	=====	=====
Number of employees at the end of the year:				
	<u>No.</u>	<u>No.</u>	<u>No.</u>	<u>No.</u>
Regular	180	199	100	126
Contract	<u>19</u>	<u>-</u>	<u>15</u>	<u>-</u>
	<u>199</u>	<u>199</u>	<u>115</u>	<u>126</u>
	===	===	===	===

12 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 numbers of ordinary stock units in issue during the year.

	<u>The Group</u>	
	<u>2002</u>	<u>2001</u>
Net profit attributable to stockholders (\$'000)	527,320	385,107
Weighted average number of ordinary stock units (thousands)	300,124	300,000
Basic earnings per stock unit	\$1.76	\$1.28
	=====	=====

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 Company				
	Leasehold Improvements	Furniture & Fixtures	Computer Hardware & Software	Motor Vehicles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
At Cost -					
1 January 2002	13,528	10,382	48,203	6,221	78,334
Additions	18	125	3,869	-	4,012
Disposals	-	-	(36)	(1,920)	(1,956)
31 December 2002	<u>3,546</u>	<u>10,507</u>	<u>52,036</u>	<u>4,301</u>	<u>80,390</u>
Depreciation					
1 January 2002	13,528	6,470	24,266	3,367	47,631
Charge for the year	-	630	7,156	974	8,760
Relieved on disposals	-	-	(8)	(1,591)	(1,599)
31 December 2002	<u>13,528</u>	<u>7,100</u>	<u>31,414</u>	<u>2,750</u>	<u>54,792</u>
Net Book Value -					
31 December 2002	18	3,407	20,622	1,551	25,598
	=====				
31 December 2001	-	3,912	23,937	2,854	30,703
	=====				

14 Goodwill

	The Group and The Company	
	2002	2001
	\$'000	\$'000
Balance at 1 January	55,017	65,125
Goodwill purchased	160,000	-
Amortised during the year	<u>(12,485)</u>	<u>(10,108)</u>
Balance at 31 December	<u>202,532</u>	<u>55,017</u>
	=====	=====

This comprises:

- (a) 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.
- (b) Goodwill arising on the acquisition of a 50% interest in the employee benefits portfolio of Life of Jamaica Limited (Note 38(a)).

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

15 Investment in Subsidiaries and Associated Companies

	The Group		The Company	
	2002 \$ '000	2001 \$ '000	2002 \$ '000	2001 \$ '000
Subsidiary companies -				
At valuation				
Jamaica Property Company Limited	-	-	1,457,739	1,534,551
Portfolio Partners Limited	-	-	8,667	(4,109)
Pan Caribbean Financial Services Limited (formerly Trafalgar Development Bank Limited)	-	-	702,350	634,402
	-	-	2,168,756	2,164,844
	=====	=====	=====	=====
	The Group		The Company	
	2002 \$ '000	2001 \$ '000	2002 \$ '000	2001 \$ '000
Subsidiary companies (page 31)	-	-	2,168,756	2,164,844
Associated companies -				
St Andrew Developers Limited				
Shareholding at cost	266	266	133	133
Share of losses	(7,761)	(8,508)	(4,744)	(5,050)
Current account	3,579	4,435	733	733
	(3,916)	(3,807)	(3,878)	(4,184)
Impan Properties Limited				
Shareholding at cost	20	20	-	-
Share of profit	79	87	-	-
Share of capital reserve	7,945	7,945	-	-
Current account	(8,980)	(8,991)	-	-
	(936)	(939)	-	-
Knutsford Holdings Limited				
Shareholding at cost	1	1	-	-
Share of profit	4,350	2,806	-	-
Share of capital reserve	46,309	41,770	-	-
Current account	13,214	13,233	-	-
	63,874	57,810	-	-
	59,022	53,064	2,164,878	2,160,660

16 Investments

	<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>
Real estate	1,521,685	1,621,482	-	-
Property development in progress	16,500	16,500	-	-
Assets held under repurchase agreements	570,323	605,631	327,359	543,512
Mortgages	14,336	16,900	14,136	16,700
Quoted securities	173,888	90,206	82,688	39,475
Unquoted securities	108,724	117,502	181	169
Government of Jamaica and other securities	2,336,323	2,034,989	1,589,114	1,188,073
Loans on policies	32,470	30,106	32,470	30,106
Loans and leases	1,265,314	1,318,169	384,749	334,223
Deposits	142,956	98,931	3,189	3,213
	<u>6,182,519</u>	<u>5,950,416</u>	<u>2,433,886</u>	<u>2,155,471</u>
	=====	=====	=====	=====

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

(b) Included in investments are Government of Jamaica Local Registered Stocks valued at \$100 million, which have been pledged with the regulator, the Financial Services Commission, in accordance with Section 8 (1) (a) of the Insurance Regulations, 2001.

(c) 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>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Minimum lease payments receivable less provision for losses	73,493	75,016	38,559	29,533
Less: unearned finance income	<u>(14,370)</u>	<u>(17,388)</u>	<u>(8,575)</u>	<u>(8,472)</u>
	<u>59,123</u>	<u>57,628</u>	<u>29,984</u>	<u>21,061</u>
	=====	=====	=====	=====

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

	<u>The Group</u>		<u>The Company</u>	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
2002	-	34,989	-	21,109
2003	32,751	21,568	15,037	13,790
2004	24,849	13,963	13,888	9,890
2005	14,399	4,496	8,376	1,623
2006	1,494	-	1,258	-
	<u>73,493</u>	<u>75,016</u>	<u>38,559</u>	<u>46,412</u>
	=====	=====	=====	=====

17 Segregated Funds' Assets

The assets listed below, included in the financial statements in aggregate on one line, are managed by the company in two (2) policy segregated funds. These assets are the property of the funds' contract holders who share all the rewards and risks of the performance of the funds.

	<u>The Group and the Company</u>		
	2002		Total \$'000
	Concord Equity Fund \$'000	Money Market Fund \$'000	
Investments -			
Government of Jamaica securities	-	6,747	6,747
Quoted equities	26,202	-	26,202
Unquoted equities	16	-	16
Assets held under repurchase agreements	-	6,866	6,866
	<u>26,218</u>	<u>13,613</u>	<u>39,831</u>
Other assets	455	3,939	4,394
	<u>26,673</u>	<u>17,552</u>	<u>44,225</u>
	=====	=====	=====

	<u>The Group and The Company</u>		
	2001		
	Concord Equity Fund \$'000	Money Market Fund \$'000	Total \$'000
Investments -			
Government of Jamaica securities	-	7,838	7,838
Quoted equities	13,030	-	13,030
Unquoted equities	13	-	13
Assets held under repurchase agreements	-	5,463	5,463
Loans and leases	-	1,131	1,131
	<u>13,043</u>	<u>14,432</u>	<u>27,475</u>
Other assets	508	5,778	6,286
	<u>13,551</u>	<u>20,210</u>	<u>33,761</u>
	=====	=====	=====

18 Other Assets

	<u>The Group</u>		<u>The Company</u>	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Premiums receivable	88,683	87,804	88,683	87,804
Due from salesmen	-	734	-	734
Prepaid commissions	1,289	1,044	1,289	1,044
Accrued interest	199,974	112,627	174,371	112,687
Other receivables	223,225	356,698	121,501	211,100
Taxation recoverable	112,083	75,764	111,751	75,443
Deferred expenses	771	8,881	771	1,854
Inventories	3,266	2,749	-	-
Customers' liabilities under guarantees	301,996	260,529	-	-
Cash at bank and in hand	256,168	227,836	42,556	42,772
	<u>1,187,455</u>	<u>1,134,666</u>	<u>540,922</u>	<u>533,438</u>
	=====	=====	=====	=====

(a) Premiums receivable are stated net of provision for doubtful amounts of \$19,680,000 (2001 -\$19,883,000). Provision is made in full for premiums receivable outstanding for more than 90 days.

(b) Cash at bank and in hand includes 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 use by the subsidiary.

(c) Other receivables include amounts recoverable from reinsurers of \$4,767,000 (2001 - \$37,172,000).

19 Share Capital

	2002	2001
	\$'000	\$'000
Authorised:		
Ordinary stock units 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>
	350,000	350,000
Issued and fully paid:	=====	=====
Ordinary stock units of \$1 each	300,258	300,000
	=====	=====

20 Share Premium

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

	2002	2001
	\$'000	\$'000
1987 and prior years	6,570	6,570
1993	43,153	43,153
2002	<u>194</u>	<u>-</u>
	49,917	49,723
	=====	=====

21 Capital Redemption Reserve

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

22 Insurance and Banking Reserves

	<u>Insurance</u>	<u>Banking</u>		<u>Total</u>	
	<u>Special Reserve</u> \$'000	<u>Retained Earnings Reserve</u> \$'000	<u>Banking Reserve Fund</u> \$'000	2002 \$'000	2001 \$'000
Balance at beginning of year	114,939	36,400	14,000	165,339	147,379
Adjustment on reorganisation of group	-	-	-	-	(43,693)
Transfers	(781)	85,920	17,040	102,179	61,653
Balance at end of year	<u>114,158</u>	<u>122,320</u>	<u>31,040</u>	<u>267,518</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. The special insurance reserve is further explained in note 2 (r).

23 General Reserve

This reserve is maintained by a subsidiary and represents the capitalisation of grants received from the United States Agency for International Development (USAID) and Deutsche Investitions-und Entwicklungsgesellschaft mbH (DEG) for the purchase of equipment and other assets. This reserve is being written off to the profit and loss account by the amount of annual depreciation provided on the equipment.

24 Dividends

	2002 \$'000	2001 \$'000
Dividends paid for 2002 at J\$0.165 (2001 - J\$0.08) per stock unit - gross	49,543	24,000
Dividends proposed for 2002 at J\$0.168 (2001 - J\$0.253) per stock unit - gross	<u>50,443</u>	<u>76,000</u>
	<u>99,986</u>	<u>100,000</u>
	=====	=====

25 Investment Reserve

This comprises:

	The Group and The Company	
	2002	2001
	\$'000	\$'000
Unrealised gains on quoted equities	51,160	55,601
Unrealised gains on real estate	-	6,511
Other unrealised gains	<u>500,541</u>	<u>654,878</u>
	<u>551,701</u>	<u>716,990</u>
	=====	=====

26 Reserve for Future Policyholders' Benefits

	The Group and The Company	
	2002	2001
	\$'000	\$'000
(a) Composition by line of business		
Ordinary life	161,912	201,037
Annuities	92,432	63,592
Group life and health	223,019	237,990
Creditor and mortgage life	220,466	206,669
Group investment funds	<u>3,380</u>	<u>2,483</u>
	<u>701,209</u>	<u>711,771</u>
	=====	=====

(b) Change in reserves for future policyholders' benefits

	Creditor Group and Group						Total	Total
	Ordinary	Life Annuities	Life and Health	Mortgage Life	Investment Funds	Total	Total	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Balance at start of year	201,037	63,592	237,990	206,669	2,483	711,771	661,409	
(Decrease)/increase in reserves	(39,125)	28,840	(14,971)	13,797	897	(10,562)	50,362	
Balance at end of year	161,912	92,432	223,019	220,466	3,380	701,209	711,771	

(c) Investments and other assets supporting policyholders' and other liabilities

Investments and other assets supporting policyholders' and other liabilities at 31 December were as follows:

	2002						
	Ordinary	Annuities and Pensions	Group Life and Health	Creditor and Mortgage Life	Group Invest-ment Funds	Other Liabilities, Surplus & Capital	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Deposits and assets held under repurchase agreements	33,975	103,940	97,258	57,977	30,412	6,986	330,548
Mortgages	2,581	11,555	-	-	-	-	14,136
Quoted securities	-	-	-	-	-	82,688	82,688
Unquoted securities	-	-	-	-	-	181	181
Government of Jamaica and other securities	183,866	675,066	196,808	188,314	248,985	96,075	1,589,114
Loans on policies	32,470	-	-	-	-	-	32,470
Loans and leases	1,846	102,021	15,330	-	-	265,552	384,749
	254,738	892,582	309,396	246,291	279,397	451,482	2,433,886
Interest receivable	20,445	76,499	6,353	6,004	24,322	40,748	174,371
Withholding tax recoverable	13,428	25,295	10,477	14,370	15,889	32,292	111,751
Other current assets	4,011	20,210	106,998	7,113	13,331	103,137	254,800
Non-current assets	-	-	-	-	-	2,506,350	2,506,350
	292,622	1,014,586	433,224	273,778	332,939	3,134,009	5,481,158

	2001						Total \$'000
	Ordinary Life \$'000	Annuities and Pensions \$'000	Group Life and Health \$'000	Creditor and Mortgage Life \$'000	Group Invest- ment Funds \$'000	Other Liabilities, Surplus & Capital \$'000	
	Deposits and assets held under repurchase agreements	49,590	237,217	93,787	87,632	17,062	
Mortgages	3,348	13,352	-	-	-	-	16,700
Quoted securities	13,030	121	-	-	-	26,324	39,475
Unquoted securities	38	-	-	-	-	131	169
Government of Jamaica and other securities	184,170	405,167	115,284	115,658	194,366	173,428	1,188,073
Loans on policies	30,106	-	-	-	-	-	30,106
Loans and leases	43,895	246,121	20,719	-	11,751	11,737	334,223
	321,177	901,978	229,790	203,290	223,179	276,057	2,155,471
Interest receivable	18,279	51,637	14,765	9,884	9,689	8,433	112,687
Withholding tax recoverable	12,527	11,175	15,746	14,109	17,054	4,832	75,443
Other current assets	4,782	41,414	144,704	7,619	18,741	128,048	345,308
Non-current assets	-	62,240	-	-	-	2,271,373	2,333,613
	356,765	1,068,444	405,005	234,902	268,663	2,688,743	5,022,522

(d) Policy assumptions

The nature and method of determining the significant assumptions made by the company in the computation of policy liabilities are described in the following paragraphs. In all cases, the assumptions are supplemented by the use of margins for adverse deviation.

(i) Policy claims and benefits -

Estimates of the amounts and timings of future claims and benefit payments are based on both company and industry experience over extended periods. Although the pattern of claims and benefit payments may be close to that indicated by past experience, some deviation in that pattern is probable.

(ii) Investment income -

The computation of policy liabilities takes into account projected net investment income on assets supporting policy liabilities and income expected to be earned or foregone on reinvestment or financing of mismatched cash flows. Uncertainties exist with respect to the projection of interest rates and the magnitude of credit losses from asset defaults. The company accounts for such uncertainties by incorporating provisions for credit losses into projections of investment income in addition to the allowances for depreciation in the carrying values of invested assets.

(iii) Policy maintenance expenses -

Amounts are included in policy liabilities to provide for the costs of administering policies in force and include the costs of premium collection, adjudication and processing of claims, periodic actuarial calculations, preparation and mailing of policy statements and related indirect expenses and overheads. The process of forecasting expenses requires estimates to be made of such factors as the rate of salary increases, productivity changes, business volumes and indirect tax rates. Estimates of future policy maintenance expenses are based on the company's experience.

(iv) Policyholder dividends -

Policy liabilities include the present value of estimated amounts of future policyholder dividends based on current dividend scales and expected future income attributable to participating policies.

(e) Sensitivity to assumption changes

The assumptions that are most susceptible to change in the near term are policy lapse rates and future investment yields.

(i) Policy lapse rates -

In calculating the policy liabilities, a margin of 30% has been applied to the policy lapse rate assumptions as a margin for adverse deviation. For lapse-supported policies, a decrease in ultimate lapse rates would increase policy liabilities and for non lapse-supported policies an increase in ultimate lapse rates would increase policy liabilities. For policies in force as at 31 December 2002, a decrease of 1% in the lapse rate on lapse-supported policies together with an addition of 0.1% to the lapse rates on non lapse-supported policies would increase policy liabilities by \$0.23 million (2001: \$0.21 million).

(ii) Interest rate risk -

Based on the projected cash flows of the company as at 31 December 2002, the approximate impact of an immediate 1% increase in the general level of interest rates would reduce the value of policy liabilities by \$10.49 million. Conversely, the impact of an immediate 1% decrease would increase the value of policy liabilities by \$13.51 million.

(f) Changes in policy liabilities

Changes in policy liabilities during the year were caused by the following business activities and changes in actuarial assumptions.

	<u>2002</u>			
	<u>Ordinary</u>			
	<u>Life</u>	<u>Annuities</u>	<u>Other</u>	<u>Total</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Change due to the issuance of new policies	(7,585)	19,082	46,580	58,077
Normal increase due to the passage of time	15,250	8,271	-	23,521
Change due to other actuarial assumptions	(46,790)	1,487	(46,857)	(92,160)
	(39,125)	28,840	(277)	(10,562)
	=====			

27 Deposit Administration Funds

At the end of the year, there were 86 (2001 - 83) contributors to the Funds. The average interest rates paid during the year were 12% and 14% for the money market and long term funds, respectively (2001 -12% and 13%), while the interest rate at the year end was 13% for both funds (2001 - 13.25% and 13% for the money market and long term funds, respectively). Interest paid to contributors was \$99,824,000 (2001 - \$119,749,000).

28 Policyholders' Funds on Deposit

This represents the non-insurance component of premiums for policies which include an investment option.

29 Policy Dividends on Deposit

This represents cash dividends declared on participating insurance policies, which the policyholders have opted to place on deposit with the company.

30 Due to/(from) Related Parties

	<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>
Holding company:				
Current account	3,667	6,727	(219)	(212)
Fellow subsidiary:				
Hardware and Lumber Limited	764	-	-	-
Subsidiaries:				
Portfolio Partners Limited	-	-	(55,849)	(18,683)
Pan Caribbean Merchant Bank Limited	-	-	(809)	467
Jamaica Property Company Limited	-	-	(56,436)	(68,776)
Pan Caribbean Financial Services Limited (formerly Trafalgar Development Bank)	-	-	(29)	(29)
	<u>-</u>	<u>-</u>	<u>(113,123)</u>	<u>(87,021)</u>
	4,431	6,727	(113,342)	(87,233)
	=====	=====	=====	=====

31 Long Term Loans

	Rate %	Repayable	<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>
Secured -						
Citibank N.A. (US\$1,000,000)	10.25	2004	10,194	28,438	10,194	28,438
Consortium loan	24	2002	-	248	-	248
First Caribbean International Bank Limited (US\$2,000,000)	LIBOR + 2.875	2004	99,513	-	-	-
Unsecured -						
Consortium loan (US\$65,000)	10	2003	1,220	3,306	1,220	3,306
Other loans	14.75	2003	216	1,002	-	-
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\$1,100,000)	11.25	2011	53,263	51,614	53,263	51,614
Consortium loan	25	2003	3,630	9,388	-	-
Consortium loan	18.80	2004	15,000	-	15,000	-
Consortium loan (US\$4,167,000)	9.5- 9.75	2004	143,967	-	143,967	-
			<u>327,003</u>	<u>161,845</u>	<u>223,644</u>	<u>151,455</u>

Current portion (Note 32)	(192,358)	(97,926)	(173,950)	(91,511)
	<u>134,645</u>	<u>63,919</u>	<u>49,694</u>	<u>59,944</u>
	=====	=====	=====	=====

32 Other Liabilities

	The Group		The Company	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
Bank overdrafts	10,831	22,756	6,645	16,402
Premiums received in advance	2,381	2,665	2,381	2,665
Other liabilities and accrued expenses	335,922	246,750	201,349	62,664
Taxation payable	4,790	445	3,589	-
Dividends payable	57,487	76,000	50,443	76,000
Amounts due to financial and other institutions	1,180,683	1,355,825	-	-
Customers' liabilities under guarantees	301,996	260,529	-	-
Customers' deposits and savings accounts	335,225	305,307	-	-
Short term loans	236,083	-	236,083	-
Current portion of long term loans (Note 31)	<u>192,358</u>	<u>97,926</u>	<u>173,950</u>	<u>91,511</u>
	<u>2,657,756</u>	<u>2,368,203</u>	<u>674,440</u>	<u>249,242</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 during the year ranged between 21.70% and 40.25% (2001 -24.75% - 35%).

(b) Interest rates on short term loans at 31 December 2002 ranged between 16% and 20%.

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

(d) The short term loan balance includes an amount of \$160,000,000 due to Life of Jamaica Limited as a result of certain terms and conditions of the joint venture agreement between these two companies (Note 38 (a)). The amount is payable on demand and attracts interest at the rate of 20% per annum.

(e) Other liabilities and accrued expenses include an amount of \$9,514,000 (2001 - \$20,664,000 representing reinsurance premiums payable).

33 Related Party Transactions and Balances

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

	2002	2001
	\$'000	\$'000
Management and other fees paid to holding company	14,376	2,376
Leases with holding company and fellow subsidiaries	1,219	35
Loans to holding company and fellow subsidiaries	27,015	26,854
Loan from holding company	3,111	3,848
	=====	=====

The group 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 2002 the balance outstanding was \$3,111,000 (2001- \$3,848,000).

34 Off Balance Sheet Activities

(a) Carrying amount and fair value of 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>2002</u>		<u>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
Total assets	<u>14,298,751</u>	<u>14,292,084</u>	<u>11,398,112</u>	<u>11,493,992</u>
	=====	=====	=====	=====

	<u>The Company</u>			
	<u>2002</u>		<u>2001</u>	
	<u>Carrying</u> <u>Amount</u> <u>\$'000</u>	<u>Fair Value</u> <u>\$'000</u>	<u>Carrying</u> <u>Amount</u> <u>\$'000</u>	<u>Fair Value</u> <u>\$'000</u>
Financial Assets				
Cash resources	949,625	949,625	807,036	807,036
Investments	1,775,121	1,758,045	1,064,931	1,071,579
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	244,115	244,115	169,457	169,457
Total assets	<u>3,180,376</u>	<u>3,209,152</u>	<u>2,274,727</u>	<u>2,281,375</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).

35 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 2002 includes aggregate net foreign assets/ (liabilities) in respect of transactions arising in the ordinary course of business as follows:

	<u>2002</u> <u>\$'000</u>	<u>2001</u> <u>\$'000</u>
United States dollars	16,164	11,938
Canadian dollars	38	-
European currency (Euro)	1,030	955
Pounds sterling	(153)	1,114
Eastern Caribbean (EC) dollars	134	203
	=====	=====

(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, The majority of the company's reinsurance recoverables are due from Swiss Re Limited. 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 financial and other institutions), 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 and the company's other financial instruments at balance sheet date are as follows:

	The Group			
	2002		2001	
	Carrying		Carrying	
	Amount	Fair Value	Amount	Fair Value
	\$'000	\$'000	\$'000	\$'000
Financial assets				
Investments (excluding deposits, real estate, assets held under repurchase agreements and property development in progress)	3,931,055	4,290,526	3,607,872	3,608,489
Financial liabilities	=====	=====	=====	=====

Long term loans (including current portion)	327,003	327,003	161,845	161,845
Due to holding company and fellow subsidiary	4,431	4,431	6,727	6,727
Amounts due to financial and other institutions	1,180,683	1,180,683	1,335,825	1,355,825
	=====	=====	=====	=====

	<u>The Company</u>			
	<u>2002</u>		<u>2001</u>	
	<u>Carrying</u>		<u>Carrying</u>	
	<u>Amount</u>	<u>Fair Value</u>	<u>Amount</u>	<u>Fair Value</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Financial assets				
Investments (excluding deposits and assets held under repurchase agreements)	2,103,338	2,292,805	1,608,746	1,609,363
Due from holding company and subsidiaries	113,342	113,342	87,233	87,233
	=====	=====	=====	=====
Financial liabilities				
Long term loans (including current portion)	223,644	223,644	151,455	151,455
	=====	=====	=====	=====

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

The fair values of equity instruments are 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. The fair values of other investments are 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.

36 Borrowings

The interest rate exposure of borrowings is as follows:

	<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 borrowings				
At fixed rates	1,480,439	1,437,127	300,760	80,300
At floating rates	263,330	80,543	158,967	71,155
	<u>1,743,769</u>	<u>1,517,670</u>	<u>459,727</u>	<u>155,455</u>
	=====	=====	=====	=====
	%	%	%	%
Weighted average effective interest rates:				
Due to financial and other institutions	10.81	7.53	-	-
Bank borrowing	10.25	17.48	10.25	10.25
Other	15.00	12.70	15.00	12.00
	=====	=====	=====	=====

37 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 that the scheme is adequately funded. The actuary has recommended that the employer contribute at a rate of 5% of members' pensionable 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.

38 Significant Agreements

(a) Joint Venture and Co-insurance Agreements

Effective 1 July 2002, First Life Insurance Company Limited (First Life) and Life of Jamaica Limited (LOJ) entered into an agreement to establish a joint venture vehicle to coordinate the administration of their respective employee benefits businesses.

Both companies also entered into a reciprocal co-insurance arrangement based on the assumption that, from the inception of the agreement, the values of their respective employee benefits businesses were equal. Consequently, certain value adjustments have been implemented so as to achieve value parity. The respective employee benefits businesses of First Life and LOJ were valued on a like basis for the purpose of determining the consideration payable by each of them for their purchase of one-half of the other's employee benefits business. Based on this valuation, First Life assumed a liability to LOJ of \$160,000,000 in order to achieve the desired value parity between both companies.

At each subsequent reporting date the company will record in its financial statements 50% of the combined results of the two portfolios.

(b) Administration Agreement - Ordinary Life Portfolio

Effective 1 October 2002, First Life entered into an administration agreement with LOJ for the administration of the existing ordinary long-term life portfolio of First Life.

Under the terms of the agreement, LOJ is entitled to a fee equal to the sum of 25% of the gross premium income on existing long term business, 33% of the gross premium income on new ordinary long term business, and 1% of gross investment premiums collected after the date of the agreement. Functions to be performed by LOJ include collection of and accounting for policyholders' premiums; calculation of actuarial reserves; processing of claims and policyholders' benefits ;evaluation of reinsurance requirements and underwriting services for new business.
