

LIFE OF JAMAICA LIMITED

CORPORATE PROFILE

LIFE OF JAMAICA LIMITED...

Established in Jamaica on June 1, 1970 as a stock company quoted on the Jamaica Stock Exchange.

The market leader among the life companies in Jamaica.

A major insurer in the Caribbean Region.

Assets managed total more than \$34.5 billion.

Services offered include:

Life and Health Insurance - Pension Plan Management - Mortgage and Lease Financing - Information Technology Services - Real Estate Development and Management - Commercial and Investment Banking.

Major subsidiaries are:

Citizens Bank Limited, LOJ Property Management Limited, and Hitek Software Engineers Limited, (Jamaica) Global Life Assurance Company Limited (Cayman,) Atlantic Southern Insurance Company, (Puerto Rico) Global Bahamas Holdings Limited, and Global Life Assurance Bahamas Limited (Bahamas) Associated Company Colonial Life Assurance Company Ltd.
(Bermuda)

A member of the ICWI Group of Companies since 1986.

Review of Operations

INDIVIDUAL LIFE

The Individual Life Division, responsible for the marketing and servicing of individual life policies, recorded another year of controlled growth in new sales in 1995. New annualised premium income grew by 17% over the previous year for a total of \$327 million. In the area of number of new policies issued, 29,787 contracts were issued for a total sum insured of \$14.2 billion representing a reduction of 5,166 in the number of policies but an increase of \$41.1 billion in sums insured when compared with the previous year, the increase in the average size of the policies partially reflecting the inflationary environment. Our sales of investment premiums grew by 20% over the previous year to \$388 million.

For the year our growth in new sales volumes resulted in LOJ maintaining its number one position in the industry in new annual premiums with 38.2% share, new policies issued at 35.4% and sums insured 42.8%. This performance allowed LOJ to emerge as industry leader for the eighth consecutive year.

The Division continues to focus on improving productivity and service both in its field operations and at Head Office. The rationalisation of our branch office network resulted in a reduction of branch office locations from 21 to 11 and the overall reduction of agents from 579 to 405, which resulted in the achievement of substantial cost savings and greater operating efficiencies. Notwithstanding this contraction in the distribution system, a productivity increase of 22% was achieved in new individual life sales.

A full range of personal accident benefits was introduced in the third quarter, and, in October a major enhancement was effected to our very popular Investment Life Savings plan allowing for automatic indexation of premiums and benefits. These policies are already accounting for more than one-third of our new sales. Our New Products Development Committee will again be active in 1996 evaluating the market and developing the products that will help our clients address their changing economic circumstances.

Employee Benefits

Employee Benefits continued to show strong growth in 1995 despite difficult economic conditions in Jamaica. The pension portfolio grew by \$780 million to \$8.51 billion , while new annualised group life and health premiums increased by 93% to \$44 million, representing \$8.0 billion of new sums insured.

Life of Jamaica maintained its dominant position in this important market ending the year with a market share of 66% of the Pensions funds managed by insurance companies and 63% of the Group Life Insurance business.

Our role as a major administrator of Health Insurance (medical insurance) business, while not as commanding as in the other lines of Employee Benefits, continues to grow and ended the year with benefit Payments in excess of \$164.3 million.

Our continued success in these lines of business reflect the confidence shown by both the private and public business community as well as the trust and support of the trade union movement whose members are the primary beneficiaries of these programmes. This kind of broad based support brings with it major obligations of superior investment performance and a commitment to a high level of service both of which will continue to be the central theme of Life of Jamaica's development and planning.

Employee benefits relate essentially to the distribution of financial products and services at the workplace and will become in time, the pre-eminent and most cost effective method of providing such services. Accordingly, the enhancement and development of systems permitting maximum flexibility, allowing participating members to make individual choices, appropriate to their own circumstances, are a fundamental part of our current planning.

Employees participating in our plans increasingly and justifiably demand more information from us and the timeliness and accuracy of that information is paramount.

Our commitment is to continue to lead with performance, with service and innovation.

Investments

In our review of 1994, we concluded that "... the economy had started to reflect signs of a return to stability and a movement to a path of sustainable growth.." This conclusion had been based on favourable trends in inflation, the exchange rate, short term interest rates and the signs of a resurgence in the stock market at the end of the year. This climate had nurtured a mood of guarded optimism in the business community generally, concerning the prospects for business and the economy in 1995.

Up to the middle of the year, the initial attitude of optimism appeared justified in spite of unfavourable results in the international trade figures, a disappointing winter tourist season and the financial concerns initiated by difficulties experienced by some banking institutions.

By mid-year, the economic situation had altered dramatically with the continuing depreciation of the Jamaican dollar and the acceleration of the growth of inflation. In response to these developments, the authorities re-introduced tight monetary policy measures which propelled interest rates back into the mid-forties in order to stabilize the exchange rate.

In the environment of instability which characterized 1995, the stock market reacted erratically, climbing from an index of 16,677 points at the beginning of January to a high of 24,172 at the start of February and then steadily drifting down to 14,267 points at the end of the year, as high money market rates attracted funds away from equities.

The value of having a portfolio of high quality real estate, judiciously mixed with top quality office space, industrial estates, shopping centres and world class hotel properties was once more highlighted in 1995, when in spite of some evidence of a softening of the market, the returns on our property funds continued to exceed inflation by healthy margins and our vacancy rate system-wide remained below 5%.

Our hotel properties, Breezes Runaway Bay (formerly Jamaica Jamaica) and Sandals Dunn's River continue to be stellar performers providing good returns to our pension clients and policyholders and, importantly, in a scenario of exchange rate instability, a hedge against devaluation of the local currency.

Growth of 18.4% in the net asset value of the Segregated Policyholder Funds was achieved in 1995, with the funds growing from \$2.967 billion at the end of 1994 to \$3.514 billion at December 31, 1995. Individually, the sub-funds performed well, with the Folio IV (Real Estate) Fund returning 32.6%, 25.9% for the Short Term Deposit Fund and the unit values of the Long Term Securities Fund, although declining by 1.5%, still outperforming the market index. In spite of the poor performance of the stock market and the equity fund, efforts were made to improve the quality of the portfolio by realignment towards those stocks with better long term fundamentals. This restructuring will demonstrate its worth even moreso when the market recovers.

The Pooled Pension Investment Funds (PIF) also experienced impressive growth as LOJ maintained its dominance in this segment of the investment business. Assets grew from \$7.73 billion in 1994 to \$8.5 billion in 1995 - a growth of 10%. As with the Policyholders Funds, the sub-classes in the PIF provided excellent returns, with the Mortgage and Real Estate Fund yielding 31.1%, the Short Term Money Fund returning 31.7% and the Hotel and Tourism Fund yielding an impressive 32.9%.

With inflation for 1995 turning out at 25.6%, the returns achieved by all LOJ's funds with the exception of the equity funds, outperformed inflation and enabled our clients to achieve real growth in a generally hostile inflationary environment.

Corporate Services

The Corporate Services Division of the Company embraces some of the most important and pervasive functions of the organization such as Human Resources, Accounting, Information Systems and Facilities Management.

A major responsibility is the recruitment and retention of appropriate staff and their full development to best serve the needs of the organization. Some 606 staff members were deployed throughout the Head Office and branch office locations during 1995.

The Division continues to focus on providing services beyond the expectations of our internal and external customers. Consistent with the concept of improved services and with the assistance of its Accounting Department, all policy-holders segregated funds statements are now prepared daily with corresponding changes to the underlying unit prices. This Division also laid the ground work for providing improved management and financial information corporate wide, through a state-of-the-art General Ledger System. This exercise should yield full results by the middle of 1996.

The Information Services Department apart from supporting the core functions of LOJ also enabled the organization to serve its Global Life policyholders overseas more effectively through the implementation of on-line facilities to our Bahamian subsidiary. Substantial work was also done to ensure uninterrupted service to all users, even at times of national disasters, and to this end a stand-by facility in Tampa, Florida is scheduled to be implemented in 1996.

Real Estate Services

LOJ Property Management Limited

1995 was a year of consolidation within the Company, following on a restructuring exercise in the latter half of 1994.

Against this background and the continued challenges experienced in the harsh economic environment, the Company recorded revenues of \$57.8 million, an 18.6% increase over that recorded for 1994.

Despite an increasingly soft market, the Company maintained a 95% occupancy level of the 164,250 sq. metres of space managed, distributing among offices - 72,000 sq. metres, Shopping Centres -21,600 sq. metres, Warehouses - 10,350 sq. metres and industrial space - 60,300sq. metres.

Information Technology Services

Hitek Software Engineers Limited

In 1995 the two major projects of Hitek Software Engineers were the completion of the development of a Property Management Information System for LOJ Property Management Limited and the continuing development of a Group Insurance and Pension Administration System for Life of Jamaica.

The Company has also been taking a lead role in the implementation of the ICWI Group information technology strategy which is expected to result in the establishment of a centralised Group Information Services Organisation.

Banking

Citizens Bank Limited

During 1995, Citizens Bank Limited implemented a number of strategies which have laid the foundation for the attainment of its long term objectives. These are designed to achieve the following:

- Growth of Net Interest Income
- Reduction in Cost of Funds
- Reduction in Non-Accrual Loans
- Containment of Administrative Expenses
- International Expansion

The Bank's net interest income grew by \$187 million representing an increase of 35% over the prior year. This favourable trend was as a result of a 43% increase in its loan portfolio after adjusting for securities purchased under resale agreements. An overall reduction in the cost of funds also contributed to this trend. This performance was achieved despite the rationalisation programme which resulted in the closure of four branches.

The Bank effectively managed its non-accrual loan portfolio and reduced the ratio of non-accrual loans from 8.6% to 6.5% of its total loan portfolio, excluding Government securities purchased under resale agreements. We expect the non-accrual ratio to be further reduced during 1996 as the Bank has strengthened its Credit Administration Unit. Additional resources have been provided aimed at improving the management of non-accrual loans as well as the quality of new loans.

In spite of a 25% rate of inflation in 1995, administrative expenses were contained to an increase of 18% over 1994 due to more effective use of technology, the closure of four branches and increase in the productivity of staff.

The Bank's international expansion into Guyana has resulted in a first year growth in total assets of G\$1.7 billion (J\$433 million). This positive trend has continued in the first quarter of 1996 which has resulted in the wholly owned subsidiary recording a small profit for that period.

The Bank recorded a net loss of \$44 million. However, some \$40 million of this amount was due to normal start up operating losses of the Guyana operations, which is now making a profit.

In addition, arising from the high interest rate environment, the Bank charged against revenue a prudential loan loss provision of \$143 million, representing an increase of \$82 million over the prior year. This will significantly improve the quality of its loan portfolio going into 1996.

We expect that CitizensBank will return to profitability during 1996 in light of the turnaround of the Guyana subsidiary, the clean up of its loan portfolio in 1995, and the infusion of additional capital in March 1996.

The Bank successfully completed a Rights Issue which has resulted in an increase in its capital base of US\$5.55 million (J\$220 million). Arising from the Rights Issue, BanPonce Financial Corporation, through its holding company, BanPonce Corporation, now holds 20% of the issued Ordinary Share Capital of CitizensBank as well as Preferred Shares for a total investment of US\$5.5 million.

BanPonce Corporation, based in San Juan, Puerto Rico, with assets in excess of US\$15.6 billion and net worth in excess of US\$1.1 billion, is the holding Company of Banco Popular, ranked among the top 50 banks in the USA and operating for over 100 years.

INTERNATIONAL INSURANCE OPERATIONS

Global Life Assurance Company Limited

The business of Global Life and its subsidiaries continued to grow during 1995 with premium income reaching a level of US\$51.4 million, (J\$2.0 billion) an increase of 19% over 1994.

A part of these increases arose from the consolidation of the block of business acquired from the American Life Insurance Company (ALICO) in the Bahamas. This contributed US\$30 million (J\$1.17 billion) of assets and approximately US\$7 million (J\$272 million) in premium income. A major area of activity during the year related to the provision of a full-service head office structure for Global's Bahamas subsidiary. This was substantially effected by the introduction of an on-line communications link to the systems in Jamaica which now enables the Bahamian personnel to process all individual life transactions. Further localisation of group insurance and mortgage processing is planned for early 1996.

Atlantic Southern Insurance Company, Global Life's Puerto Rican subsidiary, celebrated its 50th anniversary in 1995, with another year of record sales. New annualised premium income amounted to US\$15.1 million (J\$587 million) with significant growth coming from the sales of new medical insurance lines in Puerto Rico and Guam. We expect the growth in these territories to continue in 1996 and be completed by plans to extend this range of products to Panama market. Atlantic Southern reported profits of US\$0.812 million (J\$31.6 million), an indication that it is now achieving levels of business at which meaningful earnings can emerge.

The financial results for Global Life showed a loss of US\$ 0.846 million (J\$ 32.92 million) reflecting high cost levels associated with some transitional operating structures and systems. However, these matters received the full attention of Management during the year with the result that we enter 1996 with a much more efficient structure which should ensure that earnings will emerge at a level consistent with our original business plan.