

LIFE OF JAMAICA LIMITED

DIRECTORS REPORT

THE HON. DENNIS LALOR, O.J.

CHAIRMAN OF THE BOARD

1995 was a year of consolidation for Life of Jamaica. Despite the continuing difficult economic environment real progress was made in fundamentally restructuring our businesses. High interest rates and the resulting high cost of capital, persistent double digit inflation, low economic growth and volatile equity markets demand that the Jamaican insurance and banking sector change their very essence - the nature of their product offerings, credit processes, expense structures and distribution mechanisms.

The business environment in 1995 was not only challenging, it was disappointing as the expectations for economic stability with which the year began rapidly disappeared by mid-year. In the second half of the year, there was a return to ultra high interest rates to protect the Jamaican Dollar which depreciated by 16.2%. In addition, the rate of inflation accelerated rapidly resulting in an eventual outturn of 25.6% only marginally below the level for 1994. Generally the level of economic activity remained depressed.

The overall earnings for Life of Jamaica and its subsidiaries were a disappointing \$37.3 million. This, to a large degree, reflects the reality of the difficult domestic market for Jamaican financial institutions, which in addition to the obstacles referred to above include poor liquidity, thin capital markets and deteriorating loan portfolios. This combined with un-anticipated challenges inherent in international expansion and acquisition contributed to the 1995 results.

Despite the circumstances, our Jamaican life operations performed creditably, clearly earning the trust and confidence which our group, pension and individual clients continue to show in Life of Jamaica. The gains in the life insurance operations were unfortunately offset by poor results in both the domestic banking and the international life subsidiaries as well as by the high cost of Jamaican financing and the unabated high inflation of expenses incurred in Jamaica.

As a consequence, the consolidated profit for 1995 of \$37.3 million represents a decline of \$34.9 million when compared to 1994. At the same time, however, total consolidated assets increased 13.3% from \$23 billion to \$26 billion and the assets managed on behalf of the Pooled Pension and other Segregated Pension Funds grew by 10% to \$8.5 billion, bringing the total assets under management to \$34.5 billion.

Life of Jamaica and its subsidiaries remain committed to their role as leading pension fund managers, group insurers and providers of protection and insured savings products to individuals, as well as significant lenders to the country's businesses and personal borrowers. We believe that only by being a low cost, technologically advanced and capital efficient participant in all of our chosen financial businesses will we ensure that this position can be sustained profitably and in a manner which guarantees our corporate and individual clients alike, value, service and security.

The strong sales growth and satisfactory statutory returns of our Jamaican life business somewhat mask several problems associated with a labour intensive operation and the high cost of growth in sales of insurance and savings products. In recognition of this the company's management set about restructuring its operations to address those issues and ensure the long term success of Life of Jamaica and its ability to satisfy the need for value of its customers and shareholders alike.

Management action in 1995, which continues in 1996 reflects this commitment with the major emphasis aimed at enhancing distribution productivity, re-engineering business processes, maximising investment returns, and very importantly implementing new computer systems for both group and individual product administration.

These actions will result in sustainable improvements in unit costs and responsiveness to customer needs. In addition, an evaluation and rationalisation of all lines of business was conducted to ensure the attainment of target profitability and capital efficiency as well as the redesign of essential business processes to align service to customer expectations. This included leading edge product redesign and changes to field force compensation. Further organisational restructuring, merging of sales outlets and closure of unprofitable branches were also undertaken. These changes enabled the company to restrict the increase in administrative expenses to 18.5% well below the prevailing rate of inflation. Further benefits will emerge in the fullness of 1996 as the changes in the domestic insurance operations continue.

Life of Jamaica is determined to lead the industry in market positioning as well as performance and fiscal responsibility. For years the life insurance industry has been a major force in the accumulation and productive application of long term savings. However, prudent and consistent public policy is necessary if it is to continue to play this vital role. We would encourage the Government to tighten controls relating to taxation of short term speculative investments and would recommend further that the punitive premium tax and stamp duty on long term insurance premiums be removed in the interest of enhancing the mobilisation of long term savings in the economy. Those imposts destroy value to the customer and tie up capital unnecessarily thereby threatening the viability of long term protection products.

Our Employee Benefits Division enjoyed another successful year with the company remaining market leader in both Group Pensions and Group Life Business. Our Pooled Pension Funds managed on behalf of our 349 pension clients delivered solid investment performance, as did our Segregated Policyholder Funds, outperforming the level of inflation in all areas except those associated with the Jamaican Stock Exchange which performed poorly all year.

Our Group Life and Health Business experienced a 93% increase in new annualised premiums to \$44 million, representing \$8.0 billion of new sums insured. Development continued on enhanced administration and claims systems.

The Individual Line also performed well during the year, achieving a 17% growth in new business representing new sums insured of \$14.2 billion, an increase of 41% over 1994.

Our international life insurance operations conducted in Puerto Rico, the Bahamas, Bermuda and the Cayman Islands through our wholly owned subsidiary Global Life Assurance Company, produced a small loss in 1995 which was considerably worse than planned. Fortunately, many of the causes were non-recurring events, reflecting start up costs, one time provisioning and prior-period adjustments. Several management changes were implemented along with significant enhancements to the product portfolios, administrative support as well as the strengthening of management information and controls. Premium income grew an overall 19% over 1994 with particularly strong increases in group lines in Puerto Rico and the Western Pacific Island. The integration of the ALICO field force, portfolio and staff proceeded well in the Bahamas with the transaction set to close formally in mid 1996.

These events position Global Life to take advantage of the market potential, hard currency earnings and significant profit potential available in our chosen markets. New ventures in Panama and Guam are moving forward as are Group Life initiatives in the Bahamas.

Our position and reputation in these markets are enviable and the favourable tax environment of the respective jurisdictions benefit their economies, our customers and our businesses.

CitizensBank, our banking subsidiary had less than satisfactory results, recording a net loss of \$44 million in 1995. This was largely attributable to the tight liquidity measures and the high interest rate policy which prevailed in the Jamaican economy. In the face of the resulting high level of non-performing loans, the Bank charged against revenue a prudential loan loss provision of \$143 million. The bank's expansion into Guyana also resulted in some \$40 million in normal start-up operating losses. We are, however, happy to report that the Guyana subsidiary achieved a small profit in the first quarter of 1996 and all indications are that this profitable trend will continue.

During 1995, the bank also initiated several programmes to improve profitability including the containment of administrative expenses, improved loan portfolio management, enhanced productivity arising from branch rationalisation, improved interest margins and expansion of the loan portfolio.

In 1996, the capital base of the bank was strengthened by a successful "Rights Issue" resulting in a capital injection of US\$5.55 million (J\$220 m). Arising from the rights issue, Ban Ponce Financial Corporation of Puerto Rico, purchased 20% of the issued Ordinary Share Capital of CitizenBank as well as Preferred Shares for a total investment of US\$5.5 million. In addition Ban Ponce has the right to acquire an additional 10% of ordinary stock in the Bank through the exercise of conversion rights in respect of the preference shares.

The various management actions combined with the Ban Ponce relationship are expected to enhance the bank's ability to meet the challenges of 1996 and to return to a profitable position before year end.

In January 1996 we welcomed to the Board, two new Directors, Mrs. Diane Bean Schwartz and Mr. Brian Young. Mrs. Schwartz, a Senior Vice President of Manufacturers Life Insurance and Chairman of Manulife International brings to the Board a wide scope and knowledge of insurance and re-insurance in the Pacific Rim, USA and the Caribbean and will assist us considerably both in the restructuring of our operations and in our global expansion. Mr. Young, who recently retired as Senior Partner of Price Waterhouse in Jamaica and who is currently Executive Chairman of Neal & Massy Group (Jamaica) Limited, has extensive and varied expertise in finance, management, acquisitions and mergers and is an invaluable asset to the Board.

On November 2, 1995, Ambassador the Honourable Douglas Fletcher, retires from the Life of Jamaica Board. Mr. Fletcher who was the founding Chairman of the Board served the company continuously over a period of 25 years except for three years when he was appointed as the Jamaican Ambassador to Washington. We recognize with appreciation his outstanding contribution and support over the years.

December 31, 1995 marked the retirement of the Hon. R. "Danny" Williams, founding President and Chief Executive Officer. We place on record our appreciation of the outstanding role that he has played in the formation and in the growth of the Company over its 26 years of existence and we pay tribute to the significant contribution that he has made to the advancement of the life insurance industry during his career which spanned some 42 years. We will continue to benefit from his knowledge and experience as he remains a member and Deputy Chairman of the Board.

On February 29, 1996 the Hon. Patrick Rousseau resigned as Chairman of the Board, a position which he held with distinction for 24 of the 26 years that he served as a director of the Company. For some time Mr. Rousseau had indicated his desire to demit office due to an increasing number of commitments. We appreciate the invaluable contribution he has made to the Company's progress.

These directors oversaw many of the milestones of the Company's development and success, bringing it to a dominant position in Jamaica and spearheading its international expansion into the Caribbean and Latin America. They also developed an effective programme of succession planning, leading to the effective transition of leadership which has been accomplished. We wish them good health and success in their future endeavours.

1995 was a year of intervention and reorganisation. Much is being undertaken, management is stretched but up to the challenge. The Jamaican economy presents challenges to Life of Jamaica, CitizensBank and its competitors alike. The capital costs of running these businesses as well as financing international expansions are significant. All efforts in 1995 and continuing in 1996 are aimed at rationalising and adapting our domestic operations to the existing conditions-becoming less capital intensive, more productive and more focussed on growth in cash earnings than on sales volumes and market shares-while at the same time demanding and ensuring that our high potential foreign operations generate the expected returns in a timely fashion.

1995 was the beginning; the continuing work in 1996 will ensure that Life of Jamaica remains a dominant market force, which is successful, financially strong and continues to be sensitive to the needs and expectations of its customers. The Board of Life of Jamaica recommends that a dividend continues to be paid to our shareholders, specifically that 1.875 cents per stock unit be distributed.

We thank all our fellow directors, management, staff and sales representatives, for their co-operation, initiative and hard work and for the very special effort which they have made to achieve the 1995 objectives. We also express our appreciation to our customers and shareholders for their continued loyalty and support over the years.

Dennis Lalor

Richard Powell

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their report and the audited accounts for the year ended December 31, 1995. The figures reflect the consolidated results of Life of Jamaica and its subsidiaries.

	1995 \$ (M)	1994 \$ (M)	%Increase
Operating Results			
Profits for the Group	37.3	72.2	(48.3)
Earnings per Ordinary Stock Unit (\$)	0.09	0.18	(50.0)
Financial Position			
Life Assurance Assets			
-LOJ	6,343.4	5,323.2*	19.2
-Subsidiaries	6,454.3	5,503.4*	17.3
Banking Assets	13,218.0	12,143.0	8.9
Total Consolidated Assets	26,015.7	22,969.6*	13.3
Segregated Pension Funds	8,513.0	7,733.0	10.1
Total Assets Managed	34,528.7	30,702.6*	12.5
Shareholders' Funds	622.9	560.1	11.2
Investment Reserves	171.5	311.6	(45.0)
Business in Force and New Sales			
New Annualised Premiums			
-Individual	589.6	512.9	15.0
-Group Life and Health	442.3	342.2	29.3

-Total Premiums	1,031.9	855.1	20.7
Single Premium			
-Individual	582.6	633.2	(8.0)
-Group	224.0	71.7	112.4
Life Insurance Amounts in Force			
-Individual	135,946.0	91,055.0	49.3
-Group	49,160.0	45,062.0	9.1
-Total	185,106.0	136,117.0	36.0

* Restated
Dividends

The Directors recommend payment of a final dividend of 1.875 cents per stock unit, payable first out of franked income to stockholders of record at July 26, 1996.

Directors

The Directors retiring at the Annual General Meeting are Messrs. Philip N. Cornes, Dennis H. Lalor, Ervin A. McNally, and R.D. Williams all of whom being eligible offer themselves for re-election. Mrs. Diane Bean Schwartz and Mr. Brian W. Young who were appointed to the Board of Directors since the last Annual General Meeting will also retire at the Annual General Meeting and being eligible offer themselves for election.

It is with regret that we record the resignations of the Hon. Douglas Fletcher, O.J. and the Hon. Patrick Rousseau, O.J. which took effect on November 2, 1995 and February 29, 1996, respectively.

Auditors

The retiring Auditors, KPMG Peat Marwick, having expressed their willingness to continue in office will do so in accordance with the provisions of Section 153 of the Companies Act. A resolution authorising the Directors to fix the remuneration of the Auditors will be presented at the Annual General Meeting.

On behalf of the Board of Directors

Dennis H. Lalor
Chairman