

LIFE OF JAMAICA LIMITED 1997

Message from the Chairman and President

Life of Jamaica continued to operate in a very difficult and challenging economic environment in Jamaica during 1997. The recession of the economy deepened as GDP contracted by 2.4%, following the 1.7% decline in 1996. This was partially a function of the continued focus of the authorities on the stability of the Jamaican macro economy. In this context, inflation was 9.2%, the lowest in 9 years; the exchange rate remained comparatively stable, falling only 4.26% during the year; and the traditional upward spiral of wage increases was halted. Both nominal and real interest rates remained extremely high. The Treasury Bill Rate actually increased from 26.36% at the beginning of the year to 28.08% at the end. Average commercial bank lending rates although declining from 55.22% were still extremely high at 44.17%.

The real estate market remained extremely weak and even though the stock market index rose during the year from 16615.99 points to 19846.67, the breadth of the market is contracting as several companies have been de-listed, and liquidity was only moderate. For the second consecutive year, the Government of Jamaica ran a large fiscal deficit which complicates the prospects for future stability and growth.

Against that background and after experiencing a loss of \$1.053 billion for the year ended December 31, 1996, we are pleased to report that the Company's Audited Financial Statements for the year ended December 31, 1997 reflect a profit attributable to shareholders of \$92.1 million. The results represent a turnaround of some \$1.1 billion compared with 1996.

The improvement in performance before minority interest, during 1997 is attributable mainly to:

- . The introduction of additional capital of \$1.2 billion in accordance with the agreement with FINSAC Limited. This capital comprises \$1.057 billion of Preference Shares due in the year 2003 carrying a fixed coupon rate of 12.5% and \$143 million of common shares entitling FINSAC Limited to 26.5% of the equity in LOJ.
- . Gains on the sale of non-strategic assets, net of operating losses during the year amounting to \$316 million.
- . The use of these gains to reduce debt, thereby lessening the drain of finance costs by \$217 million.
- . Improved investment income and greater operational efficiencies amounting to \$287 million.
- . Reduction by \$371 million of losses attributable to Citizens Bank following the sale of that subsidiary during the year.

Losses per stock unit, before extraordinary items have been reduced substantially, from 273 cents per unit in 1996 to 40 cents per stock unit in 1997. Earnings per stock unit after extraordinary items, on the other hand, amounted to 23 cents per share compared with a loss of 265 cents in 1996.

Profit on operations before financing charges amounted to \$235 million for 1997 compared with an operating loss of \$228 million for 1996, an improvement of \$463 million.

The profit represents a surplus of \$248 million on our Jamaican operations and a loss of \$13 million on our overseas operations. By way of comparison, in 1996, our Jamaican operations recorded a loss of \$230 million while overseas we experienced a profit of \$2 million.

The major components of this improvement of \$478 million in our Jamaican operations are an increase in investment income of \$121 million as well as a net reduction in total costs of \$357 million, which is reflected in a reduction in the cost of present and future benefits of \$120 million and a decrease of \$160 million in administrative expenses.

This operating profit improvement has been offset by provision in excess of \$100 million for a number of items which reflects a conscious decision by the Board to adopt a more conservative approach in the valuation of assets and liabilities. These include:

- . Accelerated write-downs in the value of computer development costs.
- . Provisions for reductions in the value of certain real estate assets.
- . Additional provisions against receivables.
- . Strengthening of actuarial reserves with further strengthening contemplated in 1998.

Our Bahamian subsidiary, Global Bahamas Holdings Ltd., reported record profits of approximately \$74 million (US\$2.1 million) in 1997 which represents a return on equity of 16%.

This rate of return is well above the average return on equity of life insurers in North America and reflects strong sales performance and an impressive yield on invested assets. By virtue of our shareholding in this company, LOJ is entitled to 53% of these profits.

Our overseas results were however, adversely impacted by the performance of our Puerto Rican subsidiary, Atlantic Southern Insurance Company (ASICO), which incurred losses of \$56 million, 91% of which accrues to LOJ. Those losses relate mainly to increases in claims reserves to take account of health claims which were understated in previous years. The health lines of business have since been sold and ASICO has re-focused on its core life, cancer and credit insurance businesses.

In the economic contraction and uncertainty which prevailed particularly in the Financial Services sector, although in real terms premium volume of \$2.2 billion recorded a decline, when compared to \$2.2 billion in 1996, it is pleasing to note that at least in nominal terms, this has held.

LOJ has maintained its dominant market position in Employee Benefits with Pension Funds of \$11.9 billion under our management representing a 67% share of the Pension Funds managed by insurance companies, and 50% of the Group Life and 32% of Health Insurance sales respectively.

For the tenth consecutive year, LOJ emerged market leader in new Individual Life sales with a market share of 29.3%. New cases issued for the year stood at 24,992 with new annualised premium income of \$214.9 million for \$3 billion sums insured, bringing our total inforce Individual Life business to \$167.9 billion with 299,556 policies. The conservation rate which is an important barometer of renewal and persistency of our inforce business was 71%. This is disappointing and is receiving priority attention. A new customer service call unit has been established as the centrepiece of our strategy to maximize business conservation for future profitability.

During the year, in keeping with international trends in relation to Fund Management, the Board initiated the formation of a new Company, LOJ Pooled Investment Funds Limited, which aims to reinforce the Company's traditional separation of the pension fund assets from shareholder assets and ensure greater accountability and increased transparency in the management of the funds entrusted to LOJ.

Information Technology, designed to greatly enhance the delivery of service in the Individual Life area of our business and on which we have been working for sometime, has now been implemented and serves Jamaica, the Bahamas and the Cayman Islands. A significant number of our agents are now equipped with Lap Top Computers. Implementation of the Group Life & Health and Mortgage Business systems is scheduled for year end 1998.

Despite the successes, achievements in some areas were disappointing as the expected levels of individual life sales and targets for the disposal of real estate and reduction in overheads were not met. Real estate disposal targets were admittedly set very aggressively at the beginning of the year but perhaps with a more enlightened approach the results could have been different. Unexpected delays in the implementation of the computer system impacted negatively on our ability to reduce overheads to the targeted level but this and the reorganization of the agency force are now behind us and a revised 5 Year Plan with 1998 as the base year has been prepared.

Notwithstanding the injection of \$1.2 billion by way of Preference and Ordinary shares during the year, the company continues to operate with some debt. The anticipated inflow of capital took place in December 1997 as against the July date which our business plan contemplated. Additionally, the company received government guaranteed paper instead of cash. Those changes together with the shortfalls referred to above caused the debt burden to exceed the amount for which we planned.

Fund yields were a mixed picture in 1997 as while the money market and equity funds performed acceptably in the challenging environment, the real estate and tourism funds performed poorly due in the main to the widespread decline in Jamaican real estate values as a result of government's macro-economic stabilization programme and our inability to obtain strata titles for properties for sale due to the slow pace in the delivery of titles by the government's Office of Titles. The Tourism Fund is invested in two major north coast hotels, the valuations on which were reduced in keeping with the lower profitability of their operations.

LOJ is in business for the long haul and there is every indication that our preparedness and willingness to make adjustments consistent with conditions in the economy and our vision of the future have resulted in the company being in a position to face the future. Our focus is on:

- . providing our customers with excellent products and services.
- . delivering a level of customer service that will induce our customers to do repeat business with LOJ.
- . achieving profitability through efficiency in every area of our operation.
- . increasing shareholder value and financial security and value to all stakeholders including policyholders and employees.

The year has been extremely trying and a true test of our mettle. We have experienced some successes and disappointments. We are pleased with the former and seek always to avoid the latter. Our leadership in the industry is predicated not only on dominance in the marketplace but through implementation of strategies and policies that will enable us to remain the preferred company for the insurance buying public in every territory in which it operates.

We wish to thank our fellow directors, managers, employees, pension fund clients, policyholders, the Government and people of Jamaica for their respective efforts towards enabling LOJ to achieve its objectives.

Hon. Dennis H.Lalor, O.J.

Milverton Reynolds
