# Life of Jamaica Limited

# Audited Consolidated Financial Statements

# for the year ended December 31, 2004.

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**Report to our stockholders for the year ended December 31, 2004**

Life of Jamaica Limited (LOJ) and its subsidiaries showed strong balance sheet and earnings growth in 2004.

It was the first full financial year after the successful merger of LOJ and Island Life Insurance Company Limited (island Life). The economic benefits resulting from the synergies of the merger were clearly manifested in the company meeting all its important cost efficiency targets. The operating results were also positively influenced by the significant new business generated by our sales teams. These results, in combination with the more favorable stock market environment, produced a dramatic increase in the stockholders' equity and the company's market capitalization.

The 2004 net profit of $1.43 billion was 18.0% better than the $1.21 billion figure for 2003, despite a doubling of the rates of Premium and Investment taxes. This represented a 28% return on average equity. Basic earnings per share (EPS) was 57 cents as against 53 cents for 2003, a 7.5% increase. The weighted average numbers of shares in issue in 2003 was 2,273,847,287 compared to 2004's figure of 2,539,423,463 and reflects the fact that a substantial block of additional shares were issued for only nine months in 2003, for the Island Life business. On a fully diluted basis, the figures were $0.56 for 2004 and $0.52 for 2003.

The earnings were generated from total revenues of $7.1 billion and were driven principally by:

Excellent new business in the Individual Life and Employee Benefits Divisions.
Containment of operating expenses.
Actuarial gains from a number of internal operating efficiencies.
Realized capital gains of $358 million.

Total assets of the LOJ Group increased by 26.1 % to reach $20.6 billion, while total assets under management (including the LOJ Pooled Investment Funds and the Diversified Investment Funds) were $47.1 billion and showed a 29.4% growth for the year. The return on invested assets was 15.0%. Stockholders' equity stood at $6.4 billion at the year-end, an uplift of 68.4% over the previous year.

The Balance Sheet growth was created mostly from increased business activity, the strong earnings performance and significant capital appreciation of our investment securities. An amount of $1.5 billion, in unrealized gains on "available-for-sale" securities,is being held in Stockholders' Equity on the Balance Sheet.

Market capitalization at the year end was $28.7 billion as compared to $9.8 billion as at the end of 2003, an upswing of 193%. This jump in value was a result of the LOJ share price climbing by almost three fold during the year. At December 31, 2003, the price per share was $3.90. By December 31, 2004, the price had reached $11.30. Additionally, a total of 22,800,000 shares were issued during the year taking the issued capital to 2,543,690,130 shares. These shares were issued to staff as part of the Employee Share Purchase Plan.

LOJ was the industry leader in the production of new Individual Life business during 2004. New annualized premium income of $825 million was settled, approximately 34% of the market. Production in 2004 significantly exceeded the target of $610 million and last years actual of $547 million. This production came with a conservation rate of 89%.

The Employee Benefits Division also produced significant new business during 2004. The Division wrote $710 million of new annualized premiums eclipsing the target of $450 million and the 2003 record of $385 million. In producing these sales, the Employee Benefits Division achieved a conservation rate of 98%.

Excellent investment yields were generated for our clients by the segregated policy funds, the Diversified Investment Fund and the pension funds being managed under trust through the subsidiary, LOJ Pooled Investment Funds Limited (LOJ PIF). These yields ranged from 8.6% in the Segregated Foreign Currency Fund to 111.5% in the PIF Equity Fund.

An interim dividend of $0.10 per share or $254.4 million, for the 2004 financial year, was paid to shareholders during November 2004. Subsequent to the year-end the Board of Directors declared a further dividend of $0.10 per share resulting from the company's strong performance. The market price increase along with the dividend paid represented a significant total return on investment for LOJ shareholders.

In order to sustain earnings growth with a consistent stream of high quality income the company strategically deepened its investment in financial services by acquiring a 51 % interest in the Pan Caribbean Financial Services Group during January 2005. The acquisition of First Life Insurance Company's insurance business is also expected to be concluded very shortly.

On behalf of the Board of Directors, we offer our appreciation to all our valued clients and shareholders as well as the management, staff and sales representatives.

**J.Arthur Bethell**
**Chairman**

**Richard 0. Byles**
**President & CEO**

**Consolidated Balance Sheet**

**as at December 31, 2004**

**(Expressed in thousands of Jamaican dollars)**

| | **December 2004** | **December 2003** |
|---|---|---|
| **Assets:** | | |
| Investments | | |
| Available-for-sale | 4,786,746 | 3,872,476 |
| Originated loans | 5,667,754 | 4,484,827 |
| Securities purchased under resale agreements | 710,476 | 515,888 |
| Short term deposits | 63,123 | 35,283 |
| Investment properties | 585,780 | 360,234 |
| | 11,813,879 | 9,268,708 |
| Investment in associated companies | 4,099 | 4,099 |
| Cash resources | 334,552 | 96,536 |
| Property, plant and equipment | 517,311 | 457,792 |
| Goodwill | 1,020,640 | 788,890 |
| Other assets | 1,840,160 | 1,367,198 |
| Segregated funds' assets | 5,096,916 | 4,380,130 |
| | 8,809,579 | 7,090,546 |
| **Total Assets** | 20,627,557 | 16,363,353 |
| | ========== | ========== |
| **Stockholders' Equity and Liabilities:** | | |
| Policyholders' Funds | | |
| Insurance and annuity liabilities | 3,822,155 | 3,425,916 |

| | | |
|---|---|---|
| Deposit administration funds | 1,389,064 | 1,441,379 |
| Policy funds on deposit | 1,476,529 | 1,286,995 |
| Policy benefits payable | 679,846 | 622,369 |
| | 7,367,594 | 6,776,659 |
| | | |
| Other liabilities | 1,780,462 | 1,366,415 |
| Segregated funds' liabilities | 5,096,916 | 4,380,130 |
| | | |
| **Stockholders' Equity** | | |
| Share capital | 254,369 | 252,089 |
| Share premium | 2,749,812 | 2,685,402 |
| Capital reserves | 2,675 | 2,675 |
| Investment and fair value reserves | 973,164 | (86,144) |
| Currency translation reserves | 317,078 | 294,030 |
| Special investment reserves | 106,888 | 64,496 |
| Retained earnings | 1,978,599 | 627,600 |
| | 6,382,585 | 3,840,148 |
| | | |
| **Total Liabilities and Equity** | 20,627,557 | 16,363,353 |
| | ========== | ========== |

**On behalf of the Board**

**J. Arthur Bethell**
**Chairman**

**Richard O. Byles**
**President & CEO**

**Consolidated Statement of Operations**

**for the year ended December 31, 2004**

**(Expressed in thousands of Jamaican dollars)**

| | December 2004 | December 2003 |
|---|---|---|
| **Revenues:** | | |
| Net premium income | 5,216,692 | 3,830,588 |
| Net investment income | 1,278,439 | 1,158,188 |
| Net gain on disposal of subsidiaries | 0 | 26,411 |
| Co-insurance distributions | 0 | 66,210 |
| Fees and other revenues | 554,977 | 522,098 |
| **Total revenues** | 7,050,108 | 5,603,495 |
| **Benefits and expenses:** | | |
| Policyholders' benefits | 2,355,824 | 1,913,184 |
| Changes in insurance and annuity liabilities | 29,060 | 166,807 |
| Commissions and expenses | 2,873,377 | 2,205,162 |
| Co-insurance distributions | 100,896 | 0 |
| Restructuring costs | 0 | 21,874 |
| **Total benefits and expenses** | 5,359,157 | 4,307,027 |
| Profit before taxation | 1,690,951 | 1,296,468 |
| Taxation | (257,161) | (87,785) |
| **Net profit attributable to stockholders** | 1,433,790 | 1,208,683 |

| | | |
|---|---|---|
| Earnings per stock unit | | |
| Basic | $0.57 | $0.53 |
| Fully diluted | $0.56 | $0.52 |

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## Consolidated Statement of Changes in Stockholders' Equity

## for the year ended December 31, 2004

## (Expressed in thousands of Jamaican dollars)

| | **Share capital** | **Share premium** | **Capital reserves** | **Investment & fair value reserves** | **Currency translation reserve** | **Special investment reserves** | **(Accumulated deficit)/ retained earnings** | **Total** |
|---|---|---|---|---|---|---|---|---|
| Year ended December 31, 2003: | | | | | | | | |
| Balance as at December 31, 2003 | 1,222,308 | 128,985 | 2,675 | (67,251) | 186,116 | 16,724 | (129,968) | 1,359,589 |
| Currency translation differences | 0 | 0 | 0 | 0 | 107,914 | 0 | 0 | 107,914 |
| Unrealised losses on available-for-sale Securities | 0 | 0 | 0 | (39,727) | 0 | 0 | 0 | (39,727) |
| Losses recycled to revenue on disposal and maturity of available-for-sale securities | 0 | 0 | 0 | 8,834 | 0 | 0 | 0 | 8,834 |
| Unrealised gains on revaluation of owner-occupied properties | 0 | 0 | 0 | 12,000 | 0 | 0 | 0 | 12,000 |
| Net profit | 0 | 0 | 0 | 0 | 0 | 0 | 1,208,683 | 1,208,683 |
| Dividends | 0 | 0 | 0 | 0 | 0 | 0 | (403,343) | 403,343 |
| Transfer to special investment reserve | 0 | 0 | 0 | 0 | 0 | 47,772 | (47,772) | 0 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Conversion of zero coupon non- | | | | | | | | |
| cumulative preference shares | (1,056,684) | 0 | 0 | 0 | 0 | 0 | 0 | (1,056,684) |
| Issue of shares | 86,465 | 2,556,417 | 0 | 0 | 0 | 0 | 0 | 2,642,882 |
| **Balance as at December 31, 2003** | **252,089** | **2,685,402** | **2,675** | **(86,144)** | **294,030** | **64,496** | **627,600** | **3,840,148** |
| Period January to December 2004: | | | | | | | | |
| Balance as at December 31, 2003 | 252,089 | 2,685,402 | 2,675 | (86,144) | 294,030 | 64,496 | 627,600 | 3,840,148 |
| Currency translation differences | 0 | 0 | 0 | 0 | 23,048 | 0 | 0 | 23,048 |
| Unrealised gains on available-for-sale | | | | | | 0 | | |
| securities | 0 | 0 | 0 | 1,486,769 | 0 | | 0 | 1,486,769 |
| Gains recycled to revenue on disposal | | | | | | | 0 | |
| and maturity of available-for-sale | | | | | | | | |
| securities | 0 | 0 | 0 | (286,093) | 0 | 0 | 0 | 286,093 |
| Unrealised gains on revaluation of | | | | | | | 0 | |
| owner-occupied properties | 0 | 0 | 0 | 72,602 | 0 | 0 | 0 | 72,602 |
| Net profit | 0 | 0 | 0 | 0 | 0 | 0 | 1,433,790 | 1,433,790 |
| Dividends | 0 | 0 | 0 | 0 | 0 | 0 | (254,369) | (254,369) |
| Transfer to special investment reserve | 0 | 0 | 0 | 0 | 0 | 42,392 | (42,392) | 0 |
| Transfer to retained earnings | 0 | 0 | 0 | (213,970) | 0 | 0 | 213,970 | 0 |
| Issue of shares | 2,280 | 64,410 | 0 | 0 | 0 | 0 | 0 | 66,690 |
| **Balance as at December 31, 2004** | **254,369** | **2,749,812** | **2,675** | **973,164** | **317,078** | **106,888** | **1,978,599** | **6,382,585** |

## Consolidated Statement of Cash Flows

## for the year ended December 31, 2004

## (Expressed in thousands of Jamaican dollars)

| | December 2004 | December 2003 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net profit | 1,433,790 | 1,208,683 |
| Items not affecting cash | (731,524) | 1,490,522 |
| Changes in operating assets and liabilities: | | |
| Due from ultimate parent company | 50,701 | (37,152) |
| Due from parent company | (9,335) | (70,597) |
| Other assets, net | (397,552) | (351,986) |
| Other Liabilities, net | 101,725 | 566,547 |
| | 447,805 | 2,806,017 |
| Interest received | 1,218,416 | 838,758 |
| Interest paid | (343,964) | (44,700) |
| Income tax paid | (90,090) | (144,001) |
| **Cash generated from operations** | 1,232,167 | 3,456,074 |
| **Cash from investing activities:** | | |
| Proceeds from sale of property, plant and equipment | 72,242 | 5,258 |
| Purchase of property, plant and equipment | (112,598) | (203,863) |
| Net purchase of investments | (611,981) | (3,049,470) |
| Insurance portfolios acquired - net of cash | (295,326) | 1,523 |
| **Cash used in investing activities** | (947,663) | (3,246,552) |
| **Cash flows from financing activities:** | | |
| Dividends | (254,369) | (403,343) |
| Associated companies | 0 | 6 |
| Ordinary shares issued | 66,690 | 46,219 |

| | | |
|---|---|---|
| **Cash used in financing activities** | (187,679) | (357,118) |
| **Increase/(Decrease) in not cash and cash equivalents** | 96,825 | (147,596) |
| Cash and cash equivalents: | | |
| Cash and cash equivalents, at beginning of year | 177,153 | 324,421 |
| Currency translation adjustments | 3,798 | 328 |
| Increase/(Decrease) in net cash and cash equivalents | 96,825 | (147,596) |
| **Net cash and cash equivalents, at end of period** | 277,776 | 177,153 |
| | ========== | ========== |

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## Consolidated Segmental Financial Information

## for the year ended December 31, 2004

## (Expressed in thousands of Jamaican dollars)

The Group is managed on a matrix basis, reflecting both line of business and geography. Accordingly, segment information is presented in two formats. The Group is organised into three primary business segments, these are:

a) Individual Life Services - Includes the provision of life insurance services to individuals.
b) Group Services - Includes group insurance; creditor life; personal accident; group annuities; pension funds investment and administration services and the administration of trust accounts.
c) Other operations - Includes property management, general insurance and other corporate items.

Transactions between the business segments are on a normal commercial terms and conditions.

| | **Individual Life Services** | **Group Services** | **Other Operations** | **Eliminations** | **Dec -04 Group** |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| External revenues | 3,543,642 | 3,353,311 | 153,155 | 0 | 7,050,108 |
| Revenue from other segments | 18,984 | 0 | 0 | (18,894) | 0 |
| Total revenues | 3,562,626 | 3,353,311 | 153,155 | (18,894) | 7,050,108 |
| Benefits and expenses | (2,558,822) | (2,581,940) | (237,379) | 18,984 | (5,359,157) |
| Profitl(loss) before tax | 1,003,804 | 771,371 | (84,224) | 0 | 1,690,951 |
| Income tax expense | (100,555) | (156,201) | (405) | 0 | (257,161) |
| | 903,249 | 615,170 | (84,629) | 0 | 1,433,790 |
| Segment assets | 16,217,735 | 4,537,265 | 163,100 | (1,315,282) | 19,602,818 |
| Investment in associates | | | | | 4,099 |
| Goodwill | | | | | 1,020,640 |
| | | | | | 20,627,557 |
| Segment liabilities | 9,882,747 | 4,079,266 | 109,722 | (90,457) | 13,981,278 |
| Retirement benefit obligations | | | | | 263,714 |
| | | | | | 14,244,992 |

| | **Individual Life Services** | **Group Services** | **Other Operations** | **Eliminations** | **Dec-03 Group** |
|---|---|---|---|---|---|
| External revenues | 3,080,044 | 2,450,372 | 73,079 | 0 | 5,603,495 |
| Revenue from other segments | 85,306 | 0 | 0 | (85,306) | 0 |
| Total revenues | 3,165,350 | 2,450,372 | 73,079 | (85,306) | 5,603,495 |
| Operating expense | (2,295,958) | (2,028,349) | (68,026) | 85,306 | (4,307,027) |
| Profit before taxation | 869,392 | 422,023 | 5,053 | 0 | 1,296,468 |
| Income tax expenses | (48,258) | (38,382) | (1,145) | 0 | (87,785) |
| Net Profit | 821,134 | 383,641 | 3,908 | 0 | 1,208,683 |
| Segment assets | 12,556,695 | 3,839,111 | 177,330 | (1,002,772) | 15,570,364 |
| Investment in associates | | | | | 4,099 |
| Goodwill | | | | | 788,890 |
| | | | | | 16,363,353 |

| | | | | | |
|---|---|---|---|---|---|
| Segment liabilities | 8,563,684 | 3,606,892 | 118,207 | (70,718) | 12,218,065 |
| Retirement benefit obligations | | | | | 305,140 |
| | | | | | 12,523,205 |

The Group's secondary format for segment information is geographic:

| | Jamaica | Grand Cayman | Dec 04 Group |
|---|---|---|---|
| Total Revenues | 6,545,667 | 504,441 | 7,050,108 |
| Assets | 17,505,476 | 3,122,081 | 20,627,557 |

| | Jamaica | Grand Cayman | Dec 03 Group |
|---|---|---|---|
| Total Revenues | 5,257,612 | 345,883 | 5,603,495 |
| Assets | 13,999,807 | 2,363,546 | 16,363,353 |

## Explanatory Notes

**1. Accounting Policies**

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS) and have been prepared under the historical cost convention as modified by the revaluation of available-for-sale investment securities, investment property and certain property, plant and equipment.

The computation of insurance and annuity reserves conform with standards established under the Insurance Regulations, 2001, as no specific guidance is provided by IFIRS in this area.

(b) Basis of consolidation

Subsidiaries are consolidated on a line-by-line basis from the date on which control is transferred to the Group and are no longer consolidated from the date on which control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated.

Investments in associates are accounted for by the equity method of accounting. Under this method the company's share of the post-acquisition profits or losses of associates is recognized in the statement of operations and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the company's interest in the associate; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(c) Investments

Investments are classified as available-for-sale or originated loans, as determined by management at the time of purchase.

Available-for-sale securities are initially recognized at cost and are subsequently re-measured at their fair value based on quoted bid prices or amounts derived from cash flow models. Unrealised gains and losses arising from changes in fair value of available-for-sale securities are recognized in Stockholders' Equity.

When the securities are disposed of or impaired, the related accumulated unrealised gains or losses included in reserves are transferred to the statement of operations.

Originated debt securities are initially recognised at cost and subsequently measured at amortized cost using the effective interest rate method.

Investment properties are carried at fair value. Changes in fair value are recorded in the statement of operations.

Securities purchased under agreements to resell (repurchase agreements) are treated as collateralized financing transactions. The difference between the purchase and resale price is treated as interest and accrued over the life of the agreements using the effective yield method.

(d) Cash and Cash equivalents

Cash and Cash equivalents are carried in the balance sheet at cost. For the purposes of the Cash Flow Statement, Cash and Cash equivalents comprise cash in hand, Deposits held with banks with a maturity date of three months or less from the date of acquisition and bank overdraft balances.

**2. Segregated Funds**

The Group manages various unitized funds on behalf of life insurance policyholders. The policyholders share all rewards and risks of the performance of the funds. Consequently, the assets and liabilities of these funds are recorded on the Consolidated Balance Sheet separately from the general funds of the Group. All income and expenditure are recorded directly to the Balance Sheet as an adjustment to "Segregated Funds' Liabilities". Income earned by the Group from investment fees is included in "Fees and Other Revenues" in the Consolidated Statement of Operations.

**3. Pension Funds Under Management**

These funds are held in trust through the subsidiary company, LOJ Pooled investment Funds Limited (LOJ PIF) and the Diversified Investment Funds (DIF). All investment returns accrue directly to the funds with the Group assuming no risks. The assets, liabilities and operations of these funds are not included in these Consolidated Financial Statement. At December 31st 2004 the total funds under management were $26.5 billion (December 2003: $20.0 billion). Administration and investment fees earned by the Group are included in "Fees and Other Revenues" in the Consolidated Statement of Operations.

**4. Earnings Per Stock Unit**

Basic earnings per stock unit are calculated by dividing the net profit attributable to shareholders by the weig hted-ave rage number of ordinary shares in issue during the period.

The diluted earnings per stock unit is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The adjustments relate to un-issued shares for the Employee Share Ownership Plan and un-issued shares for the Executive Stock Option Plan.

**5. Goodwill**

This represents the excess of the cost of acquisition over the fair value of the net assets acquired for Island Life Insurance Company Limited and Capital Life Insurance Company Limited portfolios. Goodwill is amortized on the straight-line basis, over a period of fifteen (15) years, which is estimated to be the economic useful life.

**6. Subsequent event**

On 21 January 2005, Life of Jamaica Limited acquired 226,208,971 shares of Pan Caribbean Financial Services Limited (PCFS) which represent a 43% interest in that company. Combined with its previous 8% interest in PCFS, LOJ has increased its interest to 51 %.