


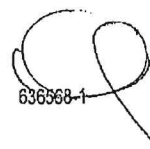
STATEMENT OF THE HON. DENNIS LALOR, O.J.Life of Jamaica (LOJ)

I Dennis Lalor, of [REDACTED] in the Parish of Saint Andrew, states as follows:-

1. In the 1990's Government introduced as a short term measure a high interest rate strategy with penal rates for breaches imposed by financial institutions reaching some 150%. This strategy remained in effect for several years during which time there was high inflation. As a consequence property and stock prices soared.
2. LOJ was one of the two major institutions assuming long term obligations through the provision of pension fund benefits and life insurance. Both of these obligations require longer term investments which based on actuarial recommendations and conventional wisdom at the time, meant investment in real estate and equities (stock market).
3. The property market and the Stock Exchange equities boomed and overheated.
4. Government suddenly changed its policy to one designed to achieve low inflation. The values of properties and equities plummeted and the fall in asset values meant that the asset values no longer matched the liabilities contracted and LOJ therefore needed a substantial injection of capital (equity). The fall in values was exacerbated by the fact that lending institutions like banks had to put substantial real estate holdings on the market for which there was no pool of purchasers as the long term financial institutions did not have the liquidity to provide mortgages to acquire these assets. Investor confidence wavered. Withdrawals from long term savings plans and the cancellation of insurance policies because of falling yields exacerbated the need for funds to meet short term obligations.



5. Months in advance of the meltdown of financial sector the Government was made aware by representatives of the two large life insurance companies, L01 and Mutual Life, that they would be facing a serious crisis and would be in need of capital.
6. When Government took the decision to assist financial institutions it appointed a team headed by Mr. Dennis Booth and Mr. Patrick Hylton to negotiate and settle the assistance which Government would provide. In the case of L01 it required an injection of Tier One capital. The amount of capital it received was based on an assessment done by KPMG and was less than the capital required. In addition the vast majority of the capital it received was not Tier One capital. It was required to issue redeemable preference shares with a fixed coupon rate. The terms and conditions attached to these shares are available from L01.
7. Government also required the appointment of three nominee directors to the Board and they were duly appointed.
8. L01 embarked on a major restructuring of its operations to take account of the shortfall in the amount and quality of capital provided by Government and the consequences of the severity of the meltdown. It came up with a business plan which was submitted to Government detailing the additional financial assistance required to cover the existing long term liabilities of L01. This plan showed that there would be no further need for capital in order for L01 to meet appropriate solvency standards as capital could be generated internally through changes made to the long term liabilities it would undertake and the reduced cost of putting business on its books.
9. GO1 provided further financial assistance to LOJ and took control of L01. I demitted the offices of Chairman and Director. The Government appointed its slate of directors.
10. To the best of my knowledge, the business model adopted by the Board of LO1 when I was Chairman was continued after 1 demitted office.



636568-1

11. The Government sold LOJ to Sagicor, a Barbadian financial group. I recall the regulators indicating that a condition of sale to Sagicor was that Sagicor would guarantee the injection of further capital to meet the agreed solvency standard and that the amount required was J\$1 billion dollars. I am not aware that Sagicor had to inject any capital into LOJ in order for it to meet the solvency standard following the sale.
12. If the purchase price in the sale to Sagicor took account of the need for a capital injection of some J\$1 billion dollars by Sagicor in order for it to meet the solvency standard when in fact this was not required, it would indicate the sale to Sagicor would have been carried out at a gross undervalue. This would have been a consequence of the failure of the Government and the regulators to recognize the efficacy of the business plan provided to and approved by the regulators and implemented by LOJ.
13. Mrs. McLure who headed up the team of regulators with oversight of the life insurance industry and to whom the original business plan was submitted and duly approved when I was Chairman, was appointed President of Life of Jamaica.
14. These written submissions are made entirely from recollection and without reference to any documents or other information as to times, dates, sequences, amounts and other pertinent information which can be verified from the records of LOJ and other documents of record which I do not have in my possession.

DATED the day of , 2010.

HON. DENNIS LA OR, O.,I.

DL2

STATEMENT OF THE HON. DENNIS LALOR, O.J.

Citizens Bank (Citizen's)

I **Dennis Lalor**, of 2 St. Lucia Avenue, Kingston 5 in the Parish of Saint Andrew, states as follows:-

1. Government's policy in the 1990's which, though said to be temporary but lasting for some years, of high interest rates and high inflation caused property and share prices to soar. Citizens lending policy at the time had its emphasis on tangible security particularly real estate the value of which kept escalating as fast or faster than the effects of the high interest rates payable by borrowers.
2. Less than 2 years before the meltdown and collapse of certain financial institutions, Life of Jamaica (LOJ) as the major owner of Citizens had under my watch as Chairman secured a substantial capital investment by Banco Popular (BP) one of the largest banks in Puerto Rico and one of the top fifty in size in the USA, after a comprehensive due diligence by BP and a share offering on the Jamaica Stock Exchange.
3. As a consequence of BP's investment, it appointed directors to the Board who also sat on the Credit and Audit Committees of the Bank, and one of whom chaired the Audit Committee. BP also had representatives involved in reviewing the Bank's systems and operations with a view to streamlining and upgrading these.
4. When the directors of Citizen's recognized that the Bank had an unacceptably high level of non performing loans with security which was impaired and was in need of capital, a team headed by me met with the Chairman of BP.
5. At the meeting the Chairman of BP indicated that when BP made the investment it had not considered the consequences of the change in Government policy; more importantly however was the fact that now the borrowers simply could not repay their indebtedness which had mushroomed with the high interest rates and there was no way in the short term the values of the security held by Citizens would be restored to the value they had previously reached. Consequently the only solution was for the Government to accept the Mexican model "good bank/bad bank" solution with the Government acquiring the "non performing loans" leaving Citizens to operate as a sound adequately capitalized financial institution. He authorized me to make a proposal to the Government that it acquire non performing loans for \$1 billion with an undertaking for

repayment of any shortfall after a period of either five (5) or seven (7) years. Additionally BP would undertake to subscribe for any additional capital Citizens may require.

6. When, at a meeting with the Financial Secretary, I outlined the fact that Citizens had a serious financial crises, she indicated the Bank was not on her "radar screen".
7. At a meeting with a team from the Central Bank and representatives from FINSAC and a committee from the Board, I outlined the problems facing Citizens and the proposal from BP. The Governor of the Bank rejected out of hand the proposal and indicated that he would not be a party to any "creative financing" and FINSAC would provide us with its proposal for refinancing.
8. While it was clear that the Bank needed tier 1 capital, FINSAC'S proposal was to provide mainly debt equity or tier 2 capital by way of preference shares in an amount, which was I believe, in the region of \$400 million. Not only was the financial assistance offered not the required tier 1 capital, it was far below the capital needs of Citizens.
9. LOJ sold the controlling interest in Citizens to Government across the floor of the Jamaica Stock Exchange (JSE) at the price the shares were then trading and FINSAC took control and appointed directors of its choice. I demitted office.
10. I have a recollection that the losses which were racked up by Union Bank (which comprised a merger of banks including Citizens) before it was eventually sold may have exceeded \$[REDACTED]. The losses incurred may be verified from the records of Union Bank and FINSAC.
11. This written submission is made entirely from recollection and without reference to any documents or other information as to dates, times, sequences or amounts or other pertinent information which can be verified from the records of Citizens or LOJ and other documents of record which I do not have in my possession.

DATED the^y day of J , 2010.

