i 1Iil ' f f f*ln U *:,Er; E3 Ir ; J1 (j)

IT IS DIFFICULT FOR ANYONE TO REVIEW AND COMMENT ON THIS PHASE OF OUR ECONOMIC HISTORY WITHOUT EXAMINING THE BACKGROUND LEADING UP TO THE DECISION BY THE THEN MINISTER OF FINANCE TO INTRODUCE FINSAC.
THE INSURANCE INDUSTRY RECORDED PREMIUM INCOME AS SHOWN IN THE FOLLOWING TABLE:

GROSS PREMIUM INCOME-ORDINARY LIFE

YEARS 1993 - 1999

YEAR	BILLIONS	PERCENAGE CHANGE
1993	; $6.426	+28.3
1994	5.300	-17.5
1995	5.512	+4.0
1996	4.366	-20.8
1997	4.117	-5.7
1998	3.778	-8.2
1999	4.752	+25.8

THESE NUMBERS CLEARLY *SHOW* THAT BETWEEN 1994 *AND 1999* SOMETHING *OF* DISASTIROUS DIMENSIONS OCCURRED IN THE INDUSTRY. THE PROBLEM DID NOT START IN 1996/7 AS ADVOCATED BY SOME; IT BEGAN IN 1994 WHEN THE POLICIES OF THE GOVERNMENT AND THE CENTRAL BANK IN EARLIER YEARS, TO INCREASE THE MONEY SUPPLY, BEGAN TO TAKE ON NEW MEANING.THE ACTIONS BY THE MINISTER OF FINANCE CAME THREE OR FOUR YEARS LATE WHEN THE DAMAGE TO THE INDUSTRY APPEARED 1RREPAIRABLE. THIS TROUBLED PERIOD IS ALSO REFLECTED IN THE INVESTMENT TABLE BELOW WHICH SHOWS THE CATEGORIES OF INVESTMENTS DURING THE SAME PERIOD AS ABOVE:

INVESTED ASSETS OF LIFE INSURANCE COMPANIES AT END OF YEAR

1994 -1999

($ Billions)

CATEGORY	1994	1995	1996	1997	1998	1999
Real Estate	8.00	9.21	9.49	8.75	no data available	3.10
Mortgages	0.53	0.59	0.45	0.45	no data available	0.18
Government Paper	0.71	0.84	1.43	3.91	no data available	12.39
Policy Loans	0.34	0.38	0.46	0,48	no data available	0.61
Unit Trust	0.54	0.44	7.00	0.66	no data available	❑.20
Common Stock	2.21	2.20	1.99	1,13	no data available	0.63
Debentures/commercial Bonds	0.05	0.40	0.53	0.34	no data available	0.18
Deposits	1.66	2.34	2.28	2.27	_	2.21
Other	8.60	10.32	5.13	2.72	no data available	1.64
TOTALS	**22.68**	**26.75**	**28.81**	**20.76**	no data available	**21.48**

In 1998 the industry was in turmod and therefore there was no formal reporting.

THESE TABLES SHOW THE DECLINE IN PREMIUM INCOME AND THE SHIFT IN INVESTMENTS FROM THE TRADITIONAL LONG TERM INSTRMENTS TO GOVERNMENT SECURITIES, A SITUATION THAT CONTRIBUTED TO THE EVENTUAL RUN ON BANKS AND INSURANCE COMPANIES AND IT IS AGAINST THIS BACKGROUND THAT WE NOW SET OUT ISLAND LIFE'S POSITION REGARDING THE FINSAC `INTERVENTION" AND THE ULTIMATE DECIMATION OF THE FINANCIAL SECTOR..

ISLAND LIFE ENJOYED A HIGH PROFILE OVER THE YEARS AND THIS, ALONG WITH REPORTED PROFITS ENSURED THAT ITS SHARE PRICE WAS MAINTAINED AT A REASONABLY HIGH LEVEL. HOWEVER, OPERATIONALLY THE COMPANY WAS IN FACT EXPERIENCING SEVERE OPERATIONAL AND INVESTMENT LOSSES WHICH RESULTED IN EXTENSIVE BORROWING REACHING A PEAK IN 1996. THE COMPANY BETWEEN 1994 AND 1996 WAS FORCED TO TRANSFER SIGNIFICANT AMOUNTS FROM INVESTMENT RESERVES TO THE REVENUE ACCOUNTS TO AVOID MAJOR FINANCIAL CONSEQUENCES. THE PLIGHT OF THE INDUSTRY WAS COMMUNICATED TO THE GOVERNMENT BUT IT WAS NOT UNTIL IN 1997 THAT ISLAND LIFE, WITH LIMITED FINSAC ASSISTANCE WAS IN A POSITION TO ATTEMPT CORRECTING THE PROCESS.

ISLAND LIFES'S NET INVESTMENT INCOME WAS NEGATIVE SINCE 1994 (WHEN THE HIGH INTEREST RATE REGIME STARTED). IN ADDITION THE INTRODUCTION OF UNIVERSAL LIFE INVESTMENT TYPE PRODUCTS BY "PLAYERS" IN THE INDUSTRY WORSENED THE SITUATION, IN THAT; DEPOSITS FROM THOSE POLICIES HAD TO BE USED TO MEET OPERATIONAL AND INVESTMENT EXPENSES. IT SHOULD BE NOTED THAT THE HIGH RETURNS ON GOVERNMENT SECURITIES FUELLED EXCESS LIQUIDITY IN THE ECONOMY WITH LIMITED INVESTMENT OPPORTUNITIES; THE EXCESS FUNDS REFERRED TO AS "HOT MONEY" RESULTED FROM THE GOVERNMENT POLICIES TO MOP UP LIQUIDITY IN AN EFFORT TO PROTECT THE EXCHANGE RATE BUT INSTEAD IT CREATED HAVOC IN THE ECONOMY.

THE COMPANY (ISLAND LIFE) ALONG WITH OTHER COMPANIES IN THE INDUSTRY WAS OBLIGED TO OFFER GUARANTEED INTEREST RATES FOR FIXED PERIODS IN ORDER TO COMPETE WITH THE BANKS, AN EMERGING NEW BAND OF SECURITY DEALERS AND TO SOME EXTENT, THE GOVERNMENT. THESE GUARANTEES WERE OFTEN IN EXCESS OF THE RETURNS THAT COULD BE EARNED THEREFORE COMPANIES WERE FORCED TO BORROW TO MEET THE SHORTFALL AND THEIR POLICY OBLIGATIONS. THE SITUATION WAS AGGRAVATED BY THE EXTENDED PERIOD OF THE HIGH INTEREST RATE REGIME WHICH MADE THE COST OF FUNDS PROHIBITIVE.

THE FINANCIAL SECTOR AND, IN PARTICULAR THE INSURANCE INDUSTRY, LONG REGARDED AMONG THE MOST CRITICAL IN PROVIDING LONG TERM INVESTMENTS AND GENERALLY PROVIDE A BASIS FOR SOME FORM OF ECONOMIC ACTIVITY WAS NOW IN A DILEMA. IN 1994 THE INSURANCE INDUSTRY ACCOUNTED FOR INVESTMENTS IN EXCESS OF $22 BILLION DOLLARS WHICH INCLUDED $8 BILLION IN REAL ESTATE, 2 BILLION IN COMMON STOCK AND $700 MILLION IN GOVERNMENT SECURITIES.BY 1997 THERE WAS A DRAMATIC SHIFT IN INVESTMENTS, COMMON STOCKS FELL TO ONE BILLION, REAL ESTATE REMAINED STABLE AND GOVERNMENT SECURITIES SOARED TO $4 BILLION. THIS WAS UNDOUBTEDLY AN INDICATION THAT SOMETHING UNUSUAL WAS HAPPENING IN THE ECONOMY. GOVERNMENT SECUTITIES WERE ESSENTIALLY RISK FREE WHICH MADE THEM ATTRACTIVE. THERE WAS A SHARP

DECLINE IN THE EQUITIES MARKET. IN 2000 THE PICTURE WAS EVEN MORE DRAMATIC; REAL ESTATE INVESTMENTS FELL TO UNDER $3 BILLION AND GOVERNMENT SECURITIES INCREASED TO $20 BILLION.

ALTHOUGH TODAY THERE IS A VIBRANT STOCK MARKET IT IS WORTHY OF NOTE THAT INVESTMENT IN GOVERNMENT SECURITIES IS STILL THE MAJOR INVESTMENT VEHICLE IN THE ECONOMY.

THIS PERIOD IN OUR HISTORY SHOULD BE EXAMINED AGAINST THE REALITY OF THE FAILING EQUITIES MARKET AND AN INDIFFERENT REAL ESTATE MARKET. IN EARLIER YEARS, COMPANIES IN THE FINANCIAL SECTOR AND THE INSURANCE INDUSTRY IN PARTICULAR, INVESTED HEAVILY IN REAL ESTATE AS THE LOGICAL MEANS OF PROVIDING LONG TERM ASSETS TO MEET LONG TERM POLICYHOLDERS LIABILITIES. THE EMERGENCE OF 'INVESTMENT TYPE' POLICiESTO COMPETE WITH OTHER FINANCIAL INSTITUTIONS ALTHOUGH PROVIDING HIGH RETURNS FOR "POLICYHOLDERS", CREATED A NIGHTMARE FOR INSURERS BECAUSE THEY COULD NOT READILY CONVERT THE LONG TERM ASSETS TO MATCH THE NOW SHORT TERM LIABILITIES. THE EUPHORIA OF HAVING ACCESS TO THESE LARGE SUMS OF "HOT MONEY" COMPLETELY OVERSHADOWED CERTAIN FUNDAMENTAL PRINCIPES - SHORT-TERM MONEY LIABILITIES CANNOT BE SECURED BY LONG-TERM ASSETS, ALTHOUGH IT WAS A MATTER OF WHAT WAS THOUGHT TO BE "SURVIVAL" THAT FORCED THE INDUSTRY INTO THAT SITUATION. THERE WAS TOO MUCH LIQUIDITY IN THE MARKET.

IN AN ATTEMPT TO MOP UP THIS EXCESS LIQUIDITY, THE GOVERNMENT BEGAN OFFERING EXTREMELY HIGH INTEREST RATES ON THEIR INSTRUMENTS WHICH HAD AN IMMEDIATE AND DEVASTATING IMPACT ON THE INSURANCE SECTOR BECAUSE DEPOSITORS NOW BEGAN WITHDRAWING THEIR FUNDS TO SEEK GOVERNMENT PAPER. THE INSURANCE COMPANIES, AND TO A LESSER EXTENT BANKS, HAD TO OFFER HIGH RETURNS IN ORDER TO REMAIN COMPETITIVE WHILE ATTEMPTING TO DISSUADE DEPOSITORS FROM WITHDRAWING THEIR FUNDS. IT IS NOW WELL KNOWN THAT THERE WAS A RUN ON A NUMBER OF BANKS AND INSURANCE COMPANIES BECAUSE DEPOSITORS BELIEVED THAT THEIR ATTEMPT TO DISSUADE WAS A COVER UP FOR NOT HAVING THE FUNDS TO MEET THE DEMANDS AND THEY WERE PARTIALLY RIGHT. ISLAND LIFE HOWEVER WAS ABLE TO HONOUR ALL ITS OBLIGATIONS ON DEMAND WITHOUT DELAY.

THE OUTCOME SHOULD HAVE BEEN PREDICTABLE; A CRASH OF THE SECTOR. THE RELATIVE STRENGTHS OF THE VARIOUS COMPANIES CAME INTO FOCUS - THOSE WITH MORE DIVERSE PORTFOLIOS MANAGED TO SOME EXTENT, AND THOSE WITH A CONCENTRATION OF REAL ESTATE SUFERED SEVERELY.

ISLAND LIFE IN RECONIZING THE DEVASTATION THAT LAY AHEAD FOR THE INDUSTRY DEVELOPED WITHIN THE STATED OBJECTIVE OF FINSAC "...TO FIND A LONG TERM SOLUTION FOR THE INDUSTRY".THIS PROPOSAL WAS AUDITED BY KPMG PEAT MARWICK AND SUBMITTED TO FINSAC IN UGUST 2007 FOLLOWED SHORTLY AFTER BY HEADLINES IN THE PRESS STATING THAT THE ISLAND IFE'S PROPOSAL WAS ACCEPTED BY FINSAC AND IT WAS EXPECTED TO BE APPROVED BY THE FINSAC OARD. THE PROPOSED SOLUTION ESSESTIALLY SOUGHT TO MERGE FIRST LIFE, DYOLL LIFE AND

CROWN EAGLE INTO ISLAND LIFE, CLEARLY SHOWING A PATH TO SUSTAINABLE GROWTH AND PROFITABILITY WITHOUT MUCH EXTERNAL FINANCING.

ISLAND LIFE NEVER RECEIVED A FORMAL RESPONSE FROM FINSAC ALTHOUGH IT WAS RUMOURED THAT THE PROPOSAL WAS REJECTED. WE AT ISLAND LIFE CONSIDERED THE LACK OF A RESPONSE AND EVEN THE OPPORTUNITY TO PRESENT THE PROPOSAL AS AN INDICATION THAT THERE MAY HAVE BEEN OTHER FACTORS THAT WE WERE UNAWARE OF. IT WAS LATER STATED THAT FINSAC'S ROLE WAS TO STABILIZE AND THEN REHABILITATE THE INDUSTRY. SUBSEQUENT ACTIONS BY FINSAC SUGGESTS THAT IT MAY HAVE BEEN THE BELIEF OF THE GOVERNMENT THAT DISPOSING OF THE COMPANIES TO EXPATRIATE INTERESTS WOULD YIELD SIGNIFICANT FUNDS. THE REALITY WAS THAT SELLING THE COMPANIES MEANT ENSURING THAT THE ASSETS WERE SUFFICIENT TO MEET THE POLICYHOLDERS LIABILITIES HENCE THERE WERE NO RESIDUAL FUNDS FOR THE COFFERS OF THE GOVERNMENT.

IT IS OUR SINCERE BELIEF THAT ISLAND LIFE'S NEEDS WERE MINISCULE WHEN COMPARED TO OTHER PLAYERS IN THE SECTOR AND A CAREFUL AND OBJECTIVE EVALUATION OF OUR PROPOSAL WOULD HAVE YEILDED A DIFFERENT OUTCOME. IT IS ALSO WORTH NOTING THAT ISLAND LIFE WAS NOT TAKEN OVER BY FINSAC, IT WAS SOLD TO BARBADOS MUTUAL LIFE ASSURANCE SOCIETY, NOW SAGICOR. MUTUAL LIFE, DYOLL LIFE, CROWN EAGLE AND LIFE OF JAMAICA WERE ALL TAKEN OVER BY FINSAC.

SOME MAY ARGUE THAT HAD FINSAC OFFERED THE ASSETS AT $0.30 IN THE DOLLAR TO THE PREVIOUS OWNERS OF SUCH ASSETS, INSTEAD OF THE FOREIGN OWNED ENTTY, THERE WOULD NOT HAVE BEEN SUCH A SIGNIFICANT ECONOMIC DESTRUCTION ACROSS SUCH A WIDE CROSS SECTION OF THE SOCIETY.

<u>WAS ISLAND LIFE FAIRLY TREATED? THE ANSWER</u> TO <u>THIS QUESTION HAS TO BE A RESOUNDING</u> <u>NO.</u> BARBADOS MUTUAL INHERITED A COMPANY THAT HAD REORGANIZED ITS OPERATIONS, EXCEPT FOR THE DISPOSAL OF THE HEAD OFFICE BUILDING WHICH WE IMPLORED FINSAC TO ACQUIRE ; HOWEVER THEY REFUSED. NEVERTHELESS, AS PART OF THE DEAL WITH BARBADOS MUTUAL TO ACQUIRE ISLAND LIFE, FINSAC AGREED TO ACQUIRE THE BUILDING. IT SHOULD BE NOTED THAT WHEN THAT BUILDING WAS STARTED THE EXCHANGE RATE WAS JA$5.50 TO ONE US$; HOWEVER, SOON AFTER CONSTRUCTION COMMENCED THE RATE WENT TO JA$22.00, RESULTING IN THE INITIAL BUDGETED COST MOVING FROM JA$89 MILLION TO OVER JA$489 MILLION WHEN IT WAS COMPLETED. THIS NATURALLY HAD THE EFFECT OF SKEWING ISLAND LIFE'S INVESTMENT PORTFOLIO IN FAVOUR OF REAL ESTATE. HOWEVER, BY THIS TIME, THE ECONOMY DECLINED AND EFFORTS BY THE COMPANY TO REALIGN THE PORTFOLIO PROVED DIFFICULT.

<u>CONCLUSION:</u> ISLAND LIFE WAS A STRONG COMPANY UNTIL THE EVENTS OF THE MID NINETIES EVOLVED AND IT DEFIES LOGIC TO EXPLAIN WHY IT WAS NECESSARY TO GIVE UP OWNERSHIP OF SUCH AN IMPORTANT SECTOR OF THE ECNOMY TO FOREIGN OWNERSHIP. NOW THAT THE "DUST" HAS SETTLED, THE QUESTIONS ARE MANY AND SHOULD RIGHTFULLY DEMAND EXPLANATIONS. IT IS A PERIOD OF OUR HISTORY AS A NATION THAT MAY VERY WELL BE FORGOTTEN WITHOUT BEING PROPERLY DOCUMENTED AS WE OBSERVE THE EXPATRIATION OF THE "GRAVY" FROM THE NEW OWNERS OF OUR INSURANCE INDUSTRY.

i 1 ;lr- r.E;E** 1* f fid; l , (j 3

WE FEAR THAT THE TRUTH WILL NEVER BE KNOWN LEAVING MOST, IF NOT EVERY ONE, ESPECIALLY THE DEVASTATED ONES, TO WONDER WHAT WAS THE TRUE ROLE OF FINSAC.

NOVEMBER 09, 2009.

ISLAND LIFE INSURANCE COMPANY LIMITED

Proposal to Finsac Limited in respect of the merger, by acquisition, of the insurance portfolios of Crown Eagle Life Insurance Company Limited, Dyoll Life Limited and First Life Insurance Company Limited

Private and confidential

August 29, 1997

Executive Summary

By seeking the merger, through acquisition by Island Life Insurance Company Limited (Island), of the insurance operations of Crown Eagle Life Insurance Company Limited (CEL), First life Insurance Company Limited (FLIC) - individual life portfolio only - and Dyoll Life Limited (Dyoll), this proposal addresses the concerns of Finsac Limited (Finsac) in respect of the Jamaican life insurance sector. This would ensure long-term financial strength, enhance the quality of competition in the industry and consolidate Finsac's interests to ensure that they can be profitably disposed of in due course in accordance with a public policy biased towards wide ownership. We believe that this consolidation of insurance operations, none of which is strong enough to be immediately profitable on its own, would be in the best interests of the economy and the companies' stakeholders (policyholders, stockholders, financiers, including Finsac, core competent employees and agents):

Financial justification:

- Profit emergence would be significantly earlier (by 1999) with the merger than without (by 2001).

- Projected stock prices utilising very reasonable assumptions indicate that the enhanced entity encompassing all four operations would, in addition to being able to comfortably redeem its entire preference capital from liquid funds in 2002, provide a gross gain on Finsac's disposal of its equity in Island of J$ 532 million or an annualised rate of return of approximately 50%. Without CEL, this would only be J$ 285 million and redemption of preference capital may have to be staggered.

- The embedded value of the combined portfolio would immediately double. Thereafter, with J$ 100 million of new business in 1997, increasing at 5% per annum thereafter, the embedded values increase by 50% when CEL is included.

  Maturity profiles referring to the matching of assets and liabilities taken over a defined time horizon would significantly improve. By adding CEL appropriately reconstructed, to an amalgamation of Island, Dyoll and FLIC, the situation immediately improves: The long-term negative mismatch at December 31, 1997 supportable by the short-term positive mismatch improves to 32% (which rises to 85% in 2002). We believe that we can manage the risk related to this level of long-term negative mismatch provided CEL is included in the amalgamation.

- Our sensitivity analyses show that the enhanced entity would be fairly resilient to normal business uncertainty.

- As part of its initial support for Dyoll, Finsac subscribed to J$ 38 million of equity capital in Dyoll Group Limited, a listed company. We believe that the stock price of Dyoll Group should react favourably. This will essentially permit Finsac to book a fairly early capital gain on this part of its financing support to the sector.

Executive Summary, cont'd Operational

and economic justification

- The merger of the portfolios will immediately result in an enhanced policy base that will allow for economies of scale and hence greatly reduced administration costs per policy. In the first year, this would add approximately J$ 22 million to the enhanced entity's bottom *line* and would be a driving force behind its long-term profitability.

- In the next two years we expect that policies administered annually by an employee will increase from 470 per employee to over 880.

- There is great potential synergy in the proposed mergees' product lines, pricing structures, policyholder servicing, human resources, support services, locations, agency forces, distribution and advertising. We are confident that the process of assimilation would be smooth, creating an entity with 22% new business market share. This would ensure long-term competition in a consolidated life insurance sector.

Public policy justification

- Island has no stockholder that can individually control the majority of the company's voting rights. Additionally, management proposes to institute the framework for enhanced worker participation in the profits of the enhanced entity by introducing an employee stock ownership plan (ESOP) in 1998. As such Island would be unique among surviving joint stock life insurance companies in Jamaica. The Government of Jamaica may wish to utilise a future exit by Finsac to further broaden the ownership base of a relatively widely-held company.

Our proposal

The preliminary proposal entails issues of 12.5% Cumulative Redeemable Preference Shares to Finsac and Dyoll: J$ 120 million for the CEL portfolio; J$ 57.1 million for Dyoll's insurance and health portfolios and J$ 162 million for Finsac's preference shareholding in Dyoll.

- The FLIC insurance portfolio would be transferred to Island in an 'under-asseted' manner to reflect the purchase price.

- To properly match the maturity profile of assets and liabilities, Finsac would substitute cash for the CEL Head Office Building (approximately J$ 120 million net). Additionally, CEL has approximately J$ 700 million of deposit insurance liabilities backed by real estate. We anticipate that Finsac will accede to issuing guarantees to cover the deposit liabilities and attendant interest expense and the expanded entity would act merely as an administrator of this component on behalf of Finsac in future.

- Finsac's initial support to Island aggregating J$ 300 million would remain unaffected,

ISLAND LIFE INSURANCE COMPANY LIMITED

Proposal to Finsac Limited in respect of the merger, by acquisition, of the insurance portfolios of Crown Eagle Life Insurance Company Limited, Dyoll Life Limited and First Life Insurance Company Limited

Contents

Detailed profiles of insurance operations

Report on financial projections by KPMG Peat Marwick

Financial projections 1997-2007

Notes and assumptions underlying the financial projections

Detailed sensitivity analyses

Proposed time frame and implementation schedule

1. Background and situation analysis

1.1 Overview of life insurance industry

1,1 ,l A properly regulated and capitalised indigenous life insurance industry can serve as an able mechanism to mobilise long-term savings and channel them into productive investments. If the maturity profiles of investment returns and saving flows are properly matched in both the short and long terms, the resultant benefits to the overall economy, shareholders and policyholders have proven in most cases to be considerable.

L1.2 The indigenous insurance industry was born in the seventies as a result of the policies and attitudes of the Government of Jamaica, Conditioned by beliefs that its inward flows were essentially long-term and that ownership of real estate in Jamaica is the main basis for long-term wealth formation, the industry tended to invest in long horizon infrastructure-type projects with large real estate components. These premises remained valid as long as high J$ inflation, negative real interest rates, capital controls and disinterested consumers with few investment alternatives, were the norm.

1,1.3 The insurance industry is essentially a long term business. Current premiums must generate significant cash flows to be invested for the long term at rates of return sufficient to guarantee inflows in the future for the payment of benefits. Also, policy acquisition costs being high, the key to long-term profitability is prudent matching of investment returns to insurance liabilities within the context of low ongoing administration costs,

1,1.4 Whilst globally there was a continuing trend towards the consolidation of capital, particularly in the insurance industry, the Jamaican economic model of the late seventies and eighties permitted relatively small high-cost operators to survive. In terms of market share, based on new business generation, at December 1996, the estimated relative size of the major life insurance companies, all locally controlled, in Jamaica was as follows:

	Market share (%)		Market share(To)
Life of Jamaica	36%	NCB Insurance/Omni	7%
Mutual Life	28%	Prime Life	7%
Crown Eagle	8%	Dyoll Life	4%
Island Life	7%	First Life	3%

1.1.5 With deregulation and the lifting of most capital controls, the Jamaican investor has basically been provided with choice. Local investment alternatives must provide high real (hard currency) returns, This paradigm shift was coupled with high interest rates which created very attractive short-term risk-free investment alternatives. By coincidence, much of the life insurance industry had invested in 'big-ticket', relatively inefficient, commercial developments at this time, The unplanned competition from risk-free government paper converted the previously

1. Background and situation analysis, cont'd

1.1 Overview of life insurance industry, cont'd

long-term investment horizon of a large component of the industry's capital sources to short-term forcing the introduction of short-term investment-type investments to cover financing shortfalls. At the same time, the development stage of much of the industry's investments created a very adverse mismatch of assets and liabilities.

1.1.6 In 1995 and 1996, policyholders, in response to dwindling returns on short-term life-insurance investments and the risk-free prospects available in high-interest government paper, cashed in such investments en mass. The industry borrowed short-term high-cost funds to finance these encashments. The resulting interest expense exacerbated the short-term solvency issue and that of long-term survival.

1,1.7 During the second half of 1996, the heads of the various life insurance companies carried out a comprehensive study of the industry to establish the extent of the cash deficiency and the impact this was having on the individual companies. The results clearly showed that the industry was becoming desperate and, without some form of assistance, policyholders long-term savings and investments were in danger of being almost totally eroded. The insurance companies decided to approach the government for assistance to avert a total collapse of the life insurance sector. Following extensive studies and discussions, the government established The Financial Sector Adjustment Company (now Finsac Limited) with a part of its mandate being to rationalise the insurance industry and to provide financial assistance as necessary.

i .1.8 So far Finsac has taken over certain Eagle Group companies, including Crown Eagle Life Insurance Company Limited (CEL), and has agreed to invest, among others, J$300 million in Island Life Insurance Company Limited (Island) and J$200 million in Dyoll Life Limited (Dyoll) and its parent company, Dyoli Group Limited. In addition, extensive cost-cutting exercises have been executed in all of these companies, which have cut their infrastructure to the very minimum necessary to service existing portfolios. However, the long-term financial viability of these entities, and those with similar economics, continues to remain uncertain.

1,1.9 The financial support provided by Finsac since the beginning of 1997 has addressed short-term solvency issues. We believe that it is now opportune for Finsac (and the Government of Jamaica) to review the various policy options and introduce a solution that will best suit the sector's long-term survival and ultimately its profitability,

1.2 Objectives of Finsac

Finsac is an industry-wide recovery operation with a stated limited life of five to seven years. As such, it is our perception that its mission can be restated in terms of the following objectives of any corporate recovery operation:

- To provide short-term liquidity support, whilst evaluating alternative long term solutions,

1. Background and *situation* analysis, cont'd

1.2 Objectives of Finsac, cont'd

- Alternative long-term solutions could be to:

  Shut-down - clearly not an alternative, given the industry's vital economic role as a mobiliser of savings and reducer of uncertainty.

  Sell to a source of capital - local long-term capital is not available; therefore a sale may have to be made to foreign interests. It may not be desirable from a policy perspective to place ownership, in foreign hands, of an indigenous insurance industry that has a proven record of mobilising capital for productive projects that serve the national interest, e.g. the development of housing and tourism plant. With regard to full-blown state ownership it is felt that there are sufficiently competing demands on government finance and management at the macro level (education, health, public security, etc.) to preclude the need to get involved in the ownership of businesses, We believe that proper regulation would produce at **least the same** economic benefits for the society.

  – Rationalise and review the operations and capitalisation of individual entities operating in the sector to make them individually more efficient. As stated in 1.1.8, despite extensive cost-cutting exercises in all of these companies, which have cut their infrastructures to the very minimum necessary to service existing portfolios, the longterm financial viability of these entities, and those with similar economics, remains uncertain.

  – Review the sector as a whole and facilitate the formation of entities of sufficient economic size and quality, that will be able to survive and ultimately be profitable in the long-term by:

    reaping economies of scale and introducing enabling technologies not available to them at present;

    ensuring that the entities' maturity profiles are improved, if not completely corrected;

    enhancing the quality of competition in the sector as a whole; and

    – creating circumstances that will make the sector easier to regulate.

  We believe this is the only feasible long-term alternative.

- At the end of the recovery and rehabilitation process, to reap the value so added with the objective of minimising the cost to the public exchequer in the long-term.

1. Background and situation analysis, cont'd

1.3 Company Profiles

1.3.1 This proposal deals with the future long-term viability of life and related insurance portfolios of four, individually small, insurance companies:

Island Life Insurance Company Limited -Island
- Crown Eagle Life Insurance Company Limited (controlled by Finsac) -CEL First Life Insurance Company Limited (individual life portfolio only) -FLIC Dyoll Life Limited -Dyoll

1.3,2 Detailed corporate profiles, as adjusted for portfolio assets and liabilities to be merged, are attached in Appendix 1. A summary is provided below;

Financial Information:

Company (J$ millions)	Assets	Liabilities	Annual Life Premiums	Annual Pension Deposits	Annual Health Premiums
Crown Eagle	700	700	283	26	0
Dyoll Life	480	330	67	13	200
First Life	305	305	80	0	0
Island Life	1,804	1,859	411	128	0
Total	3,289	3,194	841	167	200

Policy Information:

	Individual life			Group life	Pens	Health
Company	Policies (000s)	Sum assured (J$billions)	Pals. #	Sum assured (J$billions)	Pals.	Pals. #
Crown Eagle	39.3	8.7	101	1.9	12	0
Dyoll Life	37.0	3.2	101	1.0	1	15,000
First Life	28.8	4.1	0	0.0	0	0
Island Life	58.8	17.9	279	13.4	171	0
Total	163.9	33.9	481	16.3	184	15.000

i billion = 1000 million

2. An opportunity for Finsac

2.1 The Boards of Directors of Island, FLIC and Dyoll have individually and collectively decided, after careful review of their current operations and prospects for further rationalisation and efficiencies therein, that their long-term survival as individual entities is less than certain. Two of these entities - Island and Dyoll - are recipients of Finsac financial assistance, in aggregate J$ 500 million. Further discussions and analyses (see section 4: Justifications) indicate that a merger of the three entities, even with the absorbed Finsac assistance, would still create, at best, an agglomeration that would not necessarily have:

- the desired base maturity profile, hence financial strength;
- the requisite operational synergies to generate a sufficient level of critical mass on which to build a competitive business in the future;
- appropriate synergies in human resources; and
- the desired base from which to broaden ownership as a means to finance Finsac's profitable exit in a five year time period.

2.2 Finsac already controls CEL, which is slightly larger in terms of new business market share as compared to Island itself, but evidencing the same long-term uncertainties, on an individual basis as the other three companies. However, CEL is operationally very complementary to Island. With appropriate financial adjustments, the addition of CEL's portfolio to the agglomeration described in 2.1, would go a far way to addressing the shortcomings set out in respect thereof.

2.3 Finsac has already addressed, or is addressing *individually*, the financial needs of Life of Jamaica Limited and The Jamaica Mutual Life Assurance Society, the two major players in the Jamaican life insurance sector. Our understanding is that Prime Life Assurance Company Limited and NCBIOrnni have not sought Finsac assistance. Therefore, we believe that *this proposal addresses Finsac's entire remaining concerns* in respect of the Jamaican life insurance sector as regards:

- creating a critical mass, hence ensuring long-term financial strength;
- enhancing the quality of competition in the industry; and
- consolidating Finsac's interests in an entity in a manner that will ensure that they can *be* profitably disposed of in due course in accordance with public policy biased towards wide ownership.

ISLAND LIFE **INSURANCE** COMPANY LIMITED
Proposal to Finsac Limited .

3. Our proposal

3.1 We propose the merger, through acquisition by Island, of the insurance operations of CEL (Finsac), FLIC (individual life portfolio only) and Dyoll.

3.2 Our submission assigns preliminary values for the portfolios to be acquired as follows:

	JS million
CEL	120.0
Dyoll	57.1
FLIC	71.3

3.3 The preliminary proposal (see also section 5: Financing issues) for financing the merger entails issues of :

- 12,5% Cumulative Redeemable Preference Shares to Finsac - par value of J$ 120 million for the CEL Portfolio,
- 12.5% Cumulative Redeemable Preference Shares to Dyoll - par value of J$ 57.1 million for its insurance and health portfolios; and
- 12.5% Cumulative Redeemable Preference Shares to Finsac for the par value of J$ 162 million in exchange as replacement for its preference shareholding in Dyoll.

3.4 The FL1C insurance portfolio would be transferred to Island in an `under-asseted' manner to reflect the purchase price.

3.5 **It** is anticipated that Finsac will substitute cash for the CEL Head Office Building (approximately J$ 120 million net) in order to properly match the maturity profile of assets and liabilities, Additionally, CEL has approximately J$ 700 million of deposit insurance liabilities backed *by* real estate. The proposal anticipates that Finsac will accede to issuing guarantees to cover the deposit liabilities and attendant interest expense; implying that the expanded entity would act merely as an administrator of this component of CEL's portfolio on behalf of Finsac in future.

3.6 This would result in an entity with a 22% new business market share. We believe that this consolidation of insurance operations, none of which is strong enough to be immediately profitable on its own, would be in the best interests of:

the economy in terms of generating efficiencies and competition;

the companies' stakeholders (policyholders, stockholders, financiers, including Finsac, core competent employees and agents)

3.7 Finsac's initial support to Island aggregating J$ 300 million would remain unaffected. This consists of an equity investment in Island of J$ 77.9 million (or 26,5%) and J$ 222 million held as 12.5% Cumulative Redeemable Preference Shares.

3. Our proposal, cont'd

3.8 As part of its initial support for Dyoll, Finsac subscribed to J$ 38 million of equity capital in its parent company, Dyoll Group Limited, a company listed on the Jamaica Stock Exchange. Since Dyoll and its investments were the main 'drag' on the performance of Dyoll Group, and this proposal seeks to divest Dyoll Group of this loss-maker, we believe that the stock price of Dyoll Group should react favourably. This will essentially permit Finsac to book a fairly early capital gain on this part of its financing support to the sector.

ISLAND LIFE INSURANCE COMPANY LIMITED Proposal to Finsac Limited

4. Justifications

4.1 Financial justification

4.1,1 A review of the long-term financial indicators over the period of the financial projections set out in Appendix 3 reveals that the addition of CEL to an agglomeration of Island, Dyoll and FLIC would be extremely beneficial. The indicators utilised were;

- Profit emergence

  Projected stock prices;

  Embedded values; and

- Maturity profiles (asset-liability matching).

4,1,2 A review of the detailed projections reveals that profit emergence would be significantly earlier with the merger than without. This indicates that the period of uncertainty would be materially shortened with the adoption and implementation of our proposal. Below we show the comparative circumstances:

	First year of profit
Island (as is)	2001
Island+Dyoll-+-FLIC	2000
Island+Dyoll+FLIC+CEL	1999

4.1,3 For purposes of projecting stock prices at the end of 2002, we assumed that: A

certain level of liquidity will return to the stock market; and

- Jamaican stocks will trade at earnings multiples derived from those attaching to US stocks, i.e. the Jamaican capital market would be fully integrated with that of the US except that a country risk premium of approximately 33,33% will hold (accordingly insurance company shares would trade at an average earnings multiple of 12, compared with the current US composite for insurance companies of 19).

We do not believe that these assumptions are unreasonable as they reflect past performance. The projected stock prices for 2002-2007 are shown below:

J$ per stock unit

	2002	2003	2004	2005	2006	2007
Island (as is)	11	12	14	17	21	25
Island+Dyoll+FLIC	28	46	60	78	97	119

Island+DyolI+FLIC+CEL	47	76	97	123	154	192

4. **Justifications, cont'd**

4. 1 Financial justification, contd.

4.1.3 Projected stock prices, cont'd.

A review of the projection per Appendix 3, read along with the foregoing, clearly shows that the enhanced entity encompassing all four operations would, in addition to being able to comfortably redeem its entire preference capital from liquid funds in 2002, provide a gross gain on Finsac's disposal of its equity in Island of f$ 532 million or an annualised rate of return of approximately 50%,

4.1.4 The embedded value of the business can be defined as the present value of the profits emerging from the insurance operations in the future discounted at an appropriate interest rate - the risk rate of return. The inforce block of business for each Company has been evaluated on similar bases as per the assumptions outlined in Appendix 4. A review of the comparative embedded values confirms the conclusion arrived at in 4.1.2.

Current scenario:

The table below shows the embedded values placed on the in-force business for each company a separate going concern assuming no new business is written. The calculations also assume that each of the operations continues with their current expense structures.

	Value of Inforce (J$ millions)
CEL	69.3
Dyoll	0.0
FLIC	18.9
Island	189.0
	277.2

Consequent to merger:

The effect of the combined insurance and investment portfolios, along with the greatly reduced administration expenses, doubles the embedded value to J$ 554 million.

Comparative benefits of merger with new business included:

With J$ 100 million of new business in 1997 increasing at 5% per annum (half from Island and half from CEL), the embedded values increase by 50% when CEL is included.

(*J$* million)

	2002	2003	2004	2005	2006	2007
Island+Dyoll+FLIC	1,475	1,613	1,748	1,874	1,992	2,101
Island+Dyoll+FLIC+CEL	2,218	2,419	2,615	2,802	2,972	3,116

4. **Justifications, cont'd**

4.1 Financial justification, contd.

4,1.5 Maturity profiles refer to the matching of assets and liabilities taken over a defined time horizon. A positive mismatch means that there are more assets at a particular maturity profile than there are liabilities at that maturity profile. A negative mismatch means that there are insufficient assets at a particular maturity profile to support the liabilities at that maturity profile, Short term is considered periods of up to one year, medium term is 1 to 5 years, and long term is over 5 years. Net current assets do not include income-bearing assets and are excluded for the following discussion.

Both at December 31, 1997 and 2002, assuming projected sales of real estate, Island (on its own) has a short to medium term positive mismatch as well as a longterm positive mismatch. However, by combining with FLIC and Dyoll, the situation worsens considerably because of the long-term negative mismatch brought by Dyoll.

By adding CEL to the amalgamation, however, the situation immediately improves: The long-term negative mismatch at December 31, 1997 supportable by the shortterm positive mismatch improves to 32% (which rises to 85% in 2002). We believe that we can manage the risk related to this level of long-term negative mismatch provided CEL is included in the amalgamation.

4,2 Administration synergies

4.2.1 The combined blocks of business will bring approximately 164,000 policies together as follows:

	Policies #	Estimated current cost per policy Th
Island Life	59,000	700
Crown Eagle	39,000	768
First Life	29,000	1000
Dyoll Life	37,000	1000

The merger of the portfolios will immediately result in an enhanced policy base that will allow for economies of scale and hence greatly reduced administration costs per policy - at least to those of Island *already achieved*. In the first year, we believe that this will add approximately J$ 22 million to the enhanced entity's bottom line and would be a driving force behind its long-term profitability.

4,2.2 Operating systems

The portfolios of Island, CEL, FLIC and Dyoll are remarkably similar, and are administered by the CAPSIL 4.015.0 operating systems using the same AS400 hardware platform. The portability of these systems will allow the hardware for CEL and Island to share a single location, be linked and run simultaneously during the transition stage, allowing customer services to be unaffected. The hardware currently utilised by Dyoll and FLIC will not be transferred.

4. Justifications, cont'd

4,2 Administration synergies, cont'd

4.2.3 Product lines

The product lines of the companies are extremely complementary. The current major sellers for all companies are Interest Sensitive and Unit Linked products. Island and Dyoll have very popular Universal Life product lines which the other companies do not and CEL has a successful unit linked product which can replace a similar but unsatisfactory product at Island. Further, CEL's very popular and successful balanced fund (Crown Eagle Growth Fund) and FLIC's successful segregated funds (Money Market, Equity, Real Estate and Opportunity Funds) may be added to existing products as alternative investment options. A detailed actuarial review of all insurance products offered by the companies will be carried out to determine a competitive and profitable core of products with which to launch the enhanced entity.

4.2.4 Pricing structures

Although a detailed comparison has not yet been done, the pricing philosophies appear to be similar in the recovery of marketing costs through front end loading in the first two policy years. It is anticipated that the final combined product selection will be very attractive to consumers and agents.

4.2.5 Policyholder Servicing

All companies have well trained customer service representatives proficient in CAPSIL. The learning curve for product familiarisation should be gentle due to product similarities.

4.2.6 Human Resources

All of the companies involved in the merger have already gone through restructuring exercises in order to bring expenses in line with those supportable by the business. The human resources remaining now are those most experienced and capable of managing the operations. The merged entity will enjoy the benefit of selecting the top quality staff (or 'stars') from the four companies, leading to a significant improvement in the quality, management and productivity of staff. Given the high quality and experience of the merged staff complement, it is anticipated that the learning curve will be minimal and the cross-training straight forward, allowing for a smooth and timely transition. In the next two years we expect that policies administered annually by an administration employee will increase from 470 per employee to over 880.

4,2.7 Employee Benefits

The employee benefits divisions of the companies involved exhibit tremendous synergies. The combined blocks will bring together 481 Group Life cases (279 from Island, 101 from CEL and 101 from Dyoll) and 184 pension cases (171 from Island, 12 from CEL and 1 from Dyoll).

4. Justifications, cont'd

4.2 Administration synergies, cont'd

Island and CEL support only group life and group pension business, therefore the fit is ideal. Dyoll has, in addition, an extensive health portfolio of 162 cases covering 15,000 lives with annual premiums of J$200 million.

With the new Group Life Administration System at Island and the existing Group Life system at Dyoll, the need for additional staff above the complement of 14 currently administering and selling the Island portfolio should be minimal.

4.2.8 Financial Support Services

The Finance, Investment, Accounting, and Actuarial areas have staff at varying levels of expertise. An in-depth analysis will be carried out to identify the needs of the new entity, and to correlate the needs with the resources available,

An important and recommended approach to the financial reporting of the new entity is the use of fund accounting which will provide clear and precise information on the asset and liability relationships by line of business. Island is currently in the process of implementing a financial reporting system with this feature,

4.2.9 Location

It is preferable that all individual life administration services be housed in one Head Office location. At this time, the Island Life Centre is a likely choice due to its location, available space and attendant services, The significant reduction in current occupied space will materially reduce rental and other overhead costs.

4.3 Marketing synergies

4,3.1 Manpower and distribution

The merged entity will have a combined agency force of about 210 agents (before attrition) operating out of 5 or 6 locations across the Island. Island's mature and experienced agency force with its solid client base will provide stability of business, Dyoll's and FLIC's agents will provide expertise in specialised areas of insurance (annuities, health) while CEL's younger and vibrant agents will provide enthusiastic growth. The different markets targeted by these groups of agents will add diversity and range to Island's existing client base. The fit here is undeniable. The combined agency operations will present a challenge to competitors based on the fit of complementing age profiles, training and experience. Together, the merged entity should eventually have a formidable size to produce the sales growth assumed.

4,3,2 Branch structure

The Duke Street branch office of CEL encompasses a state of the art workspace concept with non-dedicated space for the agents, with the capacity to accommodate

4. Justifications, cont'd

4.3 Marketing synergies, cont'd

approximately 80 sales agents. This will allow for a consolidation of branch offices and offer significant savings in the branch overheads. It is possible that a combination of the Island network and particular CEL rural offices could be cost effective. Island has 5 branches, 3 in Kingston in two locations, 1 in Mandeville, and 1 in Montego Bay. CEL's branch network is concentrated in downtown Kingston (one location), with rural operations in Mandeville, Sav-la-Mar, Ocho Rios and Montego Bay, serving primarily as collection offices from the Eagle Group bank facilities. Dyoll , with 38 agents, has one branch operation, located in downtown Kingston, and permanent presence in Ocho Rios, Montego Bay, and Santa Cruz. First Life has 23 agents operating out of the head office located in New Kingston.

4,3,3 Distribution and Advertising

An increasingly important consideration in today's market is the development of various distribution channels such as telemarketing, Development and research costs must be supported by ongoing operations. Advertising plays a key role in the insurance industry, and only those companies with a significant market share can justify the cost of a proper marketing campaign and strategy.

4.4 Broad-based ownership

4.4. 1 Island Life is a long-standing company listed on the Jamaica Stock Exchange. As such, we believe that we have several faithful stockholders who will not only support a future stock offering but will be willing buyers for any stock that Finsac may want to divest itself of in the future. Consequently, we expect the stock to be more liquid than others in the industry.

4,4.2 Island has no stockholder that can individually control the majority of the company's voting rights. As such Island would be unique among surviving joint stock life insurance companies in Jamaica. The Government of Jamaica may wish to utilise a future exit by Finsac to further broaden the base of a relatively widelyheld company.

4.4.3 Island's management proposes to institute the framework for enhanced worker participation in the profits of the enhanced entity by introducing an employee stock ownership plan (ESOP) in 1998. The expected benefits of the ESOP proposal have however not been included in the financial projection.

4.5 Sensitivity analyses

4.5. 1 The following sensitivity tests were performed on the base projections as set out in Appendix 3 for the CEL and Island blocks only:

Test (1) Lapse rates increase by 2% from 5% to 7% in the fourth policy year and onward.

4. Justifications, cont'd

4.5 Sensitivity analyses, cont'd.

Test (2) Inflation rates increase from 10% to 15% such that:

Per policy expenses grow at 7.5% p.a. up from 5% pa. Interest crediting rates are forced to increase by 5%, from 12% to 17% p.a.

Interest earnings increase commensurably at 5%, from 15% to 20% p.a.

- Growth rates for segregated funds increase by 5%.

Test (3) New Business sales growth increases from 5% to 10% per year.

Test (4) New Business Issue costs per policy increase from J$3,000 to J$5,000.

Test (5) The company will not be able to make real estate gross sales of J$ 325 million in 1998 and J$ 325 million in 1999.

4,5,2 Detailed sensitivity analyses are set out in Appendix 5. The key results are as follows:

Test (1) Lapse Rates up 2%

The results are very sensitive to changes in the lapse rates and are adversely affected by an increase in these rates. The value falls by 10% from J$ 1054 million to J$ 947 million. Lapse rates will require continual monitoring and strategies for improving retention rates will be developed accordingly.

Test (2) Inflation rates increase from 10% to 15%

The sensitivity of the values to the interest rates and inflation rates will be valid over a broad range, from at least 10% per annum to 25% per annum for both economic indicators.

Average annual interest and inflation rates over the last 25 years have exceeded 20%. The projections are very sensitive to these two economic factors, somewhat more so for fluctuations in inflation. The test assumes that the correlation between inflation rates, earned interest rates and interest crediting rates holds true (i.e. interest rates are 5% above inflation rates and credited interest rates are 3% below earned interest rates). The value falls by 19% from J$1054 million to J$ 851 million.

4. Justifications, cont'd

4.5 Sensitivity analyses, cont'd,

4.5.2 Key results, cont'd:

Test (3) New Business sales growth increases from 5% to 10% per year

More aggressive new business targets means more cash resources are required to support the heavier cost of acquiring more business while maintaining profit targets. Profits emerge more slowly but the long term value of the business increases. The value increases by 10% from J$ 1054 million to IS 1157 million.

Test (4) New Business Issue costs per policy increase from J$3,000 to J$5,000

The expense of issue is a key component in achieving desired profits. Any increase in the costs of issuing a policy will have a negative effect on operations, The value falls by 9% from J$ 1054 million to J$ 964 million.

Test (5) The company will not be able to make real estate gross sales of J$ 325 million in 1998 and J$ 325 million in 1999.

The projections assume that the expanded entity will be able to sell, either on the open market, or by private treaty with government, real estate with a gross value as stated in 1998 and 1999. Should these sales not be possible nor government support forthcoming, the value falls by 10% from J$ 1054 million to J$ 953 million.

4,5.3 The key conclusion of the above analyses is that the enhanced entity would be fairly resilient to normal business uncertainty.

5. Financing issues

5.1 Financing alternatives

The financing required to effect the proposed merger will be subject to much negotiation and fine-tuning. We have briefly outlined our preferred alternative for the financing of the deal for Finsac's consideration.

5.2 Recommended financing structure

5.2.1 Our preliminary proposal for financing the merger would entail issues of :

- 12.5% Cumulative Redeemable Preference Shares to Finsac - par value of J$ 120 million for the CEL Portfolio,

- 12.5% Cumulative Redeemable Preference Shares to Dyoll - par value of J$ 57.1 million for its insurance and health portfolios; and

- 12.5% Cumulative Redeemable Preference Shares to Finsac for the par value of J$ 162 million in exchange as replacement for its preference shareholding in Dyoll and affiliates.

5.2.2 The FLIC insurance portfolio would be transferred to Island in an 'under-asseted' manner to reflect the purchase price.

5.2.3 It is anticipated that Finsac will substitute cash for the CEL Head Office Building (approximately J$120 million net) in order to properly match the maturity profile of assets and liabilities. Additionally, CEL has approximately 1$ 700 million of deposit insurance liabilities backed by real estate. The proposal anticipates that Finsac will accede to issuing guarantees to cover the deposit liabilities and attendant interest expense; implying that the expanded entity would act merely as an administrator of this component of CEL's current portfolio on behalf of Finsac in future.

5.3 Benefits of recommended financing structure

5.3.1 Finsac would continue to have a significant ownership of 26.5% of Island and would benefit by the resultant effects of financial leverage on the projected stock price.

5.3.2 The additional Finsac funding would be limited to the value of the CEL Head Office building.

5.3.3 The CEL and FLIC acquisitions could be effected simultaneously, with the Dyoll purchase soon thereafter, hence reducing the risk of portfolio degradation.

6. Concluding remarks

6.1 This proposal has been reviewed by the Chairmen and Presidents of Island, Dyoll and FLIC and has their agreement in principle. It therefore represents the first consensus emerging from the industry that seeks to give effect to Finsac (and the government's) policy objectives of:

- facilitating the formation of entities of sufficient economic size and quality, that will be able to survive and ultimately be profitable in the long-term;

whilst

- adding value to the economy taken as a whole.

6.2 We look forward to a favourable response to our submission and look forward to working with Finsac in achieving our common objectives.