

**FINANCIAL SECTOR ADJUSTMENT COMPANY LIMITED
ANNUAL REPORT FOR THE 2011/12 FINANCIAL YEAR**

1.0 INTRODUCTION

1.1 The matter for tabling in the Honourable House of Representatives is the Annual Report for the Financial Sector Adjustment Company Limited (FINSAC) for the 2011/12 financial year.

2.0 OVERVIEW

2.1 FINSAC was established by the Government of Jamaica (GOJ) on January 29, 1997 with the mandate to resolve the liquidity and solvency crisis, which existed in the financial sector at that time. In pursuit of this mandate, FINSAC undertook several activities geared towards:

- Strengthening the financial management capability of intervened institutions
- Creating an attractive environment for investors to re-capitalise financial institutions
- Restoring liquidity and solvency to distressed institutions.

2.2 The Company's intervention in the financial sector contributed to the restoration of stability in the sector. Currently, the Company is involved in residual activities, as it seeks to wind down its operations.

3.0 DISCLOSURES

3.1 Auditors' Report

3.1.1 Deloitte and Touche conducted an audit of the Company's accounting records in accordance with the International Standards on Auditing. Without qualifying their Opinion the auditors drew attention to the insolvent state of the Company as well as the uncertainty surrounding its ability to continue as a going concern. The Auditors reported that the Company's financial statements were in compliance with International Financial Reporting Standards and indicated that the financial statements give a true and fair view of the Company's financial position as at March 31, 2012 and of its financial performance and cash flows for the year then ended.

3.2 Compensation to Senior Executives

3.2.1 Pursuant to the Second Schedule (Part 1) of the Public Bodies Management and Accountability Act 2001 (amendment 2011), details of the compensation packages of the three (3) senior executives, as well as fees paid to directors are enclosed (Appendices 1 & 2). Given that the Company provides management services to the Financial Institutions Service Limited (FIS), only 75% of staff cost is accounted for by FINSAC. In this regard, \$11.63 million of the total staff costs was apportioned to FINSAC, which represented a minimal increase of \$0.69 million above the \$10.94 million for 2010/11.

4.0 OPERATIONAL HIGHLIGHTS

4.1 Asset Management and Sale

4.1.1 During the review period, FINSAC continued its efforts to divest the remaining assets, (real estate, and artwork) in its portfolio; however no sale was achieved. Of particular note, the Culloden and Drax Hall Estate properties which were both advertised in 2010/11 were still pending offers for sale.

4.2 Non-Performing Loans Portfolio

4.2.1 In January 2002, FINSAC sold its non-performing loans portfolio to the Jamaica Redevelopment Foundation (JRF). An initial payment of US\$23 million was received and based on the sale agreement the Government is entitled to a tiered proportion, ranging from 15% to 50% of net collections. The Government's share of net collections, during the review period was 45%. In this regard, FINSAC received a total of US\$3.40 million of gross collections of US\$8.10 million. This resulted in FINSAC's cumulative receipts, since the sale of the loan portfolio to JRF, totalling US\$73.80 million (including the initial deposit). Checks made with FINSAC indicated that the new owners are still interested even though negotiations were suspended. This is expected to resume shortly.

4.2.2 The review period represented the first full year under new management for JRF. Beal Bank, the former owners, sold its portfolio during the last quarter of 2010/11 to JRF, Tennessee, LLC. During the review period, the new owners expressed an intention to acquire the government's share of the residual inflows and PricewaterhouseCoopers determined a value of US\$10 to US\$16 million as at December 2011. FINSAC has informed that the new owners are still interested even though the negotiations were suspended. It is expected that the negotiations will resume shortly.

4.3 Litigation Matters

4.3.1 Several litigation matters were pursued including those in respect of claims by FINSAC against former executives of intervened entities, as well as by former debtors of intervened entities whose loans have been sold to JRF. There was continued delay regarding an appeal by Dr. Paul Chen-Young and two entities in the Eagle group, against a court ruling for FINSAC to be paid \$1 billion (plus interest). Meanwhile, in accordance with a Court Order, pending the appeal, FINSAC continued to pay the living expenses of US\$5,000 monthly to Dr Chen Young. The Company also paid his legal fees and payment of both obligations were facilitated from net funds collected in respect of the rental of Eagle's Grenada Crescent property.

4.3.2 There were also claims by former customers against intervened entities. These included a case against Eagle Commercial Bank (ECB) for allegedly withholding funds in a customer's account. A trial in respect of the case concerning ECB was held and closing arguments were still pending at the close of the period. Meanwhile, Workers' Bank (WB) had honoured cheques drawn on its customer's chequing account in total disregard to the account mandate signed by the customer. The WB matter remained in abeyance notwithstanding that

an out-of-court settlement was raised; the requested legal opinion to determine FINSAC's liability was not forthcoming.

5.0 Commission of Enquiry

5.1 During the year, FINSAC appeared before the Commission to give evidence and for questioning. The sitting ended in November 2011 and the Commission's report is being awaited.

6.0 FINANCIAL HIGHLIGHTS

Table 1 Cross-section of FINSAC'S Financial Statement for March 2011/12 (\$'m)

Details	Audited 2011/12	Audited 2010/11	Variance (\$)	Variance (%)
Interest Income from Loans	4,296.77	4,095.92	200.85	5%
Interest Income on Deposits	41.97	25.87	16.10	62%
Allowance for impairment losses	-4,072.21	(3,532.77)	(539.44)	15%
Net Interest Income	266.53	589.02	(322.49)	-55%
Other Operating Income	0.03	525.08	(525.05)	-100%
Other Gains and Losses	5.64	(11.45)	17.09	-149%
Total Income	272.2	1,102.65	(830.45)	-75%
General and Administrative Expenses	-104.12	(55.73)	(48.39)	87%
Net Surplus for the Year	168.08	1,046.92	(878.84)	-84%

6.1 Profitability

6.1.1 Table 1 shows that FINSAC recorded a net surplus of \$168.08 million, a significant reduction by \$878.84 million or 84% below the \$1,046.92 million achieved in the prior year. The decline resulted from impairment losses of \$4,072.21 million, as well as a \$525.05 million decrease in other operating income. Supplementary to these general and administrative expenses, moved to \$104.11 million from \$55.73 million at March 31, 2011. This was influenced primarily by \$42.12 million and \$11.24 million increase in legal and professional fees and salaries respectively. This increase in administrative expenses was countered partially by a decline of \$4.02 million in the provision for lawsuits.

6.1.2 Other operating income fell to \$0.03 million chiefly since there was a write-off in 2010/11 of bond interest payable (\$414.77 million) to FINSAC controlled entities, which ceased operating. Additional allowances for impairment losses (\$539.44 million) were made in line with reduced collections from loans sold to JRF. Meanwhile, costs of \$42.12 million were incurred for fees paid to attorneys in the Commission of Enquiry and the valuation of the Government's residual share of the JRF loans, contributed to the increased general and administrative expenses. Of note, staff costs increased by \$9.7 million due mainly to a

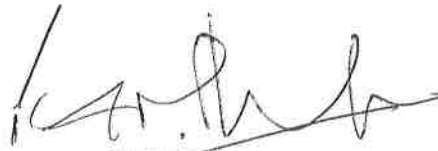
correction for a previous year (2009/10) to account for the apportionment of salary costs between FINSAC and FIS in the ratio of 75:25 respectively.

7.0 Balance Sheet

7.1 As at March 31, 2012, net liabilities amounted to \$1,424.81 million compared to \$1,286.32 million recorded in the prior year. FINSAC's solvency position declined particularly as assets fell by \$139.82 million or 3% to \$1,849.02 million at March 31, 2012. The resulting net assets deficiency of \$1,424.81 million was due primarily to a decline by \$100.46 million and \$138.24 million in receivables and cash and cash equivalents respectively. This was countered by a partial increase of \$125.80 million in securities purchased under resale agreements as the Company entered into reverse repurchase agreements collateralised by Government of Jamaica securities.

8.0 CONCLUSION

8.1 During the review period, the Company's total equity declined by \$138.49 million, occasioned by a net decline of \$139.82 million in total assets. While several delays impacted negatively on the activities pursued, FINSAC remained focused on its efforts to finalise residual activities, with a view to expediting the winding-up process.



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