

MINISTRY PAPER 2/14
FINANCIAL INSTITUTIONS SERVICES LIMITED
ANNUAL REPORT
FOR THE YEAR ENDED MARCH 31, 2012

INTRODUCTION

1. The matter for tabling in the Honourable House of Representatives is the Annual Report of the Financial Institutions Services Limited (FIS) for the year ended March 31, 2012.
2. FIS was incorporated on September 29, 1995 with the mandate to manage the operations of the Blaise financial institutions comprised of Blaise Trust Company and Merchant Bank Limited, Blaise Building Society and Consolidated Holdings Limited. It is wholly owned by the Government of Jamaica. On October 15, 1997 the Company also took over the operations, assets and prescribed liabilities of the Century National Financial Entities, namely Century National Bank Limited, Century National Building Society and Century National Merchant Bank and Trust Company Limited. FIS manages the operations of these entities in order to maximise the realisation of proceeds from the rental or sale of assets, and hence honour the prescribed liabilities of the respective financial entities. The Company, through its subsidiary, the Jamaica Mutual Properties Limited (JMPL), continued to provide property management services for the warehouse complex at Osbourne Road.

DISCLOSURES

Auditors' Report

3. KPMG conducted an audit of FIS's accounting records in accordance with the International Standards on Auditing. The auditors indicated that, except for the following qualifications, the financial statements give a true and fair view of the financial position/performance of the Company, as at March 31, 2012.
 - a. The preparation of the financial statements on the going concern basis may not be appropriate given the uncertainty related to the Company continuing as such. This, as the Company continued to record considerable shareholders' net deficit (\$430.37 million: March 2011: \$481.44) and net current liabilities (\$431.64 million: March 2011- \$483.12 million). The auditors also indicated that no provision has been made for the effect that the resolution of this uncertainty may have on the carrying values of the Company's assets and liabilities.
 - b. The Company has not prepared consolidated financial statements to include its wholly owned subsidiary, JMPL. Instead, FIS accounts for its investment in subsidiary at cost, less provision for any impairment. This is not in accordance with International Financial Reporting Standards (IAS 27- Consolidated and Separate Financial Statements). The auditors indicated that they were unable to determine the consolidation adjustments which would be deemed necessary to comply with the requirements of IAS 27.
 - c. The existence and value of assets belonging to the former principal directors/shareholders of the Blaise Financial Institutions have not been recognised in the financial statements. The transfer of these assets to FIS, which comprise primarily shares and stock in unlisted

companies and real estate holdings, was approved by way of a Deed of Settlement dated June 2006. However, due to inadequate supporting documentation, the existence and value could not be determined.

- d. A judgement was handed down by the Privy Council in November 2005, upholding the decision of the Supreme Court made in 1999, requiring the repayment to FIS of \$3 billion plus interest by the former officers of the Century Financial Entities and their companies. The judgement related to claims for damages and breach of fiduciary duty. Real estate with an estimated value of \$250 million was identified to be applied against this judgement, however the realisation of this amount and collection of the residual balance is uncertain and no amount has been recognised in the financial statements.

Executive Emoluments

4. FIS's executive management function is undertaken by the Financial Sector Adjustment Company (FINSAC). Of note, 25% (\$3.88 million) of total emoluments for the three (3) Senior Executives were allocated to FIS during 2011/12. FIS also utilises FINSAC's Board of Directors and the related fees are fully accounted for by FINSAC.

OPERATIONAL HIGHLIGHTS

5. Based on an out of court settlement with the former Chairman of the Blaise Financial Entities, the Chairman transferred his 60% shareholding in Greenlight Car Rental and Transport Limited to FIS during the 2009/10 financial year. An agreement was signed in December 2010 for the sale of Greenlight Car Rental and Transport Limited's 33% shareholding in United Motors Limited to the majority shareholder. This translated to a 19.8% shareholding by FIS in United Motors Limited and the Company realised US\$400,000 from the sale. Sale of the latter shares to the majority shareholder was finalised in December 2011 but as the Greenlight shares were not transferred to FIS, the funds are being held in name of Greenlight pending the formal transfer.

6. FIS is seeking to appoint a new attorney in the Greenlight and Century litigations to finalize these transfers and handle various outstanding matters in the Century case with a view to selling remaining properties to further reduce the judgment debt of over \$6 billion. Additionally, surplus funds of \$23 million that was approved by the Board of Directors are to be distributed to the former employees of Jamaica Mutual Properties Limited (JMPL)¹. Efforts are underway to identify all of the former employees of JMPL for the surplus distribution.

FINANCIAL HIGHLIGHTS

Profitability

7. FIS realised a net profit of \$34.92 million for the period. This represented a decline of \$31.68 million or 48% below the \$66.60 million in the prior year. Collection from the Jamaica Redevelopment Fund (JRF) was the primary contributor to FIS's outturn, although bad debts

¹ The surplus distribution related to contributions that were made to a defined benefit pension fund by both the JMPL and the members to the plan.

recovered were \$37.47 million or 55% below the previous year. This decline however, can be tied to the low performance of the JRF for the period under review.

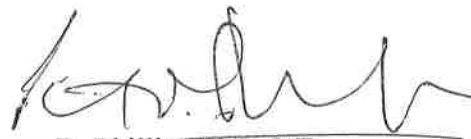
8. The aforementioned reduction in revenue was further exacerbated by an increase in the cost of operations and administration by \$2.67 million to \$11.94 million. Of note, staff and related costs rose by \$1.41 million or 23% to \$7.52 million, due mainly to overtime associated with the FINSAC Commission of Enquiry, as well as payment to staff for vacation leave not taken in 2011. Other notable increases in administrative overheads were auditors' remuneration (\$0.48 million) as the auditor's fees were increased for the period. Further, miscellaneous expenses rose by \$1.37 million above the \$0.21 million posted in the prior period, with amounts of \$0.88 million and \$0.49 million, attributable to payment to a savings account holder of Century National and related audit expenses respectively.

Balance Sheet

9. While FIS remained insolvent, profitability contributed to an overall reduction in the reported shareholders' net deficit from \$481.44 million to \$430.38 million at March 31, 2012. Also, the working capital deficit which moved to \$431.64 million from \$483.12 million at March 31, 2011 was impacted positively by a \$22.69 million improvement in current assets, with investments increasing by \$16.68 million, accounts receivable and prepayment \$4.61 million, cash and cash equivalents \$0.98 million and taxation recoverable by \$0.42 million. Simultaneously, Current liabilities were reduced by \$28.79 million, attributable to declines of \$28.67 million and \$1.34 million in owing to related companies and accounts payable and accruals respectively.

CONCLUSION

10. FIS continued to pursue residual activities relating to its controlled entities and the sale of shares received from the former Chairman of Blaise Financial entities, as part of an out of court settlement. The collections on loans sold to JRF declined. However, FIS recorded a net surplus of \$34.92 million during the 2011/12 financial year. The company remained committed to its mandate to manage the operations of the Blaise financial institutions comprised of Blaise Trust Company and Merchant Bank Limited, Blaise Building Society and Consolidated Holdings Limited.



Peter D. Phillips PhD, MP
Minister of Finance and Planning
September 23, 2013