

MINISTRY PAPER

#187/16

**FINANCIAL SECTOR ADJUSTMENT COMPANY LIMITED
ANNUAL REPORTS FOR THE 2012/13 AND 2013/14 FINANCIAL YEARS**

1.0 INTRODUCTION

1.1 The matter for tabling in the Honourable House of Representatives is the Annual Reports for the Financial Sector Adjustment Company Limited (FINSAC) for the 2012/13 and 2013/14 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. 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 The auditors, KPMG, conducted the audits of the Company's accounting records in accordance with the International Standards on Auditing, and expressed qualified and unqualified opinions for the 2012/13 and 2013/14 statements respectively. The qualified opinion was given on the basis that the Company did not prepare consolidated financial statements¹ to include its wholly-owned subsidiaries, in accordance with the Companies Act of Jamaica and IAS 27 (Consolidated and Separate Financial Statements). KPMG indicated that except for the effects, if any, of adjustments as might have been determined to be necessary with respect to the aforementioned, (2012/13 only), the financial statements give a true and fair view of the Company's financial performance and changes in equity and cash flows for both years, as well as its financial position as at March 31, 2013 and March 31, 2014. As a matter of emphasis, the auditors indicated for both years, that the continuation of the Company as a going concern was in doubt due to its significant net current liabilities and shareholders' net deficit.

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 2014), details of the compensation packages of the three (3) senior executives, as well as fees paid to directors are enclosed (Appendices 1 & 2). FINSAC provides management services to the Financial Institutions Service Limited (FIS), consequently staff cost are shared between FINSAC and FIS in the ratio of 75:25 respectively. In this regard, \$11.89 million (2012/13) and \$12.34 million (2013/14) of the total staff costs were apportioned to FINSAC. Director's emoluments for 2013/14 amounted to \$305,000 (2012/13: \$442,000).

¹ See management's basis for non-consolidation at Note 2 (C) of the Financial Statements.

4.0 OPERATIONAL HIGHLIGHTS

4.1 Asset Management and Sale

4.1.1 Attempts to dispose of the remaining artwork by way of public auction had not been very successful. Accordingly, during 2012/13, FINSAC's Board approved the transfer of all remaining artwork to the National Gallery. This was done in order to preserve the quality and value of the art works.

4.1.2 Following an advertisement in May 2013 offering various properties for sale, acceptable offers were received for two properties in Drax Hall and one in Shaw Park, which netted over \$360 million. The amount was subsequently transferred to the Accountant General's Department (AGD) as refund of contributed capital.

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). Based on the loan sale agreement, FINSAC is entitled to a share of net collections. However during 2013/14, FINSAC sold its residual interest in the portfolio for US\$6.50 million to JRF; payment was received in March 2014 and was used to refund capital to the AGD. This brought to an end the relationship with JRF as it relates to the loan portfolio acquired from banks during the intervention period. Of note, total inflows since the initial sale to JRF is US\$87.10 million, comprising the initial deposit of US\$23 million, collections of US\$57.60 million during 2002-2014, and the final sale price.

4.3 Litigation Matters

4.3.1 The Company continued to pursue numerous litigation matters. These include:

1) *Appeals by Dr. Paul Chen-Young and two entities within the Eagle Group*

A long standing appeal by Dr. Paul Chen-Young and two entities in the Eagle Group to pay \$1 billion (plus interest) to FINSAC against a 2006 court ruling was finalized in 2013/14. Also held in 2013/14 was a trial related to a lawsuit of bias pursued by Dr. Chen-Young, held in 2013/14. Decisions were awaited in both cases. Meanwhile, in accordance with the Court Order, FINSAC continued to pay the living expenses of US\$5,000 monthly to Dr. Chen-Young, his legal fees and the monthly maintenance costs on the Eagles Grenada Crescent property. All payments were from net funds collected in respect of the rental of the property and the sale of certain assets owned by the defendant.

2) *Claims by former customers of Workers Savings and Loans Bank*

A settlement was reached in the claim against Workers Savings and Loans Bank (WSLB) for honouring cheques drawn on two corporate customers' chequing account, disregarding the signed account mandate. The settlement required that cash payments be made to the principal and for JRF to release the remaining titles. However, FINSAC benefited from a write back since the previous provision exceeded the settlement and transfer costs by approximately \$278 million.

5.0 Pension Matters

FINSAC awaits the final report from Guardian Life Limited (GLL) the administrator of the Jamaica Mutual Life Assurance Society (JMLAS) Staff Superannuation Scheme, in order to wind up the scheme. The report should detail the number of pension beneficiaries, amounts paid to date and the number of deferred pensioners. Subsequently GLL will continue to hold contingency funds on the scheme for an allowable period. During this time, claims made by persons deemed eligible for pension will be honoured.

5.1 With respect to the Eagle Merchant Bank Pension Scheme, legal opinion received in 2012/13, advised that surplus funds of approximately \$670 million, belong to the employer (FINSAC). During 2013/14, \$298 million of the surplus was transferred to FINSAC and subsequently to the AGD. Full winding up of the will be pursued during 2014/2015.

6.0 Other Activities

- 6.1 The sitting of the FINSAC Commission of Enquiry was convened to among other things:
- Determine the causes of the financial sector meltdown of the 1990s
 - Analyse the entity's operations in relation to delinquent borrowers during the crisis.

The Commission ended in November 2011 and the final report was still awaited.

6.2 A settlement was reached with the Government of St. Lucia (GOSL) in relation to land that was compulsorily acquired under its Land Acquisition Act. The agreement is that the GOSL will pay US\$4 million to FINSAC at 6% p.a amortized over 5 years, by way of 10 semi-annual bonds with a face value of US\$400,000 each, comprising principal and interest payments. Payment was received for the first two bonds during 2013/14. This was also used to refund contributed capital to AGD.

7.0 FINANCIAL HIGHLIGHTS

Table 1 Cross-section of FINSAC'S Financial Statement for March 2012/13 (\$'m)

DETAILS	Audited 2013/14 (\$m)	Audited 2012/13 (\$m)	Audited 2011/12 (\$m)	Variance 2011/12- 2012/13		Variance 2012/13- 2013/14	
				(\$m)	(%)	(\$m)	(%)
Interest Income from Loans	4,732.60	4,511.76	4,296.77	214.99	5%	220.84	5%
Interest Income on Deposits	73.82	58.56	41.97	16.59	40%	15.26	26%
Allowance for impairment losses	-3,015.90	-4,113.45	-4,072.21	-41.24	1%	1,097.55	-27%
Interest Income net of Impairment	1,790.52	456.87	266.53	190.34	71%	1,333.65	292%
Other Operating Income	286.26	683.85	0.03	683.82	2279400%	-397.59	-58%
Other Gains and Losses	18.93	31.81	5.64	26.17	464%	-12.88	-40%
Total Income	2,095.71	1,172.53	272.20	900.33	331%	923.18	79%
General and Administrative Expenses	-76.38	-75.92	-104.12	28.20	-27%	-0.46	1%
Net Surplus for the Year	2,019.33	1,096.61	168.08	928.53	552%	922.72	84%

7.1 Profitability

7.1.1 Table 1 shows that FINSAC recorded a net surplus of \$1,096.61 million during 2012/13 a significant increase of \$928.53 million above the \$168.08 million for 2011/12. There was a further increase by \$922.72 million in 2013/14 to \$2,019.33million.

7.1.2 The growth in 2012/13 is attributable chiefly to:

- The transfer of approximately \$674 million from accounts payables to income. The majority related to sale of property in FINSAC controlled entities no longer in operation.
- Improvement by \$190.34 million in net interest income, mainly as a result of \$131 million recovered from the sale of property used as collateral

7.1.3 The increase in 2013/14 was attributable chiefly to:

- The \$278 million write-back from the WSLB settlement.
- Reduced (by \$1,097.54 million) allowance for impairment with the sale to JRF of FINSAC's residual interest in the loan portfolio.

Meanwhile, the cost of operations reduced from \$104 million in 2011/12 to \$76 million in 2013/14 due chiefly to declines in legal and professional fees.

8.0 Balance Sheet

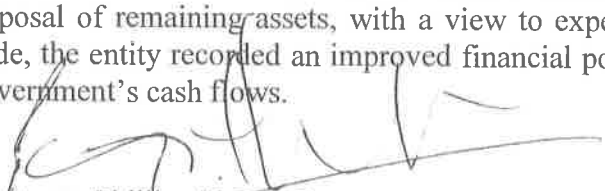
8.1 During the period under review, net liabilities moved from \$1,424.82 million (2011/12) to \$436.02 million (2013/14), a reduction of \$988.79. It is noted that over \$2,127 million of some new and existing funds were paid to the AGD as refund of contributed capital. However, the insolvent position showed improvement as the impact of the repayment was fully negated by accumulated surplus of \$3,115.91 million for the period.

8.2 Notwithstanding the improved solvency, the impact of the repayments to AGD in 2013/14 affected cash and investments which fell by \$1,382.15 million during 2013/14, contributing significantly to a worsened (by \$991.67 million) net current liability position between the end of 2012/13 and 2013/14. The impact was countered partially as provisions fell by \$481.86 million.

8.3 It is notable that FINSAC had long-termed investments of \$915.69 million and consisted solely of government bonds which were acquired during 2013/14.

9.0 CONCLUSION

9.1 During the review period, FINSAC continued the management of various residual matters including those for litigation and the disposal of remaining assets, with a view to expediting the winding-up process. Based on efforts made, the entity recorded an improved financial position and contributed significantly to the central Government's cash flows.


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Minister of Finance and Planning
June 3, 2015