

MINISTRY PAPER 56/18

**FINANCIAL SECTOR ADJUSTMENT COMPANY LIMITED
ANNUAL REPORT FOR THE 2016/17 FINANCIAL YEAR**

1.0 INTRODUCTION

1.1 The matter for tabling in the Honourable Houses of Parliament is the Annual Report for the Financial Sector Adjustment Company Limited (FINSAC) for the 2016/17 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 up its operations.

3.0 DISCLOSURES

3.1 Auditors' Report

3.1.2 KPMG, independent auditors of FINSAC, conducted the audit of the financial statements as at March 31, 2017, in accordance with the International Standards on Auditing and expressed an unqualified opinion. The auditors also informed that the financial statements comply with International Financial Reporting Standards and the Jamaican Companies Act. KPMG also noted that the financial statements give a true and fair view of the financial position as at March 31, 2017 and of the financial performance, changes in equity and cash flows of the Company.

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. FINSAC provides management services to the Financial Institutions Service Limited (FIS). Consequently, staff costs are shared between FINSAC and FIS in the ratio of 95:5 respectively. In this regard, \$16.42 million of the total staff costs were apportioned to FINSAC. Director's emoluments amounted to \$477,080.

4.0 OPERATIONAL HIGHLIGHTS

4.1 Litigation and Asset Disposal Matters

4.1.1 A settlement was reached in the claim against Citizens' Bank for selling a guarantor's property below market value. FINSAC's offer of \$8 million was accepted by one of the relevant parties in full and final settlement of the matter; this was paid in July 2016.

4.1.2 FINSAC continued to pursue numerous litigation matters in the local courts; the cases are at varying stages of completion.

4.1.3 FINSAC is seeking to dispose the remaining assets under its control and intends to complete this activity by the end of the 2017/18 financial year. In respect of the investments in other related entities (with shares in listed companies), FINSAC is seeking to liquidate the remaining investments of approximately \$20 million for Mutual Life.

5.0 Pension Matters

5.1 FINSAC continued to manage the distributions to beneficiaries in the Jamaica Mutual Life Assurance Society (JMLAS) Staff Superannuation Fund. Most beneficiaries have been paid their portion of the surplus by Guardian Life Limited and the final reports were submitted to the Tax Administration Jamaica (TAJ) and the Financial Services Commission (FSC) for review in order to facilitate the winding up of the scheme.

6.0 Other Activities

6.1 The Government of St Lucia (GoSL) had compulsorily acquired land owned jointly by Mutual Life and Super Clubs under its Land Acquisition Act. A settlement was reached in 2013 with the GoSL for payment on the land. The agreement is that the GOSL will pay 10 semi-annual bonds with a face value of US\$400,000 each with interest at 6% per annum; the Bond is scheduled to mature in April 2018. To date all payments have been received by FINSAC.

6.1.2 FINSAC continued to file annual reports for sixteen (16) Companies under its control. Some of which will be liquidated during 2017/18 as the Company work towards closure of the operations.

7.0 FINANCIAL HIGHLIGHTS

7.1 Profitability

7.1.1 FINSAC achieved a net surplus of \$616.70 million, 93% above the \$319.31 million recorded in the prior year (See Table 1). The improvement was due mainly to a write back of debt previously deemed uncollectible from Mutual Life (\$300.00 million), collection of surplus from Eagle pension Fund (\$273 million), bond payment from Mutual Life (\$113 million) and investment income (\$96 million). In addition, net gain on foreign exchange and miscellaneous income increased by \$5.38 million and \$3.09 million respectively. These gains were reduced by a provision for debt owed by the Financial Institutions Services Limited (\$170 million) and declines in interest income on deposits (by \$10.60 million).

7.1.2 The cost of operations declined from \$66.17 million in 2015/16 to \$57.39 million. Salaries and related costs decreased significantly from \$41.90 million to \$26.70 million. This is a result of the payment of redundancy fees in the prior year and the reduction in the staff complement in 2016/17, as the Company prepares to wind up operations. This saving was negated partially by an increase in legal fees (\$8.03 million) due to litigation matters associated with the liquidation of the Company.

Table 1: Highlights of Profit and Loss for March 2016/17 (\$'m)

DETAILS	Audited 2016/17 (\$m)	Audited 2015/16 (\$m)	Variance 2015/16- 2016/17	
	2016-17	2015-16	(\$m)	(%)
Interest Income from Loans	1.99	2.34	-0.35	-15%
Interest Income on Deposits	96.44	107.04	-10.60	-10%
Net recoveries/Allowance for Impairment Losses	563.5	272.37	291.13	107%
Interest Income net of Impairment	661.93	381.75	280.18	73%
Other Operating Income	7.42	4.33	3.09	71%
Other Gains and Losses	11.83	6.45	5.38	83%
Total Income	681.18	392.53	288.65	74%
General and Administrative Expenses	-57.39	-66.17	8.78	-13%
Tax	-7.09	-7.05	-0.04	1%
Net Surplus(Loss) for the Year	616.70	319.31	297.39	93%

8.0 Balance Sheet

8.1 During the period under review, net liabilities improved from \$1,949.08 million (2016/17) to \$1,933.16 million (2016/17), a reduction of \$15.92 million. This was mainly as a result of an increase in accounts receivable \$353.85 million due to a write back of the Mutual Life debt and which is expected to be collected from the remaining assets being held for JMLAS. This was countered by a decrease in resale agreements by \$309.32 million to facilitate the payment of dividends to the Government of Jamaica. In addition, there was a decrease in amounts due from related party (by \$127.27 million) attributable to an allowance for impairment losses associated with FIS.

9.0 CONCLUSION

9.1 During the review period, FINSAC recorded a net surplus of \$319.31 million on operations due to the Company not being required to make a provision as in the previous year. Continued efforts are being made to bring closure to various residual activities to facilitate the winding up of the Company.



Audley Shaw, CD MP
Minister of Finance and the Public Service

December 28 2017

DIRECTORS' COMPENSATION

Position of Director	Fees (\$)	Reimbursement Travelling (\$)	Honoraria (\$)	All Other Compensation including Non-Cash Benefits as applicable (\$)	Total (\$)
Board Chairman	111,000.00				111,000.00
Finance Committee Chairman	103,000.00	15,040.00			118,040.00
Director	44,100.00				44,100.00
Director	22,000.00				22,000.00
Director	44,000.00				49,640.00
Director	44,100.00	5,640.00			44,100.00
Director	88,200.00				88,200.00
TOTAL	456,400.00	20,680.00			477,080.00

PLEASE NOTE:

1. Please note that all figures are shown gross.
2. FINSAC and Financial Institutions Service (FIS) have similar directors and joint board meetings are held but only one fee is paid to directors who attend meetings. This submission represents total fees paid to directors for the year for FIS and FINSAC.

SENIOR MANAGEMENT COMPENSATION

Position of Senior Management	Salary (\$)	Gratuity or Redundancy (\$)	Travelling Allowance (\$)	Pension or Other Retirement Benefits (\$)	Other Allowances (Special – Paid in August) (\$)	Non-Cash Benefits (\$)	Total (\$)
General Manager	354,527.73		67,081.20				421,608.93
Accountant	240,428.63		35,372.40				275,801.03
Operations Manager	166,655.07						166,665.07
TOTAL	761,621.43		102,453.60				864,075.03

Please Note

1. All figures are shown gross.
2. These members of staff perform duties for both FINSAC and FIS and staff costs are split 95:5 between FINSAC and FIS.