

MINISTRY PAPER 71/20

FINANCIAL SECTOR ADJUSTMENT COMPANY LIMITED ANNUAL REPORTS FOR YEARS ENDED MARCH 31, 2018 AND MARCH 31, 2019

1.0 INTRODUCTION

- 1.1 The matter for tabling in the Houses of Parliament is the Annual Reports for the Financial Sector Adjustment Company Limited (FINSAC) for the 2017/18 and 2018/19 financial years.

2.0 OVERVIEW

- 2.1 FINSAC was established by the Government of Jamaica (GOJ) on January 29, 1997, with the mandate to address the liquidity and solvency crisis which existed in the financial sector in the early 1990's at that time. The Company continued to pursue residual activities inter alia, the resolution of litigation matters, the sale of remaining assets held by subsidiaries and associated company and pension related matters.

3.0 DISCLOSURES

3.1 Auditors' Report

- 3.1.2 The auditors (KPMG) conducted the audits of the financial statements for 2017/18 and 2018/19 in accordance with the International Auditing Standards and expressed an unqualified opinion. The auditors informed that the evidence contained was sufficient and appropriate to provide a basis for their opinion and stated that the financial statements give a true and fair view of the financial position in keeping with International Financial Reporting Standards and the Companies Acts, Jamaica. The contract with KPMG is to be extended for one (1) year pending approval by the Ministry of Finance and the Public Service given that the Company is in the process of being dissolved.

3.2 Compensation to Senior Executives and Directors

- 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 for the three (3) senior executives, as well as fees paid to directors are enclosed. The operations of FINSAC and the Financial Institutions Services Limited (FIS) were scaled down at March 31, 2018. Accordingly, two (2) of the eight (8) staff members were retained to undertake records and financial management services to facilitate the disposal of assets and closure of outstanding legal matters. In addition, the Accountant was offered a four- month contract to assist with winding up activities; the contract expired at the end of July 2019.
- 3.2.2 FINSAC provides management services to the FIS. Consequently, staff costs are shared between FINSAC and FIS in the ratio 95:5 respectively. Therefore compensation for FINSAC totalled \$17.05 million and \$25.7 million for the financial years 2017/18 and

2018/19 respectively. The increase in staff costs was due to the payment of gratuity to staff separated from the Company at the end of the financial year.

- 3.2.3 FINSAC commenced the 2017/18 financial year with seven (7) members of the joint Board of FINSAC and FIS. During 2017/18, one (1) of the seven (7) directors resigned and the remaining six (6) directors served for the entire year. During 2018/19, the complement of directors was further reduced to three (3) due to the scaled down operations. Directors' fees were \$0.99 million and \$0.39 million for 2017/18 and 2018/19 respectively.

4.0 OPERATIONAL HIGHLIGHTS

4.1 Litigation and Asset Disposal Matters

- 4.1.1 The primary litigation matters being pursued by or against the Company or for which the Company has ultimate responsibility includes the following:-

- i. The claim against Citizens' Bank for selling a guarantor's property below market value. FINSAC's offer of \$8 million was accepted by the relevant parties in full and final settlement of the matter; this was paid in July 2019.
- ii. The claim against the withdrawal of J\$15 million from Y.P Seaton's accounts which were held with the former Eagle Commercial Bank. The outcome of the case was in favour of the claimant. The Bank was directed to repay the amount with interest compounded monthly from 1992 until payment, plus costs. FINSAC appealed the decision on various grounds, the main one being whether compound interest should have been awarded. Consequently, in July 2018 the Court of Appeal reversed the earlier decision and awarded simple interest instead of compound interest. The claimant has decided to appeal to the Privy Council and a date is to be set for the formal hearing in Court for the consideration of the application. Notwithstanding, FINSAC has paid \$104.70 million on the simple interest basis to prevent further interest accrual. The final cost payable will be addressed upon the further development of the case. In the interim, FINSAC has made a provision of \$3,700 million in respect of the claim.

4.2 Pension Matters

- 4.2.1 FINSAC continued to manage the distributions of funds from the Jamaica Mutual Life Assurance Society (JMLAS) Staff Superannuation Fund to beneficiaries. Efforts to locate beneficiaries were pursued via advertisements. As required by law, the second annual advertisement was placed in the Gleaner on March 10, 2019 seeking to locate the remaining two hundred and fifty five (255) beneficiaries or their next of kin. Since the first advertisement in February 2018, one hundred and seventy seven (177) beneficiaries have contacted the administrator, including twelve (12) since March 2019.

5.0 WINDING UP AND OTHER ACTIVITIES

- 5.1 The staff complement of FINSAC was reduced to two (2) at the beginning of August 2018. These persons will carry on the legacy operations to undertake records and financial

management services to facilitate the disposal of assets and closure of outstanding legal matters.

- 5.1.1 FINSAC continued to file annual reports for twelve (12) companies under its control. Four (4) of the companies under FINSAC's control, namely Dyoll Life Limited, Recon Trust Limited, Jamaica Mutual Properties Limited and Bath Holdings Limited, were struck-off the register at the Companies Office of Jamaica during the year, leaving 12 companies for which annual returns will continue to be filed pending any further actions to strike-off in due course.

6.0 FINANCIAL HIGHLIGHTS

6.1 Profitability

- 6.1.1 For the fiscal year ended March 31, 2019, FINSAC recorded a surplus of \$94.36 million compared with a \$170.37 million net surplus recorded in the prior year. The 44.61% reduction in net surplus was attributed chiefly to the continued scaling down of the operations of the Company. Majority of the revenues earned during the two year period (2017/18 – 2018/19) were generated from dividend payments of \$127 million (2017/18) received from Ciboney Group Limited and the write back of contingency provisions of \$137.67 million (2018/19) for litigation matters which were no longer being pursued by the claimants and were terminated by the Courts. Other income was received from interest earned on deposits of \$64.38 million and \$36.62 million for 2017/18 and 2018/2019 respectively.
- 6.1.2 The cost of operations decreased marginally by \$5.43 million or 9.23% to \$53.41 million in 2018/19 from \$58.84 million in 2017/18. The cost of operations was within the level recorded for FY 2017/18 given that gratuity payments totalling \$9.73 million were made during the financial year to staff members separated.

Table 1: Summary (Financial Statements)

DETAILS	Audited 2018/19 (Sm)	Audited 2017/18 (Sm)	Audited 2016/17 (Sm)	Variance 2018/19- 2017/18		Variance 2017/18-2016/17	
				(Sm)	(%)	(Sm)	(%)
Interest Income from Loans	1.27	1.15	1.98	0.12	10.43	(0.83)	-42.92
Interest Income on Deposits	36.62	64.38	98.43	(27.76)	-43.12	(34.05)	-34.59
Net recoveries/(Impairment Losses)	(31.83)	46.78	563.50	(78.61)	-168.04	(516.72)	-91.70
Interest Income net of Impairment	6.06	112.31	661.94	(106.25)	-94.60	(549.63)	-83.03
Other Operating Income	142.33	141.83	7.42	0.50	0.35	(134.41)	-1,811
Other Gains and Losses	(.62)	(3.31)	11.82	2.69	-81.27	(15.13)	-128.00
Total Income	147.77	250.83	681.18	(103.06)	-41.09	(430.35)	-63.18
General and Administrative Expense	(53.41)	(58.84)	(57.39)	5.43	9.23	(1.45)	-2.53
Tax	-	(21.62)	(7.09)	21.62	100	(14.53)	-204.93
Net Surplus(Loss) for the Year	94.36	170.37	616.69	(76.01)	-44.61	(446.32)	-72.37

7.0 Balance Sheet

- 7.1 The management of the sale of the remaining assets have been substantially completed save and except for assets held by subsidiaries and associated company and pension related matters. Therefore the operations of FINSAC were scaled down during the review period. The two (2) staff retained will undertake the legacy operations to include records and financial management services to facilitate the disposal of assets and closure of outstanding legal matters.
- 7.2 FINSAC's total assets were reduced by \$176.65 million from \$1,015.26 million to \$839.21 million. This was mainly attributed to the decline in cash and cash equivalents by \$82.43 million due to the payment of \$75.60 million in relation to litigation matters, the transfer of \$51.73 million to Consolidated Fund and the full provision for impairment on loans totalling \$43.18 million.

8.0 CONCLUSION

- 8.1 During the review period, the Company continued to pursue winding up activities with the two (2) staff retained to undertake the legacy operations to ensure that the residual activities are monitored and completed to enable the winding up of FINSAC.



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