

The NCB Group

In 1994 the NCB Group made a profit before tax and extraordinary items of \$1.3 billion; in 1995 Group profit was \$825 million ;in 1996 the NCB Group made a loss of \$802 million .The full NCB Group results were

	\$000,000		
	1994	1995	1996
NC Bank	1,158	751	12
NCB Trust and Merchant	140	185	(32)
West Indies Trust Co.	21	24	1
NCB Investments	(21)	(149)	(657)
National Mutual Investments	2	5	7
Jamaica Orange Co.	1	1	(129)
NCB Insurance Services	47	41	62
Edward Gayle & Co	(12)	14	9
Cherry Brook/Glen Abbey		(7)	(67)
Other Group companies	27	(2)	21
Consolidation adjustments	(24)	(38)	(29)
Profit (loss) before tax and			
Extraordinary items	1,339	825	(802)

The Group members were

National Commercial Bank Ltd-- commercial banking operations

NCB Trust and Merchant and West Indies Trust Ltd--merchant banking

NCB Investments Ltd -- money market operations, direct investment in real estate

Leasing of computer equipment . Its subsidiaries and Associates were (a)NCB Hotels (100%--operators of Wyndham) (b) Pembroke Hotel Enterprises Ltd(66%-Investment in Hospitality Inns of Jamaica) (c) Inn on The Beach Development Ltd (50%--owner and operator of Club Jamaica in Ocho Rios) (d) Ciboney Hotel Developers Ltd. (20%-- Lease of Sandals Ocho Rios to Hospitality Inns of Jamaica Ltd.)

National Mutual Investments Ltd---formerly Mutual Finance Co Ltd set up to

Finance Glen Abbey Limited; funds management ,
Corporate advisory services.

Jamaica Orange Company Ltd.-- agriculture -cultivation of 2,968 acres of citrus
at Montpelier.

NCB Insurance Services Ltd - provision of long term insurance through "Omni"
Policies (74% owned by **NCB** Group)

Edward Gayle and Co Ltd---stockbroking and securities trading (50.5% owned by
NCB Group)

Cherry Brook Ltd and Glen Abbey Ltd -- development and sale of 35 townhouses

Other Companies

Carp Corporation Ltd---medical scheme administration

Mutual Security Insurance Brokers Ltd---insurance braking

Throughout the proceedings of the Finsac commission, customers and bankers have repeatedly and with considerable feeling, spoken of the combination of factors which affected business activity during this period. I will therefore make but brief mention of the prolonged wielding of a high interest rate policy as a blunt instrument rather than as a carefully applied scalpel, to the point where Bank of Jamaica was offering in excess of 50% on its instruments, and the resultant increase in the cost of funding and thereafter, the rates charged to customers in an attempt to maintain the bank's net interest margin. In 1994 National Commercial Bank's interest margin was 15.5% and by 1997 this had declined to 12% as we were forced to pay more and more for deposits, while being constrained in the level of rates we were able to charge to customers . This was taking place against a background of comment , some from most unfortunate sources, about the safety of indigenous financial institutions, forcing these institutions to pay an ever increasing premium for deposits in a futile attempt to stay the flight to foreign owned institutions. The foreign institutions understandably were able to offer lower rates for money and thus, lower rates to borrowers. On the other hand, the pressure on borrowers from indigenous institutions, some of whom were paying rates in excess of 100% per annum became, of course, unsustainable, leading to widespread business failures. Simultaneously the Regulators were introducing new mandatory loan provisioning requirements . The indigenous banks accepted the necessity for these regulations,

but requested that they be phased in over four years to enable the sector to adjust; this request was rejected by the Bank of Jamaica. The new regulations also meant that in the calculation of required capital, the value of existing security held could not be taken into account in respect of non performing facilities. It must also be borne in mind that the background story of inflation was 80.2 % in 1991, 40.2 % in 1992, 30.1 % in 1993, 26.9 % in 1994, 25.5 % in 1995 and 15.8 % in 1996. Eventually, in April 1998, thirteen years ago, a Financial Assistance Agreement was signed between NCB and Finsac Limited.

In addition to the factors which affected the other indigenous institutions, there were factors which were at work in respect of the NCB Group, and which to a great extent, went to the root of the philosophy of the organization. In 1977 the government of Jamaica purchased all the shares of Barclays Bank of Jamaica, and National Commercial Bank was born. To be fair, the government of the day made what must have been a tremendous effort to keep its distance in the face of dire temptation and not interfere in the policies and practices of the bank, and if I may be personal for a moment, the few forays were stoutly and implacably thwarted by the bank's Managing Director of the day, Mr Donald Banks. However, inevitably, the question was raised within the political ranks and to be honest, within the bank itself, as to the role of a powerful financial Government owned flagship institution . Should such an institution be

indistinguishable from private financial institutions whose sole aim was the maximizing of profit? Was there not a duty also, not merely to try to attempt to win a larger piece of the **economy** pie from competing institutions, but also to increase the size of that pie? After all, was not the government merely a trustee for the real shareholders of the **bank** ,the people of Jamaica? In the meantime, the bank was doing well, becoming in 1983 the first bank locally **to** hold in excess of one billion **dollars** of deposits. Two years later, the **NCB** Group Limited (a holding company) was incorporated in order to reorganize the structure of NCB and its subsidiaries. NCB Group subsequently acquired all the issued share capital of National Commercial Bank and its subsidiaries, and in 1986 the National Investment Bank of Jamaica sold about half the Group shares to the public and the NCB Group was listed on the stock exchange.

During these years, the NCB Group was offered the Jamaica Orange Company which it purchased; it was offered the Wyndham Hotel, which it purchased; it was also offered the Liguanea lands opposite the Pegasus, which it purchased . These offers were made to NCB by a cash strapped government of Jamaica, so you may make up your own minds as to the level of persuasion which backed the offers . It was also during this time that bankers in other institutions were being taken to task by many politicians for being merely margin gatherers and for not setting as their objective the increase of Jamaica's economy pie. However, in the

three years 1994 to 1996, NCB Investments Ltd, the Group subsidiary which owned the Wyndham and the Liguanea lands purchased from government, lost \$827 million; in the same three years, the Jamaica Orange Company, purchased from government, lost \$127 million.

There are certain areas of the economy which , no matter how badly they are doing financially, many believe must be supported because of the social impact of withdrawing such support. The sugar industry is one such. The urgency with which government put in place measures to rehabilitate the sugar industry is to some extent dependent on the ability of the entity which is financing the industry to continue to pay cheques, the entity being ever mindful of the social consequences of refusing to pay. NCB was faced with this dilemma at the height of its crisis.

In 1992, against the advice of the NCB Group, the National Investment bank of Jamaica sold its remaining 23.4 million (39%) NCB shares to Jamaica M and N Investments Limited, a company then jointly owned by Jamaica Mutual Life Assurance Society and Jamaica National Building Society, and which was shortly afterwards wholly owned by Jamaica Mutual Life. As the rumours about Jamaica Mutual's state of financial health became more and more negative shortly thereafter, policy holders' encashment demands reached fever pitch. Once again

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the dilemma facing NCB as bankers was the extent to which such demands could be accommodated against the background of certainty that dishonoured cheques would precipitate a full run on the insurance company.

It can be seen then that the ownership by government of the NCB Group presented a number of survival challenges to the Group which did not have to be considered by the other indigenous institutions.

To quote from an article entitled Government Ownership of Banks first published in the February, 2002 Journal of Finance by La Aorta, Lopez-de-Silanes and Scleifer

The data show that such ownership is large and pervasive, and higher in countries with low levels of per capita income, backward financial systems, interventionist and inefficient governments, and poor protection of property rights.

..... This evidence supports "political" theories of the effects of government ownership of firms.

Jamaica's experiment with government ownership of a commercial bank has tended to support this view.

Jeffrey Cobham

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