MINISTRY PAPER 59/01
NATIONAL DEVELOPMENT BANK (NDB) OF JAMAICA LIMITED
Review of Annual Reports for the years ended March 31 1998 and 1999.

Introduction

1.0 The matter for tabling in the Honourable House of Representatives is the Annual Reports for the National Development Bank (NDB) of Jamaica Limited covering the periods ended March 31, 1998 and 1999.

1.1 The NDB was incorporated under the Companies Act in 1981 and charged with the responsibility of providing a range of medium and long-term financial services to projects in the tourism, industrial, agro-industrial and mining sectors of the economy. The Bank also provides technical and advisory services to encourage its clients to adopt innovative and technologically advanced solutions to their project challenges. Loans disbursed to borrowers aid in the establishment, expansion, diversification and modernisation of business enterprises.

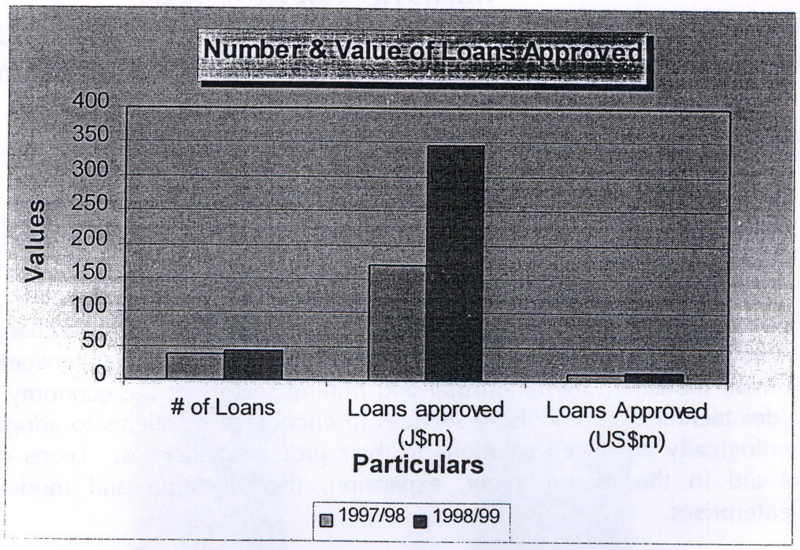
Auditor's Report

2.0 For the years ended March 31, 1998 and 1999, the Bank obtained unqualified audit reports from its auditors, KPMG Peat Marwick. The examinations were done in accordance with generally accepted auditing practices and complied with the provisions of the Companies Act.

1998/99
Review of Operating Activities

3.0 Despite on-going challenges which affected the performance of the Bank and the financial sector during 1998/99, the NDB managed to register an improved performance as 43 loans (3 more than in 1997/98) valued at $345.88 million and US$12.78 million (J$490.36 million) were approved for financing. This represented portfolio increases of J$174.73 million or 102.1% in local currency loans and US$1.82 million or 16.6% in foreign currency loans.

The table below provides a summary of the value of local and foreign currency loans approved during 1998/99 and 1997/98.



3.1 During the year, lending approvals for direct loans accounted for 24 of the 43 loans approved and valued at Ja$165.84 million and US$8.97 million while apex lending represented the remaining 19 loans valued at $Ja180 million and US$3.81 million. This implied that in 1998/99 direct lending played an increasingly significant role in providing assistance to the productive sector and accounted for a larger share of the number of loans approved over the apex loans processed by AFI's. This resulted as the stronger foreign controlled banks concentrated on their core business of providing short term working capital loans and overdraft facilities.

3.2 At March 31,1999, the average loan size disbursed for direct loans was J$9.75 million and US$1.28 million (J$49.11m) compared to $12.86 million and US$0.76 million (J$29.16m) for apex loans. As in previous years, the development of the small business sector continued to be at the forefront of the Bank's attention as larger enterprises downsized and the number of self employed persons increased. The increased demand resulted in several small entrepreneurs being assisted directly in addition to those processed through the AFI's. In keeping with Government's mandate to link development bank's wholesale lending with the lowest commercial bank passbook saving rate, the Bank's discount rate to AFI's was also further reduced from 13% at the end of the 1997/98 financial year to 10% for the year 1998/99. At the end of 1998/99, NDB's had committed funds totalling Ja$246.85 million and US$6.3 million compared to Ja$200.33 million and US$7.33 million for the prior year 1997/98. The level of funds disbursed by the Bank was also increased by 10.5% and 71.7% respectively to Ja$206.55 million and US$12.98 million (Ja$498.03m) for the financial year ending March 31, 1999. Notably, at the end of 1997/98, funds disbursed by the NDB totalled Ja$186.95 million and US$7.56 million (Ja$290.07m) .

Overview of Financial Performance
Profitability Highlights

4.0 Total income generated by the Bank at the close of 1998/99 was $456.24 million inclusive of $93.43 million in exchange gains. Nonetheless, this was a reduction of $48.22 million in total income below the $504.46 million (inclusive of $108.97 million in exchange gains) recorded for the year 1997/98. The decline was due to a reduction in interest income and was directly attributed to the lowering of interest rates in accordance with GOJ's policy decision to provide affordable loan financing to the productive sector. The initiative stimulated the demand for the Bank's funds and resulted in an expansion of the loan portfolio. Correspondingly, for the same period, the Bank reduced its overall expenses for administrative and general expenses by $47.38 million or 26.8% to $129.54 million compared with $176.92 million at March 31, 1998. This was largely due to a decline in interest on loans payable as the Bank sought to retire its high cost debts. Total operating expenses incurred at March 31,1999 was $370.4 million and indicated a decline of $109.63 million or 22.84% below the $480.03 million reported at March 31, 1998.

4.1 Overall, the NDB reported a net improvement of $61.4 million or 251% in operating profit which moved to $85.84 million compared to $24.44 million at the end of 1997/98. This major increase was achieved despite a reduction in the local currency lending rate from 13% to 10% and was the net result of a combination of factors. These included the reduction in operating expenses, retirement of high cost debts and the redress of the Bank's lease financing interest costs. Notably, the Bank's net contribution margin was also increased to $55.28 million, an improvement of $27.5 million or 99% over the $27.78 million reported for 1997/98. This performance was directly attributed to a $50.75 million decline in loan interest expense to $271.85 million and compensated for a net reduction of $23.24 million in interest income on loans disbursed to borrowers.

4.2 The improvement in the NDB's performance was also evidenced by an increase to 18.81% in the net profit margin. This was 13.97% above the 4.84% reported at March 31, 1998. The increased margin per dollar of revenue earned resulted from the major increase of $61.4 million to $85.84 million in net profitability. Likewise, the Bank's interest cover for the year 1998/99 was increased to 2.1 times indicating an improvement of 0.22 times over the 1:89 recorded in 1997/98. However, the ratios for both years were below the recommended 3 times and over safety guideline between financial obligations and net returns generated from operations.

4.3 The interest spread or returns generated on the Bank's loan portfolio was 2.2% at March 31, 1999. This represented a reduction of 0.6% below 2.8% for 1997/98 and resulted primarily from the decline in interest income on the loan portfolio.

The return on total assets employed to generate profits at the end of 1998/99 was 1.7% and represented a significant increase of 1.2% above the 0.5% recorded at March 31, 1998. The improved ratio was due to the increase in net profits and reflected greater utilisation of the Bank's assets in the generation of profits.

Solvency and Liquidity

5.0 NDB recorded asset growth of $381.31 million or 8.15% to reach $5.06 billion at March 31, 1999. This resulted primarily from an increase of $263.78 million or 10.06% in the loan portfolio which was valued at $2.89 billion at March 31, 1999. Notably, the loan portfolio accounted for 57.06% of the total asset base of $5.06 billion compared with 56.07% at March 31, 1998. Overall, net worth was also increased by $385.46 million to $1.14 billion compared with $758.69 million for the year ended March 31,1998. The improvement resulted primarily from the receipt by the Bank of a $300 million GOJ advance on shares for capital replenishment (to finance low cost loans) and from increased profits. The solvency ratio for the period was 1.29 times compared to 1.19 times at March 31, 1998 and demonstrated an improved ability by the NDB to cover its liabilities in the event there was a need to wind up operations.

Gearing Analysis

6.0 The NDB is highly geared as it relies primarily on loan financing accessed from international lending agencies to support its lending programme. For the year 1998/99, the Bank's long-term debt to total capitalisation ratio was 59.27% representing a decline of 8.54% below 67.81% achieved at the end of 1997/98. This improvement resulted directly from the $300 million capital injection as the total liabilities of the Bank reduced marginally to $3.92 billion at March 31, 1999. Despite being above the 50% general guideline, the ratio was deemed acceptable due to the development finance activities of the Bank.

6.1 Notably, the improvement in the Bank's gearing ratio was further evidenced by the improvement in the debt to equity ratio to 3.42:1 compared with 5.16:1 for the previous year. The ratio was acceptable and within the 4:1 guideline for development banks. Likewise, it indicated that the Bank had the ability to borrow additional loan funds if there was an increased demand by borrowers as a result of the reduction in lending rate. The debt to asset ratio (which provides a measure of total assets financed by creditors and utilised in the generation of profits) at March 31, 1999 was 77.37% and indicated a reduction of 6.4% below the 83.77% realised at the end of 1997/98. The decline was consistent with the overall reduction in total liabilities and an 8.15% increase in the total assets base over the prior year.

1997/98
Review of Operating Activities

7.0 In July 1997, the Bank reduced its lending rate to 13% and 18% respectively to Approved Financial Institutions (AFIs) and end users. Correspondingly, NDB also introduced a direct lending facility to accommodate loans denied under special circumstances other than related to project viability. This initiative was aimed at giving a second chance to deserving projects denied largely as a result of credit constraints faced by AFIs. During the 1997/98 financial year, the main productive sectors of the Jamaican economy remained sluggish resulting in a decline of J$50.85 million and US$16.04 million in the local and foreign currency loan portfolios.

Overview of Lending Programme

8.0 During the 1997/98 financial year, the NDB experienced a general fall in the level of lending and disbursement activities. This resulted in loans totalling US$10.96 million and J$171.15 million being disbursed to 40 projects largely in the tourism, manufacturing and small business sectors compared with US$27 million and J$222 million in 1996/97. The funds disbursed to the eight (8) approved projects in the tourism sector assisted with the construction of new facilities and the upgrading of other tourism related services including the ground transportation sub-sector of the industry. Additionally, employment created as a result of the apex loans disbursed to the tourism sector was estimated at one hundred and twenty eight (128) permanent jobs.

8.1 Direct loans valued at US$4.9 million and J$5.2 million were also made to six (6) projects which was expected to provide two hundred and ten (210) new jobs. Eleven (11) apex loans valued at J$78.48 million were approved for the manufacturing sector and projects ranged from food processing to furniture manufacturing. Apex loans to the small business sector continued to be channelled through the Jamaica Co-operative Credit Union League, the National Foundation of Jamaica and the small business windows of commercial banks. For this sector, ten (10) apex loans were approved with a total value of J$24.72 million. The funds assisted in the implementation of four (4) new small business projects and also provided financing for the rehabilitation and expansion of six existing enterprises.

Summary of Direct Lending for the Year 1997/98

9.0 The Bank commenced direct lending on July 1, 1997 in accordance with a GOJ policy decision. The direct lending programme is intended to give a second opportunity to viable projects which have been experiencing inordinate delays in financing by the AFIs. The type of projects funded under the direct lending programme were similar to those financed through the apex programme administered by AFIs and are as under:

Projects Approved and Disbursed by Sector

Sector	# of Project Approved	J$m	US$m	# of Projects Disbursed	J$m	US$m
Manufacturing	5	40.82	1.41	2	0.77	1.24
Tourism	6	5.20	4.91	1	2.49	-
Food Processing	1	- 1.31	-	-	-	-
Industry/Mining	1	-	0.36	-	-	-
TOTAL	13	47.33	6.68	3	3.26	1.24

9.1 The introduction of direct lending resulted in an increase in the number of loan enquiries and applications processed by the NDB. During the period July 1, 1997 to March 31, 1998, a total of thirteen (13) projects valued at J$47.33 million and US$6.68 million were approved by the Bank. Of the thirteen (13) loans approved, six (6) were for the tourism sector and five (5) related to the manufacturing sector. However, the loan processing schedule from application to approval and disbursement was slow due largely to tardiness and delays exhibited by prospective borrowers to produce the required documentation and collateral requirements.

Geographic Distribution of Approved Projects

During 1997/98, the loans approved were distributed geographically as indicated overleaf. Notably, fifteen (15) loans or 38% of the forty (40) loan applications were for projects identified in the Kingston Metropolitan Area. This amounted to loans valued at J$111.97 million and US$0.11 million respectively. Likewise, St James and Westmoreland each accounted for 13% of total loans disbursed to borrowers during the year.

Distribution of Approved Projects

Parish	Number of Loans	% of Loans	Value of Loans		% of Total	
			J$	US$	J$	US$
Kingston & St. Andrew	15	38	111.97	0.11	65	1
St Thomas	2	5	1.70	-	1	29
St Ann	6	15	-	3.15	0	29
St James	5	13	2.62	5.31	2	48
Westmoreland	5	13	1.95	1.09	1	10
St Elizabeth	2	5	22.55	-	13	0
Manchester	2	5	4.27	-	2	0
Clarendon	1	3	1.09	-	1	0
St Catherine	2	5	25.00	1.30	15	12
TOTAL	40	100	171.15	10.96	100	100

Conclusion

10.0 The financial performance of the NDB at the end of the 1997/98 and 1998/99 financial years was satisfactory in light of the many challenges which faced the financial sector and the Jamaican economy over the past two years. This success was evidenced by the actual improvements in the asset base, profitability, and net worth over the period.

10.1 Since April 1, 2000 the operations of the NDB have been merged with that of the Agricultural Credit Bank to form the Development Bank of Jamaica Limited.

Omar Davies, M.P.
Minister of Finance and Planning
5 June, 2001

File # 214/026

TABLED ON TUESDAY 25/09/01 IN GORDON House

Financial Data Sheet

Ratios	1998/99	1997/98	1996/97
Profitability			
Net Profit Margin	85.84 / 456.24 18.81%	24.44 / 504.46 4.84%	10.6 / 180.69 5.86%
Interest Cover	456.24 / 216.56 2.11 times	504.46 / 267.32 1.89 times	180.60 / 191.50 0.94 times
Return on Total Assets	85.84 / 5057.0 1.7%	24.44 / 4675.69 0.5%	10.60 / 4481.70 0 .23%
Return on equity	85.84 / 1144.15 7.5%	24.44 / 758.69 3.22%	10.60 / 534.84 1.98%
Interest Spread	271.85 / 2885.64 - 216.56 / 2997.19 0.094 – 0.072 = 2.2%	295.09 / 2621.87 - 267.32 / 3170.74 0.112 – 0.084 = 2.8%	271.3 / 2539.69 - 191.60 / 3254.32 0.107 – 0.058 = 4.9%
Solvency/Liquidity			
Solvency Ratio	5057.0 / 3912.85 1.29 times	4675.69 / 3917.0 1.19 times	4481.7 / 3946.8 1.13 times
Long-term Debt/total Capital	2997.19 / 5057.0 59.27%	3170.74 / 4675.69 67.81%	3581.30 / 4481.70 79.91%

Debt to Equity	3912.85 / 1144.15 3.42:1	3917.00 / 758.69 5.16:1	3946.80 / 534.84 7.38:1
Debt to Assets	3912.85 / 5057.0 77.37%	3917.00 / 4675.69 83.77%	3946.8 / 4481.70 88.06%
Net asset balance	5057 – 3912.85 1144.15 million	4675.69 – 3917 758.69 million	4481.66 – 3946.83 534.84 million