

MINISTRY PAPER NO. 14/98

OPERATION OF FINANCIAL INSTITUTION SERVICES LTD.

In December 1994 the Blaise Financial Entities were put under Temporary Management. The decision to place these institutions under Temporary Management was due to the following:

- i. insolvency;
- ii. co-mingling of assets and liabilities;
- ii. high level of lending to connected parties.

2. Financial Institution Services (FIS) Ltd. was incorporated in October 1995 primarily to implement the provisions of the Scheme of Arrangement in respect of the Blaise Financial Institution (BFI's). FIS also has the responsibility to implement the provisions of the Scheme of Arrangement in respect of the failed Century Financial Entities (CFE's). This institution therefore has the responsibility to:

- i. ensure that depositors of the failed entities are paid in accordance with the provisions of the Scheme of Arrangement;
- ii. identify, preserve and pursue recovery and realization of all assets of the BFI's in order to minimize the burden on the Budget;
- iii. pursue civil litigation against former directors and shareholders of the institutions deemed responsible for their demise;
- iv. work with forensic auditors and assist the Police with their investigation of possible fraudulent conduct or activity on the part of former directors and shareholders;
- v. identify and obtain control of assets of those responsible for the demise of the institutions in order to assist in satisfying judgements received in civil recovery.

Blaise Financial Institutions (BFI's)

3. **Payment to Depositors:** The BFI's had 3,800 depositors with deposits amount to \$972.1M. Disbursements have been made under the Scheme of Arrangement to depositors in the failed BFI's. These disbursements were done in four tranches, with the final payment commencing in May 1997. To date a total of \$954M has been paid to depositors leaving a balance of \$18.1M to be collected. The payment to depositors in the failed Blaise Financial Institutions was financed by budgetary allocations between fiscal year 1995/96 and 1997/98.

### Realization of Assets

4. Under the Scheme of Arrangement assets were transferred from the BFI's to FIS. Of a total of \$461.25M in assets transferred to FIS, a total of \$220.5M has been realized, \$1.2M from the sale of furniture and fixtures, \$108.2M from the sale of real estate approximately \$72.7M in cash balance and \$38.4M in outstanding loans. In terms of the real estate there are four properties in St. James and Port Antonio and five units in Blaise Industrial Park which are still to be sold. Four of the units in the Industrial Park are the subject of litigation, and disposal can only occur after the Court hearing. It is expected that sale of the other unit should be completed within 30 days. Navy Island has not been able to attract a fair price. In the interim, limited tourism and entertainment activities are being conducted on the Island to prevent it from falling into further disrepair and earn a small revenue.

5. In respect of the loan portfolio reflected as \$78M on the balance sheet, a total of \$38M has been recovered. It should be noted that of the loan balance of \$40M, \$37M relates to a single loan. Discussions are underway to settle this indebtedness. There are additional loans totalling in excess of \$300M due from related companies which are being litigated. These balances relate to advances made that were either not booked or written off from the records of the BFI's and are the subject of litigation.

### Litigation

6. A forensic audit has been completed on the BFI's and five persons have been charged with conspiracy to defraud. Subject to the hearing of a constitutional issue, it is expected that a trial date will be set. Eight suits have been filed on behalf of Blaise Financial Institutions in FIS's quest to recover outstanding debts and to bring action against former shareholders and directors who are deemed responsible for the demise of the institutions. However, the process is slow and is being continued.

### CENTURY FINANCIAL ENTITIES

7. Intervention into the Century Financial Institutions which had 43,000 depositors, cost the Public Sector approximately \$10B, broken down as follows:

- i. \$5.5B to clear the overdraft extended by the Central Bank to the CFE's. This overdraft was paid from Central Government balances in Bank of Jamaica.
- ii. \$5.9B in FIS paper to NCB to facilitate the payout of 100% of deposits. The intervention in the CFE's went through two phases. The period of Temporary Management and the payout period pursuant to a Scheme of Arrangement.

8. During the period of Temporary Management, FIS was involved in the interim payment to the depositors of the CFEs under an agency agreement. On October 16, 1997, FIS assumed assets and prescribed liabilities of the CFEs. The liabilities were transferred to NCB



to be paid in two tranches:

- i. an initial payment of 65%;
- ii. the remaining 35% payable, six months after the opening of new accounts.

9. To date the accounts opened in NCB under Tranche I amount to J\$2.8B and US\$16.7M. This represents approximately 90% of the sum due under the first tranche. It is expected that the other tranche will be disbursed on the due date. The payment to depositors of the CFE's has been facilitated by arrangement with the National Commercial Bank (NCB). Through this agreement:

- Government subscribed for preference shares valuing \$450M. The purchase of these shares was financed by the issuance of a Government guaranteed promissory note by FIS in order to insure that the capital base would adequately accommodate the new deposits of the CFEs.
- In assuming the deposit liability, at the opening of each new account resulting from the payout of the CFE depositors, NCB is provided with a guaranteed negotiable instrument. This instrument is denominated in local currency or US dollar currency.

#### Realization of Assets

10. The value of assets transferred from the CFEs to FIS is estimated at \$3.142B. Outstanding liabilities amount to \$11.4B, a deficit of \$8.258. Realization of Assets to date total \$300M.

#### Litigation

11. A Forensic Audit has been conducted on the operations of the CFE's and the Police is at an advanced stage of the fraud investigation arising out of the findings of the Forensic Audit. Several suits have been filed against the former directors and their related companies seeking to recover in excess of \$1.5B in loans outstanding and damages for mismanagement and breach of fiduciary responsibility.

12. At April 8, 1998, total cash balances of FIS in the Banking System was estimated at J\$1.2B.

Omar Davies, MP  
Minister of Finance & Planning  
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