Review of the financial health of financial institution that were closed in the 1990s

The list of failed financial institutions provided to the Commission by Bank of Jamaica identifies thirty (30) bank and non-bank institutions namely:

1. Billy Craig Finance and Merchant Bank Limited
2. Blaise Building Society
3. Blaise Trust Company and Merchant Bank Limited
4. Buck Securities Merchant Bank Limited
5. Caldron Finance Merchant Bank Limited
6. Capital Assurance Building Society
7. Caribbean Trust Merchant Bank Limited
8. Century National Bank Limited
9. Century National Building Society
10. Century National Merchant Bank and Trust Co. Limited
11. Citizens Bank Limited
12. Citizens Building Society
13. Citizens Trust & Merchant Bank Limited
14. Consolidated Holdings Limited
15. Corporate Merchant Bank Limited
16. Eagle Commercial Bank Limited
17. Eagle Merchant Bank of Jamaica Limited
18. Eagle Permanent Building Society
19. Fidelity Finance Merchant Bank Limited
20. First Metropolitan Building Society
21. Horizon Building Society
22. Horizon Merchant Bank Limited
23. Intercontinental Merchant Bank Limited
24. Island Life Merchant Bank Limited
25. Island Victoria Bank Limited
26. National Commercial Bank Jamaica Limited
27. NCB Trust and Merchant Bank Limited
28. Partner Merchant Bank Limited
29. Tower Merchant and Trust Bank Limited
30. Workers Savings and Loan Bank

1.Billy Craig Finance and Merchant Bank Limited 1. Blaise Building Society 2. Blaise Trust Company and Merchant Bank	Date Licensed	Date Closed	

Limited 3. Buck Securities Merchant Bank Limited 4. Caldron Finance Merchant Bank Limited 5. Capital Assurance Building Society 6. Caribbean Trust Merchant Bank Limited 7. Century National Bank Limited 8. Century National Building Society 9. Century National Merchant Bank and Trust Co. Limited 10. Citizens Bank Limited 11. Citizens Building Society 12. Citizens Trust & Merchant Bank Limited 13. Consolidated Holdings Limited 14. Corporate Merchant Bank Limited 15. Eagle Commercial Bank Limited 16. Eagle Merchant Bank of Jamaica Limited 17. Eagle Permanent Building Society 18. Fidelity Finance Merchant Bank Limited 19. First Metropolitan Building Society 20. Horizon Building Society 21. Horizon Merchant Bank Limited 22. Intercontinental Merchant Bank Limited 23. Island Life Merchant Bank Limited 24. Island Victoria Bank Limited 25. National Commercial Bank Jamaica Limited 26. NCB Trust and Merchant Bank Limited 27. Partner Merchant Bank Limited 28. Tower Merchant and Trust Bank Limited 29. Workers Savings and Loan Bank			

Financial Institutions intervened/owned/managed by FINSAC

The list of intervened/owned/managed financial institutions provided to the Commission by FINSAC includes insurance companies in addition to those identified by BOJ namely:

		INTERVENED	OWNED/ MANAGED
1.	Billy Craig Finance and Merchant Bank Limited		
2.	Blaise Trust & Merchant Bank Subsidiaries		
	Buck Securities Merchant Bank Limited		

3.	Caldron Finance Merchant Bank Limited		
4.	Caribbean Trust Merchant Bank Limited		
5.	Century National Bank & Subsidiaries		
6.	CIBC Jamaica		
7.	Citizens' Bank Limited (CBL)		
8.	Citizens' Building Society		
9.	Citizens' Merchant Bank (CitMB)		
10.	CLICO Insurance		
11.	Corporate Group Limited and Subsidiaries		
12.	Corporate Merchant Bank Limited		
13.	Crown Eagle Life Insurance Company		
14.	DBG Merchant Bank		
15.	Dyoll Group Limited & Subsidiaries		
16.	Dyoll Life Limited		
17.	Eagle Commercial Bank (ECB)		
18.	Eagle Merchant Bank of Jamaica		
19.	Eagle Permanent Building Society		
20.	Fidelity Finance Merchant Bank Limited		
21.	Horizon Group Limited and Subsidiaries		
22.	Horizon Life		
23.	Intercontinental Merchant Bank Limited		
24.	Island Life Insurance Company		
25.	Island Life Merchant Bank Limited		
26.	Island Victoria Bank Limited		
27.	Jamaica Mutual Life Assurance Society		
28.	Life Of Jamaica		
29.	National Commercial Bank Jamaica Limited		
30.	NCB Group Limited and Subsidiaries		
31.	Recon Trust Limited		
32.	Refin Trust Limited		
33.	Union Bank of Jamaica		
34.	Victoria Mutual Building Society		
35.	Workers' Savings and Loan Bank (WSLB)		

1. UBJ was formed by the merger of CBL, CitMB, CMB, ECB, ILMB, IVB & WSLB.
2. Finsac did not have controlling interest in Intervened Institutions.
3. Finsac had in excess of 50% shareholding in Owned/Managed Institutions.
4. Recon was the entity used by Finsac to acquire the NCB Loans.
5. Refin was used to acquire non-performing loans from all other institutions.
6. The Recon loans were later transferred to Refin before the sale of loans to JRF
7. *1 and *2 are entities that were wholly-owned by Financial Institutions Services.
8. The Shares of Workers Savings and Loan Bank were vested in the Minister .

INFORMATION AVAILABLE TO THE COMMISSION

Executives of some institutions have made submissions and testified before the Commission. These executives are Honourable Danny Williams and Honourable Dennis Lalor (Life of Jamaica) Dr. Marshall Hall and Reverend Jim Parkes (Jamaica Mutual Life Assurance Society), Mr. Oliver Jones (Island Life Insurance Company, Island Victoria Bank and Island Life Merchant Bank), Dr. Paul Chen-Young (Eagle Group), Mr. Jeffrey Cobham (NCB Group), Mr. Elon Beckford (Horizon Group) Donovan Crawford (Century National Group).

The former Minister of Finance, the former Financial Secretary, and senior executives of public sector entities all ignored the request by the Commission to make submissions on the terms of reference. They instead responded to written questions sent to them by the Commission and testified before the Commission. These persons are the former Minister of Finance (Dr. Omar Davies), Mr. Derrick Latibudiere (Bank of Jamaica), the former Financial Secretary (Honourable Shirley Tyndall), the former Managing Director of FINSAC Limited (Mr. Patrick Hylton), and the General Manager FINSAC Limited (Mr. Errol Campbell).

The Commission has been provided with information on the failed financial institutions by Bank of Jamaica, the Ministry of Finance and the Public Service and FINSAC Limited. Detailed reports on inspection of some banks and near banks conducted by the BOJ have been provided by the MOF. Forensic studies on some institutions have been provided by MOF and others by FINSAC Limited.

A few reports on the insurance companies have been received. Some Inspection reports on institutions regulated by the BOJ have been submitted to the Commission.

Findings

The Commission examined in detail the above information sources and concluded that financial institutions could conveniently be placed in X..categories. The first category includes institutions......and could be deemed to have been insolvent at the beginning of the 1990s. The second category consisted of institutions that were poorly managed, undercapitalized and nonviable. The third category exhibited fair to good management, adequate capital and good profitability.

On consistent factor was the delay by the authorities in taking the required action to remove institutions in the first and second category prior to the collapse of the indigenous financial institutions. Further the impact of the high interest rates and inflation noted by the BOJ inspectorate was ignored by the monetary policy wing of the BOJ.

TESTIMONIES ON FAILED FINANCIAL INSTITUTION GIVEN BY A FORMER GOVERNMENT MINISTER, A SENIOR CIVIL SERVANT, AND SENIOR EXECUTIVES OF PUBLIC SECTOR ENTITIES

AUDIT REPORTS ON INSTITUTIONS

Century National Bank Limited, Century National Building Society, Century National Merchant Bank and Trust Co. Limited

The Coopers and Lybrand report on the CNB Group is the earliest report submitted to the Commission. The "FINDINGS AND CONCLUSIONS" stated in Exhibit 1 pages 1 to 5 refer to numerous possible breaches of the Banking Act, questionable accounting practices, questionable financial arrangements with third party institutions and possible window dressing activities of the entities.

FINDINGS AND CONCLUSIONS

CENTURY NATIONAL BANK

1. As set out in Exhibit III, and Exhibit II, pages 3 and 4, many "liquid assets" as defined in Section 15 (2) of the Banking Act are pledged or lodged with third parties as collateral to support deposits and other liabilities of CNB and other related parties. These assets are therefore not readily available to meet deposits and other liabilities. Borrowings from The Bank of Jamaica have been incurred as a result of the unavailability of liquid assets.

2. As set out in Exhibit II page 5 through 13, the quality of the loan portfolio is very questionable. The provision for doubtful accounts is understated. An excessive amount of loans in the portfolio are in default. There is an excessive amount of uncollected arrears in interest.

3. Doubtful loans of CNMB have been sold on a guaranteed basis to financial institutions to obtain funds. As set out in Exhibit II, page 4, and Exhibit III, liquid assets of CNB totaling $30 million have been lodged as collateral.

4. As set out in Exhibit II, pages 9 through 13, administrative procedures set out in credit policy manuals are not being adhered to. This results in inadequate review of loans in all stages of administration. Procedures in place need to be significantly upgraded.

5. Large numbers of loans have been consolidated. This has the effect of bringing the loan to a current status often with the recording of additional fee income. Many of these consolidated loans are in default.

6. As set out in Exhibit II, page 6, credit facilities in the form of loans have been granted to companies and individuals in excess of 20% of the capital base which may be contra to Section 13 (1) (f) (i) of the Banking Act, 1992

7. As set out in Exhibit III and Exhibit II, page 4, new credit facilities have been granted to its parent company since January 1, 1993 in excess of 5% of the capital which may be contra to Section 13 (1) (e) (i) of the Banking Act 1992

8. As set out in Exhibit II, page 4, Exhibit III, new credit facilities have been granted subsequently to January 1, 1993 to a group of related companies partially on an unsecured basis in excess of 20% of the bank's capital base which may be contra to Section 13 (1) (f) (ii) of the Banking Act, 1992

9. As set out in Exhibit II, page 37, a dividend of $17,500,00.00 was paid in the form of preferred shares to shareholders when there were sums due and payable to The Bank of Jamaica which may be contra to Section 13 (1) (g) (v) of The Banking Act, 1992. These preferred shares were subsequently redeemed for cash.

10. As set out in Exhibit III, funds totalling $105 million to be deposited to CNB per letter dated February 19, 1993from Eagle Merchant bank of Jamaica Limited (EMBJL) were deposited by, and at Century National Building Society (CNBS) despite promissory notes and correspondence from CNB to the contrary. Liquid assets of CNB were lodged with EMBJL to support repayment of these deposits. A letter dated March 1, 1993 has now been received from EMBJL acknowledging that the funds may be placed in CNBS. The promissory notes and correspondence from CNB and EMBJL are attached as Exhibit IV.

11. As set out in Exhibit II, pages 35 through 37, the capital base of CNB was increased by what management and external auditors described as "the capitalization of profits". The large majority of these "profits" were generated by the sale of shares of CNMB to Century National Bank Holdings Limited (CNBH), the non-arms length holding company of both CNB and CNBM. Profit should not be recognized until a sale is complete to an arms-length purchaser. The consideration for the purchase of these shares was a $280 million debenture taken back by CNB. This loan is in excess of 5% of the Bank's Capital base which may be contra to Section 13 (1) (e) (i) of The Banking Act 1992, and in excess of 20% of the Bank's capital base which may be contra to Section 13(1)(f)(i) of The Banking Act, 1992. This loan has been reduced to $30 million in 1993.

As set out in Exhibit II, page 4 $150 million of the reduction was funded by CNBH by borrowing the amount from Jamaica Money Market Brokers Limited (JMMB) and lodging liquid assets of CNB collateral for repayment.

This new credit facility is in excess of 5% of the Bank's capital base which may be in contravention of Section 13 (1)(e)(i) of the Banking Act, 1992 and in excess of 20% of the Bank's Capital base which may be contra to Section 13 (1)(f)(i) of the Banking Act, 1992.

The remaining $100 million of the reduction was funded by CNBH by borrowing the money from Life of Jamaica (LOJ) and lodging assets of CNBS (LOJ Investments fund - $256.616 million market value at February 23, 1993).

The increase in the capital base created by this capitalization of profits is $132,699,347.00 according to the audited financial statements of June 30, 1992. This increase in the capital base computates to an ability to increase deposits taken by $3,317,758,675.00

12. The sale of the shares of CNMB also created additional retained earnings of $115 million in the year ended June 30, 1992. Without this non-arms length sale, retained earnings would be $103,500,000.00 less after deducting the appropriation to capital reserve of 10% of profit. Therefore, at February 19, 1993 there would be a deficit of $149,155,997.000.00

13. If the Bank's capital base were revised for these latter two items, CNB would have a negative capital base as calculated under the banking Act, 1992 and would not be able to borrow by way of deposit

14. As set out in Exhibit II, page 11, the scope of review presently carried out by internal audit functions is inadequate.

15. As set out in Exhibit XII, the strength and depth of Senior Management is inadequate.

16. The level of business acumen of the directors and senior officers are questionable.

17. As set out in Exhibit II, pages 5 and 6, interest continues to be accrued on loans long passed the time one would expect under reasonable prudent lending practices. This has the effect of substantially overstating income, accrued interest receivable, and loan receivable.

18. Certain practices carried on by management and the Bank are not those that are prudently required and demanded in an industry dealing with the public's trust and funds.

19. As set out in Exhibit II, pages 6, 8 and 16, earnings appear to be substantially overstated.

20. As set in Exhibit II, pages 14 and 36, CNB continues to self-deal. There are substantial related party advances as at the date of our report. A number of these advances are in arrears of principal and interest.

21. As set in Exhibit II, page 32, substantial letters of credit, etc. have been issued on behalf of related parties.

22. As set in Exhibit II, page 29, approximately 50% of taxes payable with respect to taxes withheld on deposits are overdue.

23. As set in Exhibit XIII, $914 million of $1,291 million raised by CNBS from the issuance of shares has been advanced to or on behalf of related parties.

The "FINDINGS AND CONCLUSIONS" would indicate that these practices had been going on for some time prior to 1993. The earlier Bank of Jamaica inspection reports would be instructive in this regard.

Coopers and Lybrand reported it findings to the Bank of Jamaica and the Minister of Finance on ......date. Date of report required. Considering the numerous adverse findings the Bank of Jamaica would have been expected to recommend to the Minister of Finance the immediate closure of the financial institution. The Minister would have been expected to implement the recommendation as a matter of urgency.

Actions taken by the Bank of Jamaica and the Minister of Finance

The subsequent Bank of Jamaica reports merely repeat the findings and conclusions of the Coopers and Lybrand report.

The immense delay in closing the group of companies merely increased the systemic risk posed by the group. The reasons for non-action on the part of the Minister are beyond comprehension and is a major contributor to the losses sustained at the time of closure. The estimated loss in 1993 was $1 billion.

The factors stated by Mr. Donovan Crawford in his testimony before the Commission are not supported by the findings of the special audit or the Bank of Jamaica inspection reports.

OVERVIEW OF CENTURY NATIONAL BANK (CNB),

CENTURY NATIONAL MERCHANT BANK (CNMB)

AND CENTURY NATIONAL BUILDING SOCIETY (CNBS)

BANK OF JAMAICA INSPECTORS' REPORT AS AT 22/3/1995

The financial entities in the Century Group have, over the years, consistently displayed serious deficiencies which have required the close on-going monitoring by the Supervisory Authorities. In 1993, a Letter of Undertaking was signed by the members of CNB's Board of Directors which required, inter alia that

i) the Board be restructured to include external persons including those with appropriate levels of financial expertise
ii) efforts be made to reduce the high level of non-performing loans and dispose of holdings of real estate in breach of the Banking and Financial Institutions Act;
iii) inter-group transactions should be severely curtailed, and disposals of assets with the group required authorisation by Supervisory Authorities.

Subsequent to the above undertaking, there have been ongoing discussions and correspondence between the Supervisory Authorities and the management of the Century financial entities, with a view to correcting the weaknesses identified within these entities, and ultimately to ensure that they are put on a sound and viable footing.

Following the February 1995 discussions of the 1994 examination reports, and in view of the worsening position of the entities evidenced by the then persistent overdraft position the CNB bank account operated at the BOJ, the decision was taken by the Supervisory Authorities to monitor the situation even more closely. Consequently, target inspections of the Century financial entities were scheduled effective March 22, 1995. The examinations of these entities (viz. CNB, CNMB and CNBS, herein referred to collectively as the Century Financial Group (CFG)), were done simultaneously with the objective of determining the precise depth of the problems at these institutions, and to formulate possible solutions to address these.

A review of the 1995 examination reports confirmed that the CFG, and by extension the entire Group, has serious problems which have major implications for these entities, as well as for the financial system as a whole. The mail concerns arising from the above inspections are as follows:

1. Century Financial Group is technically insolvent. Schedule I.....shows the combined unimpaired capital (adjusted for unrealisable accruals already taken to profits) as a negative $1.5 billion, with a marginally improved negative $1.415 billion at March 31, 1995 after the $1.6 million capital injection. However, the Solvency Assessment at Schedule II...indicates an overall capital deficiency of J$3.22 billion ($3.064 billion at 31/3/1995) when realisable assets are compared to liabilities. Of critical importance is information received from First Trade International Bank & Trust Limited (Bahamas) on 29 May 1995 advising the Supervisory Department that the US$25,669,402.67 held by them on deposit for CNB are used as security for matched credits. No credit facility of this magnitude has been seen in the records of CNB and, importantly no such credit has been reported to the Supervisory Authorities by the bank although such information is officially and specifically requested at the start of the inspections.

2. The CFG displays many serious problems =, several of which has been encountered in the Blaise Group as follows.

- Management is weak and there is a significant lack of relevant financial experience and qualification. This is evidenced at all levels, including the Board of Directors.

- CFG continues to experience sever liquidity constraints, resulting in CNB's high level of BOJ overdraft and interbank borrowings. There has also been extensive pledging of securities to support deposits and other liabilities, thereby rendering these assets unavailable to meet deposit withdrawals and other liabilities.

- There is evidence of significant self-dealing and inter-company transactions including the channelling of substantial amounts of depositors' funds into non-productive activities of the Century Group, which demonstrate poor quality with tremendous levels of accrued interest and little or no repayment thereof, and preferential terms and conditions not available to unrelated third parties. Schedule IV shows combined connected party exposure the CFG entities totalled $4.893 billion at reviewed date (22/3/1995).

- High cost time deposit dominate the entire CFG deposit base. In addition, there has been excess garnering of volatile short-term depositors' funds through CNBS at high rates with no withholding tax taxes, and upstream of substantially all of these funds to CNB, at rates of interest equal to CNBS cost of funds, thereby providing much needed liquidity support to CNB, to the potential detriment of the CNBS depositors;

- Poor quality of the overall loan portfolios with grossly understated provision for doubtful accounts. For example, while CNB has estimated its loan portfolio losses to be approximately J$376 million, the Inspectorate has estimated these to total approximately $1.111 billion (58% of its loan portfolio), and that of the overall CFG to be J1.750 billion, or about 60% of CFG's totalling portfolio. In addition the examiners have estimated that 1.951 billion (76.97%) of CFG's accounts receivable of $2.535 billion is unrealisable, and have also detected some level of impairment in the value of investments.

- Management has consistently employed methods to manipulate the loan portfolio so as not to reflect the serious deficiencies there in. Several loans have been consolidated with the effect of rendering these non-performing loans "ever-green" , thereby being able to record fees and capitalise previously accrued but uncollectible income. Included in these are a number of non-performing loans which straddle the entire CFG, totalling $318.59 million with collateral value of only $173.2 million, resulting in a net shortfall (after provisions for/write-back of interest) of $104.27 million.

- The current liquidity difficulties being experienced by CNB are attributable mainly to the fact that the CFG's ratio of Expense bearing Liabilities to income Generating Assets is a whopping 1.7:1 (Schedule III). This situation is further exacerbated by the fact that, because of the high proportion of non-performing loans, income from earning assets is grossly insufficient to service deposit costs, resulting in significant operating losses and the need for excessive borrowing to service operational costs. It is also noteworthy that although CNB reported a $165 million capital injection effective March 31, 1995, this did not provide any significant level of new cash, as a substantial part of this amount involved the mere conversion of existing deposits to shares.

- In January 1995, as a part of the discussions regarding the 1994 inspections, BOJ asked the CNB management to prepare a comprehensive five-year business plan for the Group, which would include identified sources of capital and the timing of the injections, and which would demonstrate precisely how the bank intended to extricate itself from its current situation and achieve a positive turn-around. However, the BOJ's assessment of the plan submitted in February 1995, found it to be woefully inadequate as it did not properly address the critical deficiencies of the bank's operations, nor was it able to demonstrate the bank's ability to (eventually) provide a safe and sound banking environment that could generate sustainable operational profits. On the contrary, an Interest Sensitivity Analysis done on CNB's projections showed that, using realistic interest rates, the bank would suffer successively increasing losses over the five year projection period-quite the opposite of the highly optimistic significantly increasing profits projected by the bank. (See Appendix I)

It is noteworthy that these projections did not cover CNBS or CNMB, both of which also require immediate remedial attention.

It is clear from the above that for the CFG or any of its individual entities to survive, there is the need for a significant infusion of capital, and better management. Given its present weakness, the Group does not represent an attractive investment proposition for any prospective investor. However, such acquisition would have to be made as attractive and feasible as possible. The combinations and possibilities are numerous, but would necessarily require participation by the government which will have to absorb part of the CFG losses, one way or another.

OVERVIEW OF CE

The group was insolvent from or before 1993 and could have been closed under the existing legislation. Failure to close would therefore suggest a high degree of negligence on the part of the Minister. See the second paragraph on page 2 of the Bank of Jamaica's report to the Minister of Finance dated 30 June 1995.

NOTE TO THE MINISTER OF FINANCE

ON THE PRESENT STATUS OF CENTURY NATIONAL BANK

AND ITS AFFILIATED FINANCIAL ENTITIES

Paragraph#3

The situation came to a head in early 1993 when inspections carried out by the Bank of Jamaica diagnosed the commercial banks and merchant banks as continuing to suffer from inherent imbalances and fundamental weaknesses at a heightened level, and serious liquidity difficulties to the extent that they were adjudged to be engaging in unsafe and unsound practices. This was compounded by the bank's continuing breach of The Banking Act. The conclusions of the Bank of

Jamaica at that point, was that "work-out" options were limited by the fact that historical trends exhibited so far suggested that the institution did not possess the type of management which would be both willing and able to implement the level of restructuring and other ameliorative measures necessary to effect the entities' turn-around. The recommendation was therefore, that the Minister assume Temporary Management of entities.

<u>Island Life Group</u>

Island Victoria Bank

Island Life Merchant Bank

Island Life Insurance Company

Island Life Merchant Bank

Bank of Jamaica Management reports for the years 1995, 1996, 1997 and 1998 have been provided to the Commission. (Bank of Jamaica Management reports for earlier periods would be instructive.)

These reports state that the operations of the institution deteriorated over the period leading to its insolvency in 1998. This deterioration resulted notwithstanding the injection of $ 30Mn in capital in 1996 by Island Victoria Bank and concerted efforts by management to improve operations and more effectively manage the financial portfolio and improve profitability.

The single most significant factor in the deterioration of the institution was the growth in non-performing loans which effectively wiped out the institutions capital. See extracts from the Bank of Jamaica Management reports below.

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Citizens Group

Citizens Bank Limited

Citizens Merchant Bank Limited

Citizens Building Society

Citizens Investments Limited

Citizens Bank Limited

Bank of Jamaica inspection reports as at 31 May, 1995 and 30 November, 1996 detail continuous regulatory breaches, poor management practices, manipulation of transaction between group members and continuous deterioration in the capital base. The main factor contributing to continuous deterioration in the capital was the increasing portfolio of non-performing loans and the provisioning against these loans.

In order to reduce the level of provisioning loans were frequently sold from one group entity to another.

Citizens Merchant Bank Limited

Bank of Jamaica inspection reports as at 31 May, 1995 and 30 November, 1996 detail continuous regulatory breaches, poor management practices, manipulation of transaction between group members and continuous deterioration in the capital base. The main factor contributing to continuous deterioration in the capital was the increasing portfolio of non-performing loans and the provisioning against these loans.

In order to reduce the level of provisioning loans were frequently sold from one group entity to another.

Citizens Building Society

Bank of Jamaica inspection reports as at 31 May 1995 and 30 November 1996 detail continuous regulatory breaches, poor management practices, manipulation of transaction between group members and insolvency of the Society.

These findings should have been taken into account by FINSAC in its acquisition of Citizens Bank Limited-in regard to whether or not the institution should have been acquired and if acquired should the price have exceeded $1.00.

The BOJ reports for both periods are extensive and mere extracts would not be appropriate.

Buck Securities Merchant Bank Limited

Bank of Jamaica inspection report covering 21.10.94 to 30.11.95

Bank of Jamaica inspection report indicated that there was a notable improvement in the performance indicators of the institution. The report, however, states that "the capital base continues to be impaired by net accumulated losses, indicating the need for further capital injections to cover operational advancements". It further states that "non-performing loans remain at imprudently high levels".

Note that the reports for earlier and later years are not now available to the Commission hence these reports were not reviewed

Billy Craig Group

Billy Craig Finance and Merchant Bank Limited

Billy Craig Building Society

(Bank of Jamaica inspection report covering 21.10.94 to 30.11.95)

The Bank of Jamaica inspection report covering 21.10.94 to 30.11.95 stated that the group breached legislative and regulatory provision, co-mingled the financial resources of the separate institution, and exhibited poor management practices.

Like many other institutions in the period the group's loan portfolio deteriorated as non-performing loans increased and by the 1997 inspection examination report the merchant bank became insolvent.

ALTHOUGH THE Bank of Jamaica inspection report covering 21.10.94 to 30.11.95 had assessed the return to depositors of $0.91 in the dollar action by the authorities was delayed until the institution became insolvent.

INSERT FROM THE FCIC COMMISSION USA

Wall Street bankers, regulators, government officials and even homeowners all share the blame for the 2008 financial crisis, according to a scathing US official investigation into the meltdown published today.

The 545-page Financial Crisis Inquiry Commission (FCIC) report reads like a financial thriller in which there are very few heroes. One chapter on the fiasco is entitled simply "The Madness".

The commission's chairman, Phil Angelides, said US authorities were now investigating potential criminal acts it had uncovered. He declined to name names. So far, the 2008 financial crisis has led to few prosecutions.

The commission concluded that the crisis was avoidable and caused by:

• Widespread failures in financial regulation, including the Federal Reserve's failure to stem the "tide of toxic mortgages".

• Dramatic breakdowns in corporate governance, with too many firms acting recklessly and taking on too much risk.

• Excessive borrowing and risk by households and Wall Street.

• Policymakers who were ill-prepared for the crisis and lacked a "full understanding of the financial system they oversaw".

• Systemic breaches of accountability and ethics at all levels. Mortgage-holders took out loans they never intended to pay; lenders made loans they knew the borrowers could not afford.

The report declares: "There are 26 million Americans who are out of work ... Nearly $11tn in household wealth has vanished ... The collateral damage of this crisis has been real people and real communities. The impacts of this crisis are likely to be felt for a generation."

While the crisis was years in the making, it was the collapse of the housing bubble that triggered the 2008 collapse. Trillions of dollars in risky, sub-prime mortgages had been embedded in the system. When the housing bubble burst, the impact was magnified by complex financial derivatives based on those loans, whose risks had been woefully underestimated.

Behind the collapse was the rewiring of Wall Street. From 1987 to 2007, the amount of debt held by financial sector soared from $3tn to $36tn (£1.9tn to £22.5tn). Sub-prime mortgages went from 5% of loans in 1994 to 20% in 2006. At the same time, financial services firms constituted an increasingly disproportionate part of the US economy – 27% of all corporate profits in the US compared with 15% in 1980.

The crisis itself was avoidable – the result of "human action and inaction, not of Mother Nature or computer models gone haywire". And in large part it was led by government mismanagement.

The Federal Reserve played a central role in enabling the crisis. It failed in its duty to set more prudent limits. Firms "made, bought and sold mortgage securities they never examined". They invested blindly and did not care if the investments were defective. Compensation "too often rewarded the quick deal, the short-term gain".

Aggressive expansion left banks unable to manage their own assets – and few escaped blame.

For Citigroup "too big to fail meant too big to manage". Goldman Sachs multiplied the effects of the collapse of sub-prime loans by funding and creating billions of dollars of bets based on the back of the loans. AIG's senior management was ignorant of the terms and risks of its $79bn derivatives exposure. It was a "costly surprise" to Merrill Lynch's top managers that their $55bn investment in "super-safe" mortgage securities had resulted in billions of dollars in losses.

Top officials, including Alan Greenspan, the former Federal Reserve chairman, were also blamed. The FCIC said the drive towards deregulation over the past 30 years helped to create the conditions for disaster. "What else could one expect on a highway where there were neither speed limits nor painted lines?" asks the report.

Committee member Byron Georgiou said: "Our financial system today is not very different today than it was in the run-up to 2007." He said it "would be remiss to suggest whatever failing we uncovered" have been addressed by legislation.

The FCIC panel failed to reach a majority agreement, with the major report signed off only by its Democrat members. In a dissenting opinion, Republican members wrote: "The commission's majority used its extensive statutory investigative authority to seek only the facts that supported its initial assumptions."