

FINSAC LIMITED

BALANCE SHEET AT MARCH 31, 2001

	<u>Notes</u>	<u>2001</u> \$'000	<u>2000</u> \$'000
ASSETS			
Non-current assets			
Fixed assets	3	77,501	68,400
Investment properties	4	1,417,759	987,778
Investments	5	7,275,271	17,855,459
Owed by related company		1,346,068	460,366
Loans to financial institutions	6	<u>6,051,404</u>	<u>3,960,154</u>
		<u>16,168,003</u>	<u>23,332,157</u>
Current assets			
Accounts receivable and prepayments	7	2,109,192	839,471
Fixed deposits	8	760,941	274,378
Cash and bank balances		<u>196,395</u>	<u>52,622</u>
		<u>3,066,528</u>	<u>1,166,471</u>
Total assets		<u>19,234,531</u>	<u>24,498,628</u>
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY IN ASSETS)			
Shareholders' equity (deficiency in assets):			
Share capital	9	1	1
Contributed capital	10	131,403,117	-
Profit and loss account — deficit		(125,151,246)	(98,509,951)
		<u>6,251,872</u>	<u>(98,509,950)</u>
Non-current liabilities			
Long-term liabilities	11	11,044,456	114,563,423
Current liabilities			
Accounts payable and accruals	12	<u>1,938,203</u>	<u>8,445,155</u>
		<u>12,982,659</u>	<u>123,008,578</u>
Total liabilities and shareholders' equity (deficiency in assets)		<u>19,234,531</u>	<u>24,498,628</u>

The Notes on Statement VI form an integral part of the Financial Statements.

Approved on behalf of the Board.

.....)
) Directors

FINSAC LIMITED
PROFIT AND LOSS ACCOUNT
YEAR ENDED MARCH 31, 2001

	<u>Notes</u>	<u>2001</u> \$'000	<u>2000</u> \$'000
INCOME			
Investment income		54,334	38,298
Rental income		73,623	57,033
Interest on loans		3,575,136	3,255,030
Interest on deposits		186,413	57,079
IDB funding		<u>68,531</u>	<u>20,147</u>
		<u>3,958,037</u>	<u>3,427,587</u>
OPERATING EXPENSES			
General and administrative		437,395	432,934
Loss on sale of investments		-	222,122
Interest on loans and advances		18,190,680	15,040,135
Provision for uncollectible interest receivable		3,730,935	2,676,232
Foreign exchange loss		<u>396,351</u>	<u>318,881</u>
		<u>22,755,361</u>	<u>18,690,304</u>
Operating losses		(18,797,324)	(15,262,717)
OTHER CHARGES			
Loans and deposits loss provisions		(3,982,104)	(8,107,778)
Provision for losses in subsidiaries and associated companies and diminution in value of investments		<u>(7,544,585)</u>	<u>(7,468,772)</u>
		<u>(11,526,689)</u>	<u>(15,576,550)</u>
NET LOSS BEFORE EXCEPTIONAL ITEM	13	(30,324,013)	(30,839,267)
Exceptional item	14	<u>3,682,718</u>	<u>-</u>
NET LOSS		<u>(26,641,295)</u>	<u>(30,839,267)</u>

The Notes on Statement VI form an integral part of the Financial Statements.

FINSAC LIMITED
STATEMENT OF CHANGES IN EQUITY
YEAR ENDED MARCH 31, 2001

	<u>Note</u>	<u>Share Capital \$'000</u>	<u>Contributed Capital \$'000</u>	<u>Accumulated Loss \$'000</u>	<u>Total \$'000</u>
Balance at March 31, 1999		1	-	(67,670,684)	(67,670,683)
Net loss for the year		-	-	(30,839,267)	(30,839,267)
Balance at March 31, 2000		1	-	(98,509,951)	(98,509,950)
Net loss for the year		-	-	(26,641,295)	(26,641,295)
Contributed capital	10	-	131,403,117	-	131,403,117
Balance at March 31, 2001		<u>1</u>	<u>131,403,117</u>	<u>(125,151,246)</u>	<u>6,251,872</u>

The Notes on Statement VI form an integral part of the Financial Statements.

FINSAC LIMITED

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2001

	2001 \$'000	2000 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	(26,641,295)	(30,839,267)
Non-cash items included in net loss		
Depreciation	36,137	13,680
Deferred interest on long-term liabilities	19,853,559	9,206,085
Deferred interest on deposits with financial institutions	(173,756)	(146,063)
Loss on sale of investments	-	222,122
Exceptional items	(3,682,718)	-
Loans and deposits loss provisions	3,982,104	8,107,778
Provision for losses in subsidiaries and associated companies and diminution in value of investments	7,544,585	7,468,772
Exchange adjustment on conversion of foreign currency bonds	(37,038)	79,297
	881,578	(5,887,596)
Increase in operating assets		
Accounts receivable and prepayments	(1,476,183)	(471,929)
(Decrease) increase in operating liabilities		
Accounts payable and accruals	(1,803,532)	6,206,544
Cash used in operating activities	(2,398,137)	(152,981)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of fixed assets	(45,628)	(70,801)
Acquisition of investments	(157,555)	(111,063)
Repayments from (loans to) financial institutions	837,483	(149,554)
Owed by related company	(923,302)	(458,026)
Fixed deposits	(486,563)	159,556
Proceeds from sale of fixed asset	390	-
Cash used in investing activities	(775,175)	(629,888)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sale of investments	1,660,997	-
Proceeds from loans received	-	1,250,001
Contributed capital	7,321,824	-
Advances from subsidiaries	1,656,088	1,123,934
Redemption of bonds	(7,321,824)	(1,591,648)
Cash provided by financing activities	3,317,085	782,287
NET INCREASE (DECREASE) IN CASH AND BANK BALANCES	143,773	(582)
OPENING CASH AND BANK BALANCES	52,622	53,204
CLOSING CASH AND BANK BALANCES	196,395	52,622

The Notes on Statement VI form an integral part of the Financial Statements.

FINŠAC LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2001

1 IDENTIFICATION

The company was incorporated in Jamaica as a limited liability company on January 29, 1997, to address the liquidity and solvency problems being experienced within the financial sector, namely banks and insurance companies.

Some of its main objectives include:

- (a) to correct liquidity and solvency issues;
- (b) to improve the efficiency of the sector in mobilising and allocating financial resources in the economy;
- (c) to correct existing weaknesses in financial management; and
- (d) to avoid and minimise the extent to which the public sector protection of depositors, policyholders and pension schemes is seen as relieving the managers of the need for prudence and depositors of their responsibility for being selective in the placement of their funds.

These financial statements are expressed in Jamaican dollars.

2 SIGNIFICANT ACCOUNTING POLICIES

- (a) Accounting convention, principles and standards

These financial statements have been prepared on the basis of the continuation of the company as a going concern, which contemplates the realisation of assets and the repayment of liabilities in the ordinary course of business, and under the historical cost convention, except for certain investments which are stated at valuations. The accounting principles followed by the company are those generally accepted in Jamaica, and these financial statements comply in all material respects with the requirements of applicable statements of standard accounting practice issued by the Institute of Chartered Accountants of Jamaica.

FINSAC LIMITED**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED MARCH 31, 2001****2 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)****(b) Depreciation**

Depreciation is calculated on the straight-line basis on cost or revalued amounts over the estimated lives of the assets. Annual depreciation rates are based on the following estimated useful lives:

Leasehold improvements	-	2 years
Furniture and fixtures	-	5 years
Office equipment	-	5 years
Computer equipment	-	3 years
Motor vehicles	-	5 years

(c) Foreign currencies

Transactions in foreign currencies have been converted to Jamaican dollars at the rates of exchange ruling at the dates of those transactions. Assets and liabilities denominated in foreign currencies are translated to Jamaican dollars at exchange rates prevailing at balance sheet date. All exchange gains and losses are credited to, or charged against income of the year.

(d) Interest

Interest income is credited to revenue on the accrual basis, and where such interest is doubtful of recovery, provisions are made to reduce interest receivable to the estimated recoverable amount.

(e) Investments

(i) Investments, other than in subsidiary and associated companies, are stated at cost less any provision required for permanent diminution in value. A provision for loss is made where, in the opinion of the directors and management, there has been a permanent impairment in the value of an investment.

FINŠAC LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2001

2 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(e) **Investments (Cont'd)**

(ii) **Subsidiary and associated companies**

Investments in subsidiary and associated companies are accounted for primarily on the equity method. In the balance sheet these investments are included at cost, plus or minus the company's share of profits and losses and reserves since acquisition. Loans and advances are reduced by a provision where in the opinion of management they are not likely to be recovered in full. Preference shares are included in other investments and stated at cost. A provision is made where, in the opinion of management, a permanent diminution in value has occurred.

The subsidiary and associated companies are as follows:

<u>Name of Company</u>	<u>Percentage Holding</u>	<u>Financial Year End</u>
<i>Subsidiary companies</i>		
Eagle Group of Companies	86	June 30
Refin. Trust Limited	100	March 31
Recon Trust Limited	100	March 31
Union Bank Holdings Limited	100	December 31
Larnaka Limited	100	March 31
Doncaster Holdings Limited	100	December 31
Eagle Permanent Building Society	100	September 30
Citizens Finance and Insurance Agency Limited	100	December 31
Life of Jamaica Limited	76	December 31
Atrium X S Holdings Limited	100	September 30
Atrium Holdings Limited	100	September 30
Atrium Group Limited	100	September 30
Capital Assurance Brokers	100	December 31
Independent Life Limited	100	March 31
<i>Associated companies</i>		
Island Life Insurance Company Limited	26.0	December 31
Dyoll Group Limited	26.5	December 31
DB&G Merchant Bank Limited	49.0	December 31
Lested Developments Limited	37.6	December 31

FINŠAC LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2001

2 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(f) Loans to, and deposits with, Financial Institutions

Loans to, and deposits with, financial institutions are stated at outstanding amounts less provisions determined by management to reduce the outstanding amounts to the estimated recoverable amounts.

(g) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and any adjustments that may be necessary would be reflected in the year in which actual results are known.

(h) Financial instruments

Financial instruments include contracts that give rise to both financial assets and financial liabilities. Financial assets included on the balance sheet are cash and bank balances, investments, loans to financial institutions and all other current assets except prepayments. Financial liabilities included are long-term liabilities and current liabilities except accruals.

Fixed assets, investment properties, prepayments and accruals are treated as non-financial instruments in these financial statements.

The fair values of the financial instruments are highlighted in Note 19.

FINSAC LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2001

3 **FIXED ASSETS**

	Leasehold improvements \$'000	Furniture and fixtures \$'000	Office Equipment \$'000	Computer Equipment \$'000	Motor Vehicles \$'000	Totals \$'000
At cost						
April 1	5,643	2,123	2,783	70,433	6,212	87,194
Additions	-	73	44	45,511	-	45,628
Disposal	-	-	-	-	(600)	(600)
March 31	<u>5,643</u>	<u>2,196</u>	<u>2,827</u>	<u>115,944</u>	<u>5,612</u>	<u>132,222</u>
Depreciation						
April 1	4,361	1,523	639	10,313	1,958	18,794
Charge for year	1,112	462	573	32,748	1,242	36,137
On disposal	-	-	-	-	(210)	(210)
March 31	<u>5,473</u>	<u>1,985</u>	<u>1,212</u>	<u>43,061</u>	<u>2,990</u>	<u>54,721</u>
Net book value						
March 31, 2001	<u>170</u>	<u>211</u>	<u>1,615</u>	<u>72,883</u>	<u>2,622</u>	<u>77,501</u>
March 31, 2000	<u>1,282</u>	<u>600</u>	<u>2,144</u>	<u>60,120</u>	<u>4,254</u>	<u>68,400</u>

4 **INVESTMENT PROPERTIES**

These are stated at cost and comprise:

	2001 \$'000	2000 \$'000
Freehold land	70,888	49,389
Freehold buildings	1,346,871	938,389
	<u>1,417,759</u>	<u>987,778</u>

Arising from the sale of its entire shareholdings in Union Bank of Jamaica Limited, the company has committed to sell property costing J\$239.6 million for J\$200 million.

FINSAC LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2001

5 INVESTMENTS

These comprise:

	2001 \$'000	2000 \$'000
Subsidiary companies		
<i>Shares at cost</i>		
Eagle Group of Companies	-	†
Union Bank of Jamaica Limited	-	3,086,654
Refin Trust Limited	1	1
Recon Trust Limited	-	-
Union Bank Holdings Limited	1	1
Larnaka Limited	-	-
Doncester Holdings Limited	17,819	-
Eagle Permanent Building Society	133,900	-
Citizens Finance and Insurance Agency Limited	19,455	-
Life of Jamaica Limited	254,860	143,316*
Atrium X S Holdings Limited	-	†
Atrium Holdings Limited	-	†
Atrium Group Limited	-	†
Independent Life Limited	-	†
	<u>426,036</u>	<u>3,229,972</u>
<i>Long-term loans</i>		
(i) Recon Trust Limited (Note 5(a))	11,714,775	12,541,747
(ii) Refin Trust Limited (Note 5(b))	1,747,706	637,594
(iii) Refin Trust Limited (Note 5(c))	3,459,427	4,107,542
(iv) Refin Trust Limited (Note 5(d))	817,422	817,422
(v) Refin Trust Limited (Note 5(e))	129,524	129,524
(vi) Refin Trust Limited (Note 5(f))	536,057	536,057
(vii) Refin Trust Limited (Note 5(b))	1,590,778	1,032,220
(viii) Crown Eagle Life Insurance Company Limited (Note 5(g))	13,229,588	13,229,588
(ix) Crown Eagle Life Insurance Company Limited (Note 5(g))	500,000	500,000
(x) Eagle Merchant Bank of Jamaica Limited (Note 5(g))	19,800	19,800
(xi) Crown Eagle Life Insurance Company Limited (Note 5(g))	7,700	7,700
(xii) Crown Eagle Life Insurance Company Limited (Note 5(h))	38,869	30,709
(xiii) Crown Eagle Life Insurance Company Limited (Note 5(i))	624,000	624,000
(xiv) Crown Eagle Life Insurance Company Limited (Note 5(j))	47,375	-
(xv) Crown Eagle Life Insurance Company Limited (Note 5(k))	914,144	914,144
(xvi) Union Bank of Jamaica Limited (Note 5(l))	-	130,826
(xvii) Union Bank of Jamaica Limited (Note 6)	-	4,600,000
(xviii) Union Bank of Jamaica Limited (Note 5(k))	-	34,730
(xix) Capital Assurance Building Society (Note 5(n))	189,341	-
(xx) Atrium Holdings Limited (Note 5(o))	5,268,449	-
(xxi) Atrium X S Holdings Limited (Note 5(o))	629,205	-
	<u>41,464,160</u>	<u>39,893,603</u>
<i>o/f</i>	41,890,196	43,123,575

† Denotes loss than \$1,000

* Restated

FINSAC LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2001

5 INVESTMENTS (Cont'd)

	<u>2001</u>	<u>2000</u>
	<u>\$'000</u>	<u>\$'000</u>
b/f	41,890,196	43,123,575
<i>Advances</i>		
Eagle Merchant Bank of Jamaica Limited	5,329	-
Eagle Commercial Bank Limited	6,565	6,403
Union Bank Holdings Limited	-	150,509
Lamaka Limited	30,020	30,020
Independent Life Limited	90,056	85,485
	<u>131,970</u>	<u>272,417</u>
	<u>42,022,166</u>	<u>43,395,992</u>
Provision for loss of investment, loans and advances	(26,876,244)	(23,872,020)
Share of losses of subsidiaries	(9,024,120)	(9,024,120)
	<u>(35,900,364)</u>	<u>(32,896,140)</u>
Total investment in subsidiary companies (net of provisions)	<u>6,121,802</u>	<u>10,499,852</u>
Associated companies		
National Commercial Bank Jamaica Limited	-	167,333
NCB Group Limited	-	947,802
Island Life Insurance Company Limited	168,818	168,818
Dyoll Group Limited	37,132	37,132
DB&G Merchant Bank Limited	-	37,070
Lested Developments Limited	4,056	-
	<u>210,006</u>	<u>1,358,155</u>
Provision for losses	(210,006)	(231,653)
	-	1,126,502
Share of losses net of capital reserve	-	(264,609)
	<u>-</u>	<u>861,893</u>
Total investments in associated companies	<u>-</u>	<u>861,893</u>

FINSAC LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2001

5 INVESTMENTS (Cont'd)

	<u>2001</u>	<u>2000</u>
	\$'000	\$'000
Other investments		
<i>Preference shares:</i>		
12½% cumulative redeemable:		
National Commercial Bank Jamaica Limited	-	3,670,000
Atrium Group Limited	1,000,000	1,000,000
Island Life Insurance Company Limited	249,080	249,080
Dyoll Group Limited	162,868	162,868
0% redeemable:		
National Commercial Bank Jamaica Limited	-	1,162,667
Union Bank of Jamaica Limited	-	1,452,044
Life of Jamaica Limited	1,056,684	-
Union Bank of Jamaica Limited		
- 9¼% US\$ convertible cumulative redeemable	-	98,291
- 12½% non-cumulative redeemable	-	1,000,000
Life of Jamaica Limited		
12½% cumulative redeemable	-	1,056,684
20% cumulative redeemable	-	8,041
25% cumulative convertible	-	19,885
DB&G Merchant Bank Limited		
- 12½% convertible cumulative redeemable	-	110,948
Eagle Merchant Bank of Jamaica Limited		
- 12½% non-cumulative convertible B	<u>2,000,000</u>	<u>2,000,000</u>
<i>off</i>	<u>4,468,632</u>	<u>11,990,508</u>

FINŞAC LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2001

5 INVESTMENTS (Cont'd)

	<u>2001</u> \$'000	<u>2000</u> \$'000
b/f	4,468,632	11,990,508
Less: Provision for loss of investment	(3,691,674)	(5,844,427)
	776,958	6,146,081
<i>Deferred shares</i>		
Victoria Mutual Building Society (See Note below)	<u>376,511</u>	<u>347,633</u>
Total other investments	<u>1,153,469</u>	<u>6,493,714</u>
Total investments	<u>7,275,271</u>	<u>17,855,459</u>

Long-term loans

- (a) The amount at item (i) arose as a result of the company issuing bonds to National Commercial Bank Jamaica Limited (NCBJ) and NCB Trust and Merchant Bank Limited on behalf of its wholly-owned subsidiary, Recon Trust Limited, to purchase non-performing loans of those banks. Recon Trust Limited subsequently transferred these loans to Refin Trust Limited.
- (b) The amount at items (ii) and (vii) arose as a result of the company issuing bonds to Union Bank of Jamaica Limited (UBJ) on behalf of its wholly-owned subsidiary, Refin Trust Limited, to purchase non-performing loans of that bank.
- (c) The amount at item (iii) arose as a result of the company issuing bonds to UBJ on behalf of its wholly-owned subsidiary, Refin Trust Limited, to purchase non-performing and under-performing loans of the then Horizon Financial Entities.

The amounts at items (i) and (iii) are shown net of refunds from the subsidiaries.

FINSAC LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2001

5 INVESTMENTS (Cont'd)

Long-term loans (Cont'd)

- (d) The amount at item (iv) arose as a result of the company issuing bonds to Island Victoria Bank Limited on behalf of its wholly-owned subsidiary, Refin Trust Limited, to purchase non-performing loans of that bank.
- (e) The amount at item (v) arose as a result of the company issuing bonds to UBJ on behalf of its wholly-owned subsidiary, Refin Trust Limited, to purchase non-performing and under-performing loans of Island Life Merchant Bank Limited.
- (f) The amount at item (vi) arose as a result of the company issuing bonds to Victoria Mutual Investments Limited (VMIL) on behalf of its wholly-owned subsidiary, Refin Trust Limited, to purchase non-performing loans of VMIL.
- (g) Interest is charged on the loans at items (viii) to (xi) at the rate of 12½% per annum.
- (h) Interest is charged on the loan at item (xii) at the rate of 10% per annum on principal of US\$850,000 (J\$38,869,225).
- (i) The amount at item (xiii) arose as a result of the company taking over advances given by the National Investment Bank of Jamaica Limited (NIBJ). The liability under the debt formed part of the Ministry of Finance-Contributed Capital (See Note 11).
- (j) The amount at item (xiv) arose as a result of the company issuing bonds to Guardian Life Limited to settle the shortfall in the portfolio assumed from Crown Eagle Life Insurance Company.
- (k) The amount at items (xv) and (xviii) arose as a result of the following transactions:
 - Crown Eagle Life Insurance Company (CEL) and Union Bank of Jamaica Limited (UBJ) were indebted to various financial institutions.
 - The Ministry of Finance issued Local Registered Stocks to these financial institutions in satisfaction of those liabilities.
 - The company assumed these liabilities on behalf of CEL and UBJ from the Ministry of Finance.
- (l) The loan at item (xvi) arose out of a set-off arrangement between Workers Savings and Loan Bank (Workers), UBJ, Horizon Group (Horizon) and FINSAC, whereby Horizon's debt with Workers was used to offset Workers' liability to FINSAC. Part of the loan balance was used to offset some of FINSAC's liability to UBJ. Arising from the sale of the shares in UBJ (See Note 6), the balance on this loan and the amount at (xvi) were written-off.

FINSAC LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2001

5 INVESTMENTS (Cont'd)

Long-term loans (Cont'd)

- (m) Interest rate has not yet been determined for the loans at items (i), (ii) (iii), (iv), (v), (vi), (vii), (xiii), (xiv), (xv), (xvi), (xvii), (xviii) and (xix).

The above loans are unsecured and the repayment dates shall be determined by FINSAC.

- (n) The amount at item (xix) arose as a result of the company issuing bonds to UBJ on behalf of Capital Assurance Building Society (CABS) for bank overdraft settled by UBJ.
- (o) The amounts at (xx) and (xxi) arose from the company financing the purchase of shares in National Commercial Bank Jamaica Limited.

The interest rate has not yet been determined. The repayment dates shall be determined by FINSAC.

Disposal of investments

By the share sale agreement dated March 5, 2001 between the company as seller and RBTT Financial Holdings Limited and RBTT International Limited as purchasers, the company agreed to sell its entire shareholdings in Union Bank of Jamaica Limited (UBJ). The following shares at cost were sold, effective March 22, 2001:

	<u>\$'000</u>
Ordinary shares	3,086,654
20% cumulative redeemable	8,041
25% cumulative convertible	19,885
12½% non cumulative redeemable shares	1,000,000
9¼% US\$ convertible cumulative redeemable preference shares	98,291
0% redeemable preference shares	<u>1,452,044</u>
	<u>5,664,915</u>

The consideration of the shares, payable in United States dollars, is the equivalent of J\$3.61 billion being the net asset value of UBJ as disclosed by the final audited accounts at June 30, 2000, discounted by J\$2 billion.

FIN SAC LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2001

5 INVESTMENTS (Cont'd)

Disposal of investments (Cont'd)

The purchase price of J\$1.61 billion will be paid as follows:

- (i) the United States dollar equivalent of J\$1 billion payable on completion;
- (ii) the vendor and purchaser agreed to include in the final audited accounts certain provisions described as an adjustment.

In the event that the adjustment is greater than the bank's profit made and retained during the period July 1, 2000 to February 28, 2001, the purchase price will be reduced by the difference.

In addition, if the provision or reserve, together with any recorded liability in the final audited accounts exceed the actual costs incurred, then the purchasers will pay the excess to the vendor, however, should the costs be less than the amount provided for, then the purchaser will increase the price paid to the vendor.

- (iii) the balance is payable in United States dollars on or before March 15, 2003, together with interest at the rate of 6% per annum from the completion date to the date of payment of the balance.
- (iv) in the event that the purchase price is lower than the proportion of the take-over offer price attributable to the company's shares, the company agrees to transfer in favour of the purchaser, such number of its shares, the value of which would equal the difference.

In addition, the company has assumed the following, consequent upon the above sale agreement -

- (a) to procure as at the completion date in respect of UBJ, that the percentage of non-performing loans with arrears of interest in excess of 90 days, net of specific provision made in relation thereto, shall not exceed 6% of the total loan portfolio in accordance with the applicable guidelines imposed by the Bank of Jamaica;
- (b) to wind up certain pension plans of former related companies;
- (c) to negotiate the sale to the purchaser of any premises on which UBJ branches are situated and which are owned by the company or its controlled companies;

FINŠAC LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2001

5 INVESTMENTS (Cont'd)

Disposal of investments (Cont'd)

- (d) to compensate UBJ for \$2 billion of its cash paid to the Bank of Jamaica by paying interest on the amount at the weighted average yield rate of the latest six months Treasury Bills of the Government of Jamaica;
- (e) for a period of one year from the completion date, cause an unsecured line of credit in the amount of \$3 billion in favour of UBJ against any advances by the BOJ (interest to be payable by UBJ at the same rate as item (d) above).
- (f) In addition, the company:
 - will be allotted 488,639,988 ordinary shares of \$0.50 each in UBJ;
 - will exercise its conversion rights in respect of the 9.5% USS convertible cumulative redeemable preference shares of \$1; and
 - will sell to the purchaser certain of its real estate situated at 17 Dominica Drive and Tropical Plaza for \$20 million and \$39 million respectively.

Deferred shares

The deferred shares bear interest at the rate of 10% per annum or four percentage points below the Society's prevailing lending rate whichever is lower. During the year interest was paid at the rate of 10% per annum.

The Society's shall be obliged to redeem the deferred shares by December 30, 2005.

6 LOANS TO FINANCIAL INSTITUTIONS

These comprise:

	<u>2001</u>	<u>2000</u>
	\$'000	\$'000
Jamaica Mutual Life Assurance Society (Note 6(a))	17,498,375	15,848,376
Workers Savings and Loan Bank (Note 6(b))	8,890,536	9,085,536
Dyoll Life Insurance Company Limited (Note 6(c))	796,430	765,863
Intercontinental Merchant Bank Limited (Note 6(d))	100,384	100,384
Caribbean Trust Merchant Bank Limited (Note 6(e))	23,917	23,917
Buck Securities Merchant Bankers Limited (Note 6(e))	38,762	38,762
Eagle Permanent Building Society (Note 6(f))	140,000	140,000
Fidelity Finance Merchant Bank (Note 6(g))	89,142	89,142
Caldon Finance Merchant Bank Limited (Note 6(g))	121,739	121,739
Corporate Insurance Brokers Limited (Note 6(h))	38,363	30,431
Corporate Merchant Bank Limited (Note 6(i))	904,225	924,368
Union Bank of Jamaica Limited (Note 6(j))	4,600,000	-
	<u>33,241,873</u>	<u>27,168,518</u>
Less: Provision for losses	<u>(27,190,469)</u>	<u>(23,208,364)</u>
	<u>6,051,404</u>	<u>3,960,154</u>

FINSAC LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2001

6 LOANS TO FINANCIAL INSTITUTIONS (Cont'd)

The above loans arose as a result of financial arrangements made by the company to correct solvency problems experienced by these financial institutions as follows:

(a) (i) the loan to Mutual Life comprises:

- bonds issued in the amount of \$1.033 billion to settle shortfall in the assets transferred to Guardian Life;
- bonds issued in the amount of \$7.76 billion endorsed to National Commercial Bank Jamaica Limited to settle the Society's debt to the bank;
- bonds issued in the amount of \$2 billion used to settle the Society's intercompany balances;
- bonds in the amount of \$348 million issued to bond-holders for whom CIBC Trust and Merchant Bank Jamaica Limited are Trustees.
- The company assumed the responsibility of the Society's debt to the Ministry of Finance, which issued LRS in the amount of \$6 billion to a financial institution on behalf of the Society.
- balance on cash advances of \$354 million.

(ii) The loans approximating \$9 billion are subject to a moratorium on principal and interest payments up to the fifth anniversary of the date of the first disbursement, and are subordinated to all other creditors of the Society.

They shall be repaid thereafter in forty equal quarterly instalments consisting of principal and interest.

They bear simple interest at the rate of 4½% per annum during the first five years, which shall be capitalised on the fifth anniversary of the date of the first disbursement. Interest shall be compounded annually at 4½% thereafter.

(b) The loan to Workers Savings and Loan Bank comprises:

- the company taking over advances of \$6.522 billion given by the Bank of Jamaica (BOJ). The company issued Bonds of an equivalent value to BOJ. The liability under the Bonds is reflected as a long-term liability to BOJ. (See Note 11(a));

FINSAC LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2001

6 LOANS TO FINANCIAL INSTITUTIONS (Cont'd)

(b) (Cont'd)

- the company assumed an additional \$2 billion overdraft, which the Ministry of Finance had settled on behalf of Workers. In addition, an overdraft of \$1.06 billion due to Workers by another institution and for which the company assumed the debt, was set-off against this \$2 billion, resulting in a net balance of \$940 million;
- bonds issued by the company in the amount of \$1.62 billion to Union Bank of Jamaica Limited (UBJ) to cover the deficiency in assets UBJ assumed on its purchase of the net assets in Workers Savings and Loan Bank; and
- a set off of \$195 million for property transferred to Guardian Life to bridge the shortfall in the portfolio purchased from FINSAC.

Interest is charged on the loan in the amount of \$7.465 billion at the rate of 12½% per annum. The interest rate for the balance of \$1.425 billion has not yet been determined. The repayment dates shall be determined by FINSAC.

(c) (i) The loan to Dyoil Life Insurance Company Limited comprises:

- an amount of \$319 million primarily to cover policyholders' liabilities and overdraft facilities;
- the loan is secured on certain real estate owned by Dyoil Group Limited;
- a debenture note for \$135 million;
 - additional bonds for \$95 million and cash advances of \$17 million;
 - the company assumes the responsibility of debt to the Ministry of Finance which issued LRS in the amount of \$199 million to financial institutions on behalf of Dyoil Life; and
 - bonds issued in the amount of \$30.56 million to Guardian Life to bridge the shortfall in the portfolio purchased from FINSAC.

FINSAC LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2001

6 LOANS TO FINANCIAL INSTITUTIONS (Cont'd)

(c) (Cont'd)

(ii) Interest is charged on the loan of \$319 million at the rate of 24.5% and on the \$135 million at the rate of 12.50% per annum. The interest rate for the balance of \$342.43 million has not yet been determined. Repayment of the principal sums shall be determined by FINSAC.

(d) The loan to Intercontinental Merchant Bank Limited (IMB) arose as a result of the company purchasing a Promissory Note issued by IMB to Union Bank of Jamaica Limited (UBJ) in consideration of UBJ assuming IMB's deposit liabilities. The company issued Bonds of an equivalent amount to UBJ.

Interest is charged on the loan at the rate of 12½% per annum. Repayment of the principal sum shall be determined by FINSAC.

(e) The loans to both Buck Securities Merchant Bankers Limited and Caribbean Trust Merchant Bank Limited arose as a result of the company purchasing Promissory Notes issued by the two merchant banks to National Commercial Bank Jamaica Limited (NCBJ) in consideration of NCBJ assuming the banks' deposit liabilities.

The company issued Bonds of an equivalent amount to NCBJ. The liability under the Bond is reflected as a long-term liability to NCBJ (see Note 11(c)(i)).

The loans are interest free. The principal sum is to be repaid upon demand by FINSAC.

(f) The loan to Eagle Permanent Building Society was converted from a deposit to a loan. The amount is repayable on demand at an interest rate of 12.5% per annum.

(g) The loans to Caldon Finance Merchant Bank Limited and Fidelity Finance Merchant Bank were converted from deposits to loans. They are repayable on demand at an interest rate of 26% per annum.

(h) The loan to Corporate Insurance Brokers Limited (CIB) resulted from a payment of \$21 million to UBJ on behalf of CIB to settle the loan owed to UBJ. The balance represents further cash advances to CIB;

FINSAC LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2001

6 LOANS TO FINANCIAL INSTITUTIONS (Cont'd)

(h) (Cont'd)

The loan in the amount of \$21 million is at the rate of 1% per annum. Interest has not yet been determined for the balance of the loan in the amount of \$17.363 million. Repayment of the principal shall be determined by FINSAC.

- (i) The loan to Corporate Merchant Bank Limited represents bonds to be issued by the company to Union Bank of Jamaica Limited (UBJ) to cover the deficiency in assets UBJ assumed on its purchase of the net assets in the Merchant Bank.

The rate of interest and repayment terms have not yet been determined.

(j) Loan to Union Bank of Jamaica Limited (UBJ)

The loan to UBJ arose as a result of the company issuing bonds to BOJ on behalf of UBJ, to settle an overdraft with the former.

Interest is charged at the rate of 4.5% per annum. Arising from the sale of the shares held in UBJ (See Note 5), the company agreed to waive all interest due for a period of six months, commencing from the completion date.

The principal balance will be repaid on the acquisition date as follows:

- (i) the transfer of LRS having a face value of \$2.6 billion; and
- (ii) conversion of the balance of \$2 billion into 6% cumulative redeemable convertible unsecured loan stock to mature two years from the acquisition date.

Interest on the balance will be paid annually.

FINSAC LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2001

7 ACCOUNTS RECEIVABLE AND PREPAYMENTS

		<u>2001</u>	<u>2000</u>
	\$'000	\$'000	\$'000
Proceeds on sale of investments		1,623,000	-
Interest receivable	11,526,815		8,223,545
Less: Provision for uncollectible interest	(11,286,405)		(7,555,471)
		240,410	668,074
Deposit on real estate	9,562		79,980
Other receivables and prepayments	500,503		271,508
	510,065		351,488
Less: Provision for doubtful debt	(264,283)		(180,091)
		<u>245,782</u>	<u>171,397</u>
		<u>2,109,192</u>	<u>839,471</u>

8 FIXED DEPOSITS

These represent short-term deposits with financial institutions as follows:

	<u>2001</u>	<u>2000</u>
	\$'000	\$'000
Union Bank of Jamaica Limited	730,124	274,378
National Commercial Bank Jamaica Limited	30,817	-
	<u>760,941</u>	<u>274,378</u>

Deposits at Union Bank of Jamaica are at interest rates ranging from 16.5% to 20.25%. Deposits at National Commercial Bank Jamaica Limited are at interest rates ranging from 16.35% to 17.9%.

FINSAC LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2001

9 SHARE CAPITAL

	<u>2001</u>	<u>2000</u>
	\$	\$
Authorised:		
200 ordinary shares of \$1 each	<u>200</u>	<u>200</u>
Issued and fully paid:		
150 ordinary shares of \$1 each	<u>150</u>	<u>150</u>

10 CONTRIBUTED CAPITAL

	<u>2001</u>	<u>2000</u>
	\$ 000	\$ 000

The balance represents:

(a) Advances from the Government of Jamaica (GOJ)	19,084,577	-
(b) Redemption of FINSAC bonds by the issue of LRS to the bondholders by GOJ	104,996,716	-
(c) Redemption of FINSAC bonds with advances received by the GOJ from multilateral funding agencies	<u>7,321,824</u>	<u>-</u>
	<u>131,403,117</u>	<u>-</u>

All the above FINSAC debts were forgiven by the GOJ and, therefore, the amounts have been classified as Contributed Capital.

11 LONG-TERM LIABILITIES

	<u>2001</u>	<u>2000</u>
	\$'000	\$'000
Advances from Bank of Jamaica (Note 11(a))	-	27,472,807
Advances from Government of Jamaica (Note 11(b))	-	16,251,517
FINSAC bonds (Note 11(c))	<u>11,044,456</u>	<u>70,839,099</u>
	<u>11,044,456</u>	<u>114,563,423</u>

(a) Advances from Bank of Jamaica (BOJ)

During the year the advances from BOJ were assumed by the Ministry of Finance and Planning which subsequently forgave these debts. The amounts are included in Note 10 as Contributed Capital.

FINSAC LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2001

11 LONG-TERM LIABILITIES (Cont'd)**(b) Advances from the Government of Jamaica**

During the year these advances, including interest were forgiven by the Ministry of Finance and Planning. The amounts forgiven are recorded in Note 10 as Contributed Capital.

(c) FINSAC bonds

	<u>2001</u> \$'000	<u>2000*</u> \$'000
NCB Group Limited and Subsidiaries		
(Note 11(c)(i))	2,144,570	19,135,304
Union Bank of Jamaica Limited (Note 11(c)(ii))	1,363,687	14,377,955
Eagle Merchant Bank of Jamaica Limited		
(Note 11(c)(iii))	738,823	2,000,000
Jamaica Mutual Life Assurance Society		
(Note 11(c)(iv))	2,784,346	9,521,464
Life of Jamaica Limited (Note 11(c)(v))	552,480	1,858,000
Island Life Insurance Company Limited		
(Note 11(c)(vi))	-	122,580
Dyoll Life Insurance Company Limited		
(Note 11(c)(vii))	366,500	568,550
Crown Eagle Life Insurance Company Limited		
(Note 11(c)(viii))	129,518	129,518
DB&G Merchant Bank Limited (Note 11(c)(ix))	148,017	148,017
National Investment Bank of Jamaica Limited		
(Note 11(c)(x))	11,335	637,584
Jamaica Development Bank Limited (Note 11(c)(xi))	-	45,412
Victoria Mutual Investments Limited (Note		
11(c)(xii))	-	900,235
Victoria Mutual Building Society (Note 11(c)(xiii))	-	347,633
	<u>8,239,276</u>	<u>49,792,252</u>
Interest capitalised net of redemption	<u>2,805,180</u>	<u>21,046,847</u>
	<u>11,044,456</u>	<u>70,839,099</u>

* Restated

FINSAC LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2001

11 LONG-TERM LIABILITIES (Cont'd)

(c) FINSAC bonds (Cont'd)

FINSAC bonds are guaranteed by the Government of Jamaica and are payable at a fixed future date. These bonds are transferable.

Interest is charged at various fixed rates for each loan for a defined period and thereafter, the aggregate of the weighted average yield rate applicable to the latest six month treasury bill tender expressed as a percentage plus one percent. At March 31, 2001 interest rates ranged from 17.88% to 20.41% except as otherwise indicated.

Interest is payable semi-annually and may at the company's option, be satisfied in cash or the issue of bonds. The interest on the bonds has the same maturity date as the principal sum to which they relate.

(i) NCB Group Limited and Subsidiaries

	<u>2001</u> \$'000	<u>2000</u> \$'000
• NCB Group Limited		
12½% Redeemable Preference Shares	-	1,000,000
• National Commercial Bank Jamaica Limited (NCBJ)		
(a) Purchase of non-performing loans of the Bank and transferred to Recon Trust Limited	872,000	12,622,625
(b) 12½% Redeemable Preference Shares	-	3,670,000
(c) 0% Redeemable Preference Shares of NCBJ	-	1,162,667
(d) Ordinary shares equivalent to 40% of the issued share capital	-	167,333
(e) The assumption of deposit liabilities of Caribbean Trust Merchant Bank Limited and Buck Securities Merchant Bankers Limited	-	<u>62,679</u>
<i>c/f</i>	872,000	18,685,304

FINSAC LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2001

11 LONG-TERM LIABILITIES (Cont'd)

(c) FINSAC bonds (Cont'd)

(i) N.C.B. Group Limited and Subsidiaries (Cont'd)

	<u>2001</u> \$'000	<u>2000</u> \$'000
b/f	872,000	18,685,304
• NCB Trust & Merchant Bank Limited		
Purchase of non-performing loans of the Bank and transferred to Recon Trust Limited	-	450,000
• NCB Investments Limited		
Purchase of non-performing loans of the institution and transferred to Refin Trust Limited	<u>1,272,570</u>	<u>-</u>
	<u>2,144,570</u>	<u>19,135,304</u>

All the bonds except for the principal sum of \$2.144 billion, which was redeemed subsequent to the year-end, were transferred to the Government of Jamaica, (See Note 11(d)).

FINSAC LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2001

11 LONG-TERM LIABILITIES (Cont'd)

(c) FINSAC bonds (Cont'd)

(ii) Union Bank of Jamaica Limited

The bonds originally issued to Union Bank of Jamaica Limited (UBJ) are in exchange for:

	<u>2001</u> \$'000	<u>2000</u> \$'000
(a) The purchase of non-performing loans of UBJ which were transferred to Refin Trust Limited	9,100	1,334,226
(b) 12½% Redeemable non-cumulative Preference Shares in UBJ	-	1,000,000
(c) The purchase of non-performing loans, inter-company balances, and equity investments in the Horizon Financial Entities	1,167,741	3,808,359
(d) The purchase of non-performing loans of UBJ which were transferred to Refin Trust Limited	-	47,706
(e) The assumption of the deposit liabilities of Caldon Finance Merchant Bank Limited and Fidelity Finance Merchant Bank	21,494	151,885
(f) The purchase of non-performing loans, inter-company balances, and equity investments in the Horizon Financial Entities	-	63,895
(g) The assumption of the deposit liabilities of Intercontinental Merchant Bank Limited	<u>3,852</u>	<u>100,384</u>
Balance c/f	1,202,187	6,506,455

FINSAC LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2001

11 LONG-TERM LIABILITIES (Cont'd)

(c) FINSAC bonds (Cont'd)

(ii) Union Bank of Jamaica Limited (Cont'd)

	<u>2001</u> \$'000	<u>2000</u> \$'000
Balance b/f	1,202,187	6,506,455
(h) The purchase of non-performing and under-performing loans in Island Life Merchant Bank Limited and 0% Redeemable Preference Shares	-	181,569
(i) Partly for 0% Redeemable Preference Shares in the Horizon Financial Entities	-	474,055
(j) The purchase of non-performing loans of Island Victoria Bank transferred to Refin Trust Limited	-	817,422
(k) The purchase of 1,485,000 ordinary shares in the Bank	-	2,821,500
(l) The purchase of non-performing loans of the Bank	-	1,032,220
(m) To settle deficiency in assets arising from the purchase of net assets of Workers Savings and Loan Bank Group	-	2,544,734
(n) The purchase of non-performing loans of the bank	<u>161,500</u>	<u>-</u>
	<u>1,363,687</u>	<u>14,377,955</u>

All of the above bonds except items (c)(ii)(a), (c)(ii)(c), (c)(ii)(e), (c)(ii)(g) and (c)(ii)(n) were transferred to the Government of Jamaica. (See Note 11(d)).

FINSAC LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2001

11 LONG-TERM LIABILITIES (Cont'd)

(c) FINSAC bonds (Cont'd)

(ii) Union Bank of Jamaica Limited (Cont'd)

The principal sum at items (c)(ii)(a), (c)(ii)(c) and (c)(ii)(n) were redeemed subsequent to the year-end. Repayment terms and the rate of interest have not been finalised for the balance at item (c)(ii)(e) and (c)(ii)(g).

(iii) Eagle Merchant Bank of Jamaica Limited

The bonds originally issued to Eagle Merchant Bank of Jamaica Limited and transferred to Eagle Commercial Bank Limited are in exchange for:

	<u>2001</u>	<u>2000</u>
	\$'000	\$'000
12½% non-cumulative convertible B Preference Shares in Eagle Merchant Bank	738,823	2,000,000
	<u>738,823</u>	<u>2,000,000</u>

The principal sum of \$738.823 million is due October 31, 2004. The balance of the above bonds was transferred to the Government of Jamaica (See Note 11(d)).

FINSAC LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2001

11 LONG-TERM LIABILITIES (Cont'd)

(c) FINSAC bonds (Cont'd)

(iv) Jamaica Mutual Life Assurance Society (Mutual Life)

The bonds to Mutual Life were in exchange for:

	<u>2001</u>	<u>2000</u>
	\$'000	\$'000
(a) Bonds to Mutual Life endorsed over to NCBJ to settle the overdraft with that Bank	423,172	7,000,000
(b) Purchase of shares in NCB Group Limited 43.8%	-	947,802
(c) Bonds issued to Mutual Life to settle certain of the Society's intercompany balances	1,233,020	1,225,588
(d) Bonds issued on behalf of the Society to settle amounts owed to CIBC Trust and Merchant Bank Limited	348,074	348,074
(e) Bonds issued to Guardian Life Limited to settle shortfall in portfolios taken over from various financial institutions	<u>780,080</u>	<u>-</u>
	<u>2,784,346</u>	<u>9,521,464</u>

The principal sum is due December 16, 2012. Certain bonds in item (c)(iv)(a) and (b) were transferred to the Government of Jamaica. (See Note 11(d)). Subsequent to year-end, bonds in the amount of \$1.794 billion were redeemed.

(v) Life of Jamaica Limited

The bonds to Life of Jamaica Limited (LOJ) were in exchange for:

	<u>2001</u>	<u>2000</u>
	\$ 000	\$ 000
• Ordinary shares of LOJ - equivalent to 26% of the issued shares	10,000	177,716
• 12½% cumulative Redeemable Shares in LOJ	515,960	1,056,684
• Purchase of real estate	<u>26,520</u>	<u>623,600</u>
	<u>552,480</u>	<u>1,858,000</u>

FINSAC LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2001

11 LONG-TERM LIABILITIES (Cont'd)

(c) FINSAC bonds (Cont'd)

(v) Life of Jamaica Limited (Cont'd)

Certain of the above bonds were transferred to the Government of Jamaica. (See Note 11(d)). The remaining bonds, except for the amount of \$10 million, were redeemed subsequent to the year-end.

(vi) Island Life Insurance Company Limited

The bonds originally issued to Island Life Insurance Company Limited were part of an arrangement to purchase:

	<u>2001</u>	<u>2000</u>
	\$ 000	\$ 000
• Ordinary shares in Island Life - 26.5% of the issued shares	-	77,878
• 12½% cumulative Redeemable Preference Shares	-	<u>222,122</u>
	-	300,000
Less: Paid in cash	-	<u>177,420</u>
	<u>-</u>	<u>122,580</u>

The above bonds have been transferred to the Government of Jamaica. (See Note 11(d)).

FINSAC LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2001

11 LONG-TERM LIABILITIES (Cont'd)

(c) FINSAC bonds (Cont'd)

(vii) Dyoll Life Insurance Company Limited

The bonds originally issued to Dyoll Life Insurance Company Limited (Dyoll) are partly in exchange for:

	<u>2001</u>	<u>2000</u>
	\$'000	\$'000
• Ordinary shares - 26.5% of the issued capital of Dyoll	37,132	37,132
• 12½% cumulative Preference shares	<u>162,868</u>	<u>162,868</u>
	200,000	200,000
Less: Redemption	<u>200,000</u>	<u>168,431</u>
	-	<u>31,569</u>
• The purchase of policyholders' liabilities, etc.	454,000	454,000
Less: Redemption	<u>115,000</u>	<u>40,000</u>
	339,000	414,000
• The purchase of Eagle Insurance Company Limited policyholders' liabilities	<u>27,500</u>	<u>27,500</u>
	366,500	473,069
• The purchase of policyholders' liabilities	-	<u>95,481</u>
	<u>366,500</u>	<u>568,550</u>

FINSAC LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2001

11 LONG-TERM LIABILITIES (Cont'd)

(c) **FINSAC bonds (Cont'd)**

(vii) **Dyoll Life Insurance Company Limited (Cont'd)**

The principal sum of \$339 million is due December 28, 2005.

The principal sum of \$27.5 million is due July 15, 2003.

(viii) **Crown Eagle Life Insurance Company Limited**

The bonds originally issued to Crown Eagle Life Insurance Company Limited are for:

	<u>2001</u>	<u>2000</u>
	\$'000	\$'000
Liquidity support	<u>129,518</u>	<u>129,518</u>

The principal sum is due October 31, 2004.

(ix) **DB&G Merchant Bank Limited (DB&G)**

The bonds to DB&G are in exchange for:

	<u>2001</u>	<u>2000</u>
	\$'000	\$'000
• Ordinary shares - 49% of issued shares in DB&G	37,069	37,069
• 12½% convertible cumulative redeemable shares	<u>110,948</u>	<u>110,948</u>
	<u>148,017</u>	<u>148,017</u>

The principal sum is due January 1, 2005 -2006.

FINSAC LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2001

11 LONG-TERM LIABILITIES (Cont'd)

(c) FINSAC bonds (Cont'd)

(x) National Investment Bank of Jamaica Limited (NIBJ)

The bonds to NIBJ were in exchange for:

	<u>2001</u>	<u>2000</u>
	\$'000	\$'000
(i) Advances given to Crown Eagle Life Insurance Company Limited	-	624,000
(ii) The assumption of the deposit liabilities of Fidelity Merchant Bank	<u>11,335</u>	<u>13,584</u>
	<u>11,335</u>	<u>637,584</u>

The principal sum is due March 31, 2008 and bears interest at the rate of 4% per annum.

(xi) Jamaica Development Bank Limited (JDB)	<u>-</u>	<u>45,412</u>
(xii) Victoria Mutual Investments Limited (VMIL)	<u>-</u>	<u>900,235</u>
(xiii) Victoria Mutual Building Society (VMBS)	<u>-</u>	<u>347,633</u>

The bonds at items (x)(i), (xi), (xii) and (xiii) above have been transferred to the Government of Jamaica. See Note 11(d).

- (d) During the year a significant proportion of FINSAC bonds have been transferred to the Government of Jamaica (GOJ) which has agreed to issue Local Registered Stocks (LRS) to the bondholders. Accordingly, the amount representing the LRS to be issued to the bondholders (principal and accrued interest) has been transferred to Contributed Capital. (Note 10).

12 ACCOUNTS PAYABLE AND ACCRUALS

	<u>2001</u>	<u>2000</u>
	\$'000	\$'000
Interest payable	965,697	8,088,758
Other payables and accruals	968,090	343,583
Payroll taxes	4,416	12,814
	<u>1,938,203</u>	<u>8,445,155</u>





FINSAC LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2001

17 STATEMENT OF CASH FLOWS

The statement of cash flows does not include the following non-cash items:

- FINSAC bonds in the amount of \$19,284 billion in exchange for various investments and assets purchased (see Note 11(c)).
- Interest capitalised on FINSAC bonds transferred from accounts payable in the amount of \$4,703 billion.
- Advances from the Government of Jamaica forgiven in the amount of \$19,084 billion.
- FINSAC bonds redeemed and disclosed as Contributed Capital in the amount of \$73,116 billion.

18 OTHER DISCLOSURES

	<u>2001</u>	<u>2000</u>
(a) Number of persons employed by the company at year-end:	<u>75</u>	<u>60</u>
	\$'000	\$'000
(b) Staff costs incurred during the year in respect of these employees were:		
Salaries, wages and other staff benefits	88,054	83,896
Statutory contributions	<u>7,773</u>	<u>7,028</u>
	<u>95,827</u>	<u>90,924</u>

19 FINANCIAL INSTRUMENTS

(a) Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. A market price, where an active market (such as a recognised stock exchange) exists, is the best evidence of the fair value of a financial instrument. However, based on the nature of the company's operations (see Note 21) market prices are not available for a significant number of the financial assets and liabilities held and issued by the company.

- (i) The fair value of cash and bank balances, accounts receivable, deposits with financial institutions, owed by a related company and accounts payable approximates their carrying value due to their short-term nature.

FINSAC LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2001

19 FINANCIAL INSTRUMENTS (Cont'd)

(a) Fair value (Cont'd)

(ii) The fair value of investments which comprises investments in subsidiary and associated companies (see note 5) is equal to the value as stated after provision for losses.

(iii) The fair value of loans to financial institutions is assumed to approximate the carrying amount as the impact of credit risk is recognised by deducting the amount of the allowance for credit losses from book values.

(iv) The fair value of government and non-government loans (see note 11) has not been estimated as the loans are at rates that may or may not be available to the company due to its special circumstances. Generally, the rates on fixed rate loans are below the current rates in the local market. Adequate information is not available to determine the fair value of such loans.

There are no available market indicators to determine the fair value of FINSAC bonds.

(b) Credit risk

Credit risk is the risk of loss from default by an obligator. The primary concentration of the company's credit is loans to financial institutions. This risk cannot be managed as the loans are made at fixed concessionary rates to financial institutions with significant liquidity problems. As a result, the company is exposed to significant losses from these loans. Book value of these loans is stated after allowance for credit losses.

(c) Interest rate risk

The company is exposed to interest rate risk either through market value, fluctuations of balance sheet items, i.e., price risk or changes in the interest expenses or revenues, i.e., reinvestment risk. Interest rate risk mainly arises through interest bearing assets and liabilities. Interest on deposits with financial institutions are at market rates and these are constantly monitored by management.

The maturity of financial assets and liabilities are as follows:

	Rate-sensitive			Total \$'000
	Within one year on demand \$'000	One year To five years \$'000	Five years or more \$'000	
Investments	-	376,511	-	376,511
Loans to financial institutions	573,829	4,948,074	-	5,521,903
Deposits with financial institutions	760,941	-	-	760,941
Cash and bank balances	115,353	-	-	115,353
Long-term liabilities	-	8,843,271	-	8,843,271

FINSAC LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2001

19 **FINANCIAL INSTRUMENTS (Cont'd)**(c) **Interest rate risk (Cont'd)**

The following analysis sets out the interest rate risk of the financial liabilities and assets:

	<u>2001</u> \$'000	<u>2000</u> \$'000
Liabilities		
Floating rate	8,769,312	73,912,064
Fixed rate	-	30,238,630
Non-interest bearing	<u>4,133,659</u>	<u>18,752,942</u>
	<u>12,902,971</u>	<u>122,903,636</u>
Floating rate weighted average	18.9%	20.6%
Fixed rate weighted average	-	9.9%
Assets		
Floating rate	5,813,675	5,239,070
Fixed rate	1,174	888,981
Non-interest bearing	<u>11,887,708</u>	<u>17,312,878</u>
	<u>17,702,557</u>	<u>23,440,929</u>
Floating rate weighted average	6%	5.6%
Fixed rate weighted average	3%	16.6%

Preference shares are treated as non-interest bearing financial assets as payments of dividends are not anticipated in the near future and are not reflected in these financial statements.

(d) **Foreign currency risk**

The company incurs foreign currency risks on transactions that are denominated in currencies other than the Jamaican dollar. The company's foreign currency exposure as at year-end was as follows:

	<u>2001</u> US\$'000	<u>2000</u> US\$'000
- Assets		
Cash and bank balances	2,633	357
- Liabilities		
Loans - FINSAC Paper	5,078	94,728

FINSAC LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2001

20 SUBSEQUENT EVENT

Subsequent to the year-end, the company disposed of all its ordinary shareholdings and all its 0% non-cumulative convertible preference shares in Life of Jamaica Limited to the Accountant General of Jamaica for a consideration of \$2 billion.

21 COMPANY'S OPERATIONS

For the year, the company incurred a significant operating loss. In addition, the company in rendering financial assistance to troubled financial institutions, engages in the following activities:

- (a) purchases equity securities in the entities at a negotiated price (often at market value) and preference shares at varying rates of interest;
- (b) loans funds to the institutions at concessionary rates usually between 4½% and 12.5%, while it borrows funds at rates usually between 17.5% and 20.4%;
- (c) purchases non-performing loans, through two wholly-owned subsidiary companies, Refin Trust Limited and Recon Trust Limited, at book values. The expected rate of the recoverability of such loans is uncertain. It is, however, anticipated that it will be substantially less than the purchase price; and
- (d) makes significant deposits to such institutions to assist with liquidity problems.

Activities (b) and (c) are expected to result in losses while activities (a) and (d) expose the company to risk of further losses as the recovery of the amounts loaned is ultimately dependent on the institutions' return to profitable operations.

The ability of the company to continue as a going concern is dependent ultimately, on its ability to continue to obtain adequate financing, the financial support of the Government of Jamaica, the return of the institutions, in which it has intervened, to profitable operations and the successful disposal of the assets of discontinued entities.