AUDITOR GENERAL'S DEPARTMENT

FINANCIAL STATEMENTS ASSESSMENT OF PUBLIC BODIES

DEVELOPMENT BANK OF JAMAICA

The Auditor General is appointed by the Governor General and is required by the Constitution, Financial Administration and Audit Act, other sundry acts and letters of engagement, to conduct audits at least once per year of the accounts, financial transactions, operations and financial statements of central government ministries and departments, local government agencies, statutory bodies and government companies.

The Department is headed by the Auditor General, Pamela Monroe Ellis, who submits her reports to the Speaker of the House of Representatives in accordance with Section 122 of the Constitution of Jamaica and Section 29 of the Financial and Administration and Audit Act.

This report was prepared by the Auditor General's Department of Jamaica for presentation to the House of Representatives.

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The Board of a public body is required to submit the annual report including audited financial statements of the public body, to the responsible Minister as soon as possible after the end of each financial year, but not more than four months thereafter. The responsible Minister 'shall cause the report and statements to be laid on the Table of the House of Representatives and of the Senate'.

This report comprises the assessment of audited financial statements for the Development Bank of Jamaica (DBJ). The review, which involves ratio analyses, was undertaken to inform Parliament, and guide the Public Accounts Committee (PAC) in their review of the financial performance of public bodies. In accordance with the Public Bodies Management and Accountability (PMBA) Act, public entities are required to demonstrate prudent financial management of public resources in the context of the Fiscal Responsibility Framework.

Pamela Monroe Ellis, FCCA, FCA, CISA
Auditor General

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MINISTRY OF FINANCE AND PLANNING

DEVELOPMENT BANK OF JAMAICA

Development Bank of Jamaica

Financial Statements Assessment

Disclaimer
The Financial Statements Assessment is solely, an analytical review of the audited financial statements of the Development Bank of Jamaica as no audit of the operations of the entity was conducted. In this regard, the calculation of ratios was intended to enable trend analyses of key financial items in the balance sheets and income statements of the entity, along with notes provided.

1.1 This report was prepared using information from Development Bank of Jamaica Limited (DBJ) annual audited financial statements for FY2009/10 to FY2014/15, annual reports and other supplementary information. Key ratios were calculated to enable an analysis of performance over time and make inferences on viability and sustainability.

Profile of the company

1.2 The DBJ is a corporation that is wholly owned by the Government of Jamaica. DBJ was established on April 1, 2000 from the merger of the Agricultural Credit Bank of Jamaica Limited and the National Development Bank of Jamaica Limited. On September 1, 2006, the operations and certain assets and liabilities of the National Investment Bank of Jamaica (NIBJ) were further amalgamated with the DBJ. In July 2009, DBJ issued shares in respect of NIBJ totalling $1.7 billion to the Accountant General, in trust for the Capital Development Fund. Additionally, certain non-performing assets were retained by NIBJ, which continued to operate for the purpose of pursuing the recovery of such assets. The Ministry of Finance and Planning has portfolio responsibility for the DBJ.

Mandate

1.3 DBJ is mandated to foster economic growth and development of strategic sectors of the Jamaican economy. In fulfilling its mandate, DBJ provides the following services:

- Medium and long-term financing solutions (through alliances with Approved Financial Institutions (AFI) and other financiers) in a timely and efficient manner and at attractive interest rates to all entities, but with an emphasis on small and medium-sized enterprises.
- Direct lending for large projects in strategic areas;
- Management and privatisation of national assets and investments.

Mission

1.4 DBJ's mission is to facilitate economic growth and development by providing opportunities to all Jamaicans to improve their quality of life through development financing, capacity building and public-private partnerships and privatisation solutions in keeping with Government policy.

Summary of Findings

1.5 **DBJ recorded net profits in all years between FY2009/10 and FY2014/15 except FY2012/13 when a loss of $2.4 billion was recorded.** The positive performance was also reflected in the return on equity ratio which increased to 0.19 at end FY2014/15 from 0.12 in FY2009/10 but was almost flat relative to the previous year. Net profits improved to $1.1 billion in FY2014/15 relative to the previous year, largely as a result of an increase in income and the recovery of previous impairment losses**.**

1.6 **DBJ's net income was $1.8 billion for FY2014/15 compared to $1.6 billion in FY2013/14 and $1.1 billion for FY2009/10.** Net income which increased in FY2014/15 relative to the previous year largely reflected net interest income of $761.2 million and 'other' income of $1.1 billion which was underpinned by collections amounting to $705.4 million in respect of loans previously written off.

1.7 **DBJ's debt to equity ratio improved to 1.54 at end FY2014/15 from 4.21 at FY2009/10.** The debt to equity ratio for FY2014/15 improved relative to the previous year largely as a result of an increase in equity and a decline in liabilities, in particular, loans due after one year. The overall improvement in the ratio indicated that the company had sufficient equity to adequately meet its obligations and withstand periods of financial difficulties.

1.8 **DBJ's debt to capital ratio improved to 0.61 at end FY2014/15 from 0.81 in FY2009/10.** The major contributor to the improvement was a 63.2 per cent decline in liabilities consequent on the repayment of the €204.4 million loan during FY2011/12 which was on-lent to NROCC**.**

1.9 **DBJ's ratio of non-performing loans to total loans fell to 5.3 per cent at end FY2014/15 from 9.8 per cent in FY2009/10 mainly due to loan impairment and write-offs**. For FY2014/15 in particular, the fall in the ratio to 5.3 per cent from 5.8 per cent in FY2013/14 largely reflected a write off in non-performing loans for an entity in the tourism sector.

1.10 **DBJ's asset turnover increased slightly to 0.10 at end FY2014/15 from 0.08 in FY2009/10.** The asset turnover ratio measures how well an entity is efficiently utilising its assets. DBJ's asset turnover ratio for FY2014/15 improved relative to the previous year in a context where interest and other income grew more sharply than the increase in total assets.

1.11 **DBJ's current ratio declined to 2.96 in FY2014/15 from 3.62 in FY2009/10 but improved relative to the previous year.** The improvement relative to FY2013/14 was largely due to increases in cash and cash equivalents, accounts receivables and income tax recoverable. DBJ's current ratio at end FY2014/15 suggested that the company was sufficiently liquid to support its ongoing activities.

FINANCIAL STATEMENTS ASSESSMENT

Earnings and Return on Equity

1.12 **DBJ recorded net profits in all years between FY2009/10 and FY2014/15 except FY2012/13.** Net profits improved to $1.1 billion in FY2014/15 relative to $742.8 million the previous year, largely as a result of an increase in 'other' income due to the collection of loans previously written off. Net losses of $2.4 billion in FY2012/13 were driven by impairment loss provisions of $2.8 billion related to a loss on partnership preferred equity and loans receivable ($1.43 billion) arising from the disposal of a property in the tourism sector and the impairment ($975.2 million) of preference shares held by entities in the tourism sector. DBJ's positive performance was also reflected in its return on equity ratio which averaged 0.19 between FY2014/15 and FY2013/14 based on equity and net income which averaged $9.0 billion and $1.7 billion, respectively. Over the assessment period, net return on equity averaged 0.15 (**Table 1**).

Table 1: Earnings between FY2009/10 to FY2014/15 (J$ Million)

Indicator	2014/15	2013/14	2012/13	2011/12	2010/11	2009/10
Interest Income	1255.5	1198.6	1142.5	1764.8	3688.5	3792.9
Less Interest Expense	494.3	531.0	477.1	1053.5	2889.5	2992.2
Other Income	1087.0	911.7	443.9	975.8	724.7	382.6
Net Income	**1848.2**	**1579.3**	**1109.3**	**1687.1**	**1523.7**	**1183.3**
Other Expenses	724.9	650.1	603.1	567.3	805.8	705.3
Net Operating Profit	**1123.3**	**929.2**	**506.2**	**1119.8**	**717.9**	**478.0**
Share of losses of Associated Companies	(45.7)	(38.3)	(38.8)	(46.2)	(27.9)	(181.4)
Credit Enhancement Fund	30.6	29.3	7.7	25.5	33.5	19.8
Impairment Loss Provision	0.0	(177.4)	(2928.3)	(407.5)	0.0	0.0
Net Profit	**1108.2**	**742.8**	**(2453.2)**	**691.6**	**723.5**	**316.4**
Total Equity	9616.1	8468.2	7641.3	10645.6	9978.7	9536.1
Return on equity	**0.19**	**0.19**	**0.15**	**0.16**	**0.15**	**0.12**

Source: DBJ's audited financial statements and accounting records
Note: ROE is calculated on *Net Income after tax*

1.13 **DBJ's net income was $1.8 billion for FY2014/15 compared to $1.6 billion in FY2013/14 and $1.1 billion for FY2009/10.** Net income for FY2014/15 largely reflected net interest income of $761.2 million and other income of $1.1 billion which was underpinned by collections amounting to $705.4 million in respect of loans previously written off. A fall in total income in FY2012/13 was largely due to the repayment of a loan under the GOJ infrastructural programme in FY2011/12. Accordingly in FY2011/12 total income fell relative to the previous year consequent on the repayment in respect of Government Infrastructural Loan of €204.4 million which accounted for approximately 47.0 per cent of the interest income earned during FY2010/11.

Debt to Capital and Debt to Equity

1.14 **DBJ's debt to equity ratio improved to 1.54 at end FY2014/15 from 4.21 in FY2009/10.** The debt to equity ratio improved for FY2014/15 relative to the previous year largely as a result of a $1.1 billion increase in equity which exceeded a marginal decline in liabilities, in particular loans payable after one year (**Table 2**). Of note, the deterioration in the ratio in FY2012/13 relative to FY2011/12 was due to a $2.9 billion reduction in equity which exceeded a $2.6 billion increase in loans payable, in particular loans payable after one year.

Table 2: Historical Capital FY2009/10 to FY2014/15 (J$ Million)

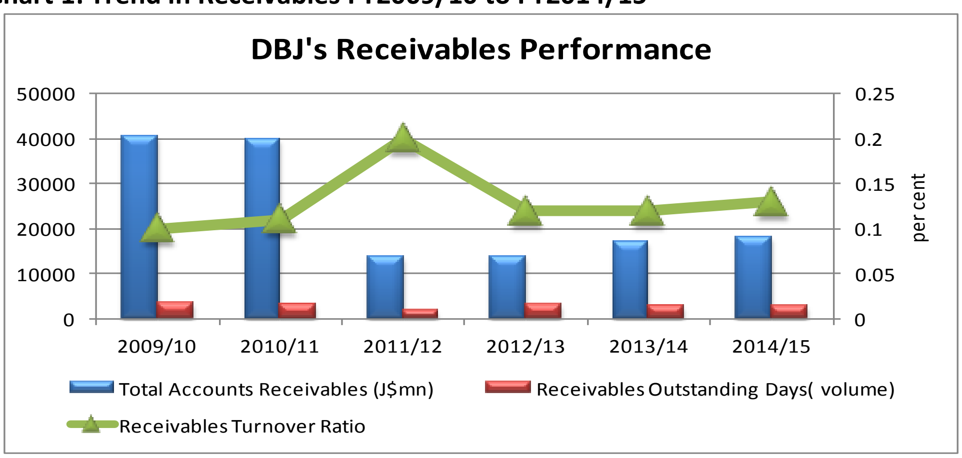
Indicators	2014/15	2013/14	2012/13	2011/12	2010/11	2009/10
Assets	**24,407.9**	**23,269.2**	**22,236.4**	**22,635.3**	**49,928.1**	**49,686.2**
Liabilities	**14,791.8**	**14,801.0**	**14,526.5**	**11,989.7**	**38,949.4**	**40,150.1**
Reserves	8,286.0	8,165.7	8,065.1	8,382.4	7,700.6	7,947.8
Retained Earnings	1,330.1	302.6	(365.9)	2,252.2	2,278.1	1.588.3
Total Equity and Capital	**9,616.1**	**8,468.3**	**7,641.3**	**10,634.6**	**9,978.7**	**9,536.1**
Debt to Capital Ratio	0.61	0.64	0.66	0.53	0.80	0.81
Debt to Equity Ratio	1.54	1.75	1.88	1.13	3.90	4.21

Source: DBJ's audited financial statements

1.15 **DBJ's debt to capital ratio improved to 0.61 at end FY2014/15 from 0.81 in FY2009/10.** The improvement in the ratio in FY2014/15 resulted from a 63.2 per cent decline in liabilities largely as a result of the repayment in FY2011/12 of the €204.4 million loan that was on-lent to NROCC.

Receivables Turnover and Asset Turnover

Chart 1: Trend in Receivables FY2009/10 to FY2014/15



Source: DBJ's audited financial statements

1.16 **DBJ's total assets fell by 50.9 per cent to $24.4 billion at end FY2014/15 from $49.7 billion in FY2009/10** but improved relative to FY2013/14 (**Table 3**). The increase in FY2014/15 relative to the previous year, largely reflected increases in accounts receivables, investment securities and Investments in Associated Companies. On the other hand, the decline in assets relative to FY2009/10 primarily reflected a sharp fall in the accounts receivables asset class. Of note, the decline in the accounts receivable asset class was evident particularly in FY2011/12 due to the repayment of the Government Infrastructural Loan of €204.4 million **(Chart 1).** Regarding DBJ Investments in Associates, at end FY2014/15, Harmonisation Limited had not repaid any portion of the loans and advances made by DBJ[1].

Table 3: Analysis of Assets for FY2009/10 to FY2014/15 (J$ Million)

Asset Class	2014/15	2013/14	2012/13	2011/12	2010/11	2009/10
Cash and Bank Balances	534.4	490.4	630.4	794.4	586.2	402.9
Investment Securities	2,724.0	2,324.6	2,035.8	3,686.4	4,586.0	4,399.8
Resale Agreements	335.1	723.2	3,253.8	1,946.5	1,690.3	1,463.6
Accounts Receivables	17,986.0	16,983.6	13,773.1	13,756.0	39,683.0	40,454.9
Investment Properties	480.7	448.2	321.2	315.2	315.2	314.2
Investments in Associates	940.6	924.9	902.8	825.8	849.5	1,464.8
Fixed Assets	790.9	766.2	557.9	712.4	664.1	682.2
Other Assets	616.2	608.1	626.5	587.7	553.8	503.8
Total Assets	**24,407.9**	**23,269.2**	**22,167.8**	**22,624.4**	**48,928.1**	**49,686.2**
Total Assets Turnover Ratio	0.10	0.09	0.07	0.12	0.09	0.08

Source: DBJ's audited financial statements

1.17 **DBJ's asset turnover improved to 0.10 at end FY2014/15 from 0.09 in FY2013/14 and 0.08 in FY2009/10**. The asset turnover ratio measures how well an entity is efficiently utilising its assets to generate revenues. DBJ's asset turnover ratio for FY2014/15 relative to the previous year indicated marginal improvement in asset utilisation in a context where interest and other income grew more sharply relative to the increase in total assets.

Table 4: Analysis of Accounts Receivables between FY2009/10 to FY2014/15 (J$ Million)

Account Details	2014/15	2013/14	2012/13	2011/12	2010/11	2009/10
Loans Receivables – Approved Financial Institutions	10,083.1	8,317.4	5,539.5	5,289.1	4,565.4	5,330.1
Loans Receivables – PC Bank	1,078.8	1,264.5	1,192.7	1,161.9	1,285.3	1,158.8
Loan Receivables – Direct	5,567.3	5,681.6	2,754.1	2,967.4	3,210.3	5,751.1
Loan Receivables – GOJ Programmes	0.0	0.0	183.4	181.5	25,156.5	25,521.9
Loan Receivables – Other	0.0	0.0	2,480.3	2,530.0	2,775.4	0.0
Due from GOJ	713.0	1,258.0	1,164.1	1,177.8	2,249.8	2,286.3
Other Accounts Receivables	151.4	117.1	120.1	108.7	109.4	127.8
Income Tax Recoverable	392.4	345.0	338.8	339.8	330.9	279.0
Total Accounts Receivables	**17,986.0**	**16,983.6**	**13,773.0**	**13,756.2**	**39,683.0**	**40,455.0**
Receivables Outstanding Days	2,802.5	2,937.5	3,168.9	1,832.1	3,282.0	3,536.3
Receivables Turnover Ratio	0.13	0.12	0.12	0.20	0.11	0.10
Percentage of Assets	73.7	73.0	61.9	60.8	81.1	81.4

Source: DBJ's audited financial statements

[1] DBJ's interest in Ackendown Limited was disposed of during FY2010/11 as construction of the Sandals Whitehouse Hotel was completed.

1.18 DBJ's total accounts receivables balance fell to $17.9 billion at end FY2014/15 from $40.5 billion in FY2009/10 but increased relative to FY2013/14. DBJ's accounts receivables increased by $1.0 billion in FY2014/15 relative to FY2013/14 largely reflecting a $1.6 billion increase in financial and agricultural institutions' loans, the impact of which was partly countered by a fall in receivables from the GOJ mainly related to exchange rate losses on loans and other receivables. Receivables outstanding days at end FY2014/15 were 2,802.5 reflecting a 20.8 per cent reduction relative to FY2009/10. Of note, a significant portion of the accounts receivable balances over the period represented loan receivables including non-performing loans. Further, based on DBJ's Receivables Policy, loan repayment terms are three to twelve years and loans have an initial moratorium on principal for a period not exceeding three years.

Table 5: Aggregate of Non-Performing Loans between FY2009/10 to FY2014/15 (J$ Million)

Details J$mn	2014/15	2013/14	2012/13	2011/12	2010/11	2009/10
Principal Outstanding	Principal Outstanding	Principal Outstanding	Principal Outstanding	Principal Outstanding	Principal Outstanding	Principal Outstanding
Non-Performing Loans	897.8	977.8	2374.6	2499.4	1133.6	1145.3
Performing Loans	16186.3	15789.3	12459.0	11460.0	10400.6	10539.2
Total Loan Portfolio	17084.1	16767.1	14833.7	13959.4	11534.2	11684.5
NPLs Percentage of Loan Portfolio	**5.3%**	**5.8%**	**16.0%**	**17.9%**	**9.8%**	**9.8%**

Source: DBJ's supporting documents

1.19 DBJ's ratio of non-performing loans to total loans fell to 5.3 per cent at end FY2014/15 from 9.8 per cent in FY2009/10 mainly due to loan impairment and write-offs. For FY2014/15 in particular, the decline in the ratio to 5.3 per cent from 5.8 per cent in FY2013/14 largely reflected a write off in non-performing loans for an entity in the tourism sector. On the other hand, the sharp increase in the ratio of non-performing loans to total loans to 17.9 per cent for FY2011/12 from 9.8 per cent in FY2010/11 resulted from an increase in non-performing loans in the tourism sector.

Liquidity

1.20 DBJ's current ratio declined to 2.96 in FY2014/15 from 3.62 in FY2009/10 but improved relative to the previous year. The current ratio is a liquidity and efficiency ratio that measures whether an entity has sufficient resources (current assets) to pay its liabilities due over the next 12 months. For FY2014/15, the improvement relative to FY2013/14 was largely due to increases in cash and cash equivalents, accounts receivables and income tax recoverable. DBJ's current ratio at end FY2014/15 suggested that the company was sufficiently liquid to support its ongoing activities. Of note, the fall in the current ratio relative to FY2009/10 largely reflected an increase in current liabilities due to related entities (**Table 6 and Chart 2**).

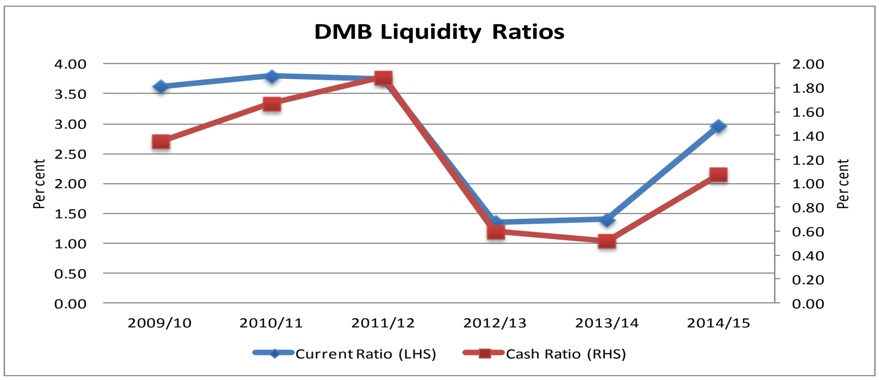
Table 6: Liquidity Performance FY2009/10 to FY2014/15

Liquidity Ratios	2014/15	2013/14	2012/13	2011/12	2010/11	2009/10
Current Ratio	2.96	1.40	1.35	3.75	3.80	3.62
Cash Ratio	1.07	0.52	0.60	1.89	1.67	1.35

Source: AuGD's calculations

1.21 DBJ's cash ratio also declined at end FY2014/15 relative to FY2009/10 but improved relative to FY2013/14. The cash ratio indicates the extent to which an entity has readily available cash to pay off current liabilities. The improvement in DBJ's cash ratio for FY2014/15 relative to the previous year largely reflected an increase in cash and cash equivalents and a fall in statutory payroll liabilities.

Chart 2: Liquidity Performance FY2009/10 to FY2014/15



Source: AuGD's calculations

Appendix

Definition of Ratios

__Activity Ratios__

Accounts Receivable Turnover – refers to the ratio of net credit sales to accounts receivable. This indicates the number of times during the period that credit sales have been made and collected on.

$$Formula = \frac{Credit\ Sales}{Accounts\ Receivable}$$

Accounts Receivable Days – refers to the number of days it takes, on average, for an entity to collect its accounts receivables.

$$Formula = \frac{Accounts\ Receivable}{Credit\ Sales/365}$$

Fixed Asset Turnover – refers to the ratio of sales to fixed assets and indicates the ability of the entity to use fixed assets to generate sales.

$$Formula = \frac{Sales}{Fixed\ Assets}$$

Inventory Turnover – refers to the ratio of cost of goods sold to inventories. The ratio indicates how many times inventory is created and sold during the period.

$$Formula = \frac{Cost\ of\ goods\ sold}{Inventory}$$

Total Asset Turnover – refers to the ratio of sales to assets and indicates the extent to which an entity's investment in total assets results in sales.

$$Formula = \frac{Sales}{Total\ Assets}$$

__Liquidity Ratios__

Cash Ratio – refers to the ratio of cash and cash equivalents to current liabilities and measures an entity's ability to pay off its current liabilities with only cash and cash equivalents.

$$Formula = \frac{Cash + Cash\ equivalents}{Current\ Liabilities}$$

Current Ratio - refers to the ratio of current assets to current liabilities and indicates an entity's ability to meet current liabilities with its current assets.

$$Formula\ = \frac{Current\ Assets}{Current\ Liabilities}$$

Quick Ratio – refers to the ratio of quick assets (current assets *less* inventory) to current liabilities. This ratio indicates the ability of an entity to pay its current liabilities when they become due with only quick assets.

$$Formula\ = \frac{Current\ Assets - Inventory}{Current\ Liabilities}$$

Debt and Solvency Ratios

Debt-to-Assets – refers to the ratio of an entity's debt to total assets and measures the proportion of assets that are financed with debt.

$$Formula\ = \frac{Debt}{Total\ Assets}$$

Debt-to-Capital – refers to the ratio of an entity's debt to the total capital employed. It measures the proportion of the capital employed that is debt.

$$Formula\ = \frac{Debt}{Total\ Capital} = \frac{Debt}{Total\ Equity + Debt}$$

Debt-to-Equity – refers to the ratio of an entity's debt to total equity and indicates the relative use of debt and equity as sources of capital to finance the entity's assets.

$$Formula\ = \frac{Debt}{Total\ Equity}$$

Times Interest Earned/Interest Cover – this ratio compares the earnings available to meet interest obligations with the interest obligation.

$$Formula\ = \frac{Earnings\ before\ Interest\ \&\ Taxes\ (EBIT)}{Interest\ Expense}$$
$$= \frac{Net\ Income + Interest\ Expense + Taxes}{Interest\ Expense}$$

Profitability Ratios

Net Profit Margin – refers to the ratio of an entity's net income to sales and measures how much of each dollar of sales is left over after all expenses.

$$Formula\ = \frac{Net\ Income}{Sales}$$

Operating Profit Margin – refers to the ratio of an entity's operating income to sales and indicates how much of each dollar of sales is left over after operating expenses.

$$Formula = \frac{Operating\ Income}{Sales}$$

Rate of Return on Assets – refers to the ratio of net income to total assets. This indicates the amount earned on each dollar of assets.

$$Formula = \frac{Net\ Income}{Total\ Assets}$$

Rate of Return on Equity – refers to the ratio of net income to total equity and measures the ability of an entity to generate profits from owners' investments.

$$Formula = \frac{Net\ Income}{Total\ Equity}$$