Jamaica Deposit Insurance Corporation

JDIC

ANNUAL REPORT

2004 - 2005

The Mission of the Jamaica Deposit Insurance Corporation is to:

PROVIDE INSURANCE AGAINST THE LOSS OF DEPOSITORS' FUNDS;

CONTRIBUTE TO THE STABILITY AND CONFIDENCE IN JAMAICA'S FINANCIAL SYSTEM;

MINIMISE THE CORPORATION'S EXPOSURE TO LOSS THROUGH SOUND MANAGEMENT OF THE DEPOSIT INSURANCE FUND.

THE CORPORATION WILL FOSTER AN ENVIRONMENT WHICH ENCOURAGES EMPLOYEES TO REALISE THEIR FULL POTENTIAL AND EXHIBIT PROFESSIONALISM AND EXCELLENCE.

June 30, 2005

Dr. The Hon. Omar Davies, M.P.
Minister of Finance and Planning
Ministry of Finance and Planning
30 National Heroes Circle
Kingston 4

Dear Minister:

In accordance with Section 11(1) of the Deposit Insurance Act 1998, I have the honour to submit to you the Annual Report of the Jamaica Deposit Insurance Corporation for the Financial Year 2004/2005 and a copy of the Corporation's Accounts as at March 31, 2005, duly certified by its Auditors.

Yours sincerely,

Ambassador Herbert Walker, O.J., C.D.

Chairman

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Chairman's Message

This is the seventh Annual Report of the Jamaica Deposit Insurance Corporation. Efforts to build and maintain a mechanism to execute the Corporation's objects and mandate were sustained in the financial year (FY) 2004/05.

Sound Corporate Governance has been one of the hallmarks of the Corporation in its over six years of operation. There was strict compliance with the requirements of the Public Bodies Management and Accountability Act (PBMA) which prescribes the standards of corporate governance in the public sector. Mindful of the increasing importance and attention being given to sound governance standards and practices worldwide, the Board and management of the Corporation sought to equip themselves through appropriate training and exposure. Through its various Committees, the Board provided oversight and full support to management in implementation of the diverse activities.

At the start of the year, we undertook a major corporate planning and training exercise. This resulted in the development of a well structured rolling three-year plan for FY 2005/06 – FY 2007/08. "Proactive Readiness" emerged as the main strategic focus for the medium term and all core activities were directly or indirectly aligned to this strategy. We received professional guidance from the Canada Deposit Insurance Corporation (CDIC) in the design of the framework and methodology of this Corporate Plan. I therefore wish to use this opportunity to thank CDIC for their ongoing support.

In furtherance of the objects of the Corporation, the work programmes of the various departments have been structured to achieve ultimate convergence of the applicable legislative authority and mandate with the policies, systems and processes.

This co-ordinated approach is designed to ensure prudent management and growth of the Deposit Insurance Fund, proper risk identification and assessment as well as the capacity to effect payout to depositors should this become necessary.

The Corporation has kept its various stakeholders informed through its ongoing Public Education and Training Programme and the increasing public interest suggests that the message is being heard. Success can be credited in part to the strategy adopted by management, to develop strong partnerships with other Safety Net Players and the Policyholder community. The strengthening of this partnership has also contributed to the progress made to date with the development of other initiatives geared towards readiness.

The Board is fully aware that the maintenance of fair and effective human resource policies and recruitment strategies enabled the Corporation to continue to attract and retain a high calibre staff, seized with the importance of the Corporation's role in the country's financial regulatory landscape. This has been reflected in annual corporate output at a consistently high standard.

The Corporation's own knowledge base and exposure continue to expand through the partnership with other deposit insurers and particularly through its active involvement in the International Association of Deposit Insurers (IADI), of which our CEO is a founding Executive Council member. Outreach at this level has provided the opportunity for the Corporation to keep abreast of international best practices.

The medium term outlook for the country is positive and the Policyholders' environment will continue to be more complex and increasingly challenging for regulators. Such challenges occasioned by new business development and product offerings, are being driven by global and regional competition, as well as technological advancement. I am confident that the Corporation can deal with these challenges as they arise because of the sound foundation that has been laid.

During the year, the statutory tenure of two Board directors: Keith Binns and Patricia Northover, came to an end. I would like to thank both of them for their tremendous contributions and to wish them every success in their future endeavours.

Finally, let me again thank the management and staff of the Corporation for their continued hard work and dedication.

Ambassador Herbert Walker, O.J., C.D.

CEO's Report

"Proactive Readiness" has become the watchword, as the Corporation seeks to strengthen its machinery to operate an effective deposit insurance scheme for the protection of depositors' funds in insured financial institutions. Over the past six years the environment has been conducive to the pursuit of this strategy; hence the Corporation forged ahead, receiving valuable support from external constituents.

During FY 2004/05 the Corporation made further strides in all areas consistent with its readiness strategy. In the absence of any payout since it was established, the Deposit Insurance Fund has grown apace and in line with the established target. We are pleased that the Fund has been professionally assessed as adequate for the medium term, taking into account the current risk profile of the insured institutions as well as the size and risk concentration within sub-sectors. Partnership with other Safety Net Players and member institutions (Policyholders) has also strengthened, which has contributed to improved information flow between the Corporation and the Regulator and a greater level of compliance on the part of Policyholders. This environment has facilitated sustained public education outreach and improvement in the Corporation's systems and capability for proper risk assessment and failure resolution.

Although severely constrained by external shocks during the year, conditions in the macroeconomic environment continued to stabilize. This stability was underpinned by further fiscal restraint and sustained effort at price containment. Local and international investors have responded with increased confidence to these developments. Following depressed production occasioned by the impact of a very intense hurricane season and drought conditions soon after, the economy recorded marginal growth of 0.7 per cent for FY 2004/05. Strong foreign currency inflows mainly from record tourism earnings, increased remittances and strong capital inflows pushed the NIR to US$1.9 billion at year end and helped to stabilize the Jamaican dollar.

The stabilized foreign exchange (FX) market and healthy foreign reserves allowed the Monetary Authority to maintain a more relaxed monetary policy stance, leading to further reduction in interest rates. Although single digit inflation was not achieved, the outturn of 13.2 per cent compared favourably with the 16.8 per cent in the previous year. The fiscal deficit/GDP ratio was 4.8 per cent, slightly down from its level in the previous year. The year ended on a positive note with favourable ratings from international rating agencies and the Government maintaining its balanced budget target for FY 2005/06.

Given much stricter regulatory enforcement, individual insured institutions paid greater attention to overall risk management. The system as a whole experienced a very active year in terms of regulatory compliance. This was reflected in the implementation of the new International Financial Reporting Standards (IFRS); requirements under the Anti-Money Laundering legislation; and putting appropriate systems in place preparatory to the new Basel II capital regime.

Effort at greater compliance as well as further rationalization of business resulted in two institutions exiting the policyholder community. The remaining fifteen Policyholders returned satisfactory financial performances. Assessed against local and international benchmarks, the computed prudential indicators for the system as a whole, compared favourably, suggesting continued stability in the insured deposit-taking sector.

Operationally, prudent management of the Corporation's resources remained a priority, reflected in an expense control ratio of 13.7 per cent for the review period against a budgeted ratio of 14 per cent. Within the context of a public sector wage restraint, we were still able to maintain a cadre of professionals with the requisite skills, competencies and experience, to take the Corporation's programmes forward. Due attention was given to staff welfare and the maintenance of a high performance culture was reinforced.

During the year, the Corporation advanced its comprehensive review of policies, applicable

CEO's Report cont.

legislation and supporting regulation in order to rectify certain gaps which could be inimical to the effective discharge of its responsibilities. A slate of proposed legislative amendments has been compiled for comments by other stakeholders and to meet the 2006 legislative calendar.

We believe that a well informed public is critical to the maintenance of stability and confidence in the financial system. To this end, the public education momentum was maintained throughout the year.

At the international level, the Corporation remained active in the work of the International Association of Deposit Insurers (IADI). During the year, I continued to participate as a member of the Association's Executive Council as well as on a number of Standing Committees and as Chairman of the Caribbean Regional Committee. The mutual benefit accruing from membership of the deposit insurance community continues to be of tremendous import, as the knowledge base and professional development within the Corporation expands through attachments; special research projects and various other avenues for technical information exchange.

Experience has taught us that a proper programme of preparedness must of necessity be ongoing. Looking ahead, we intend to build on the progress made to date in the critical areas of:

- **attainment of an adequate Deposit Insurance Fund;**
- **securing consistency in policies and mandate to meet the developments in the Policyholders' environment;**
- **timely information flow to assess and respond to risk exposure in the system; and**
- **further exploration of adequacy of coverage with due regard to issues of moral hazard.**

Let me close by thanking the entire staff for their full support and co-operation during the year. This has definitely made my job as CEO much easier. We will continue to work together as a united team in the building of a strong and viable Corporation.

Winston K. Carr, C.D.

Corporate Information

AS AT MARCH 31, 2005

BOARD OF DIRECTORS

Ambassador Herbert Walker, O.J., C.D. -	Chairman
Mr. Winston K. Carr, C.D. -	Chief Executive Officer
The Hon. Shirley Tyndall, O.J., C.D. -	Financial Secretary
Mr. Rudolph Muir -	Nominee of the Governor, Bank of Jamaica
Mr. David Lowe	
Mr. Claremont Kirton	
Dr. Michael Whittingham	

EXECUTIVE MANAGEMENT

Mr. Winston K. Carr, C.D. -	Chief Executive Officer
Mr. Everett Lewis -	Director, Claims & Recoveries
Mr. Ronald Edwards -	Director, Finance & Corporate Services
Mrs. Hughlette Jackson -	Director, Insurance & Risk Assessment
Miss Antoinette McKain -	Legal Counsel & Corporate Secretary

AUDITORS

PricewaterhouseCoopers
Scotiabank Centre
Duke Street
Box 372
Kingston
Jamaica, W.I.

BANKERS

Bank of Jamaica
Nethersole Place
P.O. Box 621
Kingston
Jamaica, W.I.

OFFICE

30 Grenada Crescent
Kingston 5, Jamaica, W.I.

Board of Directors

Left to Right: Ambassador Herbert Walker, O.J., C.D. - **Chairman**
Winston K. Carr, C.D. - **Chief Executive Officer**
Antoinette McKain - **Legal Counsel & Corporate Secretary**
Claremont Kirton
Michael Whittingham
David Lowe
(Missing) Shirley Tyndall - **Financial Secretary**
(Missing) Rudolph Muir - **Nominee of the Governor, BOJ**

Executive Management Team

Left to Right: Everett Lewis - **Director, Claims & Recoveries**
Antoinette McKain - **Legal Counsel & Corporate Secretary**
Winston K. Carr, C.D. - **Chief Executive Officer**
Hughlette Jackson - **Director, Insurance & Risk Assesment**
Ronald Edwards - **Director, Finance & Corporate Services**

Policyholders

AS AT MARCH 31, 2005

All deposit-taking financial institutions licensed under the Banking Act, the Building Societies Act and the Financial Institutions Act (FIA) are required to be insured under the Deposit Insurance Scheme, as specified in the Deposit Insurance Act (1998).

At the start of the year there were seventeen (17) Policyholders, but by year end the number was reduced to fifteen (15), as during the year the Minister of Finance & Planning approved two mergers. The first was in April, when the banking operations of George & Branday Limited was merged with that of First Global Bank Limited. Then in June, Pan Caribbean Merchant Bank Limited and Manufacturers Sigma Merchant Bank Limited merged and the Pan Caribbean name retained. The mergers impacted the Merchant Bank sub-sector, contracting the FIA Licensees from seven (7) to five (5).

COMMERCIAL BANKS (6)

Bank of Nova Scotia Jamaica Limited
Citibank N.A.
FirstCaribbean International Bank (Jamaica) Limited
First Global Bank Limited
National Commercial Bank Jamaica Limited
RBTT Bank Jamaica Limited

BUILDING SOCIETIES (4)

FirstCaribbean International Building Society
Jamaica National Building Society
Scotia Jamaica Building Society
Victoria Mutual Building Society

FIA LICENSEES (5)

Capital & Credit Merchant Bank Limited
Citimerchant Bank Limited
DB&G Merchant Bank Limited
MF&G Trust & Finance Limited
Pan Caribbean Merchant Bank Limited

Financial Sector Review

Macroeconomic Environment

Fiscal year 2004/05 saw positive performance in some key macroeconomic variables. These included reduction in interest rates, relative stability in the exchange rate, increase in the Net International Reserves (NIR), and sustained effort at containing the fiscal deficit which together contributed to increased business and consumer confidence. However, the passage of Hurricane Ivan in September eroded the strong growth path on which Gross Domestic Product (GDP) commenced the fiscal year and the potential for achieving single digit inflation. Notwithstanding the derailment occasioned by the hurricane shock, the year ended on a positive note, with the Government of Jamaica (GOJ) maintaining the medium term target of a balanced fiscal position for FY 2005/06 and the central bank continuing its pursuit of a more relaxed monetary policy.

In pursuit of policies that would help to stimulate confidence in the economy and foster economic growth, the monetary authority steadily reduced interest rates on all open market instruments, having been satisfied with the direction in which key macroeconomic variables were moving. The interest rate on the 180-day Repo offered by the BOJ fell from 16.00 per cent at the end of March 2004 to 13.45 per cent at the end of March 2005. The Treasury Bill (TBill) rate moved on a comparable path to its Repo counterpart, with the 182-day TBill rate falling to 13.46 per cent, down from 15.57 per cent in March 2004.

Key Macroeconomic Indicators	2003/04	2004/05
GDP growth (%)	2.0	0.7(p)
Inflation (%)	16.8	13.2
180-day Repo Rate (%)	16.00	13.45
182-day TBill Rate (%)	15.57	13.46
Exchange Rate (J$/US$)	61.01	61.54
Net International Reserves (US$Mn.)	1568.7	1901.6
Fiscal Deficit (% of GDP)	5.3	4.8

p – *preliminary*

Additionally, the Special Deposit Requirement ratio of 5.0 per cent imposed on banks in January 2003 was reduced to 3.0 per cent in March 2005.

The easing of monetary policy during the year contributed to a 15.2 per cent increase in the monetary base and core inflation[1] of 5.2 per cent. Price shocks accounted for 8.0 percentage points of the fiscal year inflation rate which was 13.2 per cent, compared with 16.8 per cent for fiscal year 2003/04. This inflation out-turn was much higher than the projected containment at 9.0 per cent, the variance attributed to price shocks during the second half of the fiscal year. The majority of these price shocks reflected the adverse effects of Hurricane Ivan on production levels in general and agricultural output in particular.

Inflation for the October-December quarter alone (the period during which the initial effects of the hurricane was evident) accounted for 6.4 percentage points (almost 50 per cent) of the inflation rate for the entire fiscal year. Increasing price of commodities on the international market, particularly that of oil and grains also influenced the domestic inflation rate.

For the April-June quarter, the economy experienced a 2.6 per cent growth. Notwithstanding this however, growth for the entire fiscal year was only 0.7 per cent, as quarterly growth rates slumped drastically in the post hurricane period. The fiscal year growth rate reflects the net effect of 1.2 per cent expansion in Services and a 0.2 per cent decline in Goods production. The tourism sub-sector was the largest contributor to the growth in services, as visitor expenditure for the fiscal year was US$1,430.5 million. This was the highest ever recorded for any one year, and represented a 4.8 per cent increase over the previous fiscal year.

For the last three quarters of the year production was impeded in Agriculture, Electricity & Water and to some extent, the Financial Sector. Moratoriums on loan servicing offered immediately following the hurricane, as well as losses due to claims on insurance companies, contributed to the adverse impact on the Financial Services sector. The sector was also negatively affected by declining risk-free interest rates (which lowered interest income), and relative stability in the exchange rate compared with the previous year, when earnings due to foreign exchange movements were strong. During the January-March quarter, there were indications of rebound in the various sectors, with the exception of the agricultural sector for which the decline was exacerbated by drought conditions and bush fires. Overall growth for this quarter was estimated at 0.6 per cent.

The positive performance of the tourism sector coupled with increased inflow of remittances and strong capital inflows, bolstered the supply of foreign exchange and led to the relative stability in the exchange rate during the fiscal year. The exchange rate ended the year at J$61.54:US$1, up from J$61.01:US$1, representing a nominal depreciation of less than 1 per cent, compared with 8.5 per cent for the previous fiscal year. The NIR soared to US$1,901.6 million, up from

[1] The core inflation refers to the underlying inflation, void of one-off price shocks.

Financial Sector Review cont.

US$1,568.7 million at the end of March 2004, the equivalent of an estimated 18.8 weeks of goods and services imports (16.6 in 2004).

Central Government operations resulted in a fiscal deficit of $26.7 billion or 4.8 per cent of GDP, representing a reduction in this ratio from 5.3 per cent for the previous fiscal year. The reduction in the fiscal deficit/GDP ratio may be partly attributed to the Memorandum of Understanding (MOU) agreed with the Trade Unions in early 2004, which has effectively frozen public sector wage and salary payments for two years. Another contributing factor was the reduction in debt-servicing costs, as interest rates in the local economy trended downwards.

Government's access to more favourable interest rates during the year was directly related to increased level of confidence in the economy both locally and internationally, which may be attributed in part to the generally positive reviews by international credit rating agencies. However, the deficit was $6.4 billion more than budgeted. The off-budget outturn was largely attributed to the additional expenditure as a result of the hurricane, and increased rates for utilities, as well as less than anticipated revenue, particularly from tax collection.

The macroeconomic prospects for fiscal year 2005/06 are hinged on a commitment by the GOJ to achieve a balanced fiscal position through further fiscal consolidation and improvements in revenue collection. Together with increased tax revenue emanating from adjustments to the tax rate and structure which became effective on May 1, 2005, the MOU will be an integral element in the realization of this target. Monetary policy will once again be aimed at continued reduction in inflation and interest rates, towards the medium term objective of monetary stability which should foster further economic growth and lessen the public debt burden. Real GDP growth is expected to rebound to about 3.5 per cent, underpinned by accelerated expansion in tourism, mining and construction, with substantial recovery in agriculture.

The Financial Sector should benefit from the increase in confidence in the overall economy, but a challenge for the banking sector will be to realign the portfolio of earning assets for sustainable profitability.

Regulatory Environment

The responsible authorities stuck to the task of tightening the charted regulatory regime for the financial sector; as industry players continue to expand through creative and innovative products and vehicles.

With respect to legislation directly or indirectly impacting the deposit-taking industry, fair progress was made in taking this forward.

Legislative Developments

During 2004, the Bank of Jamaica, through its Financial Institutions Supervisory Division continued its effort to promote legislation to enhance the safety and soundness of the financial system, including in particular, legislation governing the conduct of JDIC policyholder institutions, being commercial banks, merchant banks and building societies.

Legislation Passed:

The Bank of Jamaica Act

The Bank of Jamaica Act was amended to formalize the Bank's powers for sharing of information with overseas financial institution regulators, while ensuring the appropriate mechanisms for control. In addition there were increases in the penalties applicable for breaches of the Bank's confidentiality obligations in respect of its operations under the Act and regarding information it obtains relating to the affairs of a customer of a commercial bank or specified financial institution.

The Banking Act, the Financial Institutions Act (FIA) and the Building Societies Act

(i) The Banking Act, the FIA and the Building Societies Act were amended to include a definition of 'competent authority' to allow for the express recognition by the Bank of Jamaica supervisory authority of a supervisory authority of a foreign country. These statutes were also amended to give the supervisory authority the power to take regulatory action (including the revocation of licences) in any case where a licensee is found to be in breach of statutes relating to money laundering or any other statute relating to financial crime.

(ii) Amendments were made to the Building Societies Act to provide for consistency of the penalties applicable for offences under that Act, with those applicable to similar offences under the Banking Act, and the FIA.

The Bank of Jamaica (Building Societies) (Amendment) Regulations, 2004

These Regulations place building societies on an even footing with other regulated deposit-taking financial institutions (i.e. banks and merchant banks). The revisions include the introduction of a regime for building societies to pay fixed penalties for certain breaches of the regulations; and correction of existing inconsistencies in the penalty provisions.

Pending Non-Financial Legislative Amendments:

The Money Laundering Act, 1998

The Money Laundering (Change of Name and Amendment) Bill was tabled in Parliament in October 2004 and submitted to the Joint Select Committee of Parliament in December 2004.

[Update: Since then this Act was passed in the Senate on April 8, 2005 and in the House of Representatives on April 12, 2005, and was assented to by the Governor General on May 9, 2005.]

The Terrorism Prevention Bill

The Terrorism Prevention Bill was tabled in Parliament during October 2003 and then placed before the Joint Select Committee of Parliament for debate. A minor-

Financial Sector Review cont.

ity report containing the concerns of some members about the Bill, was also tabled in Parliament in November 2004.

The Financial Investigations Division Bill

This Bill seeks to satisfy Jamaica's obligation to comply with recommendation 26 of the Financial Action Task Force on Money Laundering (FATF) 40 (revised) Recommendations which states that:-

"Countries should establish a Financial Intelligence Unit that serves as a national center for the receiving, analysis...and dissemination of suspicious transaction reports and other financial information regarding money laundering or terrorist financing".

Financial Regulatory Council

Throughout the year, the Corporation remained an active member of the Financial Regulatory Council (FRC), the body established in 2000 to facilitate co-ordination of the regulatory activities of the Safety Net Players. The Council is one of the structured avenues through which the Corporation keeps track of developments in the Policyholder community, as well as the wider financial community. Among the issues which remained on the FRC's agenda during the year were:

- **Completion of separation activities: maintaining banks' trading book business separate from deposit-taking activities**
- **Mergers and reorganization of financial services groups, both local and regional**
- **Capital Adequacy standards.**
- **Fit and Proper requirements and operational risk issues**
- **International Business Corporations (IBCs) – their continued emergence and the implications for banking supervisory reach**
- **Bancassurance Products**
- **Development of new products by non-deposit taking institutions and implications for regulation**
- **Misleading advertising within the financial services sector**
- **CSME and financial regulation in the region**
- **Anti-money laundering legislation, systems and structures**
- **Preparation for an IMF/World Bank led Financial Sector Assessment Programme (FSAP).**

Financial Services Commission

The Financial Services Commission (FSC) is the regulatory agency for the insurance, securities and pensions industries (the Non deposit-taking sector). A significant milestone for the FSC in pursuit of its mandate was the passage of legislation giving the FSC statutory authority to regulate private pensions. The relevant Acts were gazetted with an effective date of March 1, 2005.

Following the passage of the Pensions Act, the FSC undertook a public education programme to further sensitize stakeholders and the wider public about the legislation and its implications.

In the areas of Insurance and Securities, the FSC continued to execute its supervisory responsibilities through a programme of:

- **enhancing regulatory rules and guidelines**
- **on-going investigations**
- **examinations; and**
- **Public education.**

Seven guidelines were issued to the industry within the reporting period, including guidelines related to interim capital standards for securities dealers and the Anti-Money Laundering / Counter-Financing of Terrorism ("AML/CFT") Guidelines. The latter came into effect on February 3, 2005.

The main objective of the FSC's 2004/05 Public Education Programme was to promote better understanding of the FSC's mission, operations and responsibilities amongst licensees in the securities and insurance industries. A number of seminars were presented relating to: Pensions, Anti-Money Laundering; Capital Adequacy Requirements in the Securities Sector, Corporate Governance; and Public Disclosure and Transparency in Financial Markets. The FSC also remained active in the co-ordinated Public Education Programme with the other Safety Net Players, the JDIC and the BOJ.

Credit Unions

At March 31, 2005, the 51 credit unions operating in Jamaica remained outside of the Deposit Insurance Scheme, as the proposed legislation which would facilitate licencing and full supervision by the Bank of Jamaica had not yet been passed into law.

With total deposits of $19.9 billion, the credit union movement accounts for 6.67 per cent (6.55 in 2003) of total deposits in the country, on an asset base of $25.2 billion or 5.21 per cent (5.07 per cent in 2003) of system total.

As "specified financial institutions" under the Bank of Jamaica Act, Credit Unions have been under BOJ's examination regime since August 2003. The Corporation seeks to keep abreast of operational and legislative developments regarding Credit Unions through the BOJ and the Ministry of Finance & Planning.

Policyholders' Environment and Performance

During the period under review the number of Policyholders declined to 15 as they continued to rationalize their operations. Two entities exited the system – George and Branday Limited, through merger under a scheme of reorganization in April 2004 and Manufacturers Sigma Merchant Bank Limited, through a scheme of arrangement and amalgamation in June 2004.

At year end, two new applications for commercial banking licence were pending. These applications were submitted to the Ministry of Finance & Planning through the Bank of Jamaica by existing financial institutions, which now

Financial Sector Review cont.

await the Bank's review and subsequent recommendation to the Minister.

For the twelve month period ended March 31, 2005, the banking sector reported unaudited pre-tax surplus of $4,153 million, an increase of $325 million or 8.5 per cent over the previous year's $3,828 million. The key factors that influenced earnings performance within the banking sector were: interest expense containment (by $1,108 million); improved income from non-interest bearing sources (by $1,061 million); and stronger contribution from net extraordinary items and adjustments. The latter stood at $642 million in 2004/05 and accounted for a significant 15.5 per cent of total pre-tax profits. The commercial bank sub-sector reported pre-tax profit of $2,903 million and continued to account for the largest share of the sector's total, 69.9 per cent, followed by the building society sub-sector's $851 million or 20.5 per cent and the merchant bank sub-sector's $399 million or 9.6 per cent. The overall improved profit translated to enhanced profit margin of 26.1 per cent (23.2 per cent in 2003/04) for the total banking sector.

With the continuous decline in interest rate throughout the year, net interest income (NII) fell by $583 million or 7.7 per cent to total $6,989 million for the period ended March 31, 2005 as the falloff in interest income ($1,691 million) outpaced the decline in interest expense ($1,108 million). Total income of $15,903 million was reported for the review period, a contraction by $630 million or 3.8 per cent. Notwithstanding the $1,691 million or 12.2 per cent drop in interest income over 2003/04, this category remained the primary contributor to total income, and at $12,117 million accounted for 76.2 per cent of total for the 2004/05 review period.

Non-interest income of $3,785 million, on the other hand bettered the previous period's $2,724 million, increasing by $1,061 million or 38.9 per cent. Non-interest income comprised mainly service charges, commissions and fees for the provision of banking services which are likely to recur due to the nature of the activities.

The banking sector's overall expenses stood at $12,391 million, contracting by $400 million or 3.1 per cent for the period under review. The positive movement in total expense resulted from a $1,108 million or 17.8 per cent cut in interest expense, but was offset somewhat by a $708.68 million or 10.8 per cent increase in overhead costs. Interest cost stood at $5,128 million or 41.4 per cent of total expenses while overhead costs (comprising mostly staff costs) stood at $7,263 million and accounted for the larger 58.6 per cent of total expenses. The banking sector's efficiency ratio [overhead expenses/ (NII + Other Revenues)] was estimated at 67.4 per cent, outside the international benchmark ceiling of 60 per cent.

Fuelled primarily by deposit liability growth and borrowings, between reviews, total assets (excluding contingent liabilities, depreciation and provisioning) within the banking sector grew by approximately 6 per cent or $26,083 million to total $473,335 million as at March 2005. The increase in the sector's asset base was reflected mainly in the category Loans & Advances (net of provision) which rose by 17.8 per cent or $23,111 million to total $152,856 million or 32.3 per cent of total assets as at March 2005. Notwithstanding the sector's focus on the expansion of the credit portfolio, the investment securities/ repos portfolio which totalled $193,985 million remained the principal constituent of total assets, 41 per cent. At review date, total assets within the banking sector was supported by statutory capital base of $41,676 million. This translated to a primary ratio (statutory capital base as a % of total assets) approximating 8.8 per cent, an improvement over the 8.4 per cent in 2003/04 as statutory capital grew at a disproportionately higher rate than total assets. The banking sector's primary ratio continued to be sufficiently above the prudential minimum of 6 per cent and augured well for capital adequacy within the sector.

Between reviews the number of entities within the commercial bank sub-sector remained unchanged at six (6) and collectively remained predominant within the banking sector, approximating over 70 per cent of market share with respect to total assets ($340,466 million or 72 per cent of total) and customer deposits ($234,117 million or 77 per cent of total). The sub-sector also dominated as credit provider, having extended over 75 per cent or $118,445 million of the banking sector's loans. Foreign currency loans of $47,296 million accounted for 39.9 per cent of the sub-sector's loan portfolio.

For the review year, the building society sub-sector comprised an unchanged four (4) institutions with the asset base (net) aggregating $83,068 million a 19.1 per cent (or $13,299 million) expansion. Asset base as a percentage of the banking sector's total moved up by 190 basis points to 17.5 per cent (2003/04: 15.6 per cent). With the fall in interest rates over the review period coupled with an emphasis on mortgage products that appeal to customers of a wider demographic profile, the loan portfolio netted an increase of 24.9 per cent to total $30,631 million in 2004/05 and comprised primarily residential mortgages. Savings fund grew by 16.2 per cent or $8,360 million to total $60,046 million at review date and remained the sub-sector's major funding source.

The merchant bank sub-sector (which contracted to 5 during the year) reported a marginal increase by $927 million or 1.9 per cent in asset base to total $49,801 million at review date, sustained a slight falloff in market size to 10.5 per cent from 10.9 per cent in 2004/05. The asset category, investment securities/repos of $39,269 million continued to account for the major share of total assets, 78.8 per cent (2003/04 : 76.8 per cent). The sub-sector's loan portfolio (net) increased by $807 million or 13.5 per cent to total $6,766 million in 2004/05 and accounted for 13.6 per cent of total assets.

Corporate Governance

JDIC is a statutory corporation and a public body which is ultimately responsible to the Parliament through the Minister of Finance & Planning. It operates within the legal framework prescribed in the Deposit Insurance Act ("the Act"), its governing statute, the Public Bodies Management and Accountability Act (PBMA), and the Financial Administration and Audit Act.

Board of Directors: Composition

The Act provides that the policy and general administration of the JDIC and the management of the Deposit Insurance Fund is the responsibility of the Board. The Schedule to the Act prescribes that the Board be comprised of seven directors. Of the seven, there are three ex-officio directors, namely, the Governor of the Bank of Jamaica, the Financial Secretary, and the Chief Executive Officer of the JDIC. There are four other directors, including the Chairman, who are appointed by the Minister.

In July 2004 the statutory tenure of Mr. Keith Binns and Dr. Patricia Northover (directors since the establishment of the Corporation) came to an end. They were replaced with the appointment of Mr. Claremont Kirton and Dr. Michael Whittingham.

Board Focus

The statutory requirement is that the Board meets not less than 6 times in the calendar year. The Board complied with this requirement, meeting 7 times in the calendar year 2004.

The Board maintained its focus on ensuring adherence to the principles of good corporate governance in the conduct of the JDIC's affairs. In particular, there was the strictest compliance with the requirements of the PBMA which prescribes the standards of corporate governance in the public sector. The Corporation was on time with the submission of its Annual Report along with the audited financial statements for financial year 2003/04. The Board measured the Corporation's performance against targets set out in the Corporate Plan for that period and approved recommended performance related incentive payment to staff.

Measuring performance against its Corporate Plan and targets for the financial year 2004/05, the Board submitted the requisite Quarterly and Half Year Reports to the Minister of Finance & Planning.

Looking ahead the Board reviewed, discussed and approved the JDIC's three year Corporate Plan for the financial year 2005/06 through to 2007/08. In January 2005 the Corporation submitted its draft of the Three Year Plan along with the Operating Budget for the Financial Year 2005/06 to the Minister of Finance & Planning as is required under the PBMA. The Corporate Plan was approved and is now operational.

Through its Investment Committee, the Board kept abreast of the investment and growth of the Deposit Insurance Fund. With sustained oversight by the Investment Committee the Board was allowed to give due consideration to trends in Fund growth and to reassess its targets in this regard, taking into account the relevant risks.

The assessment of the adequacy of the Fund vis-a-vis potential risk received focus. Corollary to this the Board instituted a review of issues relating to potential exchange rate risk to the Fund to design and implement strategies to address any consequential exposure of the Corporation in this regard.

The Audit Committee was reconstituted with the inclusion of two new members being Claremont Kirton and Michael Whittingham, who replaced Directors Keith Binns and Patricia Northover. The Committee's continuing members were David Lowe along with a representative of the Ministry of Finance & Planning and the Corporate Secretary. The focus of this Committee continued to be to ensure the appropriate internal controls and procedures, to allow for sound corporate procedures and practices to minimize operational risk.

During the review period Board members attended seminars in order to keep abreast of current issues and best practices in the area of corporate governance.

Performance Scorecard

KEY OBJECTIVE	ACHIEVEMENT	FOLLOW THROUGH ACTIVITIES
1. To complete the internal review of the requirements for legislative amendments; draft proposals and elicit comments from external constituents in preparation for Cabinet submission.	The internal review was completed and draft proposals prepared. At year-end these were being finalized in readiness for external input.	To secure input from external constituents and submit to Cabinet by year end.
2. Maintain and enhance the structure, policies and procedures for the recruitment and retention of highly motivated and competent staff consistent with the Corporation's high performance culture.	Within the applicable constraints (inclusive of wage freeze), the Corporation maintained a reasonably comfortable working environment and at year end all positions were appropriately staffed.	To continue to employ a performance based system of work and compensation within the Corporation and seek to address any impediments to a high level of staff satisfaction and retention.
3. To develop and utilize technology to improve efficiency of all business processes both under normal conditions and in a Payout and to satisfy the Corporation's communication and information needs.	The recommendations of the ICT Audit conducted in 2003/04 were prioritized for implementation. At year end plans for acquisition of identified systems and equipment were well advanced.	All necessary ICT policies to be developed and the plan for acquisition and implementation of applicable systems and equipment executed.
4. To identify, assess and manage the risks to which the Corporation is exposed, through the establishment of an appropriate Risk Assessment Framework and maintenance of relationships with key stakeholders.	Formal documentation of the Risk Assessment Framework was completed and the Framework being operationalized towards the end of the year.	The Risk Assessment Framework to be in full operation, with the necessary information inflows from the key stakeholders (the Regulator and Policyholders).
5. To sustain the momentum of the Public Education outreach, with a view to a 5 per cent annual increment in the level of Deposit Insurance awareness.	Through strengthened partnership with the other Safety Net Players and Policyholders, the PE programme was extended to schools and the deposit-holding public in general, with good response.	Extend PE activities to coincide with international deposit insurance focus; and market test awareness level mid-year 2005/06.
6. Consistent with a proactive readiness approach, to review and implement the recommendations from the 2003 Payout Simulation; inclusive of the conduct of a modular payout simulation and training.	A comprehensive review of the recommendations from the 2003 Payout Simulation was completed and implementation plan for derived projects prepared. At year end all plans were in place for the conduct of a Modular Simulation in April, '05.	The Modular Simulation will be conducted at the beginning of FY 2005/06; while other projects inclusive of the Deposit Base Transfer and Instructor's Training Manual will advance.
7. Ensure that all the International Accounting Standards (IAS) requirements are adhered to, and pursue strengthening of the Treasury Management functions through training and acquisition of tools to aid the process.	IAS requirements were adhered to as reflected in the Corporation's financial reporting during the year. A Treasury Management manual was prepared and procedures further tightened.	Treasury management software to be acquired and investment portfolio management capabilities enhanced through further training.

Review of Operations

Insurance and Risk Assessment

Through the Insurance and Risk Assessment Department (IRAD), the Corporation's work in assessing and managing the risk to which it is exposed as deposit insurer advanced during the year. The Department's work progressed through four key functional areas.

- **Policy Development and Research**
- **Insurance Policy Administration**
- **Development and Implementation of a Risk Assessment Framework**
- **A sustained Public Education and Training Programme, to facilitate two way information flow with all stakeholders.**

In the latter half of the year the departmental capabilities were strengthened with the appointment of a Manager Insurance and Risk Assessment, to fill the vacancy which existed.

Policy Development and Research

With the benefit of five years experience and a number of emerging issues within the Corporation as well as emanating from developments in the Regulatory and Policyholders' environments, policy review remained critical. The Corporation continued to review its authority and mandate to ensure consistency and to structure its operational capabilities for effective execution of its objects.

A number of policy issues were identified for review. The issues in the main relate to the existing scope and structure of deposit insurance coverage and the Corporation's capacity to deliver. The respective issues were defined as discrete research projects on which work commenced during the year. The IRAD will work according to the respective project plans and take them to completion during 2005/06; working through the internal cross-departmental Legislative Review Committee (see Legal) where legislative change is required.

Insurance Policy Administration

The Policy of Deposit Insurance outlines the specific conditions of insurance applicable to Policyholders – Terms; Premiums; Information and Records.

With respect to information flow, throughout the year, Policyholders remained generally in compliance, submitting quarterly and annual performance data as required and keeping the Corporation apprised of relevant developments in terms of governance and operations. The JDIC/ Policyholders partnership was further strengthened with ongoing dialogue maintained primarily through the JDIC Liaison Officers, appointed by Policyholders in 2003/04. The second Policyholders' Forum was held in February 2005.

The Forum, initiated in October 2003, has become an important annual exercise through which the Corporation and Policyholders exchange ideas on issues of mutual interest. Poli-

Review of Operations cont.

cyholders have remained supportive of the various JDIC initiatives requiring collaboration. These surround establishing compatibility of systems relevant to effective record keeping and reporting. This will enhance ongoing risk assessment in normal times and facilitate efficient deposit insurance payout in such eventuality.

There were no changes to the deposit insurance coverage limit of $300,000 per depositor per institution, or the premium assessment rate of 0.15 per cent of Insurable Deposits. On a deposit base of $243,694 million, as at December 31, 2003, total premium for the system was assessed at $365.5 million. Premiums payable were due November, 2004, and all Policyholders made payments as required.

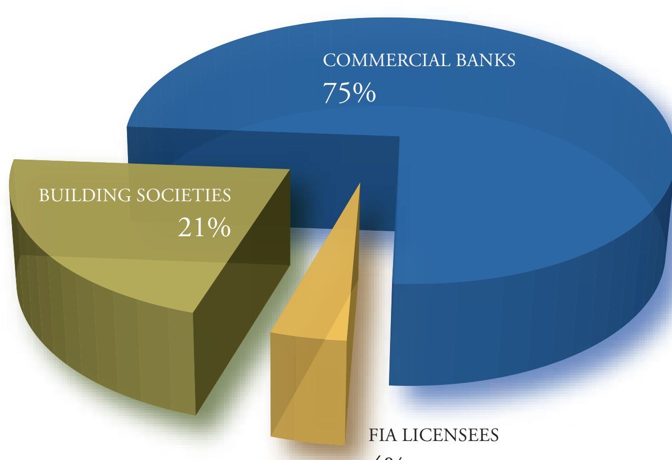
Risk Assessment

During the year, documentation of a comprehensive risk assessment framework was completed and by year end the implementation process had commenced. The framework in structure and execution recognizes the discrete role of the Corporation as Deposit Insurer; having secondary regulatory and supervisory authority, under the Deposit Insurance Act. The Act authorizes the Corporation to work closely with the primary Regulator, the Supervisor of Banks and Financial Institutions, with respect to information pertinent to the safety and soundness of the insured financial institutions.

Adequacy of Coverage Limit

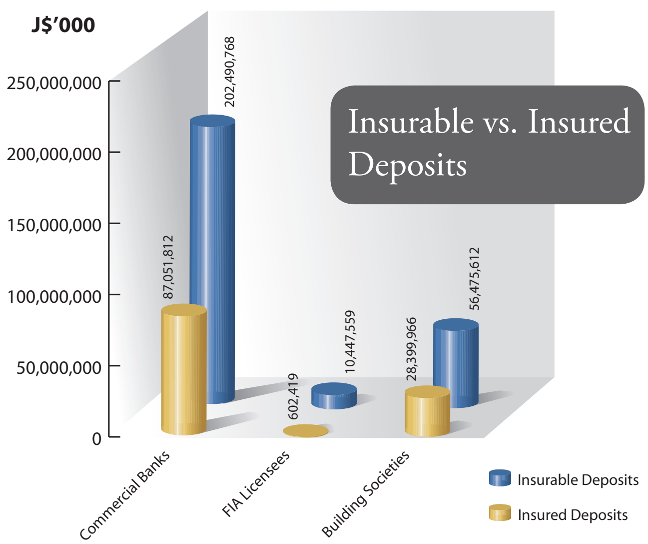
A related exercise in the risk assessment process is periodic surveys on the profile of deposits in the insured institutions, in order to assess the adequacy of the coverage limit. A survey was conducted on the deposit portfolio as reported for the end of October 2004. The survey revealed that as has been the case since the establishment of the Corporation (coverage limit was then $200,000), at the limit of $300,000 over 90 per cent of all deposit accounts are fully covered. The data in Appendix 1 shows that 96.6 per cent of all deposit accounts held by Policyholders carry balances of $300,000 or less; an indication that small depositors continue to be adequately covered by deposit insurance.

Based on the October 31, 2004 data, Insurable Deposits in the insured deposit-taking system stood at $269,414 million, an increase of 16.5 per cent over 2003, with the three sub-sectors, Commercial Banks, Building Societies and FIA's accounting for respective shares of 75.16 per cent, 20.96 per cent and 3.88 per cent. Of note also is the 60:40 split between domestic and foreign currency account balances, as foreign currency deposits continue to trend upwards.



Distribution of Insurable Deposits

At the $300,000 coverage limit, total Insured Deposits was estimated at $116,054 million or 43.1 per cent of total insurable deposits; and based on the balance in the Deposit Insurance Fund then ($1,540m), the Fund ratio to Insured Deposits was 1.3 per cent.



Adequacy of the Deposit Insurance Fund

By statute the Corporation is required to review the size of the Fund having regard to its liabilities and potential liabilities and make recommendations to the Minister as it considers appropriate.

In satisfaction of this requirement an evaluation of the Fund was conducted July-August 2004 under advice and guidance of an independent consultant. This was the fourth such evaluation since 2000 and the Fund was again deemed adequate in the medium term; given the projections for growth and the present and near term risk profile of the insured deposit-taking system. There was therefore no recommendation for change in any of the core elements of the scheme. A recommendation which has recurred in successive Fund evaluations is for a target to be set for the Fund. To this end, the Corporation's Board accepted management's recommendation for a notional Fund Target of 2 to 2.5 per cent of Insured Deposits.

Public Education

Some six years after its inception, educating the public on deposit insurance rules and regulations, its benefits and limitations, continues to be at the forefront of the Corporation's activities.

Emphasis has been placed on a sustained public education programme because it plays a critical role in the Corporation's proactive readiness strategy and the promotion and building of confidence in the financial system. The Corporation's goal is to increase the level of public awareness by at least five percentage points (5%) annually, and it sought to achieve this objective mainly through continuation of:

- **Coordinated Programme with major stakeholders**
- **Community outreach and Schools' programme**
- **Advertising campaign**

The Coordinated Programme included the holding of public forums and training seminars jointly with Regulators and Policyholders. These activities are designed to ensure that deposit insurance information as well as the general workings of the regulatory framework, within which the Corporation operates and is an integral part, is constantly being disseminated to savers and investors, and most im-

Review of Operations cont.

portantly, that the information is accurate.

Cultivating strong partnerships is one of the five key medium term business strategies of the Corporation. During the year the Corporation pursued the strengthening of relationships with the Policyholders. In addition to the ongoing training seminars for staff of Policyholders, in May 2004 a meeting was held with them to discuss initiatives for their further assistance with the public education programme. The suggestions for a month long focus on the Corporation was pursued, and November was declared "JDIC Blitz" month. During the month Policyholders would highlight and promote the role and functions of the JDIC throughout their branch network. Most Policyholders participated in the exercise by: informing customers about deposit insurance when new accounts are opened; enclosing JDIC brochures with customer statements; distributing JDIC 2005/06 Calendars; and the showing of the JDIC video in their banking halls. With the agreement and continued support of Policyholders, this is expected to be an annual event.

Special focus was also placed on the JDIC's schools' programme which is designed to take the deposit insurance message directly to high school students and by extension their teachers and parents. In October the Corporation launched an Essay Competition for High School students and HEART Trust/NTA trainees. This was the second year that the competition was being sponsored; and as in the previous year, saw a high level of participation as well as good quality essays. First place was awarded to Zuleika Jess of Glenmuir High School, with second and third places going to Stephanie Ewbank and Ryan Lee Campbell, of Immaculate Conception and Titchfield High Schools respectively.

During the year the advertising campaign focused on the use of radio and television, these having been identified through the public awareness survey as the most effective media for disseminating the information. Other activities included the continued distribution of JDIC brochures through Policyholders, at seminars and presentations made to civic groups and private sector companies. The Corporation continued its quarterly publication of a listing of Policyholders in the print media. Promotion of the use of the JDIC's website and its toll free telephone numbers, by including them in both print and electronic material, was also a part of the strategy used to get information out to the public.

Another market research survey to measure the effectiveness of the programme is scheduled to be conducted by the Corporation in mid 2005/06.

Claims & Recoveries

The Corporation is responsible for making deposit insurance payments (payouts), and this means that it must be prepared for potential policyholder failures. A proactive approach to readiness resulted in the pursuit of the following initiatives:

- **Review and implementation of the recommendations from the 2003 Payout Simulation**
- **Planning a Modular Payout Simulation**
- **Development of policies, protocols and systems for deposit base transfers, as well as the execution of a series of simulated transfers**
- **Development of an Instructor's Payout Training Manual**
- **Documentation of the clearing banks' cheque clearing process and update of the Corporation's Payout Manual**

The Corporation conducted a Payout Simulation during 2003, about which the consultants, PricewaterhouseCoopers and Robinson & Company LLP, of Canada made numerous recommendations, all of which were fully reviewed by a committee established for that purpose. The recommendations related to strategic, policy and operational issues and in some cases extensive research of the issues was required before a decision on acceptance or rejection could be taken. Where necessary the committee sought to identify and assess the impact of the issues relevant to the successful implementation of the recommendations. In a number of cases, the recommendations were either fully or partially implemented during FY 2004/05. Given the complexity and volume of work involved, some of the recommendations will not be implemented until FY 2005/06.

One of the benefits of the 2003 Payout Simulation was the training and exposure of the Payout Team Leaders to circumstances resembling that of a failed policyholder. This experience has advanced their readiness status, however, the challenge for the Corporation is how to maintain their level of familiarity and readiness. With the constraints of cost and time being a consideration, it was determined that the best approach is an annual modular simulation, focusing on two to three payout modules. At year end preparations were well advanced for the implementation of such a simulation in April 2005.

With due regard to operational efficiency; speed and security, the distribution of deposit insurance payments to the depositors of a failed institution is an operation which ideally is best conducted outside of the physical confines of the Corporation. Consequently, the Corporation has explored the possibility of making these payments through the branch network of the Policyholders. This necessitates a deposit base transfer, which is an arrangement whereby the depositors' payment information is transferred electronically to a policyholder under an agency agreement. The policyholder undertakes the function of making the payments to the insured depositors. Some Policyholders have agreed to collaborate with the Corporation in developing appropriate protocols and information systems capability for a deposit base transfer.

Review of Operations cont.

Fair progress has been made in compiling the business and information systems documentation for the deposit base transfer project. A major component of the project is a series of simulated deposit base transfers between the Corporation and the participating Policyholders. These simulations were not implemented in FY 2004/05, as originally planned, and have been rescheduled to FY 2005/06.

Staff training is critical to the successful intervention and payout of a failed policyholder.

The Corporation intends to use internal resources to provide the required training. Hence, the decision was taken to develop an Instructor's Payout Training Manual. Work commenced in compiling the Manual, and it is expected to be completed during FY 2005/06.

The cessation of the cheque clearing privilege of a clearing bank is an event which is likely to significantly complicate the computation of insured deposit balances of depositors in a failed bank. Being able to respond to this challenge begins with a full understanding of the clearing system. With this in mind the Corporation spent some time studying the operations of some of the clearing banks and the Automated Clearing House Operator (JETS). The result of this exercise is a concise reference document which will be utilized to update the Corporation's Payout Manual and to provide information for those who may at some future date be involved in related aspects of the Corporation's operations.

Legal

The Legal Department continued to provide full legal services to other departments and the Board during the period.

The financial year was highlighted by emphasis on good corporate governance in the financial sector in general and the public sector in particular. The department focused on providing the Board and Management with the requisite information and advice on the emergent legislative and policy framework relevant to the JDIC establishment, governance and operations. Corporate reporting requirements were adhered to, and the department also spearheaded the efforts to ensure for staff the requisite knowledge for compliance with the Access to Information Act.

Legal Counsel continued to direct the internal cross-departmental Legislative Review Committee to concretize proposals for amendment to the Deposit Insurance Act passed in 1998. In furtherance of this effort there was a focus on providing advisory opinions on legal issues, as part of the effort to substantiate the requisite proposals.

Finance & Corporate Services

Financial Overview

During the year total assets of the Corporation surpassed the $2 billion mark, reaching $2.02 billion at March 31, 2005, an increase of 39.6 per cent over the previous year. The Corporation achieved satisfactory return on investments, which together with premium income (and net of expenses) resulted in an overall surplus of $544.73 million. This represents a 20 per cent increase over the surplus realized in the previous year.

The Corporation's assets comprise predominantly its investment portfolio, which stood at $1.84 billion (or 90.9 per cent of total assets) at the end of March, 2005. The investment portfolio in turn reflects the deployment of the resources of the Deposit Insurance Fund. Consistent with the structure of operations, the Corporation receives a significant portion of its financial resources from insurance premiums paid by Policyholders. Calculated on the basis of 0.15 per cent of Policyholders' insurable deposit liabilities as at December 31, 2003, total payment for the premium year November 2004 to October 2005 amounted to $365.54 million.

For the twelve month period, April 2004 to March 2005, income earned on investments (net of losses on foreign exchange transactions) totalled $291.85 million; while the Corporation incurred expenses of $86.77 million to carry out its operations. The resulting excess of income over expenditure was $205.08 million.

There was no significant deviation from the recurrent expenditure pattern of previous years, with Staff Compensation and the Corporation's Public Awareness & Education Programme being the dominant expenditure items, accounting respectively for 62 per cent and 13 per cent of total. The outlay for Professional Fees was 6 per cent of total expenses, compared to the much higher 14 per cent in 2003/04, when the Corporation engaged professional services to assist in a Payout Simulation exercise.

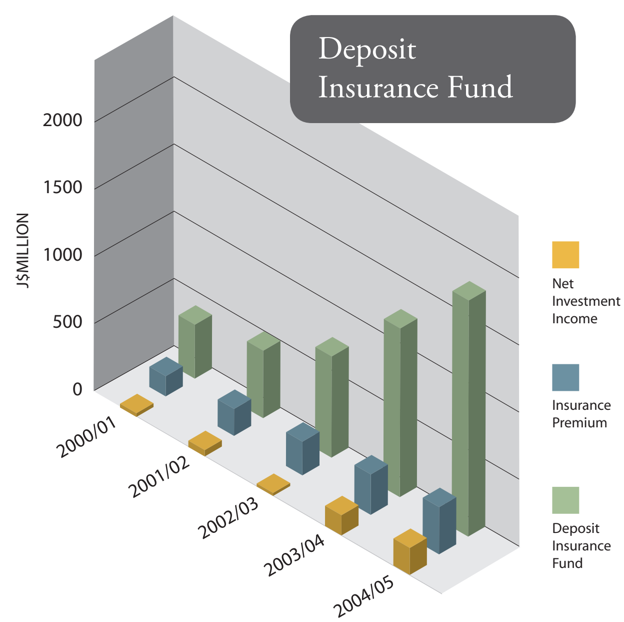
The key performance targets were either met or surpassed; with the Expense Control ratio computed at 13.7 per cent compared with 15 per cent in the previous year, and against a targeted 14 per cent. The financial performance over the last five years is summarized in Appendix III.

The Corporation made all statutory payments and returns in compliance with the applicable regulations.

The Deposit Insurance Fund

Management of the Deposit Insurance Fund (DIF) is one of the main statutory objects of the Corporation. During the year under review, the department continued its day to day execution of this function, guided operationally by the Treasury Management Committee and with oversight from the Investment Committee of the Board.

For the period April 1, 2004 to March 31, 2005 the DIF experienced a 43.7 per cent growth to reach $1.79 billion at year end, compared with the balance of $1.25 billion at March 31, 2004.



Review of Operations cont.

The DIF comprises deposit insurance premium income plus investment income net of operating expenses. The graph above shows a five-year progressive development of the DIF and its components.

Investment Portfolio Management

Adhering to the Investment Policy guidelines, and under the operational direction of the Treasury Management Committee, the department continued to pursue investment strategies towards steady growth of the Deposit Insurance Fund. The investment distribution and maturity profile were reviewed periodically and adjustments made based on the assessed liquidity needs of the Corporation; general macroeconomic trends and prevailing investment climate.

The Treasury Management policies and procedures were formalized in a manual, which at year end was being reviewed for finalization in the coming year.

Under Section 17(2) of the Deposit Insurance Act, the Corporation is obliged to invest most of its available resources in Government of Jamaica (GOJ) Securities. At March 31, 2005, the investment portfolio of $1.84 billion comprised solely GOJ instruments. This represented a 42 per cent increase over total investments of $1.29 billion at the end of the previous year.

Investment Portfolio Distribution at March 31, 2005

Instruments	%
Treasury Bills	5
Local Registered Stocks	62
Debentures	28
US$ Instruments	5

In a climate of declining interest rates the Corporation achieved average yield of 18.7 per cent on investments for the financial year (21.3 per cent in 2003/04).

Administration and Property Management

The department sought to maintain all administrative procedures; documenting and upgrading as required in order to ensure efficiency of operation. All maintenance contracts were closely monitored, having due regard to adherence to scheduled delivery of contracted services necessary for business continuity. Plant and machinery were well maintained; while the working environment remained generally safe and pleasant for staff and visitors during the year.

With respect to disaster preparedness, during the review period the Corporation made appropriate preparation for hurricane and other disruptions. Thus only minimum property damage was experienced during the hurricane season, and there were no undue business interruptions.

The Corporation continued to make its contribution to the preservation of the New Kingston business district through membership in the New Kingston Civic Association.

Information and Communication Technology

During the year the Corporation retained its focus on strengthening its Information and Communication Technology (ICT) capability to support its operations. A comprehensive ICT audit conducted in 2003/04 highlighted areas for improvement and made recommendations accordingly. Upgrade of systems and personnel were flagged for priority attention; hence the Corporation set out to address these during 2004/05.

A formal ICT Unit was set up, with the recruitment of a Manager, Information Technology early in the FY 2004/05 and a System's Administrator later in the year.

Operationally the ICT Unit worked with the core functional departments to support their respective requirements; while simultaneously establishing the ICT policies necessary to complement the Corporation's mandate and stated business strategies. The ICT strategies recognize the need for the Corporation to adopt and implement Application, Data and Technology Architectures with supporting policies to cater to performance and compliance requirements and guide system changes over time.

Human Resources

Against its medium term Strategic Plan, the Corporation reviewed the existing staff structure and future needs assessment; and put the necessary plan in place to fill identified gaps. With the approval of the Ministry of Finance & Planning, all vacancies and new positions were filled. The recruitment activities led to a net increase of four in staff complement, moving to twenty-two (22) at year end 2004/05 against eighteen (18) at end 2003/04. Finance & Corporate Services; Insurance & Risk and Legal were the departments benefiting from the additional staff.

During the period under review, the department continued to drive the Performance Management System through which the Corporation, its departments and staff are assessed and individual staff rewarded. Assessment under the scheme during this period saw employees achieving an average performance level of 79 per cent, scoring a total of 1,343.2 out of 1,700 available points.

The Corporation and its staff continued to observe and fulfill all requirements for Declaration of Secrecy, Corruption Prevention and the Citizen's Charter under the relevant regulations.

Training

The Corporation has a stated commitment to staff development through training, thereby ensuring that, within given constraints, the required level of expertise resides within the Corporation. Accordingly the Corporation, through its recruitment strategy sought to acquire the necessary skills and best job fits; as well as assessed and addressed existing training needs to enhance staff competency and efficiency. The department continued to facilitate in-house training, while external training was accessed locally and overseas through conferences, seminars and workshops organized by the Bank of Jamaica, the Jamaica Employers' Federation, the Jamaican Institute of Bankers, the Private Sector Organization of Jamaica and various specialized training institutes.

In recognition of the highly specialized nature of Deposit Insurance, the Corporation seeks to optimize use of training and exposure opportunities at the international level. To this end, the Legal Counsel & Corporate Secretary was selected to participate in this year's International Association of Deposit Insurers (IADI) Conference. The Con-

Review of Operations cont.

ference was held in Brunnen, Switzerland from October 25 to 27, and Legal Counsel participated along with the Corporation's CEO, who is an IADI Executive Council member.

Under the theme: "Assembling the Tool Kit for Deposit Insurers", Conference sessions involved:

- **Looking specifically at "Insolvency Issues and the Roles of Deposit Insurers"**
- **Hearing from the presenters who comprised insolvency practitioners and legal authorities.**

Panel discussions centered around the recent work of INSOL (International Association of Restructuring, Insolvency & Bankruptcy Professionals) on deposit insurance. The discussions also addressed practical approaches to minimize loss to the deposit insurer in the event of an insolvency.

- **Internationally agreed principles to deal with banking resolution/ Guidance on Bank Resolutions**
- **Overview of Cross-border issues and implications for Deposit Insurers**

In addition, the Corporation's partnership with the Canada Deposit Insurance Corporation (CDIC) remain strong and we continue to receive invaluable assistance from them. Early in FY '04/05 Mr. Keith Adam, Director of Corporate Strategy at the CDIC conducted a one week strategic planning workshop for the Corporation's senior executives and Board.

In November members of the management team benefited from training sessions conducted by Officers of the Canadian Office of the Superintendent of Financial Institutions (OSFI). Focus was on regulation of Financial Institutions, and in particular the Canadian experience with the regulation and supervision of Credit Unions.

Library

Operation of the library continued during the year with the availability of professional and general literature for the Corporation's employees, and members of the public. Specific beneficiaries were secondary and tertiary level students carrying out respective research assignments, including participants in the JDIC Essay Competition. During the year the library formally became a member of the library network, Socio-Economic Information Network (SECIN), thereby strengthening the Corporation's link to wider sources of research material.

International Relations

International Association of Deposit Insurers (IADI)

The Third Annual IADI Conference was held in Brunnen, Switzerland on Lake Lucerne from October 25-27, 2004. Consistent with IADI's vision to "share deposit insurance expertise with the world", the Association invited expert practitioners from around the world to make presentations and participate in the conference. The audience of 145 was truly international in scope as 48 countries were represented at the conference.

The theme of the conference was "Assembling the Tool Kit for Deposit Insurers" and it was chaired by Charles Cornut, Président du Directoire, Fonds de Garantie des Dépòts of France; Mr. Cornut is also the Treasurer of IADI and Chairman of the Finance and Planning Committee. The Chief Executive Officer of the Corporation, Mr. Winston Carr, made a presentation during a special session on Strategic Planning. He explained that JDIC had taken the decision to adopt the Canada Deposit Insurance Corporation's Strategic Management Process but with appropriate modification under the kind guidance of their Director of Corporate Strategy, Mr. Keith Adam.

The second meeting of the Caribbean Regional Committee of IADI under the Chairmanship of Mr. Carr took place in Trinidad on December 3, 2004. The following were the main areas of discussion:

- Report on the work of the Committee
- Approaches to Payout and the Role of the Liquidator
- Inter-relationships with Other Safety Net Players
- Adequacy of the Deposit Insurance Fund
- The Role of Public Education
- Further steps to promote IADI in the Caribbean Region

During the review period, IADI also published its second Annual Report. The Report highlighted the steady increase in new members and the growing interest in the Association's purposes, reflecting recognition of the contribution made by deposit insurance systems to financial stability as well as an appreciation of the Association's activities. It was also noted that over the next five years, IADI will focus on the development of guidance to improve the effectiveness of deposit insurance system and the scope of its advisory work.

At the end of March 2005, there were 94 countries with explicit deposit insurance systems in operations, 11 pending and 9 being planned or under serious study. In addition, it should be noted that there are a number of countries with more than one deposit insurance systems in operation (e.g. Austria, Canada, Germany, Italy and the United States of America).

Attachment

In the spirit of international cooperation within the community of deposit insurers, the JDIC welcomed Mr. John Chikura, Chief Executive Officer of the Deposit Protection Scheme of Zimbabwe (DPS) on a one week attachment. Mr. Chikura was with the Corporation between May 16 and 22 and was exposed to the core functional and support areas of the Corporation through direct engagement with each operational department. Through collaboration with the other safety net players and our Policyholders, the Corporation was able to broaden Mr. Chikura's exposure to include the regulatory framework for the Deposit taking entities (the Bank of Jamaica) and the securities, pension and insurance industries (the FSC) and direct interaction with representatives of the banking sector.

Appendix I

DEPOSIT PROFILE OF INSURED INSTITUTIONS AT CURRENT COVERAGE LIMIT OF $300,000 (AT OCTOBER 31, 2004)

	Total Insurable Deposits ($'000)	% of System Total	Estimated Insured Deposits ($'000)	% of System Total	No. of Accounts	No. of Accounts Fully Insured	% of Accounts Fully Insured
Commercial Banks	202,490,768	75.16	87,051,812	75.01	2,394,214	2,305,462	96.29
FIA Licensees	10,447,559	3.88	602,419	0.52	5,640	4,325	76.68
Building Societies	56,475,612	20.96	28,399,966	24.47	1,319,754	1,281,952	97.13
Grand Total	269,413,939	100.00	116,054,197	100.00	3,719,608	3,591,739	96.56

Appendix II

Prudential Indicators of Commercial Banks, Licensees under the Financial Institutions Act (FIA) and Building Societies

31 March 2005

	COMMERCIAL BANKS			FIA LICENSEES			BUILDING SOCIETIES			SYSTEM TOTAL (AGGREGATE OF ALL 3 SECTORS)		
	Mar-05	Mar-04	Mar-03	Mar-05 [b]	Mar-04	Mar-03	Mar-05	Mar-04	Mar-03	Mar-05	Mar-04	Mar-03
Number of institutions in operation	**6**	6	6	**5**	7	9	**4**	4	4	**15**	17	19
J$MN												
[1]**Total Assets** (incl. Contingent Accounts)	**349,552**	338,970	292,619	**50,356**	49,433	42,103	**83,129**	69,830	55,344	**483,037**	458,233	390,066
[2]**Total Assets** (excl. Contingent Accounts)	**340,466**	328,609	282,024	**49,801**	48,874	41,261	**83,068**	69,769	55,289	**473,335**	447,252	378,574
Total Deposits	**234,117**	216,777	188,441	**9,786**	9,116	8,732	**60,046**	51,686	43,938	**303,949**	277,579	241,111
Borrowings (incl. Repos & Due to BOJ)	**47,347**	56,788	48,579	**33,344**	32,465	26,892	**4,023**	2,562	2,029	**84,714**	91,815	77,500
Total Loans (gross)	**118,445**	102,504	79,685	**6,841**	6,063	4,819	**31,238**	25,004	21,042	**156,524**	133,571	105,546
Total Loans (net of prov.) [a]	**115,459**	99,402	75,828	**6,766**	5,959	4,693	**30,631**	24,384	19,900	**152,856**	129,745	100,421
Cash & Bank Balances	**71,363**	67,131	79,053	**2,199**	2,844	3,603	**13,295**	11,311	7,094	**86,857**	81,286	89,750
Non-Performing Loans [NPL] (3 mths & >)	**3,000**	3,055	2,871	**143**	174	137	**1,214**	1,128	1,340	**4,357**	4,357	4,348
Provision for Loan Losses	**4,022**	4,085	3,858	**165**	181	126	**893**	855	1,142	**5,080**	5,121	5,126
Investments [incl. Securities Purch.] (net of prov.)	**120,688**	129,403	101,355	**39,269**	37,517	31,171	**34,028**	29,478	24,858	**193,985**	196,398	157,384
[3] **Capital Base**	**31,245**	27,972	22,937	**3,593**	3,827	3,137	**6,838**	5,865	5,047	**41,676**	37,664	31,121
Contingent Accts [Accept., LC's & Guarantees]	**9,086**	10,361	10,595	**555**	559	842	**61**	61	55	**9,702**	10,981	11,492
Funds Under Management	**0**	0	1,688	**173**	172	15,919	**0**	0	0	**173**	172	17,607
Repos on behalf of or for on-trading to clients	**0**	379	1,563	**0**	0	41,520	**0**	0	0	**0**	379	43,083
%												
Rate of Asset [2] Growth	3.6%	16.5%	13.5%	1.9%	18.5%	109.8%	19.1%	26.2%	8.1%	5.8%	18.1%	18.6%
Rate of Deposit Growth	8.0%	15.0%	13.8%	7.3%	4.4%	15.8%	16.2%	17.6%	8.3%	9.5%	15.1%	12.9%
Rate of Loans Growth (gross)	15.6%	28.6%	55.2%	12.8%	25.8%	44.8%	24.9%	18.8%	17.8%	17.2%	26.6%	45.5%
Rate of Capital Base Growth	11.7%	22.0%	13.5%	-6.1%	22.0%	15.5%	16.6%	16.2%	5.3%	10.7%	21.0%	12.3%
Rate of NPL (3 Mths &>) Growth	-1.8%	6.4%	0.3%	-17.8%	27.0%	-10.5%	7.6%	-15.8%	-13.7%	0.0%	0.2%	-4.8%
Investments :Total Assets [2]	35.4%	39.4%	35.9%	78.9%	76.8%	75.5%	41.0%	42.3%	45.0%	41.0%	43.9%	41.6%
Fixed Assets:Total Assets [2]	2.2%	2.2%	2.5%	0.3%	0.3%	0.3%	2.2%	2.4%	2.6%	2.0%	2.0%	2.2%
Loans (net of prov.):Total Assets [2]	33.9%	30.2%	26.9%	13.6%	12.2%	11.4%	36.9%	34.9%	36.0%	32.3%	29.0%	26.5%
Loans (gross) : Deposits	50.6%	47.3%	42.3%	69.9%	66.5%	55.2%	52.0%	48.4%	47.9%	51.5%	48.1%	43.8%
Liquidity												
Average Domestic Currency Cash Reserve : Average Prescribed Liabilities [4]	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	1.0%	1.0%	1.0%	7.1%	7.1%	7.2%
Average Domestic Currency Liquid Assets : Average Prescribed Liabilities [4]	34.7%	38.2%	33.7%	48.5%	77.9%	85.5%	28.6%	27.3%	28.7%	33.3%	35.9%	33.3%
Asset Quality												
Prov. For Loan Losses:Total Loans (gross)	3.4%	4.0%	4.8%	2.4%	3.0%	2.6%	2.9%	3.4%	5.4%	3.2%	3.8%	4.9%
Prov. For Loan Losses: NPL (3 Mths &>)	134.1%	133.7%	134.4%	115.4%	104.0%	92.0%	73.6%	75.8%	85.2%	116.6%	117.5%	117.9%
NPL (3 Mths &>):Total Loans (gross)	2.5%	3.0%	3.6%	2.1%	2.9%	2.8%	3.9%	4.5%	6.4%	2.8%	3.3%	4.1%
NPL (3 Mths &>): (Total Assets 2 + Provision for loan losses)	0.9%	0.9%	1.0%	0.3%	0.4%	0.3%	1.4%	1.6%	2.4%	0.9%	1.0%	1.1%
Capital Adequacy												
[5] Deposits + Borrowings: Capital (:1)	9.1	9.9	10.4	12.1	11.1	11.5	9.5	9.4	9.3	9.4	10.0	10.4
Capital Base:Total Assets [2]	9.2%	8.5%	8.1%	7.2%	7.8%	7.6%	8.2%	8.4%	9.1%	8.8%	8.4%	8.2%
[6] Risk Asset Ratio [RAR]	16.7%	13.0%	14.4%	13.7%	13.7%	14.2%	12.9%	19.7%	21.6%	15.6%	13.9%	15.1%
NPL (3 mths & >) : (Capital Base + Provision for losses)	8.5%	9.5%	10.7%	3.8%	4.3%	4.2%	15.7%	16.8%	21.7%	9.3%	10.2%	12.0%
Profitability												
[7]Pre - tax Profit Margin (for the Calendar Quarter)	24.0%	23.6%	28.5%	31.3%	16.1%	16.5%	33.4%	24.6%	30.7%	26.1%	23.2%	28.0%
Return on Average Assets (for the Calendar Quarter)	0.9%	1.0%	1.1%	0.8%	0.5%	0.5%	1.0%	1.0%	1.4%	0.9%	0.9%	1.1%
[8] Income Assets/Expense Liabilities (as at 31 March)	100.8%	100.2%	100.0%	107.5%	107.8%	108.1%	110.8%	110.5%	109.1%	103.2%	102.6%	102.2%

Notes:

n/a not applicable

- Based on unaudited data submitted to BOJ by supervised institutions up to 10 June 2005. Prior years indicators may have minor revisions rising from amendments.

[a] - Effective January 2004, the Bank of Jamaica revised its reporting requirements in line with International Financial Reporting Standards (IFRS) and in this regard the following changes were effected:

(a) The composition of "Provision for Loan Losses", is now segregated into two (2) distinct components being:

i) provision for losses computed in accordance with IFRS; and

ii) any incremental provisioning necessary under prudential loss provisioning requirements.

Consequently, "Total Loans (net of prov.)" for the respective years represents:

- for 2004; gross loans net of IFRS loss provisions per (i) above
- for comparative years 2003 and prior; gross loans net of total prudential loss provisions (equivalent to the aggregate of (i) and (ii) above).

(b) BOJ Certificate of Deposits (CDs) previously included in "Cash and Bank Balances" now reclassified as Investments.

[b] - During the period March 2003 to March 2005, four (4) merchant banks surrendered their deposit taking licences consequently reducing the total number of FIA Licensees to five (5). See details below:

Effective 1 June 2004, Manufacturers Sigma Merchant Bank merged with Pan Caribbean Merchant Bank. The merged entity will continue as Pan Caribbean Merchant Bank Limited.

Effective 1 April 2004, George & Branday Finance Ltd. merged with First Global Bank Ltd. The merged entity will continue as First Global Bank Ltd.

Effective 1 August 2003, ISSA Trust & Merchant Bank merged with DB&G Merchant Bank. The merged entity continues to operate under the name of DB&G Merchant Bank Ltd.

Effective 1 July 2003, FirstCaribbean International Trust & Merchant Bank Ltd. transferred its assets and liabilities to FirstCaribbean International Bank (Jamaica) Ltd.

[1] Total Assets reflected net of Provision for Losses and include Contingent Accounts (Customer Liabilities for Acceptances, Guarantees and Letters of Credit).

[2] Total Assets net of Provision for Losses and Contingent Accounts (Customer Liabilities for Acceptances, Guarantees and Letters of Credit).

[3] Capital Base - Banks & FIA Licensees: (Paid - up Capital + Reserve Fund + Retained Earnings Reserve Fund + Share Premium) less impairment by net losses of individual institution.

- Building Societies: (Permanent Capital Fund + Deferred Shares + Capital Shares + Reserve Fund + Retained Earnings Reserved Fund) less impairment by net losses of individual society.

[4] Prescribed Liabilities include:

(i) deposit liabilities, (ii) reservable borrowings and interest accrued and payable on (i) & (ii).

[5] Data includes interest accrued and payable on deposits and borrowings.

[6] Risk Assets Ratio (RAR): Qualifying Capital in relation to Risk Weighted Assets and Foreign Exchange Exposure.

- As at December 2004, the Bank of Jamaica implemented new Quarterly Capital Adequacy Returns which provide more precise ratios. Note, 2004/2003 ratios are estimated.

[7] Data includes extraordinary income/expenditure and adjustments for prior period.

[8] Income Assets comprise FC Cash Reserves, Placements, Investments, Repo Assets and Loans less Non-Performing Loans (3 months & over).

Expense Liabilities comprise Deposits and Borrowings including Repo Liabilities (from BOJ, Banks, OFI etc).

Statutory Reserve Requirements :

	COMMERCIAL BANKS			BUILDING SOCIETIES***		FIA LICENSEES			BUILDING SOCIETIES**		
	Mar-05	Mar-04	Mar-03	Mar-00	Mar-99	Mar-05	Mar-04	Mar-03	Mar-05	Mar-04	Mar-03
Require	3.0%	5.0%	5.0%			3.0%	5.0%	5.0%	n/a	n/a	n/a
Require	9.0%	9.0%	9.0%	1% / 15%	1% / 15%	9.0%	9.0%	9.0%	1% / 9%	1% / 9%	1% / 9%
Require	23.0%	23.0%	23.0%	5% / 33%	5% / 30%	23.0%	23.0%	23.0%	5% / 23%	5% / 23%	5% / 23%

* 5% Special Deposit requirement imposed on Commercial Banks and FIA Licensees Jan 2003 pursuant to Section 28 A (1) of the Bank of Jamaica Act.
Effective 16 May 2005, the required special deposit ratio was reduced to 1%. This is the second reduction for the year, the first to 3% was effected 1 March.

** The requirements are differentially applied to societies not meeting the prescribed threshold of residential mortgage lending in relation to savings funds.
Societies that meet the prescribed 'qualifying assets' threshold attract the lower reserve requirements indicated above. Societies which do not, are requested to meet the requirements which apply to banks and FIA licensees.

Source:

Financial Institutions Supervisory Division

Bank of Jamaica

Appendix III

JAMAICA DEPOSIT INSURANCE CORPORATION FIVE YEAR STATISTICS AT MARCH 31, 2001 – 2005

	2001 $'000	2002 $'000	2003 $'000	2004 $'000	2005 $'000
Insurance Premium Income	147,612	163,442	221,190	301,688	339,654
Surplus from Investment and Administrative Operations	23,005	32,100	22,403	151,901	205,080
Administrative expenses	35,539	45,302	92,538	79,853	86,770
Deposit Insurance Fund	354,149	549,691	793,284	1,246,873	1,791,607
Investment securities	386,971	585,511	862,589	1,291,907	1,838,251
Property, plant and equipment	4,421	44,449	57,096	55,794	53,819
Persons employed at the end of the year	8	11	18	18	22
Expense Control Ratio (%)	17.1	18.5	27.5	15.1	13.7

Senior Executive Compensation
for FY 2004/2005

Basic Salary range of Senior Executives $2,527,126 - $4,881,983

Allowances:

Chief Executive Officer	-	Residence:	$72,000
Executive Directors	-	Motor vehicle:	$341,220
	-	Medical & Group Life:	$48,741 - $112,102

Notes:

(i) The Senior Executive group includes the Chief Executive Officer and four Executive Directors, including the Legal Counsel & Corporate Secretary.

(ii) The CEO is employed on a contractual basis and is entitled to a fully maintained motor car.

(iii) Executive Directors are employed on a contractual basis, with contracts ranging from two to three years, and are entitled to gratuity payments of 25% of annual salary.

(iv) Members of the Senior Executive group are entitled to loans at concessionary interest rates under the Corporation's Loan Facilitation Scheme.

Financial Statements

March 31, 2005

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Scotiabank Centre
Duke Street
Box 372
Kingston Jamaica
Telephone (876) 922 6230
Facsimile (876) 922 7581
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30 May 2005

To the Members of
Jamaica Deposit Insurance Corporation

Auditors' Report

We have audited the financial statements set out on pages 45 to 56 and have received all the information and explanations, which we considered necessary. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, proper accounting records have been kept and the financial statements, which are in agreement therewith, give a true and fair view of the state of the Corporation's affairs as at 31 March 2005 and of the results of operations, changes in shareholder's equity and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the provisions of the Deposit Insurance Act, 1998.

PricewaterhouseCoopers

Chartered Accountants
Kingston, Jamaica

Jamaica Deposit Insurance Corporation
Statement of Operations
Year ended 31 March 2005

	Note	2005 $'000	2004 $'000
Revenue			
Insurance premiums		339,654	302,253
Interest earned		292,558	229,461
Foreign exchange (losses)/gains		(708)	2,293
		631,504	534,007
Expenses			
Premium refund		-	565
Administrative expenses		86,770	79,853
		86,770	80,418
Surplus from Operations for the Year	4	544,734	453,589

Jamaica Deposit Insurance Corporation
Balance Sheet
31 March 2005

	Note	2005 $'000	2004 $'000
ASSETS			
Cash at bank		3,083	2,421
Investment securities	6	1,838,251	1,291,907
Receivables	7	126,676	98,334
Property, plant and equipment	8	53,819	55,794
		2,021,829	1,448,456
LIABILITIES AND SHAREHOLDER'S EQUITY			
Liabilities			
Unearned premium income	9	213,233	187,344
Payables		15,989	13,239
		229,222	200,583
Shareholder's Equity			
Share capital	10	1,000	1,000
Deposit insurance fund	11	1,791,607	1,246,873
		1,792,607	1,247,873
		2,021,829	1,448,456

Approved by the Board of Directors on 30 May 2005 and signed on its behalf by:

Herbert Walker, Director

Winston K. Carr, Director

Jamaica Deposit Insurance Corporation

Statement of Changes in Shareholder's Equity

Year ended 31 March 2005

	Share Capital $'000	Deposit Insurance Fund $'000	Total $'000
Balance at 1 April 2003	1,000	793,284	794,284
Net surplus	-	453,589	453,589
Balance at 31 March 2004	1,000	1,246,873	1,247,873
Net surplus	-	544,734	544,734
Balance at 31 March 2005	1,000	1,791,607	1,792,607

Jamaica Deposit Insurance Corporation

Statement of Cash Flows

Year ended 31 March 2005

	2005 $'000	2004 $'000
Cash Flows from Operating Activities		
Surplus from operations	544,734	453,589
Adjustments for:		
Depreciation	3,705	3,538
Interest income	(292,558)	(229,461)
Unearned premium income	25,889	18,909
Foreign exchange losses/(gains)	708	(2,293)
	282,478	244,282
Changes in non-cash working capital components:		
Other receivables	(10,865)	(30,839)
Payables	2,750	2,521
	(8,115)	(28,318)
Cash provided by operating activities	274,363	215,964
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(1,730)	(2,236)
Investment securities	(547,056)	(427,137)
Interest received	275,081	211,067
Cash used in investing activities	(273,705)	(218,306)
Effect of exchange rate changes on cash and cash equivalents	4	112
Increase/(Decrease) in cash and cash equivalents at end of year	662	(2,230)
Cash and cash equivalents at the beginning of the year	2,421	4,651
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	3,083	2,421

Jamaica Deposit Insurance Corporation

Notes to the Financial Statements
31 March 2005

1. Identification and Principal Activity

The Jamaica Deposit Insurance Corporation (the Corporation) is incorporated and domiciled in Jamaica. The Corporation was established in accordance with the Deposit Insurance Act, 1998 (the Act) and commenced operations on August 31, 1998. The registered office of the Corporation is located at 30 Grenada Crescent, Kingston 5.

The principal objective of the Corporation is to manage a scheme to provide insurance against the loss of deposits held in insured financial institutions, up to a maximum of $300,000 per depositor, in each right and capacity, in each institution.

The Corporation has the power to do all things necessary or incidental to the furtherance of its objects, including levying premiums and fees on policyholders and managing a Deposit Insurance Fund. Among other things it can make enquiries of a policyholder as to the conduct of its affairs and act as receiver, liquidator or judicial manager of any insolvent policyholder, or of its holding company or subscriber, which becomes insolvent.

All amounts are stated in Jamaican dollars unless otherwise indicated.

2. Significant Accounting Policies

(a) Basis of preparation

These financial statements have been prepared in accordance with and comply with International Financial Reporting Standards and have been prepared under the historical cost convention, as modified by the valuation of certain fixed assets.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(b) Foreign currency translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the dates of the transactions. At the balance sheet date monetary liabilities denominated in foreign currency are translated using the closing exchange rate. Exchange differences arising from the settlement of transactions at rates different from those at the dates of the transactions and unrealized foreign exchange difference on unsettled foreign currency monetary assets are recognised in the statement of investment and administrative operations.

(c) Premium income

Premiums are based on the amount of insurable deposits held by member institutions as at 31 December of the previous year. Insurance premiums are payable initially on the issuance of a policy and subsequently in annual or half yearly installments on or before the policy's anniversary date. Premium income is recognised on the accrual basis.

(d) Receivables

Receivables are carried at original amounts less provision made for impairment of these receivables. A provision for impairment of receivables is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest.

Jamaica Deposit Insurance Corporation
Notes to the Financial Statements
31 March 2005

2. Significant Accounting Policies (Continued)

(e) Cash and cash equivalents
Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and on hand.

(f) Payables
Payables are stated at historical cost.

(g) Investments
The Corporation classifies investments into the following categories: held to maturity and originated debt. Management determines the appropriate classification of investments at the time of purchase.

Government securities which are purchased directly from the issuer are classified as originated debt. These include bonds, local registered stock and treasury bills. They are initially recorded at cost, which is the cash given to originate the debt including any transaction costs and are subsequently measured at amortised cost using the effective interest rate method.

Investments purchased on the secondary market, which are intended to be held to maturity, are classified as such. These investments are initially recorded at cost, and are subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment.

A financial asset is considered impaired if its carrying amount exceeds its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the original effective interest rate.

All purchases and sales of investment securities are recognised at settlement date.

(h) Property, plant and equipment
The carrying value of property, plant and equipment, with the exception of freehold land on which no depreciation is provided, is written off on a straight-line basis over the expected useful life of each asset held at the beginning of the year at the following rates:

Building	2.5%
Freehold improvement	2.5%
Furniture and fixtures	10%
Computers	20%
Office machines	10%

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining surplus from operations. Repairs and renewals are charged to the statement of investment and administrative operations when the expenditure is incurred.

(i) Provisions
Provisions are recognised when the Corporation has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Employee entitlements to annual leave and other benefits are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and other benefits as a result of services rendered by employees up to the balance sheet date.

Jamaica Deposit Insurance Corporation
Notes to the Financial Statements
31 March 2005

2. Significant Accounting Policies (Continued)

(j) Provision for losses
The Act requires that the Corporation shall review the size of its Deposit Insurance Fund at least annually having regard to its liabilities and potential liabilities and taking into account the advice of duly qualified professionals and, as necessary, make such recommendation to the Minister as it deems appropriate to enable it to meet its obligations.

In the event that the ultimate insurance losses exceed the Deposit Insurance Fund, the Corporation may, with the approval of the Minister, increase annual premiums and recommend that the Government increase its contributions by way of advances to the Fund.

No claim has been made on the Corporation to date and, based on the most recent review, management does not deem it necessary to make any provision for losses at this time.

(k) Financial instruments
Financial instruments carried on the balance sheet include cash at bank, investment securities, receivables, and payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

The fair values of the company's financial instruments are discussed in Note 13.

(l) Comparative information
Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

3. Income Taxes and Insurance Legislation

The Corporation is exempt from income tax, transfer tax, stamp duty, recording and registration fees and is also exempt from the provision of the Insurance Act under Sections 21 and 8 respectively of the Deposit Insurance Act, 1998.

4. Surplus from Operations

The following items have been charged in arriving at surplus from operations:

	2005 $'000	**2004 $'000**
Auditors' remuneration -		
Current year	527	430
Prior year	40	-
Depreciation	3,705	3,538
Directors' emoluments -		
Fees	135	204
Management remuneration (included in staff costs)	5,518	5,537
Repairs and maintenance	1,603	1,022
Staff costs (note 5)	54,192	46,491

Jamaica Deposit Insurance Corporation

Notes to the Financial Statements

31 March 2005

5. Staff Costs

	2005 $'000	2004 $'000
Wages and salaries	42,577	37,850
Statutory contributions	4,117	3,301
Others	7,498	5,340
	54,192	46,491

The number of persons employed by the Corporation at the end of the year was 22 (2004 - 18).

6. Investment Securities

	Remaining Term to Contractual Repricing or Maturity					
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Carrying Value	Carrying value
	2005 $'000	2005 $'000	2005 $'000	2005 $'000	2005 $'000	2004 $'000
Held-to-maturity:						
Government of Jamaica -						
Local registered stocks	-	-	461,654	442,958	904,612	749,735
Debentures	-	-	184,034	-	184,034	179,254
US$ Bond	-	-	6,863	-	6,863	6,732
US$ Indexed bond	-	-	63,471	-	63,471	15,632
	-	-	716,022	442,958	1,158,980	951,353
Originated debt:						
Government of Jamaica -						
Treasury bills	13,506	79,295	-	-	92,801	108,692
Local registered stocks	-	-	244,349	-	244,349	68,763
Debentures	27,000	140,500	161,000	-	328,500	149,363
US$ Indexed bond	-	13,621	-	-	13,621	13,736
	40,506	233,416	405,349	-	679,271	340,554
	40,506	233,416	1,121,371	442,958	1,838,251	1,291,907

Jamaica Deposit Insurance Corporation
Notes to the Financial Statements
31 March 2005

6. Investment Securities (Continued)

Average effective yields by the earlier of the contractual repricing or maturity dates:

	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Average
	%	%	%	%	%
Instruments					
Treasury bills	14.66	14.71	-	-	14.69
Local registered stocks	-	-	18.82	15.54	17.18
Debentures	33.50	21.18	15.94	-	23.54
US$ Bond	-	-	10.50	-	10.50
US$ Indexed bond	-	10.57	10.13	-	10.35

7. Receivables

	2005 $'000	2004 $'000
Interest	74,540	57,063
Withholding tax	49,455	40,368
Prepayments	231	218
Other	2,450	685
	126,676	98,334

8. Property, Plant and Equipment

	Land	Building	Freehold Improvement	Furniture & Fixtures	Computers	Office Machines	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost -							
1 April 2004	12,000	25,200	2,005	11,191	4,774	8,548	63,718
Additions	-	-	96	489	744	401	1,730
31 March 2005	12,000	25,200	2,101	11,680	5,518	8,949	65,448
Accumulated Depreciation -							
1 April 2004	-	945	67	2,732	2,831	1,349	7,924
Charge for the period	-	630	51	1,149	1,004	871	3,705
31 March 2005	-	1,575	118	3,881	3,835	2,220	11,629
Net Book Value -							
31 March 2005	12,000	23,625	1,983	7,799	1,683	6,729	53,819
31 March 2004	12,000	24,255	1,938	8,459	1,943	7,199	55,794

Jamaica Deposit Insurance Corporation

Notes to the Financial Statements

31 March 2005

9. Unearned Premium Income

This represents the portion of insurance premiums received from policyholders relating to the period subsequent to 31 March 2005.

10. Share Capital

Authorised capital of the Corporation of $1,000,000 is fully subscribed by the Government of Jamaica in accordance with Section 9 (1) of the Deposit Insurance Act, 1998.

11. Deposit Insurance Fund

	2005 $'000	2004 $'000
Balance at beginning of Year	1,246,873	793,284
Surplus from Insurance Operations for the Year	339,654	301,688
Net Profit from Investment and Administrative Operations	205,080	151,901
Deposit Insurance Fund at Year End	1,791,607	1,246,873

Jamaica Deposit Insurance Corporation

Notes to the Financial Statements

31 March 2005

12. Financial Risk Management

The Corporation's activities expose it to a variety of financial risks, including the effects of changes in debt market prices, foreign currency exchange rates and interest rates. Management seeks to minimise potential adverse effects on the financial performance of the Corporation by applying procedures to identify, evaluate and manage these risks, based on guidelines set by the Board of Directors.

(i) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Corporation had net foreign currency assets of US$1,404,000 at 31 March 2005 (2004 – US$597,000) in respect of transactions arising in the ordinary course of business.

(ii) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Corporation has no significant concentrations of credit risk except for high levels of investment in Government of Jamaica instruments. Cash is placed with substantial financial institutions.

(iii) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Corporation's operating cash flows are dependent on changes in market interest rates. The Corporation has interest-bearing assets which are subject to interest rate fluctuations as disclosed in Note 6.

(iv) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial liabilities. The Corporation manages this risk by maintaining sufficient cash and marketable securities and the availability of funding through committed credit facilities with the Bank of Jamaica.

Jamaica Deposit Insurance Corporation

Notes to the Financial Statements

31 March 2005

13. Fair Values

The amounts included in the financial statements for cash and bank balances, receivables and payables reflect their approximate fair values because of the short-term maturity of these instruments.

The estimated fair values for investment securities have been determined using available market information and appropriate valuation methodologies. However, considerable judgement is necessarily required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented below are not necessarily indicative of the ultimate net realisable values or amounts that the Corporation would realise in a current market exchange.

Fair values were estimated as follows:

	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	$'000	$'000	$'000	$'000
Investment securities	1,838,251	2,186,675	1,291,907	1,470,149

14. Related Party Transactions

Significant elements of the relationship between the Corporation and the Bank of Jamaica are as follows:

(a) Representation on the Board of Directors.

(b) Under Sections 7(1) and 7(2) of the Deposit Insurance Act, 1998, consultations are entered into between the Bank of Jamaica and the Corporation on certain matters relating to policyholders.

(c) Balances at the year end are as follows:

	2005 $'000	2004 $'000
Investment balance	502,771	344,348
Cash balance	2,916	2,401

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30 May 2005

To the Directors of
Jamaica Deposit Insurance Corporation

Auditors' Report

The supplementary information set out on page 58, taken from the accounting records of the Corporation, has been subjected to the tests and other auditing procedures applied in our examination of the Corporation's financial statements for the year ended 31 March 2005.

In our opinion, this information, although not necessary for a fair presentation of the Corporation's state of affairs, results of operations, changes in shareholder's equity or cash flows, is fairly presented in all material respects in relation to the financial statements taken as a whole.

PricewaterhouseCoopers

Chartered Accountants
Kingston, Jamaica

Jamaica Deposit Insurance Corporation

Administrative Expenses

Year ended 31 March 2005

	2005 $'000	2004 $'000
Expenses		
Advertising and promotion	11,422	9,749
Audit fees		
- current year	527	430
- prior year	40	-
Bank charges	39	5
Depreciation	3,705	3,538
Directors' fees	135	204
Entertainment	167	88
Foreign travel	2,371	1,483
Insurance	1,308	1,004
Local travel and motor vehicle expenses	48	278
Miscellaneous	23	66
Printing, stationery and office expenses	3,215	1,651
Professional fees	5,177	11,402
Property tax	11	-
Repairs and maintenance	1,603	1,022
Staff costs	54,192	46,491
Telephone, post and bearer service	1,310	1,112
Utilities	1,477	1,330
	86,770	79,853

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