Jamaica Deposit Insurance Corporation

ANNUAL REPORT

2010/2011

Deposit Insurance...Protecting Our Future

Vision

To promote and inspire financial system confidence and stability

Mission

The Jamaica Deposit Insurance Corporation is committed to:

- Providing insurance against the loss of depositors' funds
- Contributing to the stability and confidence in Jamaica's financial system
- Minimising the Corporation's exposure to loss

through sound management of the Deposit Insurance Fund in an environment which fosters and encourages employees to realise their full potential and exhibit professionalism and excellence.

Core Values

- Accountability
- Integrity
- Professionalism
- Teamwork
- Respect

September 27, 2011

The Honourable Audley Shaw, MP
Minister of Finance and the Public Service
Ministry of Finance and the Public Service
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 2010/2011 and a copy of the Corporation's Accounts as at March 31, 2011, duly certified by its Auditors.

Yours sincerely

R.N.A. Henriques, OJ, QC
Chairman

Table of Contents

Abbreviations

BOJ	Bank of Jamaica
DIA	Deposit Insurance Act
DIF	Deposit Insurance Fund
DIS	Deposit Insurance Scheme
FAAA	Financial Administration & Audit Act
FIA	Financial Institutions Act
FSC	Financial Services Commission
FSSF	Financial System Stability Fund
GDP	Gross Domestic Product
GOJ	Government of Jamaica
IADI	International Association of Deposit Insurers
IMF	International Monetary Fund
JDX	Jamaica Debt Exchange Programme
MEFP	Memorandum of Economic & Financial Policies
MOFPS	Ministry of Finance & the Public Service
MTEFP	Medium Term Economic & Financial Programme
NIR	Net International Reserves
PBMA	Public Bodies Management & Accountability Act
PRAF	Policyholders' Risk Assessment Framework

Glossary

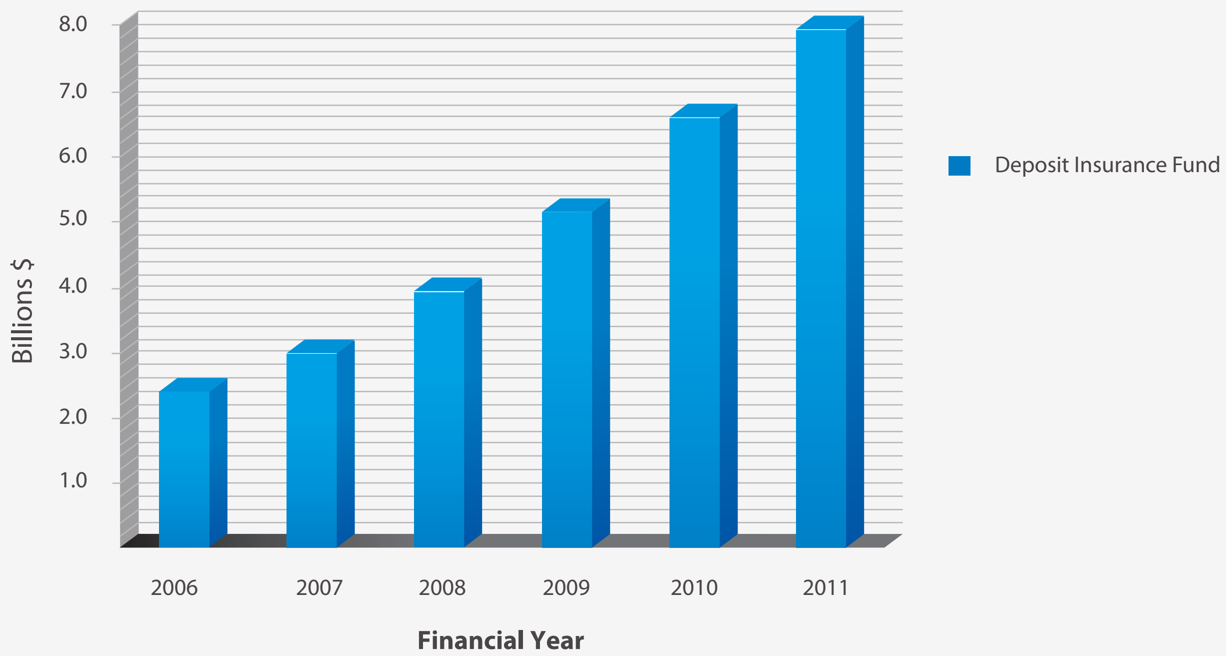
Banking System	The deposit-taking financial institutions, comprising Commercial Banks, FIA Licensees and Building Societies.
Coverage Limit	The limit of payment the JDIC can make to depositors as prescribed under the Deposit Insurance Act.
Crisis Intervention Matrix	A guide set out in a Memorandum of Understanding between the financial system Safety Net Partners in Jamaica outlining the parameters and procedures to strategically identify and address problem institutions.
Deposit	A sum of money paid on terms under which it will be repaid with or without interest or a premium, and either on demand or at a time or in circumstances agreed. However it does not include money paid which is referable to the provision of property or services or the giving of security.
Deposit Insurance Act (DIA)	The Act of Parliament establishing the JDIC and its functions.
Deposit Insurance Fund (DIF)	A Fund established under the Deposit Insurance Act to pay depositors should their insured financial institution fail or to offer financial assistance to Policyholders. Ordinarily made up of premiums collected from Policyholders/ member institutions and investment income.
Deposit Insurance Fund Ratio	The Deposit Insurance Fund expressed as a percentage of the total insured deposits (DIF/Total Insured Deposits).
Deposit Insurance Premium	Amount paid periodically by Policyholders as contributions to the DIF.
FIA Licensees	Financial institutions licensed to take deposits under the Financial Institutions Act.
Insurable Deposits	Deposits received or held by a Policyholder from or on behalf of a depositor other than a deposit from another Policyholder; or a deposit from a statutory body or authority or government company.
Insured Deposit	The portion of an insurable deposit that is within the coverage limit prescribed under the Deposit Insurance Act.
Insured Deposit Portfolio Transfer	The process whereby the insured deposit of a failed Policyholder is transferred by the Corporation to a viable Policyholder for the purpose of paying out depositors.
Policyholders	Deposit-taking financial institutions (Banks, FIA Licensees and Building Societies) insured under the Deposit Insurance Scheme and regulated by the Bank of Jamaica.
Premium Assessment Rate	Rate at which Policyholders are charged to determine deposit insurance premiums due to the Corporation.
Safety Net Partners	A country's lender of last resort, its financial system's regulatory authorities and the Deposit Insurer (in the case of Jamaica - the Bank of Jamaica, the Financial Services Commission, the JDIC and the Ministry of Finance & the Public Service).

Financial Highlights

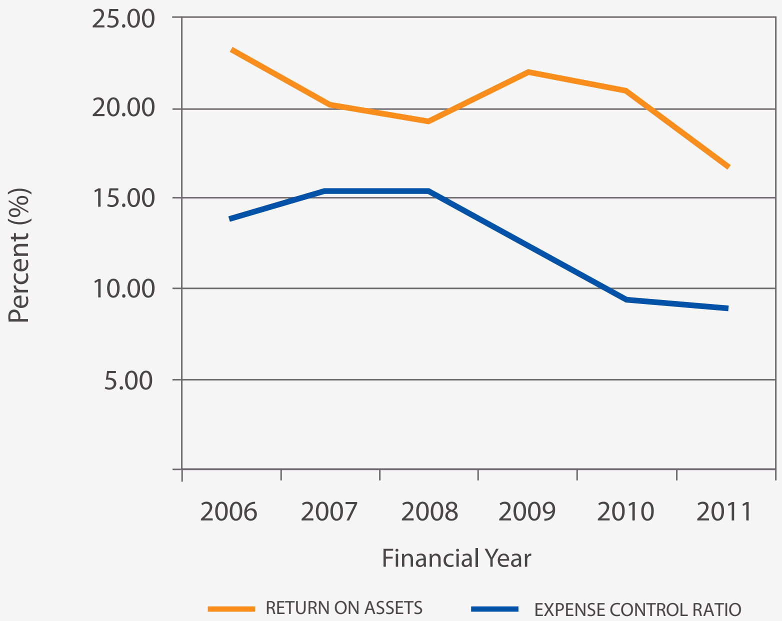
Five Year Statistics: March 31, 2007 - 2011

	2011 $000	2010 $000	2009 $000	2008 $000	2007 $000
SELECTED STATEMENT OF COMPREHENSIVE INCOME DATA					
Insurance Premium Income	720,970	643,038	553,444	484,120	437,732
Interest Earned & Other Income	724,229	953,358	826,595	480,751	378,525
Total Revenue	1,445,199	1,596,396	1,380,039	964,871	816,257
Surplus from Investments & Administrative Expenses	595,335	801,116	655,254	331,776	252,048
Administrative Expenses	128,894	152,242	171,341	148,975	126,477
SELECTED STATEMENT OF FINANCIAL POSITION DATA					
Deposit Insurance Fund	7,889,951	6,573,646	5,129,492	3,920,794	3,104,898
Investment Securities	7,842,372	6,194,498	5,124,721	4,109,144	3,248,803
Total Assets	8,659,837	6,910,309	5,510,940	4,244,283	3,416,803
Property, Plant and Equipment (NBV)	109,503	105,428	101,593	62,167	64,074
OTHER SELECTED FINANCIAL DATA					
Persons employed at the end of the year	20	20	24	26	20
Expense Control Ratio (%)	8.9	9.5	12.4	15.4	15.5
Asset Management (%)	16.7	23.1	25.0	22.7	23.9
Return on Asset (%)	15.2	20.9	21.9	19.2	20.2

Deposit Insurance Fund



Performance and Efficiency Ratios



Financial Highlights

Corporate Information

BOARD OF DIRECTORS*

R.N.A. Henriques, OJ, QC	Chairman
Brian Wynter	Governor, Bank of Jamaica
Bridgett Wilks	Nominee of the Financial Secretary
Antoinette McKain	Chief Executive Officer
Lisa Lewis	Board Member

EXECUTIVE MANAGEMENT

Antoinette McKain	Chief Executive Officer
Carole Martinez -Johnson	Chief Operating Officer / Deputy CEO
Ronald Edwards	Director, Finance, Funds & Asset Management
Roger Desnoes	Legal Officer / Deputy Corporate Secretary
Marjorie McGrath	Manager, Corporate Communications

AUDITORS

PricewaterhouseCoopers
Scotia Centre, Duke Street
P.O. Box 372
Kingston, Jamaica, W.I.

BANKERS

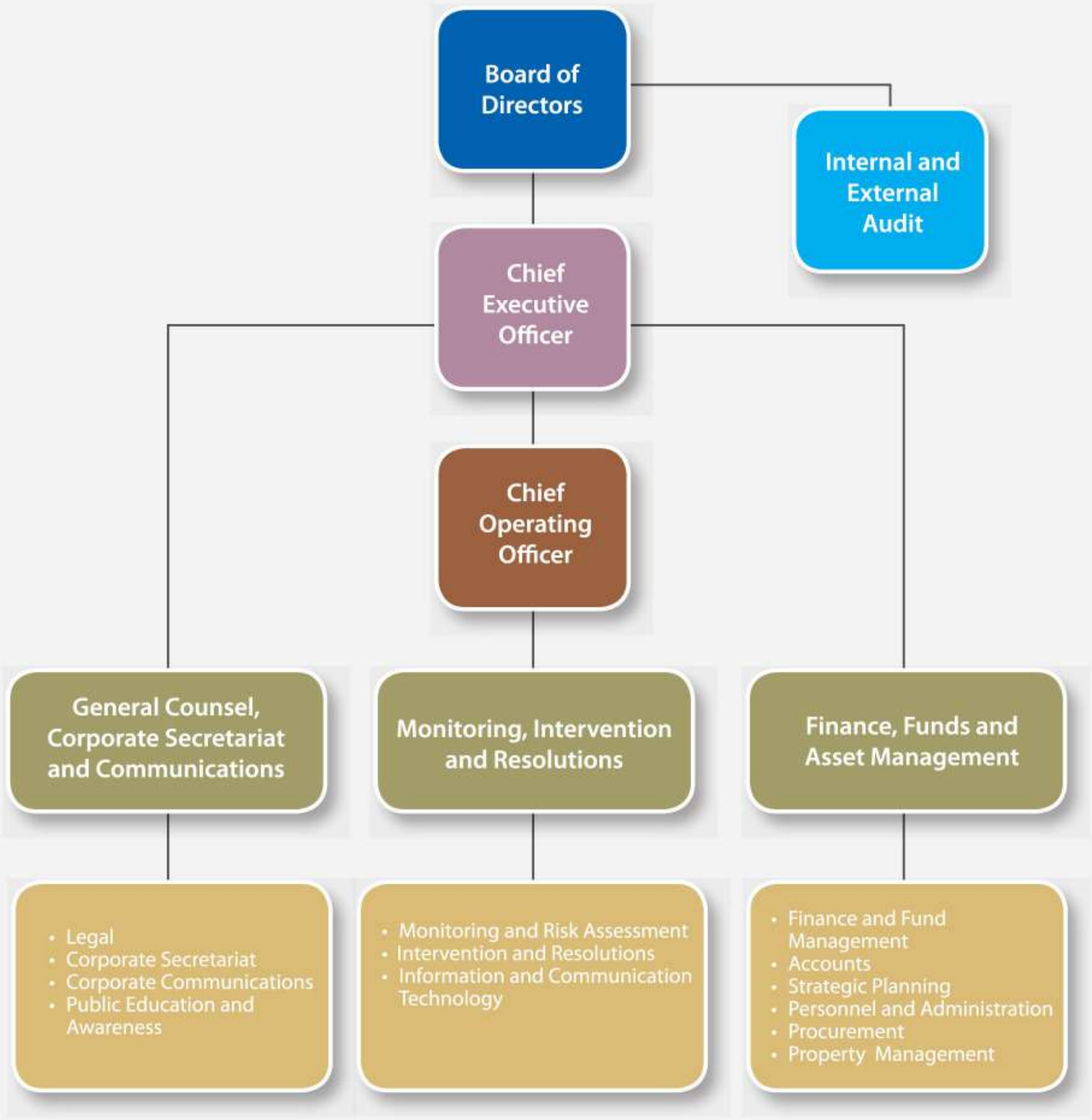
Bank of Jamaica
Nethersole Place
P.O. Box 621
Kingston, Jamaica, W.I.

OFFICE

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

* The full complement of the Board is seven members. At March 31, 2011 there were two vacancies.

Organizational Structure



In keeping with the Government's mandate for greater efficiency in public sector agencies, the Corporation met all the requirements under the MEFP and governing statutes.

Chairman's Statement

On the heels of the global recession, during the financial year 2010/11 most countries continued to focus on the strengthening of regulatory safeguards to identify and address financial system vulnerabilities. In many jurisdictions policy actions were devised to improve the macroeconomic environment. Capital flows also improved globally. Against this backdrop, both advanced and developing economies showed economic recovery. The Jamaican economy however continued to contract. For fiscal year 2011/12, the economy is projected to grow by 1.5 percent under the Memorandum of Economic and Financial Policies (MEFP). The projected growth is predicated largely on the continued global economic recovery.

During FY2010/11 Deposit Insurance systems across the world continued to play a critical part in engendering public confidence and financial system stability. Currently 106 countries have instituted some form of explicit deposit insurance system, while others are considering or are at varying stages of implementation. In our own jurisdiction, the critical role of the Deposit Insurer was highlighted, as well as the need for continued close collaboration and information sharing with our Safety Net Partners.

During the year the Corporation sought to have amendments made to the Deposit Insurance Act in order to improve the benefits afforded to depositors and to improve its operational effectiveness and efficiency. These amendments were successfully passed in Parliament in February 2011. In keeping with the Government's mandate for greater efficiency in public sector agencies, the Corporation met all the requirements under the MEFP and governing statutes.

Despite the challenges in the domestic economy and the impact on the financial sector, the banking system remained profitable and at the end of the year all Policyholders were assessed as solvent. Following the introduction of the Jamaica Debt Exchange (JDX) programme in February 2010, which resulted in a decline in prevailing interest rates, Policyholders sought innovative ways to increase profits by increasing non-interest income, implementing cost containment measures and efficient restructuring.

The Board continued to ensure that the Management had its full support during the year and effected oversight of the Corporation's operations, guided by sound Board Governance Policies. On behalf of my colleagues on the Board, I express thanks to the Management and Staff for their continued commitment to achieving the corporate goals and objectives. I would also like to thank all agencies, our Policyholders, Deposit Insurers and other stakeholders that have supported the work of the Corporation throughout the years.

R.N.A. Henriques, OJ, QC

The Deposit Insurance Fund ended the year at $7.9 billion, representing a $1.3 billion (or 20 percent) increase over the previous financial year.

CEO's Report on Operations

The Environment

The financial year 2010/11 was characterized by the continued strengthening of global financial regulatory systems where gaps were made poignant during the global financial crisis. The world's economies experienced modest growth, with more robust growth in many emerging and developing countries. Capital flows rebounded, even though not to the levels prior to the crisis.

The local financial system exited the global crisis relatively unscathed, in comparison to many international financial centres which saw collapse or near collapse as credit markets dried up. The local system also withstood the rigors of the Government of Jamaica's Debt Exchange (JDX) programme implemented in February 2010. The JDX saw the exchange of Government's existing domestic debt instruments for ones with lower rates and extended maturities. This was designed to provide Government the required fiscal space for the implementation of an International Monetary Fund (IMF) programme which was considered by all major stakeholders as possibly the only real option available for the country. Notwithstanding the robustness of the financial system and the success of the JDX, the economic downturn continued despite positive growth in some sectors.

Reform of the Regulatory Framework

The primary banking system supervisory authority, the Bank of Jamaica, took the initiative to enhance the regulatory framework, with the presentation to stakeholders of a Discussion Paper outlining the implementation of a regime for the macro-prudential regulation of the financial system. This was in keeping with international best practices and trends. In addition to other legislative reform, the Payment Clearing and Settlement Act was passed in November 2010 to establish the legal framework for the oversight of the payment and settlement systems and address matters such as the finality of payments in banking system insolvencies.

The Deposit Insurance Act was also amended effective February 2011. The amendments allow the Corporation to better recognize the commercial expectations of depositors. The amendments include provisions for deposit insurance payments being made available to each beneficiary of a trust account and a nominee account, up to the maximum coverage limit. Amendments were also made to improve the operational efficiency of the Corporation, including allowing for lending and giving guarantees in respect of financial institutions which are determined by the regulatory authorities to be in need of financial assistance in the process of a restructuring or other ameliorative action.

Policyholder Performance

The prevailing economic conditions, the continued wage freeze in the public sector along with the sustained high levels of unemployment contributed to depressed demand for loans and advances and reduced the ability of some individuals to honour their obligations with financial institutions.

As a result, the level of non-performing loans increased by one-third. Relative to capital and provisioning for losses, the ratio of non-performing loans in the system exceeded the prudential maximum. This notwithstanding, Policyholders remained profitable with increases in non-interest income. Additionally, deposits in the banking system remained relatively stable, increasing by 1.1 percent.

Highlights of Operations

In this context, the Corporation continued to make the monitoring and risk assessment of Policyholders a priority. In addition to increasing its coordination efforts with the Bank of Jamaica (BOJ), it undertook a revision of its Policyholders' Risk Assessment Framework (PRAF) to ensure alignment between results and the stages of intervention as outlined in the Crisis Intervention Matrix.

The Corporation must ensure that any payout of depositors or other resolution option will be carried out in the most expeditious manner. Achieving this is critical to maintaining depositor confidence and financial system stability in times of difficulty. Towards this end, the Corporation issued for consultation proposed Guidelines for recordkeeping by Policyholders; which when implemented will prescribe the minimum records a Policyholder must maintain regarding customer and account data to allow ease of access to relevant information.

The inter-connection of financial institutions was decidedly the main feature which fueled the efficiency of the global financial crisis. A Working Group comprising key officers of the Financial Services Commission (FSC) and the JDIC submitted for the consideration of the Ministry of Finance and the Public Service a position paper titled *"Proposal for Establishing Compensation Schemes for the Non-Deposit Taking Financial Sector".* This document outlined the primary public policy objectives and key features for the implementation of Compensation schemes for the customers of the insurance sector. The projection is for implementation on a phased basis throughout the non-deposit taking sector. This initiative is consistent with international trends towards filling the regulatory gaps which tend to reduce confidence in financial systems.

Deposit Insurance Fund

The Deposit Insurance Fund ended the year at $7.9 billion, representing a $1.3 billion (or 20 percent) increase over the previous financial year. The DIF Ratio ended the year at 3.6 percent still some distance from the target range of 8 – 10 percent. Post year end research and data suggests that this target range remains valid.

Coverage Limit and Premium Assessment Rate

The JDIC continued to protect the vast majority of small depositors, with our annual survey of the distribution of insurable deposits indicating that 97.2 percent of deposit accounts in the system were fully insured at the existing coverage limit. The coverage limit for deposit accounts was therefore kept at $600,000 during the year.

The premium assessment rate was retained at 15 basis points of the insurable deposit liabilities of an institution at the end of the prior calendar year. Preparations were made during the year however to conduct the Fund Adequacy review, duly taking into account international best practices and trends. The review allows the Corporation to determine with a greater degree of certainty the optimal premium assessment rate given the probability for default within the financial system. Additionally, the review is expected to price the risk more appropriately to ensure the ongoing credibility and robustness of the Deposit Insurance Scheme.

Public Education and Awareness

It is well understood that adequate education of the consumers of financial services is one of the keys to confidence and financial system stability. The year saw the Corporation continuing its public education and awareness thrust. In this effort there was the collaboration with Policyholders, the BOJ, the FSC and schools. There were on-going radio and print media advertisements and presentations to public and private sector organizations.

Resource Management

The year again highlighted the well established fact that well trained and motivated staff is the most significant organizational resource. The Corporation's officers were availed of local and international training in key areas relating to its operations including courses offered by the International Association of Deposit Insurers and the Bank of International Settlement.

This year the Corporation achieved its lowest expense control ratio with an outcome of 8.9 percent.

Concluding Remarks

The year ended with a keen understanding that there was much work to be done in respect of further enhancement to the Deposit Insurance System and the protections for the financial system in general. The Corporation is positioning itself to be able to do this in preparation to meet the challenges of our times.

On behalf of the Management Team and the Staff of the Corporation I thank our Chairman and other members of the Board for their competent guidance and unequivocal support of our activities. I also thank our colleagues at the BOJ and the FSC for their cooperation and sharing in activities that not only span core operations, but assisted in the enhancement of non-core operations to help increase operational efficiency.

We look forward to continuing to assist all stakeholders in maintaining the safety and soundness of the financial system for the benefit of all.

Antoinette McKain

Antoinette McKain

Board of Directors

R.N.A. Henriques, OJ, QC

Brian Wynter

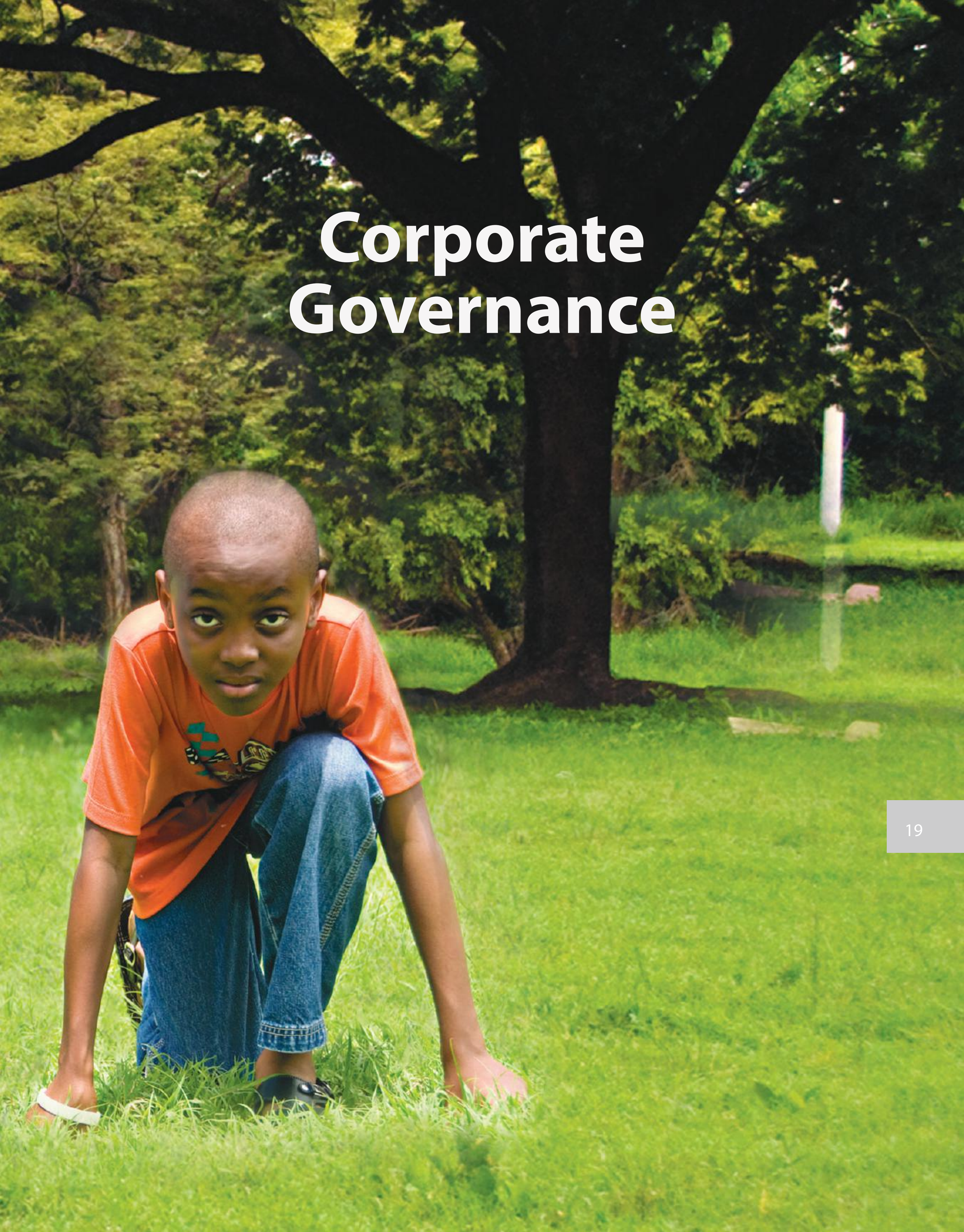
Antoinette McKain

Bridgett Wilks

Lisa Lewis

Executive Management

Corporate Governance



Corporate Governance

The Corporation operates within the legal framework set out in its governing statute, the Deposit Insurance Act (DIA), as well as the Public Bodies Management and Accountability Act (PBMA), and the Financial Administration and Audit Act (FAAA). It is ultimately accountable to Parliament through the Minister of Finance and the Public Service.

The Corporation's main objective, the provision of insurance against the loss of depositors' funds, is achieved through sound management of the Deposit Insurance Scheme. The JDIC therefore remains committed to maintaining the highest standards of corporate governance through the direction and policies of its Board of Directors.

BOARD OF DIRECTORS COMPOSITION AND MANDATE

Under the DIA, the policy and general administration of the JDIC and the management of the Deposit Insurance Fund is the responsibility of the Board of Directors. The Schedule to the DIA 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. The Minister appointed four other directors, including the Chairman.

The Board sets the strategic direction of the Corporation. In accordance with the PBMA and the Board Governance Policies, the Board ensures that the management performs and that an effective system of risk management is in place.

The Board is also obliged under the PBMA to ensure that all persons who manage the Corporation's funds are held accountable. It must also advise and guide the Minister on matters of general policy relating to the management of the JDIC. In adherence to the principles of good corporate governance the following were ensured:

- Submitting within the prescribed period the 3-year Corporate Plan, Operating and Capital Budgets.
- Submitting within the prescribed period the Corporation's Annual Report, along with the audited financial statements for the financial year .
- Submitting the requisite Quarterly and Half-year Reports to the Minister of Finance and the Public Service within the prescribed time.
- Fulfilling the statutory requirement for the Board to meet not less than 6 times during the calendar year.

BOARD OF DIRECTORS		NUMBER OF MEETINGS ATTENDED
R. N. A Henriques, OJ, QC	Chairman	6/6
Bridgett Wilks	Nominee of the Financial Secretary	6/6
Brian Wynter	Governor, Bank of Jamaica	1/1
Rudolph Muir	Nominee of the Governor, Bank of Jamaica	5/5
Antoinette McKain	Chief Executive Officer	6/6
Lisa Lewis	Board Member	5/6

THE AUDIT COMMITTEE

The principal responsibilities of the Audit Committee are set out in the PBMA. The Audit Committee oversees internal and external audits and advises the Board on practices and procedures which will promote productivity, quality and volume of service of the Corporation. The focus of the Audit Committee is therefore to ensure the appropriate internal controls that allow for sound corporate governance procedures and practices to minimize operational risk.

Members of the Audit Committee are required to participate in the following training courses: *Audit Committee Effectiveness; Effective Corporate Governance, Accountability and Board Effectiveness; and Enterprise-wide Risk Management and Internal Controls.*

AUDIT COMMITTEE		NUMBER OF MEETINGS ATTENDED
Lisa Lewis	Chairperson	4/4
Rudolph Muir	Nominee of the Governor, Bank of Jamaica	4/4
Owen McKnight	Ministry of Finance & the Public Service	4/4
Roger Desnoes	Secretary	4/4

THE INVESTMENT COMMITTEE

The Investment Committee is responsible for overseeing the execution of specific decisions of the Board of Directors with respect to the investment function and ensure that the Corporation's investments are consistent with the Investment Policy. In this regard, the Investment Committee approved the revised Investment Policy which incorporated the amendments to the DIA and the reclassification of investment securities offered by the GOJ. The revised Investment Policy now provides for investment in BOJ securities.

INVESTMENT COMMITTEE		NUMBER OF MEETINGS ATTENDED
Lisa Lewis	Chairperson	4/4
Antoinette McKain	Chief Executive Officer	4/4
Carole Martinez-Johnson	Chief Operating Officer/ Deputy CEO	4/4
Ronald Edwards	Director, Finance, Funds & Asset Management	4/4
Nicole Brown-Crooks	Manager, Monitoring and Risk Assessment/ Secretary	4/4

Management's Discussion and Analysis

Management's Discussion and Analysis

OPERATING ENVIRONMENT

Domestic Economy

The global economic recovery continued during FY2010/11 with modest growth being recorded for the advanced economies and robust growth of more than 7 percent in many emerging and developing economies. In addition to accommodative policies, there was further improvement in confidence and financial conditions which encouraged investment and helped to reduce the rate of job loss internationally. Additionally, global capital flows rebounded, but remained below pre-crisis levels in many countries as sluggish economic activity, and damaged financial systems continued to depress flows between advanced economies[1].

In the context of the domestic economy, there continued to be overall decline in real GDP, despite positive growth being recorded for specific productive sectors such as Mining & Quarrying and Hotels & Restaurants. Under the Stand-By Arrangement (SBA) with the International Monetary Fund, a Medium Term Economic and Financial Programme (MTEFP) was agreed, with Jamaica being held to specific quantitative and qualitative targets within an established schedule. In this regard, the Government of Jamaica committed to medium term targets aimed at achieving economic growth, reducing inflation rates to single digits, reducing the fiscal deficit, lowering interest rates; eliminating public sector deficit and gradually reducing the debt to GDP levels.

At the end of FY2010/11 most of the quantitative targets were met as scheduled. Some of the key macroeconomic variables were stable; pointing in the direction necessary for the achievement of sustainable growth (Table 1).

The out-turn of some of these variables were:

- Reduction in the interest rates applicable to the Bank of Jamaica's Open Market Instruments by 375 basis points to 6.75 percent.
- Reduction in market determined Treasury Bill rates to historic lows of 6.63 percent (182-day TBill) and 6.46 percent (91-day TBill)[2].
- Reduction in the yields on GOJ Global Bonds by 50 basis points.
- Reduction in the cash reserve requirement and the liquid assets requirement against Jamaica Dollar deposits which enhanced the pool of loanable funds within the Commercial Banks by $4.5 billion.
- General stability in the foreign exchange market, with the Jamaica Dollar appreciating by 4.4 percent during the fiscal year.
- Fiscal deficit out-turn of 6.1 percent of GDP, which was better than the budgeted 6.5 percent.
- Increase in the Net International Reserves (NIR) to an historical high of US$2.5 billion, thereby exceeding the IMF - SBA target.
- Single digit inflation of 7.8 percent which was within the targeted range of 7.5 - 9.5 percent.

[1] World Economic Outlook: Tensions from the Two-Speed Recovery, International Monetary Fund, April 2011

[2] Budget Debate 2011-2012, Hon. Audley Shaw, MP, Minister of Finance and the Public Service, April 28, 2011

TABLE 1: PERFORMANCE OF KEY MACROECONOMIC INDICATORS			
INDICATORS	2010/11 (p)	2009/10 (r)	2008/09
GDP growth (%)	-0.6	-2.3	-1.6
Inflation (%)	7.8	13.3	12.4
NIR (US$ Million)	2,553.2	1,751.9	1,628.6
Debt (% of GDP)	128.3	129.3	115.7
Fiscal Balance (% of GDP)	-6.1	-10.9	-6.8
Primary Surplus (% of GDP)	4.4	6.1	4.5
182-day TBill Rate (%)	6.63	10.49	21.77
Exchange Rate (J$/US$)	85.75	89.51	88.82

p – provisional r - revised

Much of the achievement during the year was made possible following the successful implementation of the Government of Jamaica Debt Exchange Programme (JDX) on February 24, 2010. This lengthened the public debt maturity profile and essentially halved interest rates; thereby freeing fiscal space of $801.5 million per annum. Nevertheless, the level of public debt remained high in nominal terms, despite a slight reduction relative to GDP at the end of the fiscal year. For FY2011/12, the Government of Jamaica has committed, as part of its debt management strategy, to restructure the Debt Management Unit and enact debt management legislation.

With the ultimate target of the MTEFP being the achievement of growth, the economy is projected to grow by 1.5 percent during FY2011/12, predicated largely on continued global economic recovery.

Policyholder Environment

Following the global financial crisis which ended in 2009, the Basel Committee on Banking Supervision introduced Basel III in December 2010. This served to complement the existing Basel I and Basel II capital adequacy frameworks and enhance capital adequacy rules and liquidity standards internationally. The design of the Basel III framework addresses both bank specific and systemic risks and reinforced the importance of financial system stability and soundness. Therefore issues of macro-prudential regulation (See Appendix 1) were brought to the fore.

An assessment of Jamaica's current framework confirmed that Jamaica's banking supervision mechanism had already incorporated, in some instances, more conservative levels for capital and liquidity adequacy than proposed in the Basel III framework.

A comparison of the Basel III framework and Jamaica's banking supervision requirements is summarized as follows:[3]

I. **Raising the quality and quantity of capital** Although the new Basel framework converges more closely with Jamaica's current definition of regulatory capital, the definition in the domestic market remains more conservative as retained earnings are excluded from core capital because of its discretionary nature.

II. **Discontinuing the use of Tier 3 capital** – Tier 3 capital which comprises subordinated debt has never been a feature of the Bank of Jamaica's capital adequacy framework given the unavailability of this type of capital to absorb loss.

[3] See Bank of Jamaica Annual Report 2010

III. **Introducing the leverage ratio which will act as a backstop to the risk-based measure** – Basel III requires minimum leverage ratio (Tier 1 capital: Total assets) of 3 percent, while Jamaica statutorily introduced a minimum leverage ratio (primary ratio) of 6 percent since 2004.

IV. **Building capital buffers in non-crisis periods which can be drawn down during times of stress** – Basel III sets a capital conservation buffer at 2.5 percent comprising solely of common equity in Tier 1 while the minimum risk-based capital requirement in Jamaica was set at 10.0 percent since 2004, or 2.0 percent above the Basel I minimum (of 8.0 percent).

The Bank of Jamaica has committed to additional reviews of other Basel III measures to further inform regulatory and supervisory enhancements under its proposed omnibus statute.

The conservative nature of the Jamaican banking supervision requirements and the enhanced regulatory and supervisory framework that have been in place since 1998, following the domestic financial sector crisis of the mid-1990's, augured well for the resilience of Policyholders during the review year. However, the effects of the global financial crisis and the protracted domestic economic recession weighed heavily on the performance of the financial institutions as the level of classified loans and non-performing loans soared. As a result of the higher level of non-performing loans, asset quality and credit quality indicators of Policyholders worsened during the year. This was compounded by declining profit levels following the JDX, the precursor to a period of continued reduction in interest rates.

Notwithstanding, Policyholders' capital levels remained relatively satisfactory and each Policyholder exhibited solvency with ratios above 1.0. Additionally, the Financial System Stability Fund (FSSF) which was established to provide liquidity and capital support to financial institutions that fully participated in the JDX remained untapped. Policyholders have been regrouping and re-examining their financial positions, business strategies and marketing approaches in an effort to remain profitable and competitive within the context of the current economic conditions.

Insurable Deposits[4]

During calendar year 2010, despite the challenging economic environment and real decline in production within the Finance and Insurance Services sector, the dollar value of insurable deposits of Policyholders grew by 1.0 percent to $484.9 billion and the number of insurable deposit accounts increased by 0.6 percent to 4.05 million (Tables 2 and 4). Average insurable deposit balances therefore went up to $119,710, from $113,080.

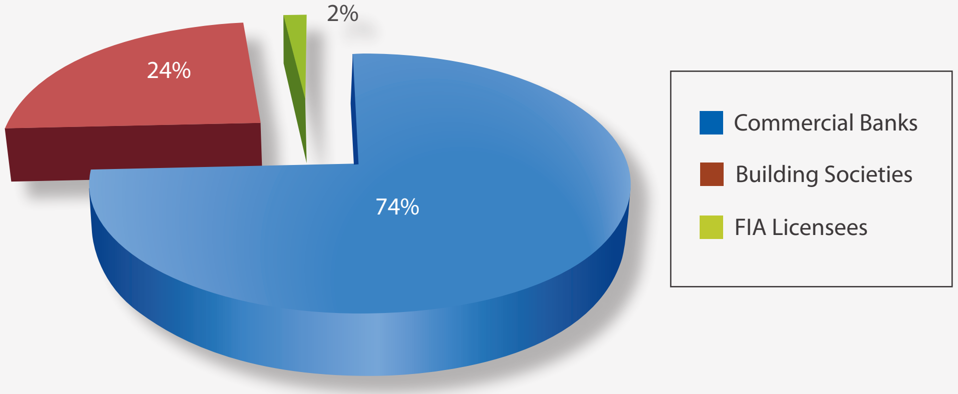
TABLE 2: TOTAL INSURABLE DEPOSITS AS AT DECEMBER 31, 2009 & DECEMBER 31, 2010

Institutions	December 31, 2010 ($ '000)	December 31, 2010 (%)	December 31, 2009 ($ '000)	December 31, 2009 (%)
Commercial Banks	359,653,879	74.2%	355,304,515	74.0%
Building Societies	116,948,438	24.1%	111,766,899	23.3%
FIA Licensees	8,327,309	1.7%	13,250,888	2.8%
GRAND TOTAL	484,929,626	100.0%	480,322,301	100.0%

[4] All data on Insurable Deposits is at December 2010

The increase in insurable deposits reflected larger holdings in domestic currency accounts which outweighed declines in foreign currency deposits. The decline in foreign currency deposits was consistent with the nominal appreciation of the Jamaica Dollar[5] increased consumer confidence in the domestic economy; sustained high levels of NIR; and relatively lower rates of interest on foreign currency deposits. As a result, foreign currency deposits accounted for 39.6 percent of insurable deposits (44.0 percent in 2009) compared with domestic currency deposits of 60.4 percent (56.0 percent in 2009).

FIGURE 1: TOTAL INSURABLE DEPOSITS AS AT DECEMBER 31, 2010



Insured Deposits

During calendar year 2010, estimated insured deposits grew by 3.3 percent to $220.7 billion or 45.5 percent of total insurable deposits. Commercial Banks continued to account for the largest share of estimated insured deposits (70.5 percent) with Building Societies and FIA Licensees accounting for 29.0 percent and 1.0 percent, respectively (Table 3).

TABLE 3: TOTAL ESTIMATED INSURED DEPOSITS AS AT DECEMBER 31, 2009 & DECEMBER 31, 2010

INSTITUTIONS	December 31, 2010 ($ '000)	December 31, 2010 (%)	December 31, 2009 ($ '000)	December 31, 2009 (%)
Commercial Banks	155,662, 876	70.5%	150,171,593	70.2%
Building Societies	63,693,248	28.9%	61,951,195	29.0%
FIA Licensees	1,374,892	0.6%	1,645,308	0.8%
GRAND TOTAL	220,731,016	100.0%	213,768,096	100.0%

Compared with the increase in estimated insured deposits (3.3 percent), the growth in the Deposit Insurance Fund (DIF) was larger at 20.4 percent, resulting in the DIF ratio increasing to 3.4 percent up from 2.9 percent at the end of 2009. The improvement in the DIF ratio was consistent with the corporate objective of achieving a target DIF ratio in the range of 8 -10 percent.

[5] The J$/US$ exchange rate fell from $89.60/US$1 at end December 2009 to $85.86/US$1 at end December 2010

FIGURE 2: ESTIMATED INSURED DEPOSITS AS AT DECEMBER 31, 2010

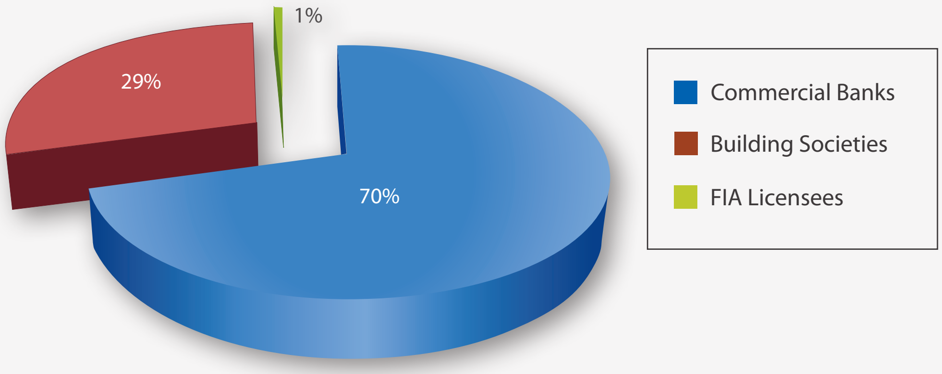


TABLE 4: FULLY COVERED ACCOUNTS AS AT DECEMBER 31, 2010			
INSTITUTIONS	**Total No. of Insurable Accounts**	**Total No. of Fully Covered Accounts**	**Accounts Fully Covered (%)**
Commercial Banks	2,100,710	2,028,023	96.5
Building Societies	1,941,924	1,903,385	98.0
FIA Licensees	8,253	6,914	83.8
GRAND TOTAL	4,050,887	3,938,322	97.2

The percentage of fully covered accounts at the current coverage limit ($600,000) fell to 97.2 percent, from 97.4 percent in 2009. The Building Societies sub-sector continued to record the largest share of fully covered accounts at 98.0 percent, with Commercial Banks and FIA Licensees following with 96.5 percent and 83.8 percent, respectively.

TABLE 5: PERCENTAGE OF FULLY COVERED DEPOSITS DECEMBER 31, 2006 – DECEMBER 31, 2010					
Year	**2006**	**2007**	**2008**	**2009**	**2010**
% Number of Accounts	95.67	97.63	97.58	97.36	97.22
% Dollar Value of Deposits	25.11	35.41	31.51	31.21	31.59

Regulatory Environment

Policymakers have continued to make statutory provisions to mitigate future crises in the financial system. The driving force is to insulate the public in general and the depositors in particular from the costs of any future financial system failure. The Corporation has been instrumental in this regard, promoting the promulgation of new legislation in the form of the Deposit Insurance (Amendment) Act 2011, which received the Governor General's Assent on February 23, 2011. The Amendment Act will improve the operating efficiency of the Deposit Insurance Scheme.

Financial Legislation passed in FY2010/2011

Deposit Insurance (Amendment) Act, 2011

The main amendments to the Deposit Insurance Act were as follows:

- Section 5, which outlines the functions of the Corporation, has been amended to allow the Corporation to make loans or advances with security and to borrow or raise funds.

- Section 17 was amended to allow the JDIC to invest in securities issued or guaranteed by the Bank of Jamaica, as well as other investments approved by the Minister, upon the recommendation of the Board of the JDIC.

- Section 18B allows for the cessation of the accrual of interest on deposit account balances if there is need for a payout.

- The new provision 18C recognizes the beneficial interest in trust and nominee accounts for the purpose of deposit insurance entitlement.

- Section 18D of the Amendment Act makes provision for depositors who hold insurable deposits with two or more Policyholders that subsequently merge and continue operations as one Policyholder. The insurable deposits of the depositor in the Policyholders concerned that existed before the amalgamation may, for a period of up to two years after the merger, be treated as separate insurable deposits.

- Section 22 of the Act now provides that a financial institution that accepts deposits without a valid Policy of Deposit Insurance will be brought before the Resident Magistrate Court and may be subject to a fine not exceeding $3 million. If the financial institution continues the offence then the institution will be brought before the Circuit Court which has powers to impose greater penalties.

The Payment Clearing and Settlement Act, 2010

This Act was passed in November 2010. The legislation formally establishes the legal framework for the oversight of the payment and settlement systems and will address matters such as the:

(i) finality of payments
(ii) effect of insolvency on payments already in the system
(iii) upgrading the settlement infrastructure by, inter alia, allowing for real-time gross settlement.

Passage of this Legislation is the first step in ensuring that Jamaica's payment and settlement system operates in accordance with the Bank for International Settlements (BIS) Core Principles for Systemically Important Payment Systems. These Core Principles are the payment systems standards used by international agencies such as the World Bank and the International Monetary Fund (IMF), to assess the safety and soundness of payment systems generally.

The Government Securities Dematerialization Act, 2010

This Act was passed in February 2010 and provides that every government security which is issued by the Government of Jamaica under any specified Act in the schedule shall be issued in dematerialized form or electronic format. The intention is for such securities to be issued and recorded in electronic form through the Central Securities Depository (CSD) which was established in May 2009 for fixed income securities. The CSD is operated by the Bank of Jamaica and for the purposes of this Act the Bank of Jamaica is appointed the Registrar of Government Securities.

Under this Act, the Register of Government Securities constitutes prima facie evidence of the legal title to any Government Security entered in that Register.

The Credit Reporting Act

This Act was passed in August 2010. The statute imposes a licensing system on persons who intend to offer credit reporting services, and prescribed reporting processes are outlined to ensure the objective and standardized reporting of credit information under this regime. Persons offering credit reporting services will be subject to regulation by the Bank of Jamaica.

The Credit Reporting Regulations, 2010

These Regulations under the Credit Reporting Act were affirmed in the Lower House in 2010 and in the Upper House in January, 2011. These Regulations provide a detailed outline of the licensing process and the prerequisites for an applicant to be licensed.

The Financial Investigations Division Act (FIDA)

This Act was passed in March, 2010. The passage of this Act satisfies Jamaica's obligation to comply with recommendation 26 of the (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".*

Allied to this recommendation is the Financial Action Task Force (FATF) advisory that such unit when established, should consider applying for membership in the Egmont Group1.

Terrorism Prevention (Reporting Entities) Regulations

These Regulations were promulgated in March 2010 and outline the operational controls that must be maintained by financial institutions particularly when contemplating the commencement of a business relationship or one-off transaction. As such, these regulations largely mirror the Know Your Customer (KYC) obligations contained in the Regulations under the Proceeds of Crime (Money Laundering Prevention) Regulations, 2007 and therefore require financial institutions to establish and maintain appropriate procedures in relation to identification, record-keeping (minimum 5 years retention period), internal controls, communication, and training of employees. These Regulations also prescribe the requisite Declaration Forms for transactions which the reporting entity knows or suspects is one that constitutes a terrorism offence; and for the quarterly reports as to whether or not the reporting entity is holding property in respect of a person who is on the United Nations list of designated terrorists or in respect of a person who has links with terrorists or terrorist groups or organizations.

Pending Amendments to Financial Legislation

The Bank of Jamaica Act

In December 2010, Cabinet approved the decision for the institutional responsibility for the stability of Jamaica's financial system to be assigned to the Bank of Jamaica. This reform also comprises the set of legislative reforms that underpin the current Stand-By Arrangement with the IMF. The amendments to the Act will among other things:

1. Outline the mandate of the Bank of Jamaica in relation to this role of maintaining financial system stability.

2. Expand the regulatory oversight of the Bank of Jamaica to financial institutions whose operations are deemed to be of systemic importance;

3. Grant the necessary powers to the Bank of Jamaica to obtain information from these financial Institutions that will allow for the assessment of risks to the financial system (including the powers of inspection; powers to demand information).

4. Give the Bank of Jamaica the necessary powers to direct and impose measures to mitigate and control these risks (including the extension of liquidity; and powers to issue Prescriptive Rules, Standards and Codes pertinent to this oversight of the stability of the financial system).

Omnibus Statute

In August 2010, Cabinet approved the recommendations proposing the implementation of the Omnibus legislation. This legislation will involve the consolidation of the

Banking Act, Financial Institutions Act and the Building Societies Act into one consolidated statute. It will include the removal of any existing inconsistencies between these statutes to ensure a more synchronized progression of updates to the laws governing the deposit-taking industry, as well as facilitate the passage of enhancements regarding consolidated and conglomerate supervision that will bring the regulation of the banking sector in line with the recently issued Revised Basel Core Principles (i.e. Basel II).

The Basel Core Principles are the global standards for prudential regulation and supervision of banking systems. Revisions to the financial legislation will also focus on current issues such as outsourcing, as well as the proposed role of credit bureaux, provisions for electronic reporting and enhancing powers as regards the investigation and prosecution of illegal deposit-taking activities.

The Cooperative Societies (Amendment) Bill

These proposed amendments to the Cooperative Societies Act will among other things bring credit union cooperative societies under the regulatory ambit of the Minister of Finance and the Public Service and Bank of Jamaica. This Bill includes provisions that will restrict the deposit-taking activities of cooperative societies to those which operate as credit unions. It is anticipated that this Bill will be presented to Parliament jointly with the Bank of Jamaica (Credit Union) draft Regulations which contain the substantive prudential requirements to which credit unions will be subject once the aforesaid regulatory regime comes into effect.

Pending Financial Regulations

The Banking (Form of Application) Regulations
The Financial Institutions (Form of Application) Regulations

These regulations will comprise the prescribed application form under the respective Acts. The earlier format of licence fees regulations under the Banking Act and the Financial Institutions Act that dealt with both licence fees and the prescribed form of application was not retained. These regulations will also include enhancements to the application form to capture certain basic particulars from applicants that were not captured under the old forms as well as enhancements to bring them in line with the revised Core Principles. The revised form will also require the principals signing on behalf of the applicant company to certify that the information given in the form is accurate to the best of their knowledge and belief. Similar reforms to the application form under the Building Societies Act will be subsequently effected.

The Building Societies (Licence Fees) Regulations

These regulations will be revised to bring the fees payable in line with the applicable fees under the 2003 Licence Fees Regulations under the Banking Act and the Financial Institutions Act.

The Banking (Qualification of Auditors) Regulations

These regulations will create a framework for ensuring that auditors, who are proposed as the statutory auditors of financial institutions, are independent of the financial institutions being audited.

The Banking (Credit Classification and Provisioning) Regulations

These regulations will formally impose the measures that banks are required to take in assessing credit, taking security and making provisions for the possibility of default.

The Bank of Jamaica (Credit Union) Regulations

These regulations will bring the operations of credit unions fully under the Bank of Jamaica's prudential supervisory regime. The regulations will therefore among other things, cover licensing, capital, reserves, prohibited business, remedial and intervention processes and the role of specially authorized credit unions.

Finance, Funds and Asset Management Department

L-R: Pamella Lawrence, Ramona Dacosta and Delgado Williamson

L-R: Michael Allen, Randia Scott and Tracey Tucker

REVIEW OF OPERATIONS

Financial Operations and Fund Management

The Corporation achieved a satisfactory financial out turn and ended the year with total assets of $8.6 billion, an increase of 24.6 percent over the previous year's total of $6.9 billion. Total revenue which was $1.44 billion declined by 12.5 percent, when compared to the previous year's $1.6 billion. The reduction in revenue was due to a decline of 19.4 percent in interest earned, as well as losses on foreign exchange conversion and other income. Table 6 summarises the *Statement of Operations*.

The GOJ in agreeing the Stand-by Agreement with the International Monetary Fund (IMF) had identified specific targets for each category of Public Bodies. Quarterly targets for Self-Financing Public Bodies were set based on the Overall Balances in the *Statement "A" – Flow of Funds* for the year under review. The Corporation met all the quarterly targets set by the MOFPS.

Table 6: Summary of the Statement of Operations

STATEMENT OF OPERATIONS	2010/11 ACTUAL $M	2010/11 BUDGET $M	2009/10 ACTUAL $M	2008/09 ACTUAL $M
Insurance Premium	721.0	651.6	643.0	553.4
Interest Earned	755.8	767.0	937.5	694.0
Other Income/(Loss)	(31.6)	-	15.8	132.6
Total Revenue	1,445.2	1,418.6	1,596.3	1,380.0
Administrative Expenses	(128.9)	(177.9)	(152.2)	(171.3)
Surplus from Operations	1,316.3	1,240.7	1,444.1	1,208.7

Cost containment continued to be a high priority of the Corporation. Based on the measures implemented total administrative expenses was reduced by 15.3 percent to $128.9 million, when compared with the previous year. Staff cost was $89.6 million, or 69 percent of total administrative expenses, compared to $93.9 million (62 percent) in 2009/10. Professional fees were significantly less, when compared with the previous year which had included consultancy fees for the Bank Insolvency Conference. *Table 7* summarises the percentage analysis of the categories comprising total administrative expenses and compares it with the two previous years.

Table 7: Summary of Administrative Expenses Distribution

EXPENSES	2010/11 %	2009/10 %	2008/09 %
Staff Cost	69	62	69
Public Education & Advertising	6	5	10
Professional Fees	4	17	8
Depreciation	4	3	2
Other	17	13	11
TOTAL	100	100	100

Despite achieving an Expense Control ratio of 8.9 percent, the lowest since inception of the Corporation, total revenue was adversely affected by the reduction in interest earned and the losses on foreign exchange conversion. The Net Surplus ratio improved to 91.1 percent as a result of approximately 15.3 percent reduction in administrative expenses. The Return on Assets and Asset Management ratios declined as a result of a reduction in revenue. *Table 8* shows the key performance ratios compared with the budget and the two previous years.

Table 8: Summary of Key Performance Ratios

KEY PERFORMANCE RATIOS	DEFINITION	2010/11 ACTUAL %	2010/11 BUDGET %	2009/10 ACTUAL %	2008/09 ACTUAL %
Expense Control	Administrative Expenses/Total Revenue	8.9	12.5	9.5	12.4
Net Surplus	Surplus from Operations/Total Revenue	91.1	87.5	90.5	87.6
Return on Assets	Surplus from Operations/Total Assets	15.2	15.7	20.9	21.9
Asset Management	Total Revenue/Total Assets	16.7	17.9	23.1	25.0

The Deposit Insurance Fund

The Deposit Insurance Fund (DIF) at the end of the year was $7.9 billion, increasing by 19.7 percent over the previous year's balance of $6.6 billion. The yield at the end of the year was 11.3 percent compared with 11.2 percent at the end of the previous year.

Section 17(2) of the DIA allows the Corporation to invest its available resources in risk-free Government securities. The Board of Directors exercises oversight management of the DIF through the Investment Committee. Management, through the Treasury Management Committee, executed the day-to-day Investment functions.

The Investment Policy which delineates the specific guidelines by which the Corporation must abide in executing the investment functions, was revised during the year to reflect changes in procedures and the current investment environment. During the period the DIA was also amended to allow the Corporation to invest the resources of the Fund in securities issued or guaranteed by the Bank of Jamaica. *Table 9* shows the composition of the DIF over a five-year period.

Table 9: Five-Year Fund Growth

YEAR	2010/11 $M	2009/10 $M	2008/09 $M	2007/08 $M	2006/07 $M
Premium Income	721.0	643.0	553.4	484.1	437.7
Net Investment Income	595.3	801.1	655.3	331.8	252.1
Previous Year Deposit Insurance Fund	6,573.6	5,129.5	3,920.8	3,104.9	2,415.1
Deposit Insurance Fund	7,889.9	6,573.6	5,129.5	3,920.8	3,104.9

Consistent with the exchange options chosen in the JDX programme and subsequent investment strategy direction, the Corporation continued to hold a significant share of Benchmark Investment Notes, along with US$ Investment Notes and Treasury Bonds*. The investment maturity profile will continue to be dominated by medium term investment holdings.

Table 10 shows the distribution of the investment instruments in the portfolio and comparison with two previous years:

Table 10: Investment Portfolio Distribution

INVESTMENT PORTFOLIO	2010/11 DISTRIBUTION %	2009/10 DISTRIBUTION %	2008/09 DISTRIBUTION %
Benchmark Investment Notes**	85	81	
US$ Investment Notes**	12	15	
Treasury Bonds**	2	3	
Treasury Bills			1
Local Registered Stocks			18
Debentures			61
US$ Indexed Bonds/US$ Denominated Instruments			16
Interest Receivable	1	1	4
TOTAL	100	100	100

*- Based on the current availability of securities in the primary and secondary markets

**- Category of investment instruments transitioned to under the JDX in February 2010

SUMMARY FINANCIAL PROJECTIONS TO MARCH 31, 2012

STATEMENT OF COMPREHENSIVE INCOME	YEAR ENDING MARCH 31, 2012 $'000
Total income	1,304,393
Total expenses	(207,133)
Surplus from operations	1,097,260
Surplus from operations – Balance at Beginning of the Year	7,813,965
Financial Distribution	(54,862)
Deposit Insurance Fund – Balance at End of the Year	8,856,341

CASH AND BANK	YEAR ENDING MARCH 31, 2012 $'000
Total inflow	2,404,530
Total outflow before investments	(370,952)
Investments	(2,034,300)
Net Inflow/ (Outflow)	(721)
Balance at Beginning of the Year	51,028
Balance at End of the Year	50,307

STATEMENT OF FINANCIAL POSITION	MARCH 31, 2012 $'000
Fixed Assets	104,375
Investments	8,521,566
Current Assets	417,530
Total Assets	**9,043,471**
Current Liabilities	19,698
Capital	1,000
Capital Reserves	48,168
Fair Value Reserves	118,264
Deposit Insurance Fund	8,856,341
Total Liabilities	**9,043,471**

Monitoring, Intervention and Resolutions Department

L-R: Eloise Williams-Dunkley, Nicole Brown-Crooks, Wayne Johnson and Donna-Marie McDonald

Monitoring, Intervention and Resolutions

Despite the global economy's recent experience of turmoil in the financial sector, and the numerous bank failures reported in several jurisdictions, there were no failures in the Jamaican banking system. Therefore, the Corporation continued to ensure that it used the "non-crisis" period as an opportunity to enhance its operational capacity, engaging in the following activities:

- Improving its Policyholders' assessment capabilities; intensifying the monitoring of member institutions;
- Increasing communication and coordination with the other financial system Safety Net Partners; and
- Augmenting its resolution preparedness strategies.

Monitoring and Risk Assessment

In furtherance of the Corporation's strategy for Strengthening Operational Efficiency, the Monitoring and Risk Assessment Unit of the Corporation focused on the following projects:

- ***Updating the Framework for Maintenance and Cancellation of the Policy of Deposit Insurance***
  The updated framework includes specific management decisions concerning:
  (i) Deposit Insurance Policy administration;
  (ii) Deposit Insurance premium payment and late payment;
  (iii) Non-refundable Deposit Insurance premiums;
  (iv) The cancellation and re-issuance of the Policy of Deposit Insurance and Certificates of Deposit Insurance, particularly in instances where Policyholders merge.

- ***Increasing Coordination with the Financial Institution Supervisory Division of the Bank of Jamaica***
  This has resulted in easier access to Policyholders' financial data, which will have considerable impact on the analysis process and reporting efficiencies.

- ***Revising the Policyholders' Risk Assessment Framework (PRAF)***
  The PRAF is revised annually in an effort to ensure that the Corporation is in a position to assess the risk of member institutions, detect troubled institutions and undertake timely intervention. The current revision of the PRAF ensured a more clearly defined alignment between a Policyholder's assessment rating and the intervention stages as set out in the *Crisis Intervention Matrix.*

- ***Administering the annual survey of the distribution of insurable deposits held at member institutions***
  This survey remains instrumental in determining an adequate Deposit Insurance coverage limit, arriving at an estimate of insured deposits within each institution and ultimately assessing the adequacy of the Deposit Insurance Fund.

Intervention and Resolutions

A critical component of protecting depositors from loss of their deposits or part thereof is the Corporation's state of readiness to intervene a failing or failed Policyholder, in a timely and effective manner. This ultimately contributes to promoting and maintaining public confidence and financial system stability.

During the year the Corporation's intervention and resolution initiatives were therefore geared towards improving operational efficiency for making deposit insurance payments and strengthening collaboration with the supervisory authority and other Safety Net Partners. Additionally, with the passing of the legislative amendments to the DIA work commenced to ensure that the necessary regulations, policies, procedures and systems are developed to operationalize the new provisions under the Act.

International experience has shown that the computation of a depositor's entitlement to Deposit Insurance payment and making such payments can be time consuming if adequate systems are not in place. Therefore, the Corporation continued to improve its operational capacity specifically with regards to making deposit insurance payments in a timely manner. In this regard, the areas of focus were:

- Development of the Payout Management Information System (PMIS).
- Issuance of a Consultation Paper for proposed Guidelines which will set out the minimum *"Record Keeping Requirements for Policyholders"* in respect of customer and account data.
- The cessation of clearing activities for paper and electronic based transactions.

Payout Management Information System (PMIS)

During the year, comprehensive development work and system testing activities continued on the PMIS which is intended to support the payout business processes of the Corporation (See Appendix 2). The development effort was geared towards addressing the gaps identified during previous iterative testing and also to design and incorporate additional functional requirements to support the enhanced depositor entitlements as provided for in the amendments to the DIA. System testing will be conducted independently of the developers in FY2011/12.

Proposed Guidelines on the Record Keeping Requirements for Policyholders

The Corporation issued a Consultation Paper regarding guidelines on the record keeping requirements for Policyholders. The objective of the proposed Guidelines is to provide clear guidance to Policyholders regarding their responsibility to maintain records in a manner that is consistent with the information required by the Corporation to execute its mandate. The proposed Guidelines which outline the minimum records a Policyholder must maintain for customers and account data were developed with due consideration to governing legislation and other standards of best practices which already guide the record keeping of Policyholders. As far as practicable, the Corporation will seek to minimize any regulatory, financial and or operational burden on Policyholders, while ensuring that the Corporation can effectively execute its functions. The Corporation will work closely with Policyholders during the consultation period to finalize the Guidelines for implementation in the shortest possible time.

Cessation of Clearing Activities
The closure of a deposit-taking "clearing" institution will result in the suspension of clearing activities for paper and electronic based transactions between the closed institution and the remainder of the sector. Consequently, normal clearing operations must be terminated promptly and in an orderly manner to complete certain financial transactions which commenced prior to closure of the institution. These transactions could affect the balance of deposit accounts and therefore the level of Deposit Insurance payment which the JDIC must make to depositors. Recognizing the issues, the Corporation commenced activities to formulate processes to direct how it deals with a failed Policyholder's clearing of paper and electronic based transactions at the time of closure. These activities include discussions with the members of the Jamaica Clearing Bankers Association and the review of practices within other jurisdictions. The Corporation will seek to develop internal policies and procedures in respect of clearing activities contingent on the issuing of regulations or guidelines that support the Payment Clearing and Settlement Act, 2010.

Intervention Training & Simulation Exercises
Underpinning the process of enhancing the Corporation's state of readiness is the ongoing review and assessment of the legal and operating framework and the intervention policies and procedures. In this regard, simulations continued to be an appropriate assessment tool providing valuable training for participants.

During the year, the Corporation continued to undertake the preparatory work required to conduct a simulation of an Insured Deposit Portfolio Transfer with a Policyholder. The staging of the simulation will be prioritized in order to test the policies and procedures that have been developed. The Corporation has received the commitment of a Policyholder to participate in the simulation exercise and is anticipating that the simulation should be conducted during FY2011/12.

The annual "Payout Contingency Planning" simulation exercise conducted in FY2010/11 was specifically geared towards testing the Corporation's ability to mobilize the resources to be employed in order to intervene in a financial institution. The simulation reinforced to participants the Corporation's role as outlined in the *Guide to Intervention for Financial Entities (Crisis Intervention Matrix)*.

The simulation exercise provided valuable training for all participants and although involved only JDIC staff has emphasized the need for all the Safety Net Partners to elucidate and concretize their respective roles under the Crisis Intervention Matrix.

Review of the Crisis Intervention Matrix
The intervention of a failing or failed bank is guided by the Crisis Intervention Matrix for action by the Safety Net Partners in resolving institutions experiencing viability challenges.

The Corporation concluded its review of the Matrix and forwarded its findings to the Bank of Jamaica. This will allow for collaboration with our Safety Net Partners to address identified gaps.

Compensation Schemes

The Working Group that was established in FY2009/10, comprising the FSC and the JDIC presented for the consideration of the MOFPS, a position paper titled *"Proposal for Establishing Compensation Schemes for the Non-Deposit Taking Financial Sector"*. The document outlines the public policy objectives and rationale for the implementation of these schemes which will provide protection to the purchases of the products and services which are geared towards strengthening the Financial System Safety Net. Work towards the establishment of compensation schemes for the Insurance (Life & General); Securities and Pensions sub-sectors will continue into FY2011/12.

Public Education and Awareness

Making the right financial decision is critical, but oftentimes difficult for savers and investors. As financial markets crumbled during the global financial crisis, renewed focus was placed on *'financial literacy'* and *'financial inclusion'* – significant elements to empowering consumers; and ultimately contributing to financial system stability.

Deposit Insurers have long recognized the importance of consumer education, as is evidenced in the International Association of Deposit Insurer's (IADIs) *'Core Principles for Effective Deposit Insurance Systems'* – where public awareness is highlighted as a key component of any effective deposit insurance regime.

The JDIC continued to place emphasis in this area during FY2010/11. Key areas of focus included: partnership with Policyholders; the schools programme; print and electronic advertising; presentations to public/private sector organizations and groups; and participation in the FSC sponsored forums.

Partnership and collaboration with Policyholders in the dissemination of deposit insurance information to customers and the wider public continued. This was through the hosting of workshops for Policyholders' staff. This training has been ongoing and is intended for new staff, customer service representatives, operations managers, training officers and/or any other staff who in their interaction with customers may need to inform them about deposit insurance.

Policyholder's staff and members of the JDIC Team pose for the camera following a training seminar

Cornwall College student Khamal Clayton (center), who placed first in the JDIC Essay Competition, poses with his teacher Brigette Lecky (right). JDIC's Corporate Communications Manager, Marjorie McGrath shares in the celebrations.

2nd and 3rd place winners of the JDIC Essay Competition, Shauna-Kay Herah (2nd left) and Renee Osbourne of Glenmuir High with their teachers Nicole Smith Fagan (right) and Yvonne Harvey (left).

During the year two workshops were conducted with most Policyholders represented. An evaluation report completed by attendees indicated that they were satisfied with both the content and delivery. Participants strongly recommended that such workshops be held more frequently.

The schools programme included an essay competition; presentations to the school community; participation in a radio programme and a 'Back to School' bazaar hosted by a local radio station.

For the essay competition, in seeking to engage the students the Corporation focused on two topics relevant to the present economic climate. Firstly, the different roles of the financial Safety Net Partners, and how they complement each other, working together to ensure stability of the system and the confidence of depositors. The second examined how deposit insurance agencies responded to mitigate the impact of the global financial crisis. Students were encouraged to develop a penchant for participating in these competitions, not only to gain knowledge of the deposit insurance and the financial system; but to help improve their research and writing skills. Developing the habit of saving was reinforced and hence one of the rules of the competition was that prize monies had to be deposited directly to the winners' bank accounts, and where no accounts existed they had to open accounts at a financial institution of their choice.

Electronic and print advertising was continued as a critical tool in disseminating the deposit insurance message. During the latter part of the year the Deposit Insurance (Amendment) Act was passed and the print media was used as the main vehicle to inform the public of the expanded benefits under the Deposit Insurance Scheme.

In the coordinated safety net partnership the Corporation participated in public forums sponsored by the Financial Services Commission (FSC). This included a presentation at a *World Consumer Rights Day* seminar - a collaborative effort between the FSC and the National Consumer League.

Rowen Johnson (left) of Ardenne High, who tied with Shauna-Kay Herah for 3rd place, with his teacher Orrette Muir.

At the end of the year, the Corporation commissioned the services of a survey house to conduct a public awareness survey to measure the level of public awareness of the JDIC, the DIS and the specific elements of the Scheme. The survey results which will help to determine the content and structure of the 2011/12 programme indicated that since the last survey in 2006, 75 percent of persons are now aware of the Corporation compared to 50 percent then. Also 75 percent of the persons interviewed recalled the JDIC's tag line "JDIC *Protecting Deposits for You and Me*". However many persons still do not have a full understanding of the way the DIS works, as the number of persons who had heard about deposit insurance fell from 50 percent to 48 percent. The Corporation will seek to address this during FY2011/12, focusing on the use of electronic media, in particular television, which the survey indicated was the most effective channel for disseminating information.

CEO's Office

L-R: Hannah Dixon and Antoinette McKain

MANAGEMENT OF STRATEGIC RESOURCES

Personnel and Administration

Deposit Insurance, is a specialized area in the regulation and supervision of the financial system. The success of its objectives requires skilled practitioners operating in an environment, which is conducive to the development of strategies and systems to minimize and resolve problems in the financial sector. To this end, the Corporation endeavours to maintain a core of highly professional and motivated staff. As such, emphasis continued to be placed on training and development.

During the review period staff training included the following areas:

- *IADI's Executive Training – Resolution of Problem Banks*
- *CARICRIS - Credit Risk Analysis of Securities and Credit Unions*
- *KPMG/PWC - International Financial Reporting Standards*
- *EuroFinance - Understanding Corporate Treasury, Cash and Risk Management*
- *Global Association of Risk Professionals (GARP) – Addressing Systemic Risk*
- *GOJ Procurement Procedures and Policies*

A rationalization of job functions was carried out and the areas relating to personnel, office management, payroll and corporate planning were reassigned to the Finance, Funds and Asset Management and to the Legal Counsel, Corporate Secretariat and Communications Departments. At March 31, 2011 the staff complement remained at 20.

ICT Unit

L-R: Omar Cheevers and Lucius Bullens

Information and Communication Technology

The Corporation continued its three-year strategy of strengthening the ICT infrastructure to better support the Corporation's initiatives. Focus during the year was on:

- Upgrading of application servers and server technology.
- Increasing server capacity to properly accommodate the implementation and deployment of the PMIS when developed and the new Microsoft Dynamics Accounting System (MDAS). The unit worked alongside the Finance, Funds and Asset Management department in the selection and implementation of MDAS. Work continued with respect to report customization.
- Strengthening network security which remained an important aspect of the ICT mandate. The ICT policies and procedures were updated to accommodate this initiative.
- The PMIS to incorporate changes to the Intervention and Resolution business processes.

Environmental Management

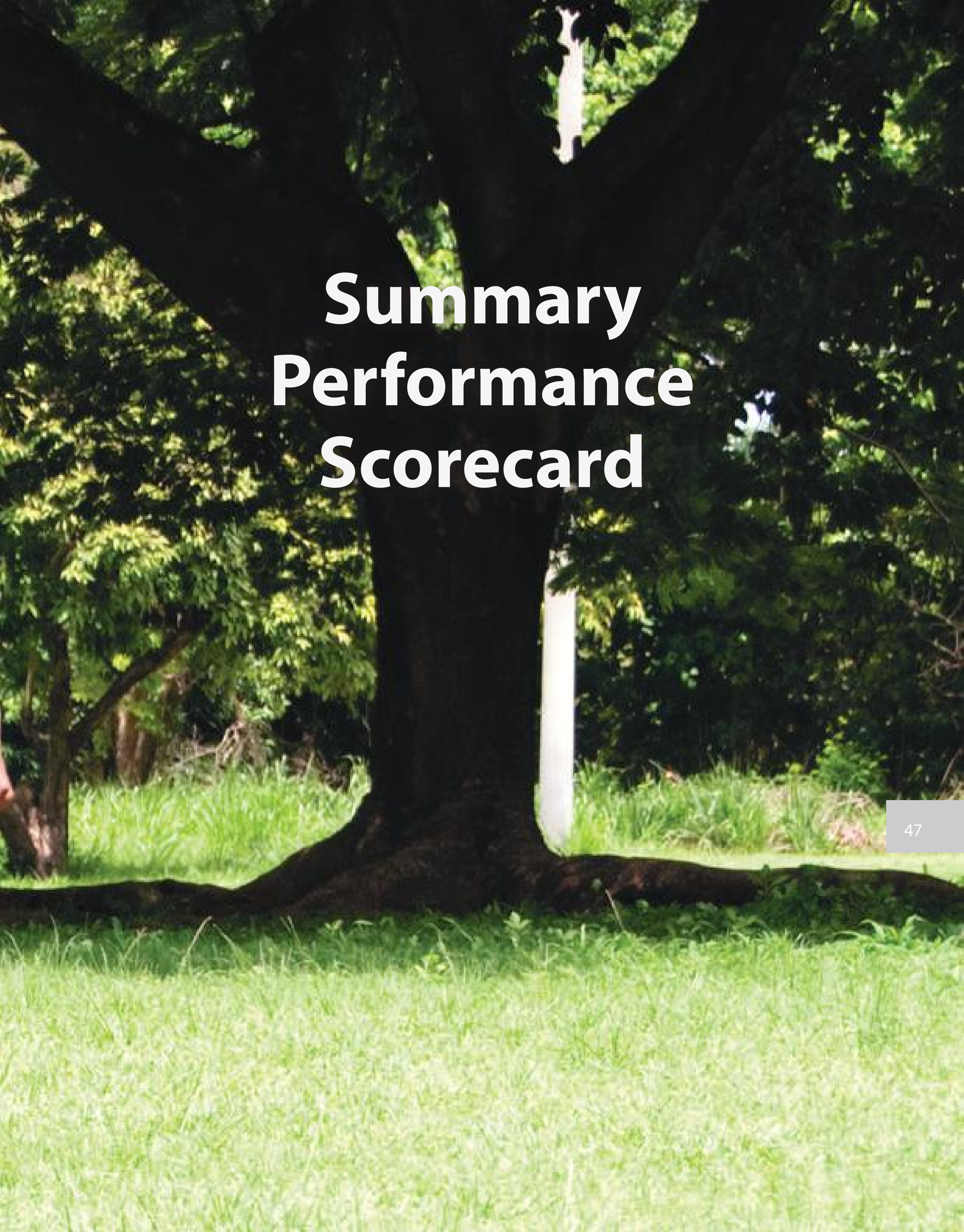
The Corporation requires that environmental management processes are integrated into the business and strategic planning processes at all levels. Along with the staff, the Corporation is committed to maintaining a safe environment, endeavouring at all times to act in an environmentally sound manner with the responsibility for ensuring that proper procedures and standards are upheld to support the sustainable use of resources.

LEGAL AND COMPLIANCE

The Legal function continued to ensure that the Corporation remained within the bounds of statutory compliance, as well as maintaining support for contractual commitments; thus minimizing the Corporation's exposure to risk. The following report identifies the Corporation's statutory reporting requirements and its compliance status.

Statutory Compliance Report

NAME OF REPORT	NATURE OF REPORT	STATUTORY AGENCY	ACT	PERIOD REPORTING	SUBMITTED
Annual Report and Audited Financial Statements FY2009/10	The Annual Report gives the details on the operations for the year (April – March) of the Corporation and includes the Audited Financial Statements which shows the accumulated financial position of the Corporation over the same 12-month period, duly certified by the Corporation's external auditors.	Ministry of Finance and the Public Service (MOFPS)	Public Bodies Management and Accountability Act (PBMA) Deposit Insurance Act	Annually	√
Corporate Plan Operating & Capital Budgets FY2011/12-2013/14	Statement of intent which outlines the broad direction of the Corporation for 3 years. Includes vision, mission, financial plans, manpower requirements, measures to evaluate performance.	MOFPS	PBMA	Annually	√
Public Bodies Management and Accountability Report (PBMA)	Report gives the quarterly / half year outturn of actual performance against targets. The financial statements and the projected budgets for the remaining quarters/half year.	MOFPS	PBMA	Quarterly and Half-yearly	√
Quarterly Contract Awards (QCA) Report	This report shows the award of contracts over $275,000 during the Quarter.	Office of the Contractor General	Contractor General Act	Quarterly	√
The Access to Information Act (2002): Monthly Report Form and Quarterly Report Form	The report shows requests from the public for information on aspects of the operations of the Corporation.	The Access to Information Unit, Office of the Prime Minister	The Access to Information Act, 2002	Monthly, Quarterly	√
Corruption (Prevention) Act , 2000	Statutory declaration to be made by public servants of assets and liabilities and income.	Office of the Commissioner for the Prevention of Corruption	Corruption (Prevention) Act, 2000	Annually	√
Public Sector Report System (PRS-1)	Report of all goods/services procured in any given month	MOFPS		Monthly	√
Net Credit Report (Statement)	This report shows the month-end balances on investment categories and bank balances.	MOFPS		Monthly	√
Monthly Financial Statements - (Statements A and B)	The Monthly Financial Statements shows the monthly and accumulated financial position of the Corporation.	MOFPS		Monthly	√

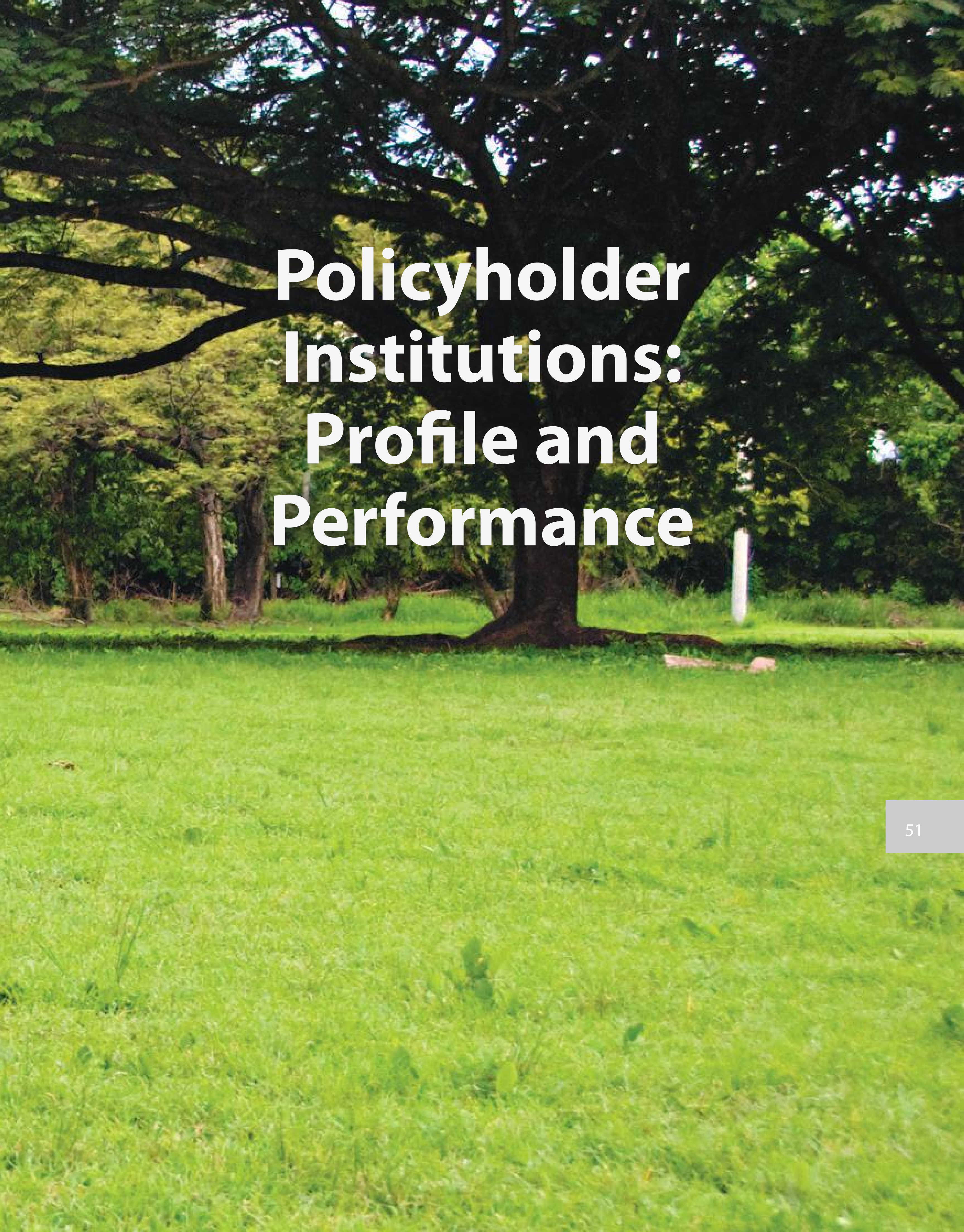


Summary Performance Scorecard

Summary Performance Scorecard

BUSINESS STRATEGIES KEY INITIATIVES	PERFORMANCE AGAINST TARGETS	FOLLOW THROUGH ACTIVITIES
PROACTIVE READINESS		
Establish Policyholders' Record Keeping Guidelines	Consultation Paper finalized and circulated to Policyholders and other stakeholders for comments.	Finalise consultation process and develop Guidelines. Develop framework for assessing and monitoring compliance.
Develop Policies and Procedures for Clearing of Paper/Electronic Based Transactions during Payout (at closure date of failed institution).	Project commenced and review of the ACH Rules completed; as well as interviews conducted with members of the Jamaica Clearing Bankers Association.	• Review practice of other jurisdictions • Develop Policies/Procedures • Collaborate with Central Bank and other stakeholders regarding recommendations for the amendment of the existing regulations.
Conduct Payout Contingency Planning Session	Project completed. Operational readiness of all Departments tested and findings circulated.	–
New Payout Application (Payout Management Information System -PMIS)	Development work and User Acceptance Testing completed internally.	Conduct final phase of System Testing (to be carried out by external Consultant) – to be completed in Q1 of FY2011/12.
Insured Deposit Portfolio Transfer Simulation Project	Policyholder agreement to participate obtained	JDIC to sign off on Project Charter with Policyholder. With assistance from external Consultant, work to commence on the development of the simulation material
STRONG PARTNERSHIPS		
Continue collaboration with FSC in the exploration and implementation of Compensation Schemes for Insurance, Securities and Pensions Sectors	A Paper 'Proposal for Establishing Compensation Schemes for the Non Deposit-taking Financial Sector in Jamaica' was prepared by the Working Group (FSC/JDIC) and forwarded to MOFPS to facilitate submission to Cabinet	Continue collaboration with FSC
Review of Crisis Intervention Matrix	Updated JDIC Policies and Procedures in relation to Crisis Intervention Matrix reviewed and sent to the Bank of Jamaica for review and comment	Discuss with Bank of Jamaica amended Matrix document with reference to proposed Bank of Jamaica Financial Stability Committee.

BUSINESS STRATEGIES KEY INITIATIVES	PERFORMANCE AGAINST TARGETS	FOLLOW THROUGH ACTIVITIES
STRENGTHENING OPERATIONAL EFFICIENCY		
Effect Fund Adequacy Review	Consulting Firm has been engaged and the fund adequacy review has commenced.	Consultant's findings to be presented in Q1 of FY2011/2012.
Contingency Funding Plan	Letter sent to the Financial Secretary on the development and implementation of the Contingency Funding Plan.	Finalise Contingency Funding Plan.
Investment Policy Review	Updated Policy approved	–
Review Policyholders Risk Assessement Framework (PRAF)	Project was completed in Q3 FY2010-2011	–
Implement Accounting Software	Software implemented	–
Design and Implementation of Records Management Policy (Develop draft Records Management Procedures Manual)	–	Deferred to FY2011/2012. An External Consultant is to be appointed by tender to assist with the exercise.
PUBLIC EDUCATION AND AWARENESS		
Public Education Programme to be recrafted to include information on the admission of Credit Unions to the DIS	The FY2011/2012 Public Education Programme was developed during Q4. The expected timetable for credit union regulation and subsequent admission to the DIS is still to be determined, however credit union information now included in the FY2011/2012 programme.	–
Review and Update Policyholders' Training Manual and include training plan for Credit Unions	Policyholders' Training Manual updated.	Section pertaining to Credit Union to be inserted as an appendix in Q1 FY2011/12.



Policyholder Institutions: Profile and Performance

Policyholder Institutions: Profile and Performance

With the exit of Scotia DBG Merchant Bank in October 2010[6] membership in the Deposit Insurance Scheme fell to 13 – 7 Commercial Banks, 4 Building Societies and 2 FIA Licensees. Therefore, the commercial banking sector accounted for more than one-half the number of Policyholders with just over 75.0 percent (previously 70.0 percent) of the total assets in the banking system at the end of the fiscal year. For the full fiscal year, the banking system recorded increased profit levels and each Policyholder was assessed as solvent at the end of the review period.

Total assets within the banking system were 0.1 percent higher at the end of the year with increases in investments (up 15.4 percent) slightly outweighing declines in total loans & advances and cash and bank balances (down 2.3 percent and 15.8 percent, respectively). The decline in cash and bank balances was mainly the result of a 200 basis point reduction in both the required cash reserve ratio and the required liquid assets ratio to 12 percent and 16 percent, respectively in July 2010, as the Bank of Jamaica continued its easing of monetary policy.

FIGURE 3: TOTAL ASSESTS AS AT MARCH 2009-2011

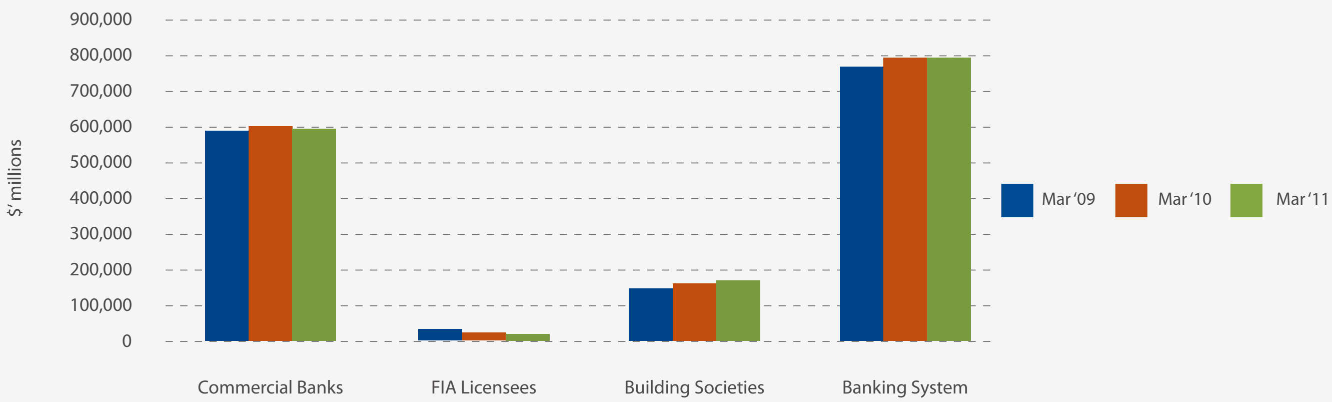
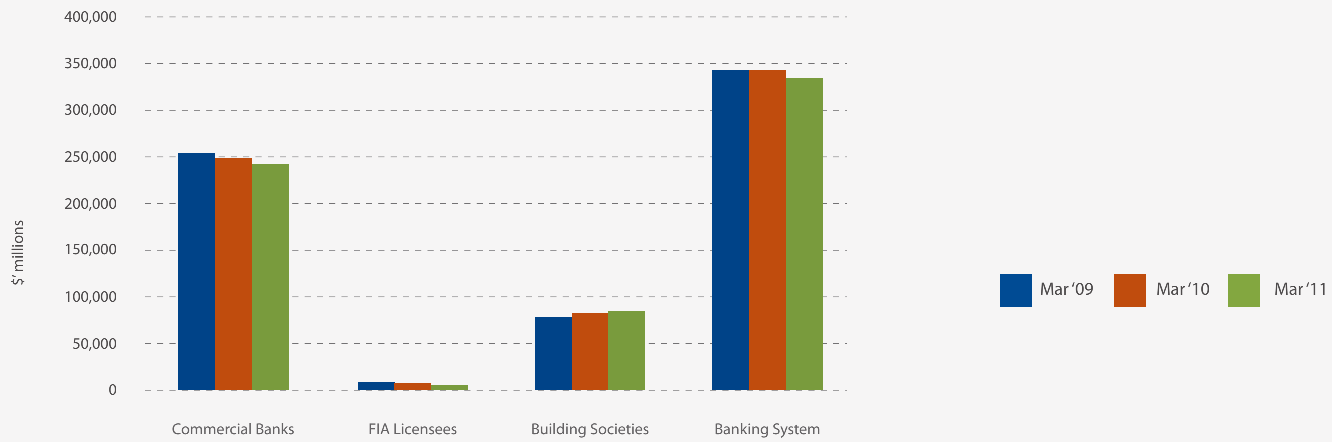


FIGURE 4: TOTAL LOANS AS AT MARCH 2009-2011

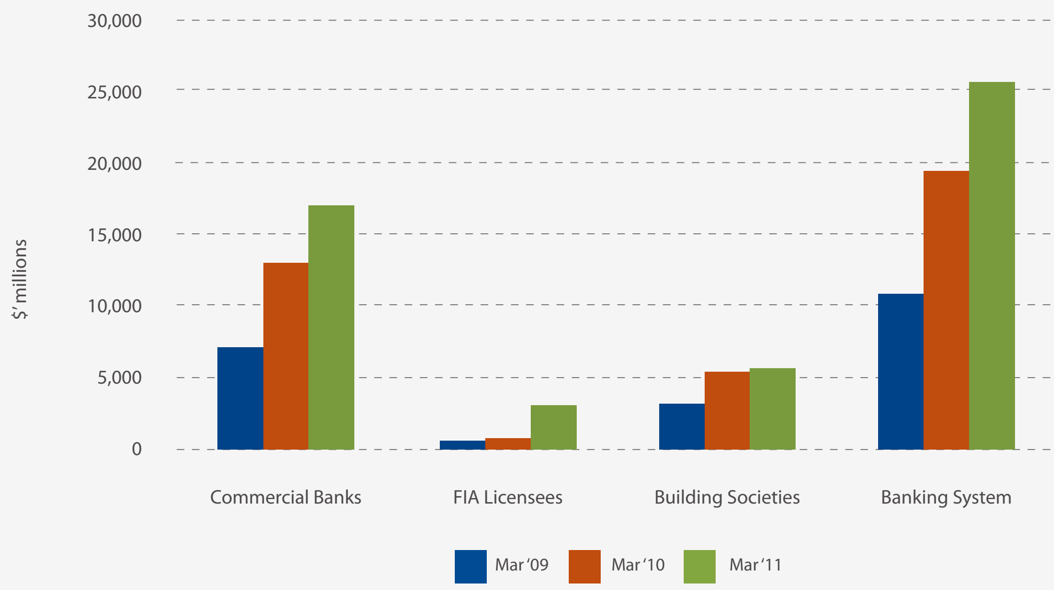


[6] Scotia DBG Merchant Bank Limited surrendered its license under the Financial Institutions Act to the Bank of Jamaica in October 2010, with its assets and liabilities being transferred to the parent company Bank of Nova Scotia Jamaica Limited.

Total loans and advances continued to account for the largest share (43 percent) of total assets in the banking system. However, the protracted period of economic downturn, continued wage freeze in the public sector and sustained high levels of unemployment contributed to depressed demand for loans and advances and reduced the potential for individuals to honour their obligations with financial institutions. As a result, the level of non-performing loans (3 months & over) increased by 32.6 percent during the fiscal year (78.0 percent for FY2009/2010) and overall quality of assets weakened.

The ratio of non-performing loans to total loans rose from 5.5 percent in FY2009/2010 to 7.5 percent at the end of FY2010/2011. Relative to capital plus provisioning, the ratio of non-performing loans reached 24.1 percent (20.4 percent FY2009/2010), continuing to be above the prudential maximum of 20.0 percent.

FIGURE 5: NON-PERFORMING LOANS AS AT MARCH 2009-2011



The deterioration in the ratio of non-performing loans to capital plus provisioning took place despite increases of 54.4 percent in the level of provisioning for loan loss and 5.5 percent in the statutory capital base. With increases in the level of statutory capital, capital adequacy indicators such as the risk-weighted Capital Adequacy Ratio (CAR) (at 17.6 percent) and the primary ratio (statutory capital: total assets) (10.8 percent) continued to return favourable outcomes at levels well above the prudential minima.

Despite the many challenges during the fiscal year, and in the context of significant reductions in prevailing interest rates, the banking system remained profitable recording an increase in pre-tax profits of 17.6 percent (23.7 percent in previous fiscal year). Increased profitability was driven by the commercial banking sector, which accounted for 82.0 percent (86.7 in FY2009/2010) of pre-tax profits in the banking system. The share of pre-tax profits attributable to Building Societies was 16.0 percent (up from 12 percent) and FIA Licensees 2.0 percent (up from 1.3 percent). During the year, pre-tax profits increased by 7.2 percent for the commercial banks, 51.8 percent for the building societies and 39.5 percent for the FIA Licensees.

The increased levels in pre-tax profits resulted from increases (of 46.0 percent) in non-interest income and reductions in interest expenses (of 34.4 percent) which were sufficient to outweigh the declines in interest income. The increase in non-interest income resulted from higher levels of fees and commission income as Policyholders sought to generate additional income in the context of declining interest income following the Jamaica Debt Exchange (JDX) programme in February 2010. The reduction in interest income was consistent with the lower weighted average deposit rates at commercial banks. As at March 2011, the weighted average deposit rates for commercial banks stood at 2.6 percent, down from 4.3 percent as at March 31, 2010. Interest income fell by 18.0 percent during the year consistent with the more than 50 percent reduction in interest rates applicable to investment securities following the implementation of the JDX. Non-interest expense increased by 2.2 percent, and compared favourably with the full fiscal year inflation of 7.8 percent. Despite cost-containment measures, restructuring activities and higher levels of fee income, the banking system's efficiency ratio[7] worsened during the year to 57.4 percent, up from 52.2 percent for the previous fiscal year.

[7]Efficiency ratio refers to the ratio of non-interest expense relative to operating income.

POLICYHOLDERS AS AT MARCH 31, 2011

COMMERCIAL BANKS	Bank of Nova Scotia Jamaica Limited Citibank N.A. FirstCaribbean International Bank (Jamaica) Limited First Global Bank Jamaica Limited National Commercial Bank Jamaica Limited PanCaribbean Bank Limited RBTT Bank Jamaica Limited
BUILDING SOCIETIES	FirstCaribbean International Building Society Jamaica National Building Society Scotia Jamaica Building Society Victoria Mutual Building Society
FIA LICENSEES	Capital & Credit Merchant Bank Limited MF&G Trust & Finance Limited

PRUDENTIAL INDICATORS OF COMMERCIAL BANKS, LICENSEES UNDER THE FINANCIAL INSTITUTIONS ACT (FIA) AND BUILDING SOCIETIES PUBLISHED PURSUANT TO SECTION 16 (6) OF THE BANKING ACT AND THE FIA AND REGULATION 49 OF THE BANK OF JAMAICA (BUILDING SOCIETIES) REGULATIONS, 1995

31-MARCH-11

	COMMERCIAL BANKS			FIA LICENSEES			BUILDING SOCIETIES			System Total (Aggregation of all 3 sectors)		
	Mar11[b]	Mar-10	Mar-09	Mar11[b]	Mar-10	Mar-09	Mar-11	Mar-10	Mar-09	Mar-11	Mar-10	Mar-09
Number of institutions in operation	7	7	7	2	3	3	4	4	4	13	14	14
J$MN												
[1]Total Assets (incl. contingent accounts)	593,671	599,441	584,672	25,766	32,157	35,292	173,451	160,551	146,892	792,888	792,149	766,856
[2]Total Assets (excl. contingent accounts)	580,659	585,468	570,893	25,515	31,926	34,596	173,451	160,551	146,804	779,625	777,945	752,293
Cash & Bank Balances	112,117	131,822	113,864	1,830	1,836	1,952	19,543	24,947	24,004	133,490	158,605	139,820
Investments [incl. Securities Purch.] (net of prov.)	186,222	164,524	154,190	15,866	19,580	20,275	60,301	43,274	35,741	262,389	227,378	210,206
Total Loans (gross)	248,924	256,994	259,147	7,148	9,298	10,572	87,647	85,375	79,651	343,719	351,667	349,370
Total Loans (net of IFRS prov.)[a]	242,448	250,695	255,162	6,782	8,885	10,439	86,109	84,228	78,901	335,339	343,808	344,502
Total Deposits	382,637	378,414	353,881	8,536	12,281	14,771	119,037	111,243	100,714	510,210	501,938	469,366
Borrowings (incl. repos)	84,746	103,991	122,107	11,793	13,681	14,197	23,297	21,289	20,979	119,836	138,961	157,283
Non-Performing Loans [NPLs] (3 mths & >)	17,102	13,084	7,196	3,010	841	590	5,586	5,457	3,105	25,698	19,382	10,891
Provision for Loan Losses	15,871	10,466	7,593	1,597	773	384	3,453	2,309	1,445	20,921	13,548	9,422
[3] Capital Base	61,221	59,409	51,574	3,475	4,751	4,408	21,079	17,114	16,842	85,775	81,274	72,824
Contingent Accts [Accept., LC's & Guarantees]	13,012	13,973	13,779	251	231	696	0	0	88	13,263	14,204	14,563
Funds Under Management	298	283	253	0	0	0	0	0	0	298	283	253
Repos on behalf of or for on-trading to clients	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
%												
Rate of Asset 1 Growth	-1.0%	2.5%	15.6%	-19.9%	-8.9%	-14.5%	8.0%	9.3%	16.3%	0.1%	3.3%	13.9%
Rate of Deposit Growth	1.1%	6.9%	10.0%	-30.5%	-16.9%	-13.0%	7.0%	10.5%	16.2%	1.6%	6.9%	10.4%
Rate of Loans Growth (gross)	-3.1%	-0.8%	33.0%	-23.1%	-12.1%	-26.6%	2.7%	7.2%	24.8%	-2.3%	0.7%	28.0%
Rate of Capital Base Growth	3.1%	15.2%	19.5%	-26.9%	7.8%	-19.0%	23.2%	1.6%	19.0%	5.5%	11.6%	16.0%
Rate of NPLs (3 Mths &>) Growth	30.7%	81.8%	73.7%	257.9%	42.5%	7.1%	2.4%	75.7%	88.8%	32.6%	78.0%	71.8%
Investments :Total Assets [1]	31.4%	27.4%	26.4%	61.6%	60.9%	57.4%	34.8%	27.0%	24.3%	33.1%	28.7%	27.4%
Loans (net of prov.):Total Assets [1]	40.8%	41.8%	43.6%	26.3%	27.6%	29.6%	49.6%	52.5%	53.7%	42.3%	43.4%	44.9%
Fixed Assets: Total Assets [1]	1.9%	1.7%	1.6%	0.6%	0.7%	0.9%	1.6%	1.6%	1.7%	1.8%	1.6%	1.6%
Loans (gross) : Deposits	65.1%	67.9%	73.2%	83.7%	75.7%	71.6%	73.6%	76.7%	79.1%	67.4%	70.1%	74.4%
Liquidity												
Average Domestic Currency Cash Reserve: Average Prescribed Liabilities [4]	12.0%	14.0%	14.0%	12.0%	14.1%	14.0%	1.0%	1.0%	1.0%	9.0%	10.4%	10.6%
Average Domestic Currency Liquid Assets: Average Domestic Prescribed Liabilities [4]	46.6%	42.2%	38.7%	31.2%	30.1%	27.5%	18.3%	16.4%	12.3%	38.8%	34.9%	31.7%
Asset Quality												
Prov. For Loan Losses: Total Loans (gross)	6.4%	4.1%	2.9%	22.3%	8.3%	3.6%	3.9%	2.7%	1.8%	6.1%	3.9%	2.7%
Prov. For Loan Losses: NPLs (3 Mths &>)	92.8%	80.0%	105.5%	53.1%	91.9%	65.1%	61.8%	42.3%	46.5%	81.4%	69.9%	86.5%
NPLs (3 Mths &>):Total Loans (gross)	6.9%	5.1%	2.8%	42.1%	9.0%	5.6%	6.4%	6.4%	3.9%	7.5%	5.5%	3.1%

NPLs (3 Mths &>): (Total Assets [1] + Provision for loan losses)	2.8%	2.1%	1.2%	11.0%	2.6%	1.7%	3.2%	3.4%	2.1%	3.2%	2.4%	1.4%
Capital Adequacy												
Deposits + Borrowings: Capital (:1)	7.7	8.2	9.3	5.9	5.5	6.7	6.8	7.8	7.3	7.4	7.9	8.7
Capital Base:Total Assets [1]	10.3%	9.9%	8.8%	13.5%	14.8%	12.5%	12.2%	10.7%	11.5%	10.8%	10.3%	9.5%
[5] Capital Adequacy Ratio [CAR]	16.4%	18.0%	14.4%	16.8%	24.0%	23.4%	22.4%	20.2%	22.2%	17.6%	18.7%	16.1%
NPLs (3 mths &>): Capital Base+Prov for loan losses	22.2%	18.7%	12.2%	59.3%	15.2%	12.3%	22.8%	28.1%	17.0%	24.1%	20.4%	13.2%
Profitability												
[6] Pre - tax Profit Margin (for the Calendar Quarter)	26.1%	22.0%	29.0%	6.3%	11.3%	16.3%	28.3%	1.8%	10.5%	26.1%	17.8%	25.5%
Return on Average Assets (for the Calendar Quarter)	0.8%	0.7%	1.1%	0.1%	0.3%	0.5%	0.8%	0.1%	0.3%	0.8%	0.5%	0.9%
[7] Income Assets/Expense Liabilities (at 31 March)	104.3%	102.8%	100.8%	100.9%	108.4%	105.9%	111.1%	108.9%	109.2%	105.8%	104.3%	102.6%

Notes:
n/a not applicable

- Based on unaudited data submitted to BOJ by supervised institutions up to 13 May 2011. Prior years indicators may have revisions arising 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 change was effected:
The composition of "Provision for Loan Losses" has been 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 (treated as an appropriation from net profits). Consequently , "Total Loans (net of prov.)" represents gross loans net of IFRS loan loss provisions per (i) above

[b] Effective 1 October 2010, the assets and liabilities of Scotia DBG Merchant Bank Limited were vested in Bank of Nova Scotia Jamaica Ltd. and the operations merged. Consequently, the licence previously issued to Scotia DBG Merchant Bank Limited under the Financial Institutions Act was surrendered.

[1] Total Assets and Liabilities reflected net of Provision for Losses and include Contingent Accounts (Customer Liabilities for Acceptances, Guarantees and Letters of Credit). In keeping with IFRS, Total Assets and Liabilities were redefined to include Contingent Accounts.

[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: (Ordinary Shares+ Qualifying Preference Shares+ Statutory 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 + Statutory Reserve Fund + Retained Earnings Reserve 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] Capital Adequacy Ratio (CAR): Qualifying Capital (Tier 1 + Tier 2 capital items less prescribed deductions) in relation to Risk Weighted Assets and Foreign Exchange Exposure.

[6] Pre-tax Profits includes extraordinary income/expenditure and adjustments for prior period. Return on Average Assets is computed using pre-tax profits as well as assets before provision for losses (in accordance with IFRS) and including contingent accounts (Acceptances, Guarantees and Letters

[7] 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			FIA LICENSEES			BUILDING SOCIETIES**		
	Mar - 11	Mar - 10	Mar - 09	Mar - 11	Mar - 10	Mar - 09	Mar - 11	Mar - 10	Mar - 09
Required Cash Reserve Ratio	12.0%	14.0%	14.0%	12.0%	14.0%	14.0%	1% 1% 1/12%	1% / 14%	1% / 14%
Required Liquid Assets Ratio (incl Cash Reserve)	26.0%	28.0%	28.0%	26.0%	28.0%	28.0%	5% /26%	5% / 28%	5% / 28%

Effective 1 July 2010, the domestic currency cash reserve and liquid assets ratios were reduced to 12% and 26% respectively.
Effective 1 March 2010, the foreign currency cash reserve and liquid assets ratios for supervised licensees were reduced to 9% and 23% respectively.
Effective 6 February 2009, the domestic currency cash reserve and liquid assets ratios for supervised licensees were increased to 14% and 28% respectively.

*** 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

Appendices

1. MACRO PRUDENTIAL POLICY- A RENEWED LOOK

2. PAYOUT MANAGEMENT INFORMATION SYSTEM PROCESS FLOW DIAGRAM

MACRO PRUDENTIAL POLICY- A RENEWED LOOK

1. Introduction

The recent world financial crisis has increased the interest of policymakers and academics in strengthening financial regulation as a means of augmenting the resilience of financial systems. In respect of policy initiatives, there appears to be consensus on the need to reform financial system regulation, by moving beyond a purely micro-level approach to a more macro-level approach to regulation and supervision.

The concept of "macro-prudential" has gained extensive recognition since the financial crisis (2007-2009), with many publications, research and speeches addressing the issue; however the usage and meanings put forward to date have been varied. The IMF posits that *"while the crisis has sparked an intense debate in both the academia and policy circles, a commonly accepted definition of macro-prudential policy and of its objectives and instruments, is yet to emerge".* [8]

2. Origins and Usage

The earliest use of the term "macro-prudential" dates back to June 1979 where minutes from the Bank for International Settlements (BIS) reflected its use in a meeting of the Coke Committee (the predecessor of the current Basel Committee on Banking Supervision, BCBS).[9] Bank of England records also reflected use of the term in October 1979 in its contrasting of the micro-prudential approach to regulation and supervision of individual banks with a macro-prudential approach. These records reflected the following:

> *"Prudential measures are primarily concerned with sound banking practice and the protection of depositors at the level of the individual bank. Much work has been done in this area – which could be described as the micro-prudential aspect of banking supervision. However, this micro-prudential aspect may need to be matched by prudential considerations with a wider perspective. This macro-prudential approach considers problems that bear upon the market as a whole as distinct from an individual bank, and which may not be at the micro-prudential level".* [10]

Despite these early usages however, the term was not publicly used until 1986 and while it regularly appeared in internal BIS writings, it largely disappeared from the public domain until the recent financial crisis.

3. Micro-Prudential vs. Macro- Prudential Regulation and Supervision

Micro-prudential regulation concerns the protection of individual institutions within the financial system, while macro-prudential regulation is concerned with protecting the stability of the financial system as a whole, as opposed to the individual institutions on a stand-alone basis. In his speech to the *"47th Annual Conference on Bank Structure and Competition"* in Chicago, Illinois on May 5, 2011, Ben Bernanke, Chairman of the Board of Governors of the [United States] Federal Reserve System, asserts:

> *"…macroprudential oversight must be concerned with all major segments of the financial sector, including financial institutions, markets, and infrastructures; it must also place particular emphasis on understanding the complex linkages and*

[8]"Macro Prudential Policy: An Organizing Framework" - Internation Moneytary Fund - March 14, 2011

[9]Piet Clement - "The term "macroprudential": origins and evolution" - Piet Clement BIS Quarterly Review, March 2010

[10]Piet Clement - BIS Quarterly Review, March 14, 2010

interdependencies among institutions and markets, as these linkages determine how instability may be propagated throughout the system." [11]

Three fundamental features distinguish the micro-prudential approach from the macro-prudential approach to regulation and supervision. These are (a) *objectives* (b) *focus* and (c) *risks*. [12]

The objective of a macro-prudential approach is to limit the risks of episodes of system-wide financial distress, thereby limiting their cost to the macro-economy. In contrast the objective of the micro-prudential approach is to limit the risk of failure of individual institutions, regardless of their impact on the overall economy (Borio 2009).

The focus of the macro-prudential approach is the financial system as a whole (micro-prudential focuses on the individual institutions). Borio (2009) uses the analogy of the financial system as a portfolio of securities, with each individual security representing a financial institution. The micro-prudential approach would therefore be concerned with the performance of each individual security; while the macro-prudential approach would focus on the performance of the overall portfolio. The crucial issue from the macro-prudential perspective therefore, is the degree of diversification of risk, not in individual institutions, but in the overall system.

The macro-prudential approach treats aggregate risk as being dependent on the collective behavior of institutions, which are able to affect the price of financial assets, the quantities transacted and in the final analysis, the strength of the economy itself. In turn, this has a powerful feedback effect on these institutions. In contrast, given the focus on the individual institutions, a micro-prudential approach to regulation ignores such feedback. (Borio 2009).

The table below[13] provides a comparison of the fundamental differences between the micro-prudential and macro-prudential approaches to regulation and supervision.

Macro-prudential regulation and supervision follows a top-down approach, by working out the desirable safety standards for the entire system. Thereafter, standards are derived for the individual institutions within the system. It takes into account the fact that drivers of risk within the system, depend on the collective behaviour of financial institutions (i.e. are "endogenous"), and are not something outside their influence ("exogenous").[14]

TABLE: THE MACRO-AND MICRO-PRUDENTIAL PERSPECTIVES COMPARED

	Macro-prudential	Micro-prudential
Proximate Objective	Limit financial system-wide distress	Limit distress of individual institutions
Ultimate Objective	Avoid output (GDP) costs	Consumer (investor/depositor) protection
Characterisation of Risk	Seen as dependent on collective behaviour ("endogenous")	Seen as independent of individual agents' behaviour ("exogenous")
Correlations and Common Exposures Across Institutions	Important	Irrelevant
Calibration of Prudential Controls	In terms of system-wide risk; top-down	In terms of risks of controls individual institutions; bottom-up

Source: Borio (2003)

[11] Bank for International Settlements - Central bankers' speeches - http://www.bis.org/review/r110509b.pdf

[12-14] "Implementing a macro-prudential framework: Blending boldness and realism" – Claudio Borio; BIS – July 22, 2010

Macro-prudential polices aim to address two dimensions of system-wide risk, namely, (1) the "time dimension" (i.e. the evolution of system-wide risk over time) and (2) the "cross-sectional dimension" (i.e. the distribution of risk in the financial system at a given point in time).

The key issue in the time dimension is to mitigate or dampen financial system procyclicality (i.e. how financial system-wide risk can be amplified by interactions within the financial system and between the financial system and the real economy, sometimes leading to financial crises). In economic upswings, the financial system creates and tends to become overexposed to aggregate risk, via ample credit availability, rapid increases in asset prices, leverage and maturity mismatches. If the system has not built sufficient buffers in good times, when the financial cycle turns, the downturn can induce widespread financial distress and be amplified by substantial deleveraging, reducing the provision of credit and key financial services to the economy. A specific focus here is how to put in place various forms of buffers that act countercyclically, thereby also possibly restraining the build-up of systemic risk.

The key issue in the cross-sectional dimension is to reduce systemic risk concentrations, which can arise from similar exposures across financial institutions (from assets, liabilities, dependence on common services) or because of the direct balance-sheet linkages among them (e.g., counterparty risk).[15]

4. Challenges To Macro-Prudential Regulation and Supervision

The attempts to enhance system-wide oversight and macro-prudential policy frameworks are currently taking place across the globe; however there is still a significant amount of work to be done. Regulatory and supervisory agencies are facing challenges,[16] such as:

a. The specific sources and manifestations of systemic risk are subject to change. Consequently, macro-prudential policy initiatives must facilitate continuous monitoring of financial system information, to identify systemically important issues on an ongoing basis. This would allow the authorities to respond flexibly to risks. Widening the perimeter within which the regulatory authorities operate is one option to expand the reach of policy and to lower the risk of regulatory arbitrage.

b. The need for continuous effort in identifying quantitative tools which can be used to measure and monitor systemic risks and to fill the key analytical gaps in this area, including possible adverse consequences of using certain macro-prudential tools.

c. Appropriately strong governance arrangements, which require:
   - clear and specific mandates for the powers of macro-prudential policy-making;
   - control over macro-prudential instruments that are commensurate with those mandates;
   - arrangements that safeguard the necessary operational independence;
   - provisions to ensure accountability, supported by transparency and clear communication of decisions and decision making processes.

d. The institutional set-up for macro-prudential policy needs to dove-tail with other domestic policy considerations, as the range of instruments that can affect systemic risk extends beyond that which

[15-16] "Macro-prudential policy tools and frameworks – Update to G20 Finance Ministers and Central Bank Governors"; BIS Publication – February 14, 2011

may be under the formal authority of the macro-prudential body. The choice and implementation of appropriate instruments in a macro-prudential framework needs to take into account their interaction with other key policy objectives and instruments, such as those governing fiscal and monetary policies.

5. Conclusion

A macro-prudential framework, while important, represents only a single component of a broader framework designed to promote financial and macro-economic stability. Other policies, such as fiscal and monetary policies, will also have a role to play.

The body of work required to develop and operationalise a macro-prudential policy frame-work is gathering momentum and in support of this the Financial Stability Board (FSB), International Monetary Fund (IMF) and BIS will be focusing on the following:

a) continuing to pursue the analytical challenges outlined above;

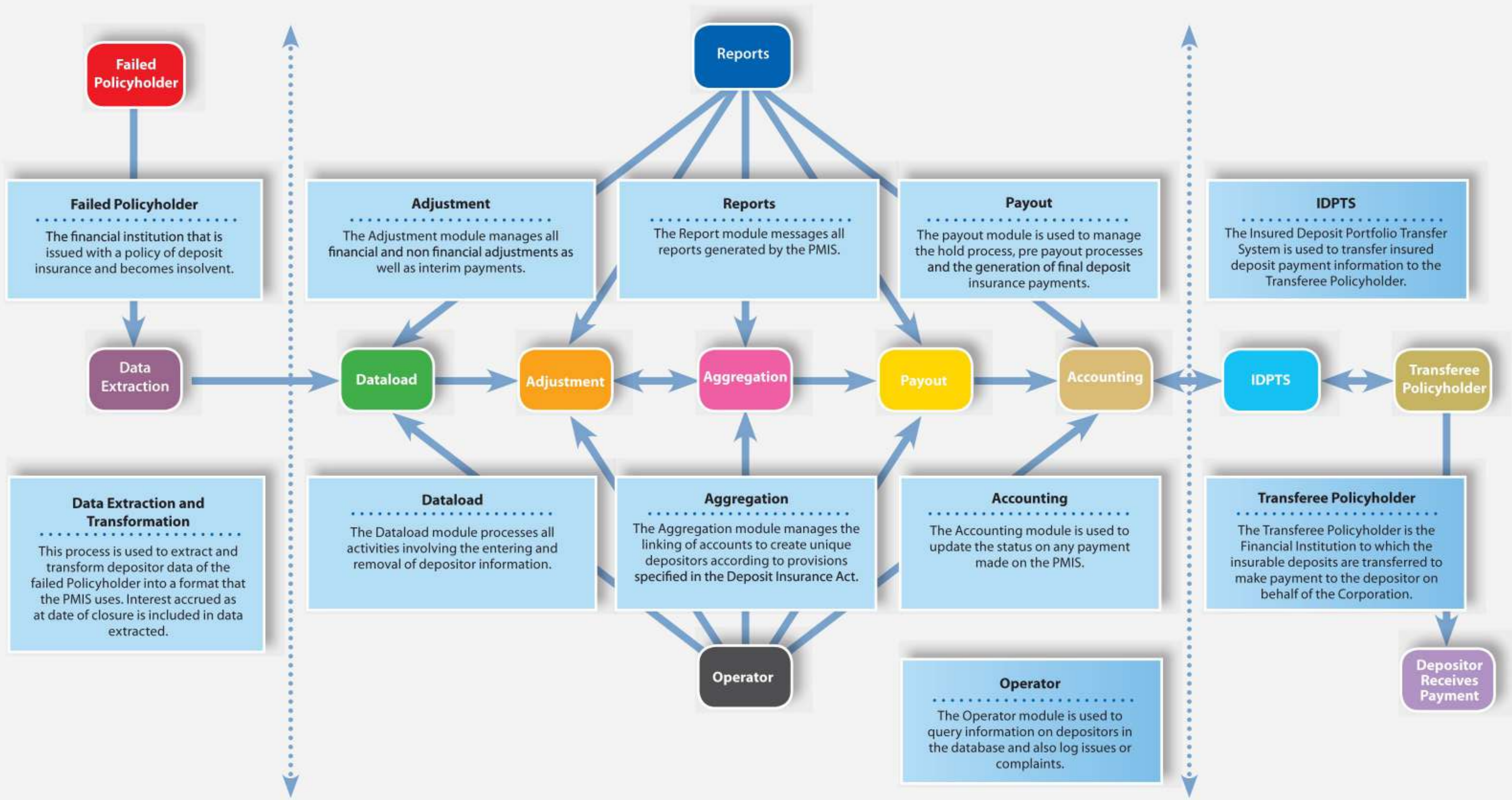
b) continuing to distil from stocktaking exercises, surveys and contacts with national and regional authorities, the lessons for the development of policies and frameworks; and

c) providing forums for authorities to learn from each other, to share perspectives and experiences in implementing macro-prudential policies, and to enhance cooperation in their responses to systemic threats which pose material risks to the international financial system.[17]

As the macro-prudential approach to regulation and supervision gathers impetus, the authorities here in Jamaica have taken steps to further reform and strengthen the country's financial system by the introduction of a more macro-prudential approach to financial oversight. To this end, the Bank of Jamaica has issued a Discussion Paper, titled *"Institutional Arrangements for Safeguarding Financial Stability"* to the financial industry aimed at apprising participants of the issues that the proposed financial system reform will address, as well as the implications for financial institutions going forward.

[17] "Macro-prudential policy tools and frameworks – Update to G20 Finance Ministers and Central Bank Governors"; BIS Publication – February 14, 2011

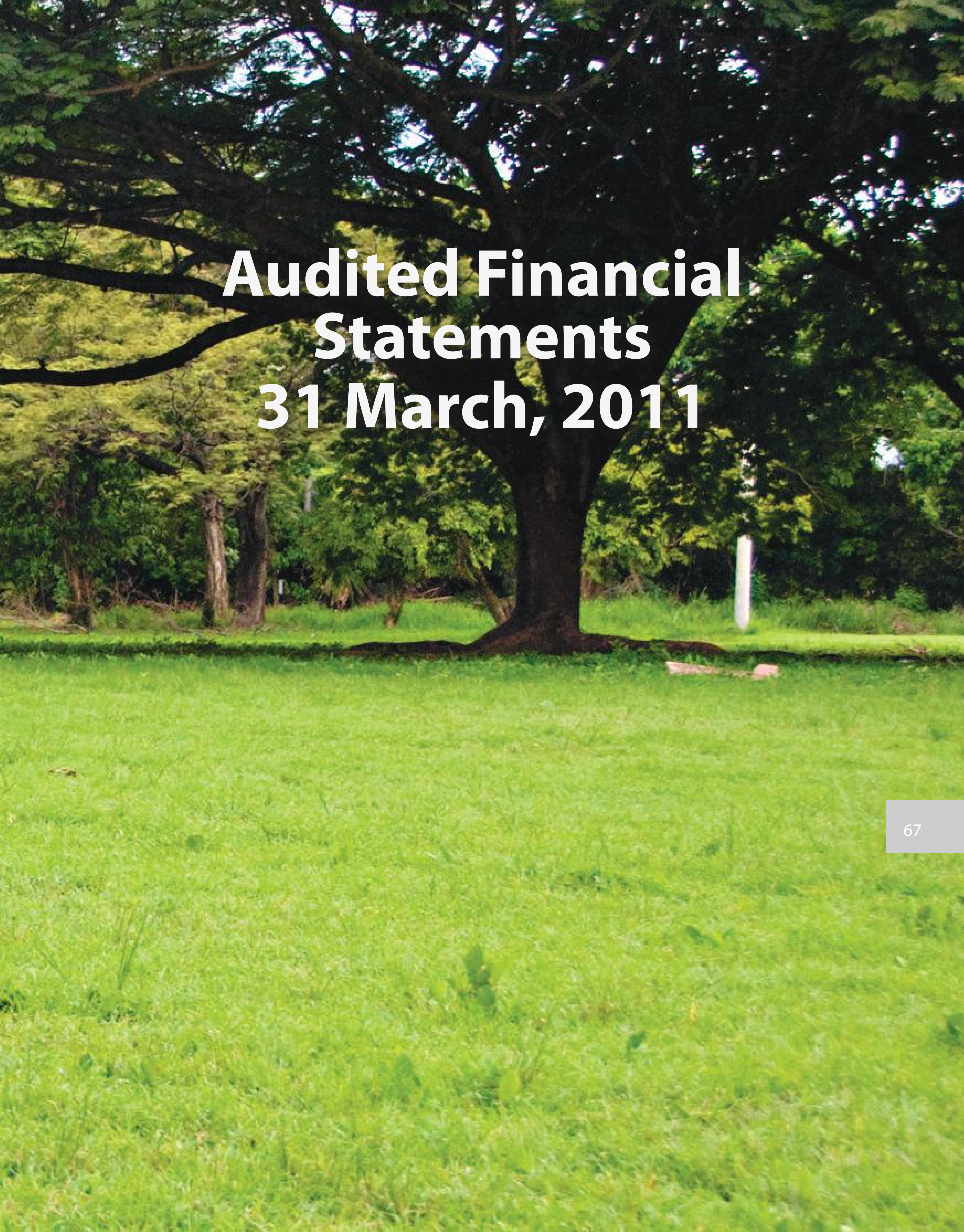
Payout Management Information System (PMIS) Process Flow Diagram



Board of Directors and Senior Executive Compensation

Position of Director	Fees ($)	Motor Vehicle Upkeep/Travelling or Value of Assignment of Motor Vehicle ($)	Honoraria ($)	All Other Compensation including Non-Cash Benefits as applicable ($)	Total ($)
Chairman	125,000	-	-	-	125,000
Director 1	150,000	-	-	-	150,000
Director 2	96,000	-	-	-	96,000
Director 3	75,000	-	-	-	75,000
Director 4	15,100	-	-	-	15,100
Director 5	-	-	-	-	-
Director 6	-	-	-	-	-

Position of Senior Executive	Salary ($)	Gratuity (in lieu of Pension) or Performance Incentive ($)	Travelling Allowance or Value of Assignment of Motor Vehicle ($)	Other Allowances ($)	Non Cash Benefit ($)	Total ($)
Chief Executive Officer	7,747,392	1,936,848	1,950,753	-	661,258	12,296,251
Chief Operating Officer/ Deputy CEO	4,507,390	1,126,847	796,500	-	771,935	7,202,672
Director, Finance, Funds and Asset Management	3,924,648	981,162	796,500	-	225,180	5,927,490
Legal Counsel (Contract Ended May 31, 2010)	807,300	-	-	-	-	807,300
Legal Officer /Deputy Corporate Secretary	3,050,536	762,634	796,500	-	202,970	4,811,640



Audited Financial Statements 31 March, 2011

Independent Auditors' Report

To the Members of
Jamaica Deposit Insurance Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Jamaica Deposit Insurance Corporation, set out on pages 71 to 91, which comprise the statement of financial position as of 31 March 2011 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers, Scotiabank Centre, Duke Street, Box 372, Kingston, Jamaica
T: (876) 922 6230, F: 876 922 7581, www.pwc.com/jm

Members of Jamaica Deposit Insurance Corporation
Independent Auditors' Report
Page 2

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Corporation as of 31 March 2011 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Chartered Accountants
12 September 2011
Kingston, Jamaica

Statement of Comprehensive Income
Year ended 31 March 2011
(expressed in Jamaican dollars unless otherwise indicated)

	2011 $'000	2010 $'000
Revenue		
Insurance premiums	720,970	643,038
Interest earned	755,791	937,504
Foreign exchange (loss)/gain	(32,344)	11,469
Other income	782	4,385
	1,445,199	1,596,396
Expenses		
Administration expenses (Note 6)	128,894	152,242
Surplus from Operations	1,316,305	1,444,154
Other Comprehensive Income		
Fair value gains on available-for-sale investments	397,458	35,695
Total Comprehensive Income	1,713,763	1,479,849

Jamaica Deposit Insurance Corporation

Statement of Financial Position

31 March 2011

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 $'000	2010 $'000
ASSETS			
Investment securities	8	7,842,372	6,194,498
Cash at bank		239,520	38,899
Receivables	9	468,442	571,484
Property, plant and equipment	10	109,503	105,428
		8,659,837	6,910,309
LIABILITIES AND SHAREHOLDER'S EQUITY			
Liabilities			
Unearned premium income	11	265,149	275,713
Payables		61,702	15,373
		326,851	291,086
Shareholder's Equity			
Share capital	12	1,000	1,000
Capital reserves	13	48,168	48,168
Fair value reserves	14	393,867	(3,591)
Deposit insurance fund	15	7,889,951	6,573,646
		8,332,986	6,619,223
		8,659,837	6,910,309

Approved by the Board of Directors on 12 September 2011 and signed on its behalf by:

Roald Henriques — Chairman

Antoinette McKain — Director

Statement of Changes in Equity

Year ended 31 March 2011

(expressed in Jamaican dollars unless otherwise indicated)

	Share Capital	Capital Reserves	Fair Value Reserves	Deposit Insurance Fund	Total
	$'000	$'000	$'000	$'000	$'000
Balance at 31 March 2009	1,000	48,168	(39,286)	5,129,492	5,139,374
Surplus from operations	-	-	-	1,444,154	1,444,154
Other comprehensive income -					
Fair value gains on available-for-sale investments	-	-	35,695	-	35,695
Total comprehensive income	-	-	35,695	1,444,154	1,479,849
Balance at 31 March 2010	1,000	48,168	(3,591)	6,573,646	6,619,223
Surplus from operations	-	-	-	1,316,305	1,316,305
Other comprehensive income -					
Fair value gains on available-for-sale investments	-	-	397,458	-	397,458
Total comprehensive income	-	-	397,458	1,316,305	1,713,763
Balance at 31 March 2011	1,000	48,168	393,867	7,889,951	8,332,986

Statement of Cash Flow
Year ended 31 March 2011
(expressed in Jamaican dollars unless otherwise indicated)

	2011 $'000	2010 $'000
Cash Flows from Operating Activities		
Surplus from operations	1,316,305	1,444,154
Adjustments for:		
Depreciation	5,259	5,203
Interest income	(755,591)	(937,504)
Unearned premium income	(10,564)	(77,147)
Foreign exchange loss/(gains)	32,344	(11,469)
	587,753	423,237
Changes in non-cash working capital components:		
Other receivables	103,042	(294,360)
Payables	46,329	(3,333)
	149,371	(297,693)
Cash provided by operating activities	737,124	125,544
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(9,334)	(9,038)
Investment securities	(1,254,219)	(1,150,421)
Interest received	727,121	1,064,738
Cash used in investing activities	(536,432)	(94,721)
Effect of exchange rate changes on cash balances	(71)	574
Increase in cash balance at end of year	200,621	31,397
Cash balance at the beginning of the year	38,899	7,502
Cash Balance at the End of the Year	239,520	38,899

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 31 August 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 $600,000 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 objectives, 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.

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), and have been prepared under the historical cost convention as modified by the revaluation of available-for-sale investment securities and other financial assets.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires Management to exercise its judgement in the process of applying the Corporation's accounting policies. Although these estimates are based on Management's best knowledge of current events and action, actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Standards, interpretations and amendments to published standards effective in the current year

Certain new interpretations and amendments to existing standards have been published that became effective during the current financial year. The Corporation has assessed the relevance of all such new standards, interpretations and amendments and has adopted the following which is immediately relevant to its operations:

IAS 1 (amendment), 'Presentation of financial statements'(effective on or after 1 January 2010). The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. This has not impacted the financial statements this year, as there are no liabilities for 2011 which were or are to be settled by the issue of equity.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)
Standards, interpretations and amendments to published standards that are not yet effective

At the date of authorisation of these financial statements, certain new standards, interpretations and amendments to existing standards have been issued which are mandatory for the Corporation's accounting periods beginning on or after 1 April 2011 or later periods, but were not effective at the year end date, and which the Corporation has not early adopted. The Corporation has assessed the relevance of all such new standards, interpretations and amendments, has determined that the following may be immediately relevant to its operations, and has concluded as follows:

IFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Corporation's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Corporation is yet to assess the full impact of this standard.

Revised IAS 24 (Revised), 'Related party disclosures' (effective from January 1 2011). Earlier application, in whole or in part, is permitted. The revised standard clarifies and simplifies the definition of a related party and provides certain exemptions for Government related entities. The Corporation will apply the revised standard from 1 April 2011, but it is not expected to have a significant impact on its related party disclosures.

(b) Foreign currency translation

Functional and presentation currency

The Corporation operates only in Jamaica and, as such, its functional and presentation currency is Jamaican dollars.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

(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 the 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.

2. Significant Accounting Policies (Continued)

(e) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost and comprise cash at bank and in hand, and represent available-for-sale financial assets.

(f) Payables

Payables are stated at historical cost.

(g) Investments

The Corporation classifies investments into the following categories: held-to-maturity and available-for-sale financial assets. Management determines the appropriate classification of investments at the time of purchase.

(i) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Corporation's Management has the positive intention and ability to hold to maturity. Where the Corporation sells other than an insignificant amount of held-to-maturity assets, the entire category would be compromised and reclassified as available-for-sale.

(ii) Available-for-sale

Investments intended to be held for an indefinite period of time, which may be sold in response to liquidity needs or changes in interest or exchange rates are classified as available-for-sale. These investments are initially recognised at cost, which includes transaction costs, and are subsequently remeasured at fair value based on amounts derived from cash flow models. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. When securities are disposed of or impaired, the related accumulated fair value adjustments are included in the statement of comprehensive income as gains and losses from investment securities.

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. The recoverable amount of a financial asset carried at fair value is the value of expected future cash flows discounted at current market interest rates for similar financial assets.

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

2. Significant Accounting Policies (Continued)

(h) Property, plant and equipment

Land and buildings are shown at fair value based on triennial valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation.

Increases in the carrying amount arising on the revaluation of land and buildings are credited to capital reserves in shareholder's equity. Decreases that offset previous increases of the same asset are charged against capital reserves directly in equity; all other decreases are charged to the statement of comprehensive income.

Land is not depreciated. Depreciation on other assets is calculated 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%
Motor vehicles	20%
Computers	20%
Machines and equipment	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 the surplus from operations. Repairs and renewals are charged to the statement of comprehensive income when the expenditure is incurred.

(i) Interest income

Interest income is recognised in the statement of comprehensive income for all interest bearing instruments on an accrual basis unless collectibility is doubtful.

(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.

2. Significant Accounting Policies (Continued)

(k) Financial instruments
Financial instruments carried on the statement of financial position include cash resources and investment securities.

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 provisions of the Insurance Act under Sections 21 and 8, respectively, of the Deposit Insurance Act, 1998.

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies

Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the process of applying the Corporation's accounting policies, Management has made the following critical accounting estimates or judgements which it believes has a significant risk of causing a material misstatement in these financial statements.

Held-to-maturity investments
The Corporation follows the guidance of IAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires judgement. In making this judgement, the Corporation evaluates its intention and ability to hold such investments to maturity. If the Corporation fails to keep these investments to maturity other than for specific circumstances – for example, selling other than an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value, not amortised cost. If the entire class of held-to-maturity investments is compromised, the carrying value would increase by $2,764,000 (2010 – $1,262,000) with a corresponding adjustment in the fair value reserve in shareholder's equity.

Provision for losses
No claim has been made on the Corporation to date and, based on the most recent review of the circumstances of the insured financial institutions, Management does not deem it necessary to make any provision for losses at this time.

5. Financial Risk Management

The Corporation's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Corporation's overall risk Management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Corporation's financial performance. The Corporation's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Corporation's financial performance.

The Corporation's risk Management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

5. Financial Risk Management (Continued)

The Corporation's objective is to develop and manage a Deposit Insurance Fund by investing in securities of the Government of Jamaica, or in such foreign securities as may from time to time be approved by the Board of Directors.

The Corporation achieves capital growth through investing in a selection of debt securities issued by the Government of Jamaica.

Subsection (2) of Section 4 of the Deposit Insurance Act stipulates that "the Corporation shall take all measures as may be necessary to ensure that there is the least possible exposure of the Corporation to loss." In this regard, the Corporation's policy is to manage the resources of the Deposit Insurance Fund in a professional manner, consistent with providing confidence in the Deposit Insurance Scheme. It will seek at all times to achieve its investment objectives with the least possible exposure to risk, without compromising standards of quality, security or control.

(a) Market risk

The Corporation takes on exposure to market risks, which is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks mainly arise from changes in foreign currency exchange rates and interest rates. Market risk is monitored by the Treasury Management and Investment Committees, which carry out extensive research and monitor the price movement of financial assets on the local and international markets.

(i) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Corporation is exposed to foreign exchange risk arising from currency exposures with respect to the US dollar. Foreign exchange risk arises from foreign currency denominated investment securities and cash balances.

The Corporation manages its foreign exchange risk by ensuring that the net exposure in foreign assets and liabilities, if any, is kept to an acceptable level by monitoring currency positions, while seeking to maximise foreign currency earnings.

5. **Financial Risk Management (Continued)**

(a) Market risk (continued)

(i) Currency risk (continued)

The table below summarises the Corporation's exposure to foreign currency exchange rate risk at 31 March. The Corporation has no foreign currency liabilities.

	JMD J$'000	USD J$'000	Total J$'000
		2011	
Financial assets			
Investment securities	6,870,211	972,161	7,842,372
Cash at bank	239,514	6	239,520
	7,109,725	972,167	8,081,892
		2010	
Financial assets			
Investment securities	5,276,590	917,908	6,194,498
Cash at bank	35,427	3,472	38,899
	5,312,017	921,380	6,233,397

Foreign currency sensitivity

The change in currency below represents Management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation at year end for a reasonably expected change in foreign currency rates. This analysis includes investment securities and cash and bank balances.

The change in currency rate represents Management's assessment of the possible range of changes in the US dollar exchange rates. The company had no significant exposure to any other currency at year end.

	% Change in Currency Rate 2011	Effect on Surplus and Deposit Fund 2011 $'000	%Change in Currency Rate 2010	Effect on Surplus and Deposit Fund 2010 $'000
USD -				
Revaluation	1	9,722	4	36,855
Devaluation	0.5	(4,861)	-10	(92,138)

5. **Financial Risk Management (Continued)**

(a) **Market risk (continued)**

(ii) **Interest rate risk**

All of the Corporation's financial assets are interest bearing. There are no financial liabilities.

The Corporation's interest-bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The table below summarises the Corporation's exposure to interest rate risks. It includes the Corporation's financial assets at fair values, categorised by the earlier of contractual re-pricing or maturity dates.

	Within 3 Months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
			2011		
Financial assets					
Investment securities	-	718,703	5,653,428	1,470,241	7,842,372
Cash at bank	239,520	-	-	-	239,520
	239,520	718,703	5,653,428	1,470,241	8,081,892
			2010		
Financial assets					
Investment securities	402,092	478,389	4,080,921	1,233,096	6,194,498
Cash at bank	38,899	-	-	-	38,899
	440,991	478,389	4,080,921	1,233,096	6,233,397

5. Financial Risk Management (Continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate sensitivity
The following table indicates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Corporation's Surplus from Operations and the Deposit Insurance Fund.

The sensitivity of the Surplus from Operations is the effect of the assumed changes in interest rates on net income based on the floating rate, non-trading financial assets. The sensitivity of the Deposit Insurance Fund is calculated by revaluing fixed rate available-for-sale financial assets for the effects of the assumed changes in interest rates. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variable, variables had to be on an individual basis. It should be noted that movements in these variables are non-linear.

	Effect on Surplus from Operations 2011 $'000	Effect on Deposit Insurance Fund 2011 $'000	Effect on Surplus from Operations 2010 $'000	Effect on Deposit Insurance Fund 2010 $'000
Change in basis points:				
- 75 (2010: - 800)	(10,514)	(42,805)	(98,552)	(391,617)
+ 75 (2010: + 800)	10,514	42,805	98,552	391,617

In accordance with the Corporation's policy, the Investment Officer monitors the Corporation's overall interest sensitivity on a daily basis, and the Investment Committee, a sub-committee of the Board of Directors, reviews it on a quarterly basis.

(iii) Other price risk
Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Corporation has no significant exposure to other price risk.

(b) Credit risk
The Corporation takes on exposure to credit risk, which is the risk that counterparties will cause a financial loss for the Corporation by failing to discharge their contractual obligations. The Corporation is primarily exposed to the credit risk associated with holding its entire investment portfolio in Government of Jamaica instruments.

Some secondary level of exposure to credit risk arises from the financial institutions with which the Corporation transacts business and, accordingly, the Corporation deals only with well recognised, high quality institutions in order to mitigate this risk.

The Corporation's maximum exposure to credit risk is represented by the amounts included for investment securities and cash at bank on the statement of financial position.

5. **Financial Risk Management (Continued)**

(c) Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to fulfil claims and other liabilities incurred.

Liquidity risk management process

The Corporation's liquidity management process, as carried out within the Corporation and monitored by the Finance, Funds and Asset Management Department, includes:

(i) Monitoring future cash flows and liquidity on a regular basis;

(ii) Maintaining a portfolio of highly marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow; and

(iii) Optimising cash returns on investment.

Monitoring and reporting take the form of monthly cash flow measurement and projections.

Financial liabilities cash flows

The Fund has no significant levels of recorded financial liabilities. Assets available to meet all liabilities include cash and bank balances and investment securities. The Corporation is able to meet unexpected net cash outflows by selling securities and accessing additional funding sources from the Government of Jamaica and other financing institutions.

(d) Fair values of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The following table provides an analysis of financial instruments held as at 31 March 2011 that, subsequent to initial recognition, are measured at fair value. The financial instruments are grouped into Levels 1 to 3 based on the degree to which the fair value is observable, as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical instruments. The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets is the current bid price. These instruments are grouped in Level 1;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the instrument, either directly (i.e., as prices) or indirectly (i.e., derived from prices as at March 31, 2011). The fair value of financial instruments not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2; and

5. **Financial Risk Management (Continued)**

(d) Fair values of financial instruments (continued)

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the instrument that are not based on observable market data (unobservable inputs). If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

There are no financial instruments classified as Levels 1 and 3 and there were no transfers between levels during the year.

	Level 2 $'000
Available- for- sale investments (Note 8) –	
Issued by Government of Jamaica	6,426,174

The amounts included in the financial statements for cash and bank balances 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:

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	$'000	$'000	$'000	$'000
Investment securities -				
Held to maturity	1,416,198	1,418,962	1,247,392	1,246,127
Available-for-sale	6,426,174	6,424,029	4,947,106	4,947,106
	7,842,372	7,843,136	6,194,498	6,193,233

6. Expenses by Nature

Total administration expenses:

	2011 $'000	2010 $'000
Auditors' remuneration	941	855
Depreciation	5,259	5,203
Directors' emoluments -		
Fees	461	272
Management remuneration (Note 7)	13,197	12,327
Other	7,959	5,465
Printing and stationery	2,586	4,713
Professional fees	5,535	25,507
Public education	7,190	7,145
Repairs and maintenance	2,696	2,596
Staff costs (Note 7)	76,368	81,620
Utilities	6,702	6,539
	128,894	152,242

7. Staff Costs

	2011 $'000	2010 $'000
Wages and salaries	51,392	58,132
Statutory contributions	6,437	6,462
Others	18,539	17,026
	76,368	81,620
Management remuneration	13,197	12,327
	89,565	93,947

The number of persons employed by the Corporation at the end of the year was 20 (2010 - 20).

8. Investment Securities

	2011 $'000	2010 $'000
(a) Held-to-maturity -		
Government of Jamaica	1,402,077	1,238,510
Interest accrued	14,121	8,882
	1,416,198	1,247,392
(b) Available-for-sale -		
Government of Jamaica	6,344,443	4,888,606
Interest accrued	81,731	58,500
	6,426,174	4,947,106
	7,842,372	6,194,498

(c) Remaining Term to Contractual Maturity

	2011				
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Carrying Value
	$'000	$'000	$'000	$'000	$'000
Held-to-maturity:					
Government of Jamaica -					
Benchmark investment note	-	-	170,177	1,231,900	1,402,077
Interest accrued	14,121	-	-	-	14,121
	14,121	-	170,177	1,231,900	1,416,198
Available-for-sale:					
Government of Jamaica -					
Treasury bonds	-	130,158	-	-	130,158
Benchmark investment note	-	581,753	4,444,812	222,126	5,248,691
US$ Benchmark notes	-	-	965,594	-	965,594
Interest accrued	302	78,437	2,992	-	81,731
	302	790,348	5,413,398	222,126	6,426,174
	14,423	790,348	5,583,575	1,454,026	7,842,372

8. Investment Securities (Continued)

(c) Remaining Term to Contractual Maturity (Continued)

	2010				
	Within 3 Months	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Carrying Value**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Held-to-maturity:					
Government of Jamaica -					
Treasury bills	-	6,610	-	-	6,610
Benchmark investment note	-	-	771,900	460,000	1,231,900
Interest accrued	-	185	8,697	-	8,882
	-	6,795	780,597	460,000	1,247,392
Available-for-sale:					
Government of Jamaica -					
Treasury bonds	-	50,710	130,201	-	180,911
Benchmark investment note	394,322	394,322	2,577,269	430,000	3,795,913
US$ Benchmark notes	-	-	583,092	328,690	911,782
Interest accrued	7,770	26,562	9,762	14,406	58,500
	402,092	471,594	3,300,324	773,096	4,947,106
	402,092	478,389	4,080,921	1,233,096	6,194,498

(d) 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**
	%	%	%	%	%
Investment bonds	11	11	11	12	11
Treasury bonds	11	11	-	-	11
US$ Bond	7	7	7	-	7

Audited Financial Statements

9. Receivables

	2011 $'000	2010 $'000
Withholding tax	458,861	481,923
Prepayments	1,678	216
Other	7,903	89,345
	468,442	571,484

10. Property, Plant and Equipment

	Land $'000	Building & Freehold Improvement $'000	Furniture & Fixtures $'000	Work-in-Progress $'000	Computers, Machines & Equipment $'000	Total $'000
Cost -						
At 31 March 2009	25,000	61,374	14,238	707	22,411	123,730
Additions	-	-	540	6,216	2,282	9,038
Disposal	-	-	-	-	(176)	(176)
At 31 March 2010	25,000	61,374	14,778	6,923	24,517	132,592
Additions	-	410	171	6,200	2,553	9,334
At 31 March 2011	25,000	61,784	14,949	13,123	27,070	141,926
Depreciation -						
31 March 2009	-	394	8,406	-	13,337	22,137
Charge for the period	-	1,533	1,243	-	2,427	5,203
Disposal	-	-	-	-	(176)	(176)
31 March 2010	-	1,927	9,649	-	15,588	27,164
Charge for the period	-	1,539	1,271	-	2,449	5,259
31 March 2011	-	3,466	10,920	-	18,037	32,423
Net Book Value -						
31 March 2011	25,000	58,318	4,029	13,123	9,033	109,503
31 March 2010	25,000	59,447	5,129	6,923	8,929	105,428

10. Property, Plant and Equipment (Continued)

The Corporation's land and buildings were revalued as at 31 March 2009 on the basis of open market value by Allison, Pitter & Company, independent qualified valuators. The revaluation surplus was credited to capital reserves in shareholders' equity.

If land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2011 $'000	2010 $'000
Cost	36,591	36,591
Accumulated depreciation	(6,765)	(6,150)
Net book value	29,826	30,441

11. Unearned Premium Income

This represents the portion of insurance premiums received from policyholders relating to the period subsequent to 31 March 2011.

12. 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.

13. Capital Reserves

Capital reserves comprise unrealised surplus arising from the revaluation of the Corporation's land and buildings.

14. Fair Value Reserves

This represents unrealised gains on available-for-sale investments.

15. Deposit Insurance Fund

	2011 $'000	2010 $'000
Balance at beginning of year	6,573,646	5,129,492
Surplus from insurance operations	720,970	643,038
Surplus from investment and administration operations	595,335	801,116
Deposit Insurance Fund at year end	7,889,951	6,573,646

16. 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) Transactions and balances with the Bank of Jamaica for the period are as follows:

	2011 $'000	2010 $'000
Cash balance	239,474	35,296

(d) Transactions and balances with key Management:

	2011 $'000	2010 $'000
Wages and salaries	20,963	25,306
Statutory contributions	2,092	2,591
Other staff benefits	5,255	4,311
	28,310	32,208

The Corporation thanks members of staff for allowing their children and other relatives to be featured in this Annual Report. The pictures were taken at the Hope Botanical Gardens. The gardens are the largest public green space in the Kingston metropolitan region, and are home to Jamaica's most popular collection of endemic and exotic botanical collections.

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JDIC

JAMAICA DEPOSIT INSURANCE CORP.

Jamaica Deposit Insurance Corporation
30 Grenada Crescent, Kingston 5, Jamaica
Tel: 876-926-5225; 876-968-7398
Toll Free Jamaica: 1-888-991-5342
USA & CAN: 1-877-801-6793; UK: 1-800-917-6601
Fax: 876-920-9393; Email: jdic@jdic.org; Website: www.jdic.org

September 27, 2011

The Honourable Audley Shaw, MP
Minister of Finance and the Public Service
Ministry of Finance and the Public Service
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 2010/2011 and a copy of the Corporation's Accounts as at March 31, 2011, duly certified by its Auditors.

Yours sincerely

R.N.A. Henriques, OJ, QC
Chairman

Table of Contents

Abbreviations

BOJ	Bank of Jamaica
DIA	Deposit Insurance Act
DIF	Deposit Insurance Fund
DIS	Deposit Insurance Scheme
FAAA	Financial Administration & Audit Act
FIA	Financial Institutions Act
FSC	Financial Services Commission
FSSF	Financial System Stability Fund
GDP	Gross Domestic Product
GOJ	Government of Jamaica
IADI	International Association of Deposit Insurers
IMF	International Monetary Fund
JDX	Jamaica Debt Exchange Programme
MEFP	Memorandum of Economic & Financial Policies
MOFPS	Ministry of Finance & the Public Service
MTEFP	Medium Term Economic & Financial Programme
NIR	Net International Reserves
PBMA	Public Bodies Management & Accountability Act
PRAF	Policyholders' Risk Assessment Framework

Glossary

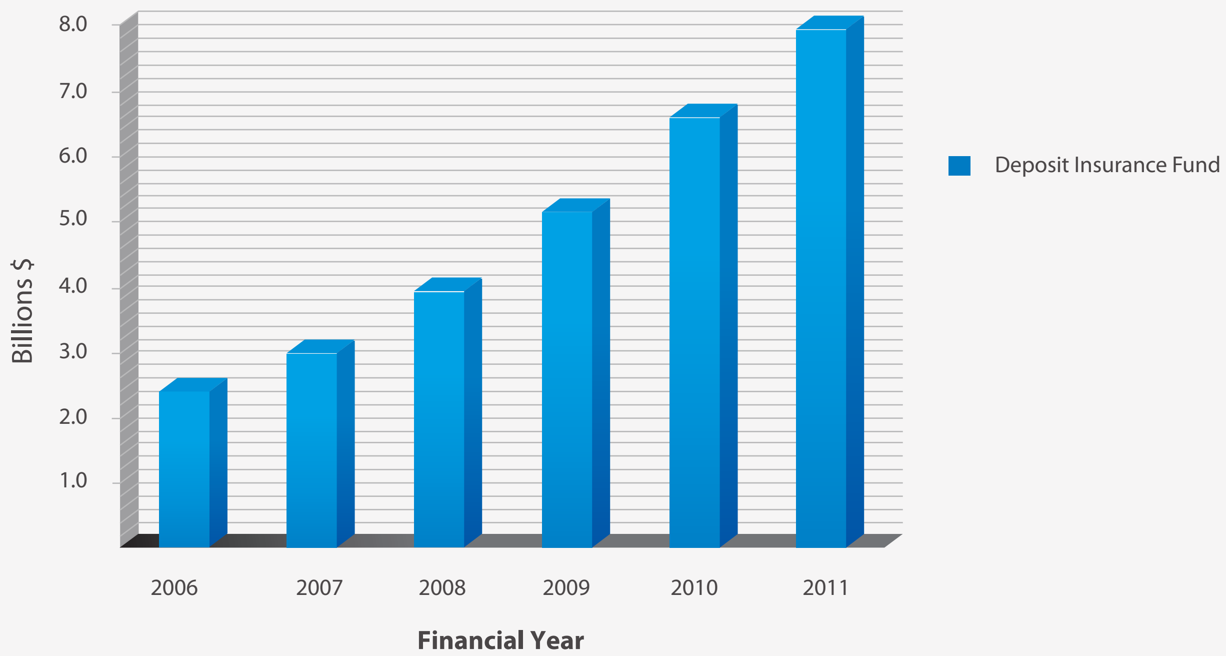
Banking System	The deposit-taking financial institutions, comprising Commercial Banks, FIA Licensees and Building Societies.
Coverage Limit	The limit of payment the JDIC can make to depositors as prescribed under the Deposit Insurance Act.
Crisis Intervention Matrix	A guide set out in a Memorandum of Understanding between the financial system Safety Net Partners in Jamaica outlining the parameters and procedures to strategically identify and address problem institutions.
Deposit	A sum of money paid on terms under which it will be repaid with or without interest or a premium, and either on demand or at a time or in circumstances agreed. However it does not include money paid which is referable to the provision of property or services or the giving of security.
Deposit Insurance Act (DIA)	The Act of Parliament establishing the JDIC and its functions.
Deposit Insurance Fund (DIF)	A Fund established under the Deposit Insurance Act to pay depositors should their insured financial institution fail or to offer financial assistance to Policyholders. Ordinarily made up of premiums collected from Policyholders/ member institutions and investment income.
Deposit Insurance Fund Ratio	The Deposit Insurance Fund expressed as a percentage of the total insured deposits (DIF/Total Insured Deposits).
Deposit Insurance Premium	Amount paid periodically by Policyholders as contributions to the DIF.
FIA Licensees	Financial institutions licensed to take deposits under the Financial Institutions Act.
Insurable Deposits	Deposits received or held by a Policyholder from or on behalf of a depositor other than a deposit from another Policyholder; or a deposit from a statutory body or authority or government company.
Insured Deposit	The portion of an insurable deposit that is within the coverage limit prescribed under the Deposit Insurance Act.
Insured Deposit Portfolio Transfer	The process whereby the insured deposit of a failed Policyholder is transferred by the Corporation to a viable Policyholder for the purpose of paying out depositors.
Policyholders	Deposit-taking financial institutions (Banks, FIA Licensees and Building Societies) insured under the Deposit Insurance Scheme and regulated by the Bank of Jamaica.
Premium Assessment Rate	Rate at which Policyholders are charged to determine deposit insurance premiums due to the Corporation.
Safety Net Partners	A country's lender of last resort, its financial system's regulatory authorities and the Deposit Insurer (in the case of Jamaica - the Bank of Jamaica, the Financial Services Commission, the JDIC and the Ministry of Finance & the Public Service).

Financial Highlights

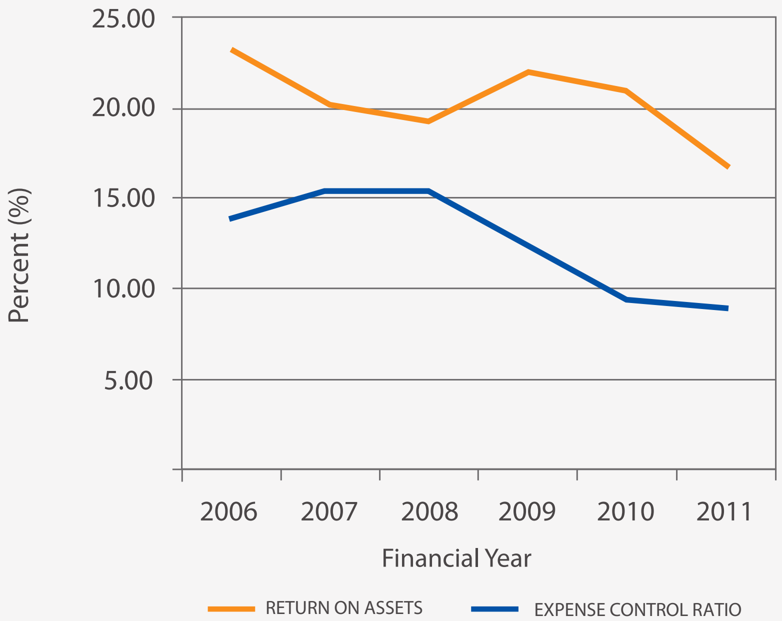
Five Year Statistics: March 31, 2007 - 2011

	2011 $000	2010 $000	2009 $000	2008 $000	2007 $000
SELECTED STATEMENT OF COMPREHENSIVE INCOME DATA					
Insurance Premium Income	720,970	643,038	553,444	484,120	437,732
Interest Earned & Other Income	724,229	953,358	826,595	480,751	378,525
Total Revenue	1,445,199	1,596,396	1,380,039	964,871	816,257
Surplus from Investments & Administrative Expenses	595,335	801,116	655,254	331,776	252,048
Administrative Expenses	128,894	152,242	171,341	148,975	126,477
SELECTED STATEMENT OF FINANCIAL POSITION DATA					
Deposit Insurance Fund	7,889,951	6,573,646	5,129,492	3,920,794	3,104,898
Investment Securities	7,842,372	6,194,498	5,124,721	4,109,144	3,248,803
Total Assets	8,659,837	6,910,309	5,510,940	4,244,283	3,416,803
Property, Plant and Equipment (NBV)	109,503	105,428	101,593	62,167	64,074
OTHER SELECTED FINANCIAL DATA					
Persons employed at the end of the year	20	20	24	26	20
Expense Control Ratio (%)	8.9	9.5	12.4	15.4	15.5
Asset Management (%)	16.7	23.1	25.0	22.7	23.9
Return on Asset (%)	15.2	20.9	21.9	19.2	20.2

Deposit Insurance Fund



Performance and Efficiency Ratios



Corporate Information

BOARD OF DIRECTORS*

R.N.A. Henriques, OJ, QC	Chairman
Brian Wynter	Governor, Bank of Jamaica
Bridgett Wilks	Nominee of the Financial Secretary
Antoinette McKain	Chief Executive Officer
Lisa Lewis	Board Member

EXECUTIVE MANAGEMENT

Antoinette McKain	Chief Executive Officer
Carole Martinez -Johnson	Chief Operating Officer / Deputy CEO
Ronald Edwards	Director, Finance, Funds & Asset Management
Roger Desnoes	Legal Officer / Deputy Corporate Secretary
Marjorie McGrath	Manager, Corporate Communications

AUDITORS

PricewaterhouseCoopers
Scotia Centre, Duke Street
P.O. Box 372
Kingston, Jamaica, W.I.

BANKERS

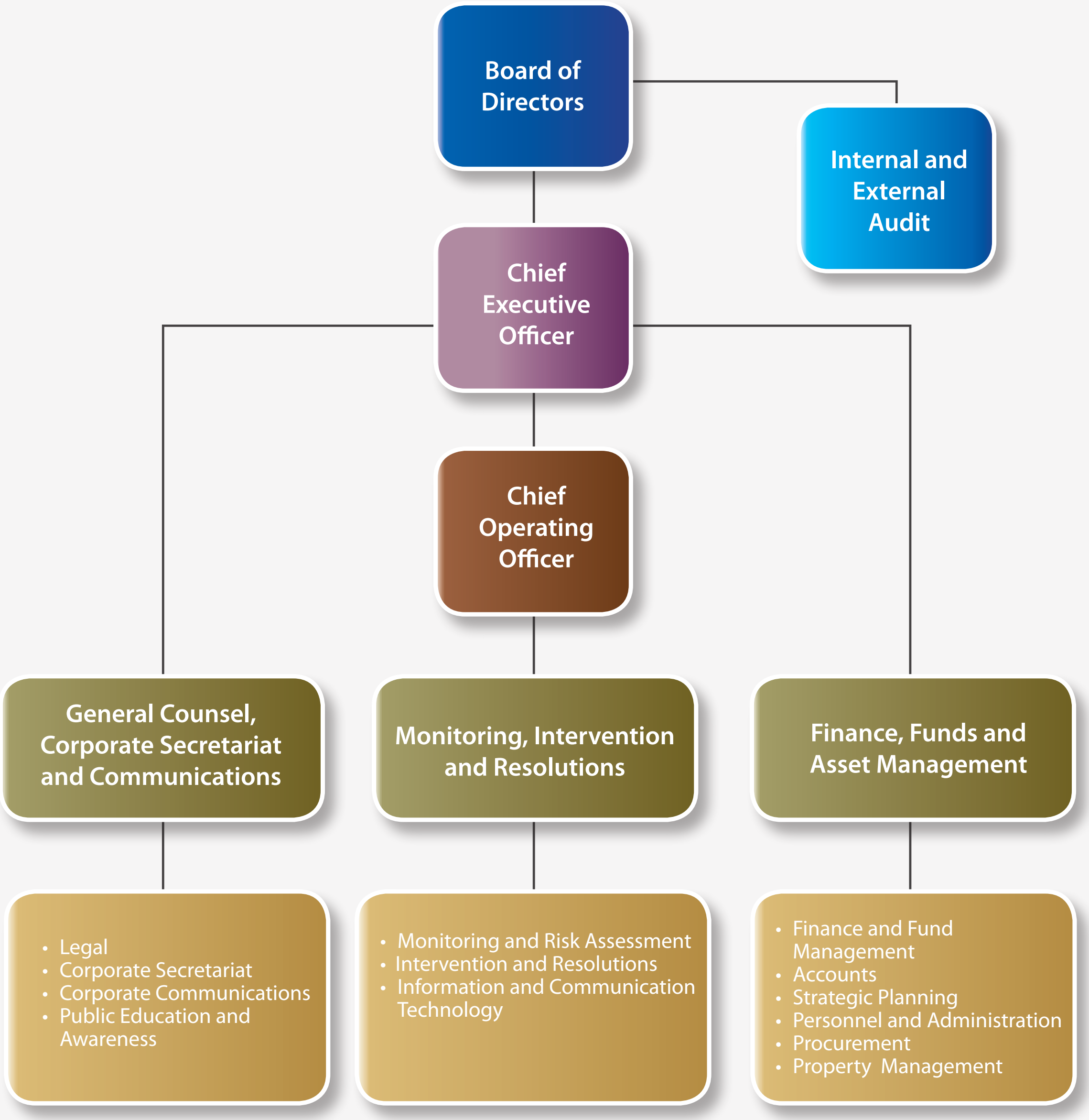
Bank of Jamaica
Nethersole Place
P.O. Box 621
Kingston, Jamaica, W.I.

OFFICE

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

* The full complement of the Board is seven members. At March 31, 2011 there were two vacancies.

Organizational Structure



In keeping with the Government's mandate for greater efficiency in public sector agencies, the Corporation met all the requirements under the MEFP and governing statutes.

Chairman's Statement

On the heels of the global recession, during the financial year 2010/11 most countries continued to focus on the strengthening of regulatory safeguards to identify and address financial system vulnerabilities. In many jurisdictions policy actions were devised to improve the macroeconomic environment. Capital flows also improved globally. Against this backdrop, both advanced and developing economies showed economic recovery. The Jamaican economy however continued to contract. For fiscal year 2011/12, the economy is projected to grow by 1.5 percent under the Memorandum of Economic and Financial Policies (MEFP). The projected growth is predicated largely on the continued global economic recovery.

During FY2010/11 Deposit Insurance systems across the world continued to play a critical part in engendering public confidence and financial system stability. Currently 106 countries have instituted some form of explicit deposit insurance system, while others are considering or are at varying stages of implementation. In our own jurisdiction, the critical role of the Deposit Insurer was highlighted, as well as the need for continued close collaboration and information sharing with our Safety Net Partners.

During the year the Corporation sought to have amendments made to the Deposit Insurance Act in order to improve the benefits afforded to depositors and to improve its operational effectiveness and efficiency. These amendments were successfully passed in Parliament in February 2011. In keeping with the Government's mandate for greater efficiency in public sector agencies, the Corporation met all the requirements under the MEFP and governing statutes.

Despite the challenges in the domestic economy and the impact on the financial sector, the banking system remained profitable and at the end of the year all Policyholders were assessed as solvent. Following the introduction of the Jamaica Debt Exchange (JDX) programme in February 2010, which resulted in a decline in prevailing interest rates, Policyholders sought innovative ways to increase profits by increasing non-interest income, implementing cost containment measures and efficient restructuring.

The Board continued to ensure that the Management had its full support during the year and effected oversight of the Corporation's operations, guided by sound Board Governance Policies. On behalf of my colleagues on the Board, I express thanks to the Management and Staff for their continued commitment to achieving the corporate goals and objectives. I would also like to thank all agencies, our Policyholders, Deposit Insurers and other stakeholders that have supported the work of the Corporation throughout the years.

R.N.A. Henriques, OJ, QC

The Deposit Insurance Fund ended the year at $7.9 billion, representing a $1.3 billion (or 20 percent) increase over the previous financial year.

CEO's Report on Operations

The Environment

The financial year 2010/11 was characterized by the continued strengthening of global financial regulatory systems where gaps were made poignant during the global financial crisis. The world's economies experienced modest growth, with more robust growth in many emerging and developing countries. Capital flows rebounded, even though not to the levels prior to the crisis.

The local financial system exited the global crisis relatively unscathed, in comparison to many international financial centres which saw collapse or near collapse as credit markets dried up. The local system also withstood the rigors of the Government of Jamaica's Debt Exchange (JDX) programme implemented in February 2010. The JDX saw the exchange of Government's existing domestic debt instruments for ones with lower rates and extended maturities. This was designed to provide Government the required fiscal space for the implementation of an International Monetary Fund (IMF) programme which was considered by all major stakeholders as possibly the only real option available for the country. Notwithstanding the robustness of the financial system and the success of the JDX, the economic downturn continued despite positive growth in some sectors.

Reform of the Regulatory Framework

The primary banking system supervisory authority, the Bank of Jamaica, took the initiative to enhance the regulatory framework, with the presentation to stakeholders of a Discussion Paper outlining the implementation of a regime for the macro-prudential regulation of the financial system. This was in keeping with international best practices and trends. In addition to other legislative reform, the Payment Clearing and Settlement Act was passed in November 2010 to establish the legal framework for the oversight of the payment and settlement systems and address matters such as the finality of payments in banking system insolvencies.

The Deposit Insurance Act was also amended effective February 2011. The amendments allow the Corporation to better recognize the commercial expectations of depositors. The amendments include provisions for deposit insurance payments being made available to each beneficiary of a trust account and a nominee account, up to the maximum coverage limit. Amendments were also made to improve the operational efficiency of the Corporation, including allowing for lending and giving guarantees in respect of financial institutions which are determined by the regulatory authorities to be in need of financial assistance in the process of a restructuring or other ameliorative action.

Policyholder Performance

The prevailing economic conditions, the continued wage freeze in the public sector along with the sustained high levels of unemployment contributed to depressed demand for loans and advances and reduced the ability of some individuals to honour their obligations with financial institutions.

As a result, the level of non-performing loans increased by one-third. Relative to capital and provisioning for losses, the ratio of non-performing loans in the system exceeded the prudential maximum. This notwithstanding, Policyholders remained profitable with increases in non-interest income. Additionally, deposits in the banking system remained relatively stable, increasing by 1.1 percent.

Highlights of Operations

In this context, the Corporation continued to make the monitoring and risk assessment of Policyholders a priority. In addition to increasing its coordination efforts with the Bank of Jamaica (BOJ), it undertook a revision of its Policyholders' Risk Assessment Framework (PRAF) to ensure alignment between results and the stages of intervention as outlined in the Crisis Intervention Matrix.

The Corporation must ensure that any payout of depositors or other resolution option will be carried out in the most expeditious manner. Achieving this is critical to maintaining depositor confidence and financial system stability in times of difficulty. Towards this end, the Corporation issued for consultation proposed Guidelines for recordkeeping by Policyholders; which when implemented will prescribe the minimum records a Policyholder must maintain regarding customer and account data to allow ease of access to relevant information.

The inter-connection of financial institutions was decidedly the main feature which fueled the efficiency of the global financial crisis. A Working Group comprising key officers of the Financial Services Commission (FSC) and the JDIC submitted for the consideration of the Ministry of Finance and the Public Service a position paper titled *"Proposal for Establishing Compensation Schemes for the Non-Deposit Taking Financial Sector".* This document outlined the primary public policy objectives and key features for the implementation of Compensation schemes for the customers of the insurance sector. The projection is for implementation on a phased basis throughout the non-deposit taking sector. This initiative is consistent with international trends towards filling the regulatory gaps which tend to reduce confidence in financial systems.

Deposit Insurance Fund

The Deposit Insurance Fund ended the year at $7.9 billion, representing a $1.3 billion (or 20 percent) increase over the previous financial year. The DIF Ratio ended the year at 3.6 percent still some distance from the target range of 8 – 10 percent. Post year end research and data suggests that this target range remains valid.

Coverage Limit and Premium Assessment Rate

The JDIC continued to protect the vast majority of small depositors, with our annual survey of the distribution of insurable deposits indicating that 97.2 percent of deposit accounts in the system were fully insured at the existing coverage limit. The coverage limit for deposit accounts was therefore kept at $600,000 during the year.

The premium assessment rate was retained at 15 basis points of the insurable deposit liabilities of an institution at the end of the prior calendar year. Preparations were made during the year however to conduct the Fund Adequacy review, duly taking into account international best practices and trends. The review allows the Corporation to determine with a greater degree of certainty the optimal premium assessment rate given the probability for default within the financial system. Additionally, the review is expected to price the risk more appropriately to ensure the ongoing credibility and robustness of the Deposit Insurance Scheme.

Public Education and Awareness

It is well understood that adequate education of the consumers of financial services is one of the keys to confidence and financial system stability. The year saw the Corporation continuing its public education and awareness thrust. In this effort there was the collaboration with Policyholders, the BOJ, the FSC and schools. There were on-going radio and print media advertisements and presentations to public and private sector organizations.

Resource Management

The year again highlighted the well established fact that well trained and motivated staff is the most significant organizational resource. The Corporation's officers were availed of local and international training in key areas relating to its operations including courses offered by the International Association of Deposit Insurers and the Bank of International Settlement.

This year the Corporation achieved its lowest expense control ratio with an outcome of 8.9 percent.

Concluding Remarks

The year ended with a keen understanding that there was much work to be done in respect of further enhancement to the Deposit Insurance System and the protections for the financial system in general. The Corporation is positioning itself to be able to do this in preparation to meet the challenges of our times.

On behalf of the Management Team and the Staff of the Corporation I thank our Chairman and other members of the Board for their competent guidance and unequivocal support of our activities. I also thank our colleagues at the BOJ and the FSC for their cooperation and sharing in activities that not only span core operations, but assisted in the enhancement of non-core operations to help increase operational efficiency.

We look forward to continuing to assist all stakeholders in maintaining the safety and soundness of the financial system for the benefit of all.

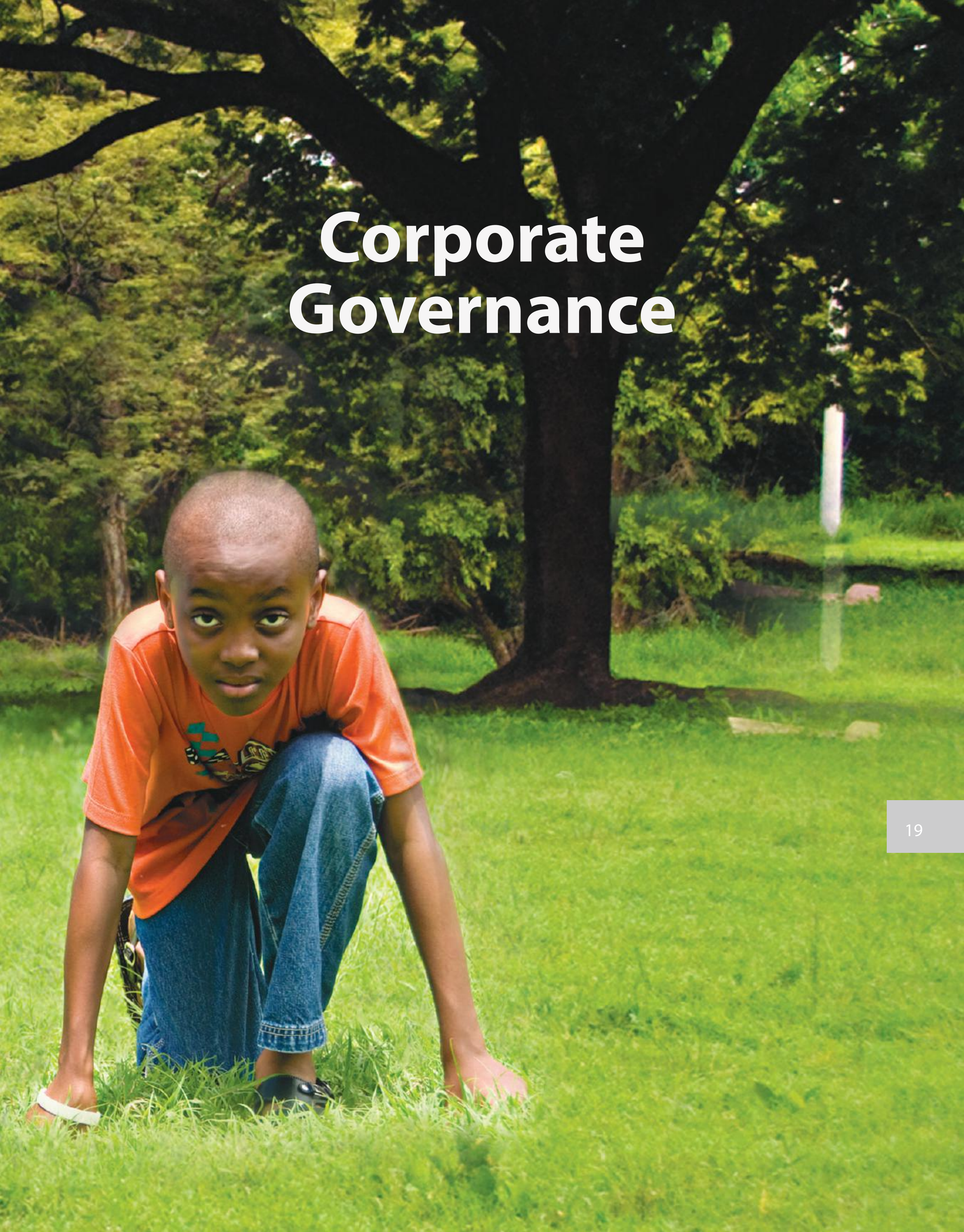
Antoinette McKain

Board of Directors

Executive Management

Roger Desnoes, Carole Martinez-Johnson, Antoinette McKain, Ronald Edwards, Marjorie McGrath

Corporate Governance



Corporate Governance

The Corporation operates within the legal framework set out in its governing statute, the Deposit Insurance Act (DIA), as well as the Public Bodies Management and Accountability Act (PBMA), and the Financial Administration and Audit Act (FAAA). It is ultimately accountable to Parliament through the Minister of Finance and the Public Service.

The Corporation's main objective, the provision of insurance against the loss of depositors' funds, is achieved through sound management of the Deposit Insurance Scheme. The JDIC therefore remains committed to maintaining the highest standards of corporate governance through the direction and policies of its Board of Directors.

BOARD OF DIRECTORS COMPOSITION AND MANDATE

Under the DIA, the policy and general administration of the JDIC and the management of the Deposit Insurance Fund is the responsibility of the Board of Directors. The Schedule to the DIA 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. The Minister appointed four other directors, including the Chairman.

The Board sets the strategic direction of the Corporation. In accordance with the PBMA and the Board Governance Policies, the Board ensures that the management performs and that an effective system of risk management is in place.

The Board is also obliged under the PBMA to ensure that all persons who manage the Corporation's funds are held accountable. It must also advise and guide the Minister on matters of general policy relating to the management of the JDIC. In adherence to the principles of good corporate governance the following were ensured:

- Submitting within the prescribed period the 3-year Corporate Plan, Operating and Capital Budgets.
- Submitting within the prescribed period the Corporation's Annual Report, along with the audited financial statements for the financial year .
- Submitting the requisite Quarterly and Half-year Reports to the Minister of Finance and the Public Service within the prescribed time.
- Fulfilling the statutory requirement for the Board to meet not less than 6 times during the calendar year.

BOARD OF DIRECTORS		NUMBER OF MEETINGS ATTENDED
R. N. A Henriques, OJ, QC	Chairman	6/6
Bridgett Wilks	Nominee of the Financial Secretary	6/6
Brian Wynter	Governor, Bank of Jamaica	1/1
Rudolph Muir	Nominee of the Governor, Bank of Jamaica	5/5
Antoinette McKain	Chief Executive Officer	6/6
Lisa Lewis	Board Member	5/6

THE AUDIT COMMITTEE

The principal responsibilities of the Audit Committee are set out in the PBMA. The Audit Committee oversees internal and external audits and advises the Board on practices and procedures which will promote productivity, quality and volume of service of the Corporation. The focus of the Audit Committee is therefore to ensure the appropriate internal controls that allow for sound corporate governance procedures and practices to minimize operational risk.

Members of the Audit Committee are required to participate in the following training courses: *Audit Committee Effectiveness; Effective Corporate Governance, Accountability and Board Effectiveness; and Enterprise-wide Risk Management and Internal Controls.*

AUDIT COMMITTEE		NUMBER OF MEETINGS ATTENDED
Lisa Lewis	Chairperson	4/4
Rudolph Muir	Nominee of the Governor, Bank of Jamaica	4/4
Owen McKnight	Ministry of Finance & the Public Service	4/4
Roger Desnoes	Secretary	4/4

THE INVESTMENT COMMITTEE

The Investment Committee is responsible for overseeing the execution of specific decisions of the Board of Directors with respect to the investment function and ensure that the Corporation's investments are consistent with the Investment Policy. In this regard, the Investment Committee approved the revised Investment Policy which incorporated the amendments to the DIA and the reclassification of investment securities offered by the GOJ. The revised Investment Policy now provides for investment in BOJ securities.

INVESTMENT COMMITTEE		NUMBER OF MEETINGS ATTENDED
Lisa Lewis	Chairperson	4/4
Antoinette McKain	Chief Executive Officer	4/4
Carole Martinez-Johnson	Chief Operating Officer/ Deputy CEO	4/4
Ronald Edwards	Director, Finance, Funds & Asset Management	4/4
Nicole Brown-Crooks	Manager, Monitoring and Risk Assessment/ Secretary	4/4

Management's Discussion and Analysis

Management's Discussion and Analysis

OPERATING ENVIRONMENT

Domestic Economy

The global economic recovery continued during FY2010/11 with modest growth being recorded for the advanced economies and robust growth of more than 7 percent in many emerging and developing economies. In addition to accommodative policies, there was further improvement in confidence and financial conditions which encouraged investment and helped to reduce the rate of job loss internationally. Additionally, global capital flows rebounded, but remained below pre-crisis levels in many countries as sluggish economic activity, and damaged financial systems continued to depress flows between advanced economies[1].

In the context of the domestic economy, there continued to be overall decline in real GDP, despite positive growth being recorded for specific productive sectors such as Mining & Quarrying and Hotels & Restaurants. Under the Stand-By Arrangement (SBA) with the International Monetary Fund, a Medium Term Economic and Financial Programme (MTEFP) was agreed, with Jamaica being held to specific quantitative and qualitative targets within an established schedule. In this regard, the Government of Jamaica committed to medium term targets aimed at achieving economic growth, reducing inflation rates to single digits, reducing the fiscal deficit, lowering interest rates; eliminating public sector deficit and gradually reducing the debt to GDP levels.

At the end of FY2010/11 most of the quantitative targets were met as scheduled. Some of the key macroeconomic variables were stable; pointing in the direction necessary for the achievement of sustainable growth (Table 1).

The out-turn of some of these variables were:

- Reduction in the interest rates applicable to the Bank of Jamaica's Open Market Instruments by 375 basis points to 6.75 percent.
- Reduction in market determined Treasury Bill rates to historic lows of 6.63 percent (182-day TBill) and 6.46 percent (91-day TBill)[2].
- Reduction in the yields on GOJ Global Bonds by 50 basis points.
- Reduction in the cash reserve requirement and the liquid assets requirement against Jamaica Dollar deposits which enhanced the pool of loanable funds within the Commercial Banks by $4.5 billion.
- General stability in the foreign exchange market, with the Jamaica Dollar appreciating by 4.4 percent during the fiscal year.
- Fiscal deficit out-turn of 6.1 percent of GDP, which was better than the budgeted 6.5 percent.
- Increase in the Net International Reserves (NIR) to an historical high of US$2.5 billion, thereby exceeding the IMF - SBA target.
- Single digit inflation of 7.8 percent which was within the targeted range of 7.5 - 9.5 percent.

[1] World Economic Outlook: Tensions from the Two-Speed Recovery, International Monetary Fund, April 2011

[2] Budget Debate 2011-2012, Hon. Audley Shaw, MP, Minister of Finance and the Public Service, April 28, 2011

TABLE 1: PERFORMANCE OF KEY MACROECONOMIC INDICATORS			
INDICATORS	2010/11 (p)	2009/10 (r)	2008/09
GDP growth (%)	-0.6	-2.3	-1.6
Inflation (%)	7.8	13.3	12.4
NIR (US$ Million)	2,553.2	1,751.9	1,628.6
Debt (% of GDP)	128.3	129.3	115.7
Fiscal Balance (% of GDP)	-6.1	-10.9	-6.8
Primary Surplus (% of GDP)	4.4	6.1	4.5
182-day TBill Rate (%)	6.63	10.49	21.77
Exchange Rate (J$/US$)	85.75	89.51	88.82

p – provisional r - revised

Much of the achievement during the year was made possible following the successful implementation of the Government of Jamaica Debt Exchange Programme (JDX) on February 24, 2010. This lengthened the public debt maturity profile and essentially halved interest rates; thereby freeing fiscal space of $801.5 million per annum. Nevertheless, the level of public debt remained high in nominal terms, despite a slight reduction relative to GDP at the end of the fiscal year. For FY2011/12, the Government of Jamaica has committed, as part of its debt management strategy, to restructure the Debt Management Unit and enact debt management legislation.

With the ultimate target of the MTEFP being the achievement of growth, the economy is projected to grow by 1.5 percent during FY2011/12, predicated largely on continued global economic recovery.

Policyholder Environment

Following the global financial crisis which ended in 2009, the Basel Committee on Banking Supervision introduced Basel III in December 2010. This served to complement the existing Basel I and Basel II capital adequacy frameworks and enhance capital adequacy rules and liquidity standards internationally. The design of the Basel III framework addresses both bank specific and systemic risks and reinforced the importance of financial system stability and soundness. Therefore issues of macro-prudential regulation (See Appendix 1) were brought to the fore.

An assessment of Jamaica's current framework confirmed that Jamaica's banking supervision mechanism had already incorporated, in some instances, more conservative levels for capital and liquidity adequacy than proposed in the Basel III framework.

A comparison of the Basel III framework and Jamaica's banking supervision requirements is summarized as follows:[3]

I. **Raising the quality and quantity of capital** Although the new Basel framework converges more closely with Jamaica's current definition of regulatory capital, the definition in the domestic market remains more conservative as retained earnings are excluded from core capital because of its discretionary nature.

II. **Discontinuing the use of Tier 3 capital** – Tier 3 capital which comprises subordinated debt has never been a feature of the Bank of Jamaica's capital adequacy framework given the unavailability of this type of capital to absorb loss.

[3] See Bank of Jamaica Annual Report 2010

III. **Introducing the leverage ratio which will act as a backstop to the risk-based measure** – Basel III requires minimum leverage ratio (Tier 1 capital: Total assets) of 3 percent, while Jamaica statutorily introduced a minimum leverage ratio (primary ratio) of 6 percent since 2004.

IV. **Building capital buffers in non-crisis periods which can be drawn down during times of stress** – Basel III sets a capital conservation buffer at 2.5 percent comprising solely of common equity in Tier 1 while the minimum risk-based capital requirement in Jamaica was set at 10.0 percent since 2004, or 2.0 percent above the Basel I minimum (of 8.0 percent).

The Bank of Jamaica has committed to additional reviews of other Basel III measures to further inform regulatory and supervisory enhancements under its proposed omnibus statute.

The conservative nature of the Jamaican banking supervision requirements and the enhanced regulatory and supervisory framework that have been in place since 1998, following the domestic financial sector crisis of the mid-1990's, augured well for the resilience of Policyholders during the review year. However, the effects of the global financial crisis and the protracted domestic economic recession weighed heavily on the performance of the financial institutions as the level of classified loans and non-performing loans soared. As a result of the higher level of non-performing loans, asset quality and credit quality indicators of Policyholders worsened during the year. This was compounded by declining profit levels following the JDX, the precursor to a period of continued reduction in interest rates.

Notwithstanding, Policyholders' capital levels remained relatively satisfactory and each Policyholder exhibited solvency with ratios above 1.0. Additionally, the Financial System Stability Fund (FSSF) which was established to provide liquidity and capital support to financial institutions that fully participated in the JDX remained untapped. Policyholders have been regrouping and re-examining their financial positions, business strategies and marketing approaches in an effort to remain profitable and competitive within the context of the current economic conditions.

Insurable Deposits[4]

During calendar year 2010, despite the challenging economic environment and real decline in production within the Finance and Insurance Services sector, the dollar value of insurable deposits of Policyholders grew by 1.0 percent to $484.9 billion and the number of insurable deposit accounts increased by 0.6 percent to 4.05 million (Tables 2 and 4). Average insurable deposit balances therefore went up to $119,710, from $113,080.

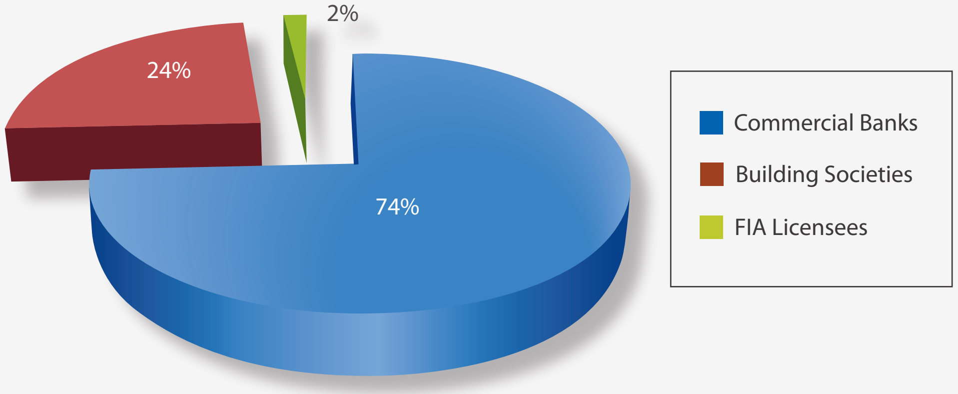
TABLE 2: TOTAL INSURABLE DEPOSITS AS AT DECEMBER 31, 2009 & DECEMBER 31, 2010

Institutions	December 31, 2010 ($ '000)	December 31, 2010 (%)	December 31, 2009 ($ '000)	December 31, 2009 (%)
Commercial Banks	359,653,879	74.2%	355,304,515	74.0%
Building Societies	116,948,438	24.1%	111,766,899	23.3%
FIA Licensees	8,327,309	1.7%	13,250,888	2.8%
GRAND TOTAL	484,929,626	100.0%	480,322,301	100.0%

[4] All data on Insurable Deposits is at December 2010

The increase in insurable deposits reflected larger holdings in domestic currency accounts which outweighed declines in foreign currency deposits. The decline in foreign currency deposits was consistent with the nominal appreciation of the Jamaica Dollar[5] increased consumer confidence in the domestic economy; sustained high levels of NIR; and relatively lower rates of interest on foreign currency deposits. As a result, foreign currency deposits accounted for 39.6 percent of insurable deposits (44.0 percent in 2009) compared with domestic currency deposits of 60.4 percent (56.0 percent in 2009).

FIGURE 1: TOTAL INSURABLE DEPOSITS AS AT DECEMBER 31, 2010



Insured Deposits

During calendar year 2010, estimated insured deposits grew by 3.3 percent to $220.7 billion or 45.5 percent of total insurable deposits. Commercial Banks continued to account for the largest share of estimated insured deposits (70.5 percent) with Building Societies and FIA Licensees accounting for 29.0 percent and 1.0 percent, respectively (Table 3).

TABLE 3: TOTAL ESTIMATED INSURED DEPOSITS AS AT DECEMBER 31, 2009 & DECEMBER 31, 2010

INSTITUTIONS	December 31, 2010 ($ '000)	December 31, 2010 (%)	December 31, 2009 ($ '000)	December 31, 2009 (%)
Commercial Banks	155,662, 876	70.5%	150,171,593	70.2%
Building Societies	63,693,248	28.9%	61,951,195	29.0%
FIA Licensees	1,374,892	0.6%	1,645,308	0.8%
GRAND TOTAL	220,731,016	100.0%	213,768,096	100.0%

Compared with the increase in estimated insured deposits (3.3 percent), the growth in the Deposit Insurance Fund (DIF) was larger at 20.4 percent, resulting in the DIF ratio increasing to 3.4 percent up from 2.9 percent at the end of 2009. The improvement in the DIF ratio was consistent with the corporate objective of achieving a target DIF ratio in the range of 8 -10 percent.

[5] The J$/US$ exchange rate fell from $89.60/US$1 at end December 2009 to $85.86/US$1 at end December 2010

FIGURE 2: ESTIMATED INSURED DEPOSITS AS AT DECEMBER 31, 2010

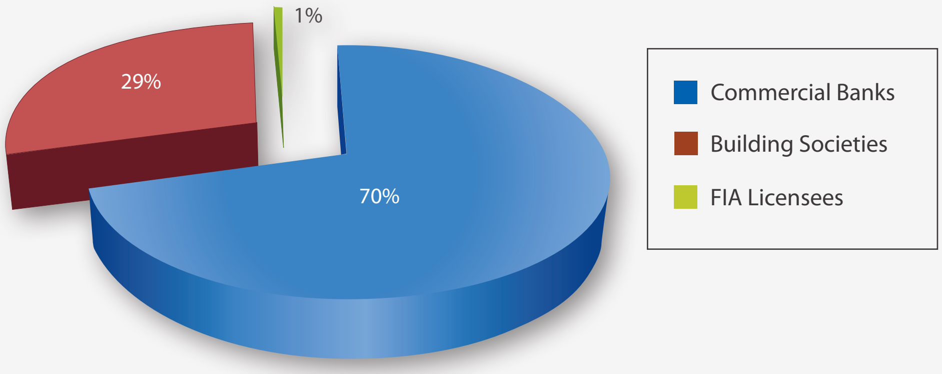


TABLE 4: FULLY COVERED ACCOUNTS AS AT DECEMBER 31, 2010			
INSTITUTIONS	Total No. of Insurable Accounts	Total No. of Fully Covered Accounts	Accounts Fully Covered (%)
Commercial Banks	2,100,710	2,028,023	96.5
Building Societies	1,941,924	1,903,385	98.0
FIA Licensees	8,253	6,914	83.8
GRAND TOTAL	4,050,887	3,938,322	97.2

The percentage of fully covered accounts at the current coverage limit ($600,000) fell to 97.2 percent, from 97.4 percent in 2009. The Building Societies sub-sector continued to record the largest share of fully covered accounts at 98.0 percent, with Commercial Banks and FIA Licensees following with 96.5 percent and 83.8 percent, respectively.

TABLE 5: PERCENTAGE OF FULLY COVERED DEPOSITS DECEMBER 31, 2006 – DECEMBER 31, 2010					
Year	2006	2007	2008	2009	2010
% Number of Accounts	95.67	97.63	97.58	97.36	97.22
% Dollar Value of Deposits	25.11	35.41	31.51	31.21	31.59

Regulatory Environment

Policymakers have continued to make statutory provisions to mitigate future crises in the financial system. The driving force is to insulate the public in general and the depositors in particular from the costs of any future financial system failure. The Corporation has been instrumental in this regard, promoting the promulgation of new legislation in the form of the Deposit Insurance (Amendment) Act 2011, which received the Governor General's Assent on February 23, 2011. The Amendment Act will improve the operating efficiency of the Deposit Insurance Scheme.

Financial Legislation passed in FY2010/2011

Deposit Insurance (Amendment) Act, 2011

The main amendments to the Deposit Insurance Act were as follows:

- Section 5, which outlines the functions of the Corporation, has been amended to allow the Corporation to make loans or advances with security and to borrow or raise funds.

- Section 17 was amended to allow the JDIC to invest in securities issued or guaranteed by the Bank of Jamaica, as well as other investments approved by the Minister, upon the recommendation of the Board of the JDIC.

- Section 18B allows for the cessation of the accrual of interest on deposit account balances if there is need for a payout.

- The new provision 18C recognizes the beneficial interest in trust and nominee accounts for the purpose of deposit insurance entitlement.

- Section 18D of the Amendment Act makes provision for depositors who hold insurable deposits with two or more Policyholders that subsequently merge and continue operations as one Policyholder. The insurable deposits of the depositor in the Policyholders concerned that existed before the amalgamation may, for a period of up to two years after the merger, be treated as separate insurable deposits.

- Section 22 of the Act now provides that a financial institution that accepts deposits without a valid Policy of Deposit Insurance will be brought before the Resident Magistrate Court and may be subject to a fine not exceeding $3 million. If the financial institution continues the offence then the institution will be brought before the Circuit Court which has powers to impose greater penalties.

The Payment Clearing and Settlement Act, 2010

This Act was passed in November 2010. The legislation formally establishes the legal framework for the oversight of the payment and settlement systems and will address matters such as the:

(i) finality of payments
(ii) effect of insolvency on payments already in the system
(iii) upgrading the settlement infrastructure by, inter alia, allowing for real-time gross settlement.

Passage of this Legislation is the first step in ensuring that Jamaica's payment and settlement system operates in accordance with the Bank for International Settlements (BIS) Core Principles for Systemically Important Payment Systems. These Core Principles are the payment systems standards used by international agencies such as the World Bank and the International Monetary Fund (IMF), to assess the safety and soundness of payment systems generally.

The Government Securities Dematerialization Act, 2010

This Act was passed in February 2010 and provides that every government security which is issued by the Government of Jamaica under any specified Act in the schedule shall be issued in dematerialized form or electronic format. The intention is for such securities to be issued and recorded in electronic form through the Central Securities Depository (CSD) which was established in May 2009 for fixed income securities. The CSD is operated by the Bank of Jamaica and for the purposes of this Act the Bank of Jamaica is appointed the Registrar of Government Securities.

Under this Act, the Register of Government Securities constitutes prima facie evidence of the legal title to any Government Security entered in that Register.

The Credit Reporting Act

This Act was passed in August 2010. The statute imposes a licensing system on persons who intend to offer credit reporting services, and prescribed reporting processes are outlined to ensure the objective and standardized reporting of credit information under this regime. Persons offering credit reporting services will be subject to regulation by the Bank of Jamaica.

The Credit Reporting Regulations, 2010

These Regulations under the Credit Reporting Act were affirmed in the Lower House in 2010 and in the Upper House in January, 2011. These Regulations provide a detailed outline of the licensing process and the prerequisites for an applicant to be licensed.

The Financial Investigations Division Act (FIDA)

This Act was passed in March, 2010. The passage of this Act satisfies Jamaica's obligation to comply with recommendation 26 of the (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".*

Allied to this recommendation is the Financial Action Task Force (FATF) advisory that such unit when established, should consider applying for membership in the Egmont Group1.

Terrorism Prevention (Reporting Entities) Regulations

These Regulations were promulgated in March 2010 and outline the operational controls that must be maintained by financial institutions particularly when contemplating the commencement of a business relationship or one-off transaction. As such, these regulations largely mirror the Know Your Customer (KYC) obligations contained in the Regulations under the Proceeds of Crime (Money Laundering Prevention) Regulations, 2007 and therefore require financial institutions to establish and maintain appropriate procedures in relation to identification, record-keeping (minimum 5 years retention period), internal controls, communication, and training of employees. These Regulations also prescribe the requisite Declaration Forms for transactions which the reporting entity knows or suspects is one that constitutes a terrorism offence; and for the quarterly reports as to whether or not the reporting entity is holding property in respect of a person who is on the United Nations list of designated terrorists or in respect of a person who has links with terrorists or terrorist groups or organizations.

Pending Amendments to Financial Legislation

The Bank of Jamaica Act

In December 2010, Cabinet approved the decision for the institutional responsibility for the stability of Jamaica's financial system to be assigned to the Bank of Jamaica. This reform also comprises the set of legislative reforms that underpin the current Stand-By Arrangement with the IMF. The amendments to the Act will among other things:

1. Outline the mandate of the Bank of Jamaica in relation to this role of maintaining financial system stability.

2. Expand the regulatory oversight of the Bank of Jamaica to financial institutions whose operations are deemed to be of systemic importance;

3. Grant the necessary powers to the Bank of Jamaica to obtain information from these financial Institutions that will allow for the assessment of risks to the financial system (including the powers of inspection; powers to demand information).

4. Give the Bank of Jamaica the necessary powers to direct and impose measures to mitigate and control these risks (including the extension of liquidity; and powers to issue Prescriptive Rules, Standards and Codes pertinent to this oversight of the stability of the financial system).

Omnibus Statute

In August 2010, Cabinet approved the recommendations proposing the implementation of the Omnibus legislation. This legislation will involve the consolidation of the

Banking Act, Financial Institutions Act and the Building Societies Act into one consolidated statute. It will include the removal of any existing inconsistencies between these statutes to ensure a more synchronized progression of updates to the laws governing the deposit-taking industry, as well as facilitate the passage of enhancements regarding consolidated and conglomerate supervision that will bring the regulation of the banking sector in line with the recently issued Revised Basel Core Principles (i.e. Basel II).

The Basel Core Principles are the global standards for prudential regulation and supervision of banking systems. Revisions to the financial legislation will also focus on current issues such as outsourcing, as well as the proposed role of credit bureaux, provisions for electronic reporting and enhancing powers as regards the investigation and prosecution of illegal deposit-taking activities.

The Cooperative Societies (Amendment) Bill

These proposed amendments to the Cooperative Societies Act will among other things bring credit union cooperative societies under the regulatory ambit of the Minister of Finance and the Public Service and Bank of Jamaica. This Bill includes provisions that will restrict the deposit-taking activities of cooperative societies to those which operate as credit unions. It is anticipated that this Bill will be presented to Parliament jointly with the Bank of Jamaica (Credit Union) draft Regulations which contain the substantive prudential requirements to which credit unions will be subject once the aforesaid regulatory regime comes into effect.

Pending Financial Regulations

The Banking (Form of Application) Regulations
The Financial Institutions (Form of Application) Regulations

These regulations will comprise the prescribed application form under the respective Acts. The earlier format of licence fees regulations under the Banking Act and the Financial Institutions Act that dealt with both licence fees and the prescribed form of application was not retained. These regulations will also include enhancements to the application form to capture certain basic particulars from applicants that were not captured under the old forms as well as enhancements to bring them in line with the revised Core Principles. The revised form will also require the principals signing on behalf of the applicant company to certify that the information given in the form is accurate to the best of their knowledge and belief. Similar reforms to the application form under the Building Societies Act will be subsequently effected.

The Building Societies (Licence Fees) Regulations

These regulations will be revised to bring the fees payable in line with the applicable fees under the 2003 Licence Fees Regulations under the Banking Act and the Financial Institutions Act.

The Banking (Qualification of Auditors) Regulations

These regulations will create a framework for ensuring that auditors, who are proposed as the statutory auditors of financial institutions, are independent of the financial institutions being audited.

The Banking (Credit Classification and Provisioning) Regulations

These regulations will formally impose the measures that banks are required to take in assessing credit, taking security and making provisions for the possibility of default.

The Bank of Jamaica (Credit Union) Regulations

These regulations will bring the operations of credit unions fully under the Bank of Jamaica's prudential supervisory regime. The regulations will therefore among other things, cover licensing, capital, reserves, prohibited business, remedial and intervention processes and the role of specially authorized credit unions.

Finance, Funds and Asset Management Department

L-R: Pamella Lawrence, Ramona Dacosta and Delgado Williamson

L-R: Michael Allen, Randia Scott and Tracey Tucker

REVIEW OF OPERATIONS

Financial Operations and Fund Management

The Corporation achieved a satisfactory financial out turn and ended the year with total assets of $8.6 billion, an increase of 24.6 percent over the previous year's total of $6.9 billion. Total revenue which was $1.44 billion declined by 12.5 percent, when compared to the previous year's $1.6 billion. The reduction in revenue was due to a decline of 19.4 percent in interest earned, as well as losses on foreign exchange conversion and other income. Table 6 summarises the *Statement of Operations.*

The GOJ in agreeing the Stand-by Agreement with the International Monetary Fund (IMF) had identified specific targets for each category of Public Bodies. Quarterly targets for Self-Financing Public Bodies were set based on the Overall Balances in the *Statement "A" – Flow of Funds* for the year under review. The Corporation met all the quarterly targets set by the MOFPS.

Table 6: Summary of the Statement of Operations

STATEMENT OF OPERATIONS	2010/11 ACTUAL $M	2010/11 BUDGET $M	2009/10 ACTUAL $M	2008/09 ACTUAL $M
Insurance Premium	721.0	651.6	643.0	553.4
Interest Earned	755.8	767.0	937.5	694.0
Other Income/(Loss)	(31.6)	-	15.8	132.6
Total Revenue	1,445.2	1,418.6	1,596.3	1,380.0
Administrative Expenses	(128.9)	(177.9)	(152.2)	(171.3)
Surplus from Operations	1,316.3	1,240.7	1,444.1	1,208.7

Cost containment continued to be a high priority of the Corporation. Based on the measures implemented total administrative expenses was reduced by 15.3 percent to $128.9 million, when compared with the previous year. Staff cost was $89.6 million, or 69 percent of total administrative expenses, compared to $93.9 million (62 percent) in 2009/10. Professional fees were significantly less, when compared with the previous year which had included consultancy fees for the Bank Insolvency Conference. *Table 7* summarises the percentage analysis of the categories comprising total administrative expenses and compares it with the two previous years.

Table 7: Summary of Administrative Expenses Distribution

EXPENSES	2010/11 %	2009/10 %	2008/09 %
Staff Cost	69	62	69
Public Education & Advertising	6	5	10
Professional Fees	4	17	8
Depreciation	4	3	2
Other	17	13	11
TOTAL	100	100	100

Despite achieving an Expense Control ratio of 8.9 percent, the lowest since inception of the Corporation, total revenue was adversely affected by the reduction in interest earned and the losses on foreign exchange conversion. The Net Surplus ratio improved to 91.1 percent as a result of approximately 15.3 percent reduction in administrative expenses. The Return on Assets and Asset Management ratios declined as a result of a reduction in revenue. *Table 8* shows the key performance ratios compared with the budget and the two previous years.

Table 8: Summary of Key Performance Ratios

KEY PERFORMANCE RATIOS	DEFINITION	2010/11 ACTUAL %	2010/11 BUDGET %	2009/10 ACTUAL %	2008/09 ACTUAL %
Expense Control	Administrative Expenses/Total Revenue	8.9	12.5	9.5	12.4
Net Surplus	Surplus from Operations/Total Revenue	91.1	87.5	90.5	87.6
Return on Assets	Surplus from Operations/Total Assets	15.2	15.7	20.9	21.9
Asset Management	Total Revenue/Total Assets	16.7	17.9	23.1	25.0

The Deposit Insurance Fund

The Deposit Insurance Fund (DIF) at the end of the year was $7.9 billion, increasing by 19.7 percent over the previous year's balance of $6.6 billion. The yield at the end of the year was 11.3 percent compared with 11.2 percent at the end of the previous year.

Section 17(2) of the DIA allows the Corporation to invest its available resources in risk-free Government securities. The Board of Directors exercises oversight management of the DIF through the Investment Committee. Management, through the Treasury Management Committee, executed the day-to-day Investment functions.

The Investment Policy which delineates the specific guidelines by which the Corporation must abide in executing the investment functions, was revised during the year to reflect changes in procedures and the current investment environment. During the period the DIA was also amended to allow the Corporation to invest the resources of the Fund in securities issued or guaranteed by the Bank of Jamaica. *Table 9* shows the composition of the DIF over a five-year period.

Table 9: Five-Year Fund Growth

YEAR	2010/11 $M	2009/10 $M	2008/09 $M	2007/08 $M	2006/07 $M
Premium Income	721.0	643.0	553.4	484.1	437.7
Net Investment Income	595.3	801.1	655.3	331.8	252.1
Previous Year Deposit Insurance Fund	6,573.6	5,129.5	3,920.8	3,104.9	2,415.1
Deposit Insurance Fund	7,889.9	6,573.6	5,129.5	3,920.8	3,104.9

Consistent with the exchange options chosen in the JDX programme and subsequent investment strategy direction, the Corporation continued to hold a significant share of Benchmark Investment Notes, along with US$ Investment Notes and Treasury Bonds*. The investment maturity profile will continue to be dominated by medium term investment holdings.

Table 10 shows the distribution of the investment instruments in the portfolio and comparison with two previous years:

Table 10: Investment Portfolio Distribution

INVESTMENT PORTFOLIO	2010/11 DISTRIBUTION %	2009/10 DISTRIBUTION %	2008/09 DISTRIBUTION %
Benchmark Investment Notes**	85	81	
US$ Investment Notes**	12	15	
Treasury Bonds**	2	3	
Treasury Bills			1
Local Registered Stocks			18
Debentures			61
US$ Indexed Bonds/US$ Denominated Instruments			16
Interest Receivable	1	1	4
TOTAL	100	100	100

*- Based on the current availability of securities in the primary and secondary markets

**- Category of investment instruments transitioned to under the JDX in February 2010

SUMMARY FINANCIAL PROJECTIONS TO MARCH 31, 2012

STATEMENT OF COMPREHENSIVE INCOME	YEAR ENDING MARCH 31, 2012 $'000
Total income	1,304,393
Total expenses	(207,133)
Surplus from operations	1,097,260
Surplus from operations – Balance at Beginning of the Year	7,813,965
Financial Distribution	(54,862)
Deposit Insurance Fund – Balance at End of the Year	8,856,341

CASH AND BANK	YEAR ENDING MARCH 31, 2012 $'000
Total inflow	2,404,530
Total outflow before investments	(370,952)
Investments	(2,034,300)
Net Inflow/ (Outflow)	(721)
Balance at Beginning of the Year	51,028
Balance at End of the Year	50,307

STATEMENT OF FINANCIAL POSITION	MARCH 31, 2012 $'000
Fixed Assets	104,375
Investments	8,521,566
Current Assets	417,530
Total Assets	**9,043,471**
Current Liabilities	19,698
Capital	1,000
Capital Reserves	48,168
Fair Value Reserves	118,264
Deposit Insurance Fund	8,856,341
Total Liabilities	**9,043,471**

Monitoring, Intervention and Resolutions Department

L-R: Eloise Williams-Dunkley, Nicole Brown-Crooks, Wayne Johnson and Donna-Marie McDonald

Monitoring, Intervention and Resolutions

Despite the global economy's recent experience of turmoil in the financial sector, and the numerous bank failures reported in several jurisdictions, there were no failures in the Jamaican banking system. Therefore, the Corporation continued to ensure that it used the "non-crisis" period as an opportunity to enhance its operational capacity, engaging in the following activities:

- Improving its Policyholders' assessment capabilities; intensifying the monitoring of member institutions;
- Increasing communication and coordination with the other financial system Safety Net Partners; and
- Augmenting its resolution preparedness strategies.

Monitoring and Risk Assessment

In furtherance of the Corporation's strategy for Strengthening Operational Efficiency, the Monitoring and Risk Assessment Unit of the Corporation focused on the following projects:

- ***Updating the Framework for Maintenance and Cancellation of the Policy of Deposit Insurance***
  The updated framework includes specific management decisions concerning:
  (i) Deposit Insurance Policy administration;
  (ii) Deposit Insurance premium payment and late payment;
  (iii) Non-refundable Deposit Insurance premiums;
  (iv) The cancellation and re-issuance of the Policy of Deposit Insurance and Certificates of Deposit Insurance, particularly in instances where Policyholders merge.

- ***Increasing Coordination with the Financial Institution Supervisory Division of the Bank of Jamaica***
  This has resulted in easier access to Policyholders' financial data, which will have considerable impact on the analysis process and reporting efficiencies.

- ***Revising the Policyholders' Risk Assessment Framework (PRAF)***
  The PRAF is revised annually in an effort to ensure that the Corporation is in a position to assess the risk of member institutions, detect troubled institutions and undertake timely intervention. The current revision of the PRAF ensured a more clearly defined alignment between a Policyholder's assessment rating and the intervention stages as set out in the *Crisis Intervention Matrix.*

- ***Administering the annual survey of the distribution of insurable deposits held at member institutions***
  This survey remains instrumental in determining an adequate Deposit Insurance coverage limit, arriving at an estimate of insured deposits within each institution and ultimately assessing the adequacy of the Deposit Insurance Fund.

Intervention and Resolutions

A critical component of protecting depositors from loss of their deposits or part thereof is the Corporation's state of readiness to intervene a failing or failed Policyholder, in a timely and effective manner. This ultimately contributes to promoting and maintaining public confidence and financial system stability.

During the year the Corporation's intervention and resolution initiatives were therefore geared towards improving operational efficiency for making deposit insurance payments and strengthening collaboration with the supervisory authority and other Safety Net Partners. Additionally, with the passing of the legislative amendments to the DIA work commenced to ensure that the necessary regulations, policies, procedures and systems are developed to operationalize the new provisions under the Act.

International experience has shown that the computation of a depositor's entitlement to Deposit Insurance payment and making such payments can be time consuming if adequate systems are not in place. Therefore, the Corporation continued to improve its operational capacity specifically with regards to making deposit insurance payments in a timely manner. In this regard, the areas of focus were:

- Development of the Payout Management Information System (PMIS).
- Issuance of a Consultation Paper for proposed Guidelines which will set out the minimum *"Record Keeping Requirements for Policyholders"* in respect of customer and account data.
- The cessation of clearing activities for paper and electronic based transactions.

Payout Management Information System (PMIS)

During the year, comprehensive development work and system testing activities continued on the PMIS which is intended to support the payout business processes of the Corporation (See Appendix 2). The development effort was geared towards addressing the gaps identified during previous iterative testing and also to design and incorporate additional functional requirements to support the enhanced depositor entitlements as provided for in the amendments to the DIA. System testing will be conducted independently of the developers in FY2011/12.

Proposed Guidelines on the Record Keeping Requirements for Policyholders

The Corporation issued a Consultation Paper regarding guidelines on the record keeping requirements for Policyholders. The objective of the proposed Guidelines is to provide clear guidance to Policyholders regarding their responsibility to maintain records in a manner that is consistent with the information required by the Corporation to execute its mandate. The proposed Guidelines which outline the minimum records a Policyholder must maintain for customers and account data were developed with due consideration to governing legislation and other standards of best practices which already guide the record keeping of Policyholders. As far as practicable, the Corporation will seek to minimize any regulatory, financial and or operational burden on Policyholders, while ensuring that the Corporation can effectively execute its functions. The Corporation will work closely with Policyholders during the consultation period to finalize the Guidelines for implementation in the shortest possible time.

Cessation of Clearing Activities

The closure of a deposit-taking "clearing" institution will result in the suspension of clearing activities for paper and electronic based transactions between the closed institution and the remainder of the sector. Consequently, normal clearing operations must be terminated promptly and in an orderly manner to complete certain financial transactions which commenced prior to closure of the institution. These transactions could affect the balance of deposit accounts and therefore the level of Deposit Insurance payment which the JDIC must make to depositors. Recognizing the issues, the Corporation commenced activities to formulate processes to direct how it deals with a failed Policyholder's clearing of paper and electronic based transactions at the time of closure. These activities include discussions with the members of the Jamaica Clearing Bankers Association and the review of practices within other jurisdictions. The Corporation will seek to develop internal policies and procedures in respect of clearing activities contingent on the issuing of regulations or guidelines that support the Payment Clearing and Settlement Act, 2010.

Intervention Training & Simulation Exercises

Underpinning the process of enhancing the Corporation's state of readiness is the ongoing review and assessment of the legal and operating framework and the intervention policies and procedures. In this regard, simulations continued to be an appropriate assessment tool providing valuable training for participants.

During the year, the Corporation continued to undertake the preparatory work required to conduct a simulation of an Insured Deposit Portfolio Transfer with a Policyholder. The staging of the simulation will be prioritized in order to test the policies and procedures that have been developed. The Corporation has received the commitment of a Policyholder to participate in the simulation exercise and is anticipating that the simulation should be conducted during FY2011/12.

The annual "Payout Contingency Planning" simulation exercise conducted in FY2010/11 was specifically geared towards testing the Corporation's ability to mobilize the resources to be employed in order to intervene in a financial institution. The simulation reinforced to participants the Corporation's role as outlined in the *Guide to Intervention for Financial Entities (Crisis Intervention Matrix)*.

The simulation exercise provided valuable training for all participants and although involved only JDIC staff has emphasized the need for all the Safety Net Partners to elucidate and concretize their respective roles under the Crisis Intervention Matrix.

Review of the Crisis Intervention Matrix

The intervention of a failing or failed bank is guided by the Crisis Intervention Matrix for action by the Safety Net Partners in resolving institutions experiencing viability challenges.

The Corporation concluded its review of the Matrix and forwarded its findings to the Bank of Jamaica. This will allow for collaboration with our Safety Net Partners to address identified gaps.

Compensation Schemes

The Working Group that was established in FY2009/10, comprising the FSC and the JDIC presented for the consideration of the MOFPS, a position paper titled *"Proposal for Establishing Compensation Schemes for the Non-Deposit Taking Financial Sector"*. The document outlines the public policy objectives and rationale for the implementation of these schemes which will provide protection to the purchases of the products and services which are geared towards strengthening the Financial System Safety Net. Work towards the establishment of compensation schemes for the Insurance (Life & General); Securities and Pensions sub-sectors will continue into FY2011/12.

Public Education and Awareness

Making the right financial decision is critical, but oftentimes difficult for savers and investors. As financial markets crumbled during the global financial crisis, renewed focus was placed on *'financial literacy'* and *'financial inclusion'* – significant elements to empowering consumers; and ultimately contributing to financial system stability.

Deposit Insurers have long recognized the importance of consumer education, as is evidenced in the International Association of Deposit Insurer's (IADIs) *'Core Principles for Effective Deposit Insurance Systems'* – where public awareness is highlighted as a key component of any effective deposit insurance regime.

The JDIC continued to place emphasis in this area during FY2010/11. Key areas of focus included: partnership with Policyholders; the schools programme; print and electronic advertising; presentations to public/private sector organizations and groups; and participation in the FSC sponsored forums.

Partnership and collaboration with Policyholders in the dissemination of deposit insurance information to customers and the wider public continued. This was through the hosting of workshops for Policyholders' staff. This training has been ongoing and is intended for new staff, customer service representatives, operations managers, training officers and/or any other staff who in their interaction with customers may need to inform them about deposit insurance.

Policyholder's staff and members of the JDIC Team pose for the camera following a training seminar

Cornwall College student Khamal Clayton (center), who placed first in the JDIC Essay Competition, poses with his teacher Brigette Lecky (right). JDIC's Corporate Communications Manager, Marjorie McGrath shares in the celebrations.

2nd and 3rd place winners of the JDIC Essay Competition, Shauna-Kay Herah (2nd left) and Renee Osbourne of Glenmuir High with their teachers Nicole Smith Fagan (right) and Yvonne Harvey (left).

During the year two workshops were conducted with most Policyholders represented. An evaluation report completed by attendees indicated that they were satisfied with both the content and delivery. Participants strongly recommended that such workshops be held more frequently.

The schools programme included an essay competition; presentations to the school community; participation in a radio programme and a 'Back to School' bazaar hosted by a local radio station.

For the essay competition, in seeking to engage the students the Corporation focused on two topics relevant to the present economic climate. Firstly, the different roles of the financial Safety Net Partners, and how they complement each other, working together to ensure stability of the system and the confidence of depositors. The second examined how deposit insurance agencies responded to mitigate the impact of the global financial crisis. Students were encouraged to develop a penchant for participating in these competitions, not only to gain knowledge of the deposit insurance and the financial system; but to help improve their research and writing skills. Developing the habit of saving was reinforced and hence one of the rules of the competition was that prize monies had to be deposited directly to the winners' bank accounts, and where no accounts existed they had to open accounts at a financial institution of their choice.

Electronic and print advertising was continued as a critical tool in disseminating the deposit insurance message. During the latter part of the year the Deposit Insurance (Amendment) Act was passed and the print media was used as the main vehicle to inform the public of the expanded benefits under the Deposit Insurance Scheme.

In the coordinated safety net partnership the Corporation participated in public forums sponsored by the Financial Services Commission (FSC). This included a presentation at a *World Consumer Rights Day* seminar - a collaborative effort between the FSC and the National Consumer League.

Rowen Johnson (left) of Ardenne High, who tied with Shauna-Kay Herah for 3rd place, with his teacher Orrette Muir.

At the end of the year, the Corporation commissioned the services of a survey house to conduct a public awareness survey to measure the level of public awareness of the JDIC, the DIS and the specific elements of the Scheme. The survey results which will help to determine the content and structure of the 2011/12 programme indicated that since the last survey in 2006, 75 percent of persons are now aware of the Corporation compared to 50 percent then. Also 75 percent of the persons interviewed recalled the JDIC's tag line "JDIC *Protecting Deposits for You and Me*". However many persons still do not have a full understanding of the way the DIS works, as the number of persons who had heard about deposit insurance fell from 50 percent to 48 percent. The Corporation will seek to address this during FY2011/12, focusing on the use of electronic media, in particular television, which the survey indicated was the most effective channel for disseminating information.

CEO's Office

L-R: Hannah Dixon and Antoinette McKain

MANAGEMENT OF STRATEGIC RESOURCES

Personnel and Administration

Deposit Insurance, is a specialized area in the regulation and supervision of the financial system. The success of its objectives requires skilled practitioners operating in an environment, which is conducive to the development of strategies and systems to minimize and resolve problems in the financial sector. To this end, the Corporation endeavours to maintain a core of highly professional and motivated staff. As such, emphasis continued to be placed on training and development.

During the review period staff training included the following areas:

- *IADI's Executive Training – Resolution of Problem Banks*
- *CARICRIS - Credit Risk Analysis of Securities and Credit Unions*
- *KPMG/PWC - International Financial Reporting Standards*
- *EuroFinance - Understanding Corporate Treasury, Cash and Risk Management*
- *Global Association of Risk Professionals (GARP) – Addressing Systemic Risk*
- *GOJ Procurement Procedures and Policies*

A rationalization of job functions was carried out and the areas relating to personnel, office management, payroll and corporate planning were reassigned to the Finance, Funds and Asset Management and to the Legal Counsel, Corporate Secretariat and Communications Departments. At March 31, 2011 the staff complement remained at 20.

ICT Unit

L-R: Omar Cheevers and Lucius Bullens

Information and Communication Technology

The Corporation continued its three-year strategy of strengthening the ICT infrastructure to better support the Corporation's initiatives. Focus during the year was on:

- Upgrading of application servers and server technology.
- Increasing server capacity to properly accommodate the implementation and deployment of the PMIS when developed and the new Microsoft Dynamics Accounting System (MDAS). The unit worked alongside the Finance, Funds and Asset Management department in the selection and implementation of MDAS. Work continued with respect to report customization.
- Strengthening network security which remained an important aspect of the ICT mandate. The ICT policies and procedures were updated to accommodate this initiative.
- The PMIS to incorporate changes to the Intervention and Resolution business processes.

Environmental Management

The Corporation requires that environmental management processes are integrated into the business and strategic planning processes at all levels. Along with the staff, the Corporation is committed to maintaining a safe environment, endeavouring at all times to act in an environmentally sound manner with the responsibility for ensuring that proper procedures and standards are upheld to support the sustainable use of resources.

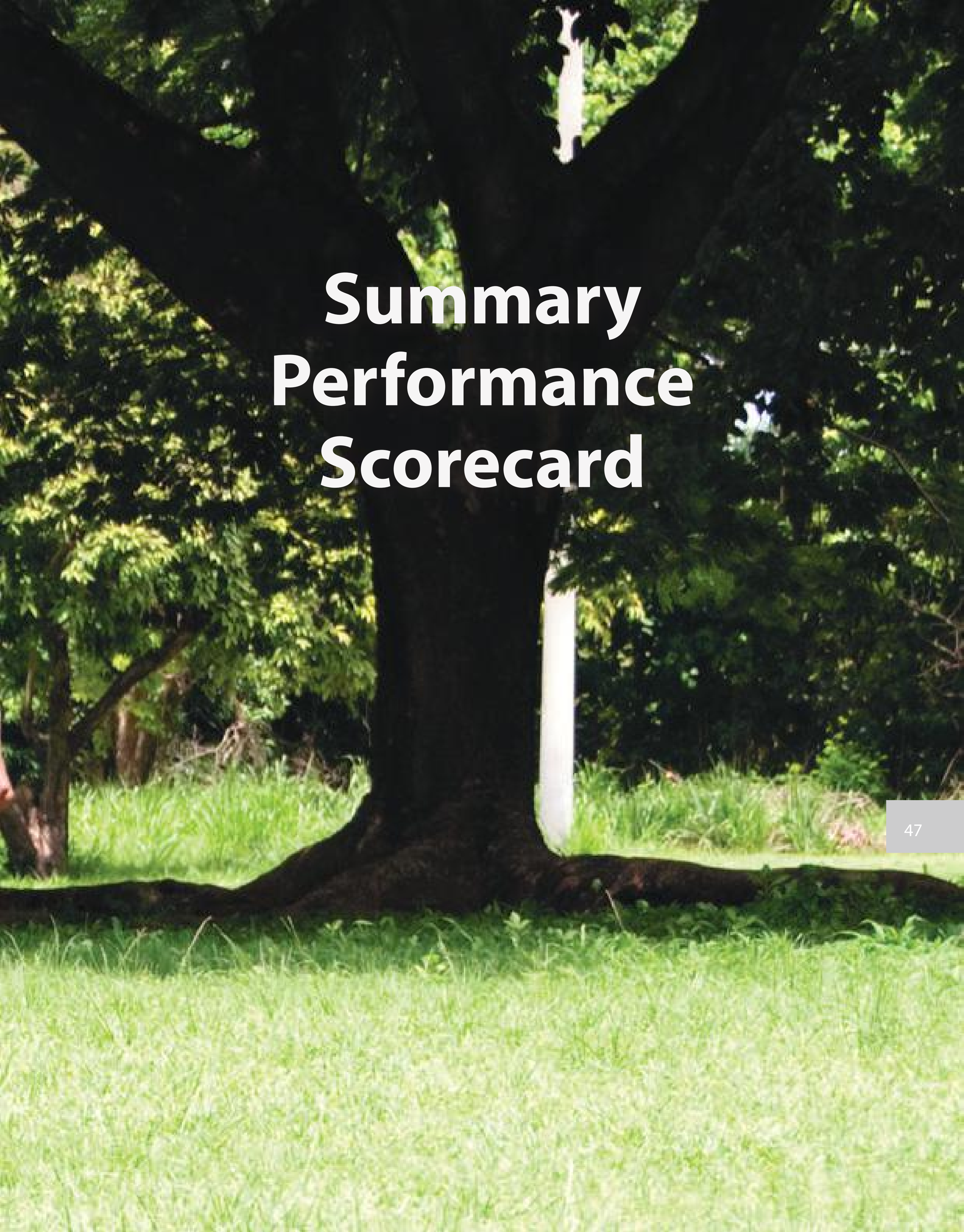
LEGAL AND COMPLIANCE

The Legal function continued to ensure that the Corporation remained within the bounds of statutory compliance, as well as maintaining support for contractual commitments; thus minimizing the Corporation's exposure to risk. The following report identifies the Corporation's statutory reporting requirements and its compliance status.

Statutory Compliance Report

NAME OF REPORT	NATURE OF REPORT	STATUTORY AGENCY	ACT	PERIOD REPORTING	SUBMITTED
Annual Report and Audited Financial Statements FY2009/10	The Annual Report gives the details on the operations for the year (April – March) of the Corporation and includes the Audited Financial Statements which shows the accumulated financial position of the Corporation over the same 12-month period, duly certified by the Corporation's external auditors.	Ministry of Finance and the Public Service (MOFPS)	Public Bodies Management and Accountability Act (PBMA) Deposit Insurance Act	Annually	√
Corporate Plan Operating & Capital Budgets FY2011/12-2013/14	Statement of intent which outlines the broad direction of the Corporation for 3 years. Includes vision, mission, financial plans, manpower requirements, measures to evaluate performance.	MOFPS	PBMA	Annually	√
Public Bodies Management and Accountability Report (PBMA)	Report gives the quarterly / half year outturn of actual performance against targets. The financial statements and the projected budgets for the remaining quarters/half year.	MOFPS	PBMA	Quarterly and Half-yearly	√
Quarterly Contract Awards (QCA) Report	This report shows the award of contracts over $275,000 during the Quarter.	Office of the Contractor General	Contractor General Act	Quarterly	√
The Access to Information Act (2002): Monthly Report Form and Quarterly Report Form	The report shows requests from the public for information on aspects of the operations of the Corporation.	The Access to Information Unit, Office of the Prime Minister	The Access to Information Act, 2002	Monthly, Quarterly	√
Corruption (Prevention) Act , 2000	Statutory declaration to be made by public servants of assets and liabilities and income.	Office of the Commissioner for the Prevention of Corruption	Corruption (Prevention) Act, 2000	Annually	√
Public Sector Report System (PRS-1)	Report of all goods/services procured in any given month	MOFPS		Monthly	√
Net Credit Report (Statement)	This report shows the month-end balances on investment categories and bank balances.	MOFPS		Monthly	√
Monthly Financial Statements - (Statements A and B)	The Monthly Financial Statements shows the monthly and accumulated financial position of the Corporation.	MOFPS		Monthly	√

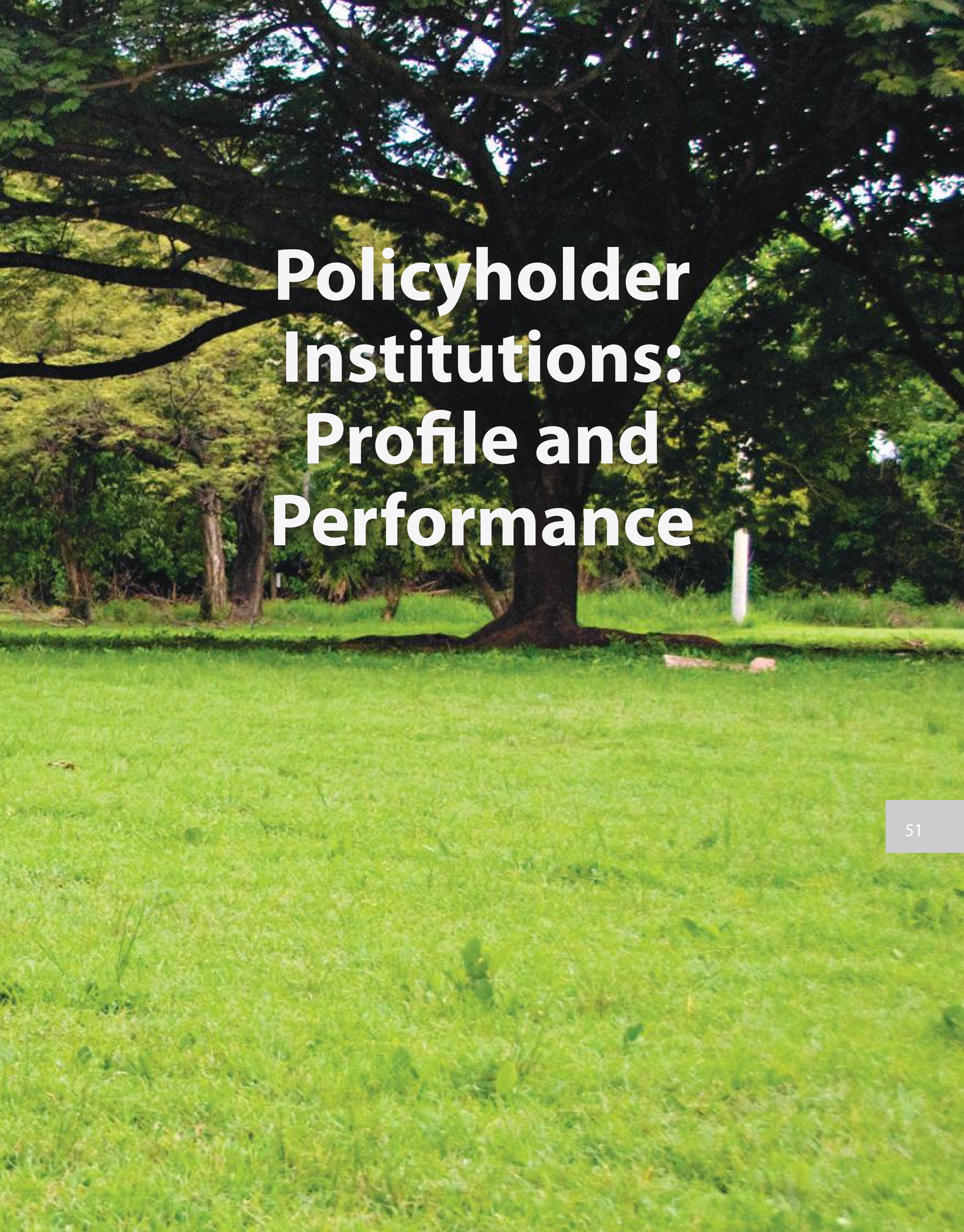
Summary Performance Scorecard



Summary Performance Scorecard

BUSINESS STRATEGIES KEY INITIATIVES	PERFORMANCE AGAINST TARGETS	FOLLOW THROUGH ACTIVITIES
PROACTIVE READINESS		
Establish Policyholders' Record Keeping Guidelines	Consultation Paper finalized and circulated to Policyholders and other stakeholders for comments.	Finalise consultation process and develop Guidelines. Develop framework for assessing and monitoring compliance.
Develop Policies and Procedures for Clearing of Paper/Electronic Based Transactions during Payout (at closure date of failed institution).	Project commenced and review of the ACH Rules completed; as well as interviews conducted with members of the Jamaica Clearing Bankers Association.	• Review practice of other jurisdictions • Develop Policies/Procedures • Collaborate with Central Bank and other stakeholders regarding recommendations for the amendment of the existing regulations.
Conduct Payout Contingency Planning Session	Project completed. Operational readiness of all Departments tested and findings circulated.	–
New Payout Application (Payout Management Information System -PMIS)	Development work and User Acceptance Testing completed internally.	Conduct final phase of System Testing (to be carried out by external Consultant) – to be completed in Q1 of FY2011/12.
Insured Deposit Portfolio Transfer Simulation Project	Policyholder agreement to participate obtained	JDIC to sign off on Project Charter with Policyholder. With assistance from external Consultant, work to commence on the development of the simulation material
STRONG PARTNERSHIPS		
Continue collaboration with FSC in the exploration and implementation of Compensation Schemes for Insurance, Securities and Pensions Sectors	A Paper 'Proposal for Establishing Compensation Schemes for the Non Deposit-taking Financial Sector in Jamaica' was prepared by the Working Group (FSC/JDIC) and forwarded to MOFPS to facilitate submission to Cabinet	Continue collaboration with FSC
Review of Crisis Intervention Matrix	Updated JDIC Policies and Procedures in relation to Crisis Intervention Matrix reviewed and sent to the Bank of Jamaica for review and comment	Discuss with Bank of Jamaica amended Matrix document with reference to proposed Bank of Jamaica Financial Stability Committee.

BUSINESS STRATEGIES KEY INITIATIVES	PERFORMANCE AGAINST TARGETS	FOLLOW THROUGH ACTIVITIES
STRENGTHENING OPERATIONAL EFFICIENCY		
Effect Fund Adequacy Review	Consulting Firm has been engaged and the fund adequacy review has commenced.	Consultant's findings to be presented in Q1 of FY2011/2012.
Contingency Funding Plan	Letter sent to the Financial Secretary on the development and implementation of the Contingency Funding Plan.	Finalise Contingency Funding Plan.
Investment Policy Review	Updated Policy approved	_
Review Policyholders Risk Assessement Framework (PRAF)	Project was completed in Q3 FY2010-2011	_
Implement Accounting Software	Software implemented	_
Design and Implementation of Records Management Policy (Develop draft Records Management Procedures Manual)	_	Deferred to FY2011/2012. An External Consultant is to be appointed by tender to assist with the exercise.
PUBLIC EDUCATION AND AWARENESS		
Public Education Programme to be recrafted to include information on the admission of Credit Unions to the DIS	The FY2011/2012 Public Education Programme was developed during Q4. The expected timetable for credit union regulation and subsequent admission to the DIS is still to be determined, however credit union information now included in the FY2011/2012 programme.	_
Review and Update Policyholders' Training Manual and include training plan for Credit Unions	Policyholders' Training Manual updated.	Section pertaining to Credit Union to be inserted as an appendix in Q1 FY2011/12.



Policyholder Institutions: Profile and Performance

Policyholder Institutions: Profile and Performance

With the exit of Scotia DBG Merchant Bank in October 2010[6] membership in the Deposit Insurance Scheme fell to 13 – 7 Commercial Banks, 4 Building Societies and 2 FIA Licensees. Therefore, the commercial banking sector accounted for more than one-half the number of Policyholders with just over 75.0 percent (previously 70.0 percent) of the total assets in the banking system at the end of the fiscal year. For the full fiscal year, the banking system recorded increased profit levels and each Policyholder was assessed as solvent at the end of the review period.

Total assets within the banking system were 0.1 percent higher at the end of the year with increases in investments (up 15.4 percent) slightly outweighing declines in total loans & advances and cash and bank balances (down 2.3 percent and 15.8 percent, respectively). The decline in cash and bank balances was mainly the result of a 200 basis point reduction in both the required cash reserve ratio and the required liquid assets ratio to 12 percent and 16 percent, respectively in July 2010, as the Bank of Jamaica continued its easing of monetary policy.

FIGURE 3: TOTAL ASSESTS AS AT MARCH 2009-2011

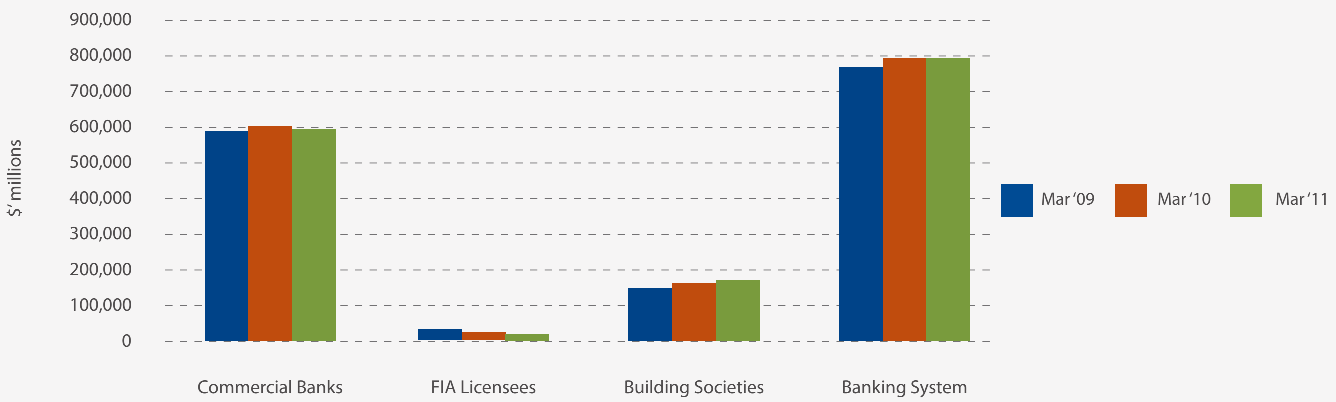
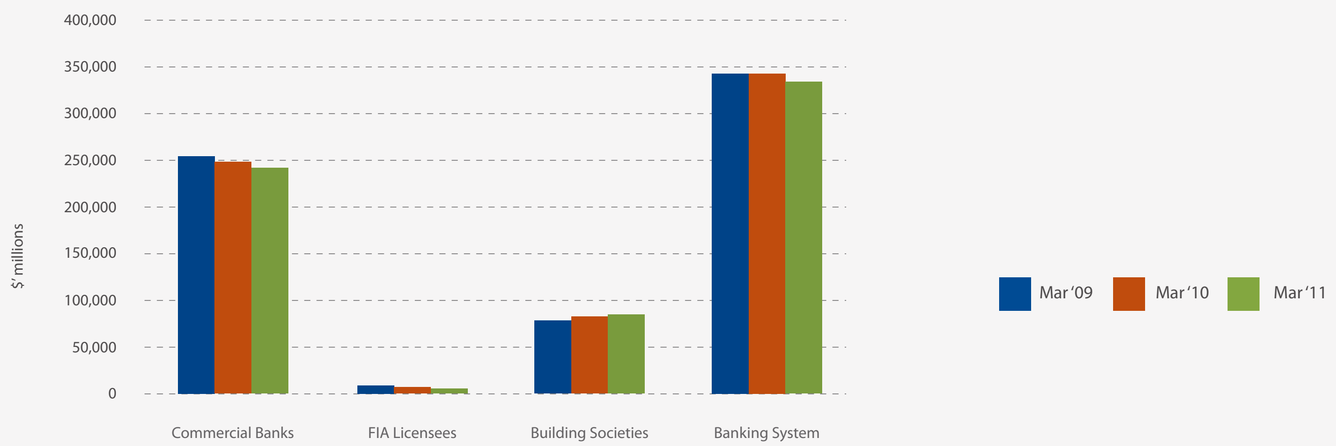


FIGURE 4: TOTAL LOANS AS AT MARCH 2009-2011

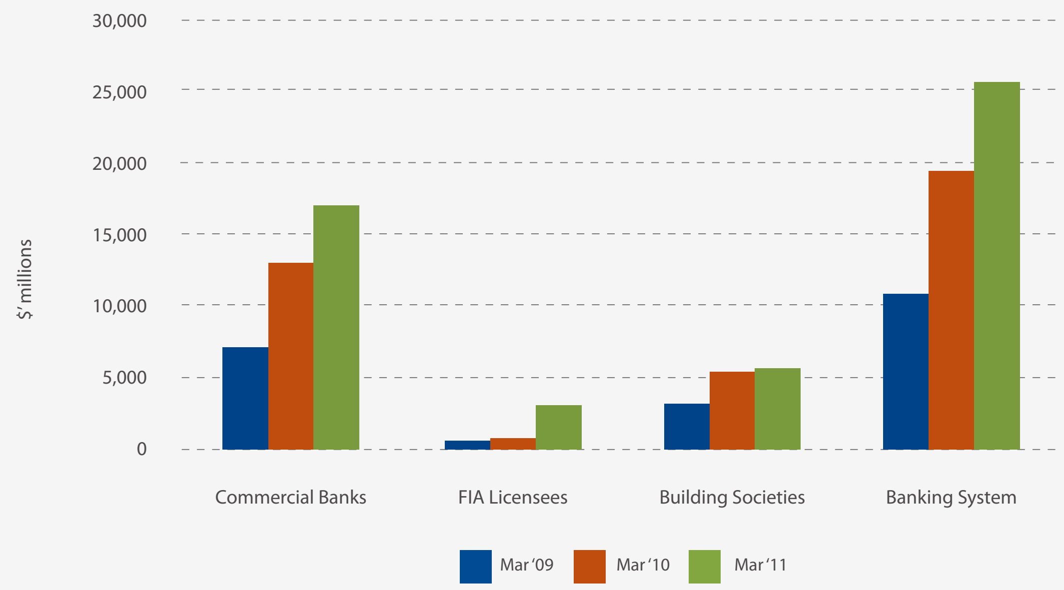


[6] Scotia DBG Merchant Bank Limited surrendered its license under the Financial Institutions Act to the Bank of Jamaica in October 2010, with its assets and liabilities being transferred to the parent company Bank of Nova Scotia Jamaica Limited.

Total loans and advances continued to account for the largest share (43 percent) of total assets in the banking system. However, the protracted period of economic downturn, continued wage freeze in the public sector and sustained high levels of unemployment contributed to depressed demand for loans and advances and reduced the potential for individuals to honour their obligations with financial institutions. As a result, the level of non-performing loans (3 months & over) increased by 32.6 percent during the fiscal year (78.0 percent for FY2009/2010) and overall quality of assets weakened.

The ratio of non-performing loans to total loans rose from 5.5 percent in FY2009/2010 to 7.5 percent at the end of FY2010/2011. Relative to capital plus provisioning, the ratio of non-performing loans reached 24.1 percent (20.4 percent FY2009/2010), continuing to be above the prudential maximum of 20.0 percent.

FIGURE 5: NON-PERFORMING LOANS AS AT MARCH 2009-2011



The deterioration in the ratio of non-performing loans to capital plus provisioning took place despite increases of 54.4 percent in the level of provisioning for loan loss and 5.5 percent in the statutory capital base. With increases in the level of statutory capital, capital adequacy indicators such as the risk-weighted Capital Adequacy Ratio (CAR) (at 17.6 percent) and the primary ratio (statutory capital: total assets) (10.8 percent) continued to return favourable outcomes at levels well above the prudential minima.

Despite the many challenges during the fiscal year, and in the context of significant reductions in prevailing interest rates, the banking system remained profitable recording an increase in pre-tax profits of 17.6 percent (23.7 percent in previous fiscal year). Increased profitability was driven by the commercial banking sector, which accounted for 82.0 percent (86.7 in FY2009/2010) of pre-tax profits in the banking system. The share of pre-tax profits attributable to Building Societies was 16.0 percent (up from 12 percent) and FIA Licensees 2.0 percent (up from 1.3 percent). During the year, pre-tax profits increased by 7.2 percent for the commercial banks, 51.8 percent for the building societies and 39.5 percent for the FIA Licensees.

The increased levels in pre-tax profits resulted from increases (of 46.0 percent) in non-interest income and reductions in interest expenses (of 34.4 percent) which were sufficient to outweigh the declines in interest income. The increase in non-interest income resulted from higher levels of fees and commission income as Policyholders sought to generate additional income in the context of declining interest income following the Jamaica Debt Exchange (JDX) programme in February 2010. The reduction in interest income was consistent with the lower weighted average deposit rates at commercial banks. As at March 2011, the weighted average deposit rates for commercial banks stood at 2.6 percent, down from 4.3 percent as at March 31, 2010. Interest income fell by 18.0 percent during the year consistent with the more than 50 percent reduction in interest rates applicable to investment securities following the implementation of the JDX. Non-interest expense increased by 2.2 percent, and compared favourably with the full fiscal year inflation of 7.8 percent. Despite cost-containment measures, restructuring activities and higher levels of fee income, the banking system's efficiency ratio[7] worsened during the year to 57.4 percent, up from 52.2 percent for the previous fiscal year.

[7]Efficiency ratio refers to the ratio of non-interest expense relative to operating income.

POLICYHOLDERS AS AT MARCH 31, 2011

COMMERCIAL BANKS	Bank of Nova Scotia Jamaica Limited Citibank N.A. FirstCaribbean International Bank (Jamaica) Limited First Global Bank Jamaica Limited National Commercial Bank Jamaica Limited PanCaribbean Bank Limited RBTT Bank Jamaica Limited
BUILDING SOCIETIES	FirstCaribbean International Building Society Jamaica National Building Society Scotia Jamaica Building Society Victoria Mutual Building Society
FIA LICENSEES	Capital & Credit Merchant Bank Limited MF&G Trust & Finance Limited

PRUDENTIAL INDICATORS OF COMMERCIAL BANKS, LICENSEES UNDER THE FINANCIAL INSTITUTIONS ACT (FIA) AND BUILDING SOCIETIES PUBLISHED PURSUANT TO SECTION 16 (6) OF THE BANKING ACT AND THE FIA AND REGULATION 49 OF THE BANK OF JAMAICA (BUILDING SOCIETIES) REGULATIONS, 1995 31-MARCH-11

	COMMERCIAL BANKS			FIA LICENSEES			BUILDING SOCIETIES			System Total (Aggregation of all 3 sectors)		
	Mar11[b]	Mar-10	Mar-09	Mar11[b]	Mar-10	Mar-09	Mar-11	Mar-10	Mar-09	Mar-11	Mar-10	Mar-09
Number of institutions in operation	7	7	7	2	3	3	4	4	4	13	14	14
J$MN												
[1]Total Assets (incl. contingent accounts)	593,671	599,441	584,672	25,766	32,157	35,292	173,451	160,551	146,892	792,888	792,149	766,856
[2]Total Assets (excl. contingent accounts)	580,659	585,468	570,893	25,515	31,926	34,596	173,451	160,551	146,804	779,625	777,945	752,293
Cash & Bank Balances	112,117	131,822	113,864	1,830	1,836	1,952	19,543	24,947	24,004	133,490	158,605	139,820
Investments [incl. Securities Purch.] (net of prov.)	186,222	164,524	154,190	15,866	19,580	20,275	60,301	43,274	35,741	262,389	227,378	210,206
Total Loans (gross)	248,924	256,994	259,147	7,148	9,298	10,572	87,647	85,375	79,651	343,719	351,667	349,370
Total Loans (net of IFRS prov.) [a]	242,448	250,695	255,162	6,782	8,885	10,439	86,109	84,228	78,901	335,339	343,808	344,502
Total Deposits	382,637	378,414	353,881	8,536	12,281	14,771	119,037	111,243	100,714	510,210	501,938	469,366
Borrowings (incl. repos)	84,746	103,991	122,107	11,793	13,681	14,197	23,297	21,289	20,979	119,836	138,961	157,283
Non-Performing Loans [NPLs] (3 mths & >)	17,102	13,084	7,196	3,010	841	590	5,586	5,457	3,105	25,698	19,382	10,891
Provision for Loan Losses	15,871	10,466	7,593	1,597	773	384	3,453	2,309	1,445	20,921	13,548	9,422
[3] Capital Base	61,221	59,409	51,574	3,475	4,751	4,408	21,079	17,114	16,842	85,775	81,274	72,824
Contingent Accts [Accept., LC's & Guarantees]	13,012	13,973	13,779	251	231	696	0	0	88	13,263	14,204	14,563
Funds Under Management	298	283	253	0	0	0	0	0	0	298	283	253
Repos on behalf of or for on-trading to clients	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
%												
Rate of Asset 1 Growth	-1.0%	2.5%	15.6%	-19.9%	-8.9%	-14.5%	8.0%	9.3%	16.3%	0.1%	3.3%	13.9%
Rate of Deposit Growth	1.1%	6.9%	10.0%	-30.5%	-16.9%	-13.0%	7.0%	10.5%	16.2%	1.6%	6.9%	10.4%
Rate of Loans Growth (gross)	-3.1%	-0.8%	33.0%	-23.1%	-12.1%	-26.6%	2.7%	7.2%	24.8%	-2.3%	0.7%	28.0%
Rate of Capital Base Growth	3.1%	15.2%	19.5%	-26.9%	7.8%	-19.0%	23.2%	1.6%	19.0%	5.5%	11.6%	16.0%
Rate of NPLs (3 Mths &>) Growth	30.7%	81.8%	73.7%	257.9%	42.5%	7.1%	2.4%	75.7%	88.8%	32.6%	78.0%	71.8%
Investments :Total Assets [1]	31.4%	27.4%	26.4%	61.6%	60.9%	57.4%	34.8%	27.0%	24.3%	33.1%	28.7%	27.4%
Loans (net of prov.):Total Assets [1]	40.8%	41.8%	43.6%	26.3%	27.6%	29.6%	49.6%	52.5%	53.7%	42.3%	43.4%	44.9%
Fixed Assets: Total Assets [1]	1.9%	1.7%	1.6%	0.6%	0.7%	0.9%	1.6%	1.6%	1.7%	1.8%	1.6%	1.6%
Loans (gross) : Deposits	65.1%	67.9%	73.2%	83.7%	75.7%	71.6%	73.6%	76.7%	79.1%	67.4%	70.1%	74.4%
Liquidity												
Average Domestic Currency Cash Reserve: Average Prescribed Liabilities [4]	12.0%	14.0%	14.0%	12.0%	14.1%	14.0%	1.0%	1.0%	1.0%	9.0%	10.4%	10.6%
Average Domestic Currency Liquid Assets: Average Domestic Prescribed Liabilities [4]	46.6%	42.2%	38.7%	31.2%	30.1%	27.5%	18.3%	16.4%	12.3%	38.8%	34.9%	31.7%
Asset Quality												
Prov. For Loan Losses: Total Loans (gross)	6.4%	4.1%	2.9%	22.3%	8.3%	3.6%	3.9%	2.7%	1.8%	6.1%	3.9%	2.7%
Prov. For Loan Losses: NPLs (3 Mths &>)	92.8%	80.0%	105.5%	53.1%	91.9%	65.1%	61.8%	42.3%	46.5%	81.4%	69.9%	86.5%
NPLs (3 Mths &>):Total Loans (gross)	6.9%	5.1%	2.8%	42.1%	9.0%	5.6%	6.4%	6.4%	3.9%	7.5%	5.5%	3.1%

NPLs (3 Mths &>): (Total Assets [1] + Provision for loan losses)	2.8%	2.1%	1.2%	11.0%	2.6%	1.7%	3.2%	3.4%	2.1%	3.2%	2.4%	1.4%
Capital Adequacy												
Deposits + Borrowings: Capital (:1)	7.7	8.2	9.3	5.9	5.5	6.7	6.8	7.8	7.3	7.4	7.9	8.7
Capital Base:Total Assets [1]	10.3%	9.9%	8.8%	13.5%	14.8%	12.5%	12.2%	10.7%	11.5%	10.8%	10.3%	9.5%
[5] Capital Adequacy Ratio [CAR]	16.4%	18.0%	14.4%	16.8%	24.0%	23.4%	22.4%	20.2%	22.2%	17.6%	18.7%	16.1%
NPLs (3 mths &>): Capital Base+Prov for loan losses	22.2%	18.7%	12.2%	59.3%	15.2%	12.3%	22.8%	28.1%	17.0%	24.1%	20.4%	13.2%
Profitability												
[6] Pre - tax Profit Margin (for the Calendar Quarter)	26.1%	22.0%	29.0%	6.3%	11.3%	16.3%	28.3%	1.8%	10.5%	26.1%	17.8%	25.5%
Return on Average Assets (for the Calendar Quarter)	0.8%	0.7%	1.1%	0.1%	0.3%	0.5%	0.8%	0.1%	0.3%	0.8%	0.5%	0.9%
[7] Income Assets/Expense Liabilities (at 31 March)	104.3%	102.8%	100.8%	100.9%	108.4%	105.9%	111.1%	108.9%	109.2%	105.8%	104.3%	102.6%

Notes:
n/a not applicable

- Based on unaudited data submitted to BOJ by supervised institutions up to 13 May 2011. Prior years indicators may have revisions arising 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 change was effected:
The composition of "Provision for Loan Losses" has been 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 (treated as an appropriation from net profits). Consequently , "Total Loans (net of prov.)" represents gross loans net of IFRS loan loss provisions per (i) above

[b] Effective 1 October 2010, the assets and liabilities of Scotia DBG Merchant Bank Limited were vested in Bank of Nova Scotia Jamaica Ltd. and the operations merged. Consequently, the licence previously issued to Scotia DBG Merchant Bank Limited under the Financial Institutions Act was surrendered.

[1] Total Assets and Liabilities reflected net of Provision for Losses and include Contingent Accounts (Customer Liabilities for Acceptances, Guarantees and Letters of Credit). In keeping with IFRS, Total Assets and Liabilities were redefined to include Contingent Accounts.

[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: (Ordinary Shares+ Qualifying Preference Shares+ Statutory 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 + Statutory Reserve Fund + Retained Earnings Reserve 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] Capital Adequacy Ratio (CAR): Qualifying Capital (Tier 1 + Tier 2 capital items less prescribed deductions) in relation to Risk Weighted Assets and Foreign Exchange Exposure.

[6] Pre-tax Profits includes extraordinary income/expenditure and adjustments for prior period. Return on Average Assets is computed using pre-tax profits as well as assets before provision for losses (in accordance with IFRS) and including contingent accounts (Acceptances, Guarantees and Letters

[7] 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			FIA LICENSEES			BUILDING SOCIETIES**		
	Mar - 11	Mar - 10	Mar - 09	Mar - 11	Mar - 10	Mar - 09	Mar - 11	Mar - 10	Mar - 09
Required Cash Reserve Ratio	12.0%	14.0%	14.0%	12.0%	14.0%	14.0%	1% 1% 1/12%	1% / 14%	1% / 14%
Required Liquid Assets Ratio (incl Cash Reserve)	26.0%	28.0%	28.0%	26.0%	28.0%	28.0%	5% /26%	5% / 28%	5% / 28%

Effective 1 July 2010, the domestic currency cash reserve and liquid assets ratios were reduced to 12% and 26% respectively.
Effective 1 March 2010, the foreign currency cash reserve and liquid assets ratios for supervised licensees were reduced to 9% and 23% respectively.
Effective 6 February 2009, the domestic currency cash reserve and liquid assets ratios for supervised licensees were increased to 14% and 28% respectively.

** *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

Appendices

1. MACRO PRUDENTIAL POLICY- A RENEWED LOOK

2. PAYOUT MANAGEMENT INFORMATION SYSTEM PROCESS FLOW DIAGRAM

MACRO PRUDENTIAL POLICY-
A RENEWED LOOK

1. Introduction

The recent world financial crisis has increased the interest of policymakers and academics in strengthening financial regulation as a means of augmenting the resilience of financial systems. In respect of policy initiatives, there appears to be consensus on the need to reform financial system regulation, by moving beyond a purely micro-level approach to a more macro-level approach to regulation and supervision.

The concept of "macro-prudential" has gained extensive recognition since the financial crisis (2007-2009), with many publications, research and speeches addressing the issue; however the usage and meanings put forward to date have been varied. The IMF posits that *"while the crisis has sparked an intense debate in both the academia and policy circles, a commonly accepted definition of macro-prudential policy and of its objectives and instruments, is yet to emerge".*[8]

2. Origins and Usage

The earliest use of the term "macro-prudential" dates back to June 1979 where minutes from the Bank for International Settlements (BIS) reflected its use in a meeting of the Coke Committee (the predecessor of the current Basel Committee on Banking Supervision, BCBS).[9] Bank of England records also reflected use of the term in October 1979 in its contrasting of the micro-prudential approach to regulation and supervision of individual banks with a macro-prudential approach. These records reflected the following:

> *"Prudential measures are primarily concerned with sound banking practice and the protection of depositors at the level of the individual bank. Much work has been done in this area – which could be described as the micro-prudential aspect of banking supervision. However, this micro-prudential aspect may need to be matched by prudential considerations with a wider perspective. This macro-prudential approach considers problems that bear upon the market as a whole as distinct from an individual bank, and which may not be at the micro-prudential level".*[10]

Despite these early usages however, the term was not publicly used until 1986 and while it regularly appeared in internal BIS writings, it largely disappeared from the public domain until the recent financial crisis.

3. Micro-Prudential vs. Macro- Prudential Regulation and Supervision

Micro-prudential regulation concerns the protection of individual institutions within the financial system, while macro-prudential regulation is concerned with protecting the stability of the financial system as a whole, as opposed to the individual institutions on a stand-alone basis. In his speech to the *"47th Annual Conference on Bank Structure and Competition"* in Chicago, Illinois on May 5, 2011, Ben Bernanke, Chairman of the Board of Governors of the [United States] Federal Reserve System, asserts:

> *"…macroprudential oversight must be concerned with all major segments of the financial sector, including financial institutions, markets, and infrastructures; it must also place particular emphasis on understanding the complex linkages and*

[8] "Macro Prudential Policy: An Organizing Framework" - Internation Moneytary Fund - March 14, 2011

[9] Piet Clement - "The term "macroprudential": origins and evolution" - Piet Clement BIS Quarterly Review, March 2010

[10] Piet Clement - BIS Quarterly Review, March 14, 2010

interdependencies among institutions and markets, as these linkages determine how instability may be propagated throughout the system." [11]

Three fundamental features distinguish the micro-prudential approach from the macro-prudential approach to regulation and supervision. These are (a) *objectives* (b) *focus* and (c) *risks*. [12]

The objective of a macro-prudential approach is to limit the risks of episodes of system-wide financial distress, thereby limiting their cost to the macro-economy. In contrast the objective of the micro-prudential approach is to limit the risk of failure of individual institutions, regardless of their impact on the overall economy (Borio 2009).

The focus of the macro-prudential approach is the financial system as a whole (micro-prudential focuses on the individual institutions). Borio (2009) uses the analogy of the financial system as a portfolio of securities, with each individual security representing a financial institution. The micro-prudential approach would therefore be concerned with the performance of each individual security; while the macro-prudential approach would focus on the performance of the overall portfolio. The crucial issue from the macro-prudential perspective therefore, is the degree of diversification of risk, not in individual institutions, but in the overall system.

The macro-prudential approach treats aggregate risk as being dependent on the collective behavior of institutions, which are able to affect the price of financial assets, the quantities transacted and in the final analysis, the strength of the economy itself. In turn, this has a powerful feedback effect on these institutions. In contrast, given the focus on the individual institutions, a micro-prudential approach to regulation ignores such feedback. (Borio 2009).

The table below[13] provides a comparison of the fundamental differences between the micro-prudential and macro-prudential approaches to regulation and supervision.

Macro-prudential regulation and supervision follows a top-down approach, by working out the desirable safety standards for the entire system. Thereafter, standards are derived for the individual institutions within the system. It takes into account the fact that drivers of risk within the system, depend on the collective behaviour of financial institutions (i.e. are "endogenous"), and are not something outside their influence ("exogenous").[14]

TABLE: THE MACRO-AND MICRO-PRUDENTIAL PERSPECTIVES COMPARED

	Macro-prudential	Micro-prudential
Proximate Objective	Limit financial system-wide distress	Limit distress of individual institutions
Ultimate Objective	Avoid output (GDP) costs	Consumer (investor/depositor) protection
Characterisation of Risk	Seen as dependent on collective behaviour ("endogenous")	Seen as independent of individual agents' behaviour ("exogenous")
Correlations and Common Exposures Across Institutions	Important	Irrelevant
Calibration of Prudential Controls	In terms of system-wide risk; top-down	In terms of risks of controls individual institutions; bottom-up

Source: Borio (2003)

[11] Bank for International Settlements - Central bankers' speeches - http://www.bis.org/review/r110509b.pdf

[12-14] "Implementing a macro-prudential framework: Blending boldness and realism" – Claudio Borio; BIS – July 22, 2010

Macro-prudential polices aim to address two dimensions of system-wide risk, namely, (1) the "time dimension" (i.e. the evolution of system-wide risk over time) and (2) the "cross-sectional dimension" (i.e. the distribution of risk in the financial system at a given point in time).

The key issue in the time dimension is to mitigate or dampen financial system procyclicality (i.e. how financial system-wide risk can be amplified by interactions within the financial system and between the financial system and the real economy, sometimes leading to financial crises). In economic upswings, the financial system creates and tends to become overexposed to aggregate risk, via ample credit availability, rapid increases in asset prices, leverage and maturity mismatches. If the system has not built sufficient buffers in good times, when the financial cycle turns, the downturn can induce widespread financial distress and be amplified by substantial deleveraging, reducing the provision of credit and key financial services to the economy. A specific focus here is how to put in place various forms of buffers that act countercyclically, thereby also possibly restraining the build-up of systemic risk.

The key issue in the cross-sectional dimension is to reduce systemic risk concentrations, which can arise from similar exposures across financial institutions (from assets, liabilities, dependence on common services) or because of the direct balance-sheet linkages among them (e.g., counterparty risk).[15]

4. Challenges To Macro-Prudential Regulation and Supervision

The attempts to enhance system-wide oversight and macro-prudential policy frameworks are currently taking place across the globe; however there is still a significant amount of work to be done. Regulatory and supervisory agencies are facing challenges,[16] such as:

a. The specific sources and manifestations of systemic risk are subject to change. Consequently, macro-prudential policy initiatives must facilitate continuous monitoring of financial system information, to identify systemically important issues on an ongoing basis. This would allow the authorities to respond flexibly to risks. Widening the perimeter within which the regulatory authorities operate is one option to expand the reach of policy and to lower the risk of regulatory arbitrage.

b. The need for continuous effort in identifying quantitative tools which can be used to measure and monitor systemic risks and to fill the key analytical gaps in this area, including possible adverse consequences of using certain macro-prudential tools.

c. Appropriately strong governance arrangements, which require:
   - clear and specific mandates for the powers of macro-prudential policy-making;
   - control over macro-prudential instruments that are commensurate with those mandates;
   - arrangements that safeguard the necessary operational independence;
   - provisions to ensure accountability, supported by transparency and clear communication of decisions and decision making processes.

d. The institutional set-up for macro-prudential policy needs to dove-tail with other domestic policy considerations, as the range of instruments that can affect systemic risk extends beyond that which

15-16 "Macro-prudential policy tools and frameworks – Update to G20 Finance Ministers and Central Bank Governors"; BIS Publication – February 14, 2011 may be under the formal authority of the macro-prudential body. The choice and implementation of appropriate instruments in a macro-prudential framework needs to take into account their interaction with other key policy objectives and instruments, such as those governing fiscal and monetary policies.

5. Conclusion

A macro-prudential framework, while important, represents only a single component of a broader framework designed to promote financial and macro-economic stability. Other policies, such as fiscal and monetary policies, will also have a role to play.

The body of work required to develop and operationalise a macro-prudential policy frame-work is gathering momentum and in support of this the Financial Stability Board (FSB), International Monetary Fund (IMF) and BIS will be focusing on the following:

a) continuing to pursue the analytical challenges outlined above;

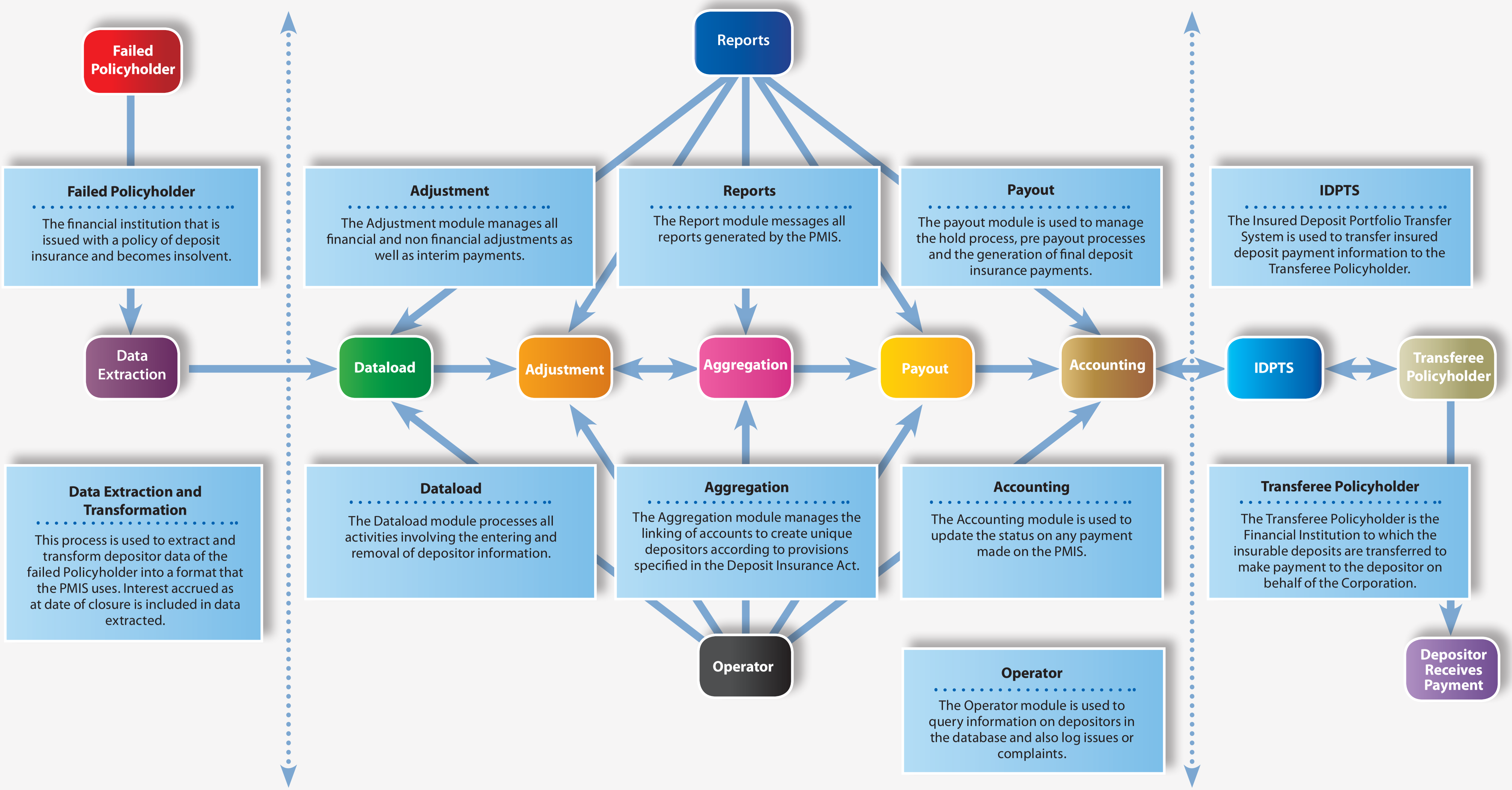
b) continuing to distil from stocktaking exercises, surveys and contacts with national and regional authorities, the lessons for the development of policies and frameworks; and

c) providing forums for authorities to learn from each other, to share perspectives and experiences in implementing macro-prudential policies, and to enhance cooperation in their responses to systemic threats which pose material risks to the international financial system.[17]

As the macro-prudential approach to regulation and supervision gathers impetus, the authorities here in Jamaica have taken steps to further reform and strengthen the country's financial system by the introduction of a more macro-prudential approach to financial oversight. To this end, the Bank of Jamaica has issued a Discussion Paper, titled *"Institutional Arrangements for Safeguarding Financial Stability"* to the financial industry aimed at apprising participants of the issues that the proposed financial system reform will address, as well as the implications for financial institutions going forward.

[17] "Macro-prudential policy tools and frameworks – Update to G20 Finance Ministers and Central Bank Governors"; BIS Publication – February 14, 2011

Payout Management Information System (PMIS) Process Flow Diagram

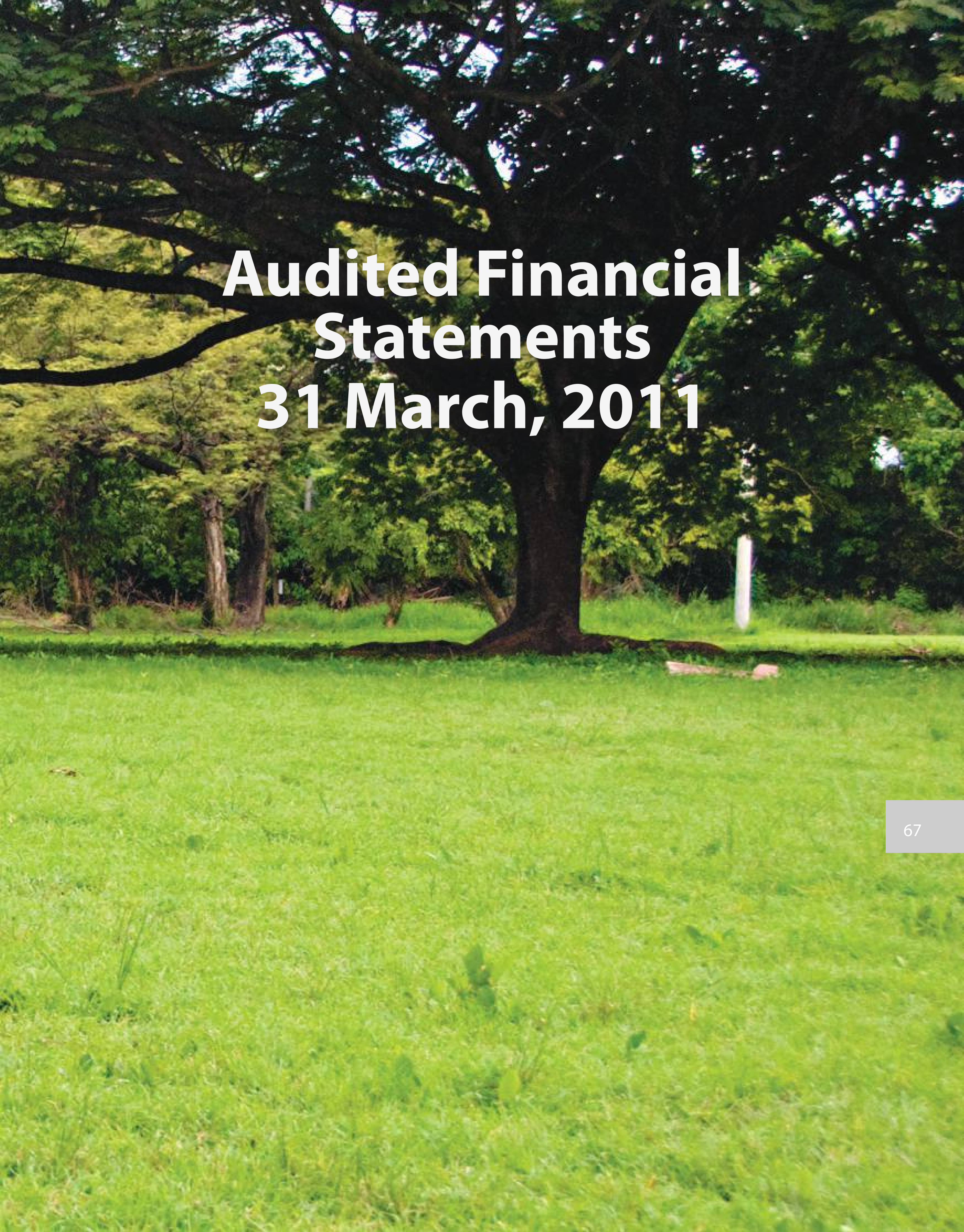


Board of Directors and Senior Executive Compensation

Position of Director	Fees ($)	Motor Vehicle Upkeep/Travelling or Value of Assignment of Motor Vehicle ($)	Honoraria ($)	All Other Compensation including Non-Cash Benefits as applicable ($)	Total ($)
Chairman	125,000	-	-	-	125,000
Director 1	150,000	-	-	-	150,000
Director 2	96,000	-	-	-	96,000
Director 3	75,000	-	-	-	75,000
Director 4	15,100	-	-	-	15,100
Director 5	-	-	-	-	-
Director 6	-	-	-	-	-

Position of Senior Executive	Salary ($)	Gratuity (in lieu of Pension) or Performance Incentive ($)	Travelling Allowance or Value of Assignment of Motor Vehicle ($)	Other Allowances ($)	Non Cash Benefit ($)	Total ($)
Chief Executive Officer	7,747,392	1,936,848	1,950,753	-	661,258	12,296,251
Chief Operating Officer/ Deputy CEO	4,507,390	1,126,847	796,500	-	771,935	7,202,672
Director, Finance, Funds and Asset Management	3,924,648	981,162	796,500	-	225,180	5,927,490
Legal Counsel (Contract Ended May 31, 2010)	807,300	-	-	-	-	807,300
Legal Officer /Deputy Corporate Secretary	3,050,536	762,634	796,500	-	202,970	4,811,640

Audited Financial Statements 31 March, 2011



Independent Auditors' Report

To the Members of
Jamaica Deposit Insurance Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Jamaica Deposit Insurance Corporation, set out on pages 71 to 91, which comprise the statement of financial position as of 31 March 2011 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers, Scotiabank Centre, Duke Street, Box 372, Kingston, Jamaica
T: (876) 922 6230, F: 876 922 7581, www.pwc.com/jm

Members of Jamaica Deposit Insurance Corporation
Independent Auditors' Report
Page 2

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Corporation as of 31 March 2011 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Chartered Accountants
12 September 2011
Kingston, Jamaica

Statement of Comprehensive Income
Year ended 31 March 2011
(expressed in Jamaican dollars unless otherwise indicated)

	2011 $'000	2010 $'000
Revenue		
Insurance premiums	720,970	643,038
Interest earned	755,791	937,504
Foreign exchange (loss)/gain	(32,344)	11,469
Other income	782	4,385
	1,445,199	1,596,396
Expenses		
Administration expenses (Note 6)	128,894	152,242
Surplus from Operations	1,316,305	1,444,154
Other Comprehensive Income		
Fair value gains on available-for-sale investments	397,458	35,695
Total Comprehensive Income	1,713,763	1,479,849

Statement of Financial Position

31 March 2011

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 $'000	2010 $'000
ASSETS			
Investment securities	8	7,842,372	6,194,498
Cash at bank		239,520	38,899
Receivables	9	468,442	571,484
Property, plant and equipment	10	109,503	105,428
		8,659,837	6,910,309
LIABILITIES AND SHAREHOLDER'S EQUITY			
Liabilities			
Unearned premium income	11	265,149	275,713
Payables		61,702	15,373
		326,851	291,086
Shareholder's Equity			
Share capital	12	1,000	1,000
Capital reserves	13	48,168	48,168
Fair value reserves	14	393,867	(3,591)
Deposit insurance fund	15	7,889,951	6,573,646
		8,332,986	6,619,223
		8,659,837	6,910,309

Approved by the Board of Directors on 12 September 2011 and signed on its behalf by:

Roald Henriques — Chairman

Antoinette McKain — Director

Statement of Changes in Equity

Year ended 31 March 2011

(expressed in Jamaican dollars unless otherwise indicated)

	Share Capital	Capital Reserves	Fair Value Reserves	Deposit Insurance Fund	Total
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 31 March 2009	1,000	48,168	(39,286)	5,129,492	5,139,374
Surplus from operations	-	-	-	1,444,154	1,444,154
Other comprehensive income -					
Fair value gains on available-for-sale investments	-	-	35,695	-	35,695
Total comprehensive income	-	-	35,695	1,444,154	1,479,849
Balance at 31 March 2010	1,000	48,168	(3,591)	6,573,646	6,619,223
Surplus from operations	-	-	-	1,316,305	1,316,305
Other comprehensive income -					
Fair value gains on available-for-sale investments	-	-	397,458	-	397,458
Total comprehensive income	-	-	397,458	1,316,305	1,713,763
Balance at 31 March 2011	1,000	48,168	393,867	7,889,951	8,332,986

Jamaica Deposit Insurance Corporation

Statement of Cash Flow

Year ended 31 March 2011

(expressed in Jamaican dollars unless otherwise indicated)

	2011 $'000	2010 $'000
Cash Flows from Operating Activities		
Surplus from operations	1,316,305	1,444,154
Adjustments for:		
Depreciation	5,259	5,203
Interest income	(755,591)	(937,504)
Unearned premium income	(10,564)	(77,147)
Foreign exchange loss/(gains)	32,344	(11,469)
	587,753	423,237
Changes in non-cash working capital components:		
Other receivables	103,042	(294,360)
Payables	46,329	(3,333)
	149,371	(297,693)
Cash provided by operating activities	737,124	125,544
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(9,334)	(9,038)
Investment securities	(1,254,219)	(1,150,421)
Interest received	727,121	1,064,738
Cash used in investing activities	(536,432)	(94,721)
Effect of exchange rate changes on cash balances	(71)	574
Increase in cash balance at end of year	200,621	31,397
Cash balance at the beginning of the year	38,899	7,502
Cash Balance at the End of the Year	239,520	38,899

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 31 August 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 $600,000 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 objectives, 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.

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), and have been prepared under the historical cost convention as modified by the revaluation of available-for-sale investment securities and other financial assets.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires Management to exercise its judgement in the process of applying the Corporation's accounting policies. Although these estimates are based on Management's best knowledge of current events and action, actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Standards, interpretations and amendments to published standards effective in the current year

Certain new interpretations and amendments to existing standards have been published that became effective during the current financial year. The Corporation has assessed the relevance of all such new standards, interpretations and amendments and has adopted the following which is immediately relevant to its operations:

IAS 1 (amendment), 'Presentation of financial statements'(effective on or after 1 January 2010). The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. This has not impacted the financial statements this year, as there are no liabilities for 2011 which were or are to be settled by the issue of equity.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standards that are not yet effective

At the date of authorisation of these financial statements, certain new standards, interpretations and amendments to existing standards have been issued which are mandatory for the Corporation's accounting periods beginning on or after 1 April 2011 or later periods, but were not effective at the year end date, and which the Corporation has not early adopted. The Corporation has assessed the relevance of all such new standards, interpretations and amendments, has determined that the following may be immediately relevant to its operations, and has concluded as follows:

IFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Corporation's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Corporation is yet to assess the full impact of this standard.

Revised IAS 24 (Revised), 'Related party disclosures' (effective from January 1 2011). Earlier application, in whole or in part, is permitted. The revised standard clarifies and simplifies the definition of a related party and provides certain exemptions for Government related entities. The Corporation will apply the revised standard from 1 April 2011, but it is not expected to have a significant impact on its related party disclosures.

(b) Foreign currency translation

Functional and presentation currency

The Corporation operates only in Jamaica and, as such, its functional and presentation currency is Jamaican dollars.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

(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 the 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.

2. Significant Accounting Policies (Continued)

(e) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost and comprise cash at bank and in hand, and represent available-for-sale financial assets.

(f) Payables

Payables are stated at historical cost.

(g) Investments

The Corporation classifies investments into the following categories: held-to-maturity and available-for-sale financial assets. Management determines the appropriate classification of investments at the time of purchase.

(i) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Corporation's Management has the positive intention and ability to hold to maturity. Where the Corporation sells other than an insignificant amount of held-to-maturity assets, the entire category would be compromised and reclassified as available-for-sale.

(ii) Available-for-sale

Investments intended to be held for an indefinite period of time, which may be sold in response to liquidity needs or changes in interest or exchange rates are classified as available-for-sale. These investments are initially recognised at cost, which includes transaction costs, and are subsequently remeasured at fair value based on amounts derived from cash flow models. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. When securities are disposed of or impaired, the related accumulated fair value adjustments are included in the statement of comprehensive income as gains and losses from investment securities.

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. The recoverable amount of a financial asset carried at fair value is the value of expected future cash flows discounted at current market interest rates for similar financial assets.

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

2. Significant Accounting Policies (Continued)

(h) Property, plant and equipment

Land and buildings are shown at fair value based on triennial valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation.

Increases in the carrying amount arising on the revaluation of land and buildings are credited to capital reserves in shareholder's equity. Decreases that offset previous increases of the same asset are charged against capital reserves directly in equity; all other decreases are charged to the statement of comprehensive income.

Land is not depreciated. Depreciation on other assets is calculated 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%
Motor vehicles	20%
Computers	20%
Machines and equipment	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 the surplus from operations. Repairs and renewals are charged to the statement of comprehensive income when the expenditure is incurred.

(i) Interest income

Interest income is recognised in the statement of comprehensive income for all interest bearing instruments on an accrual basis unless collectibility is doubtful.

(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.

2. Significant Accounting Policies (Continued)

(k) Financial instruments
Financial instruments carried on the statement of financial position include cash resources and investment securities.

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 provisions of the Insurance Act under Sections 21 and 8, respectively, of the Deposit Insurance Act, 1998.

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies

Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the process of applying the Corporation's accounting policies, Management has made the following critical accounting estimates or judgements which it believes has a significant risk of causing a material misstatement in these financial statements.

Held-to-maturity investments
The Corporation follows the guidance of IAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires judgement. In making this judgement, the Corporation evaluates its intention and ability to hold such investments to maturity. If the Corporation fails to keep these investments to maturity other than for specific circumstances – for example, selling other than an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value, not amortised cost. If the entire class of held-to-maturity investments is compromised, the carrying value would increase by $2,764,000 (2010 – $1,262,000) with a corresponding adjustment in the fair value reserve in shareholder's equity.

Provision for losses
No claim has been made on the Corporation to date and, based on the most recent review of the circumstances of the insured financial institutions, Management does not deem it necessary to make any provision for losses at this time.

5. Financial Risk Management

The Corporation's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Corporation's overall risk Management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Corporation's financial performance. The Corporation's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Corporation's financial performance.

The Corporation's risk Management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

5. Financial Risk Management (Continued)

The Corporation's objective is to develop and manage a Deposit Insurance Fund by investing in securities of the Government of Jamaica, or in such foreign securities as may from time to time be approved by the Board of Directors.

The Corporation achieves capital growth through investing in a selection of debt securities issued by the Government of Jamaica.

Subsection (2) of Section 4 of the Deposit Insurance Act stipulates that "the Corporation shall take all measures as may be necessary to ensure that there is the least possible exposure of the Corporation to loss." In this regard, the Corporation's policy is to manage the resources of the Deposit Insurance Fund in a professional manner, consistent with providing confidence in the Deposit Insurance Scheme. It will seek at all times to achieve its investment objectives with the least possible exposure to risk, without compromising standards of quality, security or control.

(a) Market risk

The Corporation takes on exposure to market risks, which is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks mainly arise from changes in foreign currency exchange rates and interest rates. Market risk is monitored by the Treasury Management and Investment Committees, which carry out extensive research and monitor the price movement of financial assets on the local and international markets.

(i) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Corporation is exposed to foreign exchange risk arising from currency exposures with respect to the US dollar. Foreign exchange risk arises from foreign currency denominated investment securities and cash balances.

The Corporation manages its foreign exchange risk by ensuring that the net exposure in foreign assets and liabilities, if any, is kept to an acceptable level by monitoring currency positions, while seeking to maximise foreign currency earnings.

5. **Financial Risk Management (Continued)**

(a) **Market risk (continued)**

(i) **Currency risk (continued)**

The table below summarises the Corporation's exposure to foreign currency exchange rate risk at 31 March. The Corporation has no foreign currency liabilities.

	JMD J$'000	USD J$'000	Total J$'000
		2011	
Financial assets			
Investment securities	6,870,211	972,161	7,842,372
Cash at bank	239,514	6	239,520
	7,109,725	972,167	8,081,892
		2010	
Financial assets			
Investment securities	5,276,590	917,908	6,194,498
Cash at bank	35,427	3,472	38,899
	5,312,017	921,380	6,233,397

Foreign currency sensitivity
The change in currency below represents Management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation at year end for a reasonably expected change in foreign currency rates. This analysis includes investment securities and cash and bank balances.

The change in currency rate represents Management's assessment of the possible range of changes in the US dollar exchange rates. The company had no significant exposure to any other currency at year end.

	% Change in Currency Rate 2011	Effect on Surplus and Deposit Fund 2011 $'000	%Change in Currency Rate 2010	Effect on Surplus and Deposit Fund 2010 $'000
USD -				
Revaluation	1	9,722	4	36,855
Devaluation	0.5	(4,861)	-10	(92,138)

5. Financial Risk Management (Continued)

(a) Market risk (continued)

(ii) Interest rate risk

All of the Corporation's financial assets are interest bearing. There are no financial liabilities.

The Corporation's interest-bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The table below summarises the Corporation's exposure to interest rate risks. It includes the Corporation's financial assets at fair values, categorised by the earlier of contractual re-pricing or maturity dates.

	Within 3 Months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
			2011		
Financial assets					
Investment securities	-	718,703	5,653,428	1,470,241	7,842,372
Cash at bank	239,520	-	-	-	239,520
	239,520	718,703	5,653,428	1,470,241	8,081,892
			2010		
Financial assets					
Investment securities	402,092	478,389	4,080,921	1,233,096	6,194,498
Cash at bank	38,899	-	-	-	38,899
	440,991	478,389	4,080,921	1,233,096	6,233,397

5. Financial Risk Management (Continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate sensitivity
The following table indicates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Corporation's Surplus from Operations and the Deposit Insurance Fund.

The sensitivity of the Surplus from Operations is the effect of the assumed changes in interest rates on net income based on the floating rate, non-trading financial assets. The sensitivity of the Deposit Insurance Fund is calculated by revaluing fixed rate available-for-sale financial assets for the effects of the assumed changes in interest rates. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variable, variables had to be on an individual basis. It should be noted that movements in these variables are non-linear.

	Effect on Surplus from Operations 2011 $'000	Effect on Deposit Insurance Fund 2011 $'000	Effect on Surplus from Operations 2010 $'000	Effect on Deposit Insurance Fund 2010 $'000
Change in basis points:				
- 75 (2010: - 800)	(10,514)	(42,805)	(98,552)	(391,617)
+ 75 (2010: + 800)	10,514	42,805	98,552	391,617

In accordance with the Corporation's policy, the Investment Officer monitors the Corporation's overall interest sensitivity on a daily basis, and the Investment Committee, a sub-committee of the Board of Directors, reviews it on a quarterly basis.

(iii) Other price risk
Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Corporation has no significant exposure to other price risk.

(b) Credit risk
The Corporation takes on exposure to credit risk, which is the risk that counterparties will cause a financial loss for the Corporation by failing to discharge their contractual obligations. The Corporation is primarily exposed to the credit risk associated with holding its entire investment portfolio in Government of Jamaica instruments.

Some secondary level of exposure to credit risk arises from the financial institutions with which the Corporation transacts business and, accordingly, the Corporation deals only with well recognised, high quality institutions in order to mitigate this risk.

The Corporation's maximum exposure to credit risk is represented by the amounts included for investment securities and cash at bank on the statement of financial position.

5. Financial Risk Management (Continued)

(c) Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to fulfil claims and other liabilities incurred.

Liquidity risk management process

The Corporation's liquidity management process, as carried out within the Corporation and monitored by the Finance, Funds and Asset Management Department, includes:

(i) Monitoring future cash flows and liquidity on a regular basis;

(ii) Maintaining a portfolio of highly marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow; and

(iii) Optimising cash returns on investment.

Monitoring and reporting take the form of monthly cash flow measurement and projections.

Financial liabilities cash flows

The Fund has no significant levels of recorded financial liabilities. Assets available to meet all liabilities include cash and bank balances and investment securities. The Corporation is able to meet unexpected net cash outflows by selling securities and accessing additional funding sources from the Government of Jamaica and other financing institutions.

(d) Fair values of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The following table provides an analysis of financial instruments held as at 31 March 2011 that, subsequent to initial recognition, are measured at fair value. The financial instruments are grouped into Levels 1 to 3 based on the degree to which the fair value is observable, as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical instruments. The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets is the current bid price. These instruments are grouped in Level 1;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the instrument, either directly (i.e., as prices) or indirectly (i.e., derived from prices as at March 31, 2011). The fair value of financial instruments not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2; and

5. Financial Risk Management (Continued)

(d) Fair values of financial instruments (continued)

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the instrument that are not based on observable market data (unobservable inputs). If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

There are no financial instruments classified as Levels 1 and 3 and there were no transfers between levels during the year.

	Level 2 $'000
Available- for- sale investments (Note 8) –	
Issued by Government of Jamaica	6,426,174

The amounts included in the financial statements for cash and bank balances 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:

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	$'000	$'000	$'000	$'000
Investment securities -				
Held to maturity	1,416,198	1,418,962	1,247,392	1,246,127
Available-for-sale	6,426,174	6,424,029	4,947,106	4,947,106
	7,842,372	7,843,136	6,194,498	6,193,233

6. Expenses by Nature

Total administration expenses:

	2011 $'000	2010 $'000
Auditors' remuneration	941	855
Depreciation	5,259	5,203
Directors' emoluments -		
Fees	461	272
Management remuneration (Note 7)	13,197	12,327
Other	7,959	5,465
Printing and stationery	2,586	4,713
Professional fees	5,535	25,507
Public education	7,190	7,145
Repairs and maintenance	2,696	2,596
Staff costs (Note 7)	76,368	81,620
Utilities	6,702	6,539
	128,894	152,242

7. Staff Costs

	2011 $'000	2010 $'000
Wages and salaries	51,392	58,132
Statutory contributions	6,437	6,462
Others	18,539	17,026
	76,368	81,620
Management remuneration	13,197	12,327
	89,565	93,947

The number of persons employed by the Corporation at the end of the year was 20 (2010 - 20).

8. Investment Securities

	2011 $'000	2010 $'000
(a) Held-to-maturity -		
Government of Jamaica	1,402,077	1,238,510
Interest accrued	14,121	8,882
	1,416,198	1,247,392
(b) Available-for-sale -		
Government of Jamaica	6,344,443	4,888,606
Interest accrued	81,731	58,500
	6,426,174	4,947,106
	7,842,372	6,194,498

(c) Remaining Term to Contractual Maturity

	2011				
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Carrying Value
	$'000	$'000	$'000	$'000	$'000
Held-to-maturity:					
Government of Jamaica -					
Benchmark investment note	-	-	170,177	1,231,900	1,402,077
Interest accrued	14,121	-	-	-	14,121
	14,121	-	170,177	1,231,900	1,416,198
Available-for-sale:					
Government of Jamaica -					
Treasury bonds	-	130,158	-	-	130,158
Benchmark investment note	-	581,753	4,444,812	222,126	5,248,691
US$ Benchmark notes	-	-	965,594	-	965,594
Interest accrued	302	78,437	2,992	-	81,731
	302	790,348	5,413,398	222,126	6,426,174
	14,423	790,348	5,583,575	1,454,026	7,842,372

8. **Investment Securities (Continued)**

(c) Remaining Term to Contractual Maturity (Continued)

	2010				
	Within 3 Months	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Carrying Value**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Held-to-maturity:					
Government of Jamaica -					
Treasury bills	-	6,610	-	-	6,610
Benchmark investment note	-	-	771,900	460,000	1,231,900
Interest accrued	-	185	8,697	-	8,882
	-	6,795	780,597	460,000	1,247,392
Available-for-sale:					
Government of Jamaica -					
Treasury bonds	-	50,710	130,201	-	180,911
Benchmark investment note	394,322	394,322	2,577,269	430,000	3,795,913
US$ Benchmark notes	-	-	583,092	328,690	911,782
Interest accrued	7,770	26,562	9,762	14,406	58,500
	402,092	471,594	3,300,324	773,096	4,947,106
	402,092	478,389	4,080,921	1,233,096	6,194,498

(d) 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**
	%	%	%	%	%
Investment bonds	11	11	11	12	11
Treasury bonds	11	11	-	-	11
US$ Bond	7	7	7	-	7

9. Receivables

	2011 $'000	2010 $'000
Withholding tax	458,861	481,923
Prepayments	1,678	216
Other	7,903	89,345
	468,442	571,484

10. Property, Plant and Equipment

	Land $'000	Building & Freehold Improvement $'000	Furniture & Fixtures $'000	Work-in-Progress $'000	Computers, Machines & Equipment $'000	Total $'000
Cost -						
At 31 March 2009	25,000	61,374	14,238	707	22,411	123,730
Additions	-	-	540	6,216	2,282	9,038
Disposal	-	-	-	-	(176)	(176)
At 31 March 2010	25,000	61,374	14,778	6,923	24,517	132,592
Additions	-	410	171	6,200	2,553	9,334
At 31 March 2011	25,000	61,784	14,949	13,123	27,070	141,926
Depreciation -						
31 March 2009	-	394	8,406	-	13,337	22,137
Charge for the period	-	1,533	1,243	-	2,427	5,203
Disposal	-	-	-	-	(176)	(176)
31 March 2010	-	1,927	9,649	-	15,588	27,164
Charge for the period	-	1,539	1,271	-	2,449	5,259
31 March 2011	-	3,466	10,920	-	18,037	32,423
Net Book Value -						
31 March 2011	25,000	58,318	4,029	13,123	9,033	109,503
31 March 2010	25,000	59,447	5,129	6,923	8,929	105,428

10. Property, Plant and Equipment (Continued)

The Corporation's land and buildings were revalued as at 31 March 2009 on the basis of open market value by Allison, Pitter & Company, independent qualified valuators. The revaluation surplus was credited to capital reserves in shareholders' equity.

If land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2011 $'000	2010 $'000
Cost	36,591	36,591
Accumulated depreciation	(6,765)	(6,150)
Net book value	29,826	30,441

11. Unearned Premium Income

This represents the portion of insurance premiums received from policyholders relating to the period subsequent to 31 March 2011.

12. 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.

13. Capital Reserves

Capital reserves comprise unrealised surplus arising from the revaluation of the Corporation's land and buildings.

14. Fair Value Reserves

This represents unrealised gains on available-for-sale investments.

15. Deposit Insurance Fund

	2011 $'000	2010 $'000
Balance at beginning of year	6,573,646	5,129,492
Surplus from insurance operations	720,970	643,038
Surplus from investment and administration operations	595,335	801,116
Deposit Insurance Fund at year end	7,889,951	6,573,646

16. 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) Transactions and balances with the Bank of Jamaica for the period are as follows:

	2011 $'000	2010 $'000
Cash balance	239,474	35,296

(d) Transactions and balances with key Management:

	2011 $'000	2010 $'000
Wages and salaries	20,963	25,306
Statutory contributions	2,092	2,591
Other staff benefits	5,255	4,311
	28,310	32,208

The Corporation thanks members of staff for allowing their children and other relatives to be featured in this Annual Report. The pictures were taken at the Hope Botanical Gardens. The gardens are the largest public green space in the Kingston metropolitan region, and are home to Jamaica's most popular collection of endemic and exotic botanical collections.

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Toll Free Jamaica: 1-888-991-5342
USA & CAN: 1-877-801-6793; UK: 1-800-917-6601
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