

JAMAICA DEPOSIT INSURANCE CORPORATION  
ANNUAL REPORT 2009 / 2010



Building Confidence  
Promoting Stability



# VISION

To promote and inspire financial  
system confidence and stability

# Mission

The Mission of  
The Jamaica Deposit Insurance Corporation is to:

- Provide insurance against the loss of Depositors' funds
- Contribute to stability and confidence in Jamaica's financial system
- Minimise the Corporation's exposure to loss

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

# Core Values

- ACCOUNTABILITY
- INTEGRITY
- PROFESSIONALISM
- TEAMWORK
- RESPECT



June 30, 2010

The Honourable Audley Shaw, M.P.  
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 2009/2010 and a copy of the Corporation's Accounts as at March 31, 2010, duly certified by its Auditors.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'R.N.A. Henriques', is positioned above the printed name. The signature is fluid and cursive, with a long horizontal stroke extending to the right.

R.N.A. Henriques, O.J., Q.C.  
Chairman



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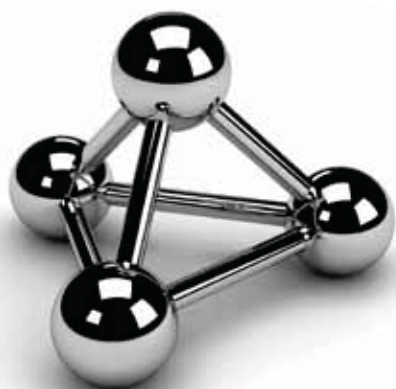


# Corporate Profile

**Established in August 1998** as a statutory body under the Deposit Insurance Act, the Corporation's principal objective is to manage a Scheme for the insurance of deposits held in licensed deposit-taking financial institutions (Policyholders) against the risk of loss.

The Deposit Insurance coverage limit is \$600,000 per depositor per institution. Currently there are fourteen (14) insured financial institutions: 7 Commercial Banks, 3 Merchant Banks and 4 Building Societies. Since inception of the Scheme there has been no Policyholder failure, and consequently no call on the Deposit Insurance Fund. At March 31, 2010 the Fund balance was \$6.6 billion.

The Corporation is governed by a seven-member Board of Directors which is guided by sound governance practices developed consistent with the Public Bodies Management & Accountability Act. An Executive Management Committee, chaired by the Chief Executive Officer, effects the day to day management of the Corporation. The present staff complement is twenty.



## Business Strategies for 2009/2010

- PROACTIVE READINESS
- STRONG PARTNERSHIP
- INFORMATION AND COMMUNICATIONS  
TECHNOLOGY DEVELOPMENT
- STRENGTHENING OPERATIONAL EFFICIENCY
- PUBLIC AWARENESS AND EDUCATION



# Financial Highlights

## FIVE YEAR FINANCIAL STATISTICS - MARCH 31, 2006 – 2010

	2010	2009	2008	2007	2006
<b>SELECTED STATEMENT OF COMPREHENSIVE INCOME DATA</b>					
	\$'000	\$'000	\$'000	\$'000	\$'000
Insurance Premium Income	643,038	553,444	484,120	437,732	388,748
Interest Earned & Other Income	953,358	826,595	480,751	378,525	335,778
Total Revenue	1,596,396	1,380,039	964,871	816,257	724,526
Surplus from Investment and Administrative Operations	801,116	655,254	331,776	252,048	234,763
Administrative Expenses	152,242	171,341	148,975	126,477	101,015

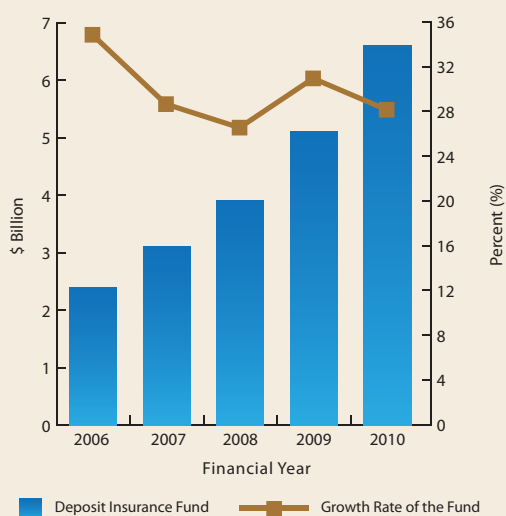
## SELECTED STATEMENT OF FINANCIAL POSITION DATA

	\$'000	\$'000	\$'000	\$'000	\$'000
Deposit Insurance Fund	6,573,646	5,129,492	3,920,794	3,104,898	2,415,118
Investment Securities	6,194,498	5,124,721	4,109,144	3,248,803	2,557,249
Total Assets	6,910,309	5,510,940	4,244,283	3,416,803	2,692,872
Property, Plant and Equipment	105,428	101,593	62,167	64,074	70,242

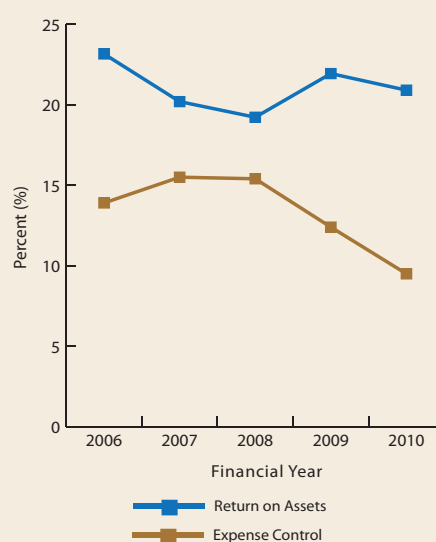
## OTHER SELECTED FINANCIAL DATA

Persons employed at the end of the year	20	24	26	20	23
Expense Control Ratio (%)	9.5	12.4	15.4	15.5	13.9
Asset Management (%)	23.1	25.04	22.73	23.89	26.91
Return on Assets (%)	20.9	21.93	19.22	20.19	23.15

### Deposit Insurance Fund



### Key Performance Ratios



A portrait of R.N.A. Henriques, O.J., Q.C., Chairman. He is an older man with white hair and a mustache, wearing a dark suit, a light blue shirt, and a blue patterned tie. He is smiling slightly and looking towards the camera. The background is a textured blue.

R.N.A. Henriques, O.J., Q.C.  
CHAIRMAN

## Chairman's Statement

**A**s the global economic recession continued, governments effected unprecedented levels of intervention which towards the latter half of the financial year began to impact positively, with many countries recording recovery. However, the common legacy of the recession and the various stimulus packages - increased debt and unemployment - lingered. Throughout the reporting period the domestic economy remained in recession, and in the final quarter of the financial year the Jamaican Government entered into a Stand-By Arrangement with the International Monetary Fund for balance of payments support.

Notwithstanding, the enhanced regulatory framework, which was implemented following the financial crisis of the 1990s, augured well for the domestic financial system. The JDIC's Policyholders remained adequately capitalized, although their overall performance came under some amount of pressure. High levels of unemployment contributed to an increase in non-performing loans and an overall reduction in loan demand, which together served to cut into the profit margins of individual Policyholders. Additionally, with the full participation of Policyholders in the Jamaica Debt Exchange Programme and the relative stability in the foreign exchange market, income from both interest and non-interest sources will continue to be impacted in the coming financial year.

During this period the JDIC continued to fulfill its mandate as a Deposit Insurer and specifically, continued to contribute to promoting and inspiring financial system confidence and stability. Dialogue and collaboration with the Central Bank, the Financial Services Commission (FSC) and the Ministry of Finance and the Public Service (MOFPS) remained critical and continued through various channels including the Financial Regulatory Council, established in 2000 to facilitate information sharing among the Financial System Safety Net Partners.

The prevailing conditions dictated that the Corporation (along with other Deposit Insurers, particularly in the region), continued to identify best practices for dealing with and addressing bank failures. The Corporation planned, and in collaboration with the Caribbean Regional Technical Assistance Centre (CARTAC) hosted a regional Bank Insolvency Conference, entitled '*Bank Insolvency in the Caribbean: Law and Best Practice*'. The Conference, which was particularly timely, focused on areas such as: the role

of regulators; bank reconstruction and resolution; liquidation and cross-border issues and the role of deposit insurance.

With the developments in the economy, and the consequent challenges and constraints facing the country, financial institutions and the Corporation, the Board ensured that the Corporation's Management had its full support during the year. The Board through its Committees (Audit and Investment) continued to diligently carry out its governance responsibilities. These included continuous review of the financial affairs of the Corporation; examining internal controls and constantly assessing the level of risk to which the Deposit Insurance Fund was exposed. Additionally, the Board reviewed and submitted the following to the MOFPS: the Quarterly and Half-year performance and financial reports; the 3-year Corporate Plan, Operating and Capital Budgets; the Annual Report and Audited Financial Statements.

On behalf of the Board I take this opportunity to thank all the agencies and stakeholders that supported the Corporation during the year, including our Policyholders, other Deposit Insurers, CARTAC, as well as speakers and delegates who attended the regional Conference. I commend the Management and Staff who continued to exhibit a very high level of commitment to the organization, as reflected by its achievements, in particular this year's successful staging of the Conference.



R.N.A. Henriques, O.J., Q.C.

Antoinette McKain  
CHIEF EXECUTIVE OFFICER



## CEO's Report On Operations

For our Policyholders this was a year characterized primarily by the adverse impact of the global economic recession on the domestic economy, manifested also in a fall-off of investor and consumer confidence in a context of reduced demand and a decline in income and private transfers from external sources. Policyholders' loan portfolios increased only marginally while adverse trends in past-due loans persisted and continued unabated to year end. Nonetheless, Policyholders remained adequately capitalized under sound regulatory and supervisory practices.

With the lessons learned from the recent global financial crisis the Corporation did not rest on its laurels because of the proven sound regulatory and supervisory practices. During the year it kept a constant review of the international financial environment and the local system with the full understanding that despite sound regulation, financial system crises can come out of previously unanticipated events.

Ensuring adequate Policyholder risk reviews was therefore the constant focus of the Monitoring, Intervention and Resolutions Department. This was fed into the Deposit Insurance Fund Adequacy Assessment for FY2009/10 completed in June with special note taken that in the prevailing economic environment there was a real potential for the financial condition of Policyholders to easily deteriorate. Important to the process for the Corporation's proactive readiness business strategy was also the participation

of the Corporation's officers in the Deposit Insurance Corporation Trinidad and Tobago (DICTT) work on the failure of the CLICO entities, at the invitation of the DICTT.

The business of public education and awareness of financial system regulation was not to be gainsaid and at the end of the financial year the Corporation put on the first ever regional Conference on Bank Insolvency in association with the Caribbean Regional Technical Assistance Centre. Twenty-two regional and international experts, practitioners and academics made presentations on aspects of financial system regulation and bank insolvency. This was to a target group comprising policymakers, Attorneys General, Government Ministers, Justices, financial system regulators, bankers, attorneys and others interested in financial system regulation and bank resolutions and the learning from the global financial crisis. The overwhelming feedback was that the Conference was not only timely, but also worthy of repetition in the near future.

In recognition of the fiscal constraints that dominated the performance of the public sector the Corporation continued its staff rationalization process which it started as early as FY2007/08. The staff complement was decreased by 20 percent during the year. To ensure that the ability of the Corporation to perform was not compromised, as it sought to deal aggressively with cost containment, reliance was placed on e-learning opportunities that have become increasingly available from international agencies concerned with enhancing sound financial system regulation. This practiced approach of cost containment did portend well for the Corporation. In particular, this was seen near the end of the financial year when the interest rate environment on which the Corporation's investment operations had relied for a number of years changed radically with a significant reduction in interest rates with the Corporation's

participation in the Government of Jamaica Debt Exchange Programme. On the exchange the Corporation's financial performance was impacted only marginally to the end of the financial year. The result of the Corporation's diligent attention to cost savings was reflected in its achievement of an efficiency ratio of 9.5 percent - the lowest achieved since its inception.

The Corporation for the first time introduced the position of a Chief Operating Officer and Deputy Chief Executive Officer. This officer effectively has oversight of the core operations of Insurance and Risk Assessment, Intervention and Resolutions and Information and Communications Technology to ensure that the required synergy for the Corporation to carry out its mandate was assured. The twin objective of securing a strengthened operations framework and succession planning for the key position of CEO was achieved.

In going forward I remain confident that the Corporation will continue to play an important role in the safety and soundness of the country's financial system. We will continue apace in our activities to keep the systems and processes of the Corporation relevant and ready for this purpose. We commit to the purpose of serving and ensuring the public interest is paramount at all times.

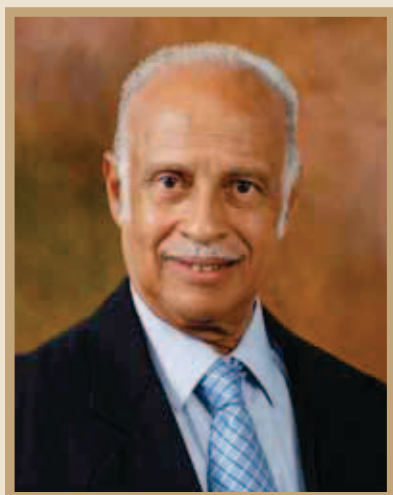
On behalf of the Executive Management team and Staff, I thank the Chairman and members of the Board for their diligent oversight and unqualified support of the activities of the Corporation during the year and look forward to the same in the coming year. I also thank our stakeholders and partners for their cooperation and support as we look forward to working together in the future.



Antoinette McKain



# Board of Directors



**R.N.A. Henriques**, O.J., Q.C.

Chairman

Roald Nigel Adrian Henriques is a Senior Partner of Livingston, Alexander & Levy, Attorneys-at-Law, with over 40 years distinguished legal practice.

Mr Henriques obtained the Bachelor of Laws Degree (LL.B) and the Master of Laws Degree (LL.M) from the University of London.

In November 1961 Mr Henriques was called to the Bar at Lincoln's Inn, London, then admitted to practice in Jamaica from 1962 and appointed a Queen's Counsel in 1981. On August 6, 2008 Mr Henriques was awarded the National Honour, the Order of Jamaica (O.J.), for outstanding service to the legal profession.

In addition to his practice in Jamaica, Mr Henriques practices in other Caribbean Islands and in the Eastern Caribbean Court of Appeal. On several occasions he has practiced in the Judicial Committee of the Privy Council London.

Effective March 31, 2008, Mr Henriques was appointed Chairman of the JDIC Board of Directors. He is also a Commissioner of the Financial Services Commission in Jamaica, which has responsibility for the regulation of the Insurance, Securities and Pension sectors.



**Antoinette McKain**

Chief Executive Officer

Antoinette McKain, an Attorney-at-Law for over 23 years, was appointed to the position of Chief Executive Officer of JDIC, effective January 1, 2007. Prior to her appointment, Ms McKain served in the capacity of Legal Counsel and Corporate Secretary of the Corporation for three years, following seven years as a member of the legal team at the Bank of Jamaica. While at the Bank of Jamaica Ms McKain played a critical role in the establishment of the Deposit Insurance Scheme through her work on the legal framework of the Scheme.

Ms McKain's expertise spans corporate, commercial, banking and financial regulation law and best practices, and she has developed extensive knowledge of related public policy issues and public sector corporate governance practices.

From 2007 to 2009 Ms McKain was a member of the Executive Council of the International Association of Deposit Insurers (IADI) and chaired its Caribbean Regional and Legal Committees, and was a member on its Membership and Communications and Governance Committees.

In addition to her legal designation, Ms McKain holds a MBA (Finance) from the University of Manchester and Wales.





### **Bridgett Wilks**

Bridgett Wilks, a career public servant, holds a BSc and MSc in Economics from the University of the West Indies (UWI).

Mrs Wilks is the Divisional Director for the Financial Regulations Division (FRD) of the Ministry of Finance and the Public Service. The FRD is responsible for the development of policy for the Financial Sector. Mrs Wilks has worked at the Department of Statistics and the Petroleum Corporation of Jamaica, and has been working at the Finance Ministry for the past 18 years.

Mrs Wilks was a member of the Task Force that was established to work on the legislative framework that led to the development of the Deposit Insurance Act and establishment of the Deposit Insurance Scheme. Appointed to the JDIC Board as the Nominee of the Financial Secretary in August 2005, Mrs Wilks has continued to serve in that capacity.



### **Rudolph Muir**

Rudolph Muir, Deputy Governor and General Counsel at the Bank of Jamaica, has been the Nominee of the Governor of the Bank of Jamaica on the JDIC's Board since 1998. The holder of a BSc Degree (Hons.) in Economics (1973) and LLB (Hons.) Law (1976) from the UWI, Mr Muir has had more than 30 years practice in Law, having been called to the Bar in Jamaica (1978); Barbados (1980) and the Eastern Caribbean (1981).

Mr Muir joined the Bank of Jamaica in 1997, from the position of Deputy General Counsel with the Caribbean Development Bank, an international organization headquartered in Barbados, where he spent 18 years. At the Bank of Jamaica, he also serves as Bank Secretary with responsibility for the Board Secretariat and the Public Relations Department. In his capacity as General Counsel he has responsibility for the Legal Department.

Mr Muir also has the distinction of having served, with retired JDIC CEO and former BOJ Deputy Governor Winston Carr, as one of two Directors of the promotional company established by the Bank of Jamaica in 1997 to guide the formation and transitioning of the JDIC and has thus been proximate to the institution from its inception, having participated also in the discussions of the Joint Select Committee of Parliament, which considered the JDIC Bill in 1997.

Mr Muir also holds other Board appointments within the public sector.

## Board of Directors



**K. Denise Henry James**

Katia Denise Henry James obtained a Bachelor of Arts (History and Economics) from the University of the West Indies (UWI) in 1981, and pursued the Bachelor of Laws (LLB) thereafter. She has been practicing for over 20 years, in company and commercial law; conveyance; and with specialization in probate & estate planning.

After graduating from the Norman Manley Law School in 1987, Mrs Henry James joined the law firm Myers, Fletcher & Gordon (MF&G) as an Associate. After 6 years at MF&G she worked as Legal Officer at Life of Jamaica Limited (now Sagcor Life Jamaica) from 1993 – 1996, and since then she has operated as a Sole Practitioner.

Mrs Henry James is a part-time Tutor at the Norman Manley Law School. She served as Company Secretary of the University Hospital of the West Indies Private Wing Limited; is a Board member of the Real Estate Board; and a member of the Board of LMH Publishing Limited. Effective March 31, 2008 Mrs Henry James was appointed to the JDIC Board.



**A. Earl Melhado**

A. Earl Melhado is a Barrister-at-Law & Attorney-at-Law and is the Principal in the law firm A. Earl Melhado & Associates. His career spans service in the public sector at the executive and directorship levels.

Mr Melhado served as Crown Counsel in the office of the Director of Public Prosecution (DPP) and is a former Executive Director of the Securities Commission [now incorporated into the Financial Services Commission (FSC)].

Directorships held by Mr Melhado include: the Municipal Services Commission and Parish Council Services Commission; the Agricultural Development Corporation; the Companies Office of Jamaica; the Land Administration and Management Programme (LAMP) and the Jamaica Deposit Insurance Corporation to which he was appointed effective March 31, 2008.



**Lisa Lewis**

Lisa Lewis, after obtaining a Bachelor of Science in Computer Studies from the University of the West Indies in 1990, has spent the last 20 years in the telecommunications industry, having assumed successive senior positions over the period.

Ms Lewis had a successful nine-year tenure at Cable and Wireless Jamaica (C&WJ), now LIME, rising to the position of Call Centre Manager in 1999 with responsibility for C&WJ's main call centres located in Kingston.

In May 2000 Ms Lewis joined the management team at Digicel Jamaica, holding several senior management positions through to Group Projects Director. She has been a full member of the Business Development Team since 2004 and her present responsibilities include new licence acquisitions for the Caribbean, Latin America and the rest of the world. In December 2006, she was appointed Chairman of the Digicel Foundation. Ms Lewis joined the JDIC Board of Directors effective March 31, 2008.

# Executive Management Committee



(Top L-R):

**Antoinette McKain**  
Chief Executive Officer

**Carole Martinez-Johnson**  
Chief Operating Officer/Deputy CEO

**Ronald Edwards**  
Director, Finance Funds & Asset  
Management

(Bottom L-R):

**Paula Jacks**  
Manager, Strategic Planning & Workforce  
Development

**Marjorie McGrath**  
Manager, Corporate Communications

**As a team**, the Executive Management Committee exercises overall responsibility for the planning and implementation of the Corporation's strategic initiatives. Additionally, the Committee monitors and evaluates all areas of the Corporation's performance for the advisement of the Board and ensures compliance with all legal and regulatory requirements. Committee meetings are held once monthly, but may be held more frequently as the need arises. The meetings are chaired by the Chief Executive Officer.

# Corporate Governance

**The Corporation's main objective**, the provision of insurance against the loss of depositors' funds, is achieved through sound management of the Deposit Insurance Fund. Operating 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), the Corporation is ultimately accountable to Parliament through the Minister of Finance and the Public Service (the Minister). The Corporation also complies with the Access to Information Act and its officers are subject to the Corruption Prevention Act.

## Board of Directors

### Composition and Mandate

The Board of Directors (the Board) is responsible for the policy and general administration of the Corporation and the management of the Deposit Insurance Fund. The Board is comprised of seven members. Three are ex-officio members, namely, the Governor of the Bank of Jamaica, the Financial Secretary, and the Chief Executive Officer of the JDIC. The four other members which include the Chairman are all appointed by the Minister.

In accordance with the DIA and the Board Governance Policy, the Board charts the strategic direction of the Corporation. The Board ensures that sound governance is maintained and effective risk management systems are in place. It oversees the development of the Corporation's business strategies and performance management systems. The Board Governance Policy explicitly

requires that governance standards are no less than those prescribed for the Corporation's Policyholders.

Through the Chairman, the Board advises and guides the Minister on matters of general policy relating to the operations of the JDIC. During the review period the following reports were submitted to the MOFPS as required:

- The annual rolling 3-year Corporate Plan and Operating & Capital Budgets
- Quarterly and Half-year Performance and Financial Reports
- Annual Report and Audited Financial Statements.



## Board Meeting Attendance

The DIA requires that the Board meets not less than six times for the calendar year. During January – December 2009 six meetings were held with attendance as follows:

Board of Directors	Number of Meetings Attended
R.N.A. Henriques, O.J., Q.C. Chairman	6/6
Antoinette McKain Chief Executive Officer	6/6
Bridgett Wilks Nominee of the Financial Secretary	4/6
Rudolph Muir Nominee of the Governor Bank of Jamaica	4/6
K. Denise Henry James	4/6
Lisa Lewis	5/6
A. Earl Melhado	4/6

## Board Committees

### Audit Committee

The composition and principal responsibilities of the Audit Committee are prescribed in the FAAA and the PBMA. The Audit Committee reviews the management of the financial affairs of the Corporation and reports not less than quarterly to the Board. Under its Terms of Reference the Audit Committee oversees internal and external audits, as well as advises

the Board on accounting and internal controls and ensures that the controls recommended by the Corporation's auditors are implemented.

The Audit Committee also advises on issues relating to the review of periodic financial statements and the Deposit Insurance Fund and plays a significant role in assessing risk management practices. Further, the Committee ensures that Management communicates to staff the importance of internal controls and the management of risk.

The Committee is also responsible for making recommendations to the Board regarding the appointment of internal and external auditors. During the latter part of the year the Committee endorsed the reappointment of Ernst & Young Chartered Accountants as internal auditors for the Corporation for a period of 5 years to March 2014.

In addition to its usual scope of work during the year the Committee focused on the following:

- Information, Communications and Technology Security Policies and Procedures
- Monitoring the management of the Bank Insolvency Conference expenditure
- The Jamaica Debt Exchange Programme: Assessment of Impact on JDIC's financial performance and affairs
- The Disposal of Assets Policy.

## Corporate Governance

### Board Committees (Cont'd)

#### Audit Committee Meetings

Audit Committee meetings are to be held not less than four times during the financial year and this requirement was met.

Audit Committee	Number of Meetings Attended
<b>Lisa Lewis</b> Board Director (Chair as of January 2010)	2/4
<b>K. Denise Henry James</b> Board Director	3/4
<b>Rudolph Muir</b> Board Director - Nominee Governor of the Bank of Jamaica, (appointed member January 2010)	2/4
<b>A. Earl Melhado</b> Board Director (Chair April – December 2009)	2/4
<b>Owen McKnight</b> Ministry of Finance and the Public Service	4/4

#### Investment Committee

The Investment Committee must comprise at least two Board members, one of which is the Chief Executive Officer. The principal responsibility of the Investment Committee is to advise the Board on the investment and growth of the Deposit Insurance Fund; and oversee Management's carrying out of Board decisions with respect to the Investment Policy.

The Committee ensures that the annual Deposit Insurance Fund Adequacy Assessment is conducted as required under the DIA and that the Board is aware on a timely basis of

all matters which may significantly impact the investment portfolio.

Prior to recommending that the Corporation participate in the Jamaica Debt Exchange Programme (JDX), the Investment Committee conducted a detailed examination of the terms of the JDX and the potential impact it would have on the investment portfolio's composition, structure and maturity profile. The Committee also evaluated how participating in the JDX would affect the ability of the Corporation to meet the targeted liquid funds requirement that was recommended in the Deposit Insurance Fund Adequacy Assessment 2009/10.<sup>1</sup>

#### Investment Committee Meetings

The Terms of Reference for the Investment Committee requires that meetings are held quarterly or as determined by the Committee.

Investment Committee	Number of Meetings Attended
<b>Lisa Lewis</b> Board Director, (Chairman)	3/3
<b>Antoinette McKain</b> Chief Executive Officer	3/3
<b>Carole Martinez-Johnson</b> Chief Operating Officer	3/3
<b>Ronald Edwards</b> Director, Finance, Funds & Asset Management	2/3
<b>Nicole Brown Crooks</b> Manager, Monitoring & Risk Assessment (Secretary)	2/3

<sup>1</sup> The recommendation was that \$1.4 billion be kept in securities with maturity of less than one year to meet the assessed risk exposure of the Deposit Insurance Fund



# Summary

## Performance Scorecard

BUSINESS STRATEGIES KEY INITIATIVES	PERFORMANCE AGAINST TARGETS	FOLLOW THROUGH ACTIVITIES
<b>Proactive Readiness</b>		
Complete User Acceptance Testing for new Payout Application	User Acceptance Testing significantly underway	Consultant's report to be presented May 2010. Phase 2 of payout system development to be executed
Develop Guidelines for Policyholders' Record-Keeping Requirements	Issue Consultation Paper for the proposed Guidelines	Consultation Paper will be circulated to Policyholders and other stakeholders by Q3 - FY2010/11
Revise the framework for the admission of members to the Deposit Insurance Scheme (inclusive of Credit Unions)	Framework revised	Committee of Management review and sign-off by Q1 - FY2010/11
<b>ICT Development</b>		
Acquire and implement Accounting Software	Software Providers identified and system demonstrations conducted for proposed users	Acquisition and implementation will be completed Q2 - FY2010/11
<b>Strengthening Operational Efficiency</b>		
Complete evaluation of Performance Management System	Full evaluation completed and revised system implemented	-
Document options available for funding DIS	DIS Funding options documented	DIS Funding options paper will be reviewed Q1 - FY 2010/11
Effect annual Deposit Insurance Fund Adequacy Assessment	Assessment completed	-
<b>Public Education and Awareness</b>		
Bank Insolvency in the Caribbean – Law & Best Practice Conference	Conference successfully executed with evaluations indicating relevance and timeliness	Networking and adoption / application of information/ knowledge garnered from presentations.
Establish protocols for Internal and External Communication (including Media Relations Strategy)	Protocols developed	Committee of Management review and sign-off by Q1 - FY2010/11

# Management's Discussion and Analysis

## Operating Environment

During fiscal year 2009/10 global economic conditions improved with much of the recovery taking place towards the latter half of the year. The advancement of the major economies resulted mainly from unprecedented levels of government intervention through various stimulus packages. Among the legacies of the global economic recession of 2008/09 was higher than normal levels of both unemployment and sovereign debt.

Within this context, the Jamaican economy saw its debt and fiscal deficit positions rising to levels that were significantly higher than budgeted, as expenditures increased and there was a notable fall-off in tax revenue intake. Additionally, for the first nine months of the fiscal year, the actual trajectory of many of the economic variables was not consistent with a sustainable economic growth path. The country recorded continued rates of decline in production; increasing rates of unemployment; reduction in business and consumer confidence and high rates of interest.

With the prevailing conditions, the Jamaican government entered into a Stand-By Arrangement with the International Monetary Fund (IMF) to access US\$1.27 billion for balance of payments support. As pre-requisites for securing the IMF loan, a major tax package was implemented and the Jamaica Debt Exchange (JDX) Programme launched in January 2010. The JDX essentially exchanged shorter term high yielding domestic debt for longer term lower yielding debt.

The JDX programme was successful, having achieved a participation rate of over 99 percent. As a direct consequence of the programme and the market acceptance of its terms, interest rates were significantly reduced with the new rates ranging from 10 -12 percent. At the end of the fiscal year domestic interest rates were at the lowest levels recorded in over 20 years.

By the end of the January-March 2010 quarter, there were significant improvements within the domestic economy namely:

- benchmark Treasury Bill rates declined by 631 basis points to 10.49 percent
- private repo rates declined by 433 basis points to 10.47 percent
- the exchange rate appreciated by 0.1 percent
- the Net International Reserves (NIR) increased by US\$22.5 million, which was an improvement on the IMF targeted decline of US\$351.0 million.

The full year performance therefore showed overall improvement in some variables such as the NIR, the surplus and interest rates (Table 1). However, the fiscal deficit and debt to GDP ratios worsened as the economy fell further into recession with GDP declining by 2.3 percent. The Government of Jamaica has committed to medium term targets aimed at achieving economic growth, reduction in inflation rates to single digits, reduction in fiscal deficits, low rates of interest; eliminating public sector deficit and gradually reducing the debt to GDP levels.

TABLE 1: PERFORMANCE OF KEY MACROECONOMIC INDICATORS			
INDICATORS	2009/10 (p)	2008/09 (r)	2007/08
GDP growth (%)	-2.3	-1.6	0.7
Inflation (%)	13.3	12.4	19.8
NIR (US\$ Million)	1,751.9	1,628.6	2,083.4
Debt (% of GDP)	129.4	115.7	108.2
Fiscal Balance (% of GDP)	-10.9	-6.8	-4.0
Primary Surplus (% of GDP)	6.1	4.5	8.1
182-day TBill Rate (%)	10.49	21.77	14.22
Exchange Rate (J\$/US\$)	89.51	88.82	71.09

(p) provisional data (r) revised

## Policyholder Environment

Coming out of the global financial crisis of 2008/09, the Basel Committee on Banking Supervision at its December 8-9, 2009 meeting, approved for consultation a package to strengthen global capital and liquidity regulations with the goal of promoting a more resilient banking sector (Appendix I).

The following were the key areas of focus:

- raising the quality, consistency and transparency of the capital base
- strengthening the capital requirements for counterparty credit risk exposures
- introducing a leverage ratio as a supplementary measure to the Basel II risk-based framework
- introducing a series of measures to promote the build-up of capital buffers in good times
- introducing a global minimum liquidity standard for internationally active banks that includes a 30-day coverage ratio requirement underpinned by longer-term structural liquidity ratio.

Within the domestic economy, despite declines in a number of the major productive sectors such as Mining and Construction, real GDP from the Financial & Insurance Services sector did not show a decline for the full fiscal year, but recorded zero growth. Action was taken by most financial

## Management's Discussion and Analysis

institutions with regards to their operational structures, schedules for fees and commission income as well as their marketing strategies as they strived to remain competitive. However, the deteriorating economic conditions; rise in unemployment rates; high inflation environment; public sector wage freeze; and restructuring in private sector companies, adversely affected many individuals' ability to honour debt obligations with financial institutions. As a result, the level of non-performing loans soared and credit quality indicators of Policyholders worsened. Notwithstanding, Policyholders remained adequately capitalized throughout the year with all institutions reporting primary ratios well above the international benchmark of 6 percent.

Following the JDX, the Financial System Stability Fund (FSSF) was established to provide liquidity and capital support to financial institutions that fully participated in the debt exchange.

At the end of the financial year the FSSF was untapped as no eligible financial institution had sought to access these funds or indicated liquidity or capital constraints as a direct consequence of the JDX programme. The financial health of Policyholders and the financial sector in general continued to reflect in large measure, the impact of the enhanced regulatory and supervisory framework that has been in place since 1998 following the domestic financial sector crisis of the mid-1990s.

## Insurable Deposits

The following summarizes the findings of the 'Survey of the Distribution of Insurable Deposits' as at December 31, 2009:

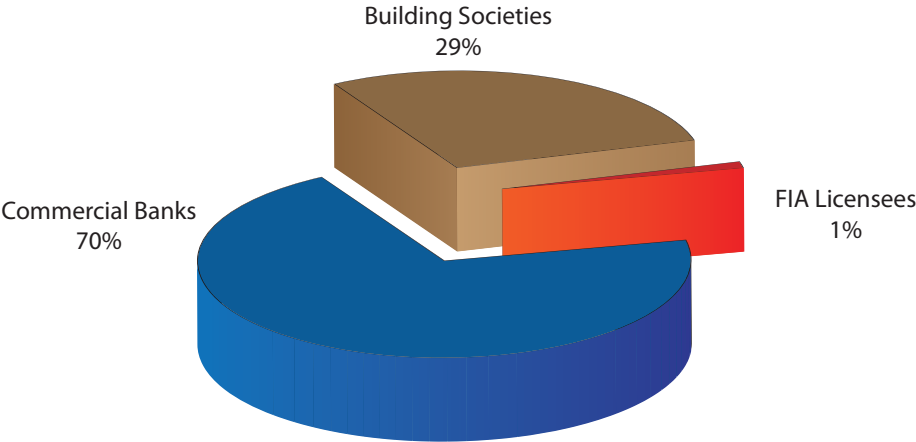
Despite the challenging domestic and global economic conditions that prevailed during calendar year 2009, both the number of insurable deposit accounts and the dollar value of insurable deposits increased. The number of accounts grew by 3.2 percent (to 4.0 million), while the dollar value of insurable deposits increased by 8.8 percent to \$480.3 billion (Refer Table 2). As a result, the average balance in insurable deposit accounts was 5.4 percent higher (at \$119,220) than the 2008 average.

**TABLE 2: DISTRIBUTION OF DEPOSITS AT THE  
CURRENT COVERAGE LIMIT OF \$600,000  
AS AT DECEMBER 31, 2009**

Institutions	Total Insurable Deposits (\$'000)	% of Insurable Deposits Total	Estimated Insured Deposits (\$'000)	% of Insured Deposits Total	Total No of Accounts Insurable	No. of Accounts Fully Insured	% of Accounts Fully Insured
Commercial Banks	355,304,515	74.0%	150,171,591	70.2%	2,171,659	2,102,409	96.8%
Building Societies	111,766,899	23.3%	61,967,995	29.0%	1,848,664	1,813,195	98.1%
FIA Licensees	13,250,886	2.8%	1,645,308	0.8%	8,588	6,911	80.5%
Grand Total	480,322,299	100.0%	213,784,894	100.0%	4,028,911	3,922,515	97.4%

The Corporation’s major potential liability, insured deposits, was estimated to have increased by 9.1 percent to \$213.8 billion, commensurate with the increase in insurable deposits. Estimated insured deposits for the various sectors were in the ratio 70:29:1 for commercial banks, building societies, and FIA licensees, respectively (Chart 1). Compared with the growth in the insured deposits (9.1 percent), the increase in the Deposit Insurance Fund (DIF) was larger at 34.5 percent, resulting in a higher DIF Ratio of 2.9 percent at the end of 2009, up from 2.4 percent at December 2008. The DIF Ratio has therefore continued to rise steadily towards the revised target range of 8-10 percent.

**Chart 1: Distribution of Estimated Insured Deposits**



As at December 2009, the share of fully covered accounts was 97.4 percent of the total insurable deposit accounts (Table 3). As well, full coverage within each of the sub-sectors was also high at 98.1 percent for building societies, 96.8 percent for commercial banks and 80.5 percent for FIA licensees (See Table 2). The Corporation confirmed that the current coverage limit of \$600,000 remains relevant, given the high percentage of accounts fully covered. Additionally, there was no immediate need to amend the premium assessment rate as the Deposit Insurance Fund was assessed as adequate to meet the estimated risk exposure.

TABLE 3: PERCENTAGE OF FULLY COVERED DEPOSITS DECEMBER 31, 2001- DECEMBER 31, 2009									
Year	2001	2002	2003	2004	2005	2006	2007	2008	2009
% Number of Accounts	97.05	96.60	96.35	96.38	96.22	95.67	97.63	97.58	97.36
% Dollar Value of Deposits	32.06	31.07	31.03	27.64	26.96	25.11	35.41	31.51	31.21

## Management's Discussion and Analysis

### The Regulatory Environment

#### LEGISLATIVE DEVELOPMENTS

Given the dynamism in the financial industry and markets the need for policymakers to effect legislation to strengthen the regulatory framework and enhance the capacity of the financial regulatory system continued to be critical. During the review period the following were effected:

#### LEGISLATION PASSED IN 2009/10

- **The Bank of Jamaica (Amendment) Act 2009**

The Bank of Jamaica (Amendment) Act was passed in October 2009 and came into effect in December 2009. This amendment revised the 'legal tender' provisions (that is, Section 15 of the principal Act to impose a limit on the overall number of coins which will constitute legal tender for a transaction). The revised Section 15 now reflects that payment made in coins of an amount not exceeding the face value of a maximum of 50 coins in any combination of denominations constitute legal tender.

- **The Securities Dematerialization Act (SDA) 2010**

The SDA provides that every government security which is issued by the Government under any Act specified in the schedule shall be issued in dematerialized form. The intention is for such securities to be issued

and traded in electronic form through a Central Securities Depository which is to be established and operated by the Bank of Jamaica. The Statutes listed in the Schedule to the SDA are:-

- i. The Debenture Registration Act
- ii. The Debenture (Local) Act
- iii. The Land Bond Act
- iv. The Loan (Equity Investment Bonds) Act
- v. The Loan (National Development Bonds) Act
- vi. The Loans (National Savings Bonds) Act
- vii. The Local Registered Stock Act
- viii. The Treasury Bill Act

- **The Financial Investigations Division Act (FIDA)**

The Bill was tabled in Parliament on November 12, 2008 and reviewed by a Joint Select Committee of Parliament in 2009, and subsequently passed on March 26, 2010 in an extraordinary sitting of the Senate. The passage of this Act satisfies Jamaica's obligation to comply with recommendation 26 of the Financial Action Task Force (FATF) 40 (revised) Anti-Money Laundering (AML) Recommendation.

- **Terrorism Prevention (Reporting Entities) Regulations 2010**

The final draft of these Regulations was completed and tabled in Parliament in March 2010 for affirmative resolution. An affirmative resolution was passed on March 19, 2010. These Regulations were promulgated under



the Terrorist Prevention Act and outline the operational control 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) Regulation 2007.

## **PENDING FINANCIAL LEGISLATION**

### **• The Payment and Settlement System Bill**

The draft Bill is currently being reviewed by the Legislation Committee of Parliament.

### **• The Cooperative Societies (Amendment) Bill**

This amendment to the Cooperative Societies Act will among other things bring credit union cooperative societies under the regulatory ambit of the Ministry of Finance and the Public Service and BOJ. This amendment along with substantive enhancements contemplated for the Cooperative Societies Act are proposed by the Ministry of Industry, Investment and Commerce (MIIC) (formerly the Ministry of Investment Commerce and Technology), which is the Ministry with portfolio responsibility for cooperative societies. It is anticipated that this Bill will be presented to Parliament jointly with the Draft Bank of Jamaica (Credit Union) Regulations, which contains the substantive prudential requirements to which credit unions will be subject once the regulatory regime comes into effect.

### **• Omnibus Statute**

The BOJ is in the process of reviewing legislation governing the operations of deposit taking entities (i.e. the Banking Act, Financial Institutions Act and the Building Societies Act) with a view to consolidate these pieces of legislation into one, effecting conglomerate supervision that will bring the regulation of the banking sector in line with the Revised Basel Core Principles (Basel II). In 2008 the BOJ submitted a policy working paper on the issues to the Ministry of Finance; this paper is being updated and will inform the subsequent submission to Cabinet to commence the legislative process.

### **• The Credit Reporting Bill**

The Credit Reporting Bill was tabled in Parliament in July 2008 and passed by the Lower House on February 9, 2010. This statute will legislatively establish a credit reporting system in Jamaica, intended to improve credit assessment processes and facilitate enhanced risk management and loan pricing strategies throughout the financial sector. A licensing system will be imposed on persons who intend to offer credit reporting services, with the BOJ having oversight responsibilities.

## Management's Discussion and Analysis

### 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, enhancement 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 Basel 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 reform to the application form under the Building Societies Act will be 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 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 BOJ's prudential supervisory regime. Accordingly these regulations among other things cover licensing, capital, reserves, prohibited business, remedies and intervention processes and the role of specially authorized credit unions.

# Review of Operations

## Financial Operations and Fund Management

Total assets at March 31, 2010 was \$6.9 billion and represented a 25.5 percent increase over the previous year's balance of \$5.5 billion. This was due mainly to an increase of 20.9 percent in investments.

Total revenue for the year was \$1.59 billion; an increase of 15.2 percent over the previous year's \$1.38 billion. This increase was as a result of a 16.2 percent increase in deposit insurance premiums, 15.3 percent increase in interest earned and other income and a decrease of 11.2 percent in administrative expenses.

**Table 4: Summary of the Statement of Operations**

STATEMENT OF OPERATIONS	2009/10 ACTUAL \$M	2009/10 BUDGET \$M	2008/09 ACTUAL \$M	2007/08 ACTUAL \$M
Insurance Premium	643.0	664.9	553.4	484.1
Interest Earned & Other Income	953.3	719.1	826.6	480.8
Total Revenue	1,596.3	1,384.0	1,380.0	964.9
Administrative Expenses	( 152.2)	(223.4)	(171.3)	(149.0)
Surplus from Operations	1,444.1	1,160.6	1,208.7	815.9

In carrying out its operations the Corporation achieved greater efficiency and cost savings. At the end of the financial year administrative expenses decreased by 11.2 percent to \$152.2 million, compared to \$171.3 million in the previous year. A reduction in staff costs arising from changes in the organizational structure was the main contributor to the decrease, in addition to cost saving measures implemented in the procurement of goods and services. These measures have contributed to achieving an expense control ratio of 9.5 percent, bettering the previous lowest expense control ratio of 12.4 percent achieved by the Corporation in FY2008/09.

**Table 5: Summary of Administrative Expenses Distribution**

EXPENSES	2009/10 %	2008/09 %	2007/08 %
Staff Cost	62	69	66
Public Education & Advertising	15	10	13
Professional Fees	5	5	6
Depreciation	3	2	3
Other	15	14	12
TOTAL	100	100	100

## Management's Discussion and Analysis

Key performance ratios, expense control and net surplus showed improvement when compared with budget and the previous year. A deterioration in the return on assets and asset management ratios resulted from the lowering of interest rates during the year, which impacted interest earned.

**Table 6: Summary of Key Performance Ratios**

KEY PERFORMANCE RATIOS	DEFINITION	2009/10 ACTUAL %	2009/10 BUDGET %	2008/09 ACTUAL %	2007/08 ACTUAL %
Expense Control	Administrative Expenses/Total Revenue	9.5	16.1	12.4	15.4
Net Surplus	Surplus from Operations/Total Revenue	90.5	83.9	87.6	84.6
Return on Assets	Surplus from Operations/Total Assets	20.9	18.5	21.9	19.2
Asset Management	Total Revenue/Total Assets	23.1	22.0	25.0	22.7

## The Deposit Insurance Fund

Under Section 17(2) of the Deposit Insurance Act the Corporation is obliged to invest most of its available resources in risk-free Government securities. The investment portfolio is comprised of Benchmark Investment Notes, US Dollar Investment Notes and Treasury Bonds. At March 31, 2010 the balance in the Deposit Insurance Fund (the Fund) was \$6.6 billion.

The new debt management initiative by the Government of Jamaica (GOJ), the Jamaica Debt Exchange Programme (JDX), involved the voluntary exchange of the domestic portion of GOJ debt for new bonds of the same principal value, but with lower interest cost and longer maturities.

Resulting from the JDX on February 24, 2010 there was a transitioning of investment instruments held by the Corporation. However this transitioning and the lowered interest rates did not impact significantly on the financial position of the Corporation for the review period. Subsequent to the JDX a reduction of total assets of approximately 2 percent was recorded, compared to the prior month.

At \$6.6 billion, the Deposit Insurance Fund experienced a growth of 29.4 percent when compared to the balance of \$5.1 billion in the previous year. At year end the average yield on investments was 11.15 percent compared with 16.99 percent at the previous year end.

With the advent of the JDX it is expected that the yield and the rate of growth in the Fund will decline during the next period.

**Table 7: Five-Year Fund Growth**

DETAILS	2009/10 \$M	2008/09 \$M	2007/08 \$M	2006/07 \$M	2005/06 \$M
Premium Income	643.30	553.4	484.1	437.7	388.7
Net Investment Income	801.1	655.2	331.8	252.1	234.8
Previous Year Deposit Insurance Fund	5,129.5	3,920.8	3,104.9	2,415.1	1,791.6
Deposit Insurance Fund	6,573.6	5,129.5	3,920.8	3,104.9	2,415.1

## Investment Portfolio

The liquidity requirements of the Corporation to accommodate a payout were reviewed and the maturity profile of investments was developed on this basis. The day-to-day management of the investment portfolio is carried out by the Finance, Funds and Asset Management Department with monitoring from the Treasury Management Committee based on policy directives from the Investment Committee of the Board. Following the launch of the JDX, the Government Securities Dematerialization Act, 2010, (GSDA) was passed into law effective February 16, 2010. Under the GSDA all Government of Jamaica securities will be issued and registered electronically through a broker in an account at the Central Securities Depository of the Bank of Jamaica.

**Table 8: Investment Portfolio Distribution**

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

\*Category of investment instruments transitioned to under the JDX

## Management's Discussion and Analysis

### Summary Financial Projections to March 31, 2011

PROFIT AND LOSS ACCOUNT	YEAR ENDING MARCH 31, 2011 \$'000
Total Income	1,418,677
Total Expenses	(177,948)
Surplus from Operations	1,240,729
Surplus from Operations – Balance at Beginning of the Year	6,616,454
Financial Distribution	(62,036)
Deposit Insurance Fund – Balance at End of the Year	7,795,147

CASH AND BANK	YEAR ENDING MARCH 31, 2011 \$'000
Total Inflow	5,478,058
Total Outflow before Investments	(277,464)
Investments	(5,198,324)
Net Inflow/ (Outflow)	2,270
Balance at Beginning of the Year	4,468
Balance at End of the Year	6,738

BALANCE SHEET	MARCH 31, 2011 \$'000
Fixed Assets	99,663
Investments	7,115,444
Current Assets	714,280
<b>Total Assets</b>	<b>7,929,387</b>
Current Liabilities	19,698
Financial Distribution	62,036
Capital	1,000
Capital Reserves	48,168
Fair Value Reserves	3,338
Deposit Insurance Fund	7,795,147
<b>Total Liabilities</b>	<b>7,929,387</b>



## Monitoring, Intervention and Resolutions

JDIC's Policyholders remained resilient despite the global and domestic economic recession and the far-reaching impact of the global financial crisis. However, the Corporation viewed the period as an opportunity to intensify the monitoring of member institutions and further enhance its Policyholder assessment capabilities and intervention and resolution strategies.

### Monitoring and Risk Assessment

For its part in the efforts towards strengthening institutional capacity to deal with member institutions from admission to the Deposit Insurance Scheme to cancellation of member's Deposit Insurance Policy, the focus of monitoring and risk assessment was on:

- **Conducting the annual assessment of the Deposit Insurance Fund having regard to its liabilities and potential liabilities**
- **Advancing more effective and efficient means of collecting Policyholders' data**

This includes but is not limited to coordinating the timeline within which Form 2 (Return of Insurable Deposits) data is collected from each Policyholder in relation to premium determination with that of the distribution of insurable deposits. This will allow for sufficient checks and balances on the part of the Corporation while reducing the regulatory burden on Policyholders.

- **Administering the annual survey of the distribution of insurable deposits held at member institutions**

This survey is instrumental in determining an adequate coverage limit, arriving at an estimate of insured deposits within each institution and ultimately assessing the adequacy of the Deposit Insurance Fund.

- **Revising the framework for admission of members to the Deposit Insurance Scheme**

The revision made provision for admitting a new sub-sector to the Deposit Insurance Scheme – credit unions.

### Intervention and Resolutions

During the year the Corporation continued to focus on several on-going initiatives geared towards strengthening its intervention and resolution policies, procedures and systems. These initiatives included the user acceptance testing of the payout application; developing guidelines for Policyholders' record-keeping requirements; reviewing credit union operations and participating in the development of Compensation Scheme arrangements for non-deposit taking financial institutions.

- **Payout System Testing**

The user acceptance testing activities commenced during the year and work in this area will continue into the financial year 2010/11 to ensure prompt and accurate reimbursement to depositors in the event of a failure. Testing to date reinforced the need for all Policyholders to consistently maintain depositors' data in a manner and format conducive to payout processing. In this regard the development of the draft Policyholders' Record-Keeping Guidelines was further refined to ensure that the

## Management's Discussion and Analysis

document provides clear guidance regarding the type of information and format that Policyholders should maintain. The draft Guidelines will be finalized and circulated to all Policyholders and other stakeholders for consultation in the next financial year.

- **Credit Unions**

In anticipation of credit unions being licensed by the BOJ, the Corporation continued to review aspects of the structure and operations that impact the initiatives of the Monitoring, Intervention and Resolutions Unit. This approach will facilitate a seamless integration of credit unions in the Corporation's existing operating framework upon their admission to the Deposit Insurance Scheme.

- **Compensation Schemes**

A further strengthening of the Financial System Safety Net is being contemplated by way of a proposal to introduce compensation schemes for the Insurance (Life & General); Securities and Pensions sub-sectors. A Working Group, comprising the JDIC and the FSC, was formed. Its mandate is to make recommendations and monitor implementation of key policy alternatives. The Working Group drew upon the experience of the Corporation in the operations of the Deposit Insurance Scheme. The Working Group had consultations with the various industry stakeholders to solicit feedback on the proposed scheme implementation and this consultative approach is expected to continue.

## Operational Resources

### Strategic Planning & Workforce Development

The Corporation, in its continued thrust towards improving overall efficiencies, engaged in a number of activities ranging from internal restructuring to enhancing technology related tools. The JDIC revamped its internal organization structure to improve operational efficiency and unify corporate efforts in its major business areas. Organizational changes made during the year included:

- The merger of the Claims & Recoveries and Insurance & Risk Assessment Departments and ICT Unit into a new Department – Monitoring, Intervention and Resolutions (MIR).
- The appointment of a Chief Operating Officer, who has oversight responsibility for the activities of the MIR Department.

Effective succession planning is integral to any organization's ability to ensure continuity of its operations and the Corporation formulated its Succession Planning Policy for ratification by the Board.

Organization and employee development remained a critical component of the Corporation's strategies and this is supported through the facilitation of training opportunities locally and overseas.

Training opportunities availed during the year included:

- **Intensive Credit Risk Training facilitated by CariCRIS**
- **Operational Risk Management through the Jamaica Stock Exchange**
- **Resolution of problem Banks facilitated by the International Association of Deposit Insurers.**

At the end of March 2010, the Corporation staff complement was 20, a decrease of 20% relative to 2009.

## Information and Communications Technology

The Corporation, recognizing that Information and Communications Technology (ICT) is mission critical to achievement of its mandate, in 2008 had set a three year strategy to flexibly respond to changes in the IT Industry while systematically supporting the achievement of the corporate goals and objectives.

The first phase focused on strengthening the ICT Infrastructure and involved upgrading the ICT network systems and security; as well as a thorough review of the related policies and procedures. A review of all Application systems was then effected which resulted in a project schedule being created to facilitate

the upgrade; these included the Accounting, Treasury Management, Payroll, Human Resource & Development and Records Management systems.

User Acceptance Testing continued on the core business application, the Payout System. The system was enhanced to further incorporate payout functionalities, methodologies and best practices gleaned from interaction with Deposit Insurers regionally and across other like jurisdictions. Implementation is slated for 2010/2011. Additional development work will also be conducted to include:

- **The Deposit Base Transfer project which is being coordinated with Policyholders to facilitate simulations and integral testing of the data load and payment transfer modules**
- **Testing and implementation of remote and call centre links to facilitate the payout process.**

## Legal

The Legal function continued the focus on ensuring that the Corporation remained compliant with all statutory requirements and that contracts were adequately reviewed, prepared and executed in a context where the Corporation's exposure to risk would be minimized. There was also significant legal input by the Corporation in the activities of a Working Group comprising JDIC and FSC officers for the development of implementation plans for Compensation Schemes for the customers of non-deposit taking institutions regulated by the latter.

## Management's Discussion and Analysis

### Proposed Amendments to the Deposit Insurance Act

Regulators and policymakers in financial markets the world over have been proposing a number of measures and making adequate statutory provisioning to both prevent and/or deal with future crises in their financial systems in the context of the harsh lessons learned from the global financial crisis. The overriding objective always being that the public purse will not be charged with the costs of financial system crises to which they have not contributed and over which they have had no control.

In this context the JDIC had during the year proposed further amendments to the Deposit Insurance Act to allow the regulatory authorities a wider range of resolution arsenal in dealing with failing Policyholder institutions.

In a draft Bill currently with the Ministry of Finance and the Public Service it was proposed to expressly allow the Corporation to borrow and raise funds for the specific

purpose of ensuring that it has sufficient resources for its resolution and intervention activities in circumstances where the Deposit Insurance Fund is not sufficient. Provision was also included to allow the Corporation to lend and make guarantees, give indemnities or become liable for the payment or performance of some obligations, on the taking of adequate security to allow for options other than the closure of a Policyholder which finds itself in difficulty.

In addition, in pursuit of ensuring that the Deposit Insurance Fund has the capacity to grow adequately, the Corporation has sought widened investment powers. The proposal is that the Corporation be given power to invest in central bank securities, along with the power it now has to invest in Government of Jamaica securities and such other foreign securities as the Board might approve from time to time.

# Public Education and Awareness

If ever there was a period when public education and awareness of financial products and services was critical, it would be during the last few years. The global financial crisis, which started in 2007, has put in sharp focus the need for an enhanced financial education programme at all levels.

Managers of banks and other financial institutions are responsible to ensure that their customers know and understand the financial product(s) offered and the associated level of risk to which they may be exposed. With oversight for the financial system, Government along with the other Financial Safety Net Partners have a critical role to play in ensuring that financial literacy is promoted and sustained.

As one of the Corporation's key business strategies, public education and awareness was sustained during the review period. The main objectives were to highlight the benefits of deposit insurance and to promote confidence in the financial system; consequent on the economic challenges that were being encountered worldwide and the anticipated impact locally.

Collaboration with the other Safety Net Partners, the International Association of Deposit Insurers (IADI), regional Deposit Insurers and Policyholders continued. At the start of the year the Corporation participated in a financial education forum hosted by the Financial Services Commission. The Corporation's 'blitz month', celebrated in May, coincided with IADI's seventh anniversary and the Fourth International Week of Deposit Insurance. During the month the Corporation participated in television and radio interviews, where the CEO and other officers spoke regarding deposit insurance and the work being done by the IADI. The month of activities culminated with a training workshop for Policyholders.

Advertising, a key component of the public education programme, (delivered in three phases throughout the year) also commenced

## Public Education and Awareness



Minister of Finance and the Public Service, Jamaica, The Hon. Audley Shaw, (2nd left) with JDIC CEO, Antoinette McKain; General Counsel, IMF, Ross Leckow and Central Bank of Barbados Governor, Dr DeLisle Worrell at the Bank Insolvency Conference

in May with the airing of radio and television advertisements. The messages focused on institutions and products covered and the level of coverage offered under the Scheme; and encouraged members of the public to contact the JDIC for additional information. The quarterly publication of Policyholders listing in the newspapers continued.

The Corporation participated in two expositions – a financial expo and a career and educational expo which targeted secondary schools. With the Corporation's focus on its regional Conference, the annual school programme was limited to deposit insurance presentations to a few schools. Presentations were also made to public and private sector organizations.

### Conference: Bank Insolvency in the Caribbean – Law & Best Practice

The hosting of seminars and public forums have been integral to the Corporation's public education programme as they provide

for interaction and direct dialogue with stakeholders. In light of the global financial crisis, the Corporation focused on the staging of a regional Conference which underscored the importance of bank regulation and insolvency and the correlation between the adequacy of the legal and regulatory regime and the efficiency of the management and resolution of a crisis in the financial system.

The main objectives of the Conference titled 'Bank Insolvency in the Caribbean – Law & Best Practice' with subtitle 'Detecting and Managing Banking Crisis – Assessment of the Global Financial Crisis of 2007-2009' – were to:

- Stimulate discussion on effective insolvency regimes for banks in the Caribbean region with specific reference to local, regional and international cases by examining:
  - mechanisms by which Caribbean Central Banks regulate banks and initiate proceedings against insolvent banks



- the role and powers of the Courts in the liquidation of insolvent banks
- cross-border issues which are likely to arise in the liquidation process, in the context of globalization.

➤➤ Facilitate dialogue among relevant stakeholders towards enabling consideration and identification of best practices for addressing bank insolvency issues.

➤➤ Guide policy formulation.

Presentations topics were divided into four main areas (see Appendix II):

- The Role of Regulators in the Early Detection of Bank Insolvency
- Official Administration – Bank Reconstruction and Resolution
- The Role of Deposit Insurance
- Liquidation of Insolvent Banks and Cross Border Issues

Speakers included experts, academics and practitioners in the field of bank regulation and supervision, bank insolvency and deposit insurance from several multilateral agencies and countries including the Caribbean region, Canada, Japan, Malaysia, Switzerland, United Kingdom and the United States of America.

The Conference, held in association with the Caribbean Regional Technical Assistance Centre (CARTAC), was successfully staged during March 24-26, 2010. Over 140 policymakers were in attendance - they included Attorneys General, members of the judiciary, legislators, banking and finance professionals, academics and representatives of multilateral institutions from the region, Asia, North America, Europe and Africa.

In addition to CARTAC, sponsorship was also received from the Bank of Jamaica, Jamaica National Building Society, Mayberry Investments Limited, National Commercial Bank Jamaica Limited, Bank of Nova Scotia Jamaica Limited and Thomson Reuters.



Conference Delegates



# Policyholders' Profile and Performance

**F**or fiscal year 2009/10, there was no change to the membership of the Deposit Insurance Scheme.

Membership comprised 14 institutions: 7 commercial banks, 4 building societies, and 3 institutions licensed under the Financial Institutions Act (FIA Licensees). Given that commercial banks comprised one-half the membership of the Deposit Insurance Scheme and accounted for more than 70 percent of the total assets in the banking system during the year, the performance of the system was primarily reflective of the performance of the commercial banks.

Total assets within the banking system grew by 3.3 percent during the year as a result of higher levels of investments (up 8.2 percent), cash and bank balances (up 13.4 percent) and total loans (up 0.7 percent). In light of the deteriorating economic conditions it was necessary for individual institutions within each sub-sector to boost capital levels during the year. The statutory capital base was therefore augmented by 11.6 percent improving the capital buffer and resulting in enhanced capital adequacy levels. The capital adequacy ratio increased to 18.7 percent from 16.1 percent at the end of March 2009.

The domestic and global economic recession adversely affected loan demand from retail consumers as well as businesses and as such total loans recorded marginal growth of 0.7 percent for the year, compared with growth of 28.0 percent in FY2008/09. However, loans and advances continued to account for the largest share (44.4 percent) of assets in the banking system.

In the context of a public sector wage freeze and high levels of domestic unemployment, the level of non-performing loans (3 months & over) surged, increasing by 78.0 percent for the full fiscal year. The credit quality indicators therefore weakened, with non-performing loans to total loans rising to 5.5 percent, up from 4.7 percent in 2009. The ratio of non-performing loans to capital plus provisioning reached 20.4 percent which was slightly higher than the prudential maximum of 20.0 percent, despite a 43.8 percent increase in the level of provisioning for loan loss and the stated improvement in capital levels.

Despite economic challenges the banking system remained profitable, albeit recording a reduction of 23.7 percent in pre-tax profit. Although the commercial bank sub-sector continued to account for the largest share of overall profit, the portion of the pre-tax profit attributable to this sub-sector was lowered to 86.7 percent (down from 90.9 percent in 2008/09). The share of pre-tax profit attributable to FIA Licensees (1.3 percent) was also lower. However, the building society sub-sector recorded a larger share of pre-tax profit (12.0 percent) for the financial year, up from 6.8 percent in FY 2008/09.

The reduction in profit levels resulted from lower levels of non-interest income (down 18.7 percent) and was consistent with relative stability in foreign exchange market transactions and a fall-off in particular fees and commission income. Interest income increased on a year-on-year basis by 13.2 percent, despite the banking system's full participation in the JDX towards the end of the fiscal year. For the full fiscal year net interest income increased by 19.7 percent.

The enhanced regulatory framework and increased supervisory oversight of the Bank of Jamaica has augured well for the financial

health of the banking system. During the financial year, in an effort to strengthen its supervisory resolve the Bank of Jamaica updated and reissued the Standards of Best Practice for deposit-taking institutions which is even more reflective of current international standards. As individual institutions continue to adapt to the lower interest rate environment, the more competitive market for loans and advances, and the increasing trend of non-performing loans, the approach of the various Policyholders to risk-management strategies will aid in determining how the institutions withstand these challenges.

#### POLICYHOLDERS AS AT MARCH 31, 2010

<b>Commercial Banks (7)</b>	Bank of Nova Scotia Jamaica Limited Citibank N.A. FirstCaribbean International Bank (Jamaica) Limited First Global Bank Limited National Commercial Bank Jamaica Limited PanCaribbeanBank Limited RBTT Bank Jamaica Limited
<b>Building Societies (4)</b>	FirstCaribbean International Building Society Jamaica National Building Society Scotia Jamaica Building Society Victoria Mutual Building Society
<b>FIA Licensees (3)</b>	Capital & Credit Merchant Bank Limited MF&G Trust & Finance Limited Scotia DBG Merchant Bank 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-Mar-10**

	COMMERCIAL BANKS			FIA LICENSEES			BUILDING SOCIETIES			System Total (aggregation of all 3 sectors)		
	Mar-10	Mar-09	Mar-08	Mar-10	Mar-09 <sup>b</sup>	Mar-08	Mar-10	Mar-09	Mar-08	Mar-10	Mar-09	Mar-08
<b>Number of institutions in operation</b>	<b>7</b>	<b>7</b>	<b>6</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>J\$MN</b>												
<sup>1</sup> <b>Total Assets</b> (incl. contingent accounts)	<b>599,441</b>	584,672	505,777	<b>32,157</b>	35,292	41,255	<b>160,551</b>	146,892	126,295	<b>792,149</b>	766,856	673,327
<sup>2</sup> <b>Total Assets</b> (excl. contingent accounts)	<b>585,468</b>	570,893	491,755	<b>31,926</b>	34,596	40,522	<b>160,551</b>	146,804	126,224	<b>777,945</b>	752,293	658,501
<b>Cash &amp; Bank Balances</b>	<b>131,822</b>	113,864	97,241	<b>1,836</b>	1,952	3,406	<b>24,947</b>	24,004	20,664	<b>158,605</b>	139,820	121,311
<b>Investments [incl. Securities Purch.]</b> (net of prov.)	<b>164,524</b>	154,190	165,572	<b>19,580</b>	20,275	21,123	<b>43,274</b>	35,741	33,754	<b>227,378</b>	210,206	220,449
<b>Total Loans</b> (gross)	<b>256,994</b>	259,147	194,847	<b>9,298</b>	10,572	14,396	<b>85,375</b>	79,651	63,803	<b>351,667</b>	349,370	273,046
<b>Total Loans</b> (net of IFRS prov.) <sup>a</sup>	<b>250,695</b>	255,162	191,755	<b>8,885</b>	10,439	14,320	<b>84,228</b>	78,901	63,178	<b>343,808</b>	344,502	269,253
<b>Total Deposits</b>	<b>378,414</b>	353,881	321,589	<b>12,281</b>	14,771	16,984	<b>111,243</b>	100,714	86,703	<b>501,938</b>	469,366	425,276
<b>Borrowings</b> (incl. repos)	<b>103,991</b>	122,107	88,177	<b>13,681</b>	14,197	14,412	<b>21,289</b>	20,979	15,858	<b>138,961</b>	157,283	118,447
<b>Non-Performing Loans [NPLs] (3 mths &amp; &gt;)</b>	<b>13,084</b>	7,196	4,142	<b>841</b>	590	551	<b>5,457</b>	3,105	1,645	<b>19,382</b>	10,891	6,338
<b>Provision for Loan Losses</b>	<b>10,466</b>	7,593	5,321	<b>773</b>	384	220	<b>2,309</b>	1,445	1,139	<b>13,548</b>	9,422	6,680
<sup>3</sup> <b>Capital Base</b>	<b>59,409</b>	51,591	43,163	<b>4,751</b>	4,408	5,445	<b>17,114</b>	16,842	14,149	<b>81,274</b>	72,841	62,757
<b>Contingent Accts [Accept., LC's &amp; Guarantees]</b>	<b>13,973</b>	13,779	14,022	<b>231</b>	696	733	<b>0</b>	88	71	<b>14,204</b>	14,563	14,826
<b>Funds Under Management</b>	<b>283</b>	253	0	<b>0</b>	0	235	<b>0</b>	0	0	<b>283</b>	253	235
<b>Repos on behalf of or for on-trading to clients</b>	<b>n/a</b>	n/a	n/a	<b>n/a</b>	n/a	n/a	<b>n/a</b>	n/a	n/a	<b>n/a</b>	n/a	n/a
<b>%</b>												
Rate of Asset <sup>1</sup> Growth	<b>2.5%</b>	15.6%	11.8%	<b>-8.9%</b>	-14.5%	-13.0%	<b>9.3%</b>	16.3%	16.1%	<b>3.3%</b>	13.9%	10.6%
Rate of Deposit Growth	<b>6.9%</b>	10.0%	14.1%	<b>-16.9%</b>	-13.0%	14.6%	<b>10.5%</b>	16.2%	14.1%	<b>6.9%</b>	10.4%	14.1%
Rate of Loans Growth (gross)	<b>-0.8%</b>	33.0%	18.7%	<b>-12.1%</b>	-26.6%	7.4%	<b>7.2%</b>	24.8%	35.3%	<b>0.7%</b>	28.0%	21.5%
Rate of Capital Base Growth	<b>15.2%</b>	19.5%	10.4%	<b>7.8%</b>	-19.0%	4.3%	<b>1.6%</b>	19.0%	12.2%	<b>11.6%</b>	16.1%	10.2%
Rate of NPLs (3 Mths & >) Growth	<b>81.8%</b>	73.7%	20.2%	<b>42.5%</b>	7.1%	7.0%	<b>75.7%</b>	88.8%	5.9%	<b>78.0%</b>	71.8%	14.9%
Investments :Total Assets <sup>1</sup>	<b>27.4%</b>	26.4%	32.7%	<b>60.9%</b>	57.4%	51.2%	<b>27.0%</b>	24.3%	26.7%	<b>28.7%</b>	27.4%	32.7%
Loans (net of prov.):Total Assets <sup>1</sup>	<b>41.8%</b>	43.6%	37.9%	<b>27.6%</b>	29.6%	34.7%	<b>52.5%</b>	53.7%	50.0%	<b>43.4%</b>	44.9%	40.0%
Fixed Assets:Total Assets <sup>1</sup>	<b>1.7%</b>	1.6%	1.7%	<b>0.7%</b>	0.9%	1.0%	<b>1.6%</b>	1.7%	1.7%	<b>1.6%</b>	1.6%	1.7%
Loans (gross) : Deposits	<b>67.9%</b>	73.2%	60.6%	<b>75.7%</b>	71.6%	84.8%	<b>76.7%</b>	79.1%	73.6%	<b>70.1%</b>	74.4%	64.2%
<b>Liquidity</b>												
Average Domestic Currency Cash Reserve: Average Prescribed Liabilities <sup>4</sup>	<b>14.0%</b>	14.0%	9.0%	<b>14.1%</b>	14.0%	9.0%	<b>1.0%</b>	1.0%	1.0%	<b>10.4%</b>	10.6%	7.1%
Average Domestic Currency Liquid Assets: Average Domestic Prescribed Liabilities <sup>4</sup>	<b>42.1%</b>	38.7%	33.4%	<b>30.1%</b>	27.5%	29.7%	<b>16.4%</b>	12.4%	11.7%	<b>34.9%</b>	31.7%	28.1%
<b>Asset Quality</b>												
Prov. For Loan Losses:Total Loans (gross)	<b>4.1%</b>	2.9%	2.7%	<b>8.3%</b>	3.6%	1.5%	<b>2.7%</b>	1.8%	1.8%	<b>3.9%</b>	2.7%	2.4%
Prov. For Loan Losses: NPLs (3 Mths & >)	<b>80.0%</b>	105.5%	128.5%	<b>91.9%</b>	65.1%	39.9%	<b>42.3%</b>	46.5%	69.2%	<b>69.9%</b>	86.5%	105.4%
NPLs (3 Mths & >):Total Loans (gross)	<b>5.1%</b>	2.8%	2.1%	<b>9.0%</b>	5.6%	3.8%	<b>6.4%</b>	3.9%	2.6%	<b>5.5%</b>	3.1%	2.3%
NPLs (3 Mths & >): (Total Assets <sup>1</sup> + Provision for loan losses)	<b>2.1%</b>	1.2%	0.8%	<b>2.6%</b>	1.7%	1.3%	<b>3.4%</b>	2.1%	1.3%	<b>2.4%</b>	1.4%	0.9%
<b>Capital Adequacy</b>												
Deposits + Borrowings: Capital (:1)	<b>8.2</b>	9.3	9.5	<b>5.5</b>	6.7	5.8	<b>7.8</b>	7.3	7.3	<b>7.9</b>	8.7	8.7
Capital Base:Total Assets <sup>1</sup>	<b>9.9%</b>	8.8%	8.5%	<b>14.8%</b>	12.5%	13.2%	<b>10.7%</b>	11.5%	11.2%	<b>10.3%</b>	9.5%	9.3%
<sup>5</sup> Capital Adequacy Ratio [CAR]	<b>18.0%</b>	14.3%	15.6%	<b>24.0%</b>	23.4%	26.0%	<b>20.2%</b>	22.2%	19.5%	<b>18.7%</b>	16.1%	16.9%
NPLs (3 mths & >):Capital Base+Prov for loan losses	<b>18.7%</b>	12.2%	8.5%	<b>15.2%</b>	12.3%	9.7%	<b>28.1%</b>	17.0%	10.8%	<b>20.4%</b>	13.2%	9.1%
<b>Profitability</b>												
<sup>6</sup> Pre - tax Profit Margin (for the Calendar Quarter)	<b>22.0%</b>	29.0%	31.8%	<b>11.3%</b>	16.3%	20.2%	<b>1.8%</b>	10.5%	50.1%	<b>17.8%</b>	25.5%	34.4%
Return on Average Assets (for the Calendar Quarter)	<b>0.7%</b>	1.1%	1.1%	<b>0.3%</b>	0.5%	0.5%	<b>0.1%</b>	0.3%	1.6%	<b>0.5%</b>	0.9%	1.2%
<sup>7</sup> Income Assets/Expense Liabilities (at 31 March)	<b>102.8%</b>	100.8%	103.2%	<b>108.4%</b>	105.9%	116.4%	<b>108.9%</b>	109.2%	110.1%	<b>104.3%</b>	102.6%	105.2%

## Notes:

n/a not applicable

- Based on unaudited data submitted to BOJ by supervised institutions up to 11 May 2010. Prior years indicators may have revisions arising from amendments.

<sup>a</sup> 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

<sup>b</sup> The Minister of Finance approved the granting of a commercial banking licence to PanCaribbeanBank Limited, (formerly Pan Caribbean Merchant Bank Limited), with effect from 23 June 2008. Consequently, the merchant banking licence previously issued to Pan Caribbean Merchant Bank Limited under the Financial Institutions Act was surrendered.

<sup>1</sup> 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.

<sup>2</sup> Total Assets net of Provision for Losses and Contingent Accounts (Customer Liabilities for Acceptances, Guarantees and Letters of Credit).

<sup>3</sup> Capital Base - Banks & FIA Licensees: (Ordinary Shares+ Qualifying Preference Shares+ Reserve Fund + Retained Earnings Reserve Fund + Share Premium) less impairment by net losses of individual institution.

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

<sup>4</sup> Prescribed Liabilities include:

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

<sup>5</sup> 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.

<sup>6</sup> Data includes extraordinary income/expenditure and adjustments for prior period.

<sup>7</sup> Income Assets comprise FC Cash Reserves, Placements, Investments, Repo Assets and Loans less Non-Performing Loans (3 months and 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-10	Mar-09	Mar-08	Mar-10	Mar-09	Mar-08	Mar-10	Mar-09	Mar-08
Required Cash Reserve Ratio	14.0%	14.0%	9.0%	14.0%	14.0%	9.0%	1%/14%	1%/14%	1%/9%
Required Liquid Assets Ratio (incl Cash Reserve)	28.0%	28.0%	23.0%	28.0%	28.0%	23.0%	5%/28%	5%/28%	5%/23%

Effective 1 March 2010, the foreign currency cash reserve and liquid assets ratios for supervised licensees were decreased to 9% and 23% respectively.

Effective 6 February 2009, the domestic currency cash reserve and liquid assets ratios for supervised licensees were further increased to 14% and 28% respectively.

Effective 2 January 2009, the domestic currency cash reserve and liquid assets ratios for supervised licensees were further increased to 13% and 27% respectively and the foreign currency cash reserve and liquid assets ratios were increased to 11% and 25% respectively.

Effective 3 December 2008, the domestic currency cash reserve and liquid assets ratios for supervised licensees were increased to 11% and 25% 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.

# International Relations

Membership in the International Association of Deposit Insurers (IADI) provides an avenue for the continuous sharing of information among Deposit Insurers worldwide. It also provides the opportunity for staff training and development, both of which the Corporation utilized during the financial year.

In maintaining the alliance with regional counterparts, JDIC officers at the invitation of the Deposit Insurance Corporation of Trinidad & Tobago visited that organization during April 27- May 1, 2009 to observe and offer technical assistance in payout intervention preparations for the CLICO Investment Bank (CIB) of Trinidad & Tobago. This was in keeping with the objectives of IADI membership and in the spirit of a draft Memorandum of Cooperation between JDIC and other regional Deposit Insurers.

In staging its regional Bank Insolvency Conference, which not only included participants from the region, but also Europe, Asia, Africa and North America, the Corporation sought the expertise of several Deposit Insurers and received their support through presentations. These included the Canada Deposit Insurance Corporation, Federal Deposit Insurance Corporation

(USA), Malaysia Deposit Insurance Corporation, Deposit Insurance Corporation of Japan, Deposit Insurance Corporation of Trinidad & Tobago and Deposit Protection of Swiss Banks and Securities Dealers. The Barbados Deposit Insurance Corporation, as well as the Deposit Protection Fund Board, an arm of the Central Bank of Kenya, were also represented.

The Chief Executive Officer of the Barbados Deposit Insurance Corporation, Mr Warrick Ward, after attending the regional conference visited the Corporation on a one-week attachment to garner information on its risk assessment framework and other operational policies and procedures.

On September 16, 2009 the Corporation hosted a Kenyan delegation visiting Jamaica from various financial institutions in Kenya - the Central Bank of Kenya, the Cooperative Bank of Kenya, World Council of Credit



Unions, the Kenya Union of Savings and Credit Cooperative, also the Ministry of Cooperative Development and Marketing. The visit was to assist the delegation in a study tour of international best jurisdictions from which to learn lessons and experiences before finalizing and implementing the amended Sacco Societies Act which governs Savings

and Credit Cooperatives (credit unions) in Kenya. The delegation and members of the JDIC team exchanged information on the operations of the above institutions and that of the Corporation, as well as policy strategies for the legal, regulatory and supervisory framework and the dynamics of the different financial sector players.



Team Members of the JDIC and the Deposit Insurance Corporation of Trinidad & Tobago

Bank Insolvency Conference - Deposit Insurance Speakers (L-R): Mr Andrew Campbell, Reader in International Banking & Finance Law, School of Law, University of Leeds, UK; Mr Donald McKinley, Regional Counsel, Legal Dept, FDIC; Ms Antoinette McKain, Chief Executive Officer, JDIC, (Moderator); Mr J.P. Sabourin, Chief Executive Officer, MDIC; Dr Sebastian Schich, Principal Economist in the Financial Affairs Division, OECD (missing – Mr Patrick Loeb, Director, Deposit Protection of Swiss Banks and Securities Dealers).





# Appendix I

## The Basel Committee on Banking Supervision: Response to the Lessons of the Global Financial Crisis

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The Basel Committee on Banking Supervision (the Committee) provides a forum for regular cooperation on banking supervisory matters. The objective of the Committee is to enhance understanding of key supervisory issues and improve the quality of banking supervision worldwide.

Arising from the global financial crisis which began in mid-2007, the Committee has initiated an assessment of the crisis and corresponding response to the lessons learnt in relation to the regulation, supervision and risk management of global banks. The Committee's comprehensive response includes, in addition to the measures taken by the Committee in July 2009 to enhance the Basel 11 framework <sup>2</sup>, proposals to strengthen global capital and liquidity regulations with the goal of promoting a more resilient banking sector <sup>3</sup>. Additionally, the Committee's Cross-Border Bank Resolution Group developed a set of recommendations intended to strengthen national bank resolution powers and cross border implementation.

The objective of the Basel Committee's reform package is to improve the banking sector's ability to absorb shocks arising from financial and economic stress, thus reducing the risk of spillover from the financial sector to the real economy.

The Basel Committee's strategic response to the crisis is summarized below:

### Strengthening the Resilience of the Banking Sector

The Committee has proposed a number of fundamental reforms to the international regulatory framework in an effort to address the market failures concomitant to the global financial crisis. The key elements of the proposals are outlined in the Committee's consultation paper entitled, "*Strengthening the Resilience of the Banking Sector*". The consultative document presents the Basel Committee's proposals to strengthen global capital and liquidity regulations with the goal of promoting a more resilient banking sector. The proposals include:

- Raising the quality, consistency and transparency of the capital base to ensure that large, internationally active banks are in a better position to absorb losses on both a going concern and gone concern

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<sup>2</sup>The Basel Committee issued the revised capital requirements for trading book exposures and complex securitization transactions in July 2009

<sup>3</sup>The reforms have been endorsed by the Financial Stability Board and the G20 leaders at their Pittsburgh Summit

- Strengthening the capital requirements for counterparty credit risk exposures arising from derivatives, repurchase transactions and securities financing activities
- Supplementing the Basel 11 risk based capital framework with a non-risk based leverage ratio
- Promoting the buildup of capital buffers in good times that can be drawn upon in periods of stress
- Introducing a global minimum liquidity standard that includes a 30-day liquidity coverage ratio requirement underpinned by a longer-term structural ratio.

## International Framework for Liquidity Risk Measurement, Standards and Monitoring

In recognition of the need for banks to improve liquidity risk management and control liquidity risk exposures, the Committee issued Principles for Sound Liquidity Risk Management and Supervision in September 2008. These sound principles provide consistent supervisory expectations on the key elements of a robust framework for liquidity risk management at banking organisations.

To reinforce these supervisory objectives, the Committee has recently focused on further improving the resilience of internationally active banks to liquidity stresses across the globe as well as increasing international harmonization of liquidity risk supervision. In this regard, the Committee issued a consultative document entitled, *“International Framework for Liquidity Risk Measurement, Standards and Monitoring”*. In summary the document addresses:

- **Regulatory Standards** – The Committee has developed two internationally consistent regulatory standards: the Liquidity Coverage Ratio and the Net Stable Funding Ratio, to strengthen liquidity risk management and supervision.
- **Monitory Tools** – In order to achieve consistency, the Committee has developed a set of common metrics that should be considered the benchmark for the types of information which supervisors should use in monitoring the liquidity risk profiles of supervised entities. In addition, supervisors may use supplementary metrics to identify risks specific to the respective jurisdictions.
- **Application** – The issues related to the application of the proposed standards and monitory tools include the frequency with which banks compute and report the metrics, the extent of application of the metrics and the amount of public disclosure for both standards and monitory tools.

## Appendix I

### Cross-Border Bank Resolution

The Cross-border Bank Resolution Group (CBRG) of the Basel Committee on Banking Supervision in a paper entitled, “*Report and Recommendations of the Cross-Border Bank Resolution*” has stated the following recommendations as a product of its assessment of legal and policy frameworks for cross-border crises resolutions and its follow-up work to identify the lessons learned from the financial crisis. The recommendations address the following areas:

- **Recommendation 1:** Effective national resolution powers
- **Recommendation 2:** Frameworks for a coordinated resolution of financial groups
- **Recommendation 3:** Convergence of national resolution measures
- **Recommendation 4:** Cross-border effects of national resolution measures
- **Recommendation 5:** Reduction of complexity and interconnectedness of group structures and operations
- **Recommendation 6:** Planning in advance for orderly resolution
- **Recommendation 7:** Cross-border cooperation and information sharing
- **Recommendation 8:** Strengthening risk mitigation mechanisms
- **Recommendation 9:** Transfer of contractual relationships
- **Recommendation 10:** Exit strategies and market discipline

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# Appendix II

## Bank Insolvency In The Caribbean - Law And Best Practice Conference: An Overview

“It is well understood that the stability of any financial system will depend in no small measure on the degree of confidence that its stakeholders have in the system. That confidence is a function of knowledge and understanding that the stakeholders have of the system before a crisis threatens that stability. Therefore, on an on-going basis, JDIC, and the other Financial System Safety Net agencies, undertake strategic communication and public education and awareness campaigns to facilitate informed decision making by stakeholders.”

This was the view expressed by Antoinette McKain, CEO of the Jamaica Deposit Insurance Corporation (JDIC) as she summarized the outcomes of the Bank Insolvency Conference: Law & Best Practice staged in Montego Bay March 24-26, 2010. The Conference, jointly sponsored by the JDIC and the Caribbean Regional Technical Assistance Centre (CARTAC) brought together over 140 policymakers, representatives of the judiciary, legislators, banking and finance professionals, academics and representatives of multi-lateral institutions from the CARICOM region, Asia, North America and Europe and Africa to focus on the best practices in addressing the efficient and timely resolution of banking crises as and when these arise.

The CEO noted that one of the guiding missions of the Corporation is that of increasing public awareness regarding the nation's financial system. In this respect, the JDIC and CARTAC, with its regional focus, found common ground and thus cooperated in the staging of the first conference of its kind in the region.

“There is a simple reason why 11 of CARICOM's Attorneys-General, a half-dozen



JDIC Chairman R.N.A. confers with Minister Shaw during Conference.

of the heads of the region's central banks, as well as a wide cross-section of the senior members of the region's judiciary, attorneys-at-law and Government Ministers elected to participate in the Conference” the JDIC CEO opined. “They understand that if and when any crises occur, they are among the key persons who will be called upon to play a role in an efficient bank resolution process. They recognize that, and by virtue of being able to discuss what has worked well and what has not worked well both within and outside of their own region and countries, they are arguably better placed to assist in identifying and closing such gaps as exist in their own systems.”

McKain underscored three of the recurrent themes at the Conference:

- 1. The best time to plan for a crisis is when there is none on the horizon.** The JDIC CEO pointed to the fact that in his remarks on the opening day of the Conference, Finance & the Public Service Minister Audley Shaw underscored the need to be in a constant state of readiness in relation to the structures for dealing with banking crises. Similarly, BOJ Governor Brian Wynter noted that “We must be ready for crises when there are no crises evident....”

**2. There must be an appropriate, efficient and transparent infrastructure.** According to the CEO, such an infrastructure requires more than vigilant and efficient Financial System Safety Net agencies. An adequate and appropriate legal framework is an indispensable component. “What must be acknowledged”, she asserted, “is the fact that many of the laws on the books do not necessarily reflect modern conditions in relation to winding up of corporate entities in general and banking entities in particular. This has been one of the main contributors to the situation where bank liquidations elsewhere in the region, with similar laws to those we have in Jamaica, have taken as much as up to near 20 years to resolve”. That fact, she said, is antithetical to confidence building. Ross Leckow, Deputy General Counsel of the IMF in an introductory presentation noted that bank insolvencies must be treated differently from corporate insolvencies. An understanding to an efficient resolution infrastructure must begin there. She noted the alternative to an adequate bank resolution infrastructure is unbridled costs to the tax payer.

**3. Modern economies are becoming progressively more inter-connected.** Ms McKain suggested that in some circumstances, cross-borders issues have become as important as – or even more important than – domestic concerns. “The global financial crisis of the past two years impacted countries and clients far removed from the centres where the decisions that precipitated the crisis were made” she pointed out. “Consequently, it is no longer sufficient to look solely at what takes place in one’s own economy... We have to develop mutually supportive partnerships and the linkages with our neighbours. One of the most encouraging things about the Conference was the fact that so many of the participants from the region – both presenters and audience members - recognized the need for a regional regime.

Work and achievements in this regard was outlined by BOJ Governor, Brian Wynter, Central Bank of Barbados Governor Dr DeLisle Worrell, Eastern Caribbean Central Bank Governor Sir Dwight Venner and the Head of Bank Supervision of the Central Bank of Trinidad and Tobago, Karl Hiralal. Jamaica’s Solicitor General, Mr Douglas Leys addressed the clear need for CARICOM to develop a region-wide Insolvency Treaty.

“We welcome the Finance Minister, other presenters and participants’ appreciation of these issues”, she stated, “and we have already begun to review material from the Conference to harness the wealth of knowledge and experience that exists within the region, internationally and through the multilateral agencies and International agencies.”

## Presentation Topics and Speakers

### 1. Introductory Presentations

- Barbados: Dr DeLisle Worrell, Governor, Central Bank of Barbados - *Risk, Contagion and Financial Stability*
- International Monetary Fund: Mr Ross Leckow, Deputy General Counsel, IMF - *The International Legal Framework: Institutional Preconditions, Principal Legal Issues and Cross-Border Concerns*

### 2. Panel I: The Role of the Regulators in Early Detection of Bank Insolvency

- Eastern Caribbean: Sir Dwight Venner, KBE, Governor, Eastern Caribbean Central Bank - *Multijurisdiction Regulatory Governance: Case of the ECCB*
- Trinidad & Tobago: Mr Carl Hiralal, Inspector of Financial Institutions, Central Bank of Trinidad and Tobago - *The Necessity for and Challenges to a College of Regulators in the Supervision of Financial Conglomerates that operate Cross-border and Cross-sector*



- United Kingdom: Dr Dalvinder Singh, Associate Professor of Law, University of Warwick – *Early Intervention in Bank Resolution: A Comparative Analysis of the US, Canada and UK Models*
- Antigua & Barbuda: The Hon. Justin Simon, QC, MP, Attorney General, Antigua & Barbuda – *Antigua & Barbuda, the USA and Allen Stanford*

### 3. Panel II: Official Administration – Bank Reconstruction and Resolution

- Japan: Mr Yosuke Kawakami, Executive Director, Deposit Insurance Corporation Japan – *Bank Nationalization and Re-privatization in Japan*
- United States: Mr Donald McKinley, Regional Counsel, Legal Department, Federal Deposit Insurance Corporation – *When Deposit Insurers/Regulators Take Over – the Experience of the USA with Reference to Interventions during the recent Global Crisis*
- Jamaica: Mr Robin Sykes, Senior Legal Counsel, Bank of Jamaica – *From Temporary Management to Vesting of Shares in the Minister of Finance – Avoiding Liquidation if Possible*
- Canada: Mr Guy Saint-Pierre, President & Chief Executive Officer, Canada Deposit Insurance Corporation – *Canada in the Financial Crisis: The Virtue of Boredom*

### 4. Panel III: The Role of Deposit Insurance

- United States: Mr Rick Osterman, Deputy General Counsel, Federal Deposit Insurance Corporation – *The History of Deposit Insurance: Expanding Powers from 1933 to Present*
- Malaysia: Mr Jean Pierre Sabourin, Chief Executive Officer, Malaysia Deposit Insurance Corporation – *The Role of Deposit Insurance in Maintaining Financial Stability*
- Organization for Economic Cooperation and Development (OECD): Dr Sebastian Schich, Principal Economist in the Financial Affairs Division – *The Government as Guarantor of Last Resort: Benefits, Costs and Premium Setting Issues*
- United Kingdom: Mr Andrew Campbell, Reader in International Banking & Finance Law, School of Law, University of Leeds – *The Role of Deposit Insurance in the 2007-2009 Financial Crisis in the United Kingdom*
- Switzerland: Mr Patrick Loeb, Director, Deposit Protection of Swiss Banks and Securities Dealers – *Deposit Insurance: The Swiss Model*



1. The JDIC Chairman, The Hon. R.N.A. Henriques, O.J., Q.C. (third left) and the CEO, Ms Antoinette McKain along with (L-R) Mr Howard Edmonds, Financial Sector Supervision Advisor, (CARTAC); Mr Brian Wynter, Governor, Bank of Jamaica; Dr. DeLisle Worrell, Governor, Central Bank of Barbados; The Hon. Audley Shaw, Minister of Finance and the Public Service, Jamaica; and Mr Ross Leckow, Deputy General Counsel, IMF, after the opening of the Conference and the introductory presentations
2. Panel I: (L-R) – Dr. DeLisle Worrell, Governor, Central Bank of Barbados; Sir Dwight Venner, Governor, Eastern Caribbean Central Bank; Mr Karl Hiralal, Inspector of Financial Institutions, Central Bank of Trinidad and Tobago; Dr. Dalvinder Singh, Associate Professor of Law, University of Warwick, United Kingdom.



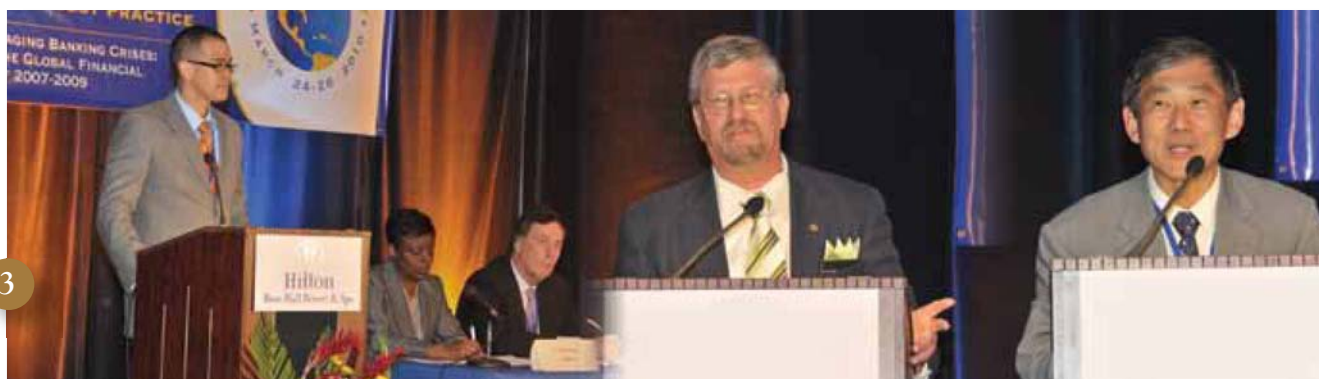
### 5. Panel IV: Liquidation of Insolvent Banks and Cross-Border Issues

- Jamaica: The Hon. R.N.A. Henriques, O.J. , Q.C., Chairman, Jamaica Deposit Insurance Corporation - *Jamaica's Mid-1990's Financial Sector Crisis: Reflections on Crisis Resolution Strategies*
- Cayman Islands: Mr Andrew Bolton, Litigation Partner, Appleby - *Overview of Cross-border Insolvency under Cayman Islands Law*
- Jamaica: Mr Douglas Leys, Solicitor General - *The Need for a Caricom Insolvency Treaty*
- Financial Stability Board: Dr Eva Hupkes, Advisor, Regulatory Policy & Cooperation - *The Case for a Lex Specialis for Bank Insolvency*
- United Kingdom: Mr Philip Wood, Attorney-at-law, Allen & Overy, London - *Insolvency of Financial Institutions: Some General Principles*
- British Virgin Islands: Mr David Abednego, Acting Director of the Financial Services Commission - *Liquidation of Insolvent Banks under the Insolvency Act of 2003*
- Jamaica: Dr Jenifer Daley, Senior Lecturer, Department of Management Studies, University of the West Indies, Mona Campus, Jamaica - *Thoughts on the Jamaican Banking Sector*
- Trinidad: Mr Noel Nunes, Risk Assessment, Insurance and Liquidations Officer, Deposit Insurance Corporation of Trinidad and Tobago - *Liquidation of a Bank, A Case Study Twenty Years in the Making*
- Bermuda: The Hon. Mr Justice Ian Kawaley, Justice of the Commercial Court, a division of the Supreme Court of Bermuda - *Cross-border Judicial Cooperation in the Commonwealth Caribbean - Challenges and Opportunities*

N.B.: Full Presentations and Speaker

Profiles may be viewed at:

[www.jdic.org/library.conference](http://www.jdic.org/library.conference)



3. Panel II: (L-R) - Mr Robin Sykes, Senior Legal Counsel, Bank of Jamaica; Dr Jenifer Daley, Senior Lecturer, Department of Management Studies, University of the West Indies, Mona Campus; Mr Guy Saint-Pierre, President and Chief Executive Officer, Canada Deposit Insurance Corporation; Mr Donald McKinley, Regional Counsel, Legal Department, Federal Deposit Insurance Corporation; Mr Yosuke Kawakami, Executive Director, Deposit Insurance Corporation of Japan



4. Panel III: (L-R) - Ms Antoinette McKain, CEO, JDIC; Dr Sebastian Schich, Principal Economist in the Financial Affairs Division, OECD; Mr Andrew Campbell, Reader in International Banking & Finance Law, School of Law, University of Leeds, United Kingdom; Mr Jean Pierre Sabourin, Chief Executive Officer, Malaysia Deposit Insurance Corporation; Mr Donald McKinley, Regional Counsel, Legal Department, Federal Deposit Insurance Corporation



5. Question and Answer session



6. Lunch Time Presenters: (L-R) - The Hon. Justin Simon, QC, MP, Attorney General, Antigua & Barbuda; Mr Patrick Loeb –Director, Deposit Protection of Swiss Banks & Securities Dealers, Switzerland



7. Panel IV: - (L-R) The Hon. R.N.A. Henriques, O.J., Q.C, Chairman, JDIC; Mr Noel Nunes, Risk Assessment Insurance and Liquidation Officer, Deposit Insurance Corporation of Trinidad and Tobago; The Hon. Justice Ian Kawaley, Justice of the Commercial Court, Supreme Court of Bermuda; Dr Eva Hupkes, Advisor, Regulatory Policy & Cooperation, Financial Stability Board; Mr Douglas Leys, Solicitor General, Jamaica; Mr David Abednego, Acting Director of the Financial Services Commission, British Virgin Islands; Mr Andrew Bolton, Litigation Partner, Appbly, Cayman Islands; and Mr Phillip R. Wood, Attorney-at-law, Allen & Overy, United Kingdom



8

8. Students from the John Rollins Success Primary School pose with their teachers after their performance at the Conference, as the JDIC CEO presents the school with 3 laptop computers



9

9. The JDIC team, including CARTAC reps, Liaison Officers and hotel personnel



NEWS

THE DAILY OBSERVER  
Friday, March 05, 2010

## JDIC To Host 'Bank Insolvency in the Caribbean' Conference this Month

WITH the tail end of the global financial crisis still lashing financial systems across the Caribbean, a conference on 'Bank Insolvency in the Caribbean: Law and Best Practice' is never more timely.

The Jamaica Deposit Insurance Corporation (JDIC) yesterday launched its first Caribbean Bank Insolvency Conference to be held March 24 to 26, 2010, at the Rose Hall Resort and Spa in Montego Bay, Jamaica. The conference will see over 20 experts from countries across the Caribbean, Canada, the United States, and the United Kingdom speak on matters relevant

to the global financial crisis, international initiatives towards best practices and resolutions for bank insolvencies. The International Monetary Fund and the Organisation for Economic Cooperation and Development will also be represented at the conference.

Antoinette McKain, CEO of the JDIC, said that the conference is in keeping with the organisation's public education and awareness business strategy to increase the public's level of awareness of matters affecting the financial system stability.

"That is why we have programmes like this

including the conference to allow people to know how the system operates, how it should operate, so they can remain confident. When people hear that a bank may have a challenge, people don't run on the bank because you are confident that the system will deal with it in an orderly and effective manner," McKain said.

She said that it is also important that the persons whose decisions and actions will even indirectly impact the safety net are also fully aware of how the financial regulatory system is designed to operate so that they too can play an effective role. "We know that those indirectly

## JDIC to host 'Bank Insolvency in the Caribbean' conference this month (Cont'd)

involved in the system must know about it or else the system will not be as efficient, as effective and as orderly as we would want the financial system to be when there are difficulties. Financial instability is not something that can be cured it will always exist," McKain posited.

For this reason, the conference targets members of the judiciary, lawyers, officials of banks and other financial institutions, officials of the ministries of finance, accountants, auditors, university lecturers and professors in economics, business and management across the Caribbean to ensure that all involved in the system knows how it works. Though the

target audience includes regulators and policymakers, the conference is open to everyone.

Speakers from major financial centres across the world will make presentations at the conference. They include Yosuke Kawakami, Japan's Executive Director, Deposit Insurance Corporation; Rick Osterman, Deputy General counsel, Federal Deposit Insurance Corporation of the US; Patrick Loeb, Director, Deposit Protection of Swiss Banks and Securities Dealers; Jean Pierre Sabourin, CEO, Malaysia Deposit Insurance Corporation; Mr Guy Saint-Pierre, President and CEO, Canada Deposit

Insurance Corporation; and Sir K Dwight Venner, Governor of the Eastern Caribbean Central Bank. Other speakers from the Caribbean: Bermuda, Barbados, Trinidad, the Cayman Islands, and Jamaica will also make presentations.

"These people have just dealt with it and are continuing to deal with it. To have them here is a unique opportunity and I think as many persons as possible, whether you are directly or indirectly, or likely to be involved in the financial sector, should see it as an opportunity," McKain said.



# Government Reviews Bank Laws

**Noel Thompson**

*Gleaner Writer*

WESTERN BUREAU:

**F**inance Minister Audley Shaw has indicated that the Bruce Golding administration is to promulgate bank insolvency legislation to deal more decisively with individuals and financial institutions which fail to adhere to best practices and the law.

"We are reviewing all the banking laws related to the Bank of Jamaica (BOJ) and the Financial Services Commission (FSC)," Shaw told delegates, stating that his ministry would play a greater role in monitoring financial institutions of all types.

## LICENSING PROCESS RE-EXAMINED

He added that the licensing process would be re-examined, as there were too many loopholes through which too many illicit enterprises were able to operate. He added that

there was an apparent lack of adequate legislation to lock them down decisively and early. The minister was addressing delegates from across the Caribbean and other countries at a bank insolvency conference at the Hilton Rose Hall Resort in Montego Bay, St James, on Wednesday under the theme: Bank Insolvency in the Caribbean, Law and Best Practice.

Referring to the Bernard Madoff US\$65-billion Ponzi scheme in the United States, whose principal was swiftly tried and incarcerated, Shaw said: "We must have that capacity in Jamaica and put systems in place that are very purposeful, direct and hard-hitting."

Shaw disclosed to delegates that for the past 15 years, Jamaica's average annual growth had been less than an anaemic one percent and emphasised that the Government now has to work assiduously to change that pattern in an effort to put Jamaica on the right path in

joining some of its neighbours in achieving growth rate of between six and 12 percent annually.

## POSITIVE SIGNS IN THE MARKET

Although lagging behind, Shaw said Jamaica had started to see positive signs in the market, with the three major rating agencies regarding Jamaica more positively, as well as other fundamental issues that are demonstrating stability in the market.

Revisiting the 1990s collapse of the financial sector, Shaw said one of the good things which resulted from that was ensuring a revision of the BOJ Act and the establishment of the FSC and the Jamaica Deposit Insurance Corporation.

The conference is intended to examine the issues, open up discourse and potentially guide policy direction on important aspects of the structures relating to banking regulation, resolution and insolvency with specific reference to recent local, regional and international cases and structural reform through legislation and other actions in key world financial centres. The conference ends today.

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# Central Bankers Crafting Regional Bank Solvency Plan

Governor of the Bank of Jamaica Brian Wynter is pressing for cooperation among regional financial regulators on the policing of banking groups whose operations straddle jurisdictions, while reiterating that a bank insolvency law was under consideration here.

The region's central bankers are also working on a plan, whose implementation, Wynter said, is somewhat challenged by differences in the financial architecture and regulatory authority across countries.

"It is also proposed that the plan will address principles underlying preparedness during normal times, systemic risk assessments, crisis identification, how and when to invoke procedures and the adoption of region-wide communication strategies," said Wynter.

His appeal made last week at the three-day Regional Technical Assistance Conference on Bank Insolvency in the Caribbean is similar to one by Trinidad's central bank chief Ewart Williams who, in early March, warned that a regulatory framework is needed to

monitor cross-border companies if another CLICO/CL Financial collapse is to be averted and to guard against what he called 'regulatory arbitrage' by big companies trying to beat the system.

## MONITORING SYSTEM FAILURE

Ewart said at a financial workshop in Port of Spain that the financial conglomerate's collapse was due in part to a failure of proper monitoring systems in several Caricom countries, which he described as rudimentary in some cases and non-existent in others.

Inside Jamaica, new laws are pending that would allow Bank of Jamaica to regulate a broader swathe of financial corporations and where applicable, monitor their parent operations, taking the central bank's remit beyond 'deposit-taking' institutions.

Current law delineates its function to oversight of deposit-takers — banks, merchant banks and soon, credit unions — while the Financial Services Commission oversees the pensions, insurance and securities sectors, including the stock market.

Wynter said at the March 24-26 bank solvency conference, hosted by Jamaica Deposit Insurance Corporation in Montego Bay, that lawmakers should make a priority out of the development of a regional crisis management plan for regulators and policy makers.

Central bankers in the Caricom bloc, he said, are already devising a plan relative to banking enterprises, and would be signing a memorandum of understanding once the parties devise the mechanisms to make the plan workable.

"The plan is intended to address crises that involve illiquidity situations, or the ensuing insolvency of, at least, one member of a banking group," said the BOJ governor.

Still to be worked out is the sharing of costs among participating central banks when action is taken to limit contagion, how to address situations under laws that are yet to be harmonised, such as exchange controls, "that would restrict or inhibit the flow of funds to a distressed centre in the event of either a private sector crisis resolution or a collective public sector 'bail-out', and the broader legislative landscape that allows each jurisdiction different levels of regulatory and supervisory authority".

**JIS and Gleaner reports**  
[business@gleanerjm.com](mailto:business@gleanerjm.com)



# Regional Insolvency Treaty Needed - Jamaica's Solicitor General

JAMAICA'S Solicitor General, Douglas Leys, has expressed the view that there is need for a Caricom Regional Insolvency Pact, which would ensure greater creditability and elements of certainty in the regional trading bloc.

To this end, Leys argued for a special jurisdiction for the Caribbean Court of Justice (CCJ), in respect of insolvencies arising out of the Treaty.

"If the treaty is amended or there is a separate insolvency treaty among Caricom states, a specialised jurisdiction could be conferred on the CCJ to adjudicate on insolvency claims where a state fails to enact local law in accordance with the insolvency treaty," Leys said.

He put forward this argument recently when he addressed participants in the three-day conference being held under the heading "Bank

Insolvency in the Caribbean: Law and Best Practice" in Montego Bay last week.

"I am of the view that there should be a special jurisdiction for the Caribbean Court of Justice (CCJ), the adjudicating arm of the Revised Treaty of Chaguaramas, so that where trade disputes arise in the treaty, the CCJ has exclusive jurisdictions to adjudicate both claims from states and individuals under the revised treaty," Leys noted.

Pointing out that cross-border insolvencies could be complex and protracted, the solicitor general expressed the view that there was a strong case for reforming the insolvency laws throughout the region.

"Common insolvency regime would boost investor confidence as trade and commerce would benefit from clear rules of law," he added.

"If we are to go by way of a regional insolvency treaty, then that treaty should also confer on the CCJ a special jurisdiction to deal with these issues which will inevitably arise. I would therefore recommend that this become a state obligation and, if in a cross-border insolvency a creditor or investor finds that he has been prejudiced because of the failure of a country to enact the provisions in accordance with the treaty, then he could launch a claim in the CCJ for relief against that particular state," Leys suggested.

He further expressed the view that this would give an element of certainty and predictability which investors were looking for when they carried out their activities in a regional trading block and would "certainly enhance the credibility of the region as a whole..."

"Based on the foregoing, it is my hope that Caricom governments will act now and address these issues before it is too late. Failure to act now is to court a disaster," the Solicitor General added.

# Regional Response to Financial Threats Requires Urgent Priority - Wynter

**GOVERNOR** of the Bank of Jamaica Brian Wynter has challenged regional financial regulators and policymakers to seek to resolve problems related to cooperation on a response to issues related to banking enterprises operating in more than one jurisdiction.

The Governor, who was addressing the recently concluded three-day Regional Technical Assistance Conference on Bank Insolvency in the Caribbean: Law and Best Practice, in Montego Bay, reinforced the disclosure by Minister of Finance and the Public Service, Audley Shaw, that the Government was looking into the promulgation of a bank insolvency law for Jamaica.

In the context of globalisation, against the background of vulnerability of Caribbean economies to recent developments, including financial institution failures that occur elsewhere in the Caribbean and the world, the Central Bank Governor declared that the authorities must now give urgent priority to the development of a regional crisis management plan for regulators and policymakers.

Wynter emphasised that the potential for problems in one jurisdiction impacting developments in another regional market was now a matter of critical concern. He said that, against this background, the central banks of Caricom have initiated a regional crisis management plan as a response to crisis

situations in banking enterprises operating in more than one jurisdiction in the region.

“The plan is intended to address crises that involve illiquidity situations, or the ensuing insolvency of, at least one member of a banking group. It is also proposed that the plan will address principles underlying preparedness during normal times, systemic risk assessments, crisis identification, how and when to invoke procedures and the adoption of region-wide communication strategies,” he stated.

He explained that the adoption of the provisions of the plan is to be formalised by way of a Memorandum of Understanding (MOU) among the participating central banks. He declared that a number of challenges to making these arrangements a reality have been identified, but remain unaddressed at this time.

In that regard, he raised a number of pertinent issues: “How should the costs of any remedial action to stabilise the financial sectors in participating countries, be



## Regional Response to Financial Threats Requires Urgent Priority - Wynter (Cont'd)

shared in cases where there is or may be spillover contagion between jurisdictions? How shall we overcome the legislative and policy hindrances, such as exchange controls, that would restrict or inhibit the flow of funds to a distressed centre in the event of either a private sector crisis resolution or a collective public sector "bail-out"? How will we treat the variations in the different legislative and supervisory arrangements in place in member jurisdictions that may impact on the ability of jurisdictions to fully participate in the regional plan?"

The Governor further opined, "The implementation of a regional crisis management plan should make the banks in the region more capable of absorbing shocks and therefore enable an environment capable of delivering for the businesses and people of the Caribbean

the sustained period of stability that is needed in order to foster innovation, creativity and growth in productivity."

According to Wynter, the recent global crisis is a reminder that banks matter enormously to a country's economy. However, he cautioned that the purpose of financial sector regulation is not to prevent financial institution failures.

"The primary aim is better seen as providing the framework for the efficient functioning of financial markets with adequate banking services, the protection of depositors and of overall stability of the financial system. It is, therefore, of utmost importance that we continually seek to ensure that our oversight framework allows for the development of strong and resilient financial

systems with necessary provisions for the orderly exit of intermediaries whenever this becomes necessary, with minimum disruption to depositors and the local economy," he said.

In this regard, supervision in Jamaica has been substantially strengthened since the financial sector turmoil the country experienced in the 1990s. He cited the establishment of the Jamaica Deposit Insurance Corporation in 1998 and the creation of the Financial Services Commission in 2001, as two of the more striking aspects of the effort to strengthen the regulatory and supervisory framework of the financial sector.

He observed that the past regulatory and supervisory improvements have placed Jamaica in good stead during the recent turbulence in global and regional financial

## Regional Response to Financial Threats Requires Urgent Priority - Wynter (Cont'd)

systems as, generally, the banking sector fundamentals remained strong, against the backdrop of the economic slowdown.

While admitting that it was early days since Jamaica's historic debt swap, he pointed to the stability of the financial services sector.

"It is still early days, but the system appears to have withstood the recently delivered shock arising from Jamaica's voluntary Debt Exchange (JDX) transaction.

This exchange, which received voluntary participation of almost 100%, involved a reduction of interest income from holdings of domestic government securities of close to 30% in addition to a lengthening of maturities by two years," Wynter said.

Meanwhile, regional policy-makers and regulators are of the view that a regime for making the region's banks more secure, against the threat of insolvency, is now a critical necessity.

"A factor that was not a significant feature of the earlier turmoil in Jamaica was cross-border reach. The Caribbean Single Market and the prospect of the eventual Caribbean Single Economy involve the removal of certain legal, economic and trade barriers. In the past decade, the Caribbean has seen a significant increase in regional expansion by companies operating in both the real sector and the financial sector," said Governor Wynter.

## Board of Directors 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	75,000	-	-	-	75,000
Director 1	30,000	-	-	-	30,000
Director 2	30,000	-	-	-	30,000
Director 3	55,500	-	-	-	55,500
Director 4	37,000	-	-	-	37,000
Director 5	45,000	-	-	-	45,000
Director 6	-	-	-	-	-

## Senior Executive Compensation

Position of Senior Executive	Salary	Gratuity or Performance Incentive	Travelling Allowance or Value of Assignment of Motor Vehicle	Pension or Other Retirement Benefits (NIS)	Other Allowances	Non-Cash Benefits	Total
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Chief Executive Officer	7,477,134	1,846,762	1,950,753	12,500	-	192,190	11,479,339
Chief Operating Officer/Deputy CEO	4,483,109	1,120,777	796,500	12,500	-	248,015	6,660,901
Director, Finance, Funds and Asset Management	4,095,065	1,023,766	796,500	12,500	-	212,929	6,140,760
Director, Insurance and Risk Assessment (Resignation effective May 3, 2009)	332,636	83,159	72,921	2,083	-	40,625	531,424
Legal Counsel	4,843,800	-	-	12,500	-	-	4,856,300





**Jamaica Deposit Insurance Corporation**

# **Financial Statements**

**31 March 2010**

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## Independent Auditors' Report

### To the Members of Jamaica Deposit Insurance Corporation

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Jamaica Deposit Insurance Corporation, set out on pages 63 to 85, which comprise the statement of financial position as of 31 March 2010 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.

### 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 2010 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Chartered Accountants

23 June 2010  
Kingston, Jamaica

M.G. Rochester P.W. Pearson E.A. Crawford D.V. Brown J.W. Lee C.D.W. Maxwell P.E. Williams  
G.L. Lewars L.A. McKnight L.E. Augier A.K. Jain B.L. Scott B.J. Denning G.A. Reece

# Jamaica Deposit Insurance Corporation

## Statement of Comprehensive Income

Year ended 31 March 2010

(expressed in Jamaican dollars unless otherwise indicated)

	2010 \$'000	2009 \$'000
<b>Revenue</b>		
Insurance premiums	643,038	553,444
Interest earned	937,504	693,962
Foreign exchange gain	11,469	132,632
Other income	4,385	-
	<u>1,596,396</u>	<u>1,380,039</u>
<b>Expenses</b>		
Administration expenses (Note 6)	<u>152,242</u>	<u>171,341</u>
<b>Surplus from Operations</b>	<u>1,444,154</u>	<u>1,208,698</u>
<b>Other Comprehensive Income</b>		
Fair value gains/losses on available-for-sale investments	35,695	(25,240)
Gains on revaluation of property, plant and equipment	-	33,162
	<u>35,695</u>	<u>7,922</u>
<b>Total Comprehensive Income</b>	<u><u>1,479,849</u></u>	<u><u>1,216,620</u></u>

# Jamaica Deposit Insurance Corporation

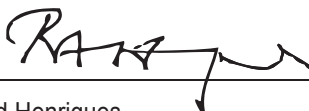
## Statement of Financial Position

31 March 2010

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2010 \$ '000	2009 \$ '000
<b>ASSETS</b>			
Investment securities	8	6,194,498	5,124,721
Cash at bank		38,899	7,502
Receivables	9	571,484	277,124
Property, plant and equipment	10	105,428	101,593
		<u>6,910,309</u>	<u>5,510,940</u>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>			
<b>Liabilities</b>			
Unearned premium income	11	275,713	352,860
Payables		15,373	18,706
		<u>291,086</u>	<u>371,566</u>
<b>Shareholder's Equity</b>			
Share capital	12	1,000	1,000
Capital reserves	13	48,168	48,168
Fair value reserves	14	(3,591)	(39,286)
Deposit insurance fund	15	6,573,646	5,129,492
		<u>6,619,223</u>	<u>5,139,374</u>
		<u>6,910,309</u>	<u>5,510,940</u>

Approved by the Board of Directors on 23 June 2010 and signed on its behalf by:

  
 Roald Henriques Chairman

  
 Antoinette McKain Director

# Jamaica Deposit Insurance Corporation

## Statement of Changes in Equity

**Year ended 31 March 2010**

(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 2008	1,000	15,006	(14,046)	3,920,794	3,922,754
Surplus from operations	-	-	-	1,208,698	1,208,698
Other comprehensive income □					
Fair value losses on available-for-sale investments	-	-	(25,240)	-	(25,240)
Gains on revaluation of property, plant and equipment	-	33,162	-	-	33,162
Total comprehensive income □	-	33,162	(25,240)	1,208,698	1,216,620
<b>Balance at 31 March 2009</b>	<b>1,000</b>	<b>48,168</b>	<b>(39,286)</b>	<b>5,129,492</b>	<b>5,139,374</b>
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
<b>Balance at 31 March 2010</b>	<b>1,000</b>	<b>48,168</b>	<b>(3,591)</b>	<b>6,573,646</b>	<b>6,619,223</b>

# Jamaica Deposit Insurance Corporation

## Statement of Cash Flows

**Year ended 31 March 2010**

(expressed in Jamaican dollars unless otherwise indicated)

	2010 \$ 000	2009 \$ 000
<b>Cash Flows from Operating Activities</b>		
Surplus from operations	1,444,154	1,208,698
Adjustments for:		
Depreciation	5,203	3,420
Interest income	(937,504)	(693,963)
Unearned premium income	(77,147)	51,459
Foreign exchange gains	(11,469)	(132,632)
	<u>423,237</u>	<u>436,982</u>
Changes in non-cash working capital components:		
Other receivables	(294,360)	(116,177)
Payables	(3,333)	(1,422)
	<u>(297,693)</u>	<u>(117,599)</u>
Cash provided by operating activities	<u>125,544</u>	<u>319,383</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of property, plant and equipment	(9,038)	(9,684)
Investment securities	(1,150,421)	(922,313)
Interest received	1,064,738	617,693
Cash used in investing activities	<u>(94,721)</u>	<u>(314,304)</u>
Effect of exchange rate changes on cash balances	<u>574</u>	<u>398</u>
Increase in cash balance at end of year	<u>31,397</u>	<u>5,477</u>
Cash balance at the beginning of the year	<u>7,502</u>	<u>2,025</u>
<b>CASH BALANCE AT THE END OF THE YEAR</b>	<u><u>38,899</u></u>	<u><u>7,502</u></u>



# Jamaica Deposit Insurance Corporation

## Notes to the Financial Statements

31 March 2010

(expressed in Jamaican dollars unless otherwise indicated)

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### 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.

#### ***Accounting pronouncements effective in the current year affecting presentation and disclosure***

Certain new interpretations and amendments to existing standards have been published that became effective during the current financial year. The following are those standards which have affected the presentation and disclosure of amounts included in these financial statements.

**IAS 1 (Revised) Presentation of financial statements and IAS 1 (Amendment) Presentation of financial statements.** The revised standard prohibits the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard.

As the change in accounting policy only impacts presentation aspects, there is no impact on results.





# Jamaica Deposit Insurance Corporation

## Notes to the Financial Statements

31 March 2010

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (a) Basis of preparation (continued)

##### *Accounting pronouncements effective in the current year affecting presentation and disclosure (continued)*

**IFRS 7 (Amendment) Financial Instruments: Disclosures.** The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy (Note 5(d)).

Adoption results in additional disclosures only, and has no impact on the Corporation's results.

##### **Improvements to IFRSs (2008)**

In addition to the changes affecting amounts reported in the financial statements described above, the Improvements have led to a number of changes in the detail of the company's accounting policies, some of which are changes in terminology only, and some of which are substantive but have had no material effect on amounts reported.

##### *Accounting pronouncements effective in the current year without impact to the financial statements*

The following standards, interpretations and amendments to standards are also mandatory for the current and future accounting periods. The adoption of these pronouncements has led to no significant changes to the Corporation's accounting policies, nor to the presentation and disclosure of its financial information, but may affect the accounting for future transactions or arrangements.

Improvements to IFRSs (2008), involving amendments to, or clarifications of, IAS 1 *Presentation of financial statements*, IAS 16 *Property, plant and equipment* (and consequential amendment to IAS 7 *Statement of cash flows*), IAS 19 *Employee benefits*, IAS 20 *Accounting for government grants and disclosure of government assistance*, IAS 27 *Consolidated and separate financial statements*, IAS 27 (Revised) *Consolidated and separate financial statements*, IAS 28 *Investments in associates* (and consequential amendments to IAS 32 *Financial instruments: Presentation* and IFRS 7 *Financial instruments: Disclosures*), IAS 29 *Financial reporting in hyperinflationary economies*, IAS 31 *Interests in joint ventures* (and consequential amendments to IAS 32 and IFRS 7), IAS 36 *Impairment of assets*, IAS 38 *Intangible assets*, IAS 39 *Financial instruments: Recognition and measurement*, IAS 40 *Investment property* (and consequential amendments to IAS 16), IAS 41 *Agriculture*, IFRS 3 (Revised) *Business combinations*, IFRS 5 *Non-current assets held for sale and discontinued operations* (and consequential amendment to IFRS 1 *First-time adoption*), and IFRS 7 *Financial instruments – Disclosures*.



# Jamaica Deposit Insurance Corporation

## Notes to the Financial Statements

31 March 2010

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (a) Basis of preparation (continued)

##### ***Accounting pronouncements published but not yet effective***

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which are mandatory for the Corporation's accounting periods beginning on or after 1 January 2010 or later periods, but were not effective at the year end date, and which the Corporation has not early adopted. None of these have been determined to have a potential for significant impact on the financial statements of the Corporation, except as described below.

**IFRS 9 Financial Instruments: Measurement and Classification.** The objective of this IFRS is to establish principles for the financial reporting of financial assets that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of the entity's future cash flows, and is to apply all assets within the scope of *IAS 39 Financial Instruments: Recognition and Measurement*.

In particular, it replaces multiple measurement categories in *IAS 39* with a single principle-based approach to classification. IFRS 9 requires all financial assets to be measured at either amortised cost or full fair value, and introduces a two-step classification approach.

Management has determined that the standard is relevant to existing policies for its current operations, but has not yet assessed the impact on adoption.

#### (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.



# Jamaica Deposit Insurance Corporation

## Notes to the Financial Statements

**31 March 2010**

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

**(e) Cash and cash equivalents**

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



# Jamaica Deposit Insurance Corporation

## Notes to the Financial Statements

31 March 2010

(expressed in Jamaican dollars unless otherwise indicated)

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### 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.



# Jamaica Deposit Insurance Corporation

## Notes to the Financial Statements

**31 March 2010**

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (k) Financial instruments

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

#### (l) Comparative information

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year. In particular, the comparatives have been extended to reflect the requirements of IFRS 7.

### 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 decrease by \$1,262,000 (2009 □ \$45,546,000) 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.



# Jamaica Deposit Insurance Corporation

Notes to the Financial Statements

**31 March 2010**

(expressed in Jamaican dollars unless otherwise indicated)

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## 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.



# Jamaica Deposit Insurance Corporation

Notes to the Financial Statements

31 March 2010

(expressed in Jamaican dollars unless otherwise indicated)

## 5. Financial Risk Management (Continued)

### (a) Market risk (continued)

#### (i) Currency risk

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
	2010		
<b>Financial assets</b>			
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
	2009		
<b>Financial assets</b>			
Investment securities	4,264,669	860,052	5,124,721
Cash at bank	5,375	2,127	7,502
	4,270,044	862,179	5,132,223

#### 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.

	% change in currency rate 2010	Effect on Surplus from Operations 2010 \$ 000	Effect on Deposit Insurance Fund 2010 \$ 000	% change in currency rate 2009	Effect on Surplus from Operations 2009 \$ 000	Effect on Deposit Insurance Fund 2009 \$ 000
USD -						
Revaluation	4	36,855	-	5	43,109	-
Devaluation	-10	(92,138)	-	-10	(86,218)	-

# Jamaica Deposit Insurance Corporation

Notes to the Financial Statements

31 March 2010

(expressed in Jamaican dollars unless otherwise indicated)

## 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
<b>2010</b>					
<b>Financial assets</b>					
Investment securities	402,092	478,389	4,080,921	1,233,096	6,194,498
Cash at bank	38,899	-	-	-	38,899
	<u>440,991</u>	<u>478,389</u>	<u>4,080,921</u>	<u>1,233,096</u>	<u>6,233,397</u>
<b>2009</b>					
<b>Financial assets</b>					
Investment securities	351,440	1,047,949	2,727,005	998,327	5,124,721
Cash at bank	7,502	-	-	-	7,502
	<u>358,942</u>	<u>1,047,949</u>	<u>2,727,005</u>	<u>998,327</u>	<u>5,132,223</u>

# Jamaica Deposit Insurance Corporation

## Notes to the Financial Statements

31 March 2010

(expressed in Jamaican dollars unless otherwise indicated)

### 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 2010 \$ 000	Effect on Deposit Insurance Fund 2010 \$ 000	Effect on Surplus from Operations 2009 \$ 000	Effect on Deposit Insurance Fund 2009 \$ 000
<b>Change in basis points:</b>				
- 800 (2009: - 800)	(98,552)	(391,617)	(235,099)	130,695
+ 800 (2009: + 500)	98,552	391,617	147,500	(72,431)

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. Credit risk is the most important risk for the Corporation's business. 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 arise 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.



# Jamaica Deposit Insurance Corporation

## Notes to the Financial Statements

31 March 2010

(expressed in Jamaican dollars unless otherwise indicated)

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### 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 2010 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). 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
- 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.

# Jamaica Deposit Insurance Corporation

## Notes to the Financial Statements

31 March 2010

(expressed in Jamaican dollars unless otherwise indicated)

### 5. Financial Risk Management (Continued)

#### (d) Fair values and financial instruments (continued)

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

	Level 2 \$'000	Total \$'000
Available- for- sale investments (Note 8) □		
Issued by Government of Jamaica	4,947,106	4,947,106

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:

	2010		2009	
	Carrying Amount \$'000	Fair Value \$'000	Carrying Amount \$'000	Fair Value \$'000
Investment securities -				
Held to maturity	1,247,392	1,246,127	3,340,498	3,294,953
Available-for-sale	4,947,106	4,947,106	1,784,223	1,784,223
	<u>6,194,498</u>	<u>6,193,233</u>	<u>5,124,721</u>	<u>5,079,176</u>



# Jamaica Deposit Insurance Corporation

## Notes to the Financial Statements

**31 March 2010**

(expressed in Jamaican dollars unless otherwise indicated)

### 6. Expenses by Nature

Total administration expenses:

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Auditors' remuneration	855	777
Depreciation	5,203	3,420
Directors' emoluments -		
Fees	272	272
Management remuneration (Note 7)	12,327	11,917
Other	5,465	3,829
Printing and stationery	4,713	5,869
Professional fees	25,507	13,642
Public education	7,145	17,738
Repairs and maintenance	2,596	1,725
Staff costs (Note 7)	81,620	106,336
Utilities	6,539	5,816
	<u>152,242</u>	<u>171,341</u>

### 7. Staff Costs

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Wages and salaries	58,132	74,536
Statutory contributions	6,462	7,197
Others	17,026	24,603
	<u>81,620</u>	<u>106,336</u>
Management remuneration	12,327	11,917
	<u>93,947</u>	<u>118,253</u>

The number of persons employed by the Corporation at the end of the year was 20 (2009 - 24).

# Jamaica Deposit Insurance Corporation

Notes to the Financial Statements

31 March 2010

(expressed in Jamaican dollars unless otherwise indicated)

## 8. Investment Securities

	2010 \$ '000	2009 \$ '000
(a) Held-to-maturity		
Government of Jamaica	1,238,510	3,215,682
Interest accrued	8,882	124,816
	<u>1,247,392</u>	<u>3,340,498</u>
(b) Available-for-sale		
Government of Jamaica	4,888,606	1,714,421
Interest accrued	58,500	69,802
	<u>4,947,106</u>	<u>1,784,223</u>
	<u>6,194,498</u>	<u>5,124,721</u>

## (c) Remaining Term to Contractual Maturity

	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
	<u>-</u>	<u>6,795</u>	<u>780,597</u>	<u>460,000</u>	<u>1,247,392</u>
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
	<u>402,092</u>	<u>471,594</u>	<u>3,300,324</u>	<u>773,096</u>	<u>4,947,106</u>
	<u>402,092</u>	<u>478,389</u>	<u>4,080,921</u>	<u>1,233,096</u>	<u>6,194,498</u>

# Jamaica Deposit Insurance Corporation

Notes to the Financial Statements

31 March 2010

(expressed in Jamaican dollars unless otherwise indicated)

## 8. Investment Securities (Continued)

### (c) Remaining Term to Contractual Maturity (continued)

	2009				Carrying Value
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	
	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
Held-to-maturity:					
Government of Jamaica -					
Treasury bills	31,731	3,668	-	-	35,399
Local registered stocks	11,001	251,242	469,900	59,925	792,068
Debentures	47,000	208,157	1,189,015	901,101	2,345,273
US\$ Indexed bonds	18,497	24,445	-	-	42,942
Interest accrued	4,201	18,923	64,390	37,302	124,816
	112,430	506,435	1,723,305	998,328	3,340,498
Available-for-sale:					
Government of Jamaica -					
Local registered stocks	83,903	19,325	31,831	-	135,059
Debentures	161,078	429,597	201,327	-	792,002
US\$ Bonds	-	-	4,204	-	4,204
US\$ Indexed bonds	-	43,987	739,169	-	783,156
Interest accrued	12,526	19,416	37,860	-	69,802
	257,507	512,325	1,014,391	-	1,784,223
	369,937	1,018,760	2,737,696	998,328	5,124,721

### (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	8	12	11
Treasury bills	-	15	-	-	15
Treasury bonds	-	11	12	-	12
US\$ Bond	-	-	7	7	7

# Jamaica Deposit Insurance Corporation

## Notes to the Financial Statements

31 March 2010

(expressed in Jamaican dollars unless otherwise indicated)

### 8. Investment Securities (Continued)

#### (e) Jamaica Debt Exchange

In February 2010, the Corporation participated in the Jamaica Debt Exchange (JDX) transaction under which it exchanged its holdings of domestic debt instruments issued by the Government of Jamaica for new, longer-dated debt instruments available to the Corporation under the election options contained in the transaction.

The key features of the JDX are as follows:

- New notes allocated would be of longer duration at lower rates of interest.
- Jamaican-resident holders of certain domestic debt instruments (collectively referred to as the "Old Notes") were invited to exchange those Old Notes for new, longer-dated debt instruments (collectively referred to as the "New Notes"). Participation in the JDX was voluntary.
- The New Notes comprising 24 new instruments have a variety of payment terms, including fixed and variable rates in Jamaican dollars, CPI-indexed in Jamaican dollars, and fixed rates in U.S. dollars. While all the Old Notes were callable by the Government of Jamaica, all the fixed rate New Notes and certain variable rate New Notes will be non-callable.
- Eligible investors had the option to choose New Notes based on the type and maturity profile of the Old Notes which were offered for exchange based on certain election options. The election options only allowed investors to choose New Notes of longer tenor relative to Old Notes. Most New Notes have lower coupon interest rates than Old Notes.
- Eligible investors who made offers to the Government of Jamaica to exchange Old Notes received an equivalent principal value (par-for-par value) of New Notes and the payment in cash of accrued interest, net of applicable withholding taxes, on the Old Notes up to but excluding 24 February 2010 (the Final Settlement Date).

The JDX had no significant impact on the expected future cash flows from the Corporation's investment portfolio. The table below summarises the impact on coupon rates and maturities of the instruments that were exchanged.

	Pre JDX	Post JDX
Jamaican dollar denominated instruments:		
Total face value exchanged J\$'000	4,700,510	4,700,510
Weighted average coupon rate	20.0%	11.9%
Weighted average tenor to maturity	30 months	16 months
US dollar denominated instruments:		
Total face value exchanged US\$'000 (including J\$ denominated instruments indexed to US\$)	10,225	10,225
Weighted average coupon rate	10.5%	4.4%
Weighted average tenor to maturity	<u>13 months</u>	<u>52 months</u>

# Jamaica Deposit Insurance Corporation

## Notes to the Financial Statements

**31 March 2010**

(expressed in Jamaican dollars unless otherwise indicated)

### 9. Receivables

	<b>2010</b>	<b>2009</b>
	<b>\$ 000</b>	<b>\$ 000</b>
Withholding tax	481,923	273,329
Prepayments	216	220
Other	89,345	3,575
	<u>571,484</u>	<u>277,124</u>

### 10. Property, Plant and Equipment

	<b>Land</b>	<b>Building &amp; Freehold Improvement</b>	<b>Furniture &amp; Fixtures</b>	<b>Work-in-Progress</b>	<b>Computers, Machines &amp; Equipment</b>	<b>Total</b>
	<b>\$ 000</b>	<b>\$ 000</b>	<b>\$ 000</b>	<b>\$ 000</b>	<b>\$ 000</b>	<b>\$ 000</b>
Cost -						
At 31 March 2008	14,500	38,308	11,936	-	18,803	83,547
Additions	-	3,066	2,302	707	3,608	9,683
Revaluation	10,500	20,000	-	-	-	30,500
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
Depreciation -						
31 March 2008	-	2,092	7,242	-	12,046	21,380
Revaluation	-	(2,663)	-	-	-	(2,663)
Charge for the period	-	965	1,164	-	1,291	3,420
31 March 2009	-	394	8,406	-	13,337	22,137
Charge for the period	-	1,533	1,243	-	2,427	5,203
Disposals	-	-	-	-	(176)	(176)
31 March 2010	-	1,927	9,649	-	15,588	27,164
Net Book Value -						
31 March 2010	25,000	59,447	5,129	6,923	8,929	105,428
31 March 2009	25,000	60,980	5,832	707	9,074	101,593



# Jamaica Deposit Insurance Corporation

## Notes to the Financial Statements

**31 March 2010**

(expressed in Jamaican dollars unless otherwise indicated)

### 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 valuers. 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:

	<b>2010</b> <b>\$ 000</b>	<b>2009</b> <b>\$ 000</b>
Cost	36,591	36,591
Accumulated depreciation	<u>(6,905)</u>	<u>(5,518)</u>
Net book value	<u><u>29,686</u></u>	<u><u>31,073</u></u>

### 11. Unearned Premium Income

This represents the portion of insurance premiums received from policyholders relating to the period subsequent to 31 March 2010.

### 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

	<b>2010</b> <b>\$ 000</b>	<b>2009</b> <b>\$ 000</b>
Balance at beginning of year	5,129,492	3,920,794
Surplus from insurance operations	643,038	553,444
Surplus from investment and administration operations	<u>801,116</u>	<u>655,254</u>
Deposit Insurance Fund at year end	<u><u>6,573,646</u></u>	<u><u>5,129,492</u></u>

# Jamaica Deposit Insurance Corporation

## Notes to the Financial Statements

**31 March 2010**

(expressed in Jamaican dollars unless otherwise indicated)

### 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:

	<b>2010</b>	<b>2009</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Investment balance	-	2,013,896
Cash balance	35,296	2,765

- (d) Transactions and balances with key management:

	<b>2010</b>	<b>2009</b>
	<b>\$ '000</b>	<b>\$ '000</b>
Wages and salaries	25,306	27,684
Statutory contributions	2,591	1,756
Other staff benefits	4,311	6,310
	<u>32,208</u>	<u>35,750</u>

# Glossary

<b>Banking System</b>	The deposit-taking financial institutions, comprising commercial banks, merchant banks and building societies.
<b>Deposit</b>	A sum of money paid under an agreement under which the sum will be repaid with or without interest or a premium, and either on demand or at a time or in circumstances agreed by or on behalf of the person making the payment and the person receiving it.
<b>Deposit Insurance Fund (DIF)</b>	A Fund established in advance under a deposit insurance scheme to pay back depositors should their insured financial institution fail. Usually made up of premiums collected from member institutions/Policyholders.
<b>Deposit Insurance Fund Ratio</b>	The level for the Deposit Insurance Fund expressed as a percentage of the total insured deposits (DIF/Total Insured Deposits).
<b>Deposit Insurance Premium</b>	Amount paid annually by member institutions (Policyholders) as contributions to the DIF.
<b>FIA Licensees</b>	Financial institutions (Merchant Banks) licensed to take deposits under the Bank of Jamaica, Financial Institutions Act.
<b>Insurable Deposits</b>	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 (total deposits less inter-bank and Government deposits).
<b>Insured Deposit</b>	That portion of insurable deposits that is covered by insurance under the Deposit Insurance Act, 1998.
<b>Insured Deposit Portfolio Transfer</b>	The process whereby the deposits of a failed Policyholder are transferred to a viable Policyholder for the purpose of paying out depositors.
<b>Intervention Matrix</b>	Memorandum of Understanding between Safety Net Partners setting out the terms and conditions to strategically address problem institutions.
<b>Policyholder(s)</b>	Deposit taking financial institutions (banks and building societies) insured under the Deposit Insurance Scheme. Also termed member institutions.
<b>Premium Assessment Rate</b>	Rate at which Policyholders (members institutions) are charged to determine premiums due to the deposit insurer.
<b>Safety Net Partner(s)</b>	Comprises a country's regulatory authorities and deposit insurer (in the case of Jamaica - the Ministry of Finance & the Public Service, the Bank of Jamaica, the Financial Services Commission and the Jamaica Deposit Insurance Corporation).



# Abbreviations

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**BOJ** - Bank of Jamaica

**CARTAC** - Caribbean Regional Technical Assistance Centre

**DIA** - Deposit Insurance Act

**DIS** - Deposit Insurance Scheme

**FIA** - Financial Institutions Act

**FRC** - Financial Regulatory Council

**FSC** - Financial Services Commission

**FSSF** - Financial System Stability Fund

**GOJ** - Government of Jamaica

**GSDA** - Government Securities Dematerialization Act

**IADI** - International Association of Deposit Insurers

**JDX** - Jamaica Debt Exchange

**MOFPS** - Ministry of Finance and the Public Service

**NII** - Net Interest Income

**NIR** - Net International Reserves









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