

Jamaica Deposit Insurance Corporation
Annual Report 2011/2012



...Enhancing Financial System Stability





Jamaica Celebrates 50th Independence

At midnight August 5, 1962 the British Union Jack, the symbol of British rule was lowered and the new Jamaican flag in black, green and gold was hoisted for the first time. Jamaica's first Independence Day was celebrated on August 6, 1962. The National Stadium was built to coincide with Jamaica's independence celebrations in 1962 and the first event there was the raising of the nation's new flag.

This year Jamaica will celebrate 50 years as an independent nation – this will be marked by local and international activities in cities where Jamaicans reside. The celebration will coincide with the 2012 Summer Olympic Games, officially the Games of the XXX Olympiad, to be held in London where Jamaican athletes are expected to showcase their talents.

The Jamaica 50 Logo

The National Bird of Jamaica is captured in mid-flight with head pointing skyward, symbolizing our moments of ascension into excellence. Found only in Jamaica, the Doctor Bird demonstrates the uniqueness, resilience and cultural agility of Jamaica and Jamaicans. Its heartbeat can reach over 1200 beats per minute; a rhythm as relentless as our will and as swift as the feet of our athletes.



The bird's flight pattern forms the number 50 - a stylized golden flame which speaks to our consistent trailblazing - in trends, in sports and in music around the world for a half-century. www.jam50.org.

The Jamaica Deposit Insurance Corporation joins with the rest of the nation in celebrating this milestone.



June 29, 2012

Dr the Honourable Peter Phillips, MP
Minister of Finance and Planning
Ministry of Finance and Planning
30 National Heroes Circle
Kingston 4

Dear Minister:

In accordance with Section 11(1) of the Deposit Insurance Act, 1998, I have the honour to submit to you the Annual Report of the Jamaica Deposit Insurance Corporation for the Financial Year 2011/2012 and a copy of the Corporation's Accounts as at March 31, 2012, duly certified by its Auditors.

Yours sincerely

A handwritten signature in black ink, which appears to be 'Peter Thomas', is located below the 'Yours sincerely' text.

Peter Thomas, JP
Chairman



Our Vision



To Promote and Inspire
Financial System Confidence
and Stability.

A large, artistic photograph of a hand holding a smooth, light-colored stone. The hand is positioned with the palm facing up, and the stone is resting on the fingers. The background is dark and out of focus.

Our Mission

The Jamaica Deposit Insurance Corporation is committed to:

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

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

Corporate Values

- Accountability
- Communication
- Integrity
- Professionalism
- Respect
- Teamwork



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A stack of six smooth, rounded stones of various shades of brown and tan, stacked vertically. The stones are of varying sizes, with the largest at the bottom and the smallest at the top. The text 'Our Business' is written vertically across the stones in a large, white, serif font.

Our Business

Key Facts:

- The Jamaica Deposit Insurance Corporation (JDIC) was established in August 1998 under the Deposit Insurance Act and is responsible for managing the Deposit Insurance Scheme.
- The members of the Deposit Insurance Scheme are deposit-taking financial institutions which are regulated by the Bank of Jamaica. Member institutions are also called Policyholders. These are Commercial Banks, Merchant Banks and Building Societies.
- The Deposit Insurance Scheme covers the depositors of member institutions up to a maximum of J\$600,000 per depositor, per insured institution. At this limit approximately 97 percent of deposit accounts in member institutions are fully covered under the Scheme.
- Deposit accounts held in different ownership categories are covered separately, each up to the J\$600,000 limit. The account ownership categories are: Individual (single owner) accounts; Joint accounts; Company accounts; Trust accounts; and Nominee accounts.
- Deposit accounts covered by the Deposit Insurance Scheme include: Savings and Chequing Accounts; Certificates of Deposit (CDs); Time Deposits and Shares in a Building Society.
- Deposit accounts in foreign currencies are also covered up to the J\$600,000 limit. Payments on foreign currency accounts are in Jamaica dollars.
- In the event of the failure of a member institution, the JDIC must pay depositors the balances in their accounts, up to the maximum limit of J\$600,000.
- Depositors are automatically covered under the Scheme and are not required to pay premiums or make any form of contribution to the Scheme in order to be covered.
- Depositors are not required to make a claim on the JDIC as the Corporation will calculate payments based on the records of the failed member institution.
- The JDIC manages a Deposit Insurance Fund (DIF/the Fund), which at the end of March 2012 was J\$9.2 billion. The Fund is primarily made up of annual premiums collected from member institutions and investment income. Under the Deposit Insurance Act, the Corporation can borrow additional amounts for the Fund as required.

Financial Highlights

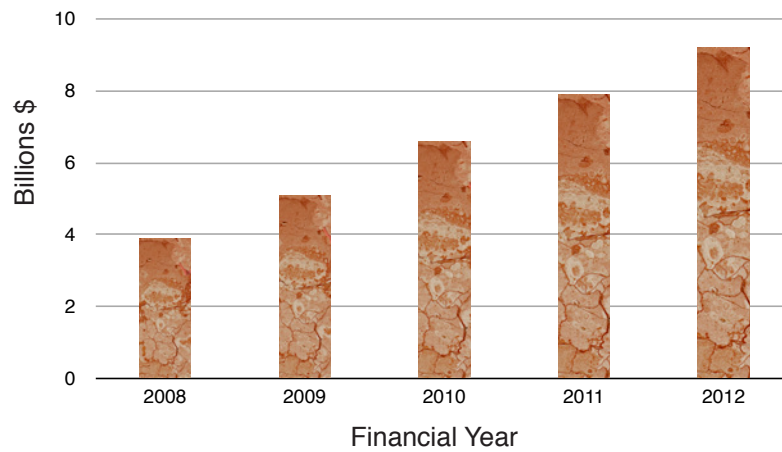


FIVE YEAR STATISTICS – MARCH 31, 2008 - 2012

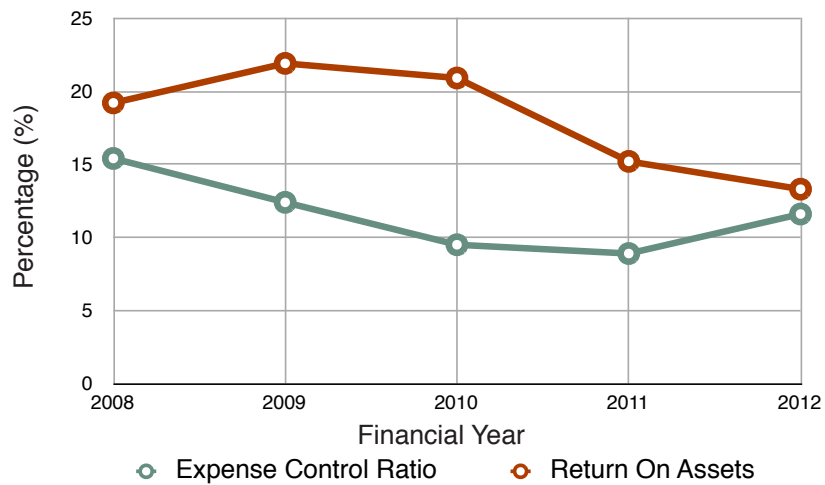
	2012 \$000	2011 \$000	2010 \$000	2009 \$000	2008 \$000
SELECTED STATEMENT OF COMPREHENSIVE INCOME DATA					
Insurance Premiums	727,806	720,970	643,038	553,444	484,120
Interest Earned	780,742	755,791	937,504	693,963	477,478
Other Income	26,454	(31,562)	15,854	132,632	3,273
Total Revenue	1,535,002	1,445,199	1,596,396	1,380,039	964,871
Administrative Expenses	178,015	128,894	152,242	171,341	148,975
Surplus from Operations	1,356,987	1,316,305	1,444,154	1,208,698	815,896
SELECTED STATEMENT OF FINANCIAL POSITION DATA					
Deposit Insurance Fund	9,246,938	7,889,951	6,573,646	5,129,492	3,920,794
Investment Securities	9,075,955	7,842,372	6,194,498	5,124,721	4,109,144
Total Assets	10,177,943	8,659,837	6,910,309	5,510,940	4,244,283
Property, Plant and Equipment (NBV)	98,946	109,503	105,428	101,593	62,167
OTHER SELECTED FINANCIAL DATA					
Persons employed at the end of the year	23	20	20	24	26
Expense Control Ratio (%)	11.6	8.9	9.5	12.4	15.4
Asset Management (%)	15.1	16.7	23.1	25.0	22.7
Return on Assets (%)	13.3	15.2	20.9	21.9	19.2



Deposit Insurance Fund



Key Performance Ratios



Our Member Institutions

COMMERCIAL BANKS

- 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
- RBC Royal Bank (Jamaica) Limited

MERCHANT BANKS (FIA LICENSEES)

- Capital & Credit Merchant Bank Limited
- MF&G Trust & Finance Limited

BUILDING SOCIETIES

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



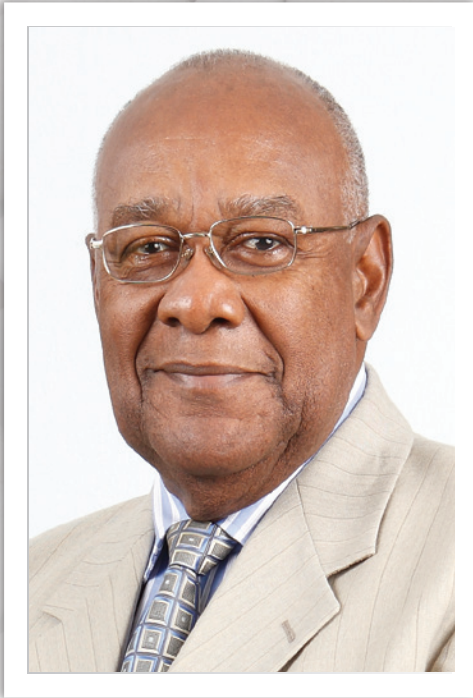
Abbreviations

BCBS	Basel Committee on Banking Supervision
BOJ	Bank of Jamaica
CFATF	Caribbean Financial Action Task Force
DIA	Deposit Insurance Act
DIF	Deposit Insurance Fund
DIS	Deposit Insurance Scheme
FAAA	Financial Administration and Audit Act
FIA	Financial Institutions Act
FRC	Financial Regulatory Council
FSB	Financial Stability Board
FSC	Financial Services Commission
FSSF	Financial System Stability Fund
GDP	Gross Domestic Product
GOJ	Government of Jamaica
IADI	International Association of Deposit Insurers
IMF	International Monetary Fund
JDX	Jamaica Debt Exchange
MEFP	Memorandum of Economic and Financial Policies
MOFP	Ministry of Finance and Planning
MTEFP	Medium Term Economic and Financial Programme
NIR	Net International Reserves
PBMA	Public Bodies Management and Accountability Act
PRAF	Policyholders' Risk Assessment Framework
SIFT'S	Systemically Important Financial Institutions

Glossary



Banking System	The deposit-taking financial institutions, comprising Commercial Banks, Merchant Banks (FIA Licensees) and Building Societies.
Coverage Limit	The limit of payment the JDIC can make to depositors as prescribed under the Deposit Insurance Act.
Crisis Intervention Matrix	A guide set out in a Memorandum of Understanding between the Financial System Safety Net Partners in Jamaica outlining the parameters and procedures to strategically identify and address problem institutions.
Deposit	A sum of money paid on terms under which it will be repaid with or without interest or a premium, and either on demand or at a time or in circumstances agreed. However it does not include money paid which is referable to the provision of property or services or the giving of security.
Depositor	A person entitled, or prospectively entitled, to repayment of a deposit, whether made by him or not.
Deposit Insurance Act (DIA)	The Act of Parliament establishing the JDIC and its functions.
Deposit Insurance Fund (DIF)	A Fund established under the Deposit Insurance Act to pay depositors should their insured financial institution fail or to offer financial assistance to Policyholders. Ordinarily made up of premiums collected from Policyholders/member institutions and investment income.
Deposit Insurance Fund Ratio	The Deposit Insurance Fund expressed as a percentage of the total insured deposits (DIF/Total Insured Deposits).
Deposit Insurance Premium	Amount paid periodically by Policyholders as contributions to the DIF.
FIA Licensees	Financial institutions licensed to take deposits under the Financial Institutions Act.
Insurable Deposits	Deposits received or held by a Policyholder from or on behalf of a depositor other than a deposit from another Policyholder; or a deposit from a statutory body or authority or government company.
Insured Deposit	That portion of insurable deposits that is within the coverage limit prescribed under the Deposit Insurance Act, 1998.
Insured Deposit Portfolio Transfer	The process whereby the insured deposits of a failed Policyholder is transferred by the Corporation to a viable Policyholder for the purpose of paying out depositors.
Policyholders	Deposit-taking financial institutions (Commercial Banks, FIA Licensees and Building Societies) insured under the Deposit Insurance Scheme otherwise referred to as Member Institutions.
Premium Assessment Rate	Rate at which Policyholders are charged to determine deposit insurance premiums due to the Corporation.
Safety Net Partner(s)	A country's lender of last resort, its financial system regulatory authorities and Deposit Insurer (in the case of Jamaica - the Bank of Jamaica, the Financial Services Commission, the JDIC and the Ministry of Finance and Planning).



Chairman's Remarks

It is with honour that I have accepted the appointment as the Chairman of the Board of Directors of the Jamaica Deposit Insurance Corporation. This appointment became effective on April 18, 2012 and so I have been charged with providing the remarks in this Annual Report on the performance of the Corporation for financial year which ended March 2012.

In this context therefore I must express on behalf of the current Board of Directors and myself, thanks to the former Chairman of the Board, Mr Roald Henriques, OJ, QC and the other former Board members for carrying out their oversight responsibilities in the context of their mandate under the Deposit Insurance Act for the greater part of the financial year and indeed for the previous periods. It is evident from the reported performance results that theirs was a successful tenure.

Since my appointment I have had the opportunity to review most of the key statutory reports made to the Minister during the financial year. Notwithstanding the change in the governing administration at the end of December 2011 the Corporation's role and functions have remained unchanged.

I congratulate the Corporation on achieving its financial targets and importantly, exceeding those under the Medium Term Economic and Financial Programme for the financial year. Its other operating targets

have been pursued with apparent diligence and have seen significant cooperation between the JDIC and its Policyholders and also with other members of the Financial System Safety Net and members of the International Association of Deposit Insurers towards strengthening the framework for engendering depositor confidence, protecting financial consumers, and financial system stability.

I am aware of the local economic uncertainties which have been impacted further by those in the global financial and economic environment. Notwithstanding, rigorous efforts are being pursued to ensure optimal regulations and the implementation of other structures and systems to ensure that a global financial and economic crisis on the scale experienced since 2008 is unlikely to recur.

The Jamaican financial system has remained resilient during this period. The seemingly intractable economic challenges remind us that the vigilance in the financial system safety net must be maintained and must be proactive to identify and meet any potential challenge to stability.

As part of this effort I note the steps being taken by the regulatory authorities to have a system wide view with the proposed legislation for the

financial system stability function being assumed by the Bank of Jamaica. With this, there is the proposed Financial Stability Committee on which the JDIC is expected to play a key role. I believe these efforts must proceed apace and include appropriate and targeted simulations to allow for testing of the robustness of these structures before a crisis event occurs.

As the new Chairman, I also express my gratitude to the Management of the Corporation for its commitment to the corporate objectives and its support to the Board. I look forward to working with my colleague Board members, including the Chief Executive Officer and the other members of the Executive Management as the Corporation pursues its mandate with the foresight and urgency required of our times.

A handwritten signature in dark ink, appearing to read 'Peter Thomas', followed by a long, horizontal, wavy line that ends in a small loop.

Peter Thomas, JP





CEO's Report on Operations

The Environment

Financial year 2011/12 was another challenging year in the history of the global economy and financial markets. It was a year in which uncertainty regarding the sustainability of economic recovery was heightened by unprecedented levels of public debt, sovereign downgrades and the potential for implementation of austerity measures. Yet, it was also a year in which many countries seized the opportunity to strengthen or continued to strengthen their legal and regulatory framework to reduce the gaps identified during the global financial crisis and in an effort to ensure that their systems were more resilient.

Towards this end and arising from the global financial crisis, the Jamaican authorities identified the need for a more macro-prudential oversight of the financial system. As such, a Bill to amend the Bank of Jamaica Act to vest the Central Bank with overall responsibility for financial system stability was drafted. The Bill, inter alia, provides for the establishment of a Financial Stability Committee of which the JDIC will be a member. This Committee will be responsible for coordinating the activities pursuant to the objective of financial system stability.

Key Business Strategies and Initiatives

In furtherance of its mandate to contribute to confidence and financial stability, the Corporation continued to pursue the business strategies for: proactive readiness; strengthening operational efficiency; resolution management;

strong partnerships and public education and awareness. Membership in the International Association of Deposit Insurers (IADI) and the IADI's Caribbean Regional Committee has augured well for information sharing and strong partnerships towards strengthening institutional capacity.

Among the prioritized key initiatives was the conclusion of the stakeholder consultation process for the implementation of Policyholder Record-Keeping Guidelines. These Guidelines provide detailed requirements for the specific record keeping practices that each Policyholder must adhere to in order to allow for the efficient execution of the Corporation's mandate. Implementation will be pursued with Policyholders for the next 24 months and when completed will allow the Corporation to compute deposit insurance balances as accurately as possible and in a shorter timeframe, both features being critical to depositor confidence when a financial institution closes in a failure.

Additionally, in furtherance of the passing of the Deposit Insurance (Amendment) Act, 2011, allowing the Corporation to recognize the beneficiaries of joint accounts, trust accounts and nominee accounts, the Corporation presented to stakeholders *"Proposals for Drafting the Deposit Insurance (Joint Account, Trust Account and Nominee Account) Regulations, 2011"*. The Regulations, when passed, will provide the rules and procedures for the disclosure and record keeping requirements of joint, trust and nominee accounts to allow for identification of the beneficiaries under these accounts for the purpose of providing separate coverage to them under the Deposit Insurance Scheme.

Emphasis was placed on ensuring that corporate initiatives were consistent with the international trend of increasing protection for financial consumers. In this regard, the Corporation pursued the following initiatives:

- (i) A detailed review of the coverage limit and premium assessment rate which confirmed the relevance of both the \$600,000 coverage limit and the 0.15 percent premium assessment rate. There was no need to adjust these variables;
- (ii) Establishment of an insurable deposit register to enable the Corporation to readily determine the eligibility of financial products offered by our Policyholders for deposit insurance coverage;
- (iii) Hosting one of the largest public forum in the history of the Corporation which attracted the attendance of over 400 participants from varied sectors of the economy. The forum was entitled *"Deposit Insurance...Protecting Your Money in Today's Economy"*; and
- (iv) Conducting a national public awareness survey of deposit insurance. The survey revealed that the public was more aware of deposit insurance and confirmed that the presence of the deposit insurer made them feel more secure in doing business with financial institutions.

Management of Resources

Management started its corporate planning process with Enterprise Risk Management sessions allowing all members of staff to participate in the risk identification, assessment, and mitigation/avoidance planning process. From this, risks were prioritized for action. Business continuity and disaster preparedness plans were reviewed with conclusive agreement that a "warm site" operation was an option to be preferred for allowing the Corporation to carry on its business in the most seamless manner in the event of a disaster. Collaboration with potential service providers was undertaken during the year.

A comprehensive review of the functional areas of operations of the Corporation was conducted which resulted in the revision of the organizational structure to better reflect the operating requirements. Additionally, the staff complement increased from 20 to 23.

In the context of the fiscal constraints, the Corporation kept to its practice of ensuring maximum cost efficiencies balanced with ensuring the requisite resources were available to ensure corporate targets would be met. Therefore, notwithstanding the increase in the staff complement and an increase in the number of projects undertaken during the year, the Corporation managed to achieve an expense control ratio of 11.6 percent, which was below budgeted level of 14.4 percent.

Financial Performance and Fund Management

The Corporation met all the quarterly targets and the full year overall surplus targets determined under the Medium Term Economic and Financial Programme. Despite the declining interest rates and the challenges faced by the Policyholders and financial consumers in this fragile economic environment, the Deposit Insurance Fund grew by 16.4 percent to \$9.2 billion at the end of the year. This was the result of larger interest income based on the holdings of a larger investment portfolio and a slight increase in premium income. The marginal (0.9 percent) improvement in premium income mirrored the growth of insurable deposits in the banking system. The premium assessment rate of 0.15 percent of insurable deposits remained unchanged.

The Deposit Insurance Fund Adequacy Review for the year revealed some varied funding options that the Corporation could consider in the present and into the future. In the context of the borrowing powers of the Corporation, the general finding was that the Fund was adequate to meet its liabilities

and potential liabilities given the assessed risk of Policyholders.

Policyholders' Performance

During the year, Policyholders remained resilient, despite the many challenges in the domestic economy. The Jamaican economy recorded growth for the first time since 2007, albeit, as a consequence of recovery in only some productive sectors. In the context of sustained high levels of unemployment and weak economic conditions, our Policyholders were faced with increased credit risk exposure with high levels of non-performing loans which affected their overall financial conditions. Nonetheless, each Policyholder remained solvent throughout the period. As such, there was no call on the Deposit Insurance Fund to finance resolution activities.

Concluding Remarks

Thanks to the oversight of the Board and the hard work of the Management and Staff of the JDIC, the Corporation has positioned itself as a key player in the advancement of financial system stability. I would like to use this medium to thank the former Board members for their contribution to the work of the Corporation during their tenure. I would also like to welcome the current Board members to the team and look forward to another successful year in the life of the Corporation with the continued cooperation of the Safety Net Partners, Policyholders, sister deposit insurance agencies in the Caribbean, IADI and other stakeholders.



Antoinette McKain



Corporate Information

BOARD OF DIRECTORS*

R.N.A. Henriques, OJ, QC	Chairman
Brian Wynter	Governor, Bank of Jamaica (Ex-officio)
Bridgett Wilks	Nominee of the Financial Secretary (Ex-officio)
Antoinette McKain	Chief Executive Officer (Ex-officio)
Lisa Lewis	Board Member
Sadie Keating	Board Member
Dr Densil Williams	Board Member

EXECUTIVE MANAGEMENT

Antoinette McKain	Chief Executive Officer
Ronald Edwards	Director, Finance, Funds and Asset Management
Carole Martinez -Johnson	Chief Operating Officer / Deputy CEO
Eloise Williams Dunkley**	Acting Director, Intervention, Resolutions and International Relations
Nicole Brown Crooks**	Acting Director, Monitoring and Risk Assessment
Roger Desnoes	Legal Officer / Deputy Corporate Secretary
Marjorie McGrath	Manager, Corporate Communications

*The appointed Board members R.N.A. Henriques, OJ, QC; Lisa Lewis; Dr Densil Williams and Sadie Keating resigned effective January, 2012 consistent with the practice where there is a change in the governing administration. New Board members were appointed effective April 18, 2012. In addition to the ex-officio members, the new Board members at the time of the submission of this Annual Report are: Peter Thomas, JP (Chairman); Leacroft Forden and Marlene Myrie-Porter.

**Appointed Acting Director September 26, 2011



Corporate Information (cont'd)

AUDITORS

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

BANKERS

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

OFFICE

30 Grenada Crescent
Kingston 5
Jamaica, W.I.
Website: www.jdic.org
Email: jdic@jdic.org
Telephone: (876)926-5225; Fax: (876)920-9393
Toll Free - Local: 1-888 -991-5342
USA and Canada: 1-877-801-6793
United Kingdom: 1- 800-917- 6601



Board of Directors



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

Brian Wynter

Antoinette McKain

Bridgett Wilks

Lisa Lewis

Missing: Sadie Keating and Dr Densil Williams



Executive Management



L-R: Eloise Williams Dunkley, Antoinette McKain, Nicole Brown Crooks, Ronald Edwards and Marjorie McGrath
Missing: Carole Martinez-Johnson and Roger Desnoes

Team Members



Seated L-R: Clover Edwards and Sarah Williams

Standing L-R: Antoinette McKain, Michael Allen, Eloise Williams Dunkley, Nicole Brown Crooks, Omar Cheevers, Ramona Dacosta, Pamella Lawrence and Antonia Smith



Seated L-R: Tracey Tucker, Lucius Bullens and Randia Scott. Standing L-R: Odette Barron, Delgado Williamson, Pearzie Reid, Hannah Dixon, Marjorie McGrath, Ronald Edwards and Cernel Campbell

Missing: Renee Eubank



Two smooth, rounded stones are stacked on a white background. The bottom stone is dark brown and the top stone is light tan with some white streaks. The title 'Corporate Governance' is overlaid on the stones.

Corporate Governance

The Corporation is accountable to the Parliament of Jamaica through the Minister responsible for Finance. It is a statutory corporation established under the Deposit Insurance Act (DIA) and a public body within the meaning of the Public Bodies Management and Accountability Act (the PBMA), which is the principal statute concerning corporate governance in public bodies.

During the year the Board and Management of the Corporation remained steadfastly committed to sound corporate governance. The Board also acknowledged corporate governance as the linchpin for the due performance of its objectives for the protection of depositors and the stability of the financial system. In this regard there was strict adherence to the DIA and PBMA.

CORPORATE GOVERNANCE ENHANCEMENTS

The financial year saw a number of enhancements to the PBMA. These included the codification of many of the existing standards and practices to which public bodies already adhered and in other cases the enhancements were to bring public bodies more in line with existing legislation, namely the Financial Administration and Audit Act which governs mainly central government financial operations, and in line with other best practices.

Some of the key amendments to the PBMA related to:

- I. the imposition of conditions on the borrowing powers of public bodies such that these powers will be exercised in a manner consistent with the debt reduction targets of the Government of Jamaica;
- II. the stipulation of additional conditions for payments to public bodies out of the Consolidated Fund;
- III. the prescription of codes of conduct for Boards of directors of public bodies.

The enhancements included codification of: the qualifications of auditors of public bodies; strengthening the powers of the auditors; the composition of the audit committees of public bodies' and specificity as to the powers of the Auditor General in relation to public bodies. Important also were

provisions relating to the indemnification of the Boards of directors of public bodies who have exercised their duties with the required due care, diligence and skill and good faith.

In support of the enhancements the Cabinet issued the *Corporate Governance Framework for Public Bodies in Jamaica, September 2011* (*the Governance Framework*), with the objective of promoting effective systems of control and accountability and a responsible attitude on the part of those handling Government resources. The Governance Framework addresses the roles and responsibilities of the Board and Management, procedures for the conduct of the Board and the relationship between Ministers, Boards and Management. In the previous financial year, the *Government of Jamaica Accountability Framework* developed by the Public Sector Modernization Division of the Cabinet Office, January 2010 (*the Accountability Framework*) was given the force of law under the 2010 amendments to the PBMA. The Accountability Framework provides for the standardization of methodologies for the object assessment of the performance of Chief Executive Officers, Executive Directors of Executive Agencies and Permanent Secretaries.

ENTERPRISE RISK MANAGEMENT

In acknowledgement of the impact of the various internal and external risks to its operations and the commensurate adverse cost implications, this year Management formally commenced the corporate planning process in July with an Enterprise Risk Management (ERM) review session. All staff members were involved in risk identification, risk assessment; risk mitigation and prioritization sessions in relation to their respective spheres of operations. The ERM sessions were followed by the Corporation's annual Contingency Planning exercise. Management next conducted a current

state assessment of the Corporation's business continuity and disaster preparedness plan developed in 2009. Decisions made in respect of the business strategies and key initiatives to be pursued for the corporate planning period FY2012/13 – FY2014/15 were guided from the results of these targeted sessions and reviews.

PROCUREMENT MANAGEMENT

During calendar year 2011 the Corporation received the Office of the Contractor General's compliance assessment score of 100 percent for three quarters and 97 percent compliance in one quarter. This saw the Corporation in Level 1 compliance assessment with the Government of Jamaica Procurement Procedures for the entire year.

BOARD OF DIRECTORS – MANDATE AND COMPOSITION

The DIA provides that the Board of Directors of the Corporation is responsible for the policy and general administration of the Corporation and the management of the Deposit Insurance Fund. Under the DIA the Board is comprised of seven members. Four members of the Board are appointed by the Minister responsible for Finance and are referred to as "the appointed members". One of the appointed members also appointed by the Minister is the Chairman of the Board. The remaining three members of the Board are ex-officio directors being persons holding the offices of the Governor of the Bank of Jamaica, the Financial Secretary and the Chief Executive Officer or their respective nominees. The Board is required to meet at least six times in the calendar year.

In addition to the statutorily required Audit Committee of the Board, there were also two other standing committees of the Board, namely:

the Investment Committee; and established for the first time during the year was a Corporate Governance Committee.

The Board met the required minimum of six times during calendar year 2011. During the year the Board carried out its mandate with the submission of the Annual Report to the Minister of Finance and Planning for the previous financial year, FY2010/11. The Board received the periodic reports of Management in relation to Human Resource, the performance of the macro-economy and the performance of Policyholders of the JDIC and the assessment of the adequacy of the Deposit Insurance Fund. Corporate performance was reviewed culminating in the consequent Quarterly and Half-Year Reports being submitted to the Minister as required under the PBMA. It reviewed and approved the Draft Corporate Plan and operating and capital budgets for the three year FY2012/13 – FY2014/15, for submission of a Draft Plan to the Minister of Finance and Planning at the end of calendar year 2011. The Board reviewed the reports of the Audit Committee, the Investment Committee and the Corporate Governance Committee and made such recommendations to Management as were deemed appropriate.

In addition to its statutory mandate, the Board remained guided by its Board Governance Policies first established by the Board in 2005. The Corporate Governance Committee included in its mandate a review of the Board Governance Policies in light of the enhancements to the governance framework for public bodies in terms of the amendments made to the PBMA and the supporting Cabinet directives.

BOARD OF DIRECTORS		NUMBER OF MEETINGS ATTENDED (CY)
R. N. A. Henriques, OJ, QC	Chairman	6/6
Bridgett Wilks	Nominee of the Financial Secretary	4/6
Brian Wynter	Governor, Bank of Jamaica	6/6
Antoinette McKain	Chief Executive Officer	6/6
Lisa Lewis	Board Member	4/6
Sadie Keating*	Board Member	5/5
Dr Densil Williams*	Board Member	5/5
*Appointed July 25, 2011		

THE AUDIT COMMITTEE

Consistent with the requirements of the PBMA, the Audit Committee is required to advise the Board on: practices and procedures which will promote productivity and the quality and volume of service of the Corporation; the extent to which the objectives of the public body are being achieved and the adequacy, efficiency and effectiveness of the accounting and internal control structure and systems of the public body. The Audit Committee is also required to:

- I. review and advise the Board on the financial statements that are to be included in the annual report of the public body;
- II. oversee any internal audit of the public body;
- III. review and advise the Board on the annual auditor's report;
- IV. report to the Board on any special audit or examination and
- V. perform such other functions that are assigned to it by the Board.

The Audit Committee is scheduled to meet at least four times during this period. Although, scheduled on a quarterly basis in the prior year, during the financial year the Committee was able to meet only twice. However by the end

of December 2011, the Audit Committee had reviewed all Quarterly Reports and the Half-Year Report required under the PBMA and the Reports of the Internal Auditors as were due up to that period. The Audit Committee reviewed and considered the Internal Audit Reports and recommendations, and management's responses in the areas of General Ledger Accounting, Payroll, Governance, Funds and Asset Management, the Policyholder Risk Assessment Framework, Administration, Accounting and Finance; and Compliance. The Committee also reviewed the follow-on reports of the internal auditors on these areas.

The Corporation achieved compliance with the statutory timelines for the submission of all reports under the PBMA, with reviews of some reports being conducted at full Board meetings where the Audit Committee could not have had a prior meeting for the purpose.

The Audit Committee also reviewed the Draft Audited Financial Statements for the financial year ended March 2011 prior to its submission for the full Board review. The Audit Committee received and considered the compliance reports of Management in relation to all the relevant statutes to which the Corporation and staff

were respectively subject. In the circumstances of the amendments to the PBMA, the Audit Committee made the required changes to its Terms of Reference.

THE INVESTMENT COMMITTEE

The Investment Committee assists the Board to effectively carry out its mandate for the management of the Deposit Insurance Fund. The Investment Committee by virtue of its Terms of Reference must meet at least quarterly during the financial year. The Investment Committee receives and reviews reports from the Treasury Management Committee, a standing executive management committee which carries out the day-to-day management of the investment function. As was the case with the Audit Committee, the Investment Committee met twice during the financial year. Notwithstanding, Management made Investment Reports for the review of the full Board on a quarterly basis.

The Committee is guided by its Investment Policy which outlines: the investment objectives; the levels of responsibilities; investment guidelines, in particular relating to portfolio composition, investment limits and prohibited investments. The Investment Policy also prescribes how the Corporation will treat with broker/dealers and provides for the evaluation of risk and monitoring; disclosures; the engagement of consultants and Investment Policy reviews.

The Investment Committee is comprised of at least two Board members, one of whom is the Chief Executive Officer; the Director of Finance, Funds and Asset Management and two other members of the Corporation's Executive Management.

During the year, the Investment Committee reviewed the Investment portfolio in the context of the newly acquired powers of the Corporation to

AUDIT COMMITTEE		NUMBER OF MEETINGS ATTENDED (FY)
Lisa Lewis	Board Member, Chairperson	2/2
Dr Densil Williams*	Board Member	0/1
Sadie Keating*	Board Member	1/1
Owen McKnight	Ministry of Finance & Planning	1/2
Roger Desnoes	Legal Officer / Deputy Corporate Secretary	2/2
*Appointed July 25, 2011		

be able to invest in securities issued or guaranteed by the Bank of Jamaica. There was also the continuous review of the Investment portfolio in the context of the impact on portfolio returns of the Jamaica Debt Exchange Programme which was implemented in early 2010. The Committee also monitored the Corporation's investment placements in the Central Securities Depository¹.

INVESTMENT COMMITTEE		NUMBER OF MEETINGS ATTENDED (FY)
Lisa Lewis	Board Member Chairperson	2/2
Dr Densil Williams*	Board Member	1/1
Antoinette McKain	Chief Executive Officer	1/2
Carole Martinez-Johnson	Chief Operating Officer Deputy CEO	2/2
Ronald Edwards	Director, Finance Funds and Asset Management	2/2
Nicole Brown Crooks	Acting Director Monitoring and Risk Assessment	2/2
Donna-Marie McDonald	Operations & Project Assistant / Recording Secretary	2/2
*Appointed July 25, 2011		

THE CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee established during the financial year, was the most recent Committee established by the Board. It was initially established as the Human Resource Committee further to the duties of the Board under the Accountability Framework.

The Accountability Framework required, among other things, that for the performance assessment of the Chief Executive Officer, the

Board should strike a performance appraisal sub-committee composed of Board members and external experts. At the first meeting of the Human Resource Committee, the decision was taken that as the Chief Executive Officer's performance was essentially inexorably linked to the corporate performance, that for a more holistic view of performance of the Corporation, the Human Resource Committee would be renamed the Corporate Governance Committee. The Committee held its first meeting, as such, on December 12, 2011 to begin discussions on the development and finalization of its terms of reference in the context of the requirements of the Accountability Framework. It is expected that the Corporate Governance Committee will complete the development of its terms of reference and become effective in FY2012/13.

CORPORATE GOVERNANCE COMMITTEE		NUMBER OF MEETINGS ATTENDED (FY)
Sadie Keating*	Board Member Chairperson	2/2
Roald Henriques, OJ, QC	Chairman, Board of Directors	2/2
Lisa Lewis	Board Member	2/2
Antoinette McKain	Chief Executive Officer	2/2
Richard Myers	Personnel and Administration Officer	2/2
Roger Desnoes	Legal Officer/ Deputy Corporate Secretary	2/2
Clover Edwards	Chief Administrative Assistant / Recording Secretary	2/2
*Appointed July 25, 2011		



¹The Central Securities Depository is operated by the Bank of Jamaica following the passing of the Government Securities Dematerialization Act in 2010.

Management's Discussion and Analysis

OPERATING ENVIRONMENT

MACROECONOMIC DEVELOPMENTS

During FY2011/12 the global economy continued to show signs of recovery with improved economic performance in the United States in the second half of 2011 and better policy responses to the Euro crisis². The recovery tempered the probability of another global downturn in the short-term. Advanced economies continued to record modest growth, while developing and emerging economies growth remained robust, albeit lower than the 2010 growth level. Projections for FY2012/13 are indicative of slower but sustained growth as there remained significant challenges relating to, inter alia, sovereign debt issues and weak global demand.

Notwithstanding threats to the sustainability of the global economic recovery, remittances to the domestic economy have been growing incrementally every year since the slump in FY2009/10 and have now surpassed pre-crisis levels. Net remittances to Jamaica increased by 6.0 percent in FY2011/12 to US\$1,779.0 million consequent on positive developments in the source economies, particularly the USA.

Increased remittance inflows was a contributing factor to a higher level of domestic demand which resulted in the domestic economy recording real GDP growth of 1.3 percent in FY2011/12. This represented the first year of economic growth since FY2006/07 (Table 1). The growth out-turn was a direct result of improvements in specific productive sectors namely Agriculture, Forestry & Fishing, Mining & Quarrying and Hotels & Restaurants. Of note, the Finance & Insurance Services sector contracted in real terms by 0.5 percent for the fiscal year, mainly influenced by declines in interest income in the context of declining domestic interest rates and insufficient growth in loan volume to compensate for these declines (See following section on Policyholder Profile and Performance).

Additionally, other key macroeconomic variables returned favourable outcomes that were consistent with the medium-term economic targets. These included a relatively stable foreign exchange market; lower inflation rate; lower interest rates and strong net international reserves (NIR).

²IMF World Economic Outlook April 2012

The following is a summary of the performance of key macroeconomic indicators for FY2011/12:

- Real GDP expanded by 1.3 percent compared to average yearly declines of 1.6 percent for the two previous years.
- Inflation was 7.3 percent, within the Bank of Jamaica (BOJ) projection of 6.0 – 8.0 percent for the fiscal year and the lowest fiscal out-turn since FY2006/07.
- NIR declined by 32.7 percent to \$1.8 billion, but remained robust and adequate.
- Relative to the currencies of the major trading partners, the Jamaica Dollar (JMD) was relatively stable during the year. Against the United States dollar the JMD depreciated by 1.8 percent to J\$87.4: US\$1. The interest rate applicable to the BOJ 30-day Certificate of Deposit was reduced to 6.3 percent from 6.8 percent in FY2010/11.
- Interest rate on GOJ Treasury Bills (T-Bills) continued to decline during the period with a reduction of 16 basis points in the 182-day T-Bill, to 6.5 percent.
- The average yield on GOJ Global Bonds declined by 50 basis points to 7.4 percent at March 2012.
- Fiscal deficit as a percentage of GDP remained unchanged at 6.2 percent.
- Total Public Debt at end March 2012 increased by 6.3 percent to \$1.7 trillion (128 percent of GDP) relative to March 2011.

TABLE 1: PERFORMANCE OF KEY MACROECONOMIC INDICATORS

INDICATORS	2011/12 (P)	2010/11	2009/10
GDP Growth	1.3	-0.6	-2.3
Inflation (%)	7.3	7.8	13.3
NIR (US\$ Million)	1,777.1	2,553.2	1,751.9
Debt (% of GDP)	128.0	130.0	129.3
Fiscal Balance (% of GDP)	-6.2	-6.2	-10.9
Primary Surplus (% of GDP)	3.1	4.5	6.1
182-day T-Bill Rate	6.5	6.6	10.5
Exchange Rate (J\$/US\$)	87.3	85.8	89.5
P - Provisional			

Outstanding commitments in the latter part of 2011 relating mainly to pension reform; tax reforms and public sector rationalization; as well as the high level of debt to GDP levels contributed to the GOJ's inability to successfully complete the GOJ-International Monetary Fund (IMF) 27 month Stand-By Arrangement³ (SBA) entered into in 2010. Consequently, funding from the IMF and other multilateral agencies was reduced, leading to increased uncertainty in the domestic economy, as well as a negative outlook from the international rating agency Standard and Poor's.

Since January 2012, the GOJ commenced negotiations with the IMF to streamline a new agreement in an effort to increase balance of payment support, bolster investor confidence and release funding from other multilateral agencies. In this regard, an IMF mission visited Jamaica during March 8-21, 2012 to conduct an Article IV Consultation and continue discussions on a possible IMF supported economic programme.

The GOJ has proposed a three-layer Medium Term Economic and Financial Programme (MTEFP) in the FY2012/13 budget against the background of persistent

³The GOJ entered into a SBA with the IMF to access US\$1.27 billion for balance of payment support in February 2010.

low growth outcomes, deep fiscal imbalances and unsustainable high public debt levels. In this regard the programme will emphasize (i) Fiscal and Debt Sustainability (ii) Economic Growth and Enhanced Competitiveness and (iii) Effective Social Cohesion. With the implementation of the MTEFP as well as other structural reforms⁴, the following out-turns were projected for FY2012/13.

TABLE 2: PROJECTIONS FOR KEY MACROECONOMIC INDICATORS FOR FY2012/13	
GDP Growth (%)	1.0
Fiscal Balance (% of GDP)	-3.8
Primary Surplus (% of GDP)	6.0
Debt (% of GDP)	130.5

POLICYHOLDER PROFILE AND PERFORMANCE

Overview

For the fiscal year ended March 31, 2012, membership in the Deposit Insurance Scheme (DIS) remained at thirteen (13) institutions. Accordingly, at the review period, members of the DIS included seven (7) Commercial Banks, four (4) Building Societies, and two (2) FIA Licensees. Within the year, there were two instances of corporate rebranding as FirstCaribbean International Bank (Jamaica) Limited adopted the name CIBC FirstCaribbean International Bank, for promotional and marketing purposes only; and RBTT Jamaica Limited being rebranded as RBC Royal Bank (Jamaica) Limited⁵.

With more than half the membership of the DIS, Commercial Banks accounted for approximately 75 percent of the total assets in the banking system and hence, largely dominated the performance of the banking system during the year.

At the end of FY2011/12 Policyholders remained adequately capitalized and each Policyholder was assessed as solvent, despite the numerous adverse developments both locally and internationally. The domestic economic climate continued to be challenged by weak economic activity, precarious debt dynamics and low investor confidence, which contributed to the continued increase in credit risk faced by Policyholders. The deterioration in credit quality reported by Policyholders reflected elevated levels of non-performing loans mainly related to the tourism, construction, entertainment, and agricultural industries. The increase in non-performing loans continued despite reductions in prevailing interest rates⁶.

Encouragingly, Policyholders' profitability improved in FY2011/12 despite the downward trend in interest rates and higher levels of non-performing loans, as banks sought more innovative ways to increase non-interest income to compensate for the decline in interest income. Furthermore, there was a notable increase in household and business lending activities facilitated by the declining interest rate environment.

Policyholders' Performance

Total assets within the banking system increased by 5.8 percent to \$838.8 billion at the end of the fiscal year as a result of increases in total loans, investments and cash and bank balances. Total loans grew by 8.9 percent to \$374.4 billion (44.6 percent of total assets) relative to the previous fiscal year, driven by a notable increase in household and business lending activities which was facilitated by the downward trajectory in interest rates. At the same time, investments rose by 2.5 percent to \$269.0 billion as a result of an increase in domestic currency investments for both Building Societies and Commercial Banks.

⁴The reforms refer to Pension, Tax and Public Sector Rationalization

⁵This was effective June 11, 2011. The rebranding of RBTT Bank Jamaica Ltd was further to the acquisition of RBTT Financial Group by Royal Bank of Canada in June 2008.

⁶Commercial bank loan rates continued to decline as the weighted average interest rate was 17.7 percent in March 2012, compared to 20.0 percent in the March 2011. At the same time, increased loan competition in the mortgage market resulted in similar declines in mortgage loan rates

Meanwhile, cash and bank balances rose by 2.9 percent to \$137.3 billion despite the required cash reserve ratio remaining at 12.0 percent during the year.

Policyholders recorded continued increase in non-performing loans (NPL)⁷, as a result of the weak economic conditions and rising delinquencies in specific productive sector loans. As such, NPL increased by 25.1 percent to \$32.2 billion during FY2011/12, compared to a 32.6 percent increase in FY2010/11. This was mainly attributed to a 36.6 percent increase in NPL (to \$23.4 billion) in the commercial banking sub-sector, the ratio remained within the prudential limit of 10 percent. Conversely, the FIA Licensees sub-sector continued to report NPL-to-total loans ratio that was significantly above the prudential limit (at 45.8 percent), while the building societies sub-sector was the only sub-sector to record a slight improvement in the ratio of NPL to total loans

(from 6.4 percent to 6.3 percent) in the review period (Figure 2).

The ratio of NPL to capital plus provisioning remained high as all three sub-sectors continued to record a NPL to capital plus provisioning ratio that was above the prudential maximum of 20 percent (Appendix 1).

Notwithstanding, capital adequacy indicators for the banking system such as the capital adequacy ratio (15.4 percent) and the capital to total assets ratio (10.7 percent) were relatively unchanged and remained above the prudential minima, reflecting satisfactory levels of capital. Additionally, each Policyholder continued to record solvency ratios which were greater than 1.0.

Amidst exposure to the fragile domestic economic environment, the banking system continued to be profitable with pre-tax profits increasing by 40.5 percent to \$29.7 billion for the review period. The increase in banking system's pre-tax profit was supported by a 51.6 percent increase in non-interest income, which offset a 6.0 percent decline in interest income. However, it should be noted that the significant growth in non-interest income was reflective of a larger than usual gain in dividend income that was attributable to one Commercial Bank. This gain resulted in this sub-sector accounting for 86 percent of the overall banking system's pre-tax profit. The growth in the banking system's pre-tax profit was also facilitated by a 23.4 percent decline in interest expense resulting from lower weighted average deposit rates⁸. However, non-interest expenses continued to increase (by 8.2 percent), as a result of increases in provision for loan losses as well as higher staff expenses.

The significant growth in non-interest income was sufficient to outweigh the increase in non-interest expense and contributed to the efficiency ratio for the banking system recording a slight improvement from 59.3 percent to 58.6 percent. The return on average assets increased to 3.6 percent, from 2.6 percent for the previous fiscal year.

Figure 1: Non-Performing Loans

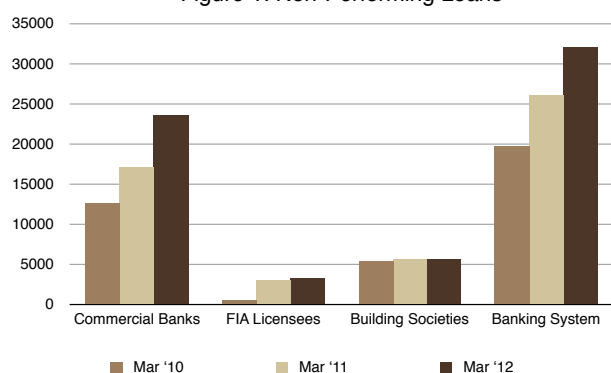
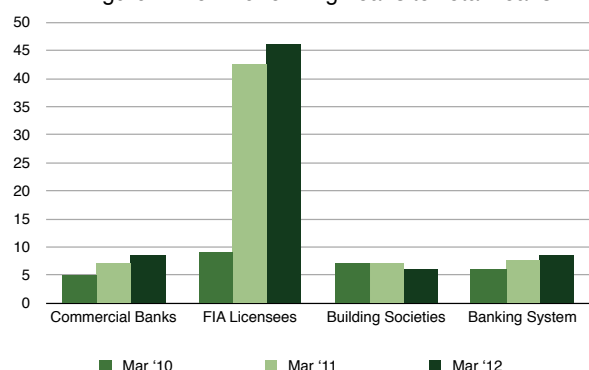


Figure 2: Non-Performing Loans to Total Loans



⁷Non-performing loans refer to past due loans (3 months and over).

⁸The weighted average deposit rate for Commercial Banks fell from 2.65 percent at the end of March 2011 to 2.20 percent at the end of March 2012.

The earnings performance of the banking system was in the context of individual Policyholders continuing to adjust their strategies to compete in the low interest rate environment, while attempting to strengthen risk management practices particularly in relation to the increasing credit risk exposure. Additionally, the conservative regulatory and supervisory oversight has augured well for the Policyholders' overall performance over the review period.

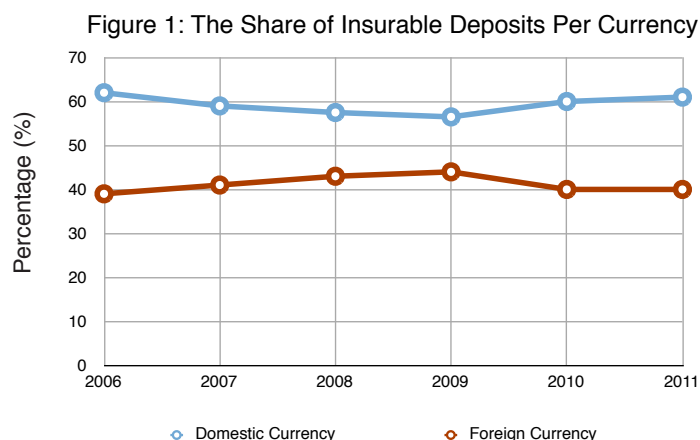
Profile of Insurable Deposits⁹

Consistent with the nascent domestic economic recovery in CY 2011, the dollar value of insurable deposits in the domestic banking system increased by 2.7 percent to \$498.1 billion (Table 3). At the same time, the number of insurable deposit accounts declined by 1.2 percent to approximately 4.0 million. Consequently, the average balance in insurable deposit accounts grew by 3.9 percent to \$124,469.

Insurable deposits held in foreign currencies increased by 2.9 percent to \$197.7 billion during the review period, compared to a 9.1 percent decline in 2010. The turnaround was due to an increasing preference of depositors to hold foreign currency deposits as a result of the uncertainties in the domestic market regarding the GOJ-IMF Stand-By Arrangement. Insurable deposits held in domestic currency increased by 2.6 percent to \$300.5 billion, compared with an increase of 8.8 percent in 2010. At the end of the year, the share of insurable deposits held in domestic currency slightly declined to 60.3 percent (from 60.4 percent in 2010), while the share of insurable deposits held in foreign currency inched up to 39.7 (from 39.6 percent). Figure 1 summarizes the trends in the share of insurable deposit holdings in domestic and foreign currency.

TABLE 3: TOTAL INSURABLE DEPOSITS AS AT DECEMBER 31, 2010 & DECEMBER 31, 2011

Institutions	December 31 2010 (\$'000)	December 31 2010 (%)	December 31 2011 (\$'000)	December 31 2011 (%)
Commercial Banks	359,653,882	74.2	368,490,838	74.0
Building Societies	116,948,437	24.1	123,195,258	24.7
FIA Licensees	8,327,309	1.7	6,457,595	1.3
GRAND TOTAL	484,929,628	100.0	498,143,691	100.0



Insured Deposits

During CY 2011, total estimated insured deposits increased by 3.7 percent to \$229.0 billion (Table 4). This represents a slight increase (to 46.0 percent up from 45.5 percent) in the ratio of insured deposits to total insurable deposits. Of the total estimated insured deposits, Commercial Banks continued to account for the largest percentage (70.5 percent) followed by Building Societies (29.0 percent) and FIA Licensees (0.5 percent).

The Deposit Insurance Fund (DIF) as a percentage of estimated insured deposits (DIF Ratio) increased from 3.4 percent in 2010 to 3.9 percent in 2011. The increase in the DIF Ratio was the result of a larger increase in the DIF balance (18.0 percent) compared to the pace of growth in estimated insured deposits (3.7 percent).

⁹All data reported for insurable deposits relate to calendar year performance

TABLE 4: TOTAL ESTIMATED INSURED DEPOSITS - DECEMBER 31, 2010 & DECEMBER 31, 2011

Institutions	December 31 2010 (\$'000)	December 31 2010 (%)	December 31 2011 (\$'000)	December 31 2011 (%)
Commercial Banks	155,662,876	70.5	161,338,614	70.5
Building Societies	63,693,248	28.9	66,432,617	29.0
FIA Licensees	1,374,892	0.6	1,175,723	0.5
GRAND TOTAL	220,731,016	100.0	228,946,954	100.0

TABLE 5 : FULLY COVERED ACCOUNTS AS AT DECEMBER 31, 2011

Institutions	Total No. of Insurable Accounts	Total No. of Fully Covered Accounts	% of Fully Covered Accounts
Commercial Banks	2,032,481	1,961,746	96.5
Building Societies	1,961,401	1,920,680	98.0
FIA Licensees	8,260	7,119	86.2
GRAND TOTAL	4,002,142	3,889,545	97.2

**TABLE 6: FULLY COVERED NUMBER OF ACCOUNTS AND DOLLAR VALUE
DECEMBER 31, 2006 – DECEMBER 31, 2011**

	2006	2007	2008	2009	2010	2011
% Number of Accounts	95.67	97.63	97.58	97.36	97.22	97.2
% Dollar Value of Deposits	25.11	35.41	31.51	31.21	31.59	32.4

¹⁰“Basel III” is a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector.

Fully Covered Accounts

The percentage of insurable deposit accounts that are fully covered remained unchanged at 97.2 percent (Tables 5 & 6). Building Societies continued to record the largest share of fully covered accounts at 98.0 percent, followed by Commercial Banks (96.5 percent) and FIA Licensees (86.2 percent), respectively.

Given that 97.2 percent of deposit accounts in the banking system remain fully covered, the Corporation has continued to meet its public policy objective of protecting small depositors (Table 6).

REGULATORY ENVIRONMENT

Benchmark Banking Regulatory Standards

The Basel Committee on Banking Supervision (BCBS) introduced Basel III Standard in 2010, as a direct response to the recent global financial crisis¹⁰. The Basel III Standard was introduced to strengthen the existing framework by incorporating new macro-prudential elements to explicitly address systemic risk. The Standard provides for more conservative minimum capital ratios and enhanced liquidity positions. Basel III specifically considers even higher capital requirements for systemically important financial institutions (SIFIs) that are big, interconnected and hard-to-replace. Additionally, it is intended to address the issue of banks understating the riskiness of certain assets and having innovations that reduce the loss-absorbing capacity of their capital.

The expected long-term impact of the new regulatory framework is more stable returns on equity within the context of stronger capital. Since the introduction of the Basel III Standard, the BCBS has been reviewing

various aspects of the proposals including the responses of different regions/countries, as well as the implications identified in a number of related consultative papers. The review extends from implementation issues and impact assessment to the role of the internal auditors of financial institutions.

The Bank of Jamaica conducted its own assessment of the implications of Basel III Standards and in some instances found that the Jamaican prudential requirements are even more conservative than elements of the proposed standard. The conservative regulatory framework for the domestic financial system was implemented as a direct response to the financial crisis of the domestic economy in the mid-1990s.

Legislative Developments

No financial legislation was passed in FY2011/12. The following were among the issues deliberated in 2010 and for which amendments are pending.

The Bank of Jamaica Act

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

- Outline the mandate of the Bank of Jamaica in relation to this role of maintaining financial system stability;
- Mandate the establishment of a Financial System Stability Committee to coordinate the activities pursuant to the objective of financial system stability;
- Expand the regulatory oversight of the Bank of Jamaica to financial institutions whose operations are deemed to be of systemic importance;

- Grant the necessary powers to the Bank of Jamaica to obtain information from these financial institutions that will allow for the assessment of risks to the financial system (including the powers of inspection; powers to demand information).
- Give the Bank of Jamaica the necessary powers to direct and impose measures to mitigate and control these risks (including the extension of liquidity; and powers to issue Prescriptive Rules, Standards and Codes pertinent to this oversight of the stability of the financial system);
- Mandate establishment of a Central Financial System database; and
- Mandate the publication of a financial stability report within three (3) months after the end of each financial year.

Omnibus Statute

In August 2010 Cabinet approved the recommendations proposing the implementation of the Omnibus legislation. This legislation will involve the consolidation of the Banking Act, Financial Institutions Act and the Building Societies Act into one statute. It will include the removal of any existing inconsistencies between these statutes to ensure a more synchronized progression of updates to the laws governing the deposit-taking industry and to introduce on these licensed deposit-taking services an enforceable Code of Conduct. Additionally, it will facilitate the passage of enhancements regarding consolidated and conglomerate supervision that will bring the regulation of the banking sector in line with the recently issued Revised Basel Core Principles (i.e. Basel II) and effecting legislative amendments necessary for its implementation and full compliance with these Principles.

Proposition of the Omnibus Statute also includes the incorporation of recommendations made by international bodies such as the IMF, the World

Bank and the Caribbean Financial Action Task Force¹¹ (CFATF) arising from recent country reviews. The focus on current issues such as outsourcing, as well as the proposed role of credit bureaus, provisions for electronic reporting and enhancing powers as regards the investigation and prosecution of illegal deposit-taking activities; and to establish a regime pertaining to the offer of mobile financial services (in so far as this involves deposit-taking) will also be included.

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

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

The Building Societies (Licences) Regulations

These regulations will be revised to harmonize the licensing fees payable by Building Societies on the granting of a licence and thereafter annually, with the rates applicable to Commercial Banks and FIA Licences.

The Banking (Qualification of Auditors) Regulations

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

The Banking (Credit Classification and Provisioning) Regulations

These regulations will formally impose procedures that should be utilized by banks in assessing credit, taking security and making provisions for the possibility of default.

The Bank of Jamaica (Credit Union) Regulations

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

¹¹The Caribbean Financial Action Task Force (CFATF) of which Jamaica is a founding member, is an organization of thirty Caribbean and Latin American states, which have agreed to implement common counter measures to address the problem of criminal money laundering and the financing of terrorism.

REVIEW OF OPERATIONS

FINANCIAL OPERATIONS AND FUND MANAGEMENT

The Corporation met all the quarterly targets and the full year overall surplus targets, based on the *Overall Balances in the Statement "A" – Flow of Funds* for the year under review. Total Assets at March 31, 2012 was \$10.2 billion, reflecting an increase of 18.6 percent compared with the previous year's total of \$8.6 billion. The increase in Total Assets was due mainly to a 15.7 percent increase in the holdings of investment securities.

Total Revenue was \$1.5 billion, a 7.1 percent increase when compared to the previous year's total of \$1.4 billion; and is comprised of Insurance Premium, Interest Earned and Other Income. Insurance Premium increased by 0.9 percent and Interest Earned increased by 3 percent, when compared with the previous year. Other Income totaling \$26.4 million increased by 183.5 percent, when compared with the previous year, as a result of gains on foreign exchange conversion and a refund of statutory contributions. Total Revenue increased by approximately 6 percent when compared with the budget resulting mainly from increased out-turn in interest earned and gains on foreign exchange conversions. The Surplus from Investment and Administrative Expenses is determined from the total of Interest Earned and other Income less Administrative Expenses. This was \$629.2 million and was 23.9 percent above budget. Table 7 summarises the *Statement of Operations* and compares it with the budget and two prior years.

TABLE 7: SUMMARY OF THE STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME	2011/12 ACTUAL \$M	2011/12 BUDGET \$M	2010/11 ACTUAL \$M	2009/10 ACTUAL \$M
Insurance Premiums	727.8	721.0	721.0	643.0
Interest Earned	780.7	713.9	755.8	937.5
Other Income	26.4	-	(31.6)	15.8
Administrative Expenses	(178.0)	(206.1)	(128.9)	(152.2)
Surplus from Investment and Administrative Operations	629.1	507.8	595.3	801.1
Surplus from Operations	1,356.9	1,228.8	1,316.3	1,444.1

Total Administrative Expenses incurred for the financial year was \$178 million, an increase of 38 percent, when compared with the previous year's total of \$128.9 million. The Administrative Expenses decreased by 13.6 percent when compared with the budget. This is due mainly to a reduction of 60.9 percent for Professional Fees resulting from projects deferred to the next financial year and a reduction of 11.9 percent in Public Education due to planned media programmes which were not completed during the financial year. Table 8 summarises the percentage analysis of the categories comprising total administrative expenses.

ADMINISTRATIVE EXPENSES	2011/12 %	2010/11 %	2009/10 %
Staff Cost	65	69	62
Public Education & Advertising	10	6	5
Professional Fees	8	4	17
Depreciation	3	4	3
Other	14	17	13
TOTAL	100	100	100

Although there was an increase in Total Administrative Expenses, an Expense Control ratio of 11.6 percent was achieved which is favourable relative to budget. The Net Surplus ratio of 88.4 percent was above the budgeted amount as a result of: the increase in Total Revenue; increased interest earned and gains on foreign exchange conversion. However, the Net Surplus was less than the prior year due to the increase in administrative expenses. The Return on Assets and Asset Management Ratio were consistent with the budget, but were less than the prior years due to an increase of approximately 17.5 percent in total assets. Table 9 shows the key performance ratios compared with the budget and the two prior years.

KEY PERFORMANCE RATIOS	DEFINITION	2011/12 ACTUAL %	2011/12 BUDGET %	2010/11 ACTUAL %	2009/10 ACTUAL %
Expense Control	Administrative Expenses/ Total Revenue	11.6	14.4	8.9	9.5
Net Surplus	Surplus from Operations/ Total Revenue	88.4	85.8	91.1	90.5
Return on Assets	Surplus from Operations/ Total Assets	13.3	13.3	15.2	20.9
Asset Management	Total Revenue/ Total Assets	15.1	15.5	16.7	23.1

The Deposit Insurance Fund

Section 17(1) of the Deposit Insurance Act addresses a key function of the Corporation, which is to manage the Deposit Insurance Fund (DIF/the Fund). At March 31, 2012 the Fund balance was \$9.2 billion, a 17.9 percent increase when compared with the previous year's balance of \$7.8 billion. This balance represents 4.1 percent of Insured Deposits in the banking system. With no failures and hence no call on the DIF, the Fund continued to grow, albeit at a slower rate, given the lowering of interest rates. The DIF was assessed as adequate to meet its liabilities and potential liabilities during the year. Table 10 shows the growth of the Fund over the last five years.

TABLE 10: FIVE-YEAR FUND GROWTH

YEAR	2011/12 \$M	2010/11 \$M	2009/10 \$M	2008/09 \$M	2007/08 \$M
Insurance Premiums	727.8	721.0	643.0	553.4	484.1
Surplus from Investment and Administrative Operations	629.2	595.3	801.1	655.3	331.8
Previous Year Deposit Insurance Fund	7,889.9	6,573.6	5,129.5	3,920.8	3,104.9
Deposit Insurance Fund	9,246.9	7,889.9	6,573.6	5,129.5	3,920.8

Section 17(2) of the Deposit Insurance Act (DIA) allows the Corporation to invest its available resources in Government of Jamaica (GOJ) securities and a recent amendment to the DIS allows the Corporation to invest in the Bank of Jamaica securities. GOJ securities holdings comprised 99 percent of the total portfolio with interest receivable accounting for the remaining one percent. The portfolio continued to be dominated by fixed rate securities consistent with the options chosen in the Jamaica Debt Exchange (JDX) programme and the Corporation's subsequent investment strategy direction. Therefore, at March 31, 2012, the share of fixed rate securities in the investment portfolio was at 79 percent and the share of variable rate securities was at 21 percent.

Given the larger share of fixed rate securities holdings in the portfolio, the average yield on the investment portfolio continued to perform at a satisfactory level resulting in an average yield of 10.5 percent for the total portfolio which is well above the prevailing interest rates of approximately 6.5 percent in the domestic market.

During the year the Corporation continued to invest the resources of the Fund in GOJ securities. Additionally the Corporation commenced investing in securities issued or guaranteed by the Bank of Jamaica consistent with the amendments to the DIA. The Corporation maintained its investment strategy of ensuring that the tenure of new investment placements was within the short to medium-term period.

Arising from the JDX programme and consistent with the investment strategy direction, the Corporation continued to hold a significant share of Benchmark Investment Notes, along with US dollar Investment Notes, which is subject to the availability of investment securities in the primary and secondary markets. The Corporation seeks to maintain at least 15 percent in short term investment securities, however, the availability of these instruments and the investment maturity profile will continue to be dominated by medium term investment holdings.

Table 11 shows the distribution of the investment instruments in the portfolio and comparison with two previous years.

TABLE 11: INVESTMENT PORTFOLIO DISTRIBUTION

INVESTMENT SECURITIES	2011/12 DISTRIBUTION %	2010/11 DISTRIBUTION %	2009/10 DISTRIBUTION %
Benchmark Investment Notes	87	85	81
US\$ Investment Notes	12	12	15
Treasury Bonds	-	2	3
Interest Receivable	1	1	1
TOTAL	100	100	100



Summary Financial Projections for FY2012/2013

STATEMENT OF COMPREHENSIVE INCOME - YEAR ENDING MARCH 31, 2013

	\$'000
Total Income	1,309,598
Total Expenses	(234,274)
Surplus from Operations	1,075,324
Surplus from Operations – Balance at Beginning of the Year	9,150,499
Deposit Insurance Fund – Balance at End of the Year	10,225,823

CASH AND BANK - YEAR ENDING MARCH 31, 2013

	\$'000
Total Inflow	3,676,343
Total Outflow before Investments	(425,957)
Investments	(3,306,801)
Net Inflow/ (Outflow)	(56,415)
Balance at Beginning of the Year	105,112
Balance at End of the Year	48,697

STATEMENT OF FINANCIAL POSITION MARCH 31, 2013

	\$'000
Fixed Assets	142,115
Investments	10,058,928
Current Assets	521,989
Total Assets	10,723,032
Current Liabilities	26,006
Capital	1,000
Capital Reserves	48,168
Fair Value Reserves	422,035
Deposit Insurance Fund	10,225,823
Total Liabilities	10,723,032

MONITORING & RISK ASSESSMENT

Following adverse developments in the global financial markets, the importance of a robust supervisory and regulatory framework in a country's financial system became more apparent (Appendix 1). The BCBS introduced Basel III to ensure that banks maintain a more conservative holding of capital buffers and increase their emphasis on liquidity management and internal controls. The Jamaican financial system regulators have emphasized the need for more robust and comprehensive oversight of the deposit taking and non-deposit taking institutions. For its part, the Corporation increased its emphasis on financial consumer protection and strengthened its operational efficiencies to be better able to monitor the performance of its Policyholders (Appendix II). Close collaboration was also maintained with the other Financial System Safety Net Partners.

Increasing Consumer Protection

In furtherance of the Corporation's resolve to increase consumer protection, the Monitoring and Risk Assessment Department focused on the following projects:

- ***Reviewing the Coverage Limit and the Premium Assessment Rate:*** The review incorporated trends in the international community towards higher coverage limits and having sufficient funding to meet calls on the Deposit Insurance Fund. The results of the review showed that the current Coverage Limit of \$600,000 remained relevant, fully covering 97.2 percent of insurable deposit accounts. Additionally, the review indicated that the premium assessment rate remained sufficient at 0.15 percent of insurable deposits. Consideration was given to the resilience of Policyholders to adverse developments in both the domestic and international arena, and the context of a robust and conservative local supervisory regime.

- ***Establishing an Insurable Deposit Register:*** The Corporation conducted a survey of the deposit products held by Policyholders at December 2011 and the related account mandates/agreements for the reported deposit products. This was in an effort to determine the eligibility of these deposits for deposit insurance coverage. From the survey, a register of insurable deposits has been established to allow the Corporation to be better able to determine the insurability of specific deposit products and respond to depositor queries. The Corporation has also documented the procedures that Policyholders should follow in order for the JDIC to maintain the Insurable Deposit Register that is current. These procedures were communicated to the Policyholders during the fiscal year.
- ***Administering the Annual Survey of the Distribution of Insurable Deposits:*** This year, the survey included more detailed reporting on the trust and nominee accounts held by Policyholders, following the amendment to the DIA in 2011. The amendments provide for the recognition of the beneficial interest in trust accounts and nominee accounts for the purpose of deposit insurance entitlement. The survey remains instrumental in determining an appropriate Deposit Insurance coverage limit, arriving at an estimate of the total insured deposits within each institution and ultimately assessing the adequacy of the Deposit Insurance Fund.

Strengthening Operational Efficiency

Towards the Corporation's strategy of strengthening operational efficiency, the following were the main projects undertaken:

- ***Revising the Policyholders' Risk Assessment Framework (PRAF):*** As part of the annual revision of the PRAF, the Corporation revisited the parameters to be considered in arriving at an overall risk profile of a Policyholder and

determining a Policyholder Risk Assessment Profile score. Effort was made to ensure that the PRAF more appropriately incorporated the reporting schedules from the Policyholder and the Supervisor of Banks and Financial Institutions.

- **Updating the Framework for Maintenance and Cancellation of the Policy of Deposit Insurance:** Consistent with the move towards establishment of self-service kiosks and the proliferation of Automated Teller Machines (ATMs), the updated framework gave consideration to the issuance of JDIC decals for these establishments. The JDIC requires Policyholders to place the decals in a prominent place at their establishment to allow the public to know that the related institution is a member of the Deposit Insurance Scheme.
- **Reviewing the Deposit Insurance Fund (DIF/Fund):** During the year, the Corporation conducted both an internal and an external¹² review of the Fund. The internal review focused on the adequacy of the DIF relative to the 13 Policyholders' exposure. The Fund was deemed adequate to pay out depositors of the seven smallest Policyholders. It was also assessed as adequate to provide financial assistance to the Policyholder(s) deemed most at risk. The report recommended that should the intervention of larger entities become necessary, an alternate strategy to a payout be pursued which may involve the Corporation entering into borrowing arrangements.
- **Maintaining close collaboration with the Bank of Jamaica:** As the recent global financial crisis unfolded, it became increasingly clear that the roles and responsibilities of the Financial System Safety Net Partners should be well defined and understood in non-crisis periods and as well in times of crisis. Therefore the Corporation continued to sharpen its communication with the other regulators through the various avenues including the Financial Regulatory Council

meetings. The improved communication methods have augured well for the internal reporting efficiencies of the Corporation.

INTERVENTION AND RESOLUTIONS

The intervention of a Policyholder by the Corporation, as provided for in the DIA, is contingent on and exercisable in conjunction with the powers of the Minister responsible for Finance and the Supervisor of Banks and Financial Institutions. The respective power of each party is provided for in the Bank of Jamaica Act and the legislations governing Policyholders. The intervention of a Policyholder is also guided by the "*Memorandum of Understanding, Guide to Intervention for Financial Institutions (The Intervention Matrix)*"¹³. The objective is to employ the most effective strategy in resolving troubled institutions at the least cost to the financial system and the economy, while protecting depositors and maintaining financial system confidence and stability.

The powers of the Corporation to intervene a failing or failed Policyholder are as follows:

- Make loans or advances with security
- Guarantee, indemnify or become liable for the payment of monies or the performance of any obligation
- Pay out depositors

The Corporation may also act as receiver, liquidator, or judicial manager of a Policyholder; its holding company or subsidiary which becomes insolvent. In so doing the Corporation may arrange for the restructuring of an insolvent Policyholder by merger or acquisition by another financial institution.

Since establishment in 1998, the Corporation has not been called upon to intervene a Policyholder. Notwithstanding, the Corporation undertakes continuous reviews and assessments of the regulatory and operating environment and its intervention and

¹²The Corporation contracted an external consultant to conduct an independent review of the Deposit Insurance Fund.

¹³The Intervention Matrix was established in 2000 under a Memorandum of Understanding among Jamaica's Financial Safety Net Partners.

resolution policies and procedures against standards of best practice including the *BCBS/IADI Core Principles for Effective Deposit Insurance Systems*. The objectives of these reviews are to ensure that such policies and procedures remain relevant and that the Corporation is always in a state of readiness to intervene a Policyholder if called upon to do so.

Against this background the key initiatives during FY2011/12 towards strengthening the Corporation's intervention and resolution framework, included measures for the standardization of Policyholders' record-keeping practices, and developing and testing internal policies, procedures and information systems relating to specific aspects of resolution activities.

Standard Record-keeping Practices for all Policyholders

Finalization of Guidelines on the Record-keeping Requirements for Policyholders:

Following the consultation period during FY2011/12 the "*Guidelines on the Record-keeping Requirements for Policyholders*" were finalized and issued for implementation. The proposed implementation date of April 1, 2014 allows Policyholders the opportunity to develop internal policies, procedures and systems that will ensure compliance with the Guidelines. During the 24 month implementation period the Corporation will interact with each Policyholder to identify strategies geared towards ensuring compliance and meeting the proposed implementation timeline.

The Guidelines provide detailed information regarding the specific records including customer and account data that each Policyholder must maintain to ensure that the Corporation can execute its mandate. The Guidelines also specify that the Policyholder must have the capacity to ensure that the data is maintained in a standard format and is readily available to the Corporation upon request.

The prompt access to Policyholders' records by the Corporation facilitates the determination of the most effective resolution strategy and the efficient execution of the decided strategy. Access to the necessary depositor information and the accuracy of such records also allow for the speediest computation of depositors' insurance entitlements and reimbursements.

Recommendations for the drafting of The Deposit Insurance (Joint Account, Trust Account and Nominee Account) Regulations, 2011:

In furtherance of the amendments to the Deposit Insurance (Amendment) Act passed in February 2011, the Corporation presented to its stakeholders for consultation "*Proposals for the Drafting of the Deposit Insurance (Joint Account, Trust Account and Nominee Account) Regulations, 2011*". The provisions in section 18C of the Amendment Act recognizes the interest of a beneficiary in a trust or nominee account as distinct from his rights in any other deposit held with the Policyholder in any other capacity for the purpose of deposit insurance payment.

The proposals set out the Corporation's rules and procedures for the disclosure and record-keeping requirements of joint, trust and nominee accounts to facilitate the determination of depositor insurance entitlement as provided for in the DIA. The recommendations largely mirror the JDIC's Guidelines on the *Record-keeping Requirements for Policyholders and the BOJ Guidance Notes on the Detection and Prevention of Money Laundering and Terrorist Financing Activities* (revised 2009), with regards "customer information" for joint accounts and trust accounts and nominee accounts.

Subsequent to the consultation period the proposals will be submitted to the Ministry of Finance and Planning for review and instructions will be given to the Chief Parliamentary Counsel for drafting the Regulations.

Enhance Intervention and Resolution Policies, Procedures and Systems

During the year the following activities were undertaken to develop, test and enhance key operational policies, procedures and systems:

- A contingency planning session was conducted to guide the development of the operational framework for lending and issuing guarantees in respect of a Policyholder.
- In the context of its proactive readiness business strategy, the Corporation is seeking to simulate all the operational policies and procedures associated with an Insured Deposit Portfolio Transfer (IDPT). An Insured Deposit Portfolio Transfer involves an arrangement whereby the Insured Deposit payment information for the depositors of a failed Policyholder is transferred to a viable Policyholder (the Transferee) under an agreement with the JDIC. The Transferee institution then undertakes the function of making the payments through its branches to the depositors on behalf of the Corporation.

Towards the preparation for the simulation exercise, work commenced on the review and update of the IDPT policies and procedures. Work also began on the development of simulation scenarios and a deposit portfolio test database which includes customer and account records and other supporting material. The Corporation continued discussions with a Policyholder that had agreed to participate in the simulation exercise. The scheduling of the simulation exercise is contingent on the availability of this Policyholder's resources.

- During the year the progress of the development of the Payout Management Information System (PMIS) was reassessed. The Corporation also undertook comprehensive research using reference class forecasting and leveraging on the experiences of its IADI members that have developed technology based solutions for the computation of depositors' insurance entitlement. Arising from the assessment, the Corporation determined that the best way forward is to outsource the development of a new payout software that will efficiently and effectively support its current business requirements and provide a platform for future enhancements.

PUBLIC EDUCATION AND AWARENESS

"In order for a Deposit Insurance System to be effective it is essential that the public be informed on an ongoing basis about the benefits and limitations of the deposit insurance system". (BCBS/IADI Core Principles for Effective Deposit Insurance Systems - Principle 12, Public Awareness).

This Principle not only reflects, but also reinforces, the Corporation's commitment to educate the public, regarding the measures implemented to protect and regulate the financial services sector. Consequently, public education and awareness remained one of the Corporation's key business strategies.

The main supporting initiatives pursued during FY2011/12 included the hosting of a public forum, local and overseas presentations, training of Policyholders' staff, redesign of the JDIC website and the production of a new television and radio advertisements. Evaluation of the public education programme is critical and as such the Corporation conducted another public awareness and attitude survey.

The Public Forum, hosted under the theme, *"Protecting Your Money in Today's Economy"*, was held at the Emancipation Park in Kingston. As per the arrangement among the Safety Net Partners the Corporation invited representatives from the BOJ, the FSC and the Jamaica Stock Exchange to make presentations consistent with the theme. The information was packaged and delivered to provide easily understood messages and facilitated a question and answer session; and attendees had the opportunity to meet with presenters at the end of the Forum. Policyholders also supported the forum by setting up booths at the venue. Over 400 persons attended, making this one of the largest forums since establishment of the Corporation.

In terms of engaging smaller audiences, presentations were made to a targeted number of public and private sector organizations, locally and overseas. With respect to overseas presentations, the FSC invited the Corporation to participate in an investor briefing hosted by themselves and the Office of the Consul General in New York. Held under the theme *"Investing in Jamaica's Capital Market - An Understanding of Jamaica's Financial*

JDIC's Public Forum 'Protecting Your Money in Today's Economy'

Emancipation Park, Kingston - September 2011.

Right: JDIC Team Members led by Nicole Brown Crooks (foreground) and Carole Martinez-Johnson (right) register participants.

Bottom Right: Attendees at the Forum.

Below: CEO of the JDIC, Antoinette McKain presents on the role of the JDIC, while Damion McIntosh, Assistant Director, FSD, BOJ, listens and prepares to make his presentation.



Policyholders' Training Seminar

Golf View Hotel, Mandeville
March 2012.

Left: Participants deep in thought as they complete a task during the training.

Bottom: Policyholders' Staff and JDIC Team Members.



Environment", the briefing targeted the Jamaican Diaspora. JDIC's presentation, *"Depositor Protection: Contributing to Financial System Stability in Jamaica"*, was made by the CEO.

Critical to the effectiveness and reach of the public education programme is the ongoing collaboration with Policyholders and dissemination of deposit insurance information to their customers. Hence the training of Policyholders' staff continued. Three sessions were conducted during the year.

The Corporation commenced a major redesign of its website, www.jdic.org, with the new site scheduled for launch early in FY2012/13. During the year the Corporation's online presence also increased with the creation of a Facebook page and the uploading of videos on Youtube.

A national public awareness survey conducted on behalf of the Corporation during the year indicated that 75 percent of respondents have heard of JDIC compared to 42.6 per cent in 2006. However of those who heard of JDIC, only 48 percent had knowledge of deposit insurance, with awareness being typically higher among the upper middle and high socioeconomic groups. Television remains the number one medium through which persons are informed of JDIC and

deposit insurance, 75.3 and 64.1 percent respectively. Radio was ranked as second with 33.1 and 43.4 percent. To this end, new radio and television advertisements are being developed, to be aired in the first quarter of FY2012/13. It should be noted that in terms of the survey question as to whether persons 'felt more secure in doing business with financial institutions', half of the respondents who were aware of the JDIC said it made them feel more secure.

INTERNATIONAL RELATIONS

The Corporation is a member of the International Association of Deposit Insurers (IADI)¹⁴. Through its IADI membership, the Corporation participates in activities that promote international and regional cooperation and the development of policies and procedures relating to the stability of financial systems and Deposit Insurance issues. The Corporation is also involved in other international and regional activities that are geared towards enhancing the safety of Jamaica's financial system as well as the protection of financial consumers.

During the year the Corporation engaged in discussions and information sharing with its regional

JDIC's CEO, Antoinette McKain (right) and Acting Director, Intervention, Resolutions and International Relations, Eloise Williams Dunkley (third right) participate in the IADI's Caribbean Regional Committee (CRC) Core Principles Training and IADI CRC meeting held in Trinidad September 2011.



¹⁴ IADI was formed in May 2002 to contribute to the stability of financial systems by promoting international cooperation in the field of Deposit Insurance and to encourage contact among deposit insurers and other interested parties. Currently, IADI has 64 Members, 7 Associates, and 12 Partners. IADI is a non-profit organization constituted under Swiss Law and is domiciled at the Bank for International Settlements in Basel, Switzerland.

counterparts and other IADI members through work study/on-site visits, training sessions and meetings. In May 2011, a senior officer of the Corporation participated in an “Instructor Facilitator Workshop” to train members of IADI and the European Forum of Deposit Insurers (EFDI) to assess compliance with the *BCBS/IADI Core Principles for Effective Deposit Insurance Systems*¹⁵. The Workshop was held at the Federal Deposit Insurance Corporation, USA. Participants included members of IADI, EFDI and other international organizations. The Workshop sought to develop the proficiency of participants in conducting compliance assessments of Deposit Insurance Systems in other jurisdictions, as well as self-assessments using the *BCBS/IADI Core Principles for Effective Deposit Insurance Systems* compliance framework.

The Core Principles have been supplemented with the methodology for evaluating national systems and assessing the degree of compliance with international standards. This methodology was developed jointly by the BCBS and IADI, in close collaboration with the European Commission (EU-Com), the European Forum of Depositor Insurers (EFDI), the International Monetary Fund (IMF), and the World Bank.

The Corporation is also a member of the IADI's Caribbean Regional Committee (CRC) which focuses on matters of regional interest. The other members of the CRC currently include the Deposit Insurance Corporation of Trinidad and Tobago (the CEO of the DICTT is the current Chairman of the IADI/CRC); Barbados Deposit Insurance Corporation; Deposit Insurance Corporation, Central Bank of Bahamas; and The Ministry of Finance, British Virgin Islands which became an IADI Associate member¹⁶ in October 2011.

The CRC is in the process of drafting a Memorandum of Cooperation (MOC) among its members. The proposed MOC is geared towards establishing a framework for cooperation on matters regarding Deposit Insurance and promoting and maintaining financial stability. Specific areas of focus include: strengthening business relations,

technical and human resource support, research capabilities and developing reciprocal cooperation between the respective agencies of each CRC member in normal times and in periods of financial system crisis.

During FY2011/12 senior officers of the Corporation also took part in events geared towards promoting the relative stability of the local financial system as a platform for capital market development and investment. In addition to the FSC Investor Forum (*refer Public Education and Awareness*), the Corporation also participated in the Lauderhill Regional Chamber of Commerce's 8th Annual International Business Expo in Florida, USA. The Expo which was held under the theme “*Expanding Beyond our Borders*” focused on the Latin American and Caribbean markets. The Corporation presented on matters that highlighted the “*Financial System Soundness and its Contribution to Jamaica's Investment Infrastructure*”.

MANAGEMENT OF STRATEGIC RESOURCES

PERSONNEL AND ADMINISTRATION

The Corporation is a learning organization that has in place systems, mechanisms and processes that facilitates the development of its staff and to enable the Corporation to remain relevant and responsive.

The learning culture, to enhance and develop expertise, was facilitated by continuous local and overseas training, with the Corporation participating in the following programmes:

- The Bank for International Settlements, Financial Stability Institute (FSI) Connect Online courses such as Credit; Liquidity; Market and Operational Risk; Insurance; Accounting and Payment Systems
- The FDIC's Corporate University – Bank Examination and Supervision

¹⁵ The Core Principles of Effective Deposit Insurance Systems may be retrieved at http://www.iadi.org/NewsRelease/JWGD1%20CBRG%20core%20principles_18_June.pdf

¹⁶ An Associate member of IADI refers to an entity that does not fulfil all the criteria to become a member but which is considering the establishment of a Deposit Insurance Scheme (DIS), or is part of a financial safety net and has a direct interest in the effectiveness of a DIS.

- International Association of Deposit Insurers (IADI) Executive Training – Assessment Methodology for Compliance with the BCBS/ IADI Core Principles for Effective Deposit Insurance Systems
- Jamaica Institute of Financial Services (JIFS)
 - *Financial Management for Non-Financial Managers*
 - *Loans Securities Documentation*
- Enterprise Risk Management
- International Financial Reporting Standards
- Project Management
- GOJ Procurement Procedures and Policies
- Records and Information Management
- Jamaica Employers Federation (JEF)

Training content is delivered to all staff through scheduled in-house information sharing sessions, referred to as “*Presentation Fridays*”.

Based on a review of the functional areas of operations the organizational structure was revised and Departments restructured to better reflect the operating requirements. This resulted in functions relating to monitoring and risk assessment, interventions, resolutions and international relations segregated into two separate Departments headed by Executive Directors reporting to the CEO. In addition, the information and communication technology operations were transferred to the Finance, Funds and Asset Management Department.

Reviews of the recruitment and orientation process were also undertaken to better identify and align applicants for the required job functions.

Environmental planning strategies are incorporated into the daily activities of the Corporation and brought to the attention of staff, contractors and other parties in the fulfillment of their duties.

INFORMATION AND COMMUNICATION TECHNOLOGY

The Information and Communication Technology (ICT) Unit continued to support the Corporation’s strategic and operational initiatives. The main operating systems performed at a satisfactory level. Initiatives pursued during the year included:

- Work on the procurement of the services of an ICT firm to design and develop the PMIS application.
- Continued enhancement to the ICT Disaster Recovery and Business Continuity Plan.
- Update and acquisition of hardware and software to complement and replace existing stock.
- Review of the information security programme and communication systems for improved efficiency.
- Review and update ICT policies and procedures to strengthen the operation of the ICT Unit and to resolve gaps.
- Update the Microsoft Dynamics Accounting System (MDAS) reports based on the business user needs.



Statutory Compliance Report



NAME OF REPORT	NATURE OF REPORT	STATUTORY AGENCY	ACT	PERIOD REPORTING	SUBMITTED
Annual Report and Audited Financial Statements FY2010/11	The Annual Report details the operations for the year (April – March) of the Corporation. It includes the Audited Financial Statements which shows the accumulated financial position of the Corporation over the same 12-month period, duly certified by the Corporation's external auditors.	Ministry of Finance and Planning (MOFP)	Public Bodies Management and Accountability Act (PBMA) Deposit Insurance Act	Annually	√
Corporate Plan Operating & Capital Budgets FY2012/13- 2014/15	Statement of intent which outlines the broad direction of the Corporation for 3 years. Includes vision, mission, financial plans, manpower requirements and measures to evaluate performance.	MOFP	PBMA	Annually	√
Public Bodies Management and Accountability Report(PBMA)	Report gives the quarterly /half year outturn of actual performance against targets. The financial statements and the projected budgets for the remaining quarters/half year.	MOFP	PBMA	Quarterly and Half-yearly	√
Public Body Contract Awards Report	This report shows the award of contracts over \$275,000 during the Quarter.	Office of the Contractor General	Contractor General Act	Quarterly	√
The Access to Information Act (2002): Monthly Report Form and Quarterly Report Form	The report shows requests from the public for information on aspects of the operations of the Corporation.	The Access to Information Unit, Office of the Prime Minister	The Access to Information Act, 2002	Monthly, Quarterly	√
Corruption (Prevention) Act , 2000	Statutory declaration to be made by public servants of assets and liabilities and income.	Office of the Commissioner for the Prevention of Corruption	Corruption (Prevention) Act, 2000	Annually	√
Public Sector Report System (PRS-1)	Report of all goods/services procured in any given month	MOFP	Contractor General Act	Monthly	√
Net Credit Report (Statement)	This report shows the month-end balances on investment categories and bank balances.	MOFP		Monthly	√
Monthly Financial Statements - (Statements A and B)	The Monthly Financial Statements show the monthly and accumulated financial position of the Corporation.	MOFP		Monthly	√



Summary Performance Scorecard

BUSINESS STRATEGIES KEY INITIATIVES	PERFORMANCE AGAINST TARGETS	FOLLOW THROUGH ACTIVITIES
PROACTIVE READINESS		
Establish Policyholders' Record-Keeping Guidelines	Guidelines finalized and dispatched to Policyholders for implementation over the next 24 months, that is, April 1, 2014.	Collaborate with Policyholders as required to identify strategies towards ensuring compliance and meeting the proposed implementation timeline.
Develop Policies and Procedures for Clearing of Paper/Electronic Based Transactions during Payout (at closure date of failed institution)	Documentation completed and workshop conducted.	With the passing of the 'Payment, Clearing and Settlement Act 2010' (the Act), the Corporation will develop appropriate internal policies contingent on the promulgation of applicable regulations and/or guidelines.
Conduct Contingency Intervention and Resolutions Planning Session and update intervention and resolution strategies and documentation	Contingency planning session conducted.	Updating of intervention and resolution strategies and documentation to be incorporated with the review of JDIC's Resolution Powers and Strategies which will commence in FY2012/2013.
Conduct Payout Training Modular Simulation with Policyholder: □ Deposit Base Transfer Project – Transferee Simulation	Simulation deferred contingent on the availability of the Policyholder's resources.	Corporation will continue to liaise with Policyholder.
□ Develop Depositor Data Interchange System /Middleware System – Deposit Base Transfer	Technology solution reviewed and decision taken to enable a file transfer protocol site (using the requisite security protocols) between the JDIC and Policyholder to facilitate the transfer of data.	Project deferred until implementation of the Payout Management Information System (PMIS) and signoff on participation with Policyholder.
□ Data Extraction, Transformation and Load Simulation	-	Deferred until implementation of the PMIS and signoff on participation by a Policyholder.
Review the Deposit Insurance Rules of Coverage	Phase 1 which includes analysis/classification of products; the establishment of a Product Register and procedures for introduction of new products completed.	Phase 2 – updating Rules of Coverage document to be completed FY2012/13
Test Disaster Recovery and Business Continuity Plan (DRBC)	DRBC was reviewed and current state and impact assessment completed. Visits made to Data Centres and discussions held with providers regarding 'Warm Sites' for disaster recovery and business continuity.	Procurement process to be completed and provider selected early in FY2012/13.
STRONG PARTNERSHIPS		
Collaborate with Financial Services Commission (FSC) re Compensation /Guarantee Schemes for Insurance, Securities and Pensions (Entities regulated by the FSC)	No further work completed in 2011/2012. Paper entitled "A Proposal for Establishing Compensation Schemes for the Non-deposit Taking Financial Sector in Jamaica" submitted to the MOFP for review.	Continue collaboration with FSC and the MOFP.
Review of JDIC's role as a Safety Net Partner (SNP) in the Crisis Intervention Matrix and/or the Bank of Jamaica Financial Stability Committee	Proposed revisions/amendments of the Matrix submitted to the BOJ	Members of the Financial Regulatory Council (FRC) to review Matrix. Review contingent on the FRC's schedule.

BUSINESS STRATEGIES KEY INITIATIVES	PERFORMANCE AGAINST TARGETS	FOLLOW THROUGH ACTIVITIES
RESOLUTION MANAGEMENT		
Draft Proposed Regulations to support legislative amendments to DIA (Joint, Trust & Nominee Accounts)	Proposed recommendations for drafting the Regulations completed and sent to all stakeholders and Policyholders for consultation.	Proposed Regulations to be finalized and submitted to the MOFP for review and instruction to the Chief Parliamentary Counsel for drafting of Regulations.
STRENGTHENING OPERATIONAL EFFICIENCY		
Effect Deposit Insurance Fund (DIF) Adequacy Review	External Evaluation report presented to management and Board Members. An internal <i>Deposit Insurance Fund Adequacy Report</i> was also prepared and presented to the Board and management.	Deposit Insurance Fund adequacy reviews conducted annually.
Implement Fixed Assets Module of Accounting Software	Implementation commenced.	Full implementation of software, training of staff.
Review and Update Contingency Funding Plan	Approval received from the Minister of Finance for selected multi-lateral lending agencies to be contacted to explore possibilities for contingency funding.	Liaise with relevant agencies and update Contingency Plan as necessary.
Implement a Payout Application/ Software (PMIS)	The implementation of the Software is to be outsourced. Several IT Firms have been identified and the Corporation has submitted a letter to the Ministry of Finance to request the prior approval of the National Contracts Commission to utilize the Limited Tender procurement method given the estimated cost/nature of the Project.	Complete procurement process and implement the PMIS.
Implement JDIC Pension Arrangement for Staff	Contract awarded for consulting and actuarial services for the feasibility of the implementation of a Pension Scheme.	Implement Pension Scheme
Develop Records & Information Management System Programme	External Consultants contracted to develop Records and Information Management System Programme. Following discussions between Consultant and JDIC the timeline for delivery has been extended to September 2012.	RIMS programme developed.
PUBLIC EDUCATION AND AWARENESS		
Develop Public Education Programme to include information pertinent to the admission of Credit Unions to the DIS	Credit union information included in the FY2011/2012 public education programme.	Dissemination of information subject to the passing of the Bank of Jamaica (Credit Unions) Regulations and the admissions timetable for credit unions to the DIS.
Revamp Corporate Website	Work on the Project in final stages of completion.	Scheduled to be finalized in Q1 FY2012/2013 and new site launched.
Develop new Television and Radio Advertisements	Contract awarded and work commenced on development of advertisements.	Production to be completed in Q1 FY2012/2013 and airing of ads commenced.



Appendix I

ANNUAL 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-12

	COMMERCIAL BANKS			FIA LICENSEES			BUILDING SOCIETIES			SYSTEM TOTAL (aggregation of all 3 sectors)		
	Mar-12 ^b	Mar-11	Mar-10	Mar-12 ^b	Mar-11	Mar-10	Mar-12	Mar-11	Mar-10	Mar-12	Mar-11	Mar-10
Number of institutions in operation	7	7	7	2	2	3	4	4	4	13	13	14
JSMN												
¹ Total Assets (incl. contingent accounts)	629,059	593,671	599,441	20,237	25,754	32,139	189,535	173,451	160,551	838,831	792,876	792,131
² Total Assets (excl. contingent accounts)	615,328	580,659	585,468	20,187	25,503	31,908	189,535	173,451	160,551	825,050	779,613	777,927
Cash & Bank Balances	119,602	112,117	131,822	1,264	1,830	1,836	16,452	19,543	24,947	137,318	133,490	158,605
Investments [incl. Securities Purch.] (net of prov.)	187,579	186,222	164,524	11,451	15,865	19,580	70,011	60,301	43,274	269,041	262,388	227,378
Total Loans (gross)	277,205	248,924	256,994	6,898	7,148	9,298	90,264	87,647	85,375	374,367	343,719	351,667
Total Loans (net of IFRS prov.)^a	268,290	242,448	250,695	6,553	6,782	8,885	89,005	86,109	84,228	363,848	335,339	343,808
Total Deposits	409,845	382,637	378,414	6,471	8,536	12,281	123,703	119,037	111,243	540,019	510,210	501,938
Borrowings (incl. repos)	77,019	84,746	103,991	8,633	11,793	13,681	25,015	23,297	21,289	110,667	119,836	138,961
Non-Performing Loans [NPLs] (3 mths & >)	23,356	17,102	13,084	3,157	3,010	841	5,645	5,586	5,457	32,158	25,698	19,382
Provision for Loan Losses	19,868	15,871	10,466	2,420	1,597	773	3,649	3,453	2,309	25,937	20,921	13,548
³ Capital Base	64,113	61,221	59,409	2,610	3,462	4,743	22,786	21,079	17,114	89,509	85,762	81,266
Contingent Accts [Accept., LC's & Guarantees]	13,731	13,012	13,973	50	251	231	0	0	0	13,781	13,263	14,204
Funds Under Management	306	298	283	0	0	0	0	0	0	306	298	283
Repos on behalf of or for on-trading to clients	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
%												
Rate of Asset ¹ Growth	6.0%	-1.0%	2.5%	-21.4%	-19.9%	-8.9%	9.3%	8.0%	9.3%	5.8%	0.1%	3.3%
Rate of Deposit Growth	7.1%	1.1%	6.9%	-24.2%	-30.5%	-16.9%	3.9%	7.0%	10.5%	5.8%	1.6%	6.9%
Rate of Loans Growth (gross)	11.4%	-3.1%	-0.8%	-3.5%	-23.1%	-12.1%	3.0%	2.7%	7.2%	8.9%	-2.3%	0.7%
Rate of Capital Base Growth	4.7%	3.1%	15.2%	-24.6%	-27.0%	7.6%	8.1%	23.2%	1.6%	4.4%	5.5%	11.6%
Rate of NPLs (3 Mths & >) Growth	36.6%	30.7%	81.8%	4.9%	257.9%	42.5%	1.1%	2.4%	75.7%	25.1%	32.6%	78.0%
Investments : Total Assets ¹	29.8%	31.4%	27.4%	56.6%	61.6%	60.9%	36.9%	34.8%	27.0%	32.1%	33.1%	28.7%
Loans (net of prov.): Total Assets	42.6%	40.8%	41.8%	32.4%	26.3%	27.6%	47.0%	49.6%	52.5%	43.4%	42.3%	43.4%
Fixed Assets: Total Assets ¹	2.1%	1.9%	1.7%	0.4%	0.6%	0.7%	1.7%	1.6%	1.6%	2.0%	1.8%	1.6%
Loans (gross) : Deposits	67.6%	65.1%	67.9%	106.6%	83.7%	75.7%	73.0%	73.6%	76.7%	69.3%	67.4%	70.1%
Liquidity												
Average Domestic Currency Cash Reserve:												
Average Prescribed Liabilities ⁴	12.0%	12.0%	14.0%	12.0%	12.0%	14.0%	1.0%	1.0%	1.0%	9.1%	9.0%	10.4%
Average Domestic Currency Liquid Assets:												
Average Domestic Prescribed Liabilities ⁴	35.3%	46.6%	42.1%	29.6%	31.2%	30.1%	17.0%	18.3%	16.4%	30.4%	38.8%	34.9%

Asset Quality

Prov. For Loan Losses:												
Total Loans (gross)	7.2%	6.4%	4.1%	35.1%	22.3%	8.3%	4.0%	3.9%	2.7%	6.9%	6.1%	3.9%
Prov. For Loan Losses:												
NPL (3 Mths & >)	85.1%	92.8%	80.0%	76.7%	53.1%	91.9%	64.6%	61.8%	42.3%	80.7%	81.4%	69.9%
NPLs (3 Mths & >):Total												
Loans (gross)	8.4%	6.9%	5.1%	45.8%	42.1%	9.0%	6.3%	6.4%	6.4%	8.6%	7.5%	5.5%
NPLs (3 Mths & >): (Total												
Assets ¹ + Provision for												
losses)	3.7%	2.8%	2.2%	15.3%	11.5%	2.6%	3.0%	3.2%	3.4%	3.8%	3.2%	2.4%

Capital Adequacy

Deposits + Borrowings:												
Capital (:1)	7.6	7.7	8.2	5.8	5.9	5.5	6.6	6.8	7.8	7.3	7.4	7.9
Capital Base:Total Assets ¹	10.2%	10.3%	9.9%	12.9%	13.4%	14.8%	12.0%	12.2%	10.7%	10.7%	10.8%	10.3%
⁵ Capital Adequacy Ratio												
[CAR]	14.4%	16.4%	18.0%	11.9%	16.9%	24.0%	19.8%	22.2%	20.2%	15.4%	17.5%	18.7%
NPLs (3 mths & >):Capital												
Base + Prov for loan losses	27.8%	22.2%	18.7%	62.8%	59.5%	15.2%	21.4%	22.8%	28.1%	27.9%	24.1%	20.4%

Profitability

⁶ Pre - tax Profit Margin												
(for the Calendar Quarter)	16.8%	26.1%	22.0%	1.8%	6.3%	11.3%	29.0%	28.3%	1.8%	18.8%	26.1%	17.8%
Return on Average Assets												
(for the Calendar Quarter)	0.5%	0.8%	0.7%	0.0%	0.1%	0.3%	0.7%	0.7%	0.0%	0.5%	0.8%	0.5%
⁷ Income Assets/Expense												
Liabilities (at 31 March)	105.9%	104.3%	102.8%	102.5%	100.9%	108.4%	111.5%	111.1%	108.9%	107.1%	105.8%	104.3%

Notes:

n/a not applicable

- Based on unaudited data submitted to BOJ by supervised institutions up to 16 May, 2012. Prior years indicators may have revisions arising from amendments.

^a Effective January 2004, the Bank of Jamaica revised its reporting requirements in line with International Financial Reporting Standards (IFRS) and in this regard the following change was effected:

The composition of "Provision for Loan Losses" has been segregated into two (2) distinct components being:

- i) provision for losses computed in accordance with IFRS; and
 - ii) any incremental provisioning necessary under prudential loss provisioning requirements (treated as an appropriation from net profits).
- Consequently, "Total Loans (net of prov.)" represents gross loans net of IFRS loan loss provisions per (i) above

^b Effective 1 October 2010, the assets and liabilities of Scotia DBG Merchant Bank Limited were vested in Bank of Nova Scotia Jamaica Ltd. and the operations merged.

Consequently, the licence previously issued to Scotia DBG Merchant Bank Limited under the Financial Institutions Act was surrendered.

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

In keeping with IFRS, Total Assets and Liabilities were redefined to include Contingent Accounts.

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

³ 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.

⁴ Prescribed Liabilities include:

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

⁵ Capital Adequacy Ratio (CAR): Qualifying Capital (Tier 1 + Tier 2 capital items less prescribed deductions) in relation to Risk Weighted Assets and Foreign Exchange Exposure.

⁶ Pre-tax Profits includes extraordinary income/expenditure and adjustments for prior period.

⁷ Income Assets comprise FC Cash Reserves, Placements, Investments, Repo Assets and Loans less Non-Performing Loans (3 months & over).

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

Statutory Reserve Requirements :

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

Effective 1 July 2010, the domestic currency cash reserve and liquid assets ratios were reduced to 12% and 26% respectively.

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

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

** The requirements are differentially applied to societies not meeting the prescribed threshold of residential mortgage lending in relation to savings funds.

Societies that meet the prescribed 'qualifying assets' threshold attract the lower reserve requirements indicated above. Societies which do not, are requested to meet the requirements which apply to banks and FIA licensees.

Financial Institutions Supervisory Division

Bank of Jamaica





Appendix II

Financial System Stability: Regulatory Reforms

The recent global financial crisis exposed deficiencies in the way financial markets are regulated and monitored. Basel III and other regulatory reforms are necessary to address these deficiencies. The Financial Stability Board (FSB), Bank for International Settlement (BIS), and other standard setting bodies aim to standardize these regulatory reforms across jurisdiction. To this end, many jurisdictions have taken steps to conform to these global standards. The focus is on the timely and consistent implementation of these reforms, along with increased market discipline in order to enhance the resilience of the global financial system.

Jaime Caruana, General Manager of the Bank for International Settlement (BIS)¹⁷, in a presentation on “Building a Resilient Financial System”¹⁸ explained that in addition to the implementation of the Basel III framework¹⁹, authorities should implement other regulatory reforms, some of which are:

1. strengthening resolution for Systemically Important Financial Institutions (SIFI);
2. revamp of the Over the Counter (OTC) derivative infrastructure and
3. strengthened oversight and regulation of Shadow Banking.

These regulatory reforms are summarized below along with the FSB’s initiatives.

¹⁷The mission of the Bank for International Settlements (BIS) is to serve central banks in their pursuit of monetary and financial stability, to foster international cooperation in those areas and to act as a bank for central banks.

¹⁸This speech was made at a Financial Sector Forum on “Enhancing Financial Stability – Issues and Challenges” in February 2012 and may be retrieved at <http://www.bis.org/speeches/sp120208.pdf>

¹⁹Basel III was designed to address the main issues of increasing the quality and quantity of capital including enhancing risk coverage and introducing liquidity requirements

1. STRENGTHENING RESOLUTION

According to Caruana, the objective of strengthening the resolution framework is to “significantly reduce the possibility that authorities will find themselves forced to bail out institutions in order to prevent a disorderly wind-down of a failed firm”. Reducing the impact of failure, would reduce the expectation of an official bailout and hence reduce moral hazard. An important factor in the strengthening of the global economic and financial framework is the effective resolution of Systemically Important Financial Institutions (SIFI)²⁰.

A sound resolution regime must possess certain key elements as follows:

- clear authority for the designated authorities to initiate the wind-down of a troubled institution;
- mechanisms for coordination and information-sharing across agencies within a jurisdiction, as well as across borders;
- advance planning, both for the immediate management of a crisis situation and for the longer process of winding down a closed entity;
- available financing to support the operations of an institution that is operating in legal bankruptcy, and to ease the transfer of viable operations to other firms
- mechanisms for safeguarding the assets of depositors and other clients.

²⁰According to the Financial Stability Board (FSB), “SIFIs are financial institutions whose distress or disorderly failure, because of their size, complexity and systemic interconnectedness would cause significant disruption to the wider financial system and economic activity”

Financial Stability Board Initiatives in Relation to an Effective Resolution Regime

In October 2011 the FSB published the “Key Attributes of Effective Resolution Regimes for Financial Institutions²¹”. The attributes outline the responsibilities, instruments, and powers that national resolution regimes should apply to SIFI thereby ensuring minimal systemic disruptions, while eliminating losses to taxpayers and ensuring that all parties are treated fairly.

The FSB outlined that jurisdictions should put recovery and resolution plans (RRP)²² in place which incorporate all Global Systemically Important Financial Institutions (G-SIFI’s). These plans should be reviewed and updated regularly. Jurisdictions are also encouraged to ensure that there is a designated authority with a broad range of powers to intervene and to resolve a financial institution that is no longer viable.

The FSB will initiate an iterative process of peer reviews of its member jurisdictions to assess implementation of the key attributes, which it plans to complete in 2013.

2. OVER-THE-COUNTER (OTC) DERIVATIVES MARKET

International bodies and jurisdictions are currently implementing measures to strengthen the OTC derivative infrastructure. Caruana explained that the OTC market infrastructure design and function impacts financial stability because they can either “dampen or amplify disruptions”. This infrastructure should be properly designed to mitigate the risks arising from the interconnectedness of market participants and reduce the risk of contagion.

As a result authorities worldwide are pushing for a number of significant changes to the OTC infrastructure. These are:

- most standardized OTC derivatives should be traded on an exchange and cleared through a central counterparty (CCP);
- OTC derivatives should be reported to a trade repository (TR)²³; and
- Banking Supervisors should develop rules to ensure that the risks of derivatives that are not centrally cleared are covered by an appropriate amount of capital.

Financial Stability Board Initiatives in Relation to OTC Derivatives Markets

According to Caruana, in order to ensure that progress is made towards the implementation of the OTC derivatives market reforms the FSB will review: the consistent and non discriminatory implementation of various G20 commitments concerning standardization; central clearing; exchange or electronic platform trading and; reporting OTC derivative transactions to TRs.

3. SHADOW BANKING

An important element of the regulatory reform agenda is addressing the risks that may arise as a result of shadow banking activities²⁴. Notwithstanding the valuable functions of a shadow banking system which includes facilitating alternative sources of funding and liquidity and providing banks and investors with a range of vehicles for managing credit, liquidity and maturity risks, Caruana believes that the shadow banking system can also contribute to systemic risk or may create regulatory arbitrage opportunities. Therefore, it is important to

²¹This may be retrieved at http://www.financialstabilityboard.org/publications/r_111104cc.pdf

²²Recovery and resolution plans are typically referred to as living wills

²³According to Caruana, a trade repository is an electronic registry that keeps a record of all relevant details of an OTC derivative transaction over its lifetime

²⁴Shadow banking as defined by FSB is the “credit intermediation involving entities and activities outside the regular banking system”

enhance the oversight and consider regulation of the shadow banking system in areas where systemic risk and regulatory arbitrage pose risk.

Financial Stability Board initiatives in relation to shadow banking

The FSB has outlined a two-pronged approach to address risks related to shadow banking at the international level. The first component is a monitoring exercise. This includes information and data sharing across jurisdictions on shadow banking to assess, prioritize and monitor vulnerabilities in the financial system, which includes shadow banking. The FSB's Standing Committee on Assessment of Vulnerabilities (SCAV)²⁵ will oversee this process.

The second component, which complements the first, is conducting annual supervisory exercises by the FSB who will also review regulatory responses to specific aspects of the shadow banking system.

Jamaica's Regulatory Reform Initiatives

As financial system stability reforms have gained increased global attention, members of Jamaica's Financial System Safety Net continue their efforts to ensure that the financial system remains robust in times of stress. These regulatory oversight bodies continue to review and revise existing regulations to ensure that they are in keeping with international best practices and continue to achieve their objectives.

In this regard one of the major initiatives is the assigning of the institutional responsibility for stability of Jamaica's financial system to the Bank of Jamaica (BOJ, the Bank). The proposed amendments to the BOJ Act towards this objective have been drafted. The proposed amendments, inter alia, allows for the provision of emergency liquidity assistance to financial institutions; gives the Bank the power to perform certain tasks²⁶; requires the Bank to publish a financial stability report and establish the Financial

Stability Committee²⁷. Some of the responsibilities of the Committee are:

- exchange of information between members of the Committee regarding monitoring risks to stability of the financial system and assessing the macro-financial inter-linkages with the real economy and abroad;
- oversight of the design and conduct of periodic stress test scenarios in regard to plausible systemic threats to the stability of the financial system;
- determination of an institution's risk to financial stability;
- determination of parameters which trigger action in respect of any financial institution or a class thereof as required under the Bank's financial stability mandate;
- co-ordination of crisis prevention management or crisis resolution mechanisms/ procedures;
- international cooperation in support of financial stability objectives.

CONCLUSION

The global financial crisis that erupted in 2007 brought to the fore deficiencies in financial system regulatory frameworks. As such, there are movements towards the implementation of the Basel III framework as well as other regulatory reforms, in an effort to strengthen financial systems. In furtherance to the implementation of the regulatory reforms, it is important that proactive regulatory oversight be implemented. Proactive regulatory oversight will ensure that these reforms are implemented in a timely and complete manner to strengthen the regulatory framework and enhance the resilience of the global financial system.



²⁵The SCAV is chaired by Jaime Caruana, General Manager, BIS. Members include almost thirty national authorities and international bodies, including the OECD, the Committee on the Global Financial System (CGFS), and IMF.

²⁶Initiate inspections; request information pertinent to macro-prudential oversight; issue prescriptive rules, standards and codes pertinent to macro-prudential oversight and establish and update a central system database

²⁷The members of the Committee are: The Governor (Chair); The Financial Secretary of his nominee; the Executive Director of the Financial Services Commission; the Chief Executive Officer of the Jamaica Deposit Insurance Corporation. However the Minister may appoint other suitably qualified persons to be members of the Committee



Appendix III

Financial Consumer Protection

Financial consumer protection is recognized as an integral part of maintaining financial system confidence and stability. As such, measures are being undertaken locally and internationally to ensure that adequate policies and procedures are in place to protect financial consumers.

Locally, several initiatives have been undertaken towards enhancing financial consumer protection; this has taken place mainly through increased public education and awareness programs and by development of rules that guide financial institutions as to their responsibilities to financial consumers.

Jamaica is currently developing strategies geared towards the implementation of a National Financial Literacy Program (NFLP), being spearheaded by the Financial Services Commission (FSC). The program was launched in August 2010 and plans are currently underway to embark on a National Baseline Survey on Financial Education.

The Bank of Jamaica (BOJ), Jamaica Bankers Association (JBA)²⁸ and the Consumer Protection Agencies²⁹, in keeping with their objectives and international best practices, have taken steps to develop policies and procedures³⁰ to strengthen the protection of financial consumers. The BOJ is currently in the process of drafting principles to be incorporated in an Omnibus Statute which, inter alia, is aimed at introducing an “Enforceable Bankers’ Code of Conduct” on licensed deposit-taking institutions. ‘The Bankers’ Code of Conduct’, is a voluntary code being developed by the JBA. Additionally, a proposed ‘Code of Conduct for Banking Service in Jamaica’³¹, was

drafted by the Consumer Affairs Commission and the National Consumers League (NCL).

JDIC is cognizant of the importance of consumer protection and financial inclusion, especially in light of the recent innovations in financial services. The Corporation is guided by its mandate to protect depositors and contribute to stability and confidence in Jamaica’s financial system. Further to its mandate, JDIC conducts an ongoing Public Education and Awareness Program as a part of its financial consumer protection initiatives. This program is designed to educate small depositors and the unbanked regarding the protection offered by deposit insurance. Initiatives are also undertaken collaboratively with other members of the financial safety net and Policyholders to inform the public about the different services offered by financial institutions and the financial system regulatory framework.

Globally, development of financial consumer protection policies and procedures are also underway. In October 2011 the Organization for Economic Co-operation and Development (OECD) published ten (10) high level Principles on Financial Consumers Protection that are summarized below.

SUMMARY: G20 HIGH-LEVEL PRINCIPLES ON FINANCIAL CONSUMER PROTECTION

The “G20 High-level Principles on Financial Consumer Protection” (OECD et al, 2011)³² outlines the common principles that are to complement existing principles on consumer protection maintained by

²⁸The Jamaica Bankers’ Association (JBA) is a non-profit organization that represents commercial and merchant banks in Jamaica.

²⁹For the purpose of this paper, Consumer Protection Agencies is used in reference to the Consumer Affairs Commission and the National Consumer League

³⁰Notwithstanding the existing banking laws designed for financial consumer protection.

³¹May be retrieved at http://www.consumeraffairsjamaica.gov.jm/index.php?option=com_content&view=article&id=157:proposed-code-of-conduct-for-banking-services-in-jamaica&catid=66:cac-news&Itemid=29

³²This article can be retrieved at <http://www.oecd.org/dataoecd/58/26/48892010.pdf>

individual international jurisdictions. The OECD in collaboration with the Financial Stability Board (FSB) and other relevant international organizations was requested by the G20 Finance Ministers and Central Bank Governors to develop these high-level principles (The Principles). The OECD notes that, inter alia, ‘increased transfer of opportunities and risks to individuals and households’ as well as the ‘increased complexity of financial products and rapid technological change’ makes it necessary to strengthen the financial consumer protection policies, notwithstanding consumer responsibility. The OECD outlines ten (10) high-level principles designed to assist G20 member countries and other interested economies to enhance consumer protection. These principles are summarized below.

1. Legal, Regulatory and Supervisory Framework

Financial consumer protection should form an integral part of the legal, regulatory and supervisory framework of each jurisdiction. Regulations should be geared towards the protection of financial customers, with sufficient flexibility to address new product designs, changes in technology and new and emerging delivery channels such as mobile, electronic and branchless distribution of financial services. Additionally, regulatory entities should seek input and assistance from relevant non-governmental stakeholders including research entities and consumer organizations when developing financial customer protection policies.

2. Role of Oversight Bodies

Oversight bodies should be established with clear responsibility for protection of the financial consumer, possessing the necessary powers to fulfill their mandates. These oversight bodies should be subject to “clear and objectively defined responsibilities and appropriate governance; operational independence; accountability for their activities; adequate powers; resources and capabilities; defined and transparent enforcement

framework and clear and consistent regulatory processes”. Oversight bodies are to “observe high professional standards which include appropriate standards of confidentiality of customer information and the avoidance of conflicts of interests.” Collaboration with other financial services oversight bodies should be encouraged. Further, oversight bodies are also encouraged to liaise with international bodies with similar mandates with specific attention placed on addressing “issues arising from international transactions and cross border marketing and sales.”

3. Equitable and Fair treatment of Consumers

Financial consumers should be treated equitably and fairly by financial service providers and authorized agents, giving special consideration to the needs of vulnerable groups. Importantly, the fair and equitable treatment of customers should be incorporated in the corporate governance culture of all financial services providers.

4. Disclosure and Transparency

Adequate and accurate information should be disclosed to the financial consumer by the financial services providers and authorized agents, enabling financial consumers to make informed decisions about the product/service. This includes disclosure regarding risks and benefits associated with a particular product/service as well as disclosure of any conflict of interest in relation to the authorized agent responsible for selling the product/service. Additionally, authorized agents should provide objective advice to consumers, taking into consideration their profiles, financial objectives and the risk and complexity associated with the product/ service.

5. Financial Education and Awareness

Oversight bodies and relevant stakeholders should ensure that financial consumers are adequately informed about their rights, responsibilities, protection, financial transactions and the associated risks and opportunities. This will assist in building

consumer skills and confidence and allow for more informed decisions. Financial education and awareness should be accessible to all financial consumers, with due consideration to vulnerable groups. As such, consumers should be educated via diverse channels and financial education and awareness opportunities should commence at an early age. The implementation of the International principles and guidelines on financial education developed by OECD is recommended. The effectiveness of the educational awareness programs should be assessed by comparing financial education and awareness initiatives implemented both locally and internationally.

6. Responsible Business Conduct of Financial Services Providers and Authorized Agents

Protecting the interest of financial customers should be an objective and responsibility of financial service providers and authorized agents. The individual needs, situation and capabilities of customers should be assessed and considered before offering advice on a specific financial product or service. Staff of financial service providers should be properly trained and qualified and be held accountable for their actions. Further, staff remuneration structure should be designed to facilitate professional and responsible behavior, encourage fair treatment of customers and avoid conflicts of interest. Financial service providers and authorized agents should ensure that adequate internal policies and procedures are established to manage such conflicts if they arise.

7. Protection of Consumer Assets against Fraud and Misuse

Internal controls and other appropriate mechanisms should be implemented to protect the financial customer's assets from fraud, misuse and misappropriation.

8. Protection of Consumer Data and Privacy

Customer personal and financial information should be treated with confidentiality. Protection

policies and procedures should "define the purposes for which data may be collected, processed, held, used and disclosed (especially to third parties)". These policies should also acknowledge the rights of customers to be informed about data sharing, accessing data and obtaining the prompt deletion of data deemed inaccurate or obtained in an unlawful manner.

9. Complaints handling and Redress

Jurisdictions should ensure adequate and efficient mechanisms are in place to handle complaints by customers. Financial service providers and authorized agents should have adequate complaint handling redress mechanisms in place. Access to such mechanisms should be affordable and pose minimal burden to the customer. In cases where the customer is dissatisfied with these mechanisms, appropriate independent alternatives should be available for redress. Finally, summarized information relating to complaints and their resolutions should be publicized.

10. Competition

Competition should be encouraged to ensure that consumers are offered choices, competitive products and prices. Customers should also be able to make comparisons and switch between product and services and service providers at "reasonable and disclosed costs".

CONCLUSION

Jamaica's Financial System Safety Net Partners, JBA and Consumer Protection Agencies have undertaken various initiatives consistent with the abovementioned principles developed by the OECD. These initiatives will seek to enhance financial consumer protection, improve the resilience of the financial system and promote financial system stability.



Board of Directors and Senior Executives Compensation

BOARD OF DIRECTORS					
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	82,000	-	-	-	82,000
Director 1	52,000	-	-	-	52,000
Director 2	67,000	-	-	-	67,000
Director 3	55,000	-	-	-	55,000
Director 4	41,000	-	-	-	41,000
Director 5	30,000	-	-	-	30,000
Director 6 (CEO)	-	-	-	-	-

SENIOR EXECUTIVES						
Position of Senior Executive	Salary(\$)	Gratuity (in lieu of pension) (\$)	Travelling Allowance or Value of Assignment of Motor Vehicle (\$)	Other Allowances (\$)	Non-Cash Benefits (\$)	Total (\$)
Chief Executive Officer	8,289,709	2,072,427	1,950,753	-	564,397	12,877,286
Chief Operating Officer/Deputy CEO (Contract Ended March 5, 2012)	4,822,907	1,205,727	796,500	-	667,581	7,492,715
Director, Finance, Funds and Asset Management	4,511,140	1,127,785	796,500	-	587,259	7,022,684
Acting Director, Intervention, Resolutions and International Relations (Appointed September 26, 2011)	3,575,841	893,960	796,500	-	287,435	5,553,736
Acting Director, Monitoring and Risk Assessment (Appointed September 26, 2011)	3,264,074	816,018	796,500	-	228,969	5,105,562



Audited Financial Statements FY2011/2012



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Independent Auditors' Report

To the Members of
Jamaica Deposit Insurance Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Jamaica Deposit Insurance Corporation, set out on pages 63 to 85, which comprise the statement of financial position as at 31 March 2012 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the financial statements are free from material misstatement.

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 misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

PricewaterhouseCoopers, Scotiabank Centre, Duke Street, Box 372, Kingston, Jamaica
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**Members Jamaica Deposit Insurance Corporation
Independent Auditors' Report
Page 2**

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Jamaica Deposit Insurance Corporation as at 31 March 2012, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

Report on Other Legal and Regulatory Requirements

As required by the Jamaican Companies Act, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been kept, so far as appears from our examination of those records, and the accompanying financial statements are in agreement therewith and give the information required by the Jamaican Companies Act, in the manner so required.

Chartered Accountants
26 June 2012
Kingston, Jamaica



Jamaica Deposit Insurance Corporation

Statement of Comprehensive Income

Year ended 31 March 2012

(expressed in Jamaican dollars unless otherwise indicated)

	2012 \$'000	2011 \$'000
Revenue		
Insurance premiums	727,806	720,970
Interest earned	780,742	755,791
Foreign exchange gain/(loss)	16,680	(32,344)
Other income	9,774	782
	<u>1,535,002</u>	<u>1,445,199</u>
Expenses		
Administration expenses (Note 6)	178,015	128,894
	<u>1,356,987</u>	<u>1,316,305</u>
Surplus from Operations		
Other Comprehensive Income:		
Fair value (loss)/gain on available-for-sale investments	(58,899)	397,458
Revaluation gain on property, plant and equipment	8,225	-
	<u>(50,674)</u>	<u>397,458</u>
Total Other Comprehensive Income		
Total Comprehensive Income	<u><u>1,306,313</u></u>	<u><u>1,713,763</u></u>

**Jamaica Deposit Insurance Corporation**

Statement of Financial Position

31 March 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000
ASSETS			
Cash at bank		542,227	239,520
Investment securities	8	9,075,955	7,842,372
Receivables	9	460,815	468,442
Property, plant and equipment	10	98,946	109,503
		<u>10,177,943</u>	<u>8,659,837</u>
LIABILITIES AND SHAREHOLDER'S EQUITY			
Liabilities			
Unearned premium income	11	441,225	265,149
Payables		97,419	61,702
		<u>538,644</u>	<u>326,851</u>
Shareholder's Equity			
Share capital	12	1,000	1,000
Capital reserves	13	56,393	48,168
Fair value reserves	14	334,968	393,867
Deposit insurance fund	15	9,246,938	7,889,951
		<u>9,639,299</u>	<u>8,332,986</u>
		<u>10,177,943</u>	<u>8,659,837</u>

Approved by the Board of Directors on 26 June 2012 and signed on its behalf by:

Peter Thomas

Chairman

Antoinette McKain

Chief Executive
Officer

Jamaica Deposit Insurance Corporation

Statement of Changes in Equity

Year ended 31 March 2012

(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 2010	1,000	48,168	(3,591)	6,573,646	6,619,223
Surplus from operations	-	-	-	1,316,305	1,316,305
Fair value gain on available-for-sale investments	-	-	397,458	-	397,458
Total comprehensive income	-	-	397,458	1,316,305	1,713,763
Balance at 31 March 2011	1,000	48,168	393,867	7,889,951	8,332,986
Surplus from operations	-	-	-	1,356,987	1,356,987
Revaluation of property, plant and equipment	-	8,225	-	-	8,225
Fair value loss on available-for-sale investments	-	-	(58,899)	-	(58,899)
Total comprehensive income		8,225	(58,899)	1,356,987	1,306,313
Balance at 31 March 2012	1,000	56,393	334,968	9,246,938	9,639,299

**Jamaica Deposit Insurance Corporation****Statement of Cash Flows****Year ended 31 March 2012**

(expressed in Jamaican dollars unless otherwise indicated)

	2012 \$'000	2011 \$'000
Cash Flows from Operating Activities		
Surplus from operations	1,356,987	1,316,305
Adjustments for:		
Depreciation	6,205	5,259
Interest income	(780,742)	(755,591)
Property, plant and equipment written off	13,016	-
Unearned premium income	176,076	(10,564)
Foreign exchange (gain)/loss	(16,680)	32,344
Gain on disposal of property, plant and equipment	(42)	-
	<u>754,820</u>	<u>587,753</u>
Changes in non-cash working capital components:		
Receivables	7,627	103,042
Payables	35,717	46,329
	<u>43,344</u>	<u>149,371</u>
Cash provided by operating activities	<u>798,164</u>	<u>737,124</u>
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(619)	(9,334)
Proceeds from sale of property, plant and equipment	221	-
Investment securities	(1,252,201)	(1,254,219)
Interest received	757,131	727,121
Cash used in investing activities	<u>(495,468)</u>	<u>(536,432)</u>
Effect of exchange rate changes on cash balances	11	(71)
Increase in cash balance at end of year	302,707	200,621
Cash balance at the beginning of the year	239,520	38,899
Cash Balance at the End of the Year	<u><u>542,227</u></u>	<u><u>239,520</u></u>



Jamaica Deposit Insurance Corporation

Notes to the Financial Statements

31 March 2012

(expressed in Jamaican dollars unless otherwise indicated)

1. Identification and Principal Activity

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

The principal objective of the Corporation is to manage a scheme to provide insurance against the loss of deposits held in insured financial institutions, up to a maximum of \$600,000 per depositor, in each right and capacity, in each institution.

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

2. Significant Accounting Policies

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

(a) Basis of preparation

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

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

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

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

IAS 1, 'Presentation of financial statements' (effective from 1 January 2011). The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The Corporation has elected to continue analysis of the other comprehensive income in the statement of changes in equity.

IAS 24 (Revised), 'Related party disclosures' (effective from 1 January 2011). The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Corporation has adopted the revised standard effective 1 April 2011 however there has been no significant impact on its related party disclosures.



Jamaica Deposit Insurance Corporation

Notes to the Financial Statements

31 March 2012

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

IFRS 7, 'Financial instruments disclosures' (effective from 1 January 2011). This amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. Qualitative and quantitative financial risk management policies and exposures are disclosed in note 5.

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

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

IFRS 9, 'Financial instruments' (1 January 2015). The standard introduces new requirements for the classification, measurement and recognition of financial assets and financial liabilities, in order to ensure that relevant and useful information is presented to users of financial statements. It replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. The determination of classification will be made at initial recognition, and depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. Management is assessing the timing of its adoption by the Corporation, and the potential impact of adoption.

Amendments to IFRS 7, 'Financial instruments: Disclosures' (effective from 1 July 2011). This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The adoption of this amendment is not expected to have a significant impact on the Corporation's financial statements.

IFRS 13, 'Fair value measurement' (effective from 1 January 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. Management is assessing the impact of adoption on the Corporation.

Amendments to IAS 1, 'Presentation of financial statements' (effective from 1 July 2012). The amendment requires entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled such as revaluation gains on property, plant and equipment will be presented separately from items that may be recycled in the future, such as deferred gains and losses on cash flow hedges. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The Corporation will adopt the amendments from 1 April 2013. The adoption of this amendment is not expected to have a significant impact on the Corporation's financial statements.



Jamaica Deposit Insurance Corporation

Notes to the Financial Statements

31 March 2012

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(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.

(e) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost and comprise cash at bank and in hand.

(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.

Jamaica Deposit Insurance Corporation

Notes to the Financial Statements

31 March 2012

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(g) Investments (continued)

(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.

(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.



Jamaica Deposit Insurance Corporation

Notes to the Financial Statements

31 March 2012

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(j) Provision for losses

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

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

(k) Financial instruments

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

3. Income Taxes and Insurance Legislation

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

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Held-to-maturity investments

The Corporation follows the guidance of IAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires judgement. In making this judgement, the Corporation evaluates its intention and ability to hold such investments to maturity. If the Corporation fails to keep these investments to maturity other than for specific circumstances – for example, selling other than an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value, not amortised cost. If the entire class of held-to-maturity investments is compromised, the carrying value would increase by \$3,849,000 (2011 – \$2,764,000) 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.



Jamaica Deposit Insurance Corporation

Notes to the Financial Statements

31 March 2012

(expressed in Jamaican dollars unless otherwise indicated)

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Fair value of financial assets determines using valuation techniques

As described in Note 5, where the fair values of financial assets recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flows model and/or mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk free interest rates and credit risk.

Changes in assumptions about these factors could affect the reported fair value of financial instruments.

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.

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.



Jamaica Deposit Insurance Corporation

Notes to the Financial Statements

31 March 2012

(expressed in Jamaican dollars unless otherwise indicated)

5. Financial Risk Management (Continued)

(a) Market risk (continued)

(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.

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	USD	Total
	J\$'000	J\$'000	J\$'000
	2012		
Financial assets			
Investment securities	8,023,736	1,052,219	9,075,955
Cash at bank	542,003	224	542,227
	8,565,739	1,052,443	9,618,182
	2011		
Financial assets			
Investment securities	6,870,211	972,161	7,842,372
Cash at bank	239,514	6	239,520
	7,109,725	972,167	8,081,892

**Jamaica Deposit Insurance Corporation**

Notes to the Financial Statements

31 March 2012

(expressed in Jamaican dollars unless otherwise indicated)

5. Financial Risk Management (Continued)**(a) Market risk (continued)****(i) Currency risk (continued)*****Foreign currency sensitivity***

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

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

	% Change in Currency Rate 2012	Effect on Surplus and Deposit Fund 2012 \$'000	%Change in Currency Rate 2011	Effect on Surplus and Deposit Fund 2011 \$'000
USD -				
Revaluation	1	10,524	1	9,722
Devaluation	0.5	(5,262)	0.5	(4,861)

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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.



Jamaica Deposit Insurance Corporation

Notes to the Financial Statements

31 March 2012

(expressed in Jamaican dollars unless otherwise indicated)

5. Financial Risk Management (Continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

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	Non- Interest bearing \$'000	Total \$'000
2012						
Financial assets						
Investment securities	12,484	2,655,923	6,170,667	236,881	-	9,075,955
Cash at bank	542,187	-	-	-	40	542,227
	<u>554,671</u>	<u>2,655,923</u>	<u>6,170,667</u>	<u>236,881</u>	<u>40</u>	<u>9,618,182</u>
2011						
Financial assets						
Investment securities	-	718,703	5,653,428	1,470,241	-	7,842,372
Cash at bank	239,480	-	-	-	40	239,520
	<u>239,480</u>	<u>718,703</u>	<u>5,653,428</u>	<u>1,470,241</u>	<u>40</u>	<u>8,081,892</u>



Jamaica Deposit Insurance Corporation

Notes to the Financial Statements

31 March 2012

(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 2012 \$'000	Effect on Deposit Insurance Fund 2012 \$'000	Effect on Surplus from Operations 2011 \$'000	Effect on Deposit Insurance Fund 2011 \$'000
Change in basis points:				
- 75 (2011: - 800)	(13,908)	(40,866)	(10,514)	(42,805)
+ 75 (2011: + 800)	13,908	40,866	10,514	42,805

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

(iii) Other price risk

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

(b) Credit risk

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

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

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



Jamaica Deposit Insurance Corporation

Notes to the Financial Statements

31 March 2012

(expressed in Jamaican dollars unless otherwise indicated)

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 2012 that, subsequent to initial recognition, are measured at fair value. The financial instruments are grouped into Levels 1 to 3 based on the degree to which the fair value is observable, as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical instruments. The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets is the current bid price. These instruments are grouped in Level 1;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the instrument, either directly (i.e., as prices) or indirectly (i.e., derived from prices as at March 31, 2012). 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



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Notes to the Financial Statements

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5. Financial Risk Management (Continued)

(d) Fair values of financial instruments (continued)

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

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

Level 2
\$'000

Available-for-sale investments (Note 8) –

Issued by Government of Jamaica 7,212,210

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:

	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	\$'000	\$'000	\$'000	\$'000
Investment securities -				
Held to maturity	1,863,745	1,867,594	1,416,198	1,418,962
Available-for-sale	7,212,210	7,212,210	6,426,174	6,424,029
	<u>9,075,955</u>	<u>9,079,804</u>	<u>7,842,372</u>	<u>7,842,991</u>

(e) Adequacy of the Deposit Insurance Fund

The Corporation's capital comprises share capital, reserves, and the Deposit Insurance Fund (DIF). JDIC is not subject to externally imposed capital requirements, and there were no changes in what the Corporation considers as capital, and management of capital was performed on a basis consistent with that of prior years.

The Corporation's principal objective is to establish and manage a scheme for the insurance of deposits, or part thereof, held in Policyholders against the risk of loss of deposits up to a maximum of \$600,000 per depositor, in each right and capacity, in each institution. The Deposit Insurance Act requires that the Corporation reviews 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.



Jamaica Deposit Insurance Corporation

Notes to the Financial Statements

31 March 2012

(expressed in Jamaican dollars unless otherwise indicated)

5. Financial Risk Management (Continued)

(e) Adequacy of the Deposit Insurance Fund (continued)

The Corporation conducts an annual survey of the distribution of insurable deposits of Policyholders. The data gathered through this survey is used to determine the estimated insured deposits of the banking system as at a point in time, the level of deposit insurance coverage and the potential coverage under various scenarios. The survey data also provides a basis for determining the adequacy of the Fund with regards to the Corporation's potential liabilities.

As at 31 December 2011, there were 13 member institutions with total insured deposits estimated at \$228.9 billion (2010 - \$220.7 billion), of which the DIF covered 3.9% (2010 – 3.4 %). The adequacy of the DIF will be based primarily on the assessed risk posed by Policyholders. The target range of the DIF is considered as a reserve target, which is determined from time to time. Currently the target range for the DIF is between 8% and 10% of insured deposits. In relation to its insurance obligations, the Corporation's main exposure is to unexpected loss from the non-viability or insolvency of a Policyholder that is not readily estimated due to the unavailability of data on specific loss experience.

The key mechanisms used to manage the level of capital are premium assessments and borrowings.

If a Policyholder's future viability or solvency is deemed to be at risk by the Supervisor of Banks, or the Policyholder becomes insolvent and the Corporation is required to intervene by providing financial assistance or pay out depositors in accordance with its resolution powers under the Deposit Insurance Act, and the Fund is insufficient to meet the obligation, the Corporation has the power to borrow, as well as, with the approval of the Minister of Finance, prescribe the levying of additional premiums payable by Policyholders.



Jamaica Deposit Insurance Corporation

Notes to the Financial Statements

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6. Expenses by Nature

Total administration expenses:

	2012	2011
	\$'000	\$'000
Auditors' remuneration	988	941
Depreciation	6,205	5,259
Directors' emoluments -		
Fees	327	461
Management remuneration (Note 7)	13,646	13,197
Other	9,574	7,959
Printing and stationery	2,608	2,586
Professional fees	14,414	5,535
Public education	17,088	7,190
Repairs and maintenance	3,226	2,696
Staff costs (Note 7)	102,188	76,368
Utilities	7,744	6,702
	<u>178,015</u>	<u>128,894</u>

7. Staff Costs

	2012	2011
	\$'000	\$'000
Wages and salaries	75,387	51,392
Statutory contributions	4,450	6,437
Others	22,351	18,539
	<u>102,188</u>	<u>76,368</u>
Management remuneration	13,646	13,197
	<u>115,834</u>	<u>89,565</u>

The number of persons employed by the Corporation at the end of the year was 23 (2011 - 20).



Jamaica Deposit Insurance Corporation

Notes to the Financial Statements

31 March 2012

(expressed in Jamaican dollars unless otherwise indicated)

8. Investment Securities

	2012 \$'000	2011 \$'000
(a) Held-to-maturity -		
Government of Jamaica	1,850,497	1,402,077
Interest accrued	13,248	14,121
	<u>1,863,745</u>	<u>1,416,198</u>
(b) Available-for-sale -		
Government of Jamaica	7,105,994	6,344,443
Interest accrued	106,216	81,731
	<u>7,212,210</u>	<u>6,426,174</u>
	<u>9,075,955</u>	<u>7,842,372</u>

(c) Remaining Term to Contractual Maturity

	2012				
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Carrying Value
	\$'000	\$'000	\$'000	\$'000	\$'000
Held-to-maturity:					
Government of Jamaica -					
Benchmark investment note	-	170,102	1,680,395	-	1,850,497
Interest accrued	12,204	1,044	-	-	13,248
	<u>12,204</u>	<u>171,146</u>	<u>1,680,395</u>	<u>-</u>	<u>1,863,745</u>
Available-for-sale:					
Government of Jamaica -					
Benchmark investment note	-	2,093,421	3,730,467	236,881	6,060,769
US\$ Benchmark notes	-	285,420	759,805	-	1,045,225
Interest accrued	280	105,936	-	-	106,216
	<u>280</u>	<u>2,484,777</u>	<u>4,490,272</u>	<u>236,881</u>	<u>7,212,210</u>
	<u>12,484</u>	<u>2,655,923</u>	<u>6,170,667</u>	<u>236,881</u>	<u>9,075,955</u>

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Notes to the Financial Statements

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8. Investment Securities (Continued)

(c) Remaining Term to Contractual Maturity (continued)

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

(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	-	6.84	7.08	8.35	7.42
US\$ Bond	-	5.72	6.08	-	5.90

Jamaica Deposit Insurance Corporation

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9. Receivables

	2012 \$'000	2011 \$'000
Withholding tax	434,608	458,861
Prepayments	3,470	1,678
Other	22,737	7,903
	<u>460,815</u>	<u>468,442</u>

10. Property, Plant and Equipment

	Land	Building & Freehold Improvement	Furniture & Fixtures	Work-in- Progress	Computers, Machines & Equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost -						
At 31 March 2010	25,000	61,374	14,778	6,923	24,517	132,592
Additions	-	410	171	6,200	2,553	9,334
At 31 March 2011	25,000	61,784	14,949	13,123	27,070	141,926
Revaluation	-	2,836	-	-	-	2,836
Additions	-	380	37	-	202	619
Disposal	-	-	-	(13,016)	(211)	(13,227)
At 31 March 2012	25,000	65,000	14,986	107	27,061	132,154
Depreciation -						
31 March 2010	-	1,927	9,649	-	15,588	27,164
Charge for the period	-	1,539	1,271	-	2,449	5,259
31 March 2011	-	3,466	10,920	-	18,037	32,423
Revaluation	-	(5,389)	-	-	-	(5,389)
Charge for the period	-	1,923	575	-	3,707	6,205
Disposal	-	-	-	-	(31)	(31)
31 March 2012	-	-	11,495	-	21,713	33,208
Net Book Value -						
31 March 2012	25,000	65,000	3,491	107	5,348	98,946
31 March 2011	25,000	58,318	4,029	13,123	9,033	109,503



Jamaica Deposit Insurance Corporation

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10. Property, Plant and Equipment (Continued)

The Corporation's land and buildings were revalued as at 31 March 2012 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:

	2012 \$'000	2011 \$'000
Cost	36,591	36,591
Accumulated depreciation	<u>(7,679)</u>	<u>(6,765)</u>
Net book value	<u><u>28,912</u></u>	<u><u>29,826</u></u>

11. Unearned Premium Income

This represents the portion of insurance premiums received from policyholders relating to the period subsequent to 31 March 2012.

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

	2012 \$'000	2011 \$'000
Balance at beginning of year	7,889,951	6,573,646
Surplus from insurance operations	727,806	720,970
Surplus from investment and administration operations	<u>629,181</u>	<u>595,335</u>
Deposit Insurance Fund at year end	<u><u>9,246,938</u></u>	<u><u>7,889,951</u></u>



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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:

	2012	2011
	\$'000	\$'000
Investment balance	9,075,955	7,842,372
Cash balance	<u>525,840</u>	<u>239,474</u>
	<u><u>9,601,795</u></u>	<u><u>8,081,846</u></u>

- (d) Transactions and balances with key management:

	2012	2011
	\$'000	\$'000
Wages and salaries	24,267	20,963
Statutory contributions	2,355	2,092
Other staff benefits	<u>16,424</u>	<u>5,255</u>
	<u><u>43,046</u></u>	<u><u>28,310</u></u>






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