Jamaica Deposit
Insurance Corporation

Enhancing the Safety Net for Depositors

Annual Report
2012/2013

June 28, 2013

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 2012/2013 and a copy of the Corporation's Accounts as at March 31, 2013, duly certified by its Auditors.

Yours sincerely

Peter Thomas, ACII, JP
Chairman

Vision

To promote and inspire financial system confidence and stability

Mission

The Jamaica Deposit Insurance Corporation is committed to:

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

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

Core Values

Accountability:

We accept our responsibilities in relation to the Corporation's objectives and carry them out in a transparent manner.

Communication:

We are committed to sharing information with all our stakeholders clearly and in a timely manner and encouraging feedback.

Excellence:

We continuously measure and monitor productivity to improve our operations.

Professionalism:

We pursue the highest level of competence and integrity in the performance of our duties.

Teamwork:

We preserve an environment of collaborative efforts, mutual support and respect, where our best solutions come from embracing each employee's unique talents.

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Our Business

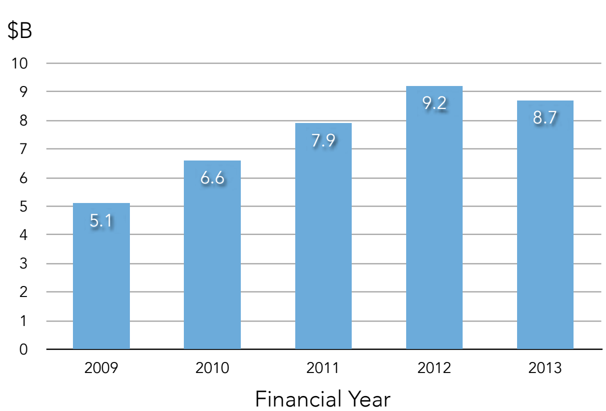
KEY FACTS:

- 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 licensed 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, 97 percent of deposit accounts in member institutions are fully covered under the Scheme as at December 2012.
- 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; Business Accounts; Trust Accounts; and Nominee Accounts.
- Deposit accounts covered by the Deposit Insurance Scheme include: Savings Accounts; 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. Deposit insurance payments on foreign currency accounts are in Jamaican dollars.
- In the event of the failure and closure of a member institution, the JDIC must pay depositors the balances in their accounts up to the maximum limit of J$600,000.
- The JDIC manages a Deposit Insurance Fund (DIF/the Fund), which at the end of March 2013 was J$8.7 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.
- 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.

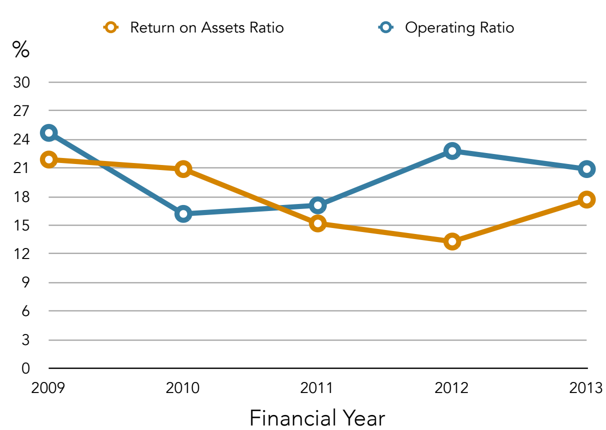
Financial Highlights

FIVE YEAR STATISTICS – MARCH 31, 2009 - 2013	2013 $000	2012 $000	2011 $000	2010 $000	2009 $000
SELECTED STATEMENT OF COMPREHENSIVE INCOME					
Insurance Premiums	745,540	727,806	720,970	643,038	553,444
Interest Earned	862,530	780,742	755,791	937,504	693,963
Other Income	148,026	26,454	(31,562)	15,854	132,632
Total Revenue	1,756,096	1,535,002	1,445,199	1,596,396	1,380,039
Administrative Expenses	180,782	178,015	128,894	152,242	171,341
Surplus from Operations	1,575,314	1,356,987	1,316,305	1,444,154	1,208,698
SELECTED STATEMENT OF FINANCIAL POSITION					
Deposit Insurance Fund	8,725,016	9,246,938	7,889,951	6,573,646	5,129,492
Investment Securities	8,276,122	9,075,955	7,842,372	6,194,498	5,124,721
Total Assets	8,892,521	10,177,943	8,659,837	6,910,309	5,510,940
Property, Plant and Equipment (NBV)	97,825	98,946	109,503	105,428	101,593
OTHER SELECTED FINANCIAL DATA					
Persons employed at the end of the year	24	23	20	20	24
Operating Ratio (%)	20.9	22.8	17.1	16.2	24.7
Asset Management (%)	19.7	15.1	16.7	23.1	25.0
Return on Assets Ratio (%)	17.7	13.3	15.2	20.9	21.9

Deposit Insurance Fund



Key Performance Ratios



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
- RBC Royal Bank (Jamaica) Limited
- Sagicor Bank Jamaica Limited (formerly PanCaribbeanBank Limited)

MERCHANT BANKS (FIA LICENSEES)

- Capital and 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

* The Minister of Finance and Planning re-issued a licence in the name of JMMB Merchant Bank Limited on May 21, 2013.

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
FATCA	Foreign Account Tax Compliance Act
FIA	Financial Institutions Act
FRANs	Fixed Rate Accreting Notes
FRC	Financial Regulatory Council
FSC	Financial Services Commission
FSB	Financial Stability Board
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
MOFP	Ministry of Finance and Planning
NDX	National Debt Exchange
NIR	Net International Reserves
PBMA	Public Bodies Management and Accountability Act
PRAF	Policyholders' Risk Assessment Framework
SDR	Special Drawing Right
SIFI'S	Systemically Important Financial Institutions

Glossary

Banking System	The deposit-taking financial institutions, comprising Commercial Banks, Merchant Banks (FIA Licensees) and Building Societies being institutions licensed by the Bank of Jamaica.
Coverage Limit	The maximum 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, or a portion of a deposit, whether made by him or not.
Deposit Insurance Act (DIA)	The Act of Parliament establishing the JDIC and setting out its powers and 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. It is 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 by Policyholders into the DIF in accordance with the requirements of the DIA.
FIA Licensees	Financial institutions licensed to take deposits under the Financial Institutions Act. These now include merchant banks and trust companies.
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 in a failed Policyholder are 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 prescribed by the Minister on the recommendation of the Corporation to determine deposit insurance premiums paid by Policyholders 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.
Special Drawing Right (SDR)	An international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. Its value is based on a basket of four key international currencies.

Chairman's Remarks

As the Corporation approaches its fifteenth anniversary, it is imperative to reflect on its establishment as a key part of a strategic response to the domestic financial crisis of the mid-1990's aimed at the strengthening of our financial regulatory system. Today, the Corporation is an integral member of the Financial System Safety Net in Jamaica, protecting depositors and contributing to confidence in the financial system.

Despite the many challenges in both the international and domestic economies, as testament to the effectiveness of the regulatory framework, there has been no local bank failure requiring a call upon the Deposit Insurance Fund.

Notwithstanding the resilience of the banking system to date, the Corporation is mindful of significant developments in the domestic economy which could pose real threats to Policyholders' financial viability. These include (i) the implementation, within a three year period, of a second public debt restructuring programme (the National Debt Exchange Programme - NDX) in February 2013 as part of its fiscal consolidation priorities; (ii) the continued economic contraction (iii) increased unemployment rates (iv) relative instability in the foreign exchange market and (v) reduction in confidence levels given the domestic debt dynamics and uncertainty of the financial markets possibly emanating from doubt as to whether the GOJ will be able to adhere to the proposed ameliorative macroeconomic programmes.

Peter Thomas, ACII, JP
Chairman

In relation to maintaining the stability of the financial system, (following the implementation of the NDX) the Government has established contingency mechanisms including the Financial System Stability Fund for liquidity and capital support to be available to financial institutions which had participated in the GOJ's debt restructuring. Notwithstanding these threatening developments the banking system ended the year with all institutions remaining adequately capitalized and solvent.

I am mindful that the Corporation's financial position was also impacted by its participation in the NDX. The Deposit Insurance Fund at its revaluation under the NDX reflected a decline of $2.1 billion dollars being the impact arising from the exchange of its GOJ securities for the new instruments issued. The Fund balance ended the year at $8.7 billion and the total surplus from operations for the fiscal year of $1.57 billion was 6.4 percent higher than budgeted. This was achieved as the Corporation had, during the year, remained focused on the business strategies and priorities indicated in its corporate plan while remaining cognizant of its costs within the fiscal constraints in the domestic public sector.

With the Chief Executive Officer as a member of the Financial Regulatory Council, the Corporation has continued to work with other Financial System Safety Net Partners in contributing to the ongoing development of policies and legislation aimed at improving the robustness of the financial system regulatory framework. This is aimed at existing and emergent international best practices as dictated by the lessons learned from the global financial crisis. The Corporation remains committed to the strong collaboration among the Safety Net Partners and looks forward to moving beyond the current economic challenges and towards the opportunities that have been identified in furtherance of its mandate.

As Chairman of the Board of Directors, I express sincere thanks to the Management and Staff of the Corporation for their commitment to the mandate of protecting depositors and their role in maintaining the strength of the financial system. I also express thanks to my fellow Board members for their keen support during the past year.

Strengthened by our resolve we look forward to another successful year.

Peter Thomas, ACII, JP
Chairman

The Corporation remains committed to strong collaboration among the Safety Net Partners...

CEO's Report on Operations

Antoinette McKain
Chief Executive Officer

Summary of the Economic and Regulatory Environment and Policyholder Performance

The general slowing of global economic activity contributed to weak external and domestic demand. Weak domestic demand was also influenced by lower levels of income, higher unemployment and reduced investor confidence as a result of uncertainty regarding the timing and terms of an impending Government of Jamaica (GOJ)/International Monetary Fund (IMF) agreement. As a consequence of this, real GDP contracted by 0.7 percent. Notable however, the Finance and Insurance Services sector experienced a 0.7 percent growth.

The financial system was impacted by the GOJ's National Debt Exchange (NDX) implemented in February 2013 in which holders of specific Government debt securities were required to exchange these for instruments bearing lower interest and longer maturities. This was one element of GOJ's fiscal consolidation actions and a precondition for obtaining an agreement with the IMF. The GOJ also established a Financial Sector Stability Fund to assist NDX participating financial institutions which might experience illiquidity or capital adequacy difficulties within a certain period after the NDX.

The Bank of Jamaica, the central bank, continued its targeted monitoring of the credit risk management of Policyholders which faced increased exposures in their credit portfolios from previous years. By the end of the year, Policyholders recorded a decrease in non-performing loans and improvements in their asset quality indicators. Policyholders also maintained capital to risk weighted assets and solvency ratios above the prudential minima.

The Jamaican authorities continued to work at enhancing the regulatory framework by implementing international best practices as were considered necessary to achieving a robust regulatory framework. This included considering proposals for the implementation of an Omnibus banking legislation which will, inter alia, take on board recommendations made by the IMF and the World Bank and aspects of Basle II and Basle III recommendations. There was also the implementation of the guidelines for electronic retail payments and exploring strategies for the implementation of FATCA in respect of Jamaican financial institutions. There was also a continued focus on ensuring that all requisite anti-money laundering systems were being implemented for key higher risk sectors.

Key Business Strategies and Initiatives

In furtherance of its mandate to protect depositors and contribute to confidence and financial stability, the Corporation continued to pursue its business strategies of: proactive readiness; strengthening operational efficiency; resolution management; strong partnerships and public education and awareness. The Corporation focused on developing its internal policies to support resolution strategies for financial institutions which might be in financial distress and where the payout of depositors might not be considered the most suitable resolution action for maintaining financial system stability and confidence. Within this context the Corporation developed its policies to provide financial assistance in the form of making of loans and offering of guarantees to resolve a Policyholder deemed to be in financial distress. Guidelines were also developed for the collaboration of activities among the temporary manager, the liquidator and the Corporation, prior to and after the closure of an institution. This was in keeping with international best practice that the resolution of a financial institution should seek to implement a strategy that will be the least costly to the deposit insurer, subject to alternate strategies where overall financial system stability is at risk.

Collaboration with Safety Net Partners and Policyholders continued to be high on the agenda of activities. The Corporation participated in consultation of various legislations being proposed by the Bank of Jamaica. I continued to participate in the Financial Regulatory Council to review the performance of the financial system. The annual Policyholder Forum was conducted with attendance from all key Policyholder executives. A Public Forum was held in association with Bank of Jamaica, Financial Services Commission and the Jamaica Stock Exchange in the Parish of St. Mary. JDIC participated in Jamaica 50 Independence celebrations with the hosting of a booth at the National Arena. These initiatives saw the Corporation interfacing with hundreds of persons, providing the Corporation with the opportunity to share information on the protections of the financial system.

The Corporation reviewed its Rules of Deposit Insurance Coverage. This was to ensure its relevance to the public policy objectives, alignment with emerging national imperatives and to better meet the commercial expectations of depositors. In this context the Corporation reviewed its coverage of business accounts and implemented separate coverage for accounts held by sole traders whose businesses are registered under the Registration of Business Names Act. This is expected to promote the inclusion of small business operators more fully within protections of the financial system and the economy.

Management of Resources

In the context of the fiscal constraints, the Corporation maintained its efforts of ensuring maximum cost efficiencies balanced with ensuring that requisite resources were available to meet corporate strategic targets. With its human resources being the most critical asset, there was participation of staff in training relating to Deposit Insurance, financial institution risk assessment; mergers, acquisitions and privatizations; corporate governance, enterprise risk management and other areas.

Financial Performance and Fund Management

The Corporation met all the quarterly overall balance targets agreed with the Ministry of Finance and Planning in compliance with the macroeconomic programme. The Corporation's participation in the NDX impacted the Deposit Insurance Fund which ended the year at $8.7 billion dollars being 5.4 percent below the previous year's balance of $9.2 billion dollars. This was the first time that the Corporation would have recorded a reversal in the positive growth in the Fund year on year.

The marginal (2.4 percent) improvement in premium income received from Policyholders 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 Coverage Limit at $600,000 per depositor

Collaboration with Safety Net Partners and Policyholders continued to be high on the agenda of activities.

remained relevant during the period with 97.0 percent of insurable deposits within the banking system being fully covered.

Concluding Remarks

In the context of the macroeconomic uncertainties the Board and Management continued to approach the management of the Corporation's resources and operations with the requisite rigour. This augured well for the Corporation meeting its critical targets as set out in its Corporate Plan.

I take this opportunity to thank the Board and the JDIC team. Thanks also to the other Safety Net Partners and Policyholders, for the commitment to the objectives of protecting the financial system. This allowed the Corporation to experience another successful year for capacity building and for responding to any need for financial institution resolution for the protection of depositors.

Antoinette McKain
Chief Executive Officer

Corporate Information

BOARD OF DIRECTORS

Peter Thomas, ACII, JP	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)
Lloyd Duncan*	Board Member
Howard Mitchell*	Board Member
Marlene Myrie-Porter	Board Member

EXECUTIVE MANAGEMENT

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

** Appointed October 1, 2012 (Board Member Leacroft Forden demitted office on September 27, 2012)*
*** Demitted office on May 3, 2012*

Board of Directors

Peter Thomas, ACII, JP
Chairman

Peter Thomas was appointed Chairman of the JDIC Board effective April 18, 2012. Mr Thomas is the Managing Director of National Property and General Insurance Brokers Limited, a position he has held for the past 31 years. An Insurance Underwriter by profession, Mr Thomas has over 40 years experience in the Insurance Industry in Jamaica, the Caribbean and the United Kingdom with specialist training in Risk Management, Property and Engineering Insurance from the Swiss Reinsurance Company Limited, Zurich. He also studied General Insurance with the Chartered Insurance Institute and Management Courses at Henley College, respectively, in the United Kingdom.

Mr Thomas has held numerous positions including several Managerial posts with National Employers Mutual General Insurance (1967-1972), an insurance firm, with their then Head Office in the United Kingdom. He also served as Manager and Deputy Managing Director at Motor Owners Mutual Insurance Association Limited (1972-1981).

An astute entrepreneur, Mr Thomas has been involved in various business ventures and serves as Chairman and Board member of many public, private, service and professional organizations. Peter Thomas is an avid sports fan and enjoys music and theatre. He is presently a member of the Lay Magistrates Association of Jamaica and a Life Member of the Kingston Lions Club. He has also published titles on "The Marketing of Non-Life Insurance in the Caribbean" and "Views on a Caribbean Reinsurance Company".

Brian Wynter
Governor, Bank of Jamaica

Brian Wynter was appointed Governor of the Bank of Jamaica as at 23 November 2009. As Governor, he is Chairman of the Board of Directors of the Bank and an ex-officio Director on the JDIC Board.

Mr Wynter graduated from the London School of Economics and Political Science in 1981 with a BSc (Economics) honours degree. He received the Graduate Diploma in Law from The City University, London and was called to the Bar of England and Wales in 1983 after completing the professional qualifying examinations at the Inns of Court School of Law, London. He was enrolled as an attorney in the Supreme Court of Judicature, Jamaica in 1990. Mr Wynter also has a Masters degree specializing in International Economics from Columbia University School of International and Public Affairs, New York.

Before returning to Jamaica in 1988, Mr Wynter worked with Chase Investment Bank and Schroder Wertheim International Company, in New York. In Jamaica, he worked with the National Investment Bank of Jamaica as Director of Investment, Mutual Security Merchant Bank as Senior General Manager, before moving in 1991 to Citibank, NA, where he spent four years as Vice President.

Mr Wynter was Deputy Governor of the Bank of Jamaica, with responsibility for Banking and Market Operations, from 1995 until his appointment as Technical Advisor to the Minister of Finance in 1999. In 2001, Mr Wynter was appointed the first Executive Director of the then newly-established Financial Services Commission and served in that capacity until 2007 when he joined the Caribbean Regional Technical Assistance Centre (CARTAC) in Barbados as Capital Markets/Financial Sector Advisor.

Bridgett Wilks
Nominee of the Financial Secretary

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

Mrs Wilks is the divisional Director of the Financial Regulations Division (FRD) of the Ministry of Finance and Planning. The FRD is responsible for the development of policy for the Financial Sector. Mrs Wilks has worked at the Department of Statistics and the Petroleum Corporation of Jamaica and has been working at the Finance Ministry for the past 20 years.

Mrs Wilks was a member of the Task Force that was established to work on the legislative framework that led to the development of the Deposit Insurance Act and the establishment of the Deposit Insurance Scheme.

Appointed to the JDIC Board in August 2005 as the Nominee of the Financial Secretary, Mrs Wilks continues to serve in that capacity.

Antoinette McKain
Chief Executive Officer

An Attorney-at-Law, Antoinette McKain, was appointed Chief Executive Officer of the JDIC, effective January 1, 2007. Prior to her appointment, Ms McKain served as Legal Counsel and Corporate Secretary of the Corporation for three years, following seven years as a member of the Bank of Jamaica's legal team.

While at the Bank of Jamaica Ms McKain played a critical role in the establishment of the Deposit Insurance Scheme through her work on the legal framework of the Scheme. Ms McKain's expertise spans corporate, commercial, banking and financial regulation law and best practices. She also has extensive knowledge of public policy issues on financial sector regulation and public sector corporate governance practices.

From 2007 to 2009 Ms McKain was a member of the Executive Council of the International Association of Deposit Insurers and chaired its Caribbean Regional Committee and its Legal Committee and was a member on the Membership and Communications and Governance Committee. In addition to her legal designation, Ms McKain also holds a MBA (Finance) from the University of Manchester and Wales.

Board of Directors

Lloyd Duncan
Director

Mr Lloyd Duncan is a Chartered Accountant with over 30 years experience in public accounting, financial management of a housing bank and management consulting in the areas of privatization, mergers and acquisitions, business valuations, operations review and institutional assessment, and financial feasibility assessment. This body of work has been across various industries including sugar, petroleum, bauxite and alumina, electricity and water, airports and airline, hotels, transportation, agriculture and the financial sector.

Howard Mitchell
Director

Having graduated from the University of the West Indies (BSc in Government) and the University of Miami (LL.M in International Trade Law), Mr Mitchell has spent more than 30 years in the legal field.

Mr Mitchell currently serves as Chairman of Corrpak Jamaica Limited, Island Grill/ Chicken Mistress and TM Traders Limited. He also holds directorships on the boards of the St. Catherine Vicariate and G. Raymond Chang Foundation. In addition, he is the immediate past Chairman of the National Housing Trust, Coffee Industry Board, Cocoa Industry Board, Bauxite and Alumina Trading Company of Jamaica/ Jamaica Bauxite Mining Limited and Jamaica Bauxite Institute. He has served as a Justice of the Peace since 2009.

Marlene Myrie-Porter
Director

Marlene Myrie-Porter joined the Jamaica Promotions Corporation in January 2008 as the Manager of the Business Facilitation Department. She was subsequently appointed to her current position of Export Development Manager. In these roles, Mrs Myrie-Porter has enjoyed extensive and successful collaboration with various Jamaican exporters. Many micro, small and medium sized businesses have also benefited from her expertise as she has provided useful guidance in the design and implementation of enterprise development and capacity building programmes, which have helped to enhance their competiveness and their ability to take advantage of market opportunities.

Mrs Myrie-Porter previously served as an Assistant Director in the Economic Research and Programming Division at the Bank of Jamaica, following a short period in the commercial banking sector. She holds an MBA from the University of New Orleans, and MSc. (Economics) and BSc. degrees from the University of the West Indies. She is also a trained Mathematics teacher.

Executive Management

Antoinette McKain
Chief Executive Officer

Ronald Edwards
Director, Finance, Funds and Asset Management

Nicole Brown Crooks
Acting Director, Monitoring and Risk Assessment

Eloise Williams Dunkley
Acting Director, Intervention Resolutions and International Relations

Sophia Frazer-Binns
General Counsel / Corporate Secretary

Marjorie McGrath
Manager, Corporate Communications

Corporate Governance

The Corporation remains committed to sound principles and standards of effective Corporate Governance. The Board of Directors and Management consider this the pillar of its respective accountabilities and essential to the Corporation's overall objective of protecting depositors and building confidence in the financial system.

ENHANCEMENTS TO THE CORPORATE GOVERNANCE FRAMEWORK

During the year there were substantial amendments to the Corporate Governance Framework for Public Bodies in Jamaica (the Governance Framework). These amendments seek to enhance the application of the Public Bodies Management and Accountability Act and the implementation of the Corporate Governance Framework 2010. They allow for greater uniformity and standardization in the application of Government standards in the management of Public Bodies.

Some of the key amendments to the Governance Framework relate to the:

- Establishment of an effective monitoring arrangement for the operations of Public Bodies by their parent Ministries
- Facilitation of the transparent, efficient and effective use of resources, and make critical linkages to the existing monitoring system in the Ministry of Finance and Planning
- Role of the Board in the strategic management and oversight of the Public Body
- Orientation of Board members
- Performance Evaluation of the Board and Board committee members
- Development of an Enterprise Risk Management (ERM) Framework which is to be used by the Board to identify, weight, prioritize and manage risks; and
- Development of a Corporate Social Responsibility Framework.

ENTERPRISE RISK MANAGEMENT

The Corporation conducts an annual Enterprise Risk Management (ERM) exercise as part of its corporate planning process. This exercise seeks to identify and prioritize the Corporation's risk and develop strategies to mitigate and manage these risks.

To further enhance its ERM capabilities a senior officer participated in an ERM policy development workshop based on ISO 31000.

BOARD OF DIRECTORS – MANDATE AND COMPOSITION

The Board of Directors of the Corporation is comprised of seven (7) members; three ex-officio and four appointed by the Minister with responsibility for Finance. The three ex-officio members are the persons holding offices of the Governor of the Bank of Jamaica, the Financial Secretary and the Chief Executive Officer or their respective nominees.

During the calendar year the Board met seven (7) times[1]. The Board executed its mandate effectively, which included setting the broad objectives for the Corporation, overseeing and assessing the Deposit Insurance Fund and meeting the prescribed deadlines and submissions for the:

- Corporate Plan, Operating and Capital Budgets for FY2013/14 - FY2015/16
- Annual Report for FY2011/12
- Quarterly and half-yearly reports as required under the PBMA.

There are three committees of the Board; Audit, Investment and Corporate Governance.

BOARD OF DIRECTORS		NUMBER OF MEETINGS ATTENDED (CY)
Peter Thomas	Chairman	7/7
Brian Wynter	Governor, Bank of Jamaica	4/7
Bridgett Wilks	Nominee of the Financial Secretary	7/7
Antoinette McKain	Chief Executive Officer	7/7
Lloyd Duncan *	Board Member	2/2
Leacroft Forden**	Board Member	5/5
Howard Mitchell*	Board Member	2/2
Marlene Myrie Porter	Board Member	7/7
Sophia Frazer-Binns*	General Counsel/ Corporate Secretary	2/2

**Appointed October 1, 2012*
***Demitted office September 27, 2012*

The Audit Committee

The PBMA provides that every public body that has more than four directors shall establish an Audit Committee of not less than three directors. The Audit Committee is responsible inter alia, for advising the Board on the extent to which the objectives of the Corporation are being achieved; the adequacy and efficiency of the accounting and internal control structure and systems; reviewing and advising the Board on the financial statements and the annual auditor's report, and overseeing the internal audit function of the Corporation.

During the period the Audit Committee met four times, consistent with its Terms of Reference. Some of the areas considered by the Committee included ICT Security, Funds and Asset Management, Policyholder Risk Assessment Framework; Intervention and Resolution readiness and Enterprise Risk Management.

In keeping with the enhancements to the Corporate Governance Framework and to ensure uniformity and consistency with the operational processes and standards, the Audit Committee reviewed and updated its Terms of Reference.

AUDIT COMMITTEE		NUMBER OF MEETINGS ATTENDED (FY)
Marlene Myrie Porter	Board Member, Chairperson	4/4
Brian Wynter*	Governor, Bank of Jamaica	1/2
Leacroft Forden**	Board Member	1/2
Lloyd Duncan***	Board Member	2/2
Howard Mitchell***	Board Member	2/2
Owen McKnight	Ministry of Finance & Planning	4/4
Sophia Frazer-Binns***	General Counsel/ Corporate Secretary	2/2

**Appointment to the Committee was temporary pending the appointment of additional Board members*

***Demitted office September 27, 2012*

****Appointed October 1, 2012*

The Investment Committee

The Investment Committee manages the Corporation's Investment Portfolio and is guided by the Corporation's Investment Policy which outlines: the investment objectives; investment guidelines, in particular relating to portfolio composition, investment limits and prohibited investments.

The Committee is comprised of a minimum two Board members including the Chief Executive Officer and key executive management officers. This Committee meets

[1]The Deposit Insurance Act requires the Board to meet at least six times in every calendar year

quarterly. 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. During the year the Investment Committee met twice, however, Investment Reports were submitted to the Board on a quarterly basis for its review. In the last quarter of the year the Committee gave due consideration to the National Debt Exchange and its implications for the Fund.

INVESTMENT COMMITTEE		NUMBER OF MEETINGS ATTENDED (FY)
Lloyd Duncan*	Board Member, Chairperson	1/1
Leacroft Forden**	Board Member, (Chairperson until September 27, 2012)	1/1
Antoinette McKain	Chief Executive Officer	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 and Project Assistant/ Recording Secretary	2/2

**Appointed October 1, 2012*
***Demitted office September 27, 2012*

The Corporate Governance Committee

The Corporate Governance Committee is charged with the responsibility to direct the implementation of and compliance with sound corporate governance principles within the Corporation.

The Committee's mandate and terms of reference are in keeping with the amendments to the Governance Framework and provides for the development and execution of the Board and Committees performance evaluation and the assessment of the Chief Executive Officer. The Terms of Reference of the Committee also includes identifying a list of potential nominees with skills, experience, knowledge and characteristics which fit the profile of the Corporation and making recommendations to the Board on potential nominees for appointment to the Board.

During the year the Terms of Reference of the Committee was finalized and approved by the Board.

CORPORATE GOVERNANCE COMMITTEE		NUMBER OF MEETINGS ATTENDED (FY)
Peter Thomas	Board Chairman, Chairperson	2/2
Howard Mitchell*	Board Member	1/1
Marlene Myrie Porter	Board Member	2/2
Antoinette McKain	Chief Executive Officer	2/2
Ronald Edwards	Director, Finance, Funds and Asset Management	2/2
Sophia Frazer-Binns	General Counsel/ Corporate Secretary	2/2
Clover Edwards	Chief Administrative Assistant / Recording Secretary	2/2

**Appointed to Committee on December 18, 2012*

Management's Discussion & Analysis

L-R: Antoinette McKain and Hannah Dixon

OPERATING ENVIRONMENT

Macroeconomic Developments

Global economic growth slowed in FY2012/13 as a consequence of contraction in domestic and global demand, high unemployment levels and heightened financial market risks. Additionally, country specific fiscal challenges adversely impacted the growth prospects and outturns in advanced and emerging markets. Notwithstanding the slower pace of economic growth in FY2012/13, projections for FY2013/14 are indicative of a moderate improvement in global economic performance predicated on strong growth outturns in key emerging markets and improvements in Japan and the United States.

Consistent with the slowing in economic activity in source economies (mainly USA, Canada and the United Kingdom), remittance inflows to the domestic economy declined marginally in FY2012/13 but remained above pre-crisis levels. Net remittances to Jamaica declined marginally by 0.4 percent to US$1,764.5 million, the first decline since FY2008/09.

The general slowing of global economic activity and declines in remittance inflows contributed to weak demand (external and domestic), for Jamaica's goods and services. Weak domestic demand was also influenced by (i) lower income levels, (ii) higher levels of unemployment and (iii) reduced investor confidence as a result of uncertainty regarding the timing and content of an impending Government of Jamaica (GOJ)/International Monetary Fund (IMF) agreement. Against this background, real GDP in the domestic economy contracted by 0.7 percent in FY2012/13. (Table1).

TABLE 1: PERFORMANCE OF KEY MACROECONOMIC INDICATORS

INDICATORS	2012/13 (P)	2011/12	2010/11
GDP Growth (%)	-0.7	0.9	-0.6
Inflation (%)	9.1	7.3	7.8
NIR (US$ Million)	884.3	1777.1	2553.2
Debt (% of GDP)	134.1	131.5	128.3
Fiscal Balance (% of GDP)	-4.0	-6.4	-6.2
Primary Surplus (% of GDP)	5.3	3.1	4.5
182-day T-Bill Rate (%)	6.4	6.5	6.6
Exchange Rate (J$/US$)	98.9	87.3	85.8
P - Provisional			

Key productive sectors such as Agriculture, Forestry & Fishing; Mining & Quarrying; Hotel & Restaurants, and Electricity & Water Supply recorded declines during the period. Notably, the Finance & Insurance Services sector grew by 0.7 percent in FY2012/13 following a growth of 0.5 percent in the previous year. Growth in this sector was propelled by increases in net interest income, and fees and commissions income.

As a consequence of heightened levels of uncertainties in the domestic economy, business and consumer confidence declined during the fiscal year. This decline influenced lower levels of consumer spending and the postponement of expansionary business plans which contributed to the overall decline in real GDP. Furthermore, in the context of lower levels of private capital inflows and excess liquidity in the market, negative investor sentiments fuelled bouts of instability in the foreign exchange market. As a result, the Jamaica dollar (JMD) depreciated by 13.3 percent against the US dollar to J$98.89: US$1 at the end of March 2013.

In a bid to restore stability in the foreign exchange market, the Bank of Jamaica intervened on a number of occasions with net foreign currency sale of US$418.8 million during the year. The net sale of foreign currency and debt payment of US$615.5 million resulted in a 50.2 percent reduction in the Net International Reserves (NIR) for the year. In addition to net sales of foreign currency to the market, the Bank of Jamaica (BOJ) temporarily offered three special variable rate instruments to the market to absorb excess liquidity.

In the context of reduced investor confidence, the increased pace of depreciation of the Jamaica dollar and low growth prospects, investor risk premium increased, influencing continued increases in the average yields on GOJ Treasury Bills and GOJ Global Bonds for the majority of the fiscal year. On February 24, 2013, the GOJ implemented the National Debt Exchange[2] (NDX) which reduced interest rates on selected GOJ domestic securities by 1.0 – 5.0 percentage points. The NDX was a precondition of the pending GOJ-IMF agreement. Other pre-conditions of the GOJ-IMF agreement were based on public debt management and other fiscal consolidation initiatives, implementation of additional tax measures, tax reform and financial sector reform. The lower interest rate environment that was influenced by the NDX facilitated the reduction in the BOJ policy rate[3] on February 25, 2013 by 50.0 basis points to 5.75 percent.

Following the implementation of the NDX and the BOJ policy rate reduction, the average yield on GOJ Treasury Bills declined sharply in February 2013 but increased in March 2013 as a result of lingering concerns in the market regarding Jamaica's debt sustainability and economic prospects for the near term. These concerns were also noted by the international credit rating agencies; Standard and Poor's, Moody's and Fitch Ratings, even after the successful implementation of the NDX[4]. Notwithstanding the NDX, Jamaica's stock of public debt increased by 6.3 percent over the review period to $1.8 trillion dollars (134.1 percent of GDP) at the end of March 2013.

Despite the persistence of weak demand, inflation increased to 9.1 percent in FY2012/13 relative to 7.3 percent in FY2011/12. This outturn was largely influenced by (i) the implementation of additional tax measures in February 2013, aimed at increasing Government revenue; (ii) pass-through effects of the depreciation of the Jamaica dollar; and (iii) the impact of adverse weather conditions on the price of domestic food products.

Subsequent to the end of March 2013, the GOJ secured a 48-month IMF agreement under an Extended Fund Facility (EFF) in an amount of SDR 615.38 million (US$932.3 million) or 225 percent of Jamaica's quota. The EFF will facilitate the provision of balance of payment and budgetary support; improvement in investor confidence and the release of funding from other multilateral lending agencies[5].

Total funding support from multilateral lending agencies is projected at US$ 2.0 billion over the 48-month period. The macroeconomic policies underlying the GOJ's medium-term economic framework and the IMF agreement are centred on:

- Implementing structural reforms to boost growth and competitiveness
- Taking actions to improve price and non-price competitiveness
- Instituting fiscal adjustment and reforms
- Reducing total public debt
- Improving social protection programmes

In the context of the GOJ's medium-term economic programme and the IMF agreement, the following are projections for the medium term (Table 2).

TABLE 2: SELECTED MEDIUM TERM MACROECONOMIC INDICATORS*

	FY2013/14	FY2014/15	FY2015/16	FY2016/17	FY2017/18
GDP Growth (%)	0.8	1.4	1.8	2.2	2.5
Inflation (%)	10.5	9.4	8.8	8.5	8.0
Primary Surplus (% of GDP)	7.5	7.5	7.5	7.5	7.5
Current Account Deficit (% of GDP)	-10.8	-9.6	-7.6	6.5	-6.0

Source: Bank of Jamaica Quarterly Monetary Policy Report, January – March 2013

[2]The NDX was a GOJ debt management initiative involving the voluntary exchange of existing domestic bonds, excluding treasury bills, issued by the GOJ in the domestic market for new GOJ bonds of the same principal value, but which have lower interest cost and longer maturities. This was implemented in February 2013. See Ministry of Finance and Planning website www.mof.gov.jm for more information.

[3]The rate applicable to the 30-day Certificate of Deposits

[4]For example, Standard and Poor's rating agency downgraded GOJ's sovereign credit rating to CCC+ from B-/B

[5]World Bank and the Inter-American Development Bank

Policyholder Profile and Performance

Overview

For FY2012/13, 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 significant ownership changes and corporate rebranding as (i) Jamaica Money Market Brokers Limited (JMMB) acquired Capital & Credit Financial Group Limited, the parent company of Capital and Credit Merchant Bank Limited (CCMB), a FIA Licensee, and (ii) PanCaribbean Bank Limited was renamed Sagicor Bank Jamaica Limited which was stated as being to more closely align the institution with its parent company Sagicor Life Jamaica Limited.

Commercial Banks continued to account for approximately 75 percent of the total assets in the banking system and therefore largely impacted the performance of the banking system during the year (Appendix I).

The banking system continued to be resilient as Policyholders remained solvent and adequately capitalized in spite of various challenges in the domestic economic climate during the year. Additionally, credit quality in the banking system improved further to Policyholders strengthening their credit risk and delinquency management framework and recording improvements in their asset quality indicators. The improvement in credit quality was despite an increase in the unemployment rate and reduction in overall business and consumer confidence.

However, the change in the liquidity profile of the GOJ debt as a result of the recently implemented NDX contributed to an overall reduction in profitability. The bond swap also pushed trading activities in the March quarter into a loss position in the banking system. The profitability of the banking system will remain challenged in the short term as Policyholders regroup and adjust their strategic plans in light of the NDX and the continued contraction in the domestic economy.

Policyholders' Performance

During FY2012/13 total assets within the banking system increased by 10.1 percent, driven by growth in Loans & Advances, and Cash & Bank balances (Table 3). The growth in Loans & Advances was influenced by an increase in domestic currency retail and business loans. Meanwhile, Cash & Bank rose by 28.3 percent despite the required cash reserve ratio remaining at 12.0 percent during the year, as Policyholders held more liquid funds in the context of the lengthening of the GOJ debt maturity profile consequent on the NDX. On the other hand, investments declined by 6.9 percent as a result of a decrease in domestic currency investments for both the Building Societies and Commercial Banks. The decline in investments was attributable to reductions in the holdings of BOJ securities consistent with net unwinding of Bank of Jamaica Open Market Securities for the fiscal year.

Policyholders recorded a decrease in non-performing loans (NPL)[6] owing to improvement in credit risk management and recovery efforts which resulted in improved quality of the loan portfolios further to higher customer repayments;

TABLE 3: SUMMARY FINANCIAL PERFORMANCE OF BANKING SYSTEM

	March 2011 $'mn	March 2012 $'mn	March 2013 $'mn	Mar 2013/ Dec 2012	Mar 2013/ Mar 2012
Total Assets	779,625	825,015	898,645	3.3%	8.9%
Cash and Bank	133,490	137,318	176,232	14.6%	28.3%
Investments	262,388	269,040	250,499	-2.7%	-6.9%
Loans & Advance (gross)	343,719	374,365	426,950	4.4%	14.0%
Non-performing Loans	25,697	32,158	26,632	-4.7%	-17.2%
Interest Income	16,010	15,991	16,987	0.6%	6.2%
Non-interest Income	7,445	7,705	5,786	-21.0%	-24.9%
Interest Expense	3,774	3,281	3,435	-2.5%	4.7%
Non-interest Expense	14,058	15,993	16,761	-3.2%	4.8%
Pre-tax Profit	6,115	4,452	2,676	16.0%	-39.9%
Efficiency ratio (Non-int exp/op inc)	59.9%	67.5%	73.6%		

[6] *Non-performing loans refer to past due loans (3 months and over).*

and significant bad debt write-downs[7]. Accordingly, NPL fell by 17.2 percent during the year compared to a 25.1 percent increase in FY2011/12 (Figure 1). The decline in NPL resulted in an overall improvement in asset quality indicators for the banking system. The ratio of NPL to total loans fell from 8.6 percent to 6.2 percent in the review period further to Policyholders strengthening the credit risk management of their loan portfolios. The NPL to total loans ratio for all three sub-sectors were within the prudential limit of 10 percent at the end of the review period (Appendix I and Figure 2).

The reduction in NPLs also contributed to an improvement in the ratio of NPL to capital plus provisioning in all three sub-sectors (Figure 3). Notwithstanding, the commercial bank and building society sub-sector continued to record a NPL to capital plus provisioning ratio that were above the maximum prudential limit of 20 percent. The FIA Licensee sub-sector saw the most significant improvement as it was the only sub-sector that recorded this ratio within the prudential limit (see Figure I and Appendix I). This represented a reversal of the adverse trend of non-compliance in this ratio, following the sale of a portion of one entity's portfolio of NPLs.

With the increase in the total assets, capital adequacy indicators such as the risk-weighted capital adequacy ratio (14.0 percent) and the capital to total assets ratio (10.3 percent) declined moderately. However, these capital adequacy indicators remained above the prudential minima for each Policyholder, reflecting overall satisfactory levels of capital (Figure 4). Additionally, each Policyholder continued to record solvency ratios which were greater than 1.0.

Fig 1: Non-Performing Loans

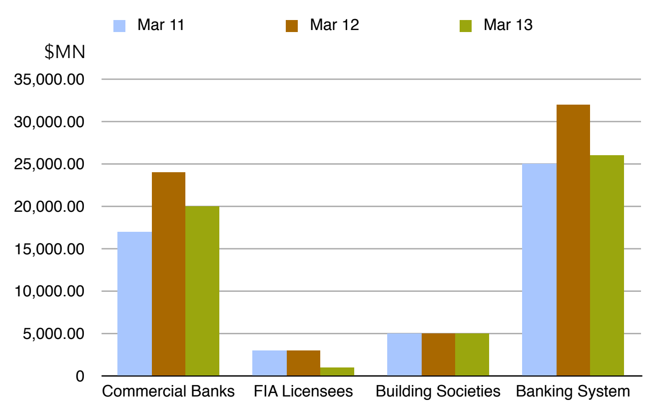


Fig 2: NPL to Total Loans

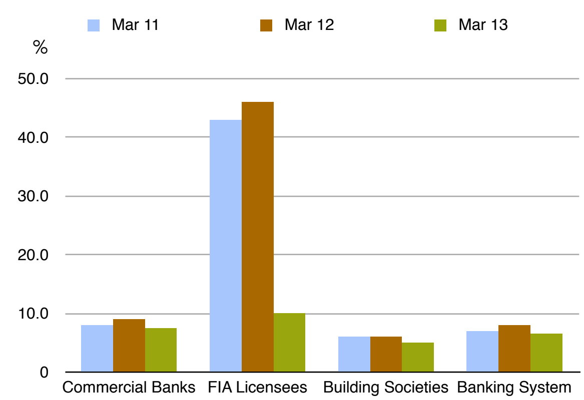
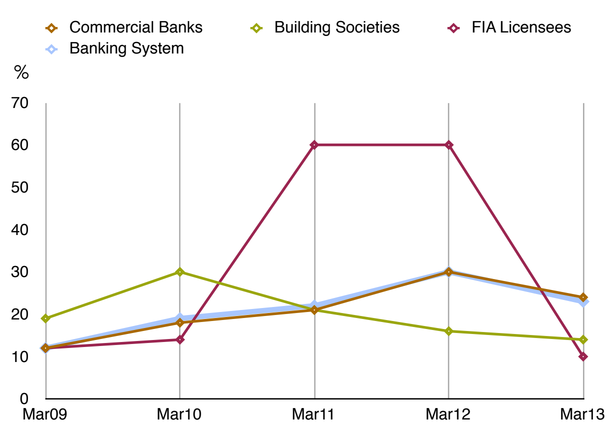


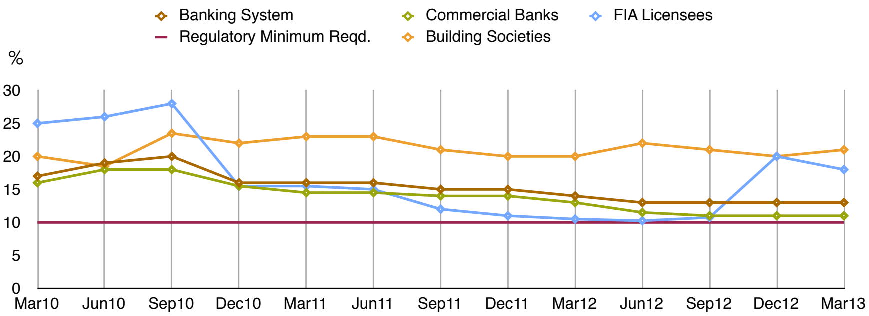
Fig 3: NPL to Capital plus Provisioning



The decline in NPL resulted in an overall improvement in asset quality indicators for the banking system.

[7]*Bad debt write-downs accounted for 97.7 per cent of the reduction in total NPLs for the calendar year 2012 (BOJ Annual Report)*

Fig 4: Risk Weighted Capital Adequacy Ratio



> ...the banking system efficiency ratio increased to 66.8 percent from 51.3 percent...

In terms of profitability however, the banking system was adversely affected by the prolonged economic downturn and the implementation of a second debt restructuring exercise (the NDX) by the Government of Jamaica in February 2013[8] three years after the system was shocked with the JDX. Pre-tax profits declined by 37.5 percent. The reduction in the banking system pre-tax profit was influenced by a 23.5 percent decline in non-interest income and 4.6 percent decline in interest income. The reduction in the banking system pre-tax profit was also facilitated by a 7.3 percent increase in non-interest expense owing to higher staff expenditures, as well as a 2.6 percent increase in interest expense which resulted from higher borrowings from local and overseas institutions.

At the sub-sector level, the commercial bank sub-sector pre-tax profits fell by 38.5 percent as lower non-interest income from dividend and trading gains offset an increase in interest income. Building societies sub-sector pre-tax profits decreased by 31.3 percent as a result of declines in income from non-interest driven by lower dividend and trading gains. Similarly, the FIA Licensees sub-sector recorded a 36 percent decline in pre-tax profits as higher non- interest expenses outweighed increases in interest income and non-interest income. Akin to the significant decline in income, the banking system efficiency ratio increased to 66.8 percent from 51.3 percent in the previous fiscal year.

Notwithstanding, the Bank of Jamaica continued to exercise conservative and prudent regulatory and supervisory oversight of the Policyholders ensuring that the prudential requirements were being met and that Policyholders remained adequately capitalized. Additionally, the Financial System Stability Fund[9] was established to provide financial liquidity and capital support to licensed deposit-taking institutions, securities dealers and insurance companies that are directly affected by the NDX. This provided a further boost to confidence in the soundness of the financial sector which was faced with mounting pressures not only from the NDX, but also from higher taxes, the contracting economy and a high incidence of unemployment.

Profile of Insurable Deposits[10]

In calendar year 2012, the dollar value of total insurable deposits in the banking system increased by 8.3 percent (to $539.5 billion), despite a general slowing in domestic economic activity (Table 4); similarly, the number of insurable accounts increased by 2.3 percent, to 4.1 million. As a consequence of the larger increase in the dollar value of insurable deposits compared to the number of insurable accounts, the average balance in insurable accounts grew by 5.8 percent to $131,715.

TABLE 4: TOTAL INSURABLE DEPOSITS AS AT DECEMBER 31, 2011 & DECEMBER 31, 2012

	Dec 31, 2011 ($'000)	Dec 31, 2011 (%)	Dec 31, 2012 ($'000)	Dec 31, 2012 (%)
Commercial Banks	368,490,838	74.0%	398,911,333	73.9%
Building Societies	123,195,260	24.7%	132,834,153	24.6%
FIA Licensees	6,457,595	1.3%	7,754,572	1.4%
TOTAL	498,143,693	100%	539,500,058	100%

[8]The Jamaica Debt Exchange Programme was implemented on February 24, 2013. It essentially lengthened the maturity profile of the domestic GOJ debt and halved the related interest rates.

[9]The Financial System Stability Fund (FSSF) was established as a Government of Jamaica (GOJ) mechanism to provide short term liquidity to eligible financial institutions(subject to specific conditions) and generally support financial system stability during the transition period following the successful 2013 NDX Offer. Eligible financial institutions comprise licensed deposit taking institutions regulated by the BOJ and securities dealers and insurance companies regulated by the FSC, in the event such institutions encounter financial difficulties directly related to their participation in the debt exchange offer.

[10]All data reported for insurable deposits relate to calendar year performance.

Fig 5: Share of Insurable Deposits per Currency

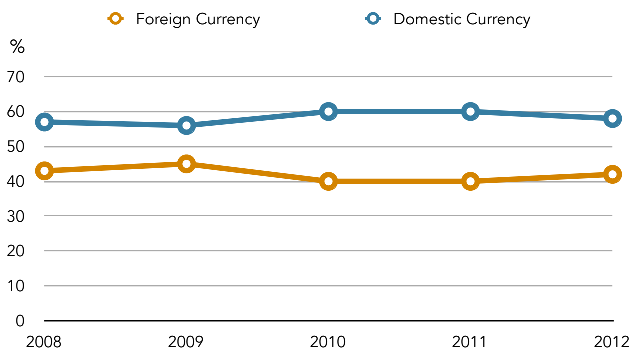
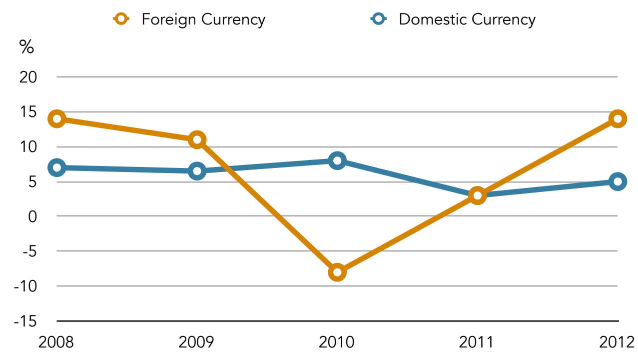


Fig 6: Growth in Insurable Deposits per Currency



Insurable deposits held in foreign currencies increased by 13.8 percent to $225.0 billion at the end of December 2012, compared to a 2.9 percent growth in 2011. The increase in the value of foreign currency deposits was mainly attributable to the heightened levels of uncertainty in the domestic market regarding the timing and content of an impending GOJ/IMF agreement influencing a notable increase in foreign currency demand deposits held by businesses[11].

Insurable domestic currency deposits grew by 4.7 percent (to $314.5 billion), compared to a smaller increase of 2.6 percent in 2011. At the end of the year, the share of insurable deposits held in foreign currency increased marginally to 41.7 percent (from 39.7), while the share of deposits held in domestic currency declined slightly to 58.3 (from 60.3). Figures 5 & 6 highlight the trends in the share of insurable deposits holding in domestic and foreign currency.

Insured Deposits

During 2012, total estimated insured deposits increased by 1.0 percent to $230.1 billion compared to an increase of 3.7 percent in 2011. Given that total insurable deposits grew by a larger amount (8.3 percent) compared to insured deposits, the ratio of insured deposits to total insurable deposits declined to 42.6 percent in December 2012 from 46.0 percent in 2011. Of the total estimated insured deposits, Commercial Banks continued to account for the largest percentage share (69.1 percent); albeit lower than 2011, followed by Building Societies (30.4 percent) and FIA Licensees (0.5 percent).

TABLE 5: TOTAL ESTIMATED INSURED DEPOSITS AS AT DECEMBER 31, 2011 & DECEMBER 31, 2012

Sub-Sector	Dec 31, 2011 ($'000)	Dec 31, 2011 (%)	Dec 31, 2012 ($'000)	Dec 31, 2012 (%)
Commercial Banks	161,338,615	70.5%	158,899,281	69.1%
Building Societies	66,432,617	29.0%	69,983,103	30.4%
FIA Licensees	1,175,723	0.5%	1,180,302	0.5%
TOTAL	228,946,955	100%	230,062,686	100%

[11] *Bank of Jamaica Quarterly Monetary Policy Report December 2012*

General Counsel, Corporate Secretariat & Communications Department

L-R: Clover Edwards, Sophia Frazer-Binns, Marjorie McGrath, Tracey Tucker and Odette Barron

The Deposit Insurance Fund (DIF) as a percentage of estimated insured deposits (DIF Ratio) increased from 3.9 percent in CY2011 to 4.5 percent in 2012. The increase in the DIF Ratio was a result of a larger increase in the DIF balance (16.9 percent) compared to the pace of growth in estimated insured deposits (1.0 percent). However, given the Corporation's participation in the NDX and the resulting decline in the DIF in February 2013, the DIF Ratio fell from 4.5 percent as at December 2012 to 3.8 percent in March 2013.

Fully Covered Accounts

The percentage of insurable deposit accounts that are fully covered declined marginally to 97.0 percent in December 2012 from 97.2 percent in 2011 (Table 6).

TABLE 6: FULLY COVERED NUMBER OF ACCOUNTS AND DEPOSITS

	2007	2008	2009	2010	2011	2012
% No. of Accounts	97.6	97.6	97.4	97.2	97.2	97.0
% Dollar Value of Deposits	35.4	31.5	31.2	31.6	32.4	28.9

Building Societies continued to report the largest share of fully covered accounts at 97.7 percent, followed by Commercial Banks (96.3 percent) and FIA Licensees (87.0 percent), respectively (Table 7).

TABLE 7: FULLY COVERED ACCOUNTS AS AT DECEMBER 31, 2012

Sub-Sector	Total No. of Accounts Insurable	Total No. of Accounts Fully Insured	% of Accounts Fully Insured
Commercial Banks	2,140,302	2,061,646	96.3%
Building Societies	1,946,960	1,903,007	97.7%
FIA Licensees	8,690	7,556	87.0%
TOTAL	4,095,952	3,972,209	97.0%

Given that 97.0 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.

Regulatory Environment

During the review period there was a deepening of the framework for the regulatory environment, through heightened partnership and closer collaboration among the financial system safety net participants. This was in keeping with a key principle for effective deposit insurance systems relating to information sharing among stakeholders as outlined in IADI/BCBS Core Principle 6 – Relationship with other Safety Net Partners.

There was also collaboration with the local stakeholders in the financial sector on proposals for several legislative amendments and issuance of supervisory guidelines. This included the Foreign Account Tax Compliance Act (FATCA). FATCA was passed in the USA in 2010 and seeks to obtain financial information on US citizens in foreign countries for tax purposes. To this extent, local financial institutions are required to provide the United States government with information on their customers who are deemed to be US citizens: inter alia their names, addresses, accounts balances, receipts, and withdrawals.

Given the far reaching implications of FATCA for the local financial system the Government of Jamaica (GOJ) established a central authority under a Model 1 Inter-governmental Agreement. A GOJ Working Group is charged with deliberating on issues relating to the implementation of FATCA and to assist banks with their compliance. There has also been the establishment of a CARICOM Task Force on FATCA of which Jamaica is a member, thereby providing a uniformed approach to the region's response to FATCA issues.

The Corporation also provided its views on the BOJ "Guidelines for Electronic Retail Payment Services" giving due consideration to the protection of financial consumers of these services. The Corporation's recommendations during the Consultation process were fully incorporated into the finalized Guidelines, implementation of which takes effect on April 1, 2013. The Guidelines require that issuers of these services maintain custodian accounts at one or more DTI regulated by the BOJ to which their customer funds must be deposited in order to protect the customer and allow for deposit insurance coverage.

Benchmark Banking Regulatory Standards

Following the introduction of the Basel III framework[12] in December 2010, the Basel Committee on Banking Supervision has been monitoring the impact of its capital and liquidity proposals on a representative sample of institutions in various jurisdictions. The monitoring exercises are conducted semi-annually based on a framework that covers the risk based capital ratio, the leverage ratio, and the liquidity metrics in each jurisdiction using data collected by national supervisors.

The most recent semi-annual Basel III monitoring exercise (June 2012)[13], assessed the impact of full implementation of the Basel III framework for the banks in the sample. The key results of the exercise were as follows:

i) Overall capital shortfalls, highlighting the need for additional capital to meet the Basel III requirements;

ii) Reduction in capital ratios when Basel III deductions and risk-weighted assets were taken into account; and

iii) Increase in risk-weighted assets, largely influenced by the higher weighting for securitization exposures.

In addition to the semi-annual Basel III monitoring exercise, the Basel Committee revised the 30-day liquidity coverage ratio (LCR)[14] which was designed to promote short-term resilience to potential liquidity disruptions (Appendix II). The Basel Committee recommends that the LCR be introduced in phases commencing January 2015 with a minimum requirement of 60 percent and which is to be increased on a graduated basis (of 10 percentage points) each year to reach 100 percent in January 2019. Due to the recent revision to the LCR, the precise results of the liquidity standards could not be measured on the data collected in the June 2012 monitoring exercise.

Within the domestic banking supervisory environment, the conservative prudential requirements ensured that adequate capital levels were maintained for licensed deposit-taking institutions (Policyholders). The minimum risk-based capital adequacy requirement (at 10 percent) is two percent points above the Basel minimum. Notwithstanding, each Policyholder reported risk based capital adequacy levels above the minimum of 10 percent. In spite of the conservative capital adequacy framework, the Bank of Jamaica has proposed several enhancements to the regulatory and supervisory frameworks which will be incorporated in the "Omnibus" Banking Bill.

These proposals include[15]:

a) Further increases in the minimum requirement for Risk Weighted Capital Adequacy which will be implemented on a phased basis;

b) Introduction of an additional capital requirement for systemically important financial institutions (SIFIs); and

c) Introduction of an expanded Risk Weighted Capital Adequacy ratio (which takes into account retained earnings) to incorporate risk buffers that will be linked to, inter alia, general financial stability risks.

Legislative Developments

The following relate to pending legislation:

Deposit Insurance, Joint, Trust and Nominee Account Regulations

The first draft of the regulations was received by the Corporation for its review which was completed and resubmitted to the Ministry of Finance. The regulations outline the rules and procedures applicable to a depositor who is acting as a trustee or nominee. It further outlines the processes and procedures to be complied with by a Policyholder regarding disclosure and record-keeping requirements relative to a joint, trust or nominee account.

The Bank of Jamaica (Amendment) Act

A Bill entitled "An Act to Amend the Bank of Jamaica Act" aims at placing the institutional responsibility for Jamaica's financial system stability unequivocally with the Bank of Jamaica. Having completed its consultation, the first draft of the Bill was circulated to stakeholders for comments. The Corporation as one of the consultation stakeholders provided its feedback to the Bank of Jamaica and these were incorporated in the final proposal of the Bank.

The anticipated amendments to the Act will therefore:

- Outline the mandate of the Bank of Jamaica in relation to 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 financial institutions that will allow for the assessment of risks to the financial system (including the powers of inspection; powers to demand information);

[12]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. These measures aim to (i) improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, (ii) improve risk management and governance; (iii) strengthen banks' transparency and disclosures.

[13]Based on June 2012 data, and published March 2013 at www.bis.org

[14]The liquidity coverage ratio's numerator consists of a stock of unencumbered high quality liquid assets that must be available to cover any net outflow, while the denominator is comprised of cash outflows less cash inflows (subject to a cap at 75 percent of outflows) that are expected to occur in a severe stress scenario.

[15]The Bank of Jamaica Annual Report 2012.

- Give the Bank of Jamaica the necessary powers to direct and impose measures to mitigate and control risks (including the extension of liquidity support; and powers to issue Prescriptive Rules, Standards and Codes pertinent to the oversight of the stability of the financial system);
- Mandate the establishment of a Central Financial System database; and
- Mandate the publication of a financial system stability report within three (3) months after the end of each financial year.

Consultation for the proposed Omnibus Banking Bill was sought from stakeholders. The Consultation Paper will inform the submission to Cabinet and the legislative process which follows.

The Omnibus Banking Statute

In August 2010 Cabinet approved the recommendations proposing the implementation of the 'Omnibus Banking' legislation. The Bank of Jamaica was involved in the preliminary drafting of principles to be incorporated in an 'Omnibus' statute which seeks to consolidate existing deposit-taking statutes (i.e. Banking Act, the Financial Institutions Act, the deposit-taking and related provisions in the Building Societies Act and the BOJ (Building Societies) Regulations) into one 'Omnibus" Bill.

This exercise is aimed at:

- Removing inconsistencies and eliminating regulatory arbitrage opportunities within the existing statutes;
- Incorporating the recommendations made by international bodies (such as the International Monetary Fund, the World Bank and the Caribbean Financial Action Task Force[16] (CFATF) arising from recent country reviews;
- Incorporating the development of Holding Company legislation to allow for more effective consolidated supervision of banking groups of which a deposit-taking institution is a part;
- Effecting legislative amendments necessary for Basel II and Basel III implementation;
- Introducing an enforceable Code of Conduct on licensed deposit-taking services;
- Specifically addressing illegal deposit-taking activities; and
- Establishing a regime pertaining to the other financial services (in so far as this involves deposit-taking).

As one of the consultation stakeholders the Corporation provided its feedback to the Bank of Jamaica.

The Bank of Jamaica (Credit Union) Regulations

The regulations will establish the supervisory regime that will be applicable to Credit Unions. These regulations will inter alia, cover licensing, capital, reserves, prohibited business, remedial and intervention processes and the role of specially authorized Credit Unions.

The Building Societies (Licences) Regulations[17]

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

The Banking (Credit Classification/Loan Provisioning) Regulations[18]

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 is undertaking a comprehensive re-draft of earlier guidance notes and proposed Regulations which were provided to the industry and on which supervisory assessments of credit classifications and loan provisioning are based.

The Banking (Qualification of Auditors) Regulations[19]

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. These regulations have been drafted and submitted to the Minister of Finance and Planning for approval.

The Cooperative Societies (Amendment) Bill

Following the decision to bring Credit Unions within the regulatory ambit of the Ministry of Finance and Planning and Bank of Jamaica, regulations underpinning the proposed regime were developed. (See Bank of Jamaica (Credit Union) Regulations). The Cooperative Societies Act (Principal Act) is also being amended to require the prior approval of the Ministry of Finance and Planning before a cooperative society can operate or continue to operate as a credit union. The Principal Act is also being amended to restrict the deposit-taking activities of cooperative societies to those which operate as credit unions. Other substantive enhancements to the Cooperative Societies Act are being contemplated by the Ministry of Industry, Investment and Commerce (MIIC)[20]. It is anticipated that this Bill will be presented to Parliament jointly with the Bank of Jamaica (Credit Union) Regulations.

[16]The 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.

[17]If the proposed Omnibus Banking Bill is finalized before the pending financial regulations, then the process of promulgating these regulations will be replaced by the promulgation of these regulations under the Omnibus Statute.

[18]Refer to footnote 17.

[19]Refer to footnote 17.

[20]The Ministry of Industry, Investment and Commerce has portfolio responsibilities for the Cooperative Societies

Finance, Funds & Asset Management Department

Seated: Ronald Edwards. L-R: Pearzie Reid, Ramona DaCosta, Omar Cheevers, Randia Scott, Pamella Lawrence, Stephanie Williams, Delgado Williamson, Michael Allen and Lucius Bullens

REVIEW OF OPERATIONS

Financial Operations and Fund Management

Financial Operations

The Corporation's overall cash flow balances as agreed with the MOFP (Statement "A" – Flow of Funds) is one of the financial targets used to measure the performance of the Corporation. The agreed target was $1,269.0 million and an outturn of $1,523.1 million was achieved.

In February 2013 the Corporation participated in the GOJ debt restructuring activities towards its fiscal consolidation priorities. This involved the exchange by the Corporation of its holdings of GOJ domestic instruments for Fixed Rate Accreting Notes (FRANs)[21]. This resulted in the reduction of the fair value of the Corporation's investment portfolio. The loss arising on initial recognition of the FRANs was accounted for against the Fund balance in the Statement of Financial Position.

The Corporation held total assets of $8.9 billion at March 31, 2013, reflecting a decrease of 12.7 percent compared with the previous year's total of $10.2 billion. The decrease in total assets was due mainly to the adjustments relating to the Corporation's participation in the NDX.

Total revenue was $1.8 billion, a 20 percent increase when compared to the previous year's total of $1.5 billion. Total revenue is comprised of Insurance Premiums, Interest Earned and Other Income. Insurance Premiums increased by 2.4 percent and Interest Earned increased by 10.5 percent, when compared with the previous year. Other income totaling $148.0 million increased by 459.6 percent, when compared with the previous year, being mainly gains on foreign exchange conversions[22]. Table 8 summarizes the Statement of Comprehensive Income and compares it with the budget and the actual outcome for two previous years.

Total administrative expenses incurred for the financial year was $180.8 million, which was less by 9.7 percent when compared with the budget of $200.3 million. This

[21]$100 of face value of the Government of Jamaica investment instruments held was exchanged for $80 face value of FRANs at the exchange date. The face value of the FRANs will accrete to $100 at an interest rate of ten percent according to a specified schedule, commencing August 2016 and ending August 2028.

[22]The US$ exchange rate depreciated by 13.3 percent, having started the year at a buying rate of J$87.3 to J$1 and ending at J$98.9 to US$1.

TABLE 8: SUMMARY OF THE STATEMENT OF COMPREHENSIVE INCOME				
STATEMENT OF COMPREHENSIVE INCOME	2012/13 ACTUAL $M	2012/13 BUDGET $M	2011/12 ACTUAL $M	2010/11 ACTUAL $M
Insurance Premiums	745.5	745.5	727.8	721.0
Interest Earned	862.6	932.5	780.7	755.8
Other Income	148.0	2.8	26.5	(31.6)
Administrative Expenses	(180.8)	(200.3)	(178.0)	(128.9)
Surplus from Investment and Administrative Operations	829.8	735.0	629.2	595.3
Surplus from Operations	1,575.3	1,480.5	1,357.0	1,316.3

outturn was due to continued efforts in cost containment and the more efficient utilization of services. Notwithstanding, there was a marginal increase in total administrative expenses over the previous year (Table 8).

Table 9 summarizes the percentage analysis of the categories comprising total administrative expenses and compares it with the budget and the two previous years.

An Operating Ratio of 20.9 percent was achieved compared to the budgeted ratio of 21.5 percent resulting from the reduction in the administrative expenses (Table 10). The Net Surplus ratio was 89.7 percent; more than the budgeted ratio of 88.1 percent and the prior year ratio due to increases in revenue from interest earned and the gain on foreign currency conversions. The Return on Assets and Asset Management ratios were above the budget and the prior years as a result of the reduction of 12.6 percent in total assets arising from the adjustments made for the conversion to the FRANs in the NDX programme.

TABLE 9: SUMMARY OF ADMINISTRATIVE EXPENSES DISTRIBUTION

ADMINISTRATIVE EXPENSES	2012/13 %	2012/13 BUDGET %	2011/12 %	2010/11 %
Staff Cost	65	68	65	69
Public Education & Advertising	10	9	10	6
Professional Fees	5	5	8	4
Depreciation	3	3	3	4
Other	17	15	14	17
TOTAL	100	100	100	100

TABLE 10: SUMMARY OF KEY PERFORMANCE RATIOS

KEY PERFORMANCE RATIOS	DEFINITION	2012/13 ACTUAL %	2012/13 BUDGET %	2011/12 ACTUAL %	2010/11 ACTUAL %
Operating	Administrative Expenses/Interest Earned	20.9	21.5	22.8	17.1
Net Surplus	Surplus from Operations/Total Revenue	89.7	88.1	88.4	91.1
Return on Assets	Surplus from Operations/Total Assets	17.7	15.7	13.3	15.2
Asset Management	Total Revenue/Total Assets	19.7	17.4	15.1	16.7

Fund Management

The Deposit Insurance Fund is an accumulation of insurance premiums and surplus from investment and administrative operations and is managed to facilitate intervention strategies for financial institutions in distress.

During the year the Corporation continued to invest the resources of the Fund in Government of Jamaica securities and securities issued or guaranteed by the Bank of Jamaica consistent with Section 17(2) of the DIA. The Corporation's investment portfolio amounted to $8.3 billion at the end of March 31, 2013, which was 8.8 percent below the previous year's balance of $9.1 billion. The decrease resulted from a reduction in face value on conversion to the FRANs. Government of Jamaica securities comprised 99 percent of the total portfolio with interest receivable accounting for the remaining 1 percent (Table 11). The portfolio is mainly comprised of FRANs consistent with the option in the National Debt Exchange (NDX) programme.

Table 11 shows the distribution of the investment securities portfolio and comparison with two previous years:

TABLE 11: INVESTMENT SECURITIES PORTFOLIO DISTRIBUTION

INVESTMENT SECURITIES	2012/13 Distribution %	2011/12 Distribution %	2010/11 Distribution %
Fixed Rate Accreting Notes	85	-	-
Benchmark Investment Notes	6	87	85
US$ Investment Notes	8	12	12
Treasury Bonds	-	-	2
Interest Receivable	1	1	1
TOTAL	100	100	100

The Corporation's investment portfolio amounted to $8.3 billion at the end of March 31, 2013

Table 12 shows the composition of the Deposit Insurance Fund over a five-year period.

TABLE 12: FIVE-YEAR FUND GROWTH

	2012/ 2013 $M	2011/ 2012 $M	2010/ 2011 $M	2009/ 2010 $M	2008/ 2009 $M
Insurance Premiums	745.5	727.8	721.0	643.0	553.4
Net Investment Income	829.8	629.2	595.3	801.1	655.3
Previous Year Deposit Insurance Fund	9,246.9	7,889.9	6,573.6	5,129.5	3,920.8
Loss on National Debt Exchange	(2,097.2)	-	-	-	-
Deposit Insurance Fund	8,725.0	9,246.9	7,889.9	6,573.6	5,129.5

Summary Financial Projections FY 2013 / 2014

STATEMENT OF COMPREHENSIVE INCOME	YEAR ENDING MARCH 31, 2014 $'000
Total Income	1,631,756
Total Expenses	(251,005)
Surplus from Operations	1,380,751
Surplus from Operations – Balance at Beginning of the Year	9,522,345
Deposit Insurance Fund – Balance at End of the Year	10,903,096

CASH AND BANK	YEAR ENDING MARCH 31, 2014 $'000
Total Inflow	2,346,859
Total Outflow before Investments	(425,964)
Investments	(1,981,800)
Net Inflow/ (Outflow)	(60,905)
Balance at Beginning of the Year	122,900
Balance at End of the Year	61,995

STATEMENT OF FINANCIAL POSITION	MARCH 31, 2014 $'000
Fixed Assets	138,332
Investments	10,351,642
Current Assets	495,903
Total Assets	10,985,877
Current Liabilities	18,870
Capital	1,000
Capital Reserves	56,393
Fair Value Reserves	6,579
Deposit Insurance Fund	10,903,035
Total Liabilities	10,985,877

Monitoring & Risk Assessment Department

L-R: Nicole Brown Crooks, Donna-Marie McDonald and Carnel Campbell (Missing: Renee Eubank)

Monitoring and Risk Assessment

During the review period the Corporation strengthened its operational efficiencies to be better able to monitor the performance of Policyholders and assess the risk of insuring the deposits. The monitoring and risk assessment functions are also integral to the Fund Management and intervention and resolution strategies that are employed by the Corporation.

Enhancements to the Corporation's monitoring and risk assessment function were also facilitated by improved collaboration with the other Financial System Safety Net Partners, particularly the Supervisor of Banks and Financial Institutions. Focus was placed on ensuring the relevance of the scope and level of deposit insurance coverage in accordance with commercial expectations and towards the advancement of financial inclusion and consumer protection.

Strengthening Operational Efficiencies

The main initiatives undertaken towards strengthening the Corporation's monitoring and risk assessment framework were as follows:

Annual Deposit Insurance Fund (DIF) Review

The review of the DIF is ordinarily based upon the following objectives:

- Determine the exposure of the DIF to Policyholder Risk;
- Determine the adequacy of the DIF in relation to its expected liabilities and probable potential liabilities;
- Estimate the short-term (1-year) liquidity funding need for the Corporation's liabilities and potential liabilities.

Based on the assessed risk posed by Policyholders and the expected operational expenditures of the Corporation, the DIF was deemed adequate to cover the likely potential liabilities and expected liabilities of the Corporation for FY 2012/13. The one-year liquidity funding need was estimated, and formed the basis of subsequent investment decisions (see Financial Operations and Fund Management).

Review of the Coverage Limit and the Premium Assessment Rate

Coverage limit and premium assessment rate reviews are conducted periodically to ensure their relevance and sustainability with regards to the public policy objectives of the Deposit Insurance Scheme. The current review also considered trends in the international community where since the global financial crisis higher coverage limits were implemented in furtherance of financial stability. The review concluded that the existing deposit insurance coverage limit of $600,000 remains relevant, fully covering 97 percent of the number of insurable deposit accounts within the banking system.

In the context of the Corporation's enhanced resolution powers and the resilient banking system that remains well capitalized, consideration was also given to whether there was need to increase the premium assessment rate to accelerate the pace of growth of the Deposit Insurance Fund.

The review indicated that the premium assessment rate remained sufficient at 0.15 percent of insurable deposits. This was despite the slowing in the rate of growth of the Deposit Insurance Fund in recent years, which continued to outweigh insured deposit growth. Additionally, the risk profile of Policyholders had not exhibited significant deterioration.

Proposals for the Admission of Credit Unions to the Deposit Insurance Scheme

The Bank of Jamaica (Credit Union) Regulations have been drafted, and when passed will allow the Bank of Jamaica (BOJ) to have full supervisory power over Credit Unions. Given that membership to the Deposit Insurance Scheme (DIS) is mandatory for all deposit-taking institutions licensed by the BOJ, the Corporation, as part of its proactive readiness strategy, has been taking necessary preparatory steps for the implementation of appropriate policies and procedures for the admission of Credit Unions to the DIS. In FY2012/13, the Corporation reassessed tentative proposals for specific deposit insurance features that would be applicable to Credit Unions on entrance to the DIS. The key features assessed included the coverage limit, premium assessment rate and fund management structure.

Intervention, Resolutions and International Relations Department

L-R: Antonia Smith, Eloise Williams Dunkley and Sarah Baker

Advancing Financial Inclusion and Consumer Protection

Within the context of contributing to the advancement of financial inclusion in Jamaica towards enhancing sustainable confidence levels in the domestic financial system, the Corporation increased its emphasis on financial consumer protection. In this regard the Corporation focused on the following activities:

Review and update of the Rules of Deposit Insurance Coverage

The Rules of Deposit Insurance Coverage (Rules of Coverage) is a comprehensive documentation of the general principles that govern depositors' entitlement under the DIS. The Rules of Coverage was revised and updated to ensure that (i) the scope of coverage remains credible and relevant; (ii) deposit insurance entitlement can be easily determined under various scenarios, (iii) that the public policy objectives of the Corporation are being met.

The revised Rules of Coverage considered the expanded scope of coverage that resulted from the amendments to the DIA in 2011; the profile of deposit products maintained in the domestic banking system; and the developments in other jurisdictions. The main amendment to the Rules of Coverage was to provide for separate coverage of business accounts maintained by sole traders from their individual accounts. With this amendment, sole traders will be more encouraged to register their businesses and benefit from separate deposit insurance coverage. This will facilitate financial inclusion.

Intervention and Resolutions

The early detection, timely intervention and resolution of a Policyholder that is deemed to be in financial distress[23] will enhance the level of protection provided to depositors and contribute to financial system confidence and stability. In this regard the Corporation pursued several initiatives to strengthen its operational efficiencies and state of readiness to intervene a Policyholder given its powers and responsibilities under the DIA. Specific emphasis was placed on ensuring that appropriate guidelines, policies and procedures are in place to facilitate the determination of the most cost effective resolution strategy for a Policyholder and also to ensure that depositors will have prompt access to their insured deposits consequent to the intervention of a Policyholder. These initiatives, summarized below, are also consistent with elements of the IADI/BCBS Core Principles for Effective Deposit Insurance Systems.

Implementation of Guidelines for Record Keeping Requirements for JDIC Policyholders

During the year the Corporation continued to collaborate with Policyholders towards ensuring they meet the timeline for the implementation of the "Guidelines for Record Keeping Requirements for JDIC Policyholders." The Guidelines were issued in March 2012 for implementation by October 2014.[24] One of the main objectives of the Guidelines is to ensure that Policyholders continuously maintain the deposit liability records required by the Corporation to execute its mandate. The Guidelines also require that Policyholders put in place the necessary systems to provide information in specified formats and within targeted timeframes.

Development of Policies and Procedures for Issuing Loans and Making Guarantees

In furtherance of Section 5 (2) of the Deposit Insurance (Amendment) Act, 2011 the Corporation developed policies and procedures for granting loans and making guarantees (i.e. provide financial assistance) to resolve a Policyholder in financial distress. Such assistance will be subject to the collaboration between the JDIC; the Supervisor of Banks; the Minister of Finance and other regulatory or supervisory agencies as appropriate. The option to provide financial assistance facilitates a least-cost resolution strategy. This approach is consistent with international best practices.

[23] *Section 2 of the DIA inter alia states that a Policyholder is in a state of financial distress if: it becomes insolvent; it fails to satisfy prudential criteria and minimum solvency standards prescribed under its governing legislations; it is unable to pay its debts and; there exists any conditions precedent to the exercise of the powers of the Minister for the protection of depositors to take such steps or apply sanctions as authorized.*

[24] *The implementation timeline was extended by 6 months to October 2014 at the request of the Jamaica Bankers Association.*

Strengthening of the Payout Management Framework

Other initiatives to improve the Corporation's capacity to promptly pay out the depositors of a failed Policyholder were as follows:

Development of Guidelines for the Relationship between the JDIC and the Temporary Manager/Liquidator

The efficient execution of the Corporation's payout operations will require the support of the Temporary Manager and/or Liquidator during the days leading up to the closure of a Policyholder and thereafter. In this regard the Corporation developed "Guidelines for the Relationship between the JDIC and the Temporary Manager/Liquidator". The Guidelines identify specific banking operations and closure activities that have significant implications for payout processing. These activities include providing the Corporation with timely access to depositors information; controlling data processing and clearing activities that impact the financial position of the Policyholder and the balance of each depositor's account; assigning key human resources to facilitate payout processing; ensuring that information disseminated by both parties to depositors and the general public is consistent and accurate; and managing the activities to make claims against the assets of the Policyholder.

Payout Training

Staff participated in a payout simulation exercise and related training sessions to develop the Corporation's operational capacity to promptly pay out depositors given specific assumptions. The simulation and training sessions also set the foundation for building a team of trained and dedicated personnel that fully understand all the payout processes.

Development of a Payout Management Software

The Corporation commenced procurement planning activities to outsource the development of a payout management software. In addition to supporting the payout business process, the software will be designed to facilitate the ongoing monitoring of Policyholders adherence to the "Guidelines for Record Keeping Requirements for all Policyholders" consistent with the compliance framework.

Development of Regulations for Joint, Trust and Nominee Accounts

Following a consultation period with stakeholders, drafting instructions were issued for the regulations for Joint, Trust and Nominee Accounts pursuant to section 18C of the Deposit Insurance (Amendment) Act[25]. The Regulations, when passed, will provide for the Corporation's rules and procedures governing the record-keeping requirements of joint, trust and nominee accounts to allow separate deposit insurance coverage for co-owners and beneficiaries of these accounts. The drafting of the regulations is expected to be finalized during the FY2013/14. In anticipation of the subsequent gazetting of the Regulations the Corporation continued its initiatives to inform the public about the expanded scope of coverage for the co-owners and beneficiaries of these accounts.

Regulatory Reforms towards Strengthening the Intervention and Resolution Framework for Policyholders

There are several initiatives being pursued by the Bank of Jamaica that are geared towards strengthening the collaboration and information sharing among the safety net partners and the corrective and sanctioning framework for deposit-taking entities. When implemented these initiatives will augment the intervention and resolution framework of the Corporation and improve operational efficiencies. These initiatives include the promulgation of an "Omnibus Banking Bill" and the assigning of institutional responsibility for stability of Jamaica's financial system to the BOJ.

The proposed legislative amendments in regards to the "Omnibus Banking Bill" as outlined in a Consultation Paper on "Proposals for Enhancement of the Legislative Framework Deposit-taking Sector"[26] contemplates such matters as: clearly defining the criteria for determining a troubled Policyholder to ensure the early detection and determination of when a bank is or is expected to be in serious difficulty; executing timely corrective actions to be effected by the proposal to gazette the BOJ's Guide to Regulatory Intervention (Ladder of Enforcement); and identifying the criteria for determining systemically important financial institutions. The draft Bill to amend the Bank of Jamaica Act to give the BOJ institutional responsibility for stability of Jamaica's financial system includes the establishment of a Financial Stability Committee of which the JDIC will be a member. The mandate of the Financial Stability Committee is to coordinate the activities pursuant to the objective of financial system stability.

Public Education and Awareness

It is generally accepted that limited knowledge and understanding of the financial system, its products/services and regulation/protection, tend to cause persons to be uninterested in the formal financial system. This results in these persons being excluded from the highest level of participation and financial benefits. Financial literacy, which involves not only knowledge but also the attendant attitude and behaviours, has been identified as one of the main pillars of financial inclusion. Financially literate persons more readily access financial services, thus enabling them to contribute more effectively to the improvement of their own lives and the economy. An inclusive financial system is an important pre-requisite to sustaining a country's economic development and growth.

[25] *The Deposit Insurance (Amendment) Act was passed in February 2011.*

[26] *The Consultation paper was issued by the BOJ on December 31, 2012.*

It is in this context that Deposit Insurers worldwide recognize that public education is fundamental to effective deposit insurance systems. The effectiveness of a public education campaign is usually tested in times of financial system crises. While the JDIC has not experienced any such crises, the public education and awareness strategy, introduced since inception, is continuously being assessed against international standards, one such being the IADI/BCBS Core Principles for Effective Deposit Insurance Systems (Core Principle 12).

Against this background, the Corporation's public education and awareness campaign continued during FY2012/13, with the programme targeting individuals in the 18-44 age range and the middle to lower socio-economic group; which the JDIC's public awareness survey indicates as least aware. The specific goals of the programme included:

- Build brand awareness through various advertising strategies;
- Increase understanding of the details of the Deposit Insurance Scheme and how it works – advertising, presentations and public forums;
- Collaborate with Policyholders and the other Safety Net Partners to disseminate the deposit insurance message by linking it with their own messages in a mutually beneficial manner;
- Promote financial inclusion - which commenced with the planning of a financial markets symposium and fair to be held in FY2013/14 under the theme "Promoting Financial Inclusion through Public Education and Awareness".

Advertising and Promotion

The Corporation's advertising campaign was executed on a phased basis. These included:

- Airing of new television and radio advertisements, produced in the previous financial year
- Placement of six bus back advertisements in the Kingston Metropolitan Area and St Catherine
- Launch of redesigned corporate website

Jamaica celebrated 50 years of independence on August 6, 2012 and the Corporation participated in the celebrations by being a booth holder at the Jamaica 50 Village. The Corporation had the opportunity to engage hundreds of patrons and imparted details on deposit insurance, clarified related issues and concerns raised by visitors to the JDIC booth. The Corporation also participated as booth holder at several other events.

Collaboration with Policyholders

Partnership with Policyholders in disseminating deposit insurance information is a key strategy of the Corporation. The seventh Policyholders' Forum was held with representatives from all insured member institutions in attendance. The forum was geared towards solidifying the partnerships with Policyholders, reviewing JDIC's operations, updating Policyholders on developments in the deposit insurance community and engaging them in discussions on their operations and issues of concern. This was done in an effort to continue to foster the mutually beneficial relationships which will benefit depositors and other consumers of financial services.

The seventh Policyholders' Forum was held with representatives from all insured member institutions…

Policyholders' Forum, May 2012

Odette Barron (left) assisting attendees

Participants pay keen attention

Collaboration with Safety Net Partners

The Corporation hosted another Public Forum in the series "Protecting Your Money in Today's Economy". The Forum, hosted jointly with the Bank of Jamaica (BOJ), the Financial Services Commission (FSC) and the Jamaica Stock Exchange (JSE), was held in the parish of St Mary. It provided an opportunity not only for presenters, but more importantly, for participants to pose questions, interact with the agencies; all aimed at building their knowledge and understanding of the system.

Public Forum, July 2012

Attendees listen attentively

L-R: Leonie Jackson and Tracey Tucker register attendees

Promoting Financial Inclusion

The preparatory work for the Corporation's main 15th anniversary event, a Financial Markets Symposium and Fair in FY2013/14, began during the period under review. The main objective of the event is to facilitate increased financial literacy, promote financial inclusion among Jamaicans and demystify financial system issues, products, services and protections. The BOJ, the FSC and the JSE will partner with the Corporation to put on the event which will be held over three days, August 29 - 31, 2013. Participants/booth holders will include not only financial service providers, but various stakeholders such as educational institutions, business development agencies, relevant Ministries of Government and other institutions with the capacity to influence financial literacy/education and economic development.

International Relations

International Association of Deposit Insurers (IADI) 10th Anniversary

The Corporation is a member of the International Association of Deposit Insurers (IADI, the Association)[27]; the IADI's Caribbean Regional Committee (CRC)[28] and is also a member of the IADI Research and Guidance Sub Committee on Integrated Protection Schemes[29]. The objectives of IADI are: to contribute to the stability of financial systems by promoting international cooperation in the field of deposit insurance; and to encourage wide international contact among deposit insurers and other interested parties. The Association is recognized as the standard setting body for deposit insurance by major public international financial institutions, including the Financial Stability Board, the Basel Committee for Banking Supervision (BCBS), the International Monetary Fund and the World Bank.

In 2012 IADI celebrated its 10th anniversary. A major milestone of the Association is the collaboration with the BCBS to develop the first internationally accepted standards for effective deposit insurance systems (The BCBS/IADI Core Principles for Effective Deposit Insurance Systems)[30] and the subsequent methodology to enable assessments of compliance with these Core Principles. The CRC promotes the objects of IADI in the Caribbean. The Corporation benchmarks its operations of the Core Principles to ensure that the Deposit Insurance Scheme remains relevant and meets the public policy objective of protecting depositors and contributing to financial system confidence and stability. During the year the Corporation actively participated in the activities of the Association by engaging in discussions and exchanging information with members through such fora as training courses, workshops, seminars and surveys.

[27] *IADI was established in May 2002 and is a non-profit organization constituted under Swiss Law and is domiciled at the Bank for International Settlements in Basel, Switzerland. Currently, IADI has 68 Members, 9 Associates, and 12 Partners.*

[28] *Other members of the CRC are: Deposit Insurance Corporation of Trinidad and Tobago (Chair); Barbados Deposit Insurance Corporation; Deposit Insurance Corporation, Central Bank of Bahamas; and an Associate Member, The Ministry of Finance, British Virgin Islands.*

[29] *An Integrated Protection Scheme (IPS) is a system where a single deposit insurer provides guarantee or protection to investors in security firms (Investor Compensation Scheme: ICS) and/or policy holders of insurance companies (Insurance Guarantee Scheme: IGS) in addition to depositors in deposit-taking financial institutions (Deposit Insurance Scheme: DIS) for the loss of insured funds in the event of a member institution's failure. This definition excludes any other types of protection schemes except the DIS, ICS, and IGS. However, this does not mean those other types of protection schemes are less important than the DIS, ICS, and IGS. They are indeed acknowledged to be equally important for protecting financial consumers of their respective sectors. (Source: Survey Questionnaire of the IADI Subcommittee on Integrated Protection Scheme, 2012.) An IPS is similar to what is being contemplated in the position paper as Compensation Schemes or Integrated Deposit Insurance Systems.*

[30] *The Core Principles were issued in 2009 and the Methodology Framework in 2011. In February 2013 IADI passed a resolution to commence the process of reviewing and updating the Core Principles.*

Information Sharing and Collaboration

The Corporation's regional involvement and information sharing included the participation in a workshop hosted by the Deposit Insurance Corporation of Trinidad and Tobago (DICTT) to conduct an independent assessment of the DICTT's level of compliance with the Core Principles. The JDIC Officers attending the Workshop had the opportunity to put into practice and share their experience garnered from conducting a self assessment of the JDIC's compliance with the Core Principles. JDIC Officers also participated in a study visit and an international workshop on "Integrated Deposit Insurance Systems" hosted by the Malaysia Deposit Insurance Corporation. The implementation of integrated deposit insurance systems is in keeping with international trends to enhance financial consumer protection and strengthen regulatory gaps. The workshop provided useful insights and guidance for the Corporation in preparation for the establishment of a Compensation Scheme for non-deposit taking financial institutions in Jamaica. Such preparation is further to a joint proposal by the FSC and the JDIC to the MOFP to establish Compensation Schemes in Jamaica.

The Corporation is also a member of the IADI Research and Guidance Sub Committee on Integrated Protection Schemes. The main initiative of this Subcommittee is to develop useful guidance on policy considerations and recommendations for developing an effective Integrated Protection Scheme.

JDIC Team Members Nicole Brown Crooks and Sophia Frazer-Binns (1st row –left and 3rd left respectively) and Eloise Williams Dunkley (2nd row, 6th from left) with other representatives at the 6th Regional Training Workshop hosted by the Deposit Insurance Corporation of Trinidad and Tobago, March 18-21, 2013. The workshop assessed the Methodology for Assessment of Compliance with the Core Principles for an Effective Deposit Insurance System.

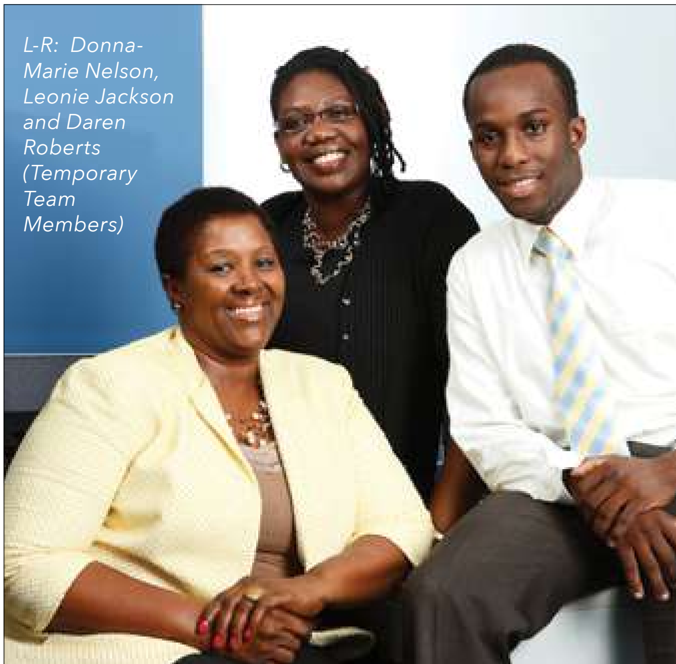
Management of Strategic Resources

HUMAN RESOURCE

The Corporation continued to employ strategies aimed at delivering adequate support across all functional areas. With this in mind, the staff establishment was revised to twenty-nine (29) positions. At the end of the year, the staff complement stood at twenty-four (24).

Given the Corporation's decision to implement a Pension Scheme, the services of actuaries were engaged to carry out risk analysis, benefit design and costing to make recommendations for a suitable pension arrangement. The work was substantially completed and the Board is expected to make a decision during the next financial year.

The mandate of the Corporation requires that the staff are continuously equipped with the technical skills that will enable them to effectively execute their functions. In this regard, staff participated in a number of local and international training programmes during the year; some of which were as follows:



L-R: Donna-Marie Nelson, Leonie Jackson and Daren Roberts (Temporary Team Members)

- Building Bridges: Connecting Law, Regulation and Actuarial Practice – International Pension and Employee Benefits Lawyers Association;
- Deposit Insurance Schemes: A Well Developed Legal Framework and Selected Legal Issues – International Association of Deposit Insurers;
- Effective Corporate Governance, Accountability and Board Leadership – Centre for Corporate Governance;
- Introduction to Examination School and Financial Institutions Analysis School – Federal Deposit Insurance Corporation;
- Financial Stability Institute (FSI) Connect courses – The Bank for International Settlements;
- Foreign Account Tax Compliance Act – Jamaica Institute of Financial Services;
- Fundamentals of Financial Services Sector – Jamaica Institute of Financial Services;
- Insolvency Law Reform – Myers Fletcher & Gordon;
- Integrating Insurance Protection with the Deposit Insurance System – Malaysia Deposit Insurance Corporation;
- ISO 31000 Enterprise Risk Management – Certified Information Security;
- Jamaican Securities – UTECH/JIM School of Advanced Management;
- Mergers, Acquisitions and Privatizations – Jamaica Stock Exchange;
- Regional Workshop on Core Principles – Deposit Insurance Corporation, Trinidad & Tobago;
- The Successful New Manager – Jamaica Institute of Financial Services.

The Corporation actively contributes to the development of the country's youth by facilitating a number of students on an annual basis under a Summer Work & Internship programme. During the period, there was continued partnership with the University of the West Indies for Economics students to participate in the Internship programme. One student was facilitated in the Monitoring and Risk Assessment department. The partnership proved quite fruitful as the findings from the research topic undertaken assisted the Corporation in formulating its position paper on Mobile Banking. The Corporation plans to continue this initiative going forward.

ADMINISTRATION

The Corporation continued to update its administrative policies, procedures and guidelines to ensure efficient and effective management of its resources. Key focus has been placed on matters relating to the safety and security of employees as well as the Corporation's information assets.

During the period, there was significant progress as it relates to the records and information management programme. A consulting firm was engaged to assist with the development of a Records and Information Management System (RIMS) Manual, as well as a programme to streamline the manual system for the implementation of an automated system over the next two years. The development phase was completed during the period under review and implementation is expected to commence in the next financial year.

INFORMATION AND COMMUNICATION TECHNOLOGY

Information and Communication Technology (ICT) supports and enhances the functions of the Corporation to provide stakeholders with reliable, secure, timely and innovative information and communication technology services. To this extent the Corporation reviewed its ICT policies and procedures to ensure their relevance and effectiveness, the strengthening of the Corporation's ICT capabilities and resolve any gaps.

Additional initiatives pursued and successfully completed during the year included:

- Review and update of the ICT Security Policy;
- Configuration and testing of the Business Continuity Server which will be installed at an external Data Centre early in FY2013/14;
- Implementation of the Network Attached Storage (NAS) Server;
- Implementation of Fixed Assets Module of Accounting Software;
- Upgrade of the PBX Server and Backup Softwares.

Statutory Compliance Report

NAME OF REPORT	NATURE OF REPORT	STATUTORY AGENCY	ACT	PERIOD REPORTING	SUBMITTED
Access to Information Act (2002): Monthly and Quarterly Reports	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	√
Annual Report and Audited Financial Statements FY2011/12	The Annual Report details the operations for the year (April – March) of the Corporation and includes the Audited Financial Statements which shows the accumulated financial position of the Corporation over the same 12-month period, duly certified by the Corporation's external auditors.	Ministry of Finance and Planning (MOFP)	Public Bodies Management and Accountability Act (PBMA) Deposit Insurance Act	Annually	√
Corporate Plan, Operating & Capital Budgets FY2013/14- 2015/16	Statement of intent which outlines the strategic direction of the Corporation for 3 years. Includes vision, mission, financial plans, manpower requirements and measures to evaluate performance.	MOFP	PBMA	Annually	√
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	√
Monthly Financial Statements - (Statements A and B)	The Monthly Financial Statements shows the monthly and accumulated financial position of the Corporation.	MOFP	-	Monthly	√
Net Credit Report (Statement)	This report shows the month-end balances on investment categories and bank balances.	MOFP	-	Monthly	√
Public Bodies Management and Accountability Report(PBMA)	Report gives the quarterly /half year outturn of actual performance against targets and shows the financial statements and the projected budgets for the remaining quarters/half year.	MOFP	PBMA	Quarterly and Half-yearly	√
Public Sector Report System (PRS-1)	Report of all goods/services procured in any given month	MOFP	Contractor General Act	Monthly	√
Quarterly Contract Awards (QCA) Report	This report shows the award of contracts over $500,000 during each Quarter.	Office of the Contractor General	Contractor General Act	Quarterly	√

Summary Performance Scorecard

BUSINESS STRATEGIES KEY INITIATIVES	PERFORMANCE AGAINST TARGETS	FOLLOW THROUGH ACTIVITIES
PROACTIVE READINESS		
Establish Policyholders' Record-Keeping Guidelines • Develop plans to implement record-keeping guidelines • Develop a Framework for assessing, monitoring and testing compliance	Completed	Collaboration with Policyholders to complete deliverables consistent with implementation schedule including October 2014 implementation timeline.
Develop Policies and Procedures for the treatment of Clearing of Paper/Electronic Based Transactions during a Payout	–	This initiative has been rescheduled to FY2013/2014 consequent to the issuing of "Guidelines for Electronic Retail Payment Services" by the BOJ in February 2013.
Conduct Annual Contingency Planning Session • Develop crisis scenarios and plan to conduct contingency session • Conduct contingency planning session and test operational readiness of the Corporation • Document findings and proposed action plan	Completed	Further action will be taken through initiatives set out in FY2013/14.
Payout Training Modular Simulation: A. Conduct Payout Training and Modular Simulation - Insured Deposit Portfolio Transfer (IDPT) Project – (Contingent on conclusion of an agreement with a Policyholder)	The Corporation continued discussions/initiatives throughout the financial year with the Policyholders to plan the simulation exercise.	The Corporation will continue to liaise with the Policyholders regarding plans to conduct the simulation.
B. Develop Policy and Procedures for the Transfer of Data between JDIC and a Transferee and conduct Simulation Phase. Contingent on conclusion of an agreement with a Policyholder and to be conducted concurrently with the IDBT Simulation.	No activities conducted in FY2012/13 as the Corporation was in discussions with Policyholders regarding plans to conduct the simulation.	The Corporation will continue to liaise with the Policyholders regarding plans to conduct the simulation.
Review of the Deposit Insurance Rules of Coverage • Conduct research on Rules of Deposit Insurance Coverage specifically incorporating (i) the developments in other jurisdictions (ii) legislative amendments to the DIA and (iii) the results of the deposit product survey conducted in FY2011/2012	Completed	Information brochure on the Rules of Deposit Insurance Coverage to be developed in FY2013/14.
Assess the Impact of New Entrants to the Deposit Insurance Scheme and determination of the Initial and Annual Premiums to be levied	Completed	–

Summary Performance Scorecard

BUSINESS STRATEGIES KEY INITIATIVES	PERFORMANCE AGAINST TARGETS	FOLLOW THROUGH ACTIVITIES
STRONG PARTNERSHIP		
Continue collaboration with FSC in the exploration and implementation of Compensation /Guarantee Schemes for Insurance, Securities and Pensions Sectors	Initiative contingent on the response to the joint submission made (FSC and JDIC) to the MOFP regarding "Proposal for Establishing Compensation Schemes for the Non Deposit-taking Financial Sector in Jamaica".	Continue collaboration with the FSC and MOFP.
Review Crisis Intervention Matrix in collaboration with other Safety Net Partners	The Corporation has preliminary agreement with the Financial Regulatory Council (FRC) for individual institutional review.	Initiative has been rescheduled contingent on the FRC work plans and implementation timetables.
RESOLUTION MANAGEMENT		
Make recommendations for the drafting of Regulations for Trust, Nominee and Joint Accounts to support the amendments to the DIA	Completed	Regulations will be circulated to stakeholders when Gazetted.
Develop policies, and procedures to make loans or advances with security and guarantee, indemnify or become liable for the payment of monies for a Policyholder	Completed	–
Develop guidelines for the relationship between JDIC and the Temporary Management and the Liquidator prior to and during a Payout	Completed	–
STRENGTHENING OPERATIONAL EFFICIENCY		
Conduct annual review of the adequacy of the Deposit Insurance Fund	Completed	–
Acquire and Implement Financial Risk Management Application • Develop business requirement documentation	Completed	With the assistance of a business analyst the document will be reviewed during FY2013/14
Conduct a Review of the Coverage Limit and Premium Assessment Rate	Completed	–
Review and update the Membership Admission Framework to include a clear timeframe for being consulted in advance of a "Newly Licensed" deposit-taking Institution.	JDIC has formally requested that the Bank of Jamaica include a clear timeframe for being informed in advance, of a "Newly Licensed" deposit-taking institution. The Bank of Jamaica has agreed to this in principle.	The actual update of the Membership Admission Framework is contingent on the Bank of Jamaica including the requested information in their policies and procedures document and/or in the pending legislation.
Conduct annual review and update of Contingency Funding Plan	Contact was made with Bank of Jamaica and the Corporation is awaiting a response on the terms and conditions for contingency funding. Additionally, discussions were held with the relevant government agencies as to the requirements to guide the required contact with Multi-Lateral Lending Agencies.	Deliberations will be used as guide/be included in the further review and update of the Contingency Funding Plan during FY2013/14.

BUSINESS STRATEGIES KEY INITIATIVES	PERFORMANCE AGAINST TARGETS	FOLLOW THROUGH ACTIVITIES
STRENGTHENING OPERATIONAL EFFICIENCY cont'd		
Implement JDIC Pension Arrangement	The Board's Pension Sub-Committee had deliberations with the Actuaries in reviewing the project and in determining the pension scheme arrangements to be implemented.	The reviews are to be completed and the recommendation to the Board of Directors on the Pension Scheme to be selected is expected to be finalized in the first quarter of FY2013/14.
Business Continuity and Disaster Recovery (DR) Plan Testing • Review and update the DR Plan • Identify Disaster Recovery Team and train new staff on DR Plan	The operationalisation of the Business Continuity Management and the Disaster Recovery (DR) Plans were reviewed.	–
Implement the Payout Management Information System (PMIS) • Complete procurement process and engage service provider	Pre-bid meetings and discussions held with the potential service providers. Schedule extended in consultations with FISCAL Services Limited.	The completion of the procurement process and engagement of the service provider has been rescheduled for completion in FY 2013/2014. (Contingent on the approval of the respective agencies).
Develop Records & Information Management Programme and implement Manual System	Completed	Implementation will commence in FY2013/14.
Review and Implement ICT business requirements related to Business Continuity Strategy	ICT related business continuity requirements were documented in the updated ICT Business Continuity Plan and the Business Continuity server configured and tested to evaluate the ICT Business Recovery Plan procedures. Extensive research and discussions were conducted with providers of "hot site" business recovery facilities to allow the Corporation to make appropriate selection of "hot site".	Implementation of the Business Continuity server at a "hot site" data centre will commence in Q1 FY2013/14.
PUBLIC EDUCATION & AWARENESS		
Host Policyholders' Forum	Completed	–
Develop Print Advertisement for placement on Public Transportation/other Public Spaces (rural and corporate areas)	Completed	–
Develop a Schools Programme for Secondary Schools (including HEART Trainees) – computer based competition • Prepare TOR to procure services of Consultant to assist with the development of the competition	TOR Completed	The programme / competition will be developed in FY2013/14.
Design 2013/2014 JDIC Calendars (15- Year Anniversary Memorabilia) – 24 month calendar with each month containing educational information on deposit insurance	Completed	–
Host Public Forum (in association with other Financial Safety Net Partners)	Completed	–
Hold Financial Markets Symposium and Fair (15-Year Anniversary Activity - August 2013) • Identify suitable venue and procure services of Events Planner /firm to assist with planning execution of Fair	Completed	Planning relating to the hosting of the Financial Markets Symposium and Fair on August 29-31, 2013 will continue during Q1 and Q2 of FY2013/14.

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 MARCH 2013

	COMMERCIAL BANKS			FIA LICENSEES			BUILDING SOCIETIES			System Total (aggregation of all 3 sectors)		
	Mar-13	Mar-12	Mar-11	**Mar-13**	Mar-12	Mar-11	**Mar-13**	Mar-12	Mar-11	**Mar-13**	Mar-12	Mar-11
Number of institutions in operation	**7**	7	7	**2**	2	2	**4**	4	4	**13**	13	13
J$MN												
[1]**Total Assets** (incl. contingent accounts)	**689,977**	629,051	593,671	**22,433**	20,232	25,754	**198,785**	189,535	173,451	**911,195**	838,818	792,876
[2]**Total Assets** (excl. contingent accounts)	**677,473**	615,320	580,659	**22,388**	20,182	25,503	**198,785**	189,535	173,451	**898,646**	825,037	779,613
Cash & Bank Balances	**153,601**	119,602	112,117	**1,567**	1,264	1,830	**21,065**	16,452	19,543	**176,233**	137,318	133,490
Investments [incl. Securities Purch.] (net of prov.)	**164,773**	187,579	186,222	**14,095**	11,451	15,865	**71,632**	70,011	60,301	**250,500**	269,041	262,388
Total Loans (gross)	**322,640**	277,205	248,924	**5,821**	6,898	7,148	**98,489**	90,262	87,647	**426,950**	374,365	343,719
Total Loans (net of IFRS prov.) [a]	**314,398**	268,262	242,448	**5,723**	6,553	6,782	**97,137**	89,003	86,109	**417,258**	363,818	335,339
Total Deposits	**464,948**	409,845	382,637	**8,882**	6,471	8,536	**134,747**	123,703	119,037	**608,577**	540,019	510,210
Borrowings (incl. repos)	**87,872**	77,019	84,746	**8,350**	8,633	11,793	**26,889**	25,015	23,297	**123,111**	110,667	119,836
Non-Performing Loans [NPLs] (3 mths & >)	**20,416**	23,356	17,102	**561**	3,157	3,010	**5,656**	5,645	5,586	**26,633**	32,158	25,698
Provision for Loan Losses	**19,687**	19,867	15,871	**754**	2,420	1,597	**4,293**	3,649	3,453	**24,734**	25,936	20,921
[3] **Capital Base**	**65,950**	64,113	61,221	**3,927**	2,605	3,462	**23,973**	22,786	21,079	**93,850**	89,504	85,762
Contingent Accts [Accept., LC's & Guarantees]	**12,504**	13,731	13,012	**45**	50	251	**0**	0	0	**12,549**	13,781	13,263
Funds Under Management	**318**	306	298	**0**	0	0	**0**	0	0	**318**	306	298
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	**9.7%**	6.0%	-1.0%	**10.9%**	-21.4%	-19.9%	**4.9%**	9.3%	8.0%	**8.6%**	5.8%	0.1%
Rate of Deposit Growth	**13.4%**	7.1%	1.1%	**37.3%**	-24.2%	-30.5%	**8.9%**	3.9%	7.0%	**12.7%**	5.8%	1.6%
Rate of Loans Growth (gross)	**16.4%**	11.4%	-3.1%	**-15.6%**	-3.5%	-23.1%	**9.1%**	3.0%	2.7%	**14.0%**	8.9%	-2.3%
Rate of Capital Base Growth	**2.9%**	4.7%	3.1%	**50.7%**	-24.8%	-27.0%	**5.2%**	8.1%	23.2%	**4.9%**	4.4%	5.5%
Rate of NPLs (3 Mths &>) Growth	**-12.6%**	36.6%	30.7%	**-82.2%**	4.9%	257.9%	**0.2%**	1.1%	2.4%	**-17.2%**	25.1%	32.6%
Investments :Total Assets [1]	**23.9%**	29.8%	31.4%	**62.8%**	56.6%	61.6%	**36.0%**	36.9%	34.8%	**27.5%**	32.1%	33.1%
Loans (net of prov.):Total Assets [1]	**45.6%**	42.6%	40.8%	**25.5%**	32.4%	26.3%	**48.9%**	47.0%	49.6%	**45.8%**	43.4%	42.3%
Fixed Assets:Total Assets [1]	**2.1%**	2.1%	1.9%	**0.4%**	0.4%	0.6%	**1.8%**	1.7%	1.6%	**2.0%**	2.0%	1.8%
Loans (gross) : Deposits	**69.4%**	67.6%	65.1%	**65.5%**	106.6%	83.7%	**73.1%**	73.0%	73.6%	**70.2%**	69.3%	67.4%
Liquidity												
Average Domestic Currency Cash Reserve: Average Prescribed Liabilities [4]	**12.0%**	12.0%	12.0%	**12.0%**	12.0%	12.0%	**1.0%**	1.0%	1.0%	**9.2%**	9.1%	9.0%
Average Domestic Currency Liquid Assets: Average Domestic Prescribed Liabilities [4]	**32.9%**	35.3%	46.6%	**39.6%**	29.6%	31.2%	**13.1%**	15.6%	18.3%	**28.0%**	30.1%	38.8%
Asset Quality												
Prov. For Loan Losses:Total Loans (gross)	**6.1%**	7.2%	6.4%	**13.0%**	35.1%	22.3%	**4.4%**	4.0%	3.9%	**5.8%**	6.9%	6.1%
Prov. For Loan Losses: NPLs (3 Mths &>)	**96.4%**	85.1%	92.8%	**134.4%**	76.7%	53.1%	**75.9%**	64.6%	61.8%	**92.9%**	80.7%	81.4%
NPLs (3 Mths &>):Total Loans (gross)	**6.3%**	8.4%	6.9%	**9.6%**	45.8%	42.1%	**5.7%**	6.3%	6.4%	**6.2%**	8.6%	7.5%
NPLs (3 Mths &>): (Total Assets[1] + IFRS Provision for losses)	**2.9%**	3.7%	2.8%	**2.5%**	15.3%	11.5%	**2.8%**	3.0%	3.2%	**2.9%**	3.8%	3.2%

Capital Adequacy												
Deposits + Borrowings: Capital (:1)	**8.4**	7.6	7.7	**4.4**	5.8	5.9	**6.8**	6.6	6.8	**7.8**	7.3	7.4
Capital Base:Total Assets [1]	**9.6%**	10.2%	10.3%	**17.5%**	12.9%	13.4%	**12.1%**	12.0%	12.2%	**10.3%**	10.7%	10.8%
[5] Capital Adequacy Ratio [CAR]	**12.5%**	14.4%	16.4%	**16.7%**	11.9%	16.9%	**20.0%**	19.8%	22.2%	**14.0%**	15.4%	17.5%
NPLs (3 mths &>):Capital Base+Prov for loan losses	**23.8%**	27.8%	22.2%	**12.0%**	62.8%	59.5%	**20.0%**	21.4%	22.8%	**22.5%**	27.9%	24.1%
Profitability												
[6] Pre - tax Profit Margin (for the Calendar Quarter)	**12.2%**	16.8%	26.1%	**17.3%**	1.8%	6.3%	**8.9%**	29.0%	28.3%	**11.8%**	18.8%	26.1%
Return on Average Assets (for the Calendar Quarter)	**0.3%**	0.5%	0.8%	**0.5%**	0.0%	0.1%	**0.2%**	0.7%	0.7%	**0.3%**	0.5%	0.8%
[7] Income Assets/Expense Liabilities (at 31 Mar.)	**103.1%**	105.9%	104.3%	**116.2%**	102.5%	100.9%	**110.9%**	111.5%	111.1%	**105.1%**	107.1%	105.8%

Notes:

n/a not applicable

- Based on unaudited data submitted to BOJ by supervised institutions up to 07 May 2013. 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

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

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

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

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

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

[4] Prescribed Liabilities include:

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

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

[6] Pre-tax Profits include extraordinary income/expenditure and adjustments for prior periods.

Return on Average Assets is computed using pre-tax profits as well as assets before provision for losses (in accordance with IFRS) and including contingent accounts

(Acceptances, Guarantees and Letters of Credit).

[7] Income Assets comprise Foreign Currency 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-13	**Mar-12**	**Mar-11**	**Mar-13**	**Mar-12**	**Mar-11**	**Mar-13**	**Mar-12**	**Mar-11**
Required Cash Reserve Ratio	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	1% / 12%	1% /12%	1% / 12%
Required Liquid Assets Ratio (incl Cash Reserve)	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	5% / 26%	5% /26%	5% / 26%

** The Reserve 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 required to meet the Reserve Requirements which apply to banks and FIA licensees.

Effective Liquidity Risk Management for Banks

The Basel Committee on Banking Supervision (BCBS, the Committee) defines liquidity as "the ability of a bank to fund increases in assets and meet obligations as they become due, without incurring unacceptable losses"[31]. The importance of liquidity to the proper functioning of financial markets and the banking sector has gained increased global attention, since the financial crisis that started in 2007. According to the BCBS, despite banks having sufficient levels of capital, they still experienced difficulties during the financial crisis, because they did not manage their liquidity in a prudent manner[32].

Banks by virtue of their fundamental role of transforming deposits into loans are inherently vulnerable to liquidity risk and as a result liquidity risk management is a key area for prudential supervision by bank regulators. As a consequence of the global financial crisis, bank regulators have placed greater importance on enhancing their regulatory infrastructure by introducing measures to improve liquidity risk management by banks. These measures are expected to promote a more resilient banking sector; increase financial system confidence and stability and ultimately protect depositors.

Basel Committee on Banking Supervision (BCBS) initiatives towards Promoting Effective Liquidity Risk Management by Banks

Towards promoting effective liquidity risk management by banks, the BCBS introduced a liquidity framework in September 2008 in a document titled "Principles for Sound Liquidity Risk Management and Supervision[33]" (Sound Principles). The Sound Principles provide detailed guidelines on liquidity risk management. To further compliment these Sound Principles and strengthen the liquidity framework, the BCBS developed two minimum standards for funding liquidity. These are the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

The objective of the LCR is to promote short-term (30 calendar days) liquidity of banks and when fully implemented is expected to improve the banking sector's ability to absorb shocks arising from financial or economic stress, thereby reducing the risk of spillover from the financial sector to the real economy. The NSFR is designed to complement the LCR and promote resilience over a longer time horizon (1 calendar year). These ratios were first introduced in a BCBS December 2010 publication titled "Basel III: International Framework for Liquidity Risk Measurement, Standards and Monitoring[34]". After reviewing the framework issued in 2010 and its implications for financial markets, credit extension and economic growth, the BCBS in January 2013 published "Basel III: The Liquidity Coverage Ratio (LCR) and Liquidity Risk Monitoring Tools[35]" to address some of the unintended consequences of the 2010 framework. The revisions to the LCR include an expansion in the range of assets eligible as high quality liquid assets (HQLA) and some refinements to the assumed inflow and outflow rates to better reflect actual experience in times of stress. In addition, the Basel Committee has revised the timetable for the phase-in implementation of the LCR by national regulators.

The following is an abstract of the Committee's 2013 publication. The abstract is presented as follows: Overview of the LCR; Monitoring Tools; and Timeline for Implementation. An overview of Bank of Jamaica's liquidity risk management supervisory initiatives for deposit-taking institutions in Jamaica also presented.

Abstract of "Basel III: The Liquidity Coverage Ratio (LCR) and Liquidity Risk Monitoring Tools"

A. Overview of the LCR

The LCR builds on traditional liquidity "coverage ratio" methodologies used internally by banks to assess exposure to contingent liquidity events. The LCR is intended to mitigate banks' short term liquidity risk by requiring banks to hold unencumbered[36] high quality liquid assets (HQLA) to meet the net cash outflows over a 30 day period[37] that they would expect to experience under a prescribed stress scenario. This should apply on an ongoing basis, except in a period of financial stress where the BCBS recommends that banks may use their stock of HQLA. The LCR has two components:

1. Value of the stock of HQLA in stressed conditions; and

2. Total net cash outflows.

$$\frac{\textit{Stock of High Quality Liquid Assets (HQLA)}}{\textit{Total Net Cash Outflows over 30 Day Stress Period}} \geq 100\%$$

BCBS recommends that supervisors should be mindful that the assumptions within the LCR may not capture all market conditions or all periods of stress. Supervisors may therefore require additional levels of liquidity to be held, if they deem the LCR does not adequately reflect the liquidity risk that their banks face.

i. High Quality Liquid Assets (HQLA)

HQLA are assets that even in times of stress can be easily and immediately converted to cash at little or no loss in value. HQLA comprises Level 1 assets and Level 2 assets. Level 2 assets are further broken down into Level 2A and Level 2B. Level 2B assets that were introduced in Basel Committee's 2013 publication, resulted in a broadening of the definition of eligible assets that qualify as HQLA. Level 1 assets are intended to encompass the highest quality and most liquid assets. Level 2A assets include comparatively riskier and less liquid public sector securities and certain private sector securities. Lower rated corporate bonds, residential mortgage backed securities and equities that meet certain conditions, are included in Level 2B assets.

The basic idea behind the inclusion of this new asset category – Level 2B, is to provide banks with a wider pool of assets that they can easily sell to support 30 days worth of liabilities.

[31]Refer BCBS September 2008 publication titled "Principles for Sound Liquidity Risk Management and Supervision"

[32]Refer "Basel III: International Framework for liquidity risk measurement, standards and monitoring", December 2010.

[33]Retrievable at http://www.bis.org/publ/bcbs144.pdf

[34]Retrievable at http://www.bis.org/publ/bcbs188.pdf

[35]Retrievable at http://www.bis.org/publ/bcbs238.pdf

[36]"Unencumbered" means free of legal, regulatory, contractual or other restrictions on the ability of the bank to liquidate, sell, transfer, or assign the assets.

[37]The 30 days is considered by BCBS as sufficient time for corrective action to be taken by the management and supervisors of the bank, or for the bank to be resolved in an orderly way.

ii. Total Net Cash Outflows

Total net cash outflows, is defined as total expected cash outflows minus total expected cash inflows, in specific stress scenarios. The total expected cash outflows are calculated by multiplying the outstanding balance of various categories or types of liabilities and off-balance sheet commitments by the rates at which they are expected to run-off or be drawn down. Total expected cash inflows are calculated by multiplying the outstanding balance of various categories of contractual receivables by the rates at which they are expected to flow in. The stress assumptions for the total net cash outflows over 30 days have been reduced to reflect a better approximation of the actual rates of inflows and outflows experienced during times of stress.

For example, the assumed run-off rate (rate of cash withdrawal from banks by depositors) for a sub-set of 'stable' retail deposits[38] has been reduced from 5 percent to 3 percent, but that for 'less stable' deposits remains at 10 percent. To qualify as 'stable', the deposits must be covered by an effective deposit insurance scheme or by a public guarantee that provides equivalent protection. The Committee recognizes that the existence of a deposit insurance scheme or public guarantee contributes to financial system confidence and stability and may slow the loss of retail deposits.

B. Monitoring Tools

In addition to the LCR, the BCBS has proposed certain metrics to be used as consistent monitoring tools for national regulators to assess banks' liquidity risk.

These include:

- A bank's contractual maturity mismatch – identifies the gaps between the contractual inflows and outflows of liquidity for defined time bands;
- Concentration of funding – identifies the sources of wholesale funding that are such significant that withdrawal of this funding could trigger liquidity problems;
- The amount of unencumbered assets available – identifies the quality and key characteristics, including currency denomination and location of banks' available unencumbered assets;
- A bank's LCR as converted into various currencies that are significant for the bank- in order to better capture potential currency mismatch, banks and supervisors should also monitor the LCR in significant currencies;
- Market- related monitoring tools – High frequency market data with little or no lag can be used as early warning indicators in monitoring potential liquidity difficulties.

C. Timeline for Implementation

The BCBS recommends that the LCR be introduced in phases commencing on January 1, 2015, with minimum requirement of 60 percent and increasing in equal annual increments of 10 percent, with full implementation of 100 percent by January 1, 2019.

This graduated approach is designed to ensure that the LCR can be introduced without disrupting the strengthening of banking systems or hindering the banks' ability to carry out banking business. Additionally, the BCBS recommends that individual countries that are receiving financial support for macroeconomic and structural reform purposes may choose a different implementation schedule for their national banking systems, consistent with the design of their broader economic restructuring programme.

The Committee is firmly of the view that the LCR is an essential component of the set of reforms introduced by the Basel III and, when implemented will engender a more robust and resilient banking sector.

Overview of Bank of Jamaica's Liquidity Risk Management Practices

The Bank of Jamaica (BOJ, the Bank) undertakes the supervision of deposit-taking financial institutions in Jamaica. As part of its ongoing effort to promote financial system stability through robust supervisory and regulatory policies, the BOJ has developed and circulated to Deposit-taking Institutions (DTIs) Standards of Best Practices in critical areas of DTIs operations. Among the standards issued, is a document on Liquidity Risk Management[39]. This document sets out "the minimum policies and procedures that each institution needs to have in place and apply within its liquidity management programme, and the minimum criteria it should use to prudently manage and control its liquidity". DTIs are monitored by the Bank and are subjected to scenario and stress tests to ensure their ability to withstand periods of liquidity shocks.

The Bank continuously reviews and updates existing policies and procedures to ensure that its supervisory framework remains effective. Consequently, in 2010 the BOJ conducted an assessment of Jamaica's current framework against the Basel III requirements, and found that Jamaica had already embedded the robustness and buffers that the BCBS was seeking to have adopted globally. Despite this, the Bank continues to strengthen its macro-prudential oversight. In its 2012 Consultation Paper on "Proposals for Enhancement of the Legislative Framework for the Deposit-taking Sector". These proposals once finalized will form the basis for what is referred to as an omnibus legislation for all deposit-taking institutions in Jamaica. As outlined in the Consultation Paper the BOJ contemplates regulatory and supervisory enhancements consistent with the BCBS Basel III standards. Specifically regarding the adoption of a LCR, the BOJ indicated that the omnibus legislation will incorporate the Basel III liquidity ratios once internal discussions are completed regarding implementation within the context of an existing statutory regime for liquid assets[40].

[38]Retail deposits are defined as deposits placed with a bank by a natural person. Deposits from legal entities, sole proprietorships or partnerships are captured in wholesale deposit categories.

[39]Retrievable at http://www.boj.org.jm/pdf/Standards-Liquidity%20Management.pdf.

[40]Refer the Bank of Jamaica (2012) Proposals for Enhancement of the Legislative Framework for the Deposit-Taking sector.

References

Basel Committee on Banking Supervision . (2008). Principles for Sound Liquidity Risk Management and Supervision .

Basel Committee on Banking Supervision. (2010). Basel III: International framework for liquidity risk measurement, standards and monitoring.

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The Bank of Jamaica. (1996). Standards of Sound Business Practices Liquidity Management .

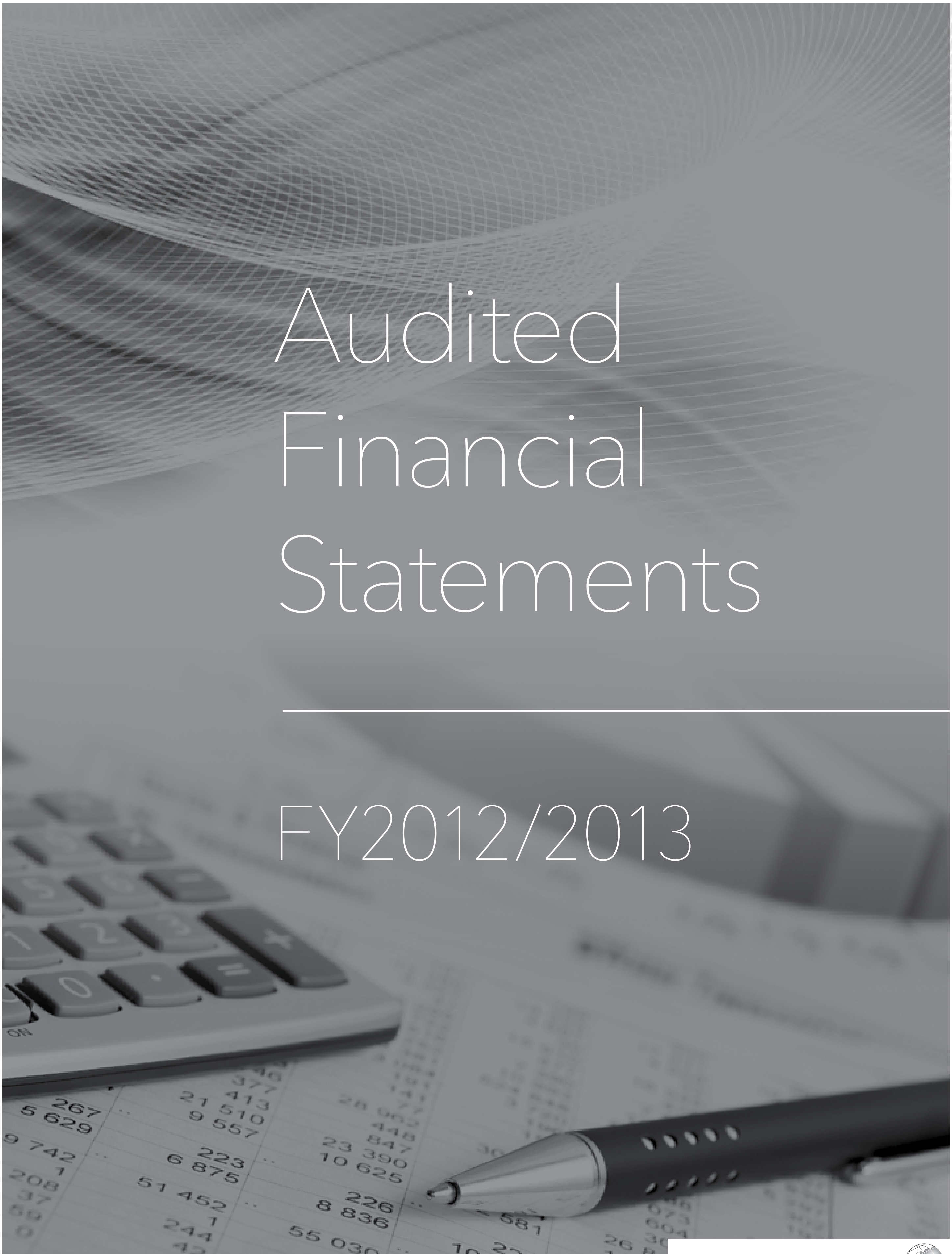
Board of Directors & Senior Executives Compensation

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	101,500	–	–	–	101,500
Director 1	33,500	–	–	–	33,500
Director 2	52,500	–	–	–	52,500
Director 3	77,000	–	–	–	77,000
Director 4	25,500	–	–	–	25,500
Director 5	18,500	–	–	–	18,500
Director 6	48,000	–	–	–	48,000
Director 7 (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	2,745,684	–	703,252	13,811,072
Director, Finance, Funds and Asset Management	4,511,140	1,127,785	975,720	–	546,678	7,161,323
Legal Counsel/Corporate Secretary	3,264,074	816,019	975,720	–	99,561	5,155,374
Acting Director, Interventions, Resolutions and International Relations	3,575,841	893,960	975,720	–	583,651	6,029,172
Acting Director, Monitoring and Risk Assessment	3,264,074	816,018	975,720	–	448,610	5,504,422



Audited Financial Statements

FY2012/2013

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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 59 - 87, which comprise the statement of financial position as at 31 March 2013 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
T: (876) 922 6230, F: (876) 922 7581, www.pwc.com/jm

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Jamaica Deposit Insurance Corporation as at 31 March 2013, 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.

PricewaterhouseCoopers

Chartered Accountants
27 June 2013
Kingston, Jamaica

Statement of Comprehensive Income

Year ended 31 March 2013 (expressed in Jamaican dollars unless otherwise stated)

	2013 $'000	2012 $'000
Income		
Insurance premiums	745,540	727,806
Interest earned	862,530	780,742
Foreign exchange gain	144,117	16,680
Other income	3,909	9,774
	1,756,096	1,535,002
Expenses		
Administration expenses (Note 6)	180,782	178,015
Surplus from Operations	1,575,314	1,356,987
Other Comprehensive Income -		
Fair value loss on available-for-sale investments	(209,276)	(58,899)
Revaluation gain on property, plant and equipment	-	8,225
Total Other Comprehensive Income	(209,276)	(50,674)
Total Comprehensive Income	1,366,038	1,306,313

Statement of Financial Position

31 March 2013 (expressed in Jamaican dollars unless otherwise stated)

	Note	2013 $'000	2012 $'000
ASSETS			
Cash at bank		91,867	542,227
Investment securities	8	8,276,122	9,075,955
Receivables	9	426,707	460,815
Property, plant and equipment	10	97,825	98,946
		8,892,521	10,177,943
LIABILITIES AND SHAREHOLDER'S EQUITY			
Liabilities			
Unearned premium income	11	78,411	441,225
Payables		16,367	97,419
		94,778	538,644
Shareholder's Equity			
Share capital	12	1,000	1,000
Capital reserves	13	56,393	56,393
Fair value reserves	14	15,334	334,968
Deposit insurance fund	15	8,725,016	9,246,938
		8,797,743	9,639,299
		8,892,521	10,177,943

Approved by the Board of Directors on 27 June 2013 and signed on its behalf by:

Peter Thomas — Chairman

Antoinette McKain — Chief Executive Officer

Statement of Changes in Equity

Year ended 31 March 2013 (expressed in Jamaican dollars unless otherwise stated)

	Share Capital	Capital Reserves	Fair Value Reserves	Deposit Insurance Fund	Total
	$'000	$'000	$'000	$'000	$'000
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
Surplus from operations	-	-	-	1,575,314	1,575,314
Fair value loss on available-for-sale investments	-	-	(209,276)	-	(209,276)
Total comprehensive income	-	-	(209,276)	1,575,314	1,366,038
Transaction with owner -					
Loss on National Debt Exchange (Note 16c)	-	-	(110,358)	(2,097,236)	(2,207,594)
Balance at 31 March 2013	1,000	56,393	15,334	8,725,016	8,797,743

Statement of Cash Flows

Year ended 31 March 2013 (expressed in Jamaican dollars unless otherwise stated)

	2013 $'000	2012 $'000
Cash Flows from Operating Activities		
Surplus from operations	1,575,314	1,356,987
Adjustments for:		
Depreciation	5,362	6,205
Interest income	(862,530)	(780,742)
Property, plant and equipment written off	-	13,016
Unearned premium income	(362,814)	176,076
Foreign exchange gain	(144,117)	(16,680)
Loss/(gain) on disposal of property, plant and equipment	296	(42)
	211,511	754,820
Changes in non-cash working capital components:		
Receivables	34,108	7,627
Payables	(81,052)	35,717
	(46,944)	43,344
Cash provided by operating activities	164,567	798,164
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(4,537)	(619)
Proceeds from sale of property, plant and equipment	-	221
Investment securities	(1,509,002)	(1,252,201)
Interest received	898,533	757,131
Cash used in investing activities	(615,006)	(495,468)
Effect of exchange rate changes on cash balances	79	11
(Decrease)/Increase in cash balance at end of year	(450,360)	302,707
Cash balance at the beginning of the year	542,227	239,520
Cash Balance at the End of the Year	91,867	542,227

The principal non cash transaction was in relation to the National Debt Exchange totalling $2,207,594,000 (Note 8).

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 Corporation 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 (Amendment), 'Presentation of financial statements' (effective 1 July 2012).

This amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income. The amendment requires entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to net surplus in the future. The Corporation will adopt the amendments from 1 January 2013.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Amendments to IFRS 7, 'Financial instruments: Disclosures' (effective from 1 July 2012). 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 securitization 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.

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 2012 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 IAS 1, 'Presentation of financial statements' (effective from 1 July 2013). 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.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

IAS 32 (Amendment) - Financial instruments: Presentation (effective for annual periods beginning on or after January 1, 2014). This amendment updates the application guidance in IAS 32, 'Financial instruments: Presentation', to clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The Corporation will apply the amendment from 1 January 2013 but it is not expected to have a significant impact on the financial statements.

(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.

2. Significant Accounting Policies (Continued)

(g) Investments

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

(i) Held-to-maturity

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

(ii) Available-for-sale

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

(iii) Accounting for the Fixed Rate Accreting Notes (FRANs)

In accordance with IAS 39, Financial Instruments Recognition and Measurement and IAS 1, Presentation of Financial Statements, the NDX transaction is treated as a disposal of Old Notes and an acquisition of New Notes. Generally, any difference between the carrying value of Old Notes and the fair value of New Notes (including FRANs) is recognised in the statement of comprehensive income as a gain/loss.

Initial recognition

For Old Notes that were classified as "available-for-sale", any gain/loss computed would be net of any unrealised gains/losses in equity at the date of exchange.

Having regard to the fact that the FRANs, which are initially on less favourable terms than other New Notes, are mandatory for state-owned/controlled entities, exchange of Old Notes into FRANs can be considered a "transaction with the owners in their capacity as owners" under IAS 1, Presentation of Financial Statements.

In these circumstances, any gain/loss arising on transactions with owners/shareholders is recorded directly in equity. Therefore, as a state owned/controlled entity, the loss arising on initial recognition of the FRANs is recognised directly in equity similar to a distribution. This loss does not, therefore, form a component of other comprehensive income (OCI).

2. Significant Accounting Policies (Continued)

(g) Investments (continued)

(iii) Accounting for the Fixed Rate Accreting Notes (FRANs) (continued)

Fair value
Due to the lack of a market in the FRANs, the fair value of the FRANs is determined based on the present value of the future cash flows using an appropriate discount rate based on market yields on other New Notes with similar maturity as the FRANs issued under the NDX.

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.

2. Significant Accounting Policies (Continued)

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

(j) Provision for losses
The Act requires that the Corporation shall review the size of its Deposit Insurance Fund at least annually having regard to its liabilities and potential liabilities and taking into account the advice of duly qualified professionals and, as necessary, make such recommendation to the Minister of Finance and Planning 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, there would be no effect on the carrying value in the current year. In the prior year, the carrying value would increase by $3,849,000 with a corresponding adjustment in the fair value reserve in shareholders' equity.

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

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.

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.

5. Financial Risk Management (Continued)

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

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

(a) Market risk

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

(i) Currency risk

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

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

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

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

5. Financial Risk Management (Continued)

(a) Market risk (continued)

(i) Currency risk (continued)

	JMD J$'000	USD J$'000	Total J$'000
		2013	
Financial assets			
Investment securities	7,589,435	686,687	8,276,122
Cash at bank	91,045	822	91,867
	7,680,480	687,509	8,367,989
		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

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 Corporation had no significant exposure to any other currency at year end.

	% Change in Currency Rate 2013	Effect on Surplus and Deposit Fund 2013 $'000	%Change in Currency Rate 2012	Effect on Surplus and Deposit Fund 2012 $'000
USD -				
Revaluation	1	6,875	1	10,524
Devaluation	10	68,750	0.5	(5,262)

5. Financial Risk Management (Continued)

(a) Market risk (continued)

(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.

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	3 to 12 months	1 to 5 years	Over 5 years	Non-Interest bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000
			2013			
Financial assets						
Investment securities	-	682,197	454,146	7,056,318	83,461	8,276,122
Cash at bank	91,827	-	-	-	40	91,867
	91,827	682,197	454,146	7,056,318	83,501	8,367,989
			2012			
Financial assets						
Investment securities	12,484	2,596,191	6,110,935	236,881	119,464	9,075,955
Cash at bank	542,187	-	-	-	40	542,227
	554,671	2,596,191	6,110,935	236,881	119,504	9,618,182

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 2013 $'000	Effect on Deposit Insurance Fund 2013 $'000	Effect on Surplus from Operations 2012 $'000	Effect on Deposit Insurance Fund 2012 $'000
Change in basis points:				
-100 (2012: - 75)	11,312	8,886	13,908	40,866
+ 250 (2012: + 75)	(18,122)	(34,433)	(13,908)	(40,866)

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.

5. Financial Risk Management (Continued)

(b) Credit risk (continued)

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.

(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.

5. Financial Risk Management (Continued)

(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 2013 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 31 March 2013). The fair value of financial instruments not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2; and

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

5. Financial Risk Management (Continued)

(d) Fair values of financial instruments (continued)

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

	Level 2	
	2013	**2012**
	$'000	**$'000**
Available - for - sale investments (Note 8) –		
Issued by Government of Jamaica	1,144,230	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:

	2013		**2012**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
	$'000	**$'000**	**$'000**	**$'000**
Investment securities -				
Held to maturity	7,131,892	7,131,892	1,863,745	1,867,594
Available-for-sale	1,144,230	1,144,230	7,212,210	7,212,210
	8,276,122	8,276,122	9,075,955	9,079,804

5. Financial Risk Management (Continued)

(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.

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 2012, there were 13 member institutions with total insured deposits estimated at $230.1 billion (2012 - $228.9 billion), of which the DIF covered 4.0% (2012 – 4.5%). 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 and Planning, prescribe the levying of additional premiums payable by Policyholders.

6. Expenses by Nature

Total administration expenses:

	2013 $'000	2012 $'000
Auditors' remuneration	1,037	988
Depreciation	5,362	6,205
Directors' emoluments -		
Fees	356	327
Management remuneration (Note 7)	13,839	13,646
Other	10,281	9,574
Printing and stationery	6,035	2,615
Professional fees	9,327	14,414
Public education	18,216	17,088
Repairs and maintenance	4,101	3,226
Staff costs (Note 7)	104,504	102,188
Utilities	7,724	7,744
	180,782	178,015

7. Staff Costs

	2013 $'000	2012 $'000
Wages and salaries	71,861	75,387
Statutory contributions	5,821	4,450
Others	26,822	22,351
	104,504	102,188
Management remuneration	13,839	13,646
	118,343	115,834

The number of persons employed by the Corporation at the end of the year was 24 (2012 - 23).

8. Investment Securities

	2013 $'000	2012 $'000
(a) Held-to-maturity -		
Government of Jamaica	7,056,318	1,850,497
Interest accrued	75,574	13,248
	7,131,892	1,863,745
(b) Available-for-sale -		
Government of Jamaica	1,136,343	7,105,994
Interest accrued	7,887	106,216
	1,144,230	7,212,210
	8,276,122	9,075,955

(c) Remaining Term to Contractual Maturity

	2013				
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Carrying Value
	$'000	$'000	$'000	$'000	$'000
Held-to-maturity:					
Government of Jamaica -					
Fixed Rate Accreting Notes	-	-	-	7,056,318	7,056,318
Interest accrued	-	75,574	-	-	75,574
	-	75,574	-	7,056,318	7,131,892
Available-for-sale:					
Government of Jamaica -					
Benchmark investment note	-	-	454,146	-	454,146
US$ Benchmark notes		682,197	-	-	682,197
Interest accrued	-	7,887	-	-	7,887
	-	690,084	454,146	-	1,144,230
	-	765,658	454,146	7,056,318	8,276,122

8. Investment Securities (Continued)

(c) Remaining Term to Contractual Maturity (Continued)

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

31 March 2013 (expressed in Jamaican dollars unless otherwise stated)

8. Investment Securities (Continued)

(d) Average Effective Yields by the earlier of the Contractual Repricing or Maturity Dates:

	2013				
	Within 3 Months	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Average**
	%	%	%	%	%
Fixed Rate Accreting Notes	-	-	-	11.56	11.56
Benchmark investment notes	-	-	7.25	-	7.25
US$ Benchmark notes	-	7	-	-	7

	2012				
	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

8. Investment Securities (Continued)

National Debt Exchange

In February 2013, the Corporation participated in the National Debt Exchange (NDX) transaction as part of a Government of Jamaica (GOJ) fiscal consolidation exercise, under which it exchanged its holdings of domestic debt instruments issued by the Government of Jamaica for new, longer dated debt instruments with lower coupon rates.

The key features of the NDX are as follows:

- Jamaican-resident holders of certain domestic debt instruments (collectively referred to as the "Old Notes") were offered new, longer-dated debt instruments (collectively referred to as the "New Notes"). Participation in the NDX was deemed voluntary.
- The New Notes offered have a variety of payment terms, including but not limited to fixed and variable rates in J$, CPI-indexed in J$, and fixed rates in USD.
- Eligible investors had the option to choose New Notes based on the type and maturity of the Old Notes which are offered for exchange based on certain election options. The election options only allow investors to choose New Notes of longer tenor relative to Old Notes. Most New Notes have lower coupon interest rates than Old Notes.
- Eligible investors who made offers to the Government of Jamaica to exchange Old Notes received an equivalent principal value (par-for-par value) of New Notes and the payment in cash of accrued interest, net of applicable withholding taxes, on the Old Notes up to but excluding 22 February 2013 (the Settlement Date).
- Specifically for public bodies, Fixed Rate Accreting Notes (FRANs) were offered with J$80 of principal value for every J$100 of principal value of Old Notes, whereby such principal will accrete to J$100 of principal value by the maturity date in 2028. The Corporation elected to receive FRANs as described below.

31 March 2013 (expressed in Jamaican dollars unless otherwise stated)

8. Investment Securities (Continued)

The NDX has had a significant impact on the expected future cash flows from the Corporation's investment portfolio. The table below summarises the impact on coupon rates and maturities of the instruments that were exchanged.

	Pre NDX	**Post NDX**
Jamaican dollar denominated instruments:		
Total face value exchanged	J$8,323,465,000	J$6,658,772,000
Weighted average coupon rate	11.15%	10.00%
Weighted average tenor to maturity	2 years	14 years
US dollar denominated instruments:		
Total face value exchanged	US$7,801,000	J$600,323,000
Weighted average coupon rate	7.25%	10.00%
Weighted average tenor to maturity	3 years	14 years

All US dollar denominated instruments were exchanged for Jamaican dollar denominated instruments.

Accounting for the Fixed Rate Accreting Notes (FRANs)
The Institute of Chartered Accountants of Jamaica (ICAJ) issued guidance on 15 February 2013 regarding the accounting treatment under IFRS of the NDX. As noted in that guidance, the offer of New Notes by the Government included the introduction of Fixed Rate Accreting Notes (FRANs). The ICAJ then issued further guidance on 4 March 2013 regarding the accounting treatment of FRANs in the books of state-owned entities. While the FRANs were available as an election option to all eligible investors holding fixed and variable rate Old Notes, the GoJ has indicated that they were specifically designed for state-owned entities, focusing on full long-term principal recovery, and less concerned with short-term accounting and yield.

The terms of the FRANs are as follows:
- A holder of Old Notes will be issued with J$80 of initial principal value of FRANs for every J$100 of principal value of Old Notes.
- Interest is payable semi-annually on 15 February and 15 August at a fixed rate of 10% p.a. on the accreted principal value with the first payment being due on 15 August 2013
- Accretion for the additional J$20 of principal value will commence in August 2015 as follows:
  - 0.5% of $100 every six months from 15 August 2015 until 15 August 2020;
  - Thereafter, 1.0% of $100 every six months until 15 August 2026; and
  - Thereafter, 1.5% of $100 every six months until 15 August 2027.
- The FRANs may be redeemed by the Government on any interest payment date after 15 August 2020. While the value at which the Note could be redeemed is not included in the offer document, we understand that redemption would be at the accreted principal value at the date of redemption.

8. Investment Securities (Continued)

General accounting treatment
As noted in the earlier ICAJ guidance, in accordance with IAS 39, *Financial Instruments Recognition and Measurement* and IAS 1, *Presentation of Financial Statements,* the NDX transaction is treated as a disposal of Old Notes and an acquisition of New Notes. Generally, any difference between the carrying value of Old Notes and the fair value of New Notes (including FRANs) would be recognised in the statement of comprehensive income as a gain/loss.

For Old Notes that were classified as “available-for-sale”, any gain/loss computed would be net of any unrealised gains/losses in equity at the date of exchange.

Fair value of the FRANs
Due to the lack of a market in the FRANs, there are no available price quotations on the FRANs at the date of the transaction date. Hence, the fair value of the FRANs was determined based on the present value of the future cash flows using an appropriate discount rate based on market yields at 28 February 2013 on other New Notes with similar maturity as the FRANs issued under the NDX.

Other New Notes with similar maturities are the Fixed Rate Notes maturing in 2024 and 2030 with coupon interest rates of 11% and 11.875%, respectively.

Embedded derivative
The redemption option on the FRANs gives rise to an embedded derivative which should be considered in determining fair value, as well as being considered for separation and recognition. Assuming market yields close to those above and that the redemption price is the accreted principal value as described above, our assessment is that the redemption price would approximate amortised cost. The embedded derivative is, therefore, not considered material for separate recognition.

Special accounting for state-owned/controlled entities on exchange into the FRANs
Having regard to the fact that the FRANs, which are initially on less favourable terms than other New Notes, are mandatory for state-owned/controlled entities, exchange of Old Notes into the FRANs have been recognised as a “transaction with the owners in their capacity as owners” under IAS 1, *Presentation of Financial Statements*, and the loss arising on initial recognition of the FRANs is recognised directly in equity similar to a distribution. This loss does not, therefore, form a component of other comprehensive income (OCI).

9. Receivables

	2013	**2012**
	$’000	**$’000**
Withholding tax	410,782	434,608
Prepayments	4,975	3,470
Other	10,950	22,737
	426,707	460,815

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 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
				672		
Additions	-	-	235		3,630	4,537
Disposal					(715)	(715)
At 31 March 2013	25,000	65,000	15,221	779	29,976	135,976
Depreciation -						
31 March 2011	-	3,466	10,920	-	18,037	32,423
Charge for the period	-	1,923	575	-	3,707	6,205
Revaluation	-	(5,389)	-	-	-	(5,389)
Disposal	-	-	-	-	(31)	(31)
31 March 2012	-	-	11,495	-	21,713	33,208
Charge for the period	-	1,976	631	-	2,755	5,362
Disposal	-	-	-	-	(419)	(419)
31 March 2013	-	1,976	12,126	-	24,049	38,151
Net Book Value -						
31 March 2013	25,000	63,024	3,095	779	5,927	97,825
31 March 2012	25,000	65,000	3,491	107	5,348	98,946

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 valuators. The revaluation surplus was credited to capital reserves in shareholders' equity.

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

	2013 $'000	2012 $'000
Cost	36,591	36,591
Accumulated depreciation	(8,593)	(7,679)
Net book value	27,998	28,912

11. Unearned Premium Income

This represents the portion of insurance premiums received from policyholders relating to the period subsequent to 31 March 2013.

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

	2013 $'000	2012 $'000
Balance at beginning of year	9,246,938	7,889,951
Surplus from insurance operations	745,540	727,806
Surplus from investment and administration operations	829,774	629,181
Loss on National Debt Exchange	(2,097,236)	-
Deposit Insurance Fund at year end	8,725,016	9,246,938

16. Related Party Transactions

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

(i) Representation on the Board of Directors;

(ii) 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;

(iii) Transactions and balances with the Bank of Jamaica for the period are as follows:

	2013 $'000	2012 $'000
Investment balance	8,276,122	9,075,955
Cash balance	82,565	525,840
	8,358,687	9,601,795

(b) Transactions and balances with key management:

	2013 $'000	2012 $'000
Wages and salaries	21,923	24,267
Statutory contributions	1,891	2,355
Other staff benefits	12,331	16,424
	36,145	43,046

(c) Transactions with the Government of Jamaica as shareholder:

As more fully described in Note 8, the Corporation participated in the NDX of February 2013, and exchanged existing instruments for FRANs. The resulting impact was a loss of $2,207,594,000 on these instruments, which has been recognised as a transaction with owners in their capacity as owners, and treated as a distribution in the statement of changes in equity.

Notes

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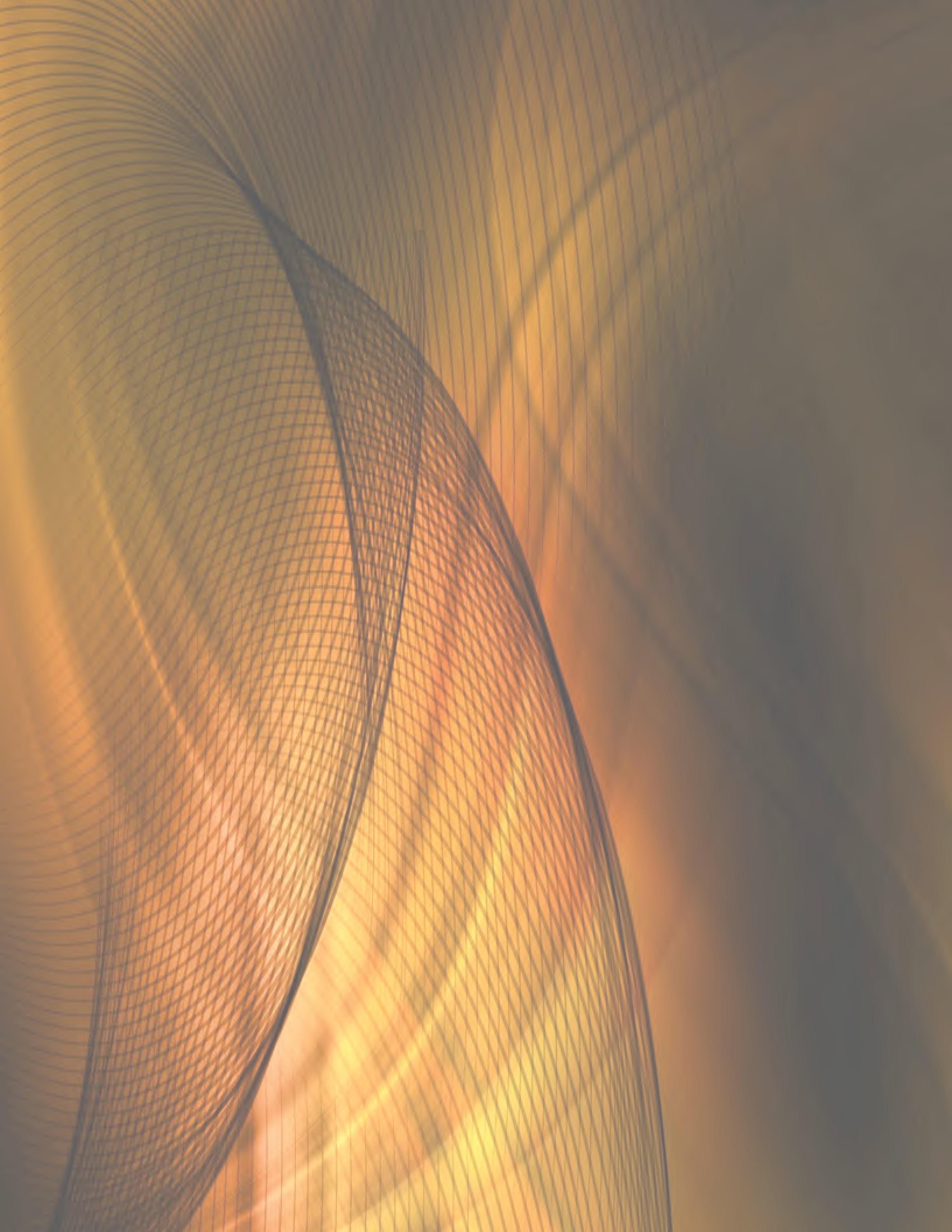

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