

# Appendix I

**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 07**

	COMMERCIAL BANKS			FIA LICENSEES			BUILDING SOCIETIES			SYSTEM TOTAL (aggregation of all 3 sectors)		
	Mar-07	Mar-06	Mar-05	Mar-07 <sup>b</sup>	Mar-06	Mar-05	Mar-07	Mar-06	Mar-05	Mar-07	Mar-06	Mar-05
<b>Number of institutions in operation</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>4</b>	<b>5</b>	<b>5</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>14</b>	<b>15</b>	<b>15</b>
<b>J\$Mn</b>												
<sup>1</sup> Total Assets (incl. contingent accounts)	452,424	395,064	349,568	47,399	47,246	50,356	108,738	92,557	83,146	608,561	534,867	483,070
<sup>2</sup> Total Assets (excl. contingent accounts)	436,476	383,213	340,482	46,575	46,772	49,801	108,670	92,492	83,085	591,721	522,477	473,368
Cash & Bank Balances	75,980	73,691	71,363	2,118	2,067	2,199	17,777	12,580	13,303	95,875	88,338	86,865
Investments [incl. Securities Purch.] (net of prov.)	161,247	145,773	120,689	28,240	34,198	39,058	38,141	36,472	34,045	227,628	216,443	193,792
Total Loans (gross)	164,106	131,964	118,445	13,406	8,973	7,052	46,073	38,309	31,238	223,585	179,246	156,735
Total Loans (net of IFRS prov.) <sup>a</sup>	161,127	129,212	115,475	13,350	8,925	6,980	45,451	37,699	30,631	219,928	175,836	153,086
Total Deposits	281,935	255,315	234,117	14,816	13,043	9,786	75,992	66,065	60,046	372,743	334,423	303,949
Borrowings (incl. repos)	78,205	61,901	47,346	22,829	25,606	33,344	11,278	7,196	4,032	112,312	94,703	84,722
Non-Performing Loans [NPL] (3 mths & >)	3,447	3,100	3,000	515	170	150	1,511	1,322	1,214	5,473	4,592	4,364
Provision for Loan Losses	4,554	4,074	3,983	181	133	165	1,018	929	893	5,753	5,136	5,041
<sup>3</sup> Capital Base	39,099	35,451	31,128	5,219	5,205	3,591	12,605	11,115	6,920	56,923	51,771	41,639
Contingent Accts [Accept., LC's & Guarantees]	15,948	11,851	9,086	824	474	555	68	65	61	16,840	12,390	9,702
Funds Under Management	0	0	0	201	186	173	0	0	0	201	186	173
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
<b>%</b>												
Rate of Asset <sup>1</sup> Growth	14.5%	13.0%	3.1%	0.3%	-6.2%	1.9%	17.5	11.3%	19.1%	13.8%	10.7%	5.4%
Rate of Deposit Growth	10.4%	9.1%	8.0%	13.6%	33.3%	7.3%	15.0%	10.0%	16.2%	11.5%	10.0%	9.5%
Rate of Loans Growth (gross)	24.4%	11.4%	15.6%	49.4%	27.2%	16.3%	20.3%	22.6%	24.9%	24.7%	14.4%	17.3
Rate of Capital Base Growth	10.3%	13.9%	11.3%	0.3%	44.9%	-6.2%	13.4%	60.6%	18.0%	10.0%	24.3%	10.6%
Rate of NPL (3 Mths & >) Growth	11.2%	3.3%	-1.8%	202.9%	13.3%	-13.8%	14.3%	8.9%	7.6%	19.2%	5.2%	0.2%
Investments :Total Assets <sup>1</sup>	35.6%	36.9%	34.5%	59.6%	72.4%	77.6%	35.1%	39.4%	40.9%	37.4%	40.5%	40.1%
Loans (net of prov.):Total Assets <sup>1</sup>	35.6%	32.7%	33.0%	28.2%	18.9%	13.9%	41.8%	40.7%	36.8%	36.1%	32.9%	31.7%
Fixed Assets:Total Assets <sup>1</sup>	1.8%	2.1%	2.2%	0.8%	0.5%	0.3%	2.0%	2.2%	2.2%	1.8%	1.9%	2.0%
Loans (gross) : Deposits	58.2%	51.7%	50.6%	90.5%	68.8%	72.1%	60.6%	58.0%	52.0%	60.0%	53.6%	51.6%
<b>Liquidity</b>												
Average Domestic Currency Cash Reserve:												
Average Prescribed Liabilities <sup>4</sup>	9.0%	9.0%	9.0%	9.0%	9.0%	9.1%	1.0%	1.0%	1.0%	7.1%	7.0%	7.1%
Average Domestic Currency Liquid Assets:												
Average Domestic Prescribed Liabilities <sup>4</sup>	36.8%	41.0%	34.6%	38.2%	36.6%	50.8%	22.0%	23.4%	26.6%	33.2%	36.6%	32.8%
<b>Asset Quality</b>												
Prov. For Loan Losses:Total Loans (gross)	2.8%	3.1	3.4%	1.4%	1.5%	2.3%	2.2%	2.4%	2.9%	2.6%	2.9%	3.2%
Prov. For Loan Losses: NPL (3 Mths & >)	132.1%	131.4%	132.8%	35.1%	78.2%	110.0%	67.4%	70.3%	73.6%	105.1%	111.8%	115.5%
NPL (3 Mths & >):Total Loans (gross)	2.1%	2.3%	2.5%	3.8%	1.9%	2.1%	3.3%	3.5%	3.9%	2.4%	2.6%	2.8%
NPL (3 Mths & >): (Total Assets) <sup>1</sup>												
+ Provision for loan losses)	0.8%	0.8%	0.8%	1.1%	0.4%	0.3%	1.4%	1.4%	1.4%	0.9%	0.9%	0.9
<b>Capital Adequacy</b>												
Deposits + Borrowings: Capital (:1)	9.3	9.0	9.1	7.3	7.5	12.1	7.0	6.7	9.4	8.6	8.4	9.4
Capital Base:Total Assets <sup>1</sup>	8.6%	9.0%	8.9%	11.0%	11.0%	7.1%	11.6%	12.0%	8.3%	9.4%	9.7%	8.6%
<sup>5</sup> Capital Adequacy Ratio [CAR]	15.5%	18.7%	16.7%	21.3%	27.7%	14.2%	20.3%	20.9%	13.1%	16.8%	19.7%	15.7%
NPL (3 mths & >):Capital Base+Prov for loan losses	7.9%	7.8%	8.5%	9.5%	3.2%	4.0%	11.1%	11.0%	15.5%	8.7%	8.1%	9.3%
<b>Profitability</b>												
<sup>6</sup> Pre - tax Profit Margin (for the Calendar Quarter)	26.8%	29.4%	23.7%	22.5%	29.8%	31.3%	16.1%	29.2%	33.3%	24.9%	29.4%	25.8%
Return on Average Assets (for the Calendar Quarter)	0.9%	1.0%	0.8%	0.6%	0.8%	0.8%	0.4%	0.8%	1.0%	0.8%	1.0%	0.9%
<sup>7</sup> Income Assets/Expense Liabilities (as at 31 March )	102.7%	102.5%	100.8%	111.5%	113.5%	107.5%	108.8%	110.8%	110.8%	104.5%	104.9%	103.2%

**Notes:**

n/a not applicable

- Based on unaudited data submitted to BOJ by supervised institutions up to 22 May 2007. Prior years indicators may have revisions arising from amendments, which in instances include IFRS restatements.

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

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

- i) provision for losses computed in accordance with IFRS; and
- ii) any incremental provisioning necessary under prudential loss provisioning requirements.

Consequently, "Total Loans (net of prov.)" represents gross loans net of IFRS loan loss provisions per (i) above

- <sup>b</sup> - Pursuant to sections 33 and 34 of the Financial Institutions Act and Regulations 15-20 of the Financial Institutions (Amalgamations and Transfers) Regulations 1997 and in accordance with the terms and conditions outlined in the Scheme of Transfer dated 6 December 2006, Citimerchant Bank Limited transferred its assets and liabilities to Citibank N. A. (Jamaica Branch), effective 31 October 2006. The transfer was approved by the Minister of Finance and the assets vested pursuant to the Financial Institutions (Transfer of Assets and Liabilities of Citimerchant Bank to Citibank N.A. (Jamaica Branch) Vesting Order, 2006. Consequently, on the 5 March 2007, Citimerchant Bank Limited surrendered its deposit taking licence under the Protection of Depositors Act (repealed and replaced by the Financial Institutions Act, 1992).

- Significant increase in non-performing loans for FIA Licensees during 2007, was reflected mainly at one licensee. The licensee has indicated that it has seen encouraging signs of recovery and does not expect any material losses in this portfolio.
- During April 2006, the Minister of Finance approved the granting of a licence under the Banking Act to Pan Caribbean Merchant Bank Limited (PCMB), which will be issued once the appropriate change of name of PCMB is effected. PCMB's existing licence under the Financial Institutions Act is to be surrendered on completion of the process.

<sup>1</sup> Total Assets and Liabilities reflected net of Provision for Losses and include Contingent Accounts (Customer Liabilities for Acceptances, Guarantees and Letters of Credit). In keeping with IFRS, Total Assets and Liabilities were redefined to include Contingent Accounts and in this regard, Current Year Ratios were computed in accordance with this principle and prior years were restated.

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

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

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

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

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

<sup>5</sup> Data includes interest accrued and payable on deposits and borrowings.

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

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

<sup>7</sup> Income Assets comprise FC Cash Reserves, Placements, Investments, Repo Assets and Loans less Non-Performing Loans (3 months & 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-07	Mar-06	Mar-05	Mar-07	Mar-06	Mar-05	Mar-07	Mar-06	Mar-05
Required Special Deposit Ratio *	n/a	1.0%	3.0%	n/a	1.0%	3.0%	n/a	n/a	n/a
Required Cash Reserve ratio	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	1% / 9%	1% / 9%	1% / 9%
Required Liquid Assets ratio (incl Cash Reserve)	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	5% / 23%	5% / 23%	5% / 23%

\* 5% Special Deposit requirement imposed on Commercial Banks and FIA Licensees in Jan 2003 pursuant to Section 28 A (1) of the Bank of Jamaica Act. Effective 16 May 2005, the required Special Deposit Ratio was reduced to 1%, following from a reduction to 3% on 1 March 2005. Effective 1 May 2006, the Special Deposit Ratio was removed.

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

## Appendix II

### Deposit Profile of Insured Institutions At Current Coverage Limit of \$300,000 as at December 31, 2006

Institutions	Total Insurable Deposits (\$'000)	% of Insurable Deposits Total	Estimated Insured Deposits (\$'000)	% of Insured Deposits Total	Total No. of Accounts Insurable	No. of Accounts Fully Insured	% of Accounts Fully Insured
<b>Commercial Banks</b>	253,529,790	75.08	98,069,696	73.11	2,170,409	2,058,375	94.84
<b>Building Societies</b>	69,955,648	20.72	35,104,894	26.17	1,564,416	1,516,696	96.95
<b>FIA Licensees</b>	14,171,799	4.20	972,417	0.72	8,911	6,703	75.22
<b>Grand Total</b>	337,657,237	100.00	134,147,007	100.00	3,743,736	3,581,774	95.67

## Appendix III

### SUMMARY RESEARCH ON COVERAGE LIMIT DETERMINATION

#### 'A Case for Adjustment in the Deposit Insurance Coverage Limit-Jamaica'

##### Background

An appropriate coverage limit is one of the key determinants of an effective deposit insurance scheme. Such a limit, by providing adequate coverage for the average depositor, without exacerbating moral hazard, will serve to enhance credibility of the deposit insurance system as a key component of the financial safety net arrangement. Depositor confidence in the banking system will thereby be heightened.

At establishment, the coverage limit for the Jamaican banking system was set at \$200,000 per depositor per insured institution. Three years later, in 2001, the limit was increased by 50 percent to \$300,000, with a subsequent (2002) adjustment in the premium assessment rate charged to institutions; from 0.10 to 0.15 percent of Insurable Deposits.

Given the developments in the wider macro-economic environment; the regulatory and policyholder environments for the ensuing five years since 2001, there is a strong case for reviewing the present coverage limit. The Corporation therefore embarked upon this review in July 2006 and completed the research work in March 2007.

##### Considerations

One of the critical design features of an effective deposit insurance scheme is the level of the coverage limit provided. This factors significantly in balancing the trade-off between market discipline and financial stability. Coverage varies widely among deposit insurance schemes, ranging from unlimited coverage (very few

schemes) to very low limits, consistent with their mandates and public policy objectives. Research has shown that the majority of existing schemes have limits which seek to satisfy the dual function of providing the highest possible coverage to small depositors while at the same time offering some level of protection to the basic payment system – the banking system.

In order to continue to meet its objective and remain credible therefore, the deposit insurer must ensure that the real value of the coverage limit is maintained, and targeted depositors are adequately covered. Among other country-specific objectives, these are the significant objectives that are common among deposit insurance systems. The imperative then is to set limits high enough to provide adequate protection to small depositors, yet low enough that the large depositors and institutions are incentivized to maintain market discipline. What is needed to protect depositors today has been approached from two standpoints, firstly calculate the present-day equivalent of the coverage at the time of last adjustment or inception (depending on the considerations) by adjusting for inflation and growth in national income. Secondly, determine the appropriate coverage level necessary to protect the average depositor.

In relation to income levels, deposit insurers worldwide have been guided by a rule of thumb which suggests that the coverage limit should be at least two times a country's per capita GDP. This is a very rough guide which deposit insurance agencies have used only alongside other considerations specific to their country. Some countries (notably, many developing countries) therefore have much higher ratios. Based on the most recent data available, the average for agencies worldwide is 2.4 times per capita GDP.

One of the associated benefits of deposit insurance is to encourage savings in the banking system. It should be noted that the average saver is assumed to be unsophisticated, with a preference for retaining their savings in institutions with which they are familiar; have easy access to, and have developed confidence in. While no specific study has yet been done to determine the impact of deposit insurance on the level of savings in depository institutions in Jamaica, the current climate seems to dictate a need for the right incentives to be provided to ordinary depositors to retain their savings in insured institutions.

A deposit insurance coverage limit that has experienced significant erosion in real value will not provide such incentives. Further, the credibility of deposit insurance could be seriously impaired, given the resultant perception that its mandate and public policy objectives are not being met. There is then the risk that if the limit is so low that it does not provide adequate coverage to the average bank depositor, the public could be lured into dismissing the concept of limited protection and in turn expects that the Government will provide full coverage at the time of a failure, notwithstanding deposit insurance.

## Findings

A number of deposit insurance agencies have made adjustments to their maximum coverage limit since establishment. In the last two years, Nigeria (NDIC), the Philippines (PDIC), Canada (CDIC) and the USA (FDIC) have addressed the issue of inadequacy of their coverage limits, driven among other things by inflation, GDP growth, exchange rate movement as well as the need to stem the weakening deposit base of banks in the

face of competition from other players in the market.

Given inflation and growth in the Jamaican economy over the past five years, there has been substantial erosion of the real value of the \$300,000 coverage limit – see table 1. Significant exchange rate depreciation has also eroded the value of protection in US\$ terms. There has been slippage in coverage in both number as well as dollar value terms. In 2001, of the total number of Insurable Deposit accounts, 97.05% enjoyed full coverage at the \$300,000 limit, but this level of coverage declined to 95.67% by the end of 2006. Similarly, in terms of dollar value the percentage fell to 25.42% compared to 32.06% at year end 2001. During this period the Coverage/Per Capita Ratio fell from 2.23 times in 2001 to 1.26 times in 2006. The inflation-adjusted 2001 coverage limit was \$504,108 as at 2006. Considerations for an adjustment of the limit in 2007 point to a coverage limit of at least \$549,478 to restore the purchasing power to the 2001 levels. The Coverage/Per Capita GDP ratio would also be restored to just above the 2:1 benchmark at this limit.

With respect to the policyholder business environment, the 5-year period to 2006 has been characterized by a series of significant developments. A more robust regulatory framework and intensity of supervision have contributed to a strengthened banking system. At end December 2006, the entire system was assessed as satisfactory. Through consolidation, mergers and voluntary liquidation, a contracted and much better managed banking system is now in place, with strong growth in deposits and earnings over the past three to four years. However in recent months profits have levelled off, as interest rates on fixed-income investments have been falling steadily and the competition for savings intensifies. Insured institutions will be

challenged to grow their core business in creative ways, without compromising their risk profile.

## Conclusion and Recommendations

If public confidence in the safety net arrangements is to be maintained and the credibility of the deposit insurance system upheld, the real value of the coverage limit should remain intact as designed. The limit must be at a level to convince the average depositor that his funds are safe. Further, it is important for the public to understand and buy-into the fact that Explicit Limited Deposit Insurance has replaced the Implicit Unlimited Government Guarantee. Hence there will be no government payout to depositors beyond the deposit insurance coverage limit.

The analysis suggests that an upward adjustment in the coverage limit to between \$500,000 and \$550,000 would serve to restore deposit insurance protection to the 2001 levels. However, based on projections for inflation and GDP growth, the real value could again be eroded within two years - see table 2. The recommendation is therefore for:

- 1 An increase to \$600,000, a limit that should remain adequate for at least four years. Given the present state of the financial system and heightened awareness to financial prudence on the part of institutions and depositors alike, there is no suggestion that moral hazard will be unduly exacerbated at this limit.
- 2 Given the structure of the Jamaican economy and the history with respect to inflation, indexation of the coverage limit is not being recommended, as such frequent adjustments would render the process unwieldy. However, a review at least once every five years is suggested.
- 3 No accompanying change in the premium assessment rate is being recommended at this time, as based on the current Fund assessment, the Deposit Insurance Fund should be able to absorb the additional liability; and further, one of the key objectives of deposit insurance is to provide protection with the least financial and social cost to the system. The recent Deposit Insurance Fund Evaluation (December, 2006) assessed the DIF as adequate in the medium-term, with no cause for acceleration in pace of growth. This was driven by, inter alia, the fund growth rate in the first eight years of operations being well ahead of projections; the projected stability in the macro-economic conditions and the satisfactory risk profile of the deposit-taking system.
- 4 The Corporation should conduct follow-up research work to examine not just the level of coverage, but also the structure.

Jamaica Deposit Insurance Corporation  
March 2007



**Table I**  
**History of Coverage Limit Performance**  
**Relative to Key Variables**

Year	Coverage Limit J\$	Coverage Limit US\$	Per Capita GDP J\$	Ratio of Coverage/ per Cap GDP	Exchange Rate *	Inflation Adjusted 1998 Limit	Inflation Adjusted 2001 Limit
1998	200,000	5,453	97,212	2.06	36.68	200,000	-
1999	200,000	5,085	109,200	1.83	39.33	212,000	-
2000	200,000	4,617	122,416	1.63	43.32	229,384	-
2001	200,000	4,330	134,352	1.49	46.19	245,441	-
2001	300,000	6,495	134,352	2.23	46.19	245,441	300,000
2002	300,000	6,156	146,564	2.05	48.73	262,867	321,300
2003	300,000	5,151	167,029	1.80	58.24	289,943	354,394
2004	300,000	4,887	189,028	1.59	61.39	329,375	402,591
2005	300,000	4,792	210,786	1.42	62.60	379,769	464,188
2006	300,000	4,547	238,188	1.26	65.98	412,429	504,108

**Table 2**  
**Projected Change in Effective Coverage**  
**Based on Key Variables**

Year	Coverage Limit J\$	Per Capita GDP J\$ (a)	Per Capita GDP US\$ (b)	Ratio of Coverage/ per Cap GDP	Inflation Adjusted 1998 Limit J\$ (c)	Inflation Adjusted 2001 Limit J\$*
2006	300,000	238,188	3,610	1.26	412,429	504,108
2006	600,000	238,188	3,610	2.52	412,429	504,108
2007	300,000	264,389	4,007	1.13	449,548	549,478
2007	600,000	264,389	4,007	2.27	449,548	549,478
2008	600,000	293,472	4,448	2.04	490,007	598,931
2009	600,000	325,754	4,937	1.84	534,108	652,835
2010	600,000	361,586	5,480	1.66	582,177	711,590

a) Per capita GDP assumed to have grown at 13 per cent in 2006 and 11 per cent thereafter

b) Exchange rate kept at annual average for 2006 throughout

c) Inflation adjustment based on annual average rates up to 2006 and kept at 9 per cent thereafter

\* Exchange rates and inflation rates used are annual averages

# Senior Executive Compensation

## For Fy 2006/2007

### Basic Salary Range

\$3,037,858 - \$6,017,349

### Allowances:

<b>Chief Executive Officer</b>	-	Residence (Security)	\$48,000
	-	Motor Vehicle	\$1,950,753
	-	Medical & Group Life	\$111,092
<b>Executive Directors</b>	-	Motor Vehicle	\$477,708
	-	Medical & Group Life	\$183,763 - \$186,044

### Notes:

- 1) The Senior Executive group includes the Chief Executive Officer and four Executive Directors, including the Legal Counsel & Corporate Secretary.
- 2) The CEO is employed on a contractual basis and is entitled to a fully maintained motor car or an allowance in lieu of a motor car.
- 3) The Senior Executive group is employed on a contractual basis and is entitled to gratuity payments of twenty-five per cent of annual basic salary.