Jamaica Deposit Insurance Corporation

Annual Report 2005/2006

Adding **Value** to the Safety Net

The Mission
of the Jamaica Deposit Insurance Corporation is to:

Provide Insurance against the loss of Depositors' funds;

Contribute to the stability and confidence in Jamaica's financial system;

Minimize the Corporation's exposure to loss through sound management of the Deposit Insurance Fund.

The Corporation will foster an environment which encourages employees to realise their full potential and exhibit professionalism and excellence.

Letter to the Minister

June 30, 2006

Dr. The Hon. Omar Davies, M.P.
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 2005/2006 and a copy of the Corporation's Accounts as at March 31, 2006, duly certified by its Auditors.

Yours sincerely,

H Walker

Ambassador Herbert Walker, O.J., C.D.
Chairman

Table of Contents

Chairman's Message

The JDIC was established almost eight years ago to manage the Deposit Insurance Scheme for the protection of depositors. It is part of the Financial Safety Net; the other parts being the Ministry of Finance and Planning (MOFP), the Bank of Jamaica (BOJ) and the Financial Services Commission (FSC).

The Safety Net so constituted was to protect users of financial services and seek to restore and maintain confidence and stability in the system.

As in previous years, this Report for FY2005/06 reflects output of the high standard expected from the Corporation's Management and Staff. The ongoing activities and respective projects confirm Management's understanding of the role and function of the Corporation as a Safety Net Player. A full grasp of the current and emerging issues in the wider economy and policyholders' business environment is also reflected in the Report.

At the policy level, the Corporation continues to be compliant with respect to all applicable Statutes. It has remained active in financial regulation, through membership and participation in the work of the Financial Regulatory Council (FRC). Established in October 2000, the FRC is the information clearing house of the regulatory agencies, with membership of the MOFP; the BOJ; JDIC and FSC. The Council's primary activities for the review year largely surrounded a comprehensive assessment of the financial system by an IMF-World Bank Mission, under the Financial Sector Assessment Programme (FSAP). After six months of work with the respective agencies, the FSAP Mission confirmed a general level of satisfaction with the system in terms of stability and reduced vulnerabilities and specifically endorsed the Corporation's approach and strategies in executing its mandate as Deposit Insurer.

I fully endorse the Corporation's Coordinated Public Education programme which has remained a critical component of the work among Safety Net Players. The vital role of our Policyholders in disseminating information to the public has also been fully recognized and collaboration with them strengthened. These partnerships were mutually beneficial.

Ongoing market testing regarding the level of deposit insurance awareness shows that achieving a fully informed public is of necessity a very lengthy process. Nevertheless, the surveys confirm incremental increases in the level of public confidence in the financial system since the enhancement of the regulatory regime, including the introduction of Deposit Insurance, following the financial sector crisis of the mid-1990's.

During the year the Board continued to pursue its activities within the context of ensuring good corporate governance practices. In doing so the Board was guided by, but not constrained only to, the minimum standards prescribed in the Deposit Insurance Act and the Public Bodies Management and Accountability Act. In addition, the outline of a Board Governance Policy document was approved. This will be completed in the next financial year.

The quality of delivery from the Corporation over the past seven years is attributed in large measure to the direction and guidance of its affairs by the Chief Executive Officer. The incumbent has not only been at the helm of the Corporation from the outset, but was instrumental in setting up the organization through Chairmanship of the Task Force, established for the purpose in September 1995.

Mr. Carr leaves us at the end of the calendar year 2006 and I would like to express my profound admiration for his dedicated service and in particular his sustained capacity for hard work. I would also like to record my deep appreciation for his outstanding contribution to the establishment of the deposit insurance scheme for the protection of depositors. I am pleased and proud to serve with someone whose performance is of such high quality.

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Ambassador Herbert Walker, O.J., C.D.

CEO's Report

During the FY2005/06, the Corporation completed seven full years of operation and is pleased to present this its eighth report.

The year in review can be considered another good one, not only for the Corporation but the policyholder community and the country as a whole. However, the year was not without its challenges with respect to the macroeconomy. Nonetheless, the country was able to achieve improvement in several areas as reflected in positive movements in a number of key macroeconomic variables.

Extreme weather conditions coupled with labour relations and wage disputes had an adverse impact on the productive sector at intervals throughout the year; while neither the single digit inflation nor budget deficit targets were met. On the positive side, the local and international investor communities continued to respond favourably to the fiscal management effort and general direction of the economy. This level of confidence has facilitated further stability in interest rates, which has fed into improved debt ratios; while the significant build up in the NIR has provided the cushion for containment of exchange rate depreciation.

The gradual improvements and necessary corrections in the economy have bolstered the financial performance of policyholders. At the same time, efforts at stringent enforcement of the regulatory machinery are being manifested in satisfactory overall condition ratings of the system in general. In this context of stability in the policyholder environment, the Corporation advanced the implementation of the necessary systems and procedures in anticipation of any problem periods in the future.

It is generally expected that in the event of the need to address ailing institutions, the Corporation will intervene in the most efficient and effective manner; reimbursing depositors promptly and providing assurance regarding the health and future prospects of remaining entities in the system. Armed with this knowledge prior to any difficulty and reinforced in a real life test, depositors and the public at large will have confidence in the system. Such confidence will help to preserve the integrity of the system and allow for sustained growth and stability.

There are some critical areas that every deposit insurer must pay close attention to in order to be in a state of proactive readiness. These are: clarity in authority and power; clear structure and understanding of the policies governing the scheme; adequate planning, systems and procedures and a strong and stable Deposit Insurance Fund, together with the facility to augment if necessary. To achieve this objective, the core operational and support departments of the Corporation continued to execute the respective projects as an integral part of the Strategic Planning process.

During the review period significant progress was also made in putting forward proposals for legislative amendments. Research continued on key elements of the deposit insurance scheme and policy positions developed. Work on the development of systems and protocols to facilitate paying out failed institutions progressed steadily, while Information and Communication Technology (ICT) development and infrastructure was being addressed in a holistic manner.

The Deposit Insurance Fund surpassed the $2 billion mark and at 1.8 per cent of Insured Deposits is nearing the 2-2.5 per cent Fund Target. It is projected that this target could be reached in FY2007/08.

The Corporation continues to recognize the importance of building strong partnership with key stakeholders, in particular, other Safety Net Players (the Ministry of Finance and Planning; the Bank of Jamaica and the Financial Services Commission,) and Policyholders, in achieving its strategic objective. It therefore sought and received stakeholders' support in strengthening these partnerships. In addition, the Corporation remained active in the international deposit insurance arena, especially through its membership in the International Association of Deposit Insurers (IADI). As a consequence, tremendous mutual benefit continues to accrue.

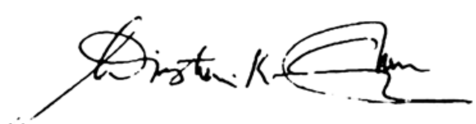
I wish to close this Report on a personal note, as I take leave of the Corporation at the end of calendar year 2006. This therefore is my last Report to you. It is with a sense of pride and satisfaction that I recall being associated with the Corporation even prior to its inception on August 31, 1998. In September 1995, I was nominated as

Chairman of a Task Force to identify the main policy issues and legislative requirements and to make recommendations for the introduction of an explicit deposit insurance scheme in Jamaica. I would like to take this opportunity to once again express my deep appreciation to the Canada Deposit Insurance Corporation (CDIC) in general and to its former President and CEO in particular, Jean Pierre Sabourin, for their outstanding technical assistance in making our Deposit Insurance Scheme a reality and their consistent support thereafter.

Much has been achieved since the Corporation was established almost eight years ago and a good foundation has been laid for the future and my successor. But let me express my profound gratitude first of all to my staff for their support over the years. We have worked together well as a team which now has the requisite skills, experience and expertise to take the Corporation forward, particularly as there are some interesting and challenging developments on the horizon.

I must also thank the other Safety Net Players and the Policyholders for their support. Mention must be made too of my experience with IADI which has been most rewarding because of the exposure it afforded me on the international scene and the lasting contacts I have made.

Finally, let me say how much I have thoroughly enjoyed and benefited from this latter part of my long career in the field of banking and finance. As I leave the Corporation, I am satisfied that thus far it has been fulfilling its mandate and mission and will continue to **"Add Value to the Safety Net".**



Winston K. Carr, C.D.

Corporate Information

AS AT MARCH 31, 2006

BOARD OF DIRECTORS

Ambassador Herbert Walker, O.J., C.D. - Chairman
Mr. Winston K. Carr, C.D. - Chief Executive Officer
Mrs. Bridgett Wilks - Nominee of the Financial Secretary
Mr. Rudolph Muir - Nominee of the Governor, Bank of Jamaica

Mr. David Lowe
Mr. Claremont Kirton
Dr. Michael Whittingham

EXECUTIVE MANAGEMENT

Mr. Winston K. Carr, C.D. - Chief Executive Officer
Mr. Everett Lewis - Director, Claims & Recoveries
Mr. Ronald Edwards - Director, Finance & Corporate Services
Mrs. Hughlette Jackson - Director, Insurance & Risk Assessment
Miss Antoinette McKain - Legal Counsel & Corporate Secretary

AUDITORS

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

BANKERS

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

OFFICE

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

Board of Directors

Left to Right:

Michael Whittingham

Antoinette McKain - Legal Counsel & Corporate Secretary

David Lowe

Ambassador Herbert Walker, O.J., C.D. - Chairman

Claremont Kirton

Rudolph Muir - Nominee of the Governor, BOJ

Bridgett Wilks - Nominee of the Financial Secretary

Winston K. Carr, C.D. - Chief Executive Officer

Executive Management

Left to Right:

Everett Lewis - Director, Claims & Recoveries

Antoinette McKain - Legal Counsel & Corporate Secretary

Winston K. Carr, C.D. - Chief Executive Officer

Hughlette Jackson - Director, Insurance & Risk Assesment

Ronald Edwards - Director, Finance & Corporate Services

Policyholders AS AT MARCH 31, 2006

Under the Deposit Insurance Act, 1998, membership of the Deposit Insurance Scheme is mandatory for all deposit-taking financial institutions licensed under the Banking Act, the Building Societies Act and the Financial Institutions Act.

During the year developments in the financial system did not result in any new licensees and none exited the system. Therefore at March 31, 2006 the number of institutions insured under the Scheme remained at fifteen (15).

COMMERCIAL BANKS (6)	Bank of Nova Scotia Jamaica Limited
	Citibank N.A.
	FirstCaribbean International Bank (Jamaica) Limited
	First Global Bank Limited
	National Commercial Bank Jamaica Limited
	RBTT Bank Jamaica Limited
BUILDING SOCIETIES (4)	FirstCaribbean International Building Society
	Jamaica National Building Society
	Scotia Jamaica Building Society
	Victoria Mutual Building Society
FIA LICENSEES (5)	Capital & Credit Merchant Bank Limited
	Citimerchant Bank Limited
	DB&G Merchant Bank Limited
	MF&G Trust & Finance Limited
	Pan Caribbean Merchant Bank Limited

Financial Sector Review

MACROECONOMIC ENVIRONMENT

Improvements in some key macroeconomic variables characterized the economic performance in fiscal year 2005/06; this amidst various challenging factors (mainly exogenous) which prevented the achievement of specific targets.

Positive performance included improved GDP growth; decline in the inflation rate; lower prevailing interest rates; increased inflows of foreign exchange; build up in the Net International Reserves (NIR) to above targeted levels; and a reduction in both the fiscal deficit and debt to GDP ratios. This was achieved in the context of continued improvement in investor confidence, both locally and internationally.

Key Macroeconomic Indicators

	2003/04	2004/05	2005/06
GDP growth (%)	2.0	0.4(r)	1.8(p)
Inflation (%)	16.8	13.2	11.4
182-day Repo Rate (%)	16.00	13.45	13.00
182-day TBill Rate (%)	15.57	13.46	13.18
Exchange Rate (J$/US$)	61.01	61.54	65.50
NIR (US$ Million)	1,568.7	1,901.6	2,078.1
Debt (% of GDP)	140.0	138.2	131.5
Fiscal Deficit (% of GDP)	5.3	4.8	3.3

r-revised p-preliminary

The Central Bank, the Bank of Jamaica (BOJ), maintained a conservative monetary policy stance for most of the fiscal year, containing interest rates offered on open market instruments at the May 2005 levels. Plans for further lowering domestic interest rates were set aside because of concerns about rising interest rates in the international capital market; higher than projected inflation; and the acceleration in exchange rate depreciation. The Bank's effort was concentrated on maintaining relative exchange rate stability through the sale of securities and foreign exchange to the market.

Interest rates on Treasury Bills commenced the year on a declining trend but inched up between September and December due to the off-target second quarter inflation and fiscal accounts out-turn. However, with the recovery of the agriculture sector influencing lower inflation, these interest rates returned to the declining path in January, with the benchmark 182-day rate ending the fiscal year at 13.18 per cent, 28 basis points below the 13.46 per cent recorded for March 2005.

…core inflation, was 5.0 per cent for the fiscal year, indicating a return to the BOJ's desired range

Inflation for FY2005/06 was 11.4 per cent, down from 13.2 per cent in FY2004/05. This out-turn, though higher than the original target of single digit (9.0-10.0 per cent) was notably lower than the revised target of 13.0-14.0 per cent, occasioned by the higher than normal price movements in the first half of the fiscal year. Inflationary impulses during April-September 2005 alone accounted for 10.2 percentage points (89.5 per cent) of overall inflation for the fiscal year. These included government determined factors such as increasing the General Consumption Tax (GCT) from 15.0 per cent to 16.5 per cent and bus fares by between 26-40 per cent, as well as external factors such as the soaring oil prices in the world market. Inflation was also pushed by the effects of extremities of weather conditions from drought (which influenced the first quarter out-turn), to major flooding in the second quarter.

During the final quarter of the fiscal year, there were significant reversals in the pricing of particular domestic food crops, as the agriculture sector rebounded. That part of inflation that can be explained by the movement in Base Money, core inflation, was 5.0 per cent for the fiscal year, indicating a return to the BOJ's desired range (4.0-5.0 per cent) and represents a reduction from the 5.2 per cent recorded for 2004/05.

Improving on the moderate first quarter out-turn, the economy grew by 1.8 per cent for the full fiscal year. Services production increased by 1.4 per cent while goods production grew by 1.9 per cent. GDP growth was influenced by significant recovery in the agriculture sector in the latter half of the fiscal year which contributed to growth of 7.5 per cent for this sector for the full fiscal year. Additionally, the GDP out-turn reflected positive performance in tourism related activities; construction; mining and electricity & water production.

Growth in the Financial and Insurance Services sector was estimated at 0.8 per cent, as there were improvements in both net interest and non-interest income. The performance of the sector was influenced by an increase in the volume of activities and the associated fees and commission income, along with a 50 per cent increase (from $1 million to $1.5 million) in the eligible mortgage benefit to National Housing Trust (NHT) contributors.

The fiscal year saw an increase in the rate of depreciation of the Jamaican dollar (J$) against its major trading counterpart. Relative to the US$, the J$ lost $3.96 or 6.4 per cent in value to trade at J$65.50:US$1 at the end of the fiscal year, from J$61.01:US$1 at the end of March 2005. This represents a notable acceleration in the rate of depreciation compared with 0.5 per cent in FY2004/05. The increase in the rate of depreciation was influenced by lower foreign exchange inflows during the first and second quarters, and increased demand, partly due to the issuance of Eurobonds; uncertainty regarding the direction of interest rates, given that the fiscal balance was off-target and heightened inflation concerns.

The stock of NIR was sufficient to cushion the shortfall of foreign exchange supply as the reserves grew by US$176.5 million during the fiscal year to US$2,078.1 million. This represents a 9.2 per cent build-up above March 2005 levels and compares with a 2.1 per cent increase in FY2004/05. Influencing the out-turn for the year in review was an increase in external borrowings, which included pre-funding for the FY2006/07 programme, as Central Government took advantage of the favourable market environment.

The planned balancing of the fiscal accounts was not achieved. Central Government operations generated a fiscal deficit of $21.0 billion, reflecting the combination of a $17.8 billion shortfall in revenue and grants and $3.2 billion of overspending. The off-target performance was attributed to the negative impact that tropical weather systems had on production; the fact that some revenue enhancement measures were not implemented as scheduled; plus additional spending for post hurricane rehabilitation work. Additionally, there was an increase in the public sector wage bill as a result of deviations from the 2004 Memorandum of Understanding on public sector emoluments.

The economic outlook for FY2006/07 is positive, with the responsible agencies projecting stronger growth (3.0-4.0 per cent); lower inflation (9.0-10.0 per cent) and continuation of stable financial markets, underpinned by adequate levels of reserves. Potential risks to inflation projections continue to include world oil prices and adverse weather conditions, given the forecast for another active hurricane season. The economy is expected to benefit from: continued strong growth in the world economy which should push demand for Jamaica's exports; increased credit to the private sector and the improving investor confidence.

REGULATORY ENVIRONMENT

Legislative Developments

The Bank of Jamaica, through its Financial Institutions Supervisory Division, has continued to promote and support legislation that ensures the safety and soundness of the financial system within a context of best practices. Some of the more important pieces of legislation passed or coming under consideration during the financial year are set out below:

Legislation Recently Passed

On July 5, 2005 the Bank of Jamaica's regulatory regime in respect of Money Transfer and Remittance Agents and Agencies came into effect and requires these entities to obtain the prior approval of the Bank of Jamaica before commencing business.

Pending Financial Regulations

The Banking and Financial Institutions (Form of Application) Regulations

These regulations will comprise the prescribed application form under the respective governing legislation. Among other enhancements, the prescribed form will require the principals signing on behalf of the applicant company to certify that the information given in the form is accurate to the best of their knowledge and belief. Similar reforms to the application form under the Building Societies Act will be subsequently pursued.

The Building Societies (Licence Fees) Regulations

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

The Banking (Qualification of Auditors) Regulations

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

The Banking (Credit Classification and Provisioning) Regulations

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

The Bank of Jamaica (Credit Union) Regulations

These regulations will bring the operations of credit unions fully under the BOJ's prudential supervisory regime and will therefore, among other things, cover: licensing; capital; reserves; prohibited business; remedial and intervention processes and the role of credit union associations.

Payment and Settlement System Legislation

The Bank of Jamaica in conjunction with the Jamaica Bankers Association (JBA) is spearheading the introduction of legislation to deal with the regulation of the payment and settlement system of Jamaica.

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

Non-Financial Legislation Passed

The Terrorism Prevention Act, 2005

The Terrorism Prevention Act came into effect on June 6, 2005. This Act, among other things, specifically imposes reporting and other operational control requirements on financial institutions to minimise the possibility of the services of the financial sector being used in any way to facilitate the financing of terrorist activities.

Pending Non-financial Legislation

The Proceeds of Crimes Act (POCA)

During the 2004/05 legislative year a policy decision was taken to pursue enhancements to the Anti-Money Laundering Framework through the passage of the Proceeds of Crimes Act (POCA). This statute will be based on the UK Proceeds of Crime Act and will be similar to the UK scheme of criminal and civil forfeiture.

The Financial Investigations Division Act (FIDA)

The passage of this Act will satisfy Jamaica's obligation to comply with recommendation 26 of the Financial Action Task Force (FATF) 40 (revised) recommendations which states that:

> *"Countries should establish a Financial Intelligence Unit that serves as a national center for the receiving, analysis...and dissemination of suspicious transaction reports and other financial information regarding money laundering or terrorist financing".*

Terrorism Prevention (Reporting Entities) Regulations

These Regulations will be promulgated under the Terrorism Prevention Act and will outline the operational controls that must be maintained by financial institutions, particularly when contemplating commencement of a business relationship or one-off transaction.

Credit Unions

At the close of the year 2005/06, there were 48 credit unions operating in the financial system, the movement having contracted marginally by 3 members from 51 at the previous year-end. Deposits in these institutions totalled $25.23 billion, which is 7 per cent of total deposits in the system on an asset base of $33.96 billion or 6 per cent of system total.

Credit unions however, remained the only group of deposit-taking institutions outside of the Deposit Insurance net, as the Regulations to allow licensing under the Bank of Jamaica Act and which would facilitate subsequent admission of credit unions to the Deposit Insurance Scheme was not yet tabled for Parliamentary sanction. Expectations were that the timetable would now be set to advance this process in the coming year.

As "Specified Financial Institutions" under the Bank of Jamaica Act since 1999, the BOJ has been conducting extensive on-site reviews of credit union operations and effecting of the licensing process will signal the commencement of full prudential supervision by the BOJ.

The Corporation continues to maintain close collaboration with the Bank of Jamaica to stay fully abreast of the developments with respect to regulation and licensing. The Corporation has also sought to open the necessary communication channels with the Jamaica Cooperative Credit Union League (JCCUL) to facilitate a smooth transition process at the appropriate time.

Financial Services Commission

The Financial Services Commission (FSC) is the Supervisor of non-bank financial institutions, thus together with the MOFP, the JDIC and BOJ, form an important part of the country's Financial Safety Net. During the FY2005/06, the FSC registered continued progress in the development of financial sector legislation and in the implementation of supervisory functions. Highlights of these activities are described briefly below.

After extensive stakeholder dialogue coordinated by the FSC, the regulatory framework for Pension Funds supervision became operational with Parliamentary approval of four sets of Pensions Regulations in March 2006.

The FSC continued to issue various bulletins and guidelines in order to enunciate or clarify new or improved regulatory measures. These bulletins and guidelines are posted on the FSC's website. The Commission continued to conduct both on-site and off-site examinations of licensees in the insurance and securities industries; carried out a number of investigations and reviewed numerous complaints from the public against licensees and registrants.

A major highlight of the FSC's public education campaign during the review year was the 2nd Annual Conference of Caribbean Securities Regulators, which was organized and hosted by the FSC in Kingston between November 7 and 8, 2005. The FSC also organized and conducted a Capital & Risk Management seminar in March 2006, aimed at both providers and users of insurance services.

Financial Sector Assessment Programme (FSAP)

At the invitation of the Minister of Finance & Planning, the Jamaican financial system underwent a comprehensive assessment by an IMF-World Bank Mission and the JDIC as one of the financial regulatory agencies participated fully in the exercise.

The FSAP is a comprehensive review of the strengths and weaknesses of a country's financial system with the main objectives being to:

- ***Make financial systems more resilient to shocks;***
- ***Identify strengths, vulnerabilities and risks;***
- ***Ascertain development and technical assistance needs; and assess observance and implementation of relevant international financial sector standards, codes and guidelines (ROSCS).***

The FSAP Mission was timely and the first full assessment of the system since the financial sector crisis and subsequent introduction of the present regulatory regime. As such it provided an important independent third party assessment of the state of the financial sector.

For its part, the Corporation found that the FSAP review complemented its own work, focusing on failure resolution capacity, inclusive of the legislative underpinnings, technical infrastructure and Safety Net co-ordination. The FSAP final report indicated that "the JDIC is in full compliance with most practices contained in the IMF's MFP [Monetary and Financial Policy] Transparency Code". Recommendations with respect to a few areas which could benefit from additional work were discussed with the Corporation.

The review took place over a six (6) month period from May to November, 2005. The final report was very positive, with the Mission confirming general satisfaction with the overall system, which exhibits a high degree of stability and significantly reduced vulnerabilities.

The Financial System Stability Assessment (FSSA) is available on the IMF website.

DEVELOPMENTS IN THE POLICYHOLDER ENVIRONMENT

Strong competition among the fifteen policyholders characterised the twelve month period ended March 31, 2006. This led to varied strategic responses which included offering of incentives such as periodic give-aways; engagement in strategic alliances and/ or conglomerate structures; plus introduction or expansion of web-based electronic banking solutions. Over the review period pronouncements were made and some actions taken in respect of penetrating new markets and expanding geographic reach, both local and overseas.

…the banking sector reported unaudited pre-tax profit of $4,544 million, which surpassed the previous year's profit of $4,154 million by 9.4 per cent or $390 million.

Amidst generally stable to declining interest rates, the banking sector reported unaudited pre-tax profit of $4,544 million, which surpassed the previous year's profit of $4,154 million by 9.4 per cent or $390 million. The 2006 profit out-turn reflected an appreciation in both percentage and dollar value terms relative to the 2005 result. This in large measure resulted from the effects of the policyholders' business expansion strategies, coupled with some change in asset mix to emphasize loans. Consequently, the banking sector's net interest margin improved with like results in the sector's pre-tax profit margin, 25.9 per cent as against 25.8 per cent in 2005.

For the period ended March 31, 2006, the commercial bank sub-sector reported pre-tax profit of $3,452 million, which accounted for an increased share of the system total, 76 per cent as against 70 per cent in 2005. The commercial bank sub-sector's share of profit remained the largest within the system, followed by the building society sub-sector's $714 million or 15.7 per cent and the merchant bank sub-sector's $378 million or 8.3 per cent.

Revenue generation within the banking sector improved by $1,533 million or 9.6 per cent to total $17,436 million as both interest and non-interest earnings strengthened over the period. Interest income grew by $1,438 million or 11.9 per cent to total $13,555 million, thereby improving its contribution to total income, 77.7 per cent as against 76.2 per cent of total in 2005. Non-interest income of $3,881 million comprised mainly service charges; commissions and fees, which bettered the previous period's $3,785 million.

The banking sector reported expenses aggregating $13,492 million, reflecting an increase of $1,101 million or 8.9 per cent for the period under review. The movement in total expenses resulted from increased overhead costs and interest expense, $878 million (12.1 per cent) and $223 million (4.3 per cent) respectively. Overhead costs of $8,141 million (comprising mostly staff costs) accounted for 60.3 per cent of total expenses, while interest cost of $5,351 million accounted for the remaining 39.7 per cent.

Although interest rates were generally stable to declining, net interest income (NII) grew by $1,215 million or 17.4 per cent to total $8,204 million for the period ended March 31, 2006. The increase in net interest income was driven by improved interest income, due to increased holdings of investment securities and new loans booked, as well as higher average loan balances over the period. Interest expense, on the other hand, grew at a comparatively slower pace – by $223 million

The primary ratio continued to be sufficiently above the prudential minimum of 6 per cent and augured well for capital adequacy within the sector.

or 4.3 per cent. The banking sector's efficiency ratio [overhead expenses/ (NII + Other Revenues)] approximated 67 per cent and remained outside the international benchmark ceiling of 60 per cent.

Between reviews, total assets (including contingent accounts) within the banking sector grew by approximately 10.7 per cent or $51,743 million to total $534,813 million as at March 31, 2006, the key source of funding being deposit liability and shareholders' equity. The banking sector's asset base growth was evidenced mainly in the loans and the investment securities/repos portfolios, which rose respectively by 14.3 per cent or $22,493 million and 11.3 per cent or $21,935 million. Notwithstanding the sector's focus on the expansion of the credit portfolio, at review date the investment securities/repos portfolio remained the principal constituent of total assets, 40.3 per cent.

Total assets in the system was supported by statutory capital base of $51,769 million. Capital base accretion of $10,130 million or 24.3 per cent was by way of injections and transfers from realized gains. This translated to a strengthened primary ratio (statutory capital base as a percentage of total assets) approximating 9.7 per cent as against 8.6 per cent in 2005 and 8.2 per cent

The banking sector's primary funding source, customer deposits, grew by $30,479 million or just above 10 per cent

in 2004, as capital growth consistently outpaced asset growth. The primary ratio continued to be sufficiently above the prudential minimum of 6 per cent and augured well for capital adequacy within the sector.

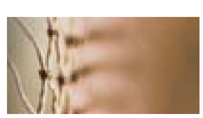
The banking sector's primary funding source, customer deposits, grew by $30,479 million or just above 10 per cent to total $334,423 million at review date. The commercial bank sub-sector contributed the largest share ($21,198 million) towards the overall increase while the merchant bank sub-sector reflected the largest adjustment in percentage terms, 33.3 per cent above the 2005 position.

Between April 1, 2005 and March 31, 2006, the commercial bank sub-sector remained predominant within the banking sector, approximating a market share with respect to total assets of 73.9 per cent ($395,042 million) relative to 72.4 per cent of total in 2005. Even though the sub-sector remained the dominant deposit taker and credit provider, there was a lesser share of system total in respect of customer deposits being 76.35 per cent as against 77 per cent of total in 2005 and loans being 73.6 per cent of total versus 75.6 per cent in 2005.

The building society sub-sector's asset base (including contingent accounts) aggregated $92,532 million, consequent on an expansion by 11.3 per cent or $9,386 million. Asset base as a percentage of the banking sector's total inched up by a further 9 basis points to near 17.3 per cent. Over the review period, the loan portfolio (particularly residential mortgages) continued to strengthen, as a number of customers sought to benefit from lower rates. The loan portfolio netted an increase by 22.6 per cent or $7,053 million (a reduced acceleration in percentage terms when compared with the growth by 24.9 per cent in 2005).

At review date, loans ($38,291 million) comprised primarily residential mortgages and represented 41.4 per cent of the sub-sector's total, overtaking investments as the leading asset category. Savings fund also grew at a much reduced pace of 10 per cent or $6,019 million relative to the previous period's growth by 16.4 per cent or $8,478 million. At $66,065 million savings remained the sub-sector's primary funding source, comprising largely shareholders' savings (share accounts).

The merchant bank sub-sector's asset base declined by $3,117 million or 6.2 per cent to total $47,239 million at review date, which further eroded the sub-sector's market share to 8.8 per cent (from 10.4 per cent in 2005 and 10.8 per cent in 2004). The asset category, investment securities/ repos of $34,198 million continued to account for the major share of total assets, 72.4 per cent, albeit a fall-off from the previous period's 77.6 per cent. The sub-sector's loan portfolio netted an increase by $1,921 million or 27.2 per cent to total $8,973 million in 2006 and accounted for 19 per cent of total assets.



Corporate Governance

The Deposit Insurance Act (DIA) sets out the Corporation's objects; powers and duties, including in general terms its obligations to depositors and its relationship with the Central Bank, the Bank of Jamaica, which regulates and supervises the JDIC's policy-holders.

Designated as a public body, the minimum standards of corporate governance are as prescribed in the Public Bodies Management and Accountability Act (PBMA). The JDIC is responsible to the Parliament through the Minister of Finance & Planning (the Minister).

THE BOARD OF DIRECTORS

Composition and Tenure

The Board is properly constituted of seven members. Three are ex-officio Directors, being persons holding the offices of Governor of the Bank of Jamaica; the Financial Secretary and the Chief Executive Officer of the JDIC. Each ex-officio member can appoint a nominee to carry out his duties on the Board. Presently the Governor and the Financial Secretary are represented by nominees. The other four Board members are appointed by the Minister and one of the four is appointed as Chairman. Term limits apply to the term of office of all Board members. The Board membership was fully constituted during the financial year.

The Financial Secretary, Miss Shirley Tyndall retired from that position at the end of April 2005 and the new Financial Secretary, Mr. Colin Bullock attended his first Board meeting in May 2005. In August, Mrs. Bridgett Wilks, the Director of the Financial Regulation Division of the MOFP was appointed to represent the Financial Secretary on the Board. There were otherwise no changes in respect of Board membership during the financial year.

Duties & Standard of Care of Directors

The DIA provides that the Board of Directors is responsible for the policy and general administration of the Corporation and the management of the Deposit Insurance Fund. The Board carries out its responsibilities through the appointment and employment of a Chief Executive Officer; the Corporate Secretary; other officers, agents and employees. The Board also remained guided by its duties and the standard of care to which it is held as delineated.

Under the PBMA, the Board is obliged to take necessary steps for the efficient and effective management of the JDIC and to ensure the accountability of all persons who manage the resources of the Corporation. The Board is also required to develop adequate information, control and evaluation and reporting systems; develop specific and measurable objectives and performance targets and advise the Minister on matters of general policy relating to the management of the JDIC.

Every Director and Officer of JDIC must, in the exercise of their powers and duties, act honestly and in good faith in the best interests of the Corporation.

Board Focus and Activities

The Board examined and approved the Corporation's Audited Financial Statements and the Annual Report for the previous financial year and submitted these to the Minister for tabling in Parliament.

The strategic planning process developed and used in the previous financial year was again adopted and so saw the continuation of the rolling three year Corporate Plan. The Plan for the period 2005/06 to 2007/08 was made operational with effect from April 2005. In January 2006 the Board also submitted to the Minister a draft of its Corporate Plan for the period 2006/07 to 2008/09 along with the Operating and Capital Budget FY2006/07. The Plan and budget were approved by the Minister and laid before the Parliament.

As in the previous year, the Board pursued its activities within the context of ensuring good corporate governance practices, guided by, but not constrained only to those minimum standards prescribed in the DIA and under the PBMA. This culminated in the Board's approval of the outline of a Board Governance Policy document which, when completed in the next financial year, will address corporate governance for the Corporation holistically under four broad headings, namely: Governance Process Policies to guide the Board's oversight responsibilities; Internal Control Policies; Linkages Policies that define relationships with and responsibilities of the Chief Executive Officer and End Policies to guide the Chief Executive Officer in his day to day management of the Corporation as the agent of the Board.

To ensure the robustness of JDIC's proactive readiness strategy, the Board received regular updates from Management on enhancements to the financial regulatory system being spearheaded by other financial safety net participants. It received updates on the expansion of the regulatory ambit of the Bank of Jamaica, with the impending regulation by that agency of credit unions, being designated deposit taking institutions. The Board also received updates on the Financial Services Commission's work on proposals for the protection of non-deposit taking financial institutions' clients, in particular where the proposals have the potential to impact JDIC's mandate and operations.

The Board reviewed on a consistent basis the Quarterly and Half Year Reports on the Corporation's performance against targets and its financial condition, as required for submission to the Minister.

The Board also received and reviewed Audit Committee Reports and on a quarterly basis, Investment Committee Reports; Economic Reports and Reports on the Performance of Policyholders.

With the impending retirement of the Chief Executive Officer, whose incumbency began at the establishment of the JDIC in August, 1998, the Board also gave substantial attention to succession planning in respect of this post to ensure that the new officer will be suitably qualified and capable of managing JDIC's affairs effectively and prudently.

Board Meetings and Committees

The DIA requires that the Board meets at least six times every calendar year. The Board of JDIC met eight times for calendar year 2005 and Board member attendance was satisfactory.

The Board has two established Committees, being an Audit Committee and an Investment Committee. The Audit Committee met five times in the financial year, while the Investment Committee met quarterly.

The Audit Committee

Mr. David Lowe remained Chairman of the Audit Committee and the other appointed Directors were Mr. Claremont Kirton and Dr. Michael Whittingham. A representative from the Ministry of Finance and Planning also sits on this Committee.

The Committee reviewed its Terms of Reference to ensure that it reflected, at a minimum, the requirements of the PBMA. It also reviewed performance management and financial condition reports from Management on a quarterly basis and for the half year, prior to the submission of these reports to the full Board for the latter's consideration.

All internal audit reports were reviewed and the Committee followed up to ensure the appropriate Management actions were taken in response to findings of the internal auditors. It also focused its attention on the issues relating to the establishment of the appropriate internal audit function for the Corporation, within the context of its mandate and size. The Audit Committee concluded that outsourcing would continue for at least the next financial year, when a full analysis of the scope of the function would be examined.

The Investment Committee

The Investment Committee met quarterly and received reports on the Corporation's treasury management activities. A comprehensive review of the investment portfolio distribution was undertaken to better reflect market realities; the liquidity needs of the Corporation and to optimize portfolio yield. The Committee provided oversight of execution of the investment portfolio management activities under the revised portfolio distribution. During the year, the Committee considered revisions in the Terms of Reference and Investment Policy by which it is governed. At year-end the documents were being reviewed for finalization and Board sanction in the coming year.

CORPORATE GOVERNANCE TRAINING

Due consideration was given to Corporate Governance training and exposure for the Board and Senior Management. Among the training programmes facilitated were a two-day "Effective Corporate Governance" workshop, conducted by the Jamaica Institute of Bankers and an Enterprise Risk Management (ERM) seminar. Audit Committee members, the Chief Executive Officer, the Director, Finance & Corporate Services and the Corporate Secretary attended the ERM Seminar. Participation allowed them to update themselves on the theoretical and practical implications of this more holistic approach to ensuring the efficacy of internal controls, through Corporate Risk Management for the Corporation.

OTHER COMPLIANCE AREAS

The staff of the Corporation continued to observe the requirements of the Corruption Prevention Act, the Declaration of Secrecy and Confidentiality required under the DIA. There were no requests from the public under the Access to Information Act.

Performance Scorecard

KEY OBJECTIVE	ACHIEVEMENT	FOLLOW THROUGH ACTIVITIES
1. To take forward proposals for legislative amendments, which, when passed, will serve to clarify and confirm important facets of the Corporation's authority as deposit insurer.	Draft proposals were completed and at year-end comments from external constituents were pending. Consideration was also given to other issues slated for a subsequent phase of amendments.	Consider key stakeholder (Regulators and industry) input and finalize proposals for submission to the Ministry. Address issues specific to Credit Union admission.
2. Effect the necessary research and policy review of identified elements of the Deposit Insurance Scheme.	All scheduled research projects commenced and were at different stages of completion at year-end.	Complete carry-over projects and pursue new ones scheduled, including review of the Coverage Limit and coverage of particular product types.
3. Continue to give effect to the high performance culture of the Corporation, through further enhancement of the human resources policies and procedures; particularly with respect to staff recruitment and retention, and the performance management system.	Notwithstanding the public sector restrictions with respect to employment and compensation, the Corporation was able to maintain a near full staff complement. Staff satisfaction survey suggests a general level of satisfaction, but with noted areas for improvement.	Within the context of the 2006/07-2007/08 public sector wage "contract" seek to raise the level of satisfaction, through the performance-based system and non-monetary incentives. At Board level, due consideration will be given to succession planning, with the impending departure of the CEO.
4. Develop requisite ICT policies and pursue acquisition and implementation of applicable systems and equipment for major upgrade.	Information Security and Business Continuity and Disaster Recovery Policies were completed, while the major system upgrade commenced but was still in progress at year-end.	Complete review and implementation of requisite policies and the system upgrade project.
5. Strengthen the investment portfolio management capabilities through acquisition of suitable treasury management software and appropriate staff training.	A number of software packages were evaluated and at year-end the process was well advanced.	Complete the evaluation and acquisition process and pursue implementation of the treasury management software and requisite training early 2006/07.
6. Commence risk assessment on individual policyholder; sub-sector and system-wide basis, within established guidelines under the Risk Assessment Framework (RAF).	Full implementation of the RAF was pursued throughout the year, supported by measured improvement in information flow from Regulator and Policyholders.	With the benefit of a full first round implementation of the RAF, the process will be reviewed and enhanced as required.
7. Continue the pursuit of readiness initiatives, to include: the conduct of modular simulation; advancement of work on the Deposit Base Transfer Project and completion of the Customer Service and Instructor's Training manuals.	The Customer Service Training Manual was completed and most of the modules for the Instructor's Payout Manual drafted. At year-end, other major projects were well advanced.	Conduct "modular" and "deposit base transfer" simulations as scheduled and pursue projects as planned.
8. Continue to intensify the scope of the public education activities to increase the level of public awareness. The annual target for incremental improvement in awareness level is 5 per cent.	The planned public outreach activities, viz. media; collaboration with Policyholders and Regulators; schools' programme and public forums, were executed. The response was positive, but a December 2005 public awareness survey indicated that the 5 per cent target was not achieved.	Expand scope of public education activities to have stakeholders play a more active role in the programme during 2006/07. Conduct market survey and make adjustments to the programme where dictated.

Review of Operations

A Committee of Management comprising the CEO and senior executive officers directs the overall operations of the Corporation. Through its core operational functions, Insurance and Risk Assessment; Claims and Recoveries and Deposit Insurance Fund Management, the Corporation pursued its planned activities, which at year-end were at varying stages of completion. The Departments, together with the Legal, Corporate and ICT support services, worked in accordance with the Corporate Plan and given the size and core competences of the Corporation, teamwork continued to play a pivotal role.

INSURANCE AND RISK ASSESSMENT

During the year the ongoing activities of the Department were sustained, being the continuous monitoring of developments in the policyholders' business environment, the regulatory environment, as well as developments in the wider economy. The Department continued to explore general and specific policy issues and developed positions to allow the Corporation to respond appropriately to existing and emerging issues. The planned activities as derived from the Corporate Plan were executed as scheduled, with the key ones being:

- ***Development of policy positions on select elements of the Deposit Insurance Scheme.***
- ***Strengthening of partnerships with Policyholders and the Regulator, as part of the mechanism through which to ensure effective administration of the Deposit Insurance Policy.***
- ***Operationalizing the Risk Assessment Framework, which embodies the modalities and guidelines to assure proper information and analyses, towards readiness to intervene troubled institutions and payout depositors as required.***

Policy Review & Research

At seven (7) years, the Corporation is still a relatively young institution; yet the period is long enough for some careful testing (by way of simulations) and analyses of the Corporation's authority and mandate and the capability and capacity to respond appropriately. To this end, considerable emphasis was placed on the Policy Review function. A number of general and specific research projects were undertaken in assessing deposit insurance coverage in terms of structure scope and adequacy.

A re-examination of the efficacy of coverage of foreign currency deposit accounts and associated fund management, served to endorse the present arrangement as it relates to structure, premium collection and investment portfolio management. Further examination of the coverage of different account categories and product types commenced during the year and these projects are being taken forward for completion in FY2006/07.

Insurance Policy Administration

Driven by the recognition that strong partnership with policyholders contributes significantly to ensuring adherence to the conditions of the Deposit Insurance Policy, the Corporation worked assiduously to further strengthen the partnership. In this regard, ongoing communication and collaboration with Policyholders was sustained through specifically appointed Liaison Officers and the annual Policyholders' Forum held March 9, 2006. Compliance level remained high with respect to provision of operational and financial information, while Policyholders continue to be very receptive and supportive of the various JDIC initiatives to continuously refine the discrete elements of the Deposit Insurance Scheme.

The Coverage Limit in place since July 2001 remained at $300,000 per depositor per institution and the premium assessment rate applicable to all institutions at 0.15 per cent of Insurable Deposits. The assessed premium for the system was $421.24 million and was fully paid as required in November, 2005.

Risk Assessment

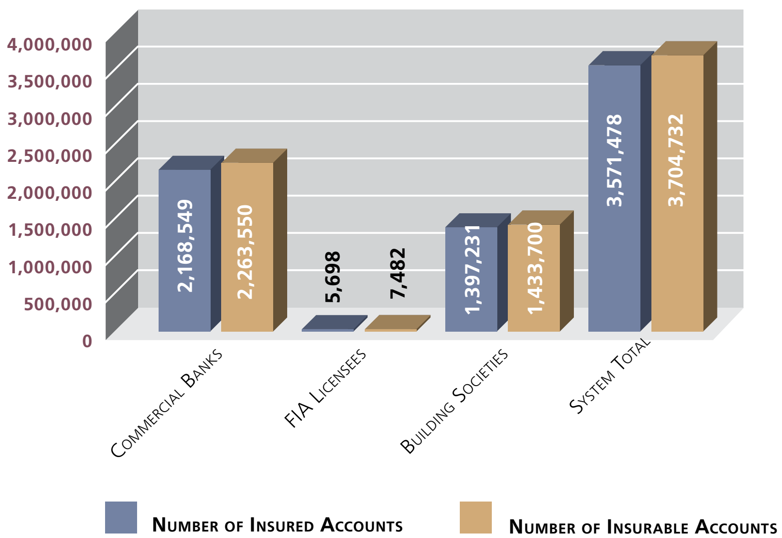
The Risk Assessment Framework developed and finalized towards the end of FY2004/05 was put into full operation during the year. The Framework calls for effective primary and secondary information gathering; data analysis and reporting at the levels of the individual institution, subsector and total system. Determining the respective risk profiles provide the basis for management information and decision making with respect to vulnerabilities in the system.

Based on information from the Supervisor, complemented by the Corporation's own second level assessment, the system exhibited general soundness, with no immediate and obvious threats to stability.

The Deposit Insurance Coverage Limit

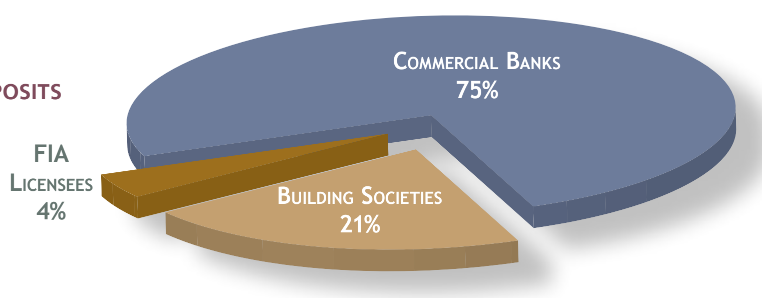
An annual survey of Insurable Deposits is conducted to assist the Corporation in assessing the risk to the Deposit Insurance Fund. This year's survey, based on the deposit profile of institutions as at December 31, 2005, revealed the same general pattern of distribution exhibited over the last five (5) years. Analysis of the data (see Appendix 1) reveals that an estimated 96.4 per cent of the number of accounts in the system have balances that are within the present coverage limit of $300,000.

Number of Accounts
Insurable vs. Insured



Total Insurable Deposits[1] in the system stood at $305.5 billion or 8 per cent above the $282.9 billion held by the fifteen (15) Policyholders at the end of December, 2004, reflecting a slight fall- off in the rate of deposit growth. The three subsectors, Commercial Banks, Building Societies and FIAs, retained respective shares of 75:21:4 per cent of the total Insurable Deposits.

Distribution of Insurable Deposits



[1]Insurable Deposits: Total deposits minus Government and inter-bank deposits.

Insured Deposits represent an estimate of the portion of deposit balances that is covered by deposit insurance and would therefore have to be paid out by the Corporation in the event of a failure. Of the $305.5 billion of Insurable Deposits, estimated Insured Deposits accounted for 42.9 per cent or $131.03 billion. The Deposit Insurance Fund balance of $2.25 billion at December 31, 2005 was 1.72 per cent of Insured Deposits, closing in on the 2-2.5 per cent Fund Target.

Notwithstanding the continued high level of coverage to small depositors and the improving adequacy of the Deposit Insurance Fund in relation to the assessed risk level of the insured system, the Corporation recognizes the need for periodic review of the coverage limit. The need for reexamination at this time is in the context of certain macroeconomic variables, in particular, movement in exchange rate and inflation. In this regard the Corporation took steps to undertake a full review of the coverage limit in the upcoming year.

Public Education

A comprehensive and effective public awareness programme continues to be an important component of the Corporation's key business strategies and the achievement of its corporate objectives, particularly with regards to its contribution to building stability and confidence in Jamaica's financial system. The Corporation has made some strides in this regard, as surveys conducted to measure public awareness indicate that the level of confidence in the financial sector has increased since introduction of deposit insurance.

The major public education activities during the year may be classified under the following: advertising and promotion; public forums and presentations; and the schools' programme. Many of these initiatives were achieved through sustained close collaboration with Policyholders, Regulators, other Deposit Insurers, as well as the International Association of Deposit Insurers (IADI). The support of these organizations continued to be invaluable.

Advertising and promotion was mainly through the continued airing of JDIC commercials, sponsorship of business and financial radio programmes and a weekly comic feature "Better Safe than Salt" in a weekend tabloid. 'Story boards' were developed to emphasize the core elements of the deposit insurance scheme; viz. membership; coverage

Launch of JDIC Exhibition at the Kingston & St. Andrew Parish Library

CEO Winston Carr raps with students of the Queen's High School and Senior Librarian Miss Carol Plummer.

Mrs. Hannah Dixon and Mrs. Beryl D'Aguilar, JDIC with Kingston College students.

limit; insured and uninsured products and institutions. These boards were displayed islandwide through parish libraries and proved to be another effective avenue through which to disseminate the deposit insurance message. The story boards complemented the material used in other outreach programmes, notably public seminars; schools' competition and expos.

The development and mounting of billboards at central locations across the island; a new television advertisement and a radio serial, are activities which were not completed during the year. These will be taken forward for full implementation early FY2006/07.

Montego Bay Seminar:
Chamber of Commerce representative Mr. Mark Hart (extreme left) along with seminar presenters.

During the year the Corporation hosted two public forums under the theme 'Protecting Your Financial Safety'. The Bank of Jamaica, the Financial Services Commission and the Jamaica Stock Exchange participated, each defining its role, which highlighted the interrelatedness of the Financial Safety Net. Public response to these seminars was positive and feedback through seminar evaluations confirmed that the audience was satisfied with structure and scope of the forums and the usefulness of the information disseminated. In addition to the public sessions, the Corporation also delivered talks to public and private sector organizations.

Section of audience at Montego Bay seminar

The Corporation continued to place much emphasis on the schools' programme and the dissemination of deposit insurance information to the school community. The Corporation hosted its third annual essay competition, the launch of which was followed by presentations to the participating schools. As in prior years, the students produced essays of a fairly high standard.

Essay Competition

(L-R): Cornellia Hayden, Ferncourt High School (3rd place); Stephanie Forte, Campion College (1st place); Jeffrey Johnson, Montego Bay Community College (2nd place) and Tyrone Hall, Meadowbrook High School tying for 3rd place.

Students who entered the Essay Competition along with their teachers.

Through the annual Policyholders' Forum and dialogue with JDIC Liaison Officers, new public education initiatives were discussed and are being considered for implementation. While policyholders' involvement in the programme is ongoing, during 'JDIC Blitz month', their activities to promote the work of the Corporation intensify. Training of policyholders' staff continued and remains an integral part of the programme, given that the institutions are among the most important channels for reach to depositors and the public at large.

Periodically, the effectiveness of the programme is measured against set performance targets. The most recent survey was conducted in December 2005 and the results indicate that public knowledge of the JDIC and deposit insurance remains relatively low, suggesting that the public outreach thrust must be sustained. Against this background, the Corporation will seek to intensify and enhance the scope of the programme for 2006/07.

CLAIMS AND RECOVERIES

Experience shows that despite the best effort of supervisors and deposit insurers, the occurrence of bank failures is a possibility. As a deposit insurer, the Corporation must continuously seek to enhance its capacity to deal with such events and maintain its operations in a state of readiness to be capable of responding quickly and efficiently to a policyholder failure. Hence, the Corporation, through the Claims and Recoveries

Department, pursued a number of initiatives to improve its ability to intervene failed institutions. The most significant of these initiatives were, the:

- ***Formulation of policies, protocols and systems for a Deposit Base Transfer (Insured Deposit Portfolio Transfer) and the execution of a series of simulated transfers;***
- ***Planning and implementation of a Modular Payout Simulation;***
- ***Development of a Customer Service Representative (CSR) Training Manual;***
- ***Compilation of an Instructor's Payout Training Manual and***
- ***Development of Payout Guidelines.***

Insured Deposit Portfolio Transfer

Potential difficulties relating to security, operational efficiency and effectiveness of customer service may render the Corporation's office unsuitable for the distribution of deposit insurance payments to depositors in the circumstance of a policyholder failure. The Corporation has therefore embarked upon an Insured Deposit Portfolio Transfer Project. Such a transfer is an arrangement whereby the failed institution's depositors payment information is transferred electronically to a healthy policyholder under an agency agreement. That policyholder then undertakes the payment distribution function on behalf of the Corporation.

The development of project, policyholder, legal, business process, information and communication technology documentation was the principal activity undertaken during the review year. An assessment of the scope of the documentation was conducted at mid-year and this indicated that there was need for substantial expansion. Reasonable progress has been made in compiling the documentation, however, revised timelines had to be introduced, based on which this component of the Project is scheduled for completion during FY 2006/07. Thereafter, the Corporation will, with the collaboration of its policyholders, be moving towards the implementation of a series of Deposit Base Transfer simulations during FY 2006/07 – FY 2007/08.

Modular Payout Simulation

Recognizing the need for periodic testing of its readiness status in handling the reimbursement of depositors of a failed policyholder (payout), the Corporation has taken the decision to implement an annual Modular Payout Simulation. These simulations are restricted to a limited number of the major elements of the components of the payout process. During the review period a successful simulation, comprising two components, was conducted.

The evaluation report compiled on completion of the exercise provided many useful recommendations and identified some unresolved issues requiring further attention. Given that the Corporation has not faced the acid test of an actual payout and it is still in the process of instituting and enhancing its institutional capacity for handling such an event, these recommendations and findings were not unexpected. Indeed one of the benefits of a simulation is the opportunity to trouble shoot and address possible problems before they can impact the work of the Corporation. Some of the issues highlighted by the exercise were subsequently resolved; however, there were others of a complex nature or requiring the input of departments across the Corporation which could not be resolved in the short run. The related pursuits are expected to continue into FY2006/07.

Payout Training Manuals

During a policyholder intervention the effectiveness of communication plays an important role in the maintenance of depositor confidence and the stability of the financial system. Once an institution fails, the number of telephone calls to the Corporation and enquiries through other channels of communication are expected to increase exponentially. Responses will be handled by customer service representatives (CSR) specially recruited for this purpose. These CSRs will have to be trained within a very short period so that they may efficiently execute their function. Recognizing the necessity for training in this circumstance, the Corporation has therefore developed a comprehensive user training manual for customer service representatives.

Conducting a payout is a specialized and complex operation, requiring a knowledge base which must be developed quickly by the staff involved. Training is an essential ingredient in equipping the human resource to fulfill its role and function. However, the training experience may be enhanced by the quality of the training material, but that material must satisfy the needs of not only the users but also those of the trainers. With this in mind, the Corporation initiated the drafting of an Instructor's Payout Training Manual. The most likely scenario in which this product would be used is in the actual instance of a pending institution failure. An alternative use is in the training and education of new JDIC staff members. By year-end significant progress had been made in the compilation of the document.

Bank failures occur infrequently, but when they do occur, the intervention staff should have at their disposal well documented and up-to-date procedures which are user friendly. In an effort to simplify and build on the existing documentation, the Corporation commenced a project for the development of Payout Guidelines, consisting of management work plans; business process flow charts; activity lists and check lists for each of the major modules of a payout. The documentation for most of the modules was drafted during the review year and those which were outstanding are scheduled for finalization during FY 2006/07.

FINANCE AND CORPORATE SERVICES

Financial Overview

For FY2005/06, the Corporation returned another satisfactory year of financial operations; measuring well against the key performance targets. Total income for the year, was $724.5 million, comprising premium income, surplus from investment activities and other income. After accounting for administrative expenses, an overall surplus of $623.5 million was realized. This represented an increase of 14.5 per cent over the $544.7 million 2004/05 surplus.

For the period, April 2005 to March 2006, the income earned on investments plus gain on foreign currency transactions amounted to $335.8 million, while the Corporation incurred operating expenses of $101 million, resulting in a surplus of $234.8 million on investment and administrative operations. Analysis of the operating expenses for the year reveals an expenditure pattern almost identical to that of the prior year:

EXPENSES	2005/06 - %	2004/05 - %
Staff Costs	62	62
Public Education	13	13
Professional Fees	5	6
Depreciation	4	4
Other	16	15
TOTAL	100	100

The key performance ratios were in line with the set targets and consistent with those for the prior period. Of note, the Expense Control and Net Surplus ratios outperformed the targets, while Return on Assets and Asset Management (total income as a percentage of total assets) were slightly off target, as a direct result of the higher than expected increase in assets. The comparative out-turn of key ratios is as set out below:

RATIOS	2006 - Actual %	2006 - Target %	2005 - Actual %
Expense Control	13.9	15.0	13.7
Net Surplus	86.1	85.0	86.3
Return on Assets	23.2	23.6	26.9
Asset Management	27.0	28.0	31.2

Review of Operations *cont.*

Total assets increased to $2,692.9 million at March 31, 2006, a 33 per cent growth over the previous year's $2,021.8 million. Consistent with the core investment operations, asset growth was reflected primarily in the investment category, with the utilization of premium income to acquire additional securities and the reinvestment of securities income.

The primary fixed assets holdings of the Corporation, its land and building were revalued to $50 million as at March 31, 2006. The valuation was conducted by an independent qualified valuator on the basis of open market valuation. The assessed revaluation surplus of $15 million was credited to capital reserves, a component of shareholders' equity.

The estimated fair values for investment securities have been determined using available market information and appropriate valuation methodologies. Unrealised gains or losses arising from changes in the fair value of securities classified as available for sale are recognized as fair value reserves.

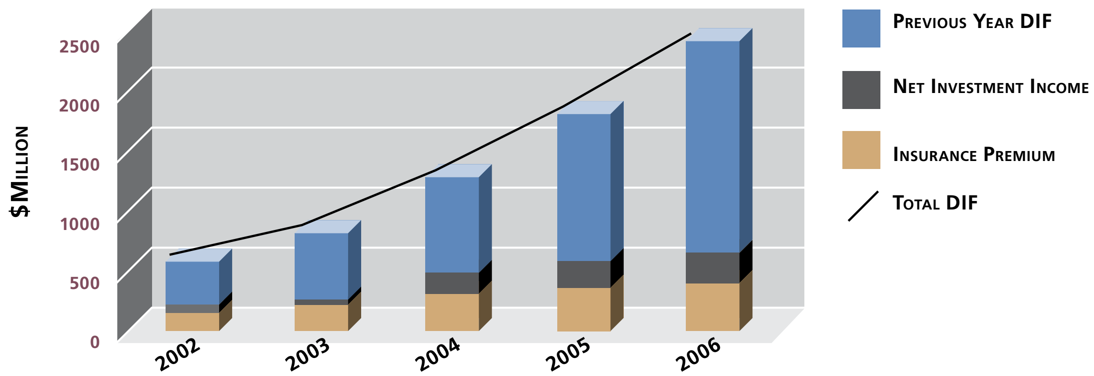
The Corporation is not subject to the provisions of the Insurance Act. It is also exempt from income tax, transfer tax and the payment of stamp duty, recording and registration fees. Otherwise, all statutory payments and returns were made in compliance with the relevant statutes and regulations.

The Deposit Insurance Fund

At end of year March 31, 2006, the Deposit Insurance Fund (the Fund or DIF) stood at $2.42 billion, experiencing a growth of 34.8 per cent when compared with the previous year-end balance of $1.79 billion. The Fund comprises deposit insurance premium income plus investment income, net of operating expenses, with a 54:46 per cent split, as was the case for the previous year. Total premium from policyholders, calculated on the basis of 0.15 per cent of the policyholders' Insurable Deposit liabilities as at December 31, 2004, amounted to $421.24 million for the insured period – November 2005 to October 2006. However, only $175.51 million is reflected in the statement of operations for the twelve month period to March 31, 2006, as premium is paid in advance and taken into income only as and when earned. The balance of $245.72 million was Unearned Premium Income.

The following graph shows a five year movement of the Deposit Insurance Fund and its components (see five year statistics in Appendix III). The balances are as at March 31 each year.

Deposit Insurance Fund (DIF)



Investment Portfolio Management

The Corporation's investment activities continued to be guided by the Treasury Management Committee at the day to day operational level and at the policy oversight level by the Investment Committee, in accordance with the requirements of the Investment Policy.

Under Section 17(2) of the Deposit Insurance Act, the Corporation is obliged to invest most of its available resources in Government of Jamaica Securities such as Treasury Bills, Debentures, GOJ Bonds and Local Registered Stocks. A total portfolio of $2.56 billion was invested in these instruments at March 31, 2006. This represented a 33.7 per cent increase over total investments of $1.91 billion at the end of the previous year. During the year, a comprehensive review of investment portfolio distribution was undertaken to better reflect the market realities; the liquidity needs of the Corporation and to optimize portfolio yield.

In compliance with the International Financial Reporting Standards, the investment portfolio was classified into two categories, viz. Instruments Held to Maturity or Available for Sale.

The average return on the investment portfolio declined to 14.8 per cent from 18.7 per cent in FY2004/05, reflecting the continued downward trend in rates on fixed income securities, consistent with Government's fiscal policy objectives.

Human Resources and Training

At the beginning of the year, the staff complement stood at 22, but was reduced to 19 persons, consequent on the departure of 3 members of staff. Two of the vacancies created by these departures were filled during the year, along with two new positions which were approved by the Ministry of Finance and Planning. By year-end with the exception of one, all positions were appropriately staffed with a complement of 23 employees. The two new positions allowed for additional administrative support services (Administrative Assistant) and for the strengthening of the technical and managerial capabilities of the Claims & Recoveries department (Claims & Recoveries Analyst). The position of Information and Communications Technology (ICT) Project Manager remained vacant, pending further rationalization of the critical ICT Unit and function.

As a Statutory Corporation, the JDIC was constrained by the terms of the two-year Memorandum of Understanding (MOU) between the Government of Jamaica and the Jamaica Confederation of Trade Unions. As such there was no adjustment in emoluments for the second successive year, but the Corporation sought to offer other non-monetary incentives to retain and motivate staff. This MOU expired on March 31, 2006.

A primary objective of the Corporation is to ensure that it maintains a complement of competent and highly motivated staff, capable of delivering at the standard set by the Corporation. Corporate and staff performance continued to be monitored through the Performance Management System.

During the year, opportunities were provided for staff to enhance competency and efficiency in specific deposit insurance courses as well as various other general operational areas. Training was accessed locally and internationally by way of residential as well as off-site (via the internet) conferences, seminars and workshops. Among the facilitators were: Jamaica Employers' Federation; the Jamaica Institute of Bankers and the Private Sector Organization of Jamaica.

A primary objective of the Corporation is to ensure that it maintains a complement of competent and highly motivated staff, capable of delivering at the standard set by the Corporation.

Through partnership with other Safety Net Players, the Corporation also took advantage of exposure opportunities through the Bank of Jamaica; the FSC and other Public Sector training as required. The Corporation continued to facilitate access to similar opportunities at the international level through the International Association of Deposit Insurers (IADI) and sister Deposit Insurance agencies.

The Corporation sees the IADI Annual General Meeting and Conference as an important vehicle through which to access professional development as well as further grounding in deposit insurance specific training for senior management. To this end, this year the Director Insurance & Risk Assessment was selected to attend the 4th. Annual Conference along with the CEO. Under the theme "Challenges for Deposit Insurers in Resolving Bank Failures" the conference was held in Taipei, Taiwan, September 28-29, 2005. Topics covered in the various sessions included:

- ***Initiatives by Financial Safety Net Players to help make banks "too good to fail"***

- ***Guidance for Aiding the Resolution of a failed Bank***

- ***Contingency planning for dealing with a failed bank***

- ***Promoting International Cooperation***

- ***Guidance for Promoting Effective Interrelationships***

The discussion and analyses of the myriad of issues proved to be very insightful and the JDIC team came away with a reinforcement of the need for consistency of mandate and powers and the critical resources required for effective failure resolution; these being: Necessary Legal Authority; Adequate Funding; Appropriate Human and Technological Resources.

Taking a holistic approach to training and development, the Corporation's training and development policy includes the provision of tangible support to staff in the pursuit of continuing professional development through their own initiative. During the year three members of staff were being so supported in pursuit of graduate level training.

Including an outward looking approach to training, during the year, the Corporation also partnered with the UWI Department of Economics in providing training for one student in the MSc. Programme, through an eight week internship at the Corporation.

Information and Communication Technology

The Corporation continues to recognize the critical importance of information and communication technology (ICT) in the effective discharge of its mandate. ICT Development, identified in the previous financial year as a key medium term business strategy, was retained.

The three year ICT Strategy and associated budget is directly aligned with the overall Business Strategies. The strategy recognizes the need for the Corporation to adopt and implement a flexible but disciplined Application Architecture, with supporting policies to cater to current organizational performance and compliance requirements and guide system changes over time.

Work preliminary to upgrading the information and communication infrastructure planned for the year was pursued, but remained behind schedule at year-end. The process has been protracted due primarily to the necessary lengthy assessment of the systems specification uniquely relevant to the Corporation's need and the requirements of the public sector procurement procedures to which the Corporation is subject. The exercise will be taken into FY2006/07 for completion and implementation.

Information Security and Business Continuity and Disaster Recovery Policies were documented during the year. They are intended for use in governing security operations and for control of the various assets that comprise the current technology infrastructure. These are being reviewed for inclusion in the overall Corporate Policy.

Administration and Property Management

For the review period, there continued to be assessment and updating of all administrative and operational procedures to ensure efficiency and reliability of operations. For operational requirements which are outsourced, careful attention was given to ensuring that contractors delivered according to schedule and that the plant, machinery and equipment functioned well.

In anticipation of an active hurricane period, the Corporation took precautionary measures in preparing for the season and was able to effect prompt return to normality following two forced periods of disruption in operations.

Environmental, safety and security issues were also considered from a Corporation as well as community perspective, as the Corporation put the necessary maintenance and preventive systems in place. The Corporation continued to maintain and benefit from membership in the New Kingston Civic Association.

Library

The Library continues to expand in resources and to fulfill its mission by providing quality information to its users. In addition to the library's main users, the staff of the Corporation and repeat users such as the Essay Competition participants, there was an increase in the number of tertiary level students who visited and used the resources. Inter-library relationship between the Corporation and other information units remained vibrant throughout the year; this being a way of enhancing the medium of information sharing.

LEGAL AND CORPORATE SECRETARIAT

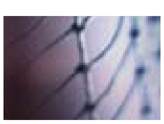
The Legal Counsel continued to provide full legal services in respect of the core operations of the Corporation in support of the business strategies and slated initiatives for the period. During the year the Department also began implementing the corporate approach to the outsourcing of legal services, as a means of ensuring that the services required for guaranteeing the efficacy and robustness of the main business initiatives and processes of the Corporation were readily available. This was effected within the context of the Government of Jamaica procurement policies and guidelines for the outsourcing of services. In this regard, the services of one Senior Legal Counsel was contracted.

A major area of focus for Legal Counsel was the continued development of legislative amendment proposals in respect of the Deposit Insurance Act, first promulgated in 1998. A first draft for external constituent discussion was prepared and submitted for the comment of the Central Bank in its capacity as regulator of JDIC policyholders. The main areas in the current slate of legislative proposals cover: the recognition of beneficial interests in certain fiduciary accounts for the purpose of deposit insurance payments; the treatment of deposits in institutions which amalgamate; the establishing of the interest cut-off date on deposit accounts in financial institution failure and a date for the conversion of foreign currency balances. In addition, allowing the Corporation power to engage agents to facilitate the efficiency and effectiveness of its payout function is another critical amendment being sought. It is expected that comments will be obtained from the wider industry before these proposals are carried through to legislation.

With the impending expansion of the regulatory environment within which the JDIC will interface, from the Corporation's perspective, the consequent legislative requisites were also made the subject of preliminary review and advisement by Legal Counsel.

A major area of focus...was the continued development of legislative amendment proposals in respect of the Deposit Insurance Act.

With respect to the Corporate Secretariat function, work was also undertaken in the enhancement of the corporate compliance processes within the Corporation, in particular, those relating to the requisites of the Public Bodies Management and Accountability Act and the relevant Government of Jamaica procurement policies and procedures. Legal Counsel also provided liaison between the internal audit function and the Audit Committee of the Board.



International Relations

INTERNATIONAL ASSOCIATION OF DEPOSIT INSURERS (IADI)

The Fourth Annual General Meeting and Conference of IADI was held in Taipei, Taiwan from September 27-29, 2005. Some 150 representatives from 50 countries gathered to participate in the Conference which coincided with the 20th anniversary of the establishment of Taiwan's Central Deposit Insurance Corporation (CDIC). JDIC was represented by the Chief Executive Officer, Mr. Winston Carr and the Director of Insurance and Risk Assessment, Mrs. Hughlette Jackson.

The theme of the conference was "Challenges for Deposit Insurers in Resolving Bank Failures" and was chaired by Chin-Tsair Tsay, Chairman of CDIC, Taiwan. The keynote address was delivered by Jean Pierre Sabourin, Chair of the Executive Council and President of IADI. There were six sessions and the CEO of the JDIC made a presentation at one of the sessions on "General Guidance to Promote Effective Interrelationships among Financial Safety Net Participants". This presentation was well received and is being considered for publication in the Journal of Banking Regulation.

IADI also presented its first "Deposit Insurance Organization of the Year" award to Taiwan's CDIC on September 27, 2005. The purpose of the award is to recognize member organizations that have made outstanding contributions toward the promotion of IADI's ideals. The award emphasized the overall performance of the constituent elements of the winning institution.

As a founding member of IADI, JDIC participated in the celebration of the Association's first ever International Week of Deposit Insurance by publication of a special feature in the local daily newspapers during the period October 2 – 8, 2005. The feature included messages from the Minister of Finance and Planning; the Chair of the Executive Council and President of IADI; the Chairman of the Board of Directors of JDIC and the CEO of JDIC.

During the review period, IADI also published its third Annual Report (2004/05) under the Theme: "Expanding our Horizons". The Report noted the implementation of a rigorous governance framework underpinned by a number of policies to provide guidance for the future. In this regard, the terms of reference and membership of each Standing Committee are to be reviewed and updated annually to ensure adequate representation.

At the end of March 2006, there were 94 countries with explicit deposit insurance systems in operation, 12 pending, and 9 being planned or under serious study. The growing number of explicit systems clearly reflects the value and importance of deposit insurance in the achievement of financial stability.

Collaboration

Active membership of IADI has allowed for continuous expansion of the international deposit insurance network of which the Corporation is a part.

During the past year there was a vibrant exchange of information on policy; operational issues; as well as research work being undertaken at the individual agency level or collaborative work within IADI. This exposure was through academic papers; symposia or contributions to surveys.

One significant area of benefit to the Corporation was the input from IADI members in the Corporation's own research work on the efficacy and methodologies of "Coverage of Foreign Currency Deposits". Some 20 IADI members participated in a JDIC Survey, sharing information with the Corporation and their own experiences on coverage of foreign currency accounts and the associated Investment Management mechanisms.

Appendix 1

Deposit Profile of Insured Institutions at current coverage limit of $300,000
As at December 31, 2005

Institutions	Total Insurable Deposits ($'000)	% of System Total	Estimated Insured Deposits ($'000)	% of System Total	No. of Accounts	No. of Accounts Fully Insured	% of Accounts Fully Insured
Commercial Banks	229,394,134	75.09	92,456,686	70.56	2,263,550	2,168,549	95.80
Building Societies	64,068,772	20.97	37,770,249	28.83	1,433,700	1,397,231	97.46
FIA Licensees	12,040,266	3.94	803,991	0.61	7,482	5,698	76.16
Grand Total	305,503,172	100.00	131,030,926	100.00	3,704,732	3,571,478	96.40

Appendix 2

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 06

	COMMERCIAL BANKS			FIA LICENCEES			BUILDING SOCIETIES			System Total (Aggregation of all 3 sectors)		
	Mar-06	**Mar-05**	**Mar-04**	**Mar-06**	**Mar-05** [b]	**Mar-04**	**Mar-06**	**Mar-05**	**Mar-04**	**Mar-06**	**Mar-05**	**Mar-04**
Number of institutions in operation	**6**	**6**	**6**	**5**	**5**	**7**	**4**	**4**	**4**	**15**	**15**	**17**
J$MN												
[1]**Total Assets** (incl. contingent accounts)	**395,042**	349,568	338,970	**47,239**	50,356	49,433	**92,532**	83,146	69,830	**534,813**	483,070	458,233
[2]**Total Assets** (excl. contingent accounts)	**383,191**	340,482	328,609	**46,765**	49,801	48,874	**92,467**	83,085	69,769	**522,423**	473,368	447,252
Cash & Bank Balances	**73,691**	71,363	67,131	**2,067**	2,199	2,844	**12,917**	13,303	11,311	**88,675**	86,865	81,286
Investments [incl. Securities Purch.] (net of prov.)	**145,739**	120,689	129,403	**34,198**	39,058	37,517	**35,790**	34,045	29,478	**215,727**	193,792	196,398
Total Loans (gross)	**131,964**	118,445	102,504	**8,973**	7,052	6,063	**38,291**	31,238	25,004	**179,228**	156,735	133,571
Total Loans (net of IFRS prov.) [a]	**129,212**	115,475	99,402	**8,925**	6,980	5,959	**37,681**	30,631	24,384	**175,818**	153,086	129,745
Total Deposits	**255,315**	234,117	216,777	**13,043**	9,786	9,116	**66,065**	60,046	51,686	**334,423**	303,949	277,579
Borrowings (incl. repos)	**61,901**	47,346	56,788	**25,606**	33,344	32,465	**7,202**	4,032	2,562	**94,709**	84,722	91,815
Non-Performing Loans [NPL] (3 mths & >)	**3,100**	3,000	3,055	**170**	150	174	**1,322**	1,214	1,128	**4,592**	4,364	4,357
Provision for Loan Losses	**4,074**	3,983	4,085	**133**	165	182	**929**	893	855	**5,136**	5,041	5,122
[3] **Capital Base**	**35,451**	31,128	27,972	**5,203**	3,591	3,827	**11,115**	6,920	5,865	**51,769**	41,639	37,664
Contingent Accts [Accept., LC's & Guarantees]	**11,851**	9,086	10,361	**474**	555	559	**65**	61	61	**12,390**	9,702	10,981
Funds Under Management	**0**	0	0	**186**	173	172	**0**	0	0	**186**	173	172
Repos on behalf of or for on-trading to clients	**n/a**	n/a	379	**n/a**	n/a	0	**n/a**	n/a	0	**n/a**	n/a	379
%												
Rate of Asset [1] Growth	**13.0%**	3.1%	15.8%	**-6.2%**	1.9%	17.4%	**11.3%**	19.1%	26.2%	**10.7%**	5.4%	17.5%
Rate of Deposit Growth	**9.1%**	8.0%	15.0%	**33.3%**	7.3%	4.4%	**10.0%**	16.2%	17.6%	**10.0%**	9.5%	15.1%
Rate of Loans Growth (gross)	**11.4%**	15.6%	28.6%	**27.2%**	16.3%	25.8%	**22.6%**	24.9%	18.8%	**14.4%**	17.3%	26.6%
Rate of Capital Base Growth	**13.9%**	11.3%	22.0%	**44.9%**	-6.2%	22.0%	**60.6%**	18.0%	16.2%	**24.3%**	10.6%	21.0%
Rate of NPL (3 Mths &>) Growth	**3.3%**	-1.8%	6.4%	**13.3%**	-13.8%	27.0%	**8.9%**	7.6%	-15.8%	**5.2%**	0.2%	0.2%
Investments **:**Total Assets [1]	**36.9%**	34.5%	38.2%	**72.4%**	77.6%	75.9%	**38.7%**	40.9%	42.2%	**40.3%**	40.1%	42.9%
Loans (net of prov.):Total Assets [1]	**32.7%**	33.0%	29.3%	**18.9%**	13.9%	12.1%	**40.7%**	36.8%	34.9%	**32.9%**	31.7%	28.3%
Fixed Assets**:**Total Assets [1]	**2.0%**	2.2%	2.1%	**0.5%**	0.3%	0.3%	**2.2%**	2.2%	2.4%	**1.9%**	2.0%	2.0%
Loans (gross) : Deposits	**51.7%**	50.6%	47.3%	**68.8%**	72.1%	66.5%	**58.0%**	52.0%	48.4%	**53.6%**	51.6%	48.1%
Liquidity												
Average Domestic Currency Cash Reserve: Average Prescribed Liabilities [4]	**9.0%**	9.0%	9.0%	**9.0%**	9.1%	9.0%	**1.0%**	1.0%	1.0%	**7.0%**	7.1%	7.1%
Average Domestic Currency Liquid Assets: Average Domestic Prescribed Liabilities [4]	**41.0%**	34.6%	38.2%	**72.8%**	50.8%	73.6%	**22.6%**	26.6%	27.3%	**36.7%**	32.8%	35.9%
Asset Quality												
Prov. For Loan Losses:Total Loans (gross)	**3.1%**	3.4%	4.0%	**1.5%**	2.3%	3.0%	**2.4%**	2.9%	3.4%	**2.9%**	3.2%	3.8%
Prov. For Loan Losses**:** NPL (3 Mths &>)	**131.4%**	132.8%	133.7%	**78.2%**	110.0%	104.6%	**70.3%**	73.6%	75.8%	**111.8%**	115.5%	117.6%
NPL (3 Mths &>):Total Loans (gross)	**2.3%**	2.5%	3.0%	**1.9%**	2.1%	2.9%	**3.5%**	3.9%	4.5%	**2.6%**	2.8%	3.3%
NPL (3 Mths &>)**:** (Total Assets [1] + Provision for loan losses)	**0.8%**	0.8%	0.9%	**0.4%**	0.3%	0.4%	**1.4%**	1.4%	1.6%	**0.9%**	0.9%	0.9%
Capital Adequacy												
Deposits + Borrowings: Capital (:1)	**9.0**	9.1	9.9	**7.5**	12.1	11.1	**6.7**	9.4	9.4	**8.4**	9.4	10.0
Capital Base**:**Total Assets [1]	**9.0%**	8.9%	8.3%	**11.0%**	7.1%	7.7%	**12.0%**	8.3%	8.4%	**9.7%**	8.6%	8.2%
[5] Capital Adequacy Ratio [CAR]	**18.6%**	16.7%	13.0%	**27.5%**	14.2%	25.0%	**21.6%**	13.1%	19.7%	**19.9%**	15.7%	14.6%
NPL (3 mths &>):Capital Base+Prov for loan losses	**7.8%**	8.5%	9.5%	**3.2%**	4.0%	4.3%	**11.0%**	15.5%	16.8%	**8.1%**	9.3%	10.2%
Profitability												
[6] Pre - tax Profit Margin (for the Calendar Quarter)	**25.5%**	23.7%	23.6%	**29.5%**	31.3%	16.1%	**26.4%**	33.3%	24.6%	**25.9%**	25.8%	23.2%
Return on Average Assets (for the Calendar Quarter)	**0.9%**	0.8%	0.9%	**0.8%**	0.8%	0.5%	**0.8%**	1.0%	1.0%	**0.9%**	0.9%	0.9%
[7] Income Assets/Expense Liabilities (as at 31 March)	**102.5%**	100.8%	100.2%	**113.5%**	107.5%	107.8%	**110.7%**	110.8%	110.5%	**104.9%**	103.2%	102.6%

Appendix 2 *cont.*

Notes:

n/a not applicable

' - Based on unaudited data submitted to BOJ by supervised institutions up to 05 May 2006. Prior years indicators may have revisions arising from amendments, which in instances include IFRS restatements.

[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.

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

[b] - During the period 31 March 2004 to 31 March 2005, two (2) merchant banks surrendered their deposit taking licences consequently reducing the total number of FIA Licensees to five (5). See details below:

- Effective 1 June 2004, Manufacturers Sigma Merchant Bank merged with Pan Caribbean Merchant Bank. .
The merged entity continued as Pan Caribbean Merchant Bank Ltd

- Effective 1 April 2004, George & Branday Finance Ltd. merged with First Global Bank Ltd.
The merged entity continued as First Global Bank Limited.

[1] Total Assets and Liabilities reflected net of Provision for Losses and include Contingent Accounts (Customer Liabilities for Acceptance, 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.

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

[3] Capital Base - Banks & FIA Licensees: (Paid - up Capital + Reserve Fund + Retained Earnings Reserve Fund + Share Premium) less impairment by net losses of individual institutions.

- Building Societies: (Permanent Capital Fund + Deferred Shares + Capital Shares + Reserve Fund + Retained Earnings Reserved 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] Data includes interest accrued and payable on deposits and borrowings.

[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.

- As at December 2004, the Bank of Jamaica implemented new Quarterly Capital Adequacy Returns which provide more precise ratios. Therefore, rates prior to December 2004 are estimated.

[6] Data includes extraordinary income/expenditure and adjustments for prior period.

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

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

Statutory Reserve Requirements :

	COMMERCIAL BANKS			FIA LICENSEES			BUILDING SOCIETIES**		
	Mar-06	Mar-05	Mar-04	Mar-06	Mar-05	Mar-04	Mar-06	Mar-05	Mar-04
Required Special Deposit Ratio *	1.0%	3.0%	5.0%	1.0%	3.0%	5.0%	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 further reduced to 1%, the second reduction for the year - the first being 3% effected 1 March.

** 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.

Subsequent Events :

(i) Effective 1 May 2006, the Special Deposit Ratio was removed.

(ii) 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.

Source: Financial Institutions Supervisory Division
Bank of Jamaica

Appendix 3

KEY FIVE YEAR STATISTICS AT MARCH 31, 2002-2006

	2002 $'000	2003 $'000	2004 $'000	2005 $'000	2006 $'000
Insurance Premium Income	163,442	221,190	301,688	339,654	388,748
Surplus from Investment and Administrative Operations	32,100	22,403	151,901	205,080	234,763
Administrative expenses	45,302	92,538	79,853	86,770	101,015
Deposit Insurance Fund	549,691	793,284	1,246,873	1,791,607	2,415,118
Investment securities	585,511	862,589	1,291,907	1,838,251	2,557,249
Property, plant and equipment	44,449	57,096	55,794	53,819	70,242
Persons employed at the end of the year	11	18	18	22	23
Expense Control Ratio (%)	18.5	27.5	15.1	13.7	13.9

Senior Executive Compensation

Basic Salary Range of Senior Executives $2,527,126 - $4,881,983

Allowances:

Chief Executive Officer	-	Residence (Security):	$72,000
Executive Directors	-	Motor vehicle:	$341,220
	-	Medical & Group Life:	$49,161 - $113,587
	-	Other (MOU Relief):	$19,740

Notes:

(i) The Senior Executive group includes the Chief Executive Officer and four Executive Directors, including the Legal Counsel & Corporate Secretary.

(ii) The CEO is employed on a contractual basis and is entitled to a fully maintained motor car.

(iii) Executive Directors are employed on a contractual basis, with contracts ranging from two to three years, and are entitled to gratuity payments of 25% of annual salary.

Financial Statements

MARCH 31, 2006

Table of Contents

PRICEWATERHOUSECOOPERS

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www.pwc.com/jm

29 May 2006

To the Members of
Jamaica Deposit Insurance Corporation

Auditors' Report

We have audited the accompanying balance sheet of Jamaica Deposit Insurance Corporation as at 31 March 2006 and the related profit and loss account, statements of changes in shareholders' equity and cash flows for the year then ended, and have received all the information and explanations, which we considered necessary. These financial statements set out on pages 52 to 67 are the responsibility of the Corporation's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, proper accounting records have been kept and the financial statements, which are in agreement therewith, give a true and fair view of the state of the Corporation's affairs as at 31 March 2006 and of the results of operations, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the provisions of the Deposit Insurance Act, 1998.

PricewaterhouseCoopers

Chartered Accountants
Kingston, Jamaica

Financial Statements

Jamaica Deposit Insurance Corporation
Statement of Operations
Year-ended 31 March 2006
(Expressed in Jamaican dollars unless otherwise indicated)

	Note	2006 $'000	2005 $'000
Revenue			
Insurance premiums		388,748	339,654
Interest earned		331,685	292,558
Foreign exchange gain/(loss)		4,093	(708)
		724,526	631,504
Expenses			
Administrative expenses	5	101,015	86,770
Surplus from Operations for the Year		623,511	544,734

Jamaica Deposit Insurance Corporation
Balance Sheet
31 March 2006
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2006 $'000	2005 $'000
ASSETS			
Cash at bank		14,670	3,083
Investment securities	7	2,557,249	1,912,791
Receivables	8	50,711	52,136
Property, plant and equipment	9	70,242	53,819
		2,692,872	2,021,829
LIABILITIES AND SHAREHOLDER'S EQUITY			
Liabilities			
Unearned premium income	10	245,722	213,233
Payables		18,106	15,989
		263,828	229,222
Shareholder's Equity			
Share capital	11	1,000	1,000
Capital Reserves	12	15,006	-
Fair value reserves		(2,080)	-
Deposit insurance fund	13	2,415,118	1,791,607
		2,429,044	1,792,607
		2,692,872	2,021,829

Approved by the Board of Directors on 29 May 2006 and signed on its behalf by:

Winston K. Carr, Director

Herbert Walker, Director

Financial Statements

Jamaica Deposit Insurance Corporation
Statement of Changes in Equity
Year-ended 31 March 2006
(expressed in Jamaican dollars unless otherwise indicated)

	Share Capital	Capital Reserves	Fair Value Reserves	Deposit Insurance Fund	Total
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 1 April 2004	1,000	-	-	1,246,873	1,247,873
Net surplus	-	-	-	544,734	544,734
Total recognised income for 2005	-	-	-	544,734	544,734
Balance at 31 March 2005	1,000	-	-	1,791,607	1,792,607
Revaluation of property, plant and equipment	-	15,006	-	-	15,006
Unrealised loss on available-for-sale investments	-	-	(2,080)		(2,080)
Net surplus	-	-	-	623,511	623,511
Total recognised income for 2006	-	-	-	623,511	623,511
Balance at 31 March 2006	1,000	15,006	(2,080)	2,415,118	2,429,044

Jamaica Deposit Insurance Corporation
Statement of Cash Flows
Year-ended 31 March 2006
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2006 $'000	2005 $'000
Cash Flows from Operating Activities			
Surplus from operations	5	623,511	544,734
Adjustments for:			
Depreciation		4,484	3,705
Interest income		(331,684)	(292,558)
Unearned premium income		32,489	25,889
Foreign exchange gains		(4,093)	708
		324,707	282,478
Changes in non-cash working capital components:			
Other receivables		1,425	(10,865)
Payables		2,117	2,750
		3,542	(8,115)
Cash provided by operating activities		328,249	274,363
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(5,901)	(1,730)
Investment securities		(627,948)	(547,056)
Interest received		317,158	275,081
Cash used in investing activities		(316,691)	(273,705)
Effect of exchange rate changes on cash balances		29	4
Increase in cash balance at end of year		11,587	662
Cash balance at the beginning of the year		3,083	2,421
CASH BALANCE AT THE END OF THE YEAR		14,670	3,083

Jamaica Deposit Insurance Corporation
Notes to the Financial Statements
31 March 2006
(expressed in Jamaican dollars unless otherwise indicated)

1. Identification and Principal Activity

The Jamaica Deposit Insurance Corporation (the Corporation) is incorporated and domiciled in Jamaica. The Corporation was established in accordance with the Deposit Insurance Act, 1998 (the Act) and commenced operations on August 31, 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 $300,000 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 objects, including levying premiums and fees on policyholders and managing a Deposit Insurance Fund. Among other things it can make enquiries of a policyholder as to the conduct of its affairs and act as receiver, liquidator or judicial manager of any insolvent policyholder, or of its holding company or subscriber, which becomes insolvent.

2. Significant Accounting Policies

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

(a) Basis of preparation

These financial statements have been prepared in accordance with and comply with the International Financial Reporting Standards (IFRS), 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 company's accounting policies. Although these estimates are based on managements' 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 2005

Certain new standards, amendments and interpretations 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 revised IFRSs, which are relevant to its operations. The 2005 comparative figures have been amended as required, in accordance with the relevant requirements:

IAS 1 (revised 2003)	Presentation of Financial Statements
IAS 8 (revised 2003)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (revised 2003)	Events after the Balance Sheet Date
IAS 16 (revised 2003)	Property, Plant and Equipment
IAS 17 (revised 2003)	Leases
IAS 24 (revised 2003)	Related Party Disclosures
IAS 32 (revised 2003)	Financial Instruments: Disclosure and Presentation
IAS 39 (revised 2003)	Financial Instruments: Recognition and measurement

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

The amendments to these financial statements resulting from the revised IFRSs are as follows:

IAS 1 has affected disclosures.

IAS 39 resulted in the reclassification of investment securities to held-to-maturity that were previously classified as originated loans.

IAS 24 has affected the identification of related parties and other related party disclosures.

IAS 8, 10, 16, 17 and 32 had no material effect on the company's policies.

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

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which are not yet effective, and which the Corporation has not early adopted. The Corporation has assessed the relevance of all such new standards, interpretations and amendments, and has determined that the following may be relevant to its operations, and has concluded as follows:

IAS 39 (Amendment), The Fair Value Option

This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Corporation believes that this amendment should not have a significant impact on the classification of financial instruments, as the Corporation should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Corporation will apply this amendment from annual periods beginning 1 April 2006.

IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. The Corporation will apply IFRS 7 from annual periods beginning 1 April 2006.

(b) Foreign currency translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the dates of the transactions. At the balance sheet date monetary liabilities denominated in foreign currency are translated using the closing exchange rate. Exchange differences arising from the settlement of transactions at rates different from those at the dates of the transactions and unrealized foreign exchange difference on unsettled foreign currency monetary assets are recognised in the statement of operations.

(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.

Jamaica Deposit Insurance Corporation
Notes to the Financial Statements
31 March 2006
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(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 balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and on hand.

(f) Payables

Payables are stated at historical cost.

(g) Investments

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

(i) Held-to-maturity

Held-to-maturity investments are non derivative financial assets with fixed or determinable payments and fixed maturities that the corporation's management has the positive intention and ability to hold to maturity. Where the company 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 operations as gains and losses from investment securities.

A financial asset is considered impaired if its carrying amount exceeds its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the original effective interest rate. The recoverable amount of a financial asset carried at fair value is the value of expected future cash flows discounted at current market interest rate for a similar financial asset.

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

2. Significant Accounting Policies (Continued)

(h) Property, plant and equipment

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

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

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%
Office machines	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 operating profit. Repairs and renewals are charged to the statement of operations when the expenditure is incurred.

(i) Provisions

Provisions are recognised when the Corporation has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Employee entitlements to annual leave and other benefits are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and other benefits as a result of services rendered by employees up to the balance sheet date.

(j) Interest income

Interest income is recognised in the profit and loss account for all interest bearing instruments on an accrual basis unless collectibility is doubtful.

Jamaica Deposit Insurance Corporation
Notes to the Financial Statements
31 March 2006
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(k) Provision for losses

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

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

No claim has been made on the Corporation to date and, based on the most recent review, management does not deem it necessary to make any provision for losses at this time.

(l) Financial instruments

Financial instruments carried on the balance sheet include cash resources, investment securities, receivables and payables.

(m) Comparative information

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year. In particular, the comparatives have been adjusted or extended to reflect the requirements of new IFRSs, as well as, amendments to, and interpretations of existing IFRSs (Note 2(a)).

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 provision 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

Held-to-maturity Investments

The company 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 company evaluates its intention and ability to hold such investments to maturity. If the company fails to keep these investments to maturity other than for specific circumstances – for example, selling other than an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for sale. The investments would therefore be measured at fair value, not amortised cost. If the entire class of held-to-maturity investments is compromised, the carrying value would increase by $22,716,000, with a corresponding adjustment in the fair value reserve in stockholder's equity.

5. Expenses by nature

Total administrative expenses:

	2006 $'000	2005 $'000
Advertising	13,274	11,422
Auditors' remuneration - current year	593	527
Prior year	-	40
Depreciation	4,484	3,705
Directors' emoluments -		
Fees	455	135
Management remuneration (included in staff costs)	4,902	5,518
Other	12,021	9,969
Professional fees	4,773	5,177
Repairs and maintenance	2,461	1,603
Staff costs (note 6)	58,052	48,674
	101,015	86,770

6. Staff Costs

	2006 $'000	2005 $'000
Wages and salaries	44,695	37,059
Statutory contributions	4,393	4,117
Others	8,964	7,498
	58,052	48,674
Management remuneration	4,902	5,518
	62,954	54,192

The number of persons employed by the Corporation at the end of the year was 23 (2005 - 22).

Jamaica Deposit Insurance Corporation
Notes to the Financial Statements
31 March 2006
(expressed in Jamaican dollars unless otherwise indicated)

7. Investment Securities

(a) Held-to-maturity

	2006 $'000	2005 $'000
Government of Jamaica	2,281,105	1,838,251
Interest accrued	84,041	74,540
	2,365,146	1,912,791

(b) Available-for-sale

Government of Jamaica	187,077	-
Interest accrued	5,026	-
	192,103	-
	2,557,249	1,912,791

	Remaining Term to Contractual Repricing or Maturity					
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Carrying Value 2006 $'000	Carrying value 2005 $'000
Held-to-maturity:						
Government of Jamaica -						
Treasury bills	-	-	-	-	-	92,801
Local registered stocks	108,894	84,158	642,357	427,804	1,263,213	1,148,961
Debentures	146,515	40,000	717,240	25,000	928,755	512,534
US$ Bonds	2,443	-	-	-	2,443	6,863
US$ Indexed bonds	14,672	662	71,360	-	86,694	77,092
Interest accrued	84,041	-	-	-	84,041	74,540
	356,565	124,820	1,430,957	452,804	2,365,146	1,912,791
Available for sale:						
Government of Jamaica -						
Local registered stocks	-	-	40,228	-	40,228	-
Debentures	-	-	105,407	-	105,407	-
US$ Indexed bonds	-	-	41,442	-	41,442	-
Interest accrued	-	-	5,026	-	5,026	-
	-	-	192,103	-	192,103	-
	356,565	124,820	1,623,060	452,804	2,557,249	1,912,791

7. Investment Securities (Continued)

Average effective yields by the earlier of the contractual repricing or maturity dates:

	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Average
	%	%	%	%	%
Instruments					
Local registered stocks	14.85	23.71	14.73	14.78	17.02
Debentures	17.00	18.78	14.59	13.24	15.90
US$ Bond	11.25	-	-	-	11.25
US$ Indexed bond	-	-	10.32	-	10.32

8. Receivables

	2006 $'000	2005 $'000
Withholding tax	46,535	49,455
Prepayments	243	231
Other	3,933	2,450
	50,711	52,136

Jamaica Deposit Insurance Corporation
Notes to the Financial Statements
31 March 2006
(expressed in Jamaican dollars unless otherwise indicated)

9. Property, Plant and Equipment

	Land	Building	Freehold Improvement	Furniture & Fixtures	Motor Vehicles	Computers	Office Machines	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Valuation -								
31 March 2004	12,000	25,200	2,005	11,191	-	4,774	8,548	63,718
Additions	-	-	96	489	-	744	401	1,730
31 March 2005	12,000	25,200	2,101	11,680	-	5,518	8,949	65,448
Additions	-	-	410	648	3,104	1,698	41	5,901
Revaluation adjustment	2,500	10,300	-	-	-	-	-	12,800
31 March 2006	14,500	35,500	2,511	12,328	3,104	7,216	8,990	84,149
Accumulated Depreciation -								
31 March 2004	-	945	67	2,732	-	2,831	1,349	7,924
Charge for the period	-	630	51	1,149	-	1,004	871	3,705
1 April 2005	-	1,575	118	3,881	-	3,835	2,220	11,629
Charge for the period	-	630	60	1,192	517	1,190	895	4,484
Revaluation adjustment	-	(2,205)	-	-	-	-	-	(2,205)
31 March 2006	-	-	178	5,073	517	5,025	3,115	13,908
Net Book Value -								
31 March 2006	14,500	35,500	2,333	7,255	2,587	2,191	5,875	70,242
31 March 2005	12,000	23,625	1,983	7,799	-	1,683	6,729	53,819

The corporation's land and buildings were revalued as at 31 March 2006 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:

	2006	2005
	$'000	$'000
Cost	36,591	36,591
Accumulated depreciation	(3,073)	(2,459)
Net book value	33,518	34,132

10. Unearned Premium Income

This represents the portion of insurance premiums received from policyholders relating to the period subsequent to 31 March 2006.

11. 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.

12. Capital reserves

Capital reserves comprise:

	2006 $'000	2005 $'000
Unrealised surplus on revaluation of property, plant and equipment	15,006	-
	15,006	-

13. Deposit Insurance Fund

	2006 $'000	2005 $'000
Balance at beginning of Year	1,791,607	1,246,873
Surplus from Insurance Operations for the Year	388,748	339,654
Net Profit from Investment and Administrative Operations	234,763	205,080
Deposit Insurance Fund at Year-end	2,415,118	1,791,607

Jamaica Deposit Insurance Corporation
Notes to the Financial Statements
31 March 2006
(expressed in Jamaican dollars unless otherwise indicated)

14. Financial Risk Management

The Corporation's activities expose it to a variety of financial risks: market risk (including currency risk), credit risk, interest rate risk, liquidity risk, and cash flow 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.

Management seeks to minimise potential adverse effects on the financial performance of the Corporation by applying procedures to identify, evaluate and manage these risks, based on guidelines set by the Board of Directors.

(a) Market risk

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Corporation had net foreign currency assets of US$2,198,000 at 31 March 2006 (2005 – US$1,404,000) in respect of transactions arising in the ordinary course of business.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Corporation has no significant concentrations of credit risk except for high levels of investment in Government of Jamaica instruments. Cash is placed with substantial financial institutions.

(c) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Corporation's operating cash flows are dependent on changes in market interest rates. The Corporation has interest-bearing assets which are subject to interest rate fluctuations as disclosed in Note 7.

(d) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial liabilities. The Corporation manages this risk by maintaining sufficient cash and marketable securities and the availability of funding through committed credit facilities with the Bank of Jamaica.

(e) Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. The company manages this risk by ensuring, as far as possible, that financial assets and liabilities are matched to mitigate any significant adverse cash flows.

15. Fair values

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

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	$'000	$'000	$'000	$'000
Investments	2,468,183	2,490,899	1,838,251	2,186,675

16. Related Party Transactions

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

(a) Representation on the Board of Directors.

(b) Under Sections 7(1) and 7(2) of the Deposit Insurance Act, 1998, consultations are entered into between the Bank of Jamaica and the Corporation on certain matters relating to policyholders.

(c) Transactions and balances for the period are as follows:

	2006 $'000	2005 $'000
Investment balance	542,941	502,771
Cash balance	14,526	2,916

Transactions and balances with key management -		
Salaries and other staff benefits	10,716	10,716
Statutory contributions	1,401	1,268
Other staff benefits	5,975	4,923
	18,092	16,907

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29 May 2006

To the Directors of
Jamaica Deposit Insurance Corporation

Auditors' Report

The supplementary information set out on page 69, taken from the accounting records of the Corporation, has been subjected to the tests and other auditing procedures applied in our examination of the Corporation's financial statements for the year-ended 31 March 2006.

In our opinion, this information, although not necessary for a fair presentation of the Corporation's state of affairs, results of operations, changes in equity or cash flows, is fairly presented in all material respects in relation to the financial statements taken as a whole.

PricewaterhouseCoopers

Chartered Accountants
Kingston, Jamaica

Jamaica Deposit Insurance Corporation

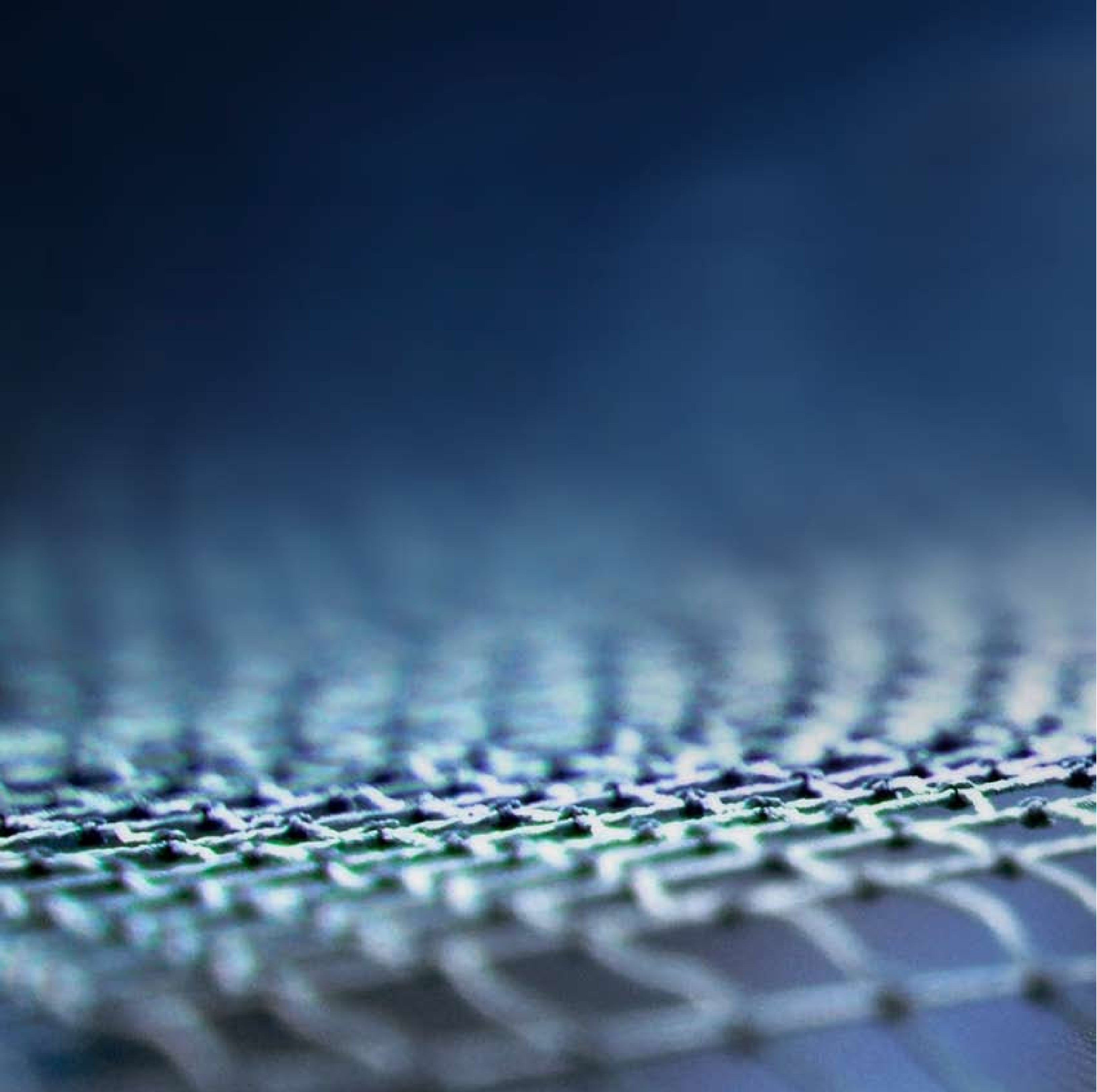
Administrative Expenses

Year-ended 31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

	2006 $'000	2005 $'000
Expenses		
Advertising and promotion	13,274	11,422
Audit fees - current year	593	527
- prior year	-	40
Bank charges	35	39
Depreciation	4,484	3,705
Directors' fees	455	135
Entertainment	40	167
Foreign travel	2,812	2,371
Insurance	1,738	1,308
Local travel and motor vehicle expenses	118	48
Miscellaneous expenses	54	23
Printing, stationery and office expenses	3,224	3,215
Professional fees	4,773	5,177
Property tax	25	11
Repairs and maintenance	2,461	1,603
Staff costs	62,954	54,192
Telephone, post and bearer service	2,052	1,310
Utilities	1,923	1,477
	101,015	86,770

Notes



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