MINISTRY PAPER #11/14

JAMAICA DEPOSIT INSURANCE CORPORATION ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2013

1.0 INTRODUCTION

1.1 The matter for tabling in the Honourable House of Representatives is the Annual Report for Jamaica Deposit Insurance Corporation (JDIC) for the financial year ended March 31, 2013.

2.0 OPERATING OVERVIEW

2.1 The Jamaica Deposit Insurance Corporation (JDIC) is incorporated and domiciled in Jamaica. The Corporation was established in accordance with the Deposit Insurance Act (DIA), 1998 and commenced operations on 31st August 1998. The Corporation is one of the safety net partners and its specific statutory objectives are to provide insurance against the loss of depositors' funds up to the prescribed maximum ($600,000), and to participate in other activities to enhance financial system confidence and stability. In pursuing its objectives, the Corporation is required to minimize its exposure to loss and to manage a Deposit Insurance Fund[1] (DIF).

2.1.1 In accordance with the requirements of the DIA, JDIC continued to collect premiums from policyholders (based on the premium assessment rate of fifteen basis points) to cover deposit accounts held in different ownership categories by member institutions. Membership in the Deposit Insurance Scheme was retained at thirteen (13) and included seven (7) commercial banks, four (4) building societies and two (2) other financial institutions licensed to take deposits under the Financial Institutions Act (FIA) which include merchant banks and trust companies. Of particular note is that there were significant ownership changes and corporate rebranding as Jamaica Money Market Brokers Limited acquired Capital and Credit Financial Group Limited, the parent company of Capital and Credit Merchant Bank Limited, a FIA Licensee. PanCaribbean Merchant Bank Limited was also renamed Sagicor Bank Jamaica Limited.

2.1.2 Deposit accounts covered by the Deposit Insurance Scheme (DIS) include Savings account, Chequing accounts, Certificates of Deposit, Time Deposits and Shares in Building Societies. In the event of the failure and closure of a member institution, the JDIC must pay depositors the balances in their accounts up to the maximum limit of $600,000. Of particular note, deposit accounts in foreign currencies are also covered up to the $600,000 limit. However, the deposit insurance payments on foreign currency accounts are in Jamaican dollars.

3.0 FUND MANAGEMENT AND ADEQUACY

3.1 The Corporation manages the DIF which was valued at $8,725.01 million and was $521.92 million or 5.64% below the $9,246.93 million recorded at March 31, 2012. The

[1] A Fund established under the DIA to pay depositors should their insured financial institution fail, and to offer financial assistance to policyholders

unfavorable variance was attributable to the exchange by the Entity of its Government of Jamaica bonds, for new instruments with lower nominal value and interest cost, as well as longer maturities. The debt exchange impacted negatively the DIF Ratio[2]; although the ratio was 4.5% at December 31, 2012, it fell to 3.8% by March 31, 2013.

3.1.1 The review of the DIF is used to determine the exposure of the Fund to policyholders' risk, the adequacy in relation to expected and potential liabilities, as well as to estimate the short-term liquidity funding requirement. The annual review of the DIF concluded that the Fund was adequate to cover expected and potential liabilities that would arise from policyholders' exposure. Over a five-year period (between 2008/09 and 2012/13) the Fund balance grew by $3,595.5 million. The growth was achieved due to increased insurance premium, as well as investment income, and notwithstanding a loss of $2,097.20 during 2012/13, as a result of the National Debt Exchange (NDX). Over the same period, insurance premiums grew by $192.1 million or 34.71% to $745.5 million, while net investment income rose by $174.5 million or 26.6% to $829.8 million.

3.1.2 At December 31, 2012, the value of total estimated insured deposits amounted to $230 million; at December 31, 2011, $228.95 million. Commercial banks continued to record the largest percentage (69.1%) followed by building societies (30.4%) and FIA Licensees (0.5%). The percentage of insurable deposit accounts covered fully, declined marginally to 97% from 97.2% in December 2011. Building societies continued to record the largest share of covered accounts (97.7%) followed by commercial banks (96.3%) and FIA Licensees (87%).

4.0 COMPENSATION TO SENIOR EXECUTIVES AND BOARD MEMBERS

4.1 In accordance with the Second Schedule of the Public Bodies Management and Accountability Act, details of the compensation packages for the executive management and directors are enclosed. Emoluments paid to senior executives totalled $37.66 million, a marginal decrease of $0.39 million, or 1% below the $38.05 million in 2011/12. The decline was due mainly to the realignment of staffing positions which resulted in lower salaries being paid to two (2) executive members employed at half year in the prior financial year. The compensation package for the five (5) senior managers ranged from $5.15 million to $13.81 million and accounted for 31.82% of total staff costs of $118.34 million.

4.2 Fees for the Directors amounted to $0.36 million. The Board established three (3) sub-committees namely, Audit, Investment, and Corporate Governance in accordance with the Corporate Governance Framework (CGF). During the review period, the committees met and considered several matters in relation to the operational processes and standards, as well as the enhancements to the CGF to ensure uniformity and consistency with the objectives of the Corporation.

[2] The DIF expressed as a percentage of the total insured deposits. Generally, data for insured deposits relate to calendar year performance.

5.0 AUDITORS' REPORT

5.1 PricewaterhouseCoopers conducted an independent audit of JDIC's financial statements and issued an unqualified report. The auditors expressed opinion is that the financial statements give a true and fair view of the state of the Corporation's affairs as at March 31, 2013 and have been properly prepared in accordance with the requirements of the International Financial Reporting Standards and the Jamaican Companies Act.

6.0 FINANCIAL HIGHLIGHTS

6.1 Income and Expenses

6.1.1 For financial year 2012/13, the Corporation recorded a net operating surplus of $1,575.31million, an increase of $218.33 million or 16% over the $1,356.98 million recorded in the prior year. The improvement in the Entity's financial performance was influenced primarily by a net increase of $221.09 million or 14% in income, primarily foreign exchange gains ($127.44 million), interest earned ($81.79 million) and premiums ($17.73 million). The growth in income countered the $2.76 million or 2% increase in operating overheads. The Corporation recorded a fair value loss of $209.27 million (March 2012: $50.67 million) on available-for-sale investments due to the participation in the NDX; hence the comprehensive income was $1,366.03 million at March 31, 2013.

Table 1: Extract from Profit & Loss Statement ($'m)

Particulars	2012/13	2011/12	Change	
Income:			$ m	%
Insurance premiums	745.54	727.81	17.73	2%
Interest earned	862.53	780.74	81.79	10%
Foreign exchange gain/(loss)	144.12	16.68	127.44	764%
Other Inome	3.90	9.77	(5.87)	-60%
Total Income	**1,756.09**	**1,535.00**	**221.09**	**14%**
Expenses				
Staff costs	104.50	102.19	2.31	2%
Management remuneration	13.84	13.65	0.19	1%
Professional fees	9.33	14.41	(5.08)	-35%
Public education	18.22	17.09	1.13	7%
Utilities	7.72	7.74	(0.02)	0%
Other administrative costs	27.17	22.94	4.23	18%
Total Expenses	**180.78**	**178.02**	**2.76**	**2%**
Net Surplus	**1,575.31**	**1,356.98**	**218.33**	**16%**
Other Comprehensive Income				
Fiar Vlaue Loss	209.28	50.67	**158.61**	**313%**
Total Comprehensive Income	**1,366.03**	**1,306.31**	**59.72**	**5%**

6.1.2 The Corporation's operating overheads increased by a marginal $2.76 million or 2% to $180.78 million over the $178.02 million in the prior year. Growth in expenses included staff costs ($2.31 million), public education ($1.13 million), and other administrative costs ($4.23 million). Meanwhile, professional fees ($5.08 million) registered a notable reduction since the admission of new members to the DIF (credit unions) as well as Insurance Deposit Portfolio

Transfer)[3] simulation did not materialise. Staff and other related costs were 65% of total administrative expenses consistent with that recorded in the prior year. The growth in staff costs was influenced primarily by the employment of one (1) additional person, as well as adjustments for increments and retroactive salaries in accordance with the Ministry of Finance and Planning's guidelines.

7.0 Balance Sheet

7.1 The Corporation's Position Statement at March 31, 2013, showed that the assets base declined significantly by $1,285.42 million or 12% below the $10,177.94 million recorded in the prior year. This resulted primarily from declines in investment securities ($799.83 million), cash and cash equivalents ($450.36 million) and receivables ($34.11 million). It should be noted that the Corporation's participation in the NDX transaction impacted adversely, investment securities. This resulted in the exchange of investments of J$8,276.12 million and US$7.80 million, for Fixed Rate Accreting Notes (FRAN) with nominal values of J$6,658.77 million and J$600 million respectively. These are expected to accrete to 100% over the life of the FRAN.

Total liabilities declined by $443.87 million or 12% to $94.77 million from $538.64 million in the prior year. This was due mainly to reductions of $362.81 million and $81.05 million in unearned premium and payables respectively. Unearned premium income represents the portion of insurance premiums received from policyholders relating to the period subsequent to March 31, 2013. JDIC continued to demonstrate its ability to cover its obligations and with the exception of the loss sustained from the NDX transaction, showed no other immediate exposure.

8.0 CONCLUSION

8.1 As a safety net player, the Corporation remained committed to its mandate to provide insurance against the loss of depositors' funds and continued to participate in activities to enhance financial system confidence and stability. For the 2012/13 financial period, JDIC recorded an improvement in its operations and remained profitable, notwithstanding the significant reduction in the DIF arising from the participation in the NDX transaction.

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Minister of Finance and Planning
August 31, 2013

[3] The IDPT simulation is intended to mirror the actual management and operational activities that would be undertaken in a payout.