MINISTRY PAPER #46/14

DEVELOPMENT BANK OF JAMAICA LIMITED
ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED MARCH 31, 2013

1.0 INTRODUCTION

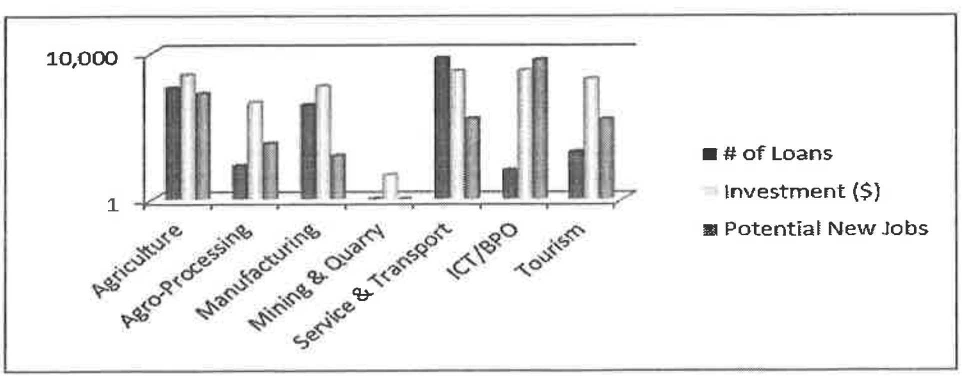
1.1 The matter for tabling in the Honourable Houses of Parliament is the Annual Report for Development Bank of Jamaica Limited (DBJ) for the financial year ended March 31, 2013.

2.0 OVERVIEW

2.1 The Development Bank of Jamaica was established in April 2000, and represents a merger of two wholly owned Government of Jamaica (GOJ) institutions, the National Development Bank (NDB) and the Agricultural Credit Bank of Jamaica Limited. DBJ's mission is to promote economic growth and national development. DBJ's mandate was expanded in July 2006 to include development banking when it was merged with the National Investment Bank. The Bank provides financing, privatisation, and technical support solutions to businesses and government to facilitate and promote economic growth and national development.

2.2 DBJ partners with financial intermediaries such as Approved Financial Institutions (AFI) and Micro Finance Institutions (MFI) to deliver its products and services more efficiently to target groups which include tourism, agriculture, agro-processing, manufacturing, and mining and quarrying sectors. The Bank disbursed 8,097 loans valued at $3,874 million to these sectors which created new investments[1] of $12,167.40 million as well as 7,271 potential new jobs across the sectors. Figure 1 indicates that 6,903 loans facilitated investments of $3,026.12 million and created 6,185 potential new jobs in the service and transport sector. Likewise, loans disbursed in the information and communication technology and agriculture sectors generated investments of $3,214.79 million and $2,516.29 million respectively. These created a combined 743 potential new jobs. The tourism and manufacturing sectors also benefitted from combined investments of $3,083.45 million (381 loans) which created 163 new jobs.

Figure 1 Loan Distribution Across Sectors for 2012/13



[1] DBJ defines investments as the generation of money from business activity to spur future productivity or growth.

2.3 During the year, the Bank provided strong support to initiatives for increasing access to affordable credit for micro, small and medium-sized enterprises (MSME). In this regard, DBJ approved 8,336 loans valued at $1,378.8 million through its intermediaries for MSME sub-borrowers. The Bank also facilitated 8,206 loans totaling $613.7 million through the nine (9) accredited MFI to micro entrepreneurs. DBJ's lending through MFIs supported 4,181 and 2,557 sub-borrowers in the distribution/trading and service sectors respectively. The National People's Co-operative Bank (NPCB) continued to be a critical channel for ensuring access to financing for the growth of small and medium-sized farmers. During the year, DBJ's lending through the NPCB expanded with 108 loans valued at $529.2 million approved, supporting $1,320 million in new investments.

2.4 The Bank continued to support the national efforts toward energy conservation, efficiency and the adoption of renewable energy solutions by providing and promoting financing for energy investments through AFIs and MFIs. During the review period, 71 projects totalling $657 million were approved. Since 2009 $646.1 million has been disbursed to 73 projects. DBJ's PetroCaribe Development Fund (PCDF) energy loan facility also approved 51 projects totalling $288.6 million which included 33 loans to the Jamaica Broilers poultry farmers through the NPCB.

3.0 DISCLOSURES

3.1 Auditors' Report

3.2 KPMG conducted an audit of the Bank's accounting records in accordance with the International Standards on Auditing. The Auditors reported that DBJ's financial statements give a true and fair view of the Bank's financial position as at March 31, 2013 and of its financial performance for the year. The auditors also stated that proper accounting records were kept and noted that the financial statements were prepared in accordance with International Financial Reporting Standards and complied with the provisions of the Jamaican Companies Act.

3.3 Compensation to Senior Executives and Directors

3.4 Pursuant to the Second Schedule (Part 1) of the Public Bodies Management and Accountability Act 2001 (Amendment 2011), details of the compensation packages for senior executives as well as directors are enclosed. For the period under review, salary and emoluments paid to senior executives totalled $74.94 million, an increase of $6.46 million or 9.43% over the $68.48 million in the prior year. The increase resulted primarily from the movement in salary for the risk manager (by $2.97 million) who was employed during the year, as well as the payment of retroactive salaries and performance incentive. Individual packages ranged from $5.56 million to $13.87 million and accounted for 28.17% of total staff costs (March 2012: 25.34%). Compensation totalling $1.11 million was paid to nine (9) directors for the corresponding period.

4.0 FINANCIAL HIGHLIGHTS

Table 1: Extract of Financial Statements at March 31, 2013 (J $'m)

Particulars	2012/13	2011/12	Change	
	[a]	[b]	[a-b] $	(%)
Total Income	1,586.40	2,740.60	- 1,154.20	- 42.11
Total Interest Income	1,142.50	1,764.80	- 622.30	- 35.26
Other Income	443.90	975.80	- 531.90	- 54.51
Total Interest Expense	477.10	1,053.50	576.40	63.54
Total Operating Expenses	598.00	567.30	- 30.70	- 19.46
Net Profit before Impairment Loss	511.30	1,119.90	- 608.60	- 54.34
Impairment Loss	- 2,928.30	- 407.50	- 2,520.80	- 618.60
Net Profit/(Loss)-after impairment and other adjustments	- 2,448.10	691.70	- 1,756.40	- 253.93
Total Assets	22,236.40	22,635.30	- 398.90	- 1.76
Total Equity	7,709.90	10,645.60	- 2,935.70	- 27.58
Loans Payable	14,125.60	11,491.20	- 2,634.40	- 22.93
Regular Loan Portfolio	9,486.30	9,418.30	68.00	0.72

4.1 Income and Expenses

4.2 For the 2012/13 financial year, DBJ realised a net surplus of $511.30 million before impairment losses of $2,928.30 million. This resulted in a loss of $2,448.10 million compared to the surplus of $691.70 million in the prior year. The impairment losses related chiefly to a former NIBJ loan to and preference shares in the tourism sector, as well as delinquency of borrowers in the agricultural sector.

4.3 The Bank's performance was also influenced by a reduction of $622.30 million or 35.26% in interest income to $1,142.50 million. The reduction was due mainly to the early repayment (during 2011/12) by the National Road Operating and Constructing Company Limited (NROCC), of a GOJ infrastructure loan (€204.40 million) which was on-lent via DBJ. The repayment also resulted in reduced interest expense by $576.40 million (2011/12: $1,053.50 million). The reduced interest income contributed to a decline of $1,154.20 million in DBJ's total revenue to $1,586.40 million (2011/12: $2,740.60 million). Other income, which comprised administrative fees, rental income, privatization fees, and net foreign exchange gains, totalled $443.89 million and was $531.90 million below that for 2011/12. Of note, other income, for 2011/12 included bad debt recoveries of $661.48 million ($2012/13: nil). Additionally, PCDF established its own financial and administrative functions during the year.

4.4 Total operating expenses were $598 million, an increase of $30.70 million or 19.46% above that recorded for 2010/11. The growth in operating overheads was due mainly to increases of $20.65 million and $14.15 million in tax arising from an assessment on the disposal of motor vehicles to staff and occupancy costs respectively. The occupancy costs included electricity, insurance, security, as well as repairs and maintenance and were attributable in part to a depreciation of the Jamaican dollar.

5.0 Assets and Equity Bases

5.1 At March 31, 2013, DBJ's assets were valued at $22,236.4 million, a marginal decrease of $398.90 million, or 1.76% below the $22,635.30 million recorded at March 31, 2012. This performance was due chiefly to reductions in investment securities (by $1,650.61 million - due to an impairment allowance of $2,330.77 million), direct loans (213.34 million) as well as cash and cash equivalents ($163.98 million), and notes receivable from GOJ ($89 million). These were countered partially by increases in resale agreements (by $1,307.29 million - due mainly to the drawdown of a PCDF loan which was not disbursed at year end), loans receivable from agricultural and financial institutions ($281.22 million), exchange losses on certain loans ($102.25 million) onlent to DBJ by GOJ and interest in associated companies ($77 million).

5.2 DBJ accessed additional funds (over 2,500 million) from PCDF. This contributed to the Bank's liabilities increasing by $2,536.79 million or 21.15% to $14,526.54 million. Notwithstanding the rise in long-term liabilities, the Bank remained solvent. However, shareholder's equity decreased by $2,935.71 million or 27.57% to $7,709.89 million (2011/12:$10,645.60 million). The reduction was due mainly to the impairment losses incurred.

5.3 The Bank was unable to generate sufficient cash from operations to cover activities including loan disbursements and short-term costs of borrowing. The resultant shortfall of $820.31 million on operation, as well as investment activities (mainly repurchase agreements) was financed significantly by net borrowings. During the year, DBJ accessed $4,286.05 million and repaid $1,469.47 million in loans respectively. In view of the aforementioned, the Bank opened 2012/13 with a cash balance of $794.36 million and closed with $630.37 million.

6.0 CONCLUSION

6.1. DBJ pursued its mission to facilitate and promote economic growth and development by providing business and government with appropriate financing during the review period. The Bank facilitated new investments of $12,167.40 million (8,368 loans) to varied sectors including tourism, agriculture, agro-processing, manufacturing, mining, and quarrying which created 7,271 potential new jobs. During the year, the Bank provided strong support to initiatives for increasing access to affordable credit for MSMEs. Likewise, the National People's Co-operative Bank (NPCB) continued to be a critical channel for ensuring access to financing for the growth of small and medium-sized farmers. The Bank also continued to support the national efforts toward energy conservation, efficiency and the adoption of renewable energy solutions by providing and promoting financing for energy investments through AFIs and MFIs.

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October 22, 2013