



ANNUAL REPORT 2019



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2019

Report and Statement of Accounts for the
Year Ended 31 December 2019

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Bank of Jamaica Annual Report and Financial Statements
for the year ended 31 December 2019,
prepared pursuant to subsection 44(1) of the Bank of Jamaica Act.

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Printed in Jamaica

PREFACE

This Annual Report reviews the operations of the Bank of Jamaica which include monetary policy, financial system stability, payment system oversight, currency and financial market operations.

In keeping with the Bank's continued engagement with stakeholders, the Annual Report also provides a summary of the Bank's strategic plan, governance, communications, outreach and financial inclusion related activities.

Information in this new design is presented in an easy-to-flow format with stylized highlights and pictures. In addition, the icon on the right has been embedded in some sections of the Annual Report. This new feature is a guide to links to related topics, publications, statistics and videos on the Bank's website and social media channels.



As is customary, the Report includes the Bank's audited financial statements as at the end of the calendar year.



OUR MISSION

To formulate and implement monetary and regulatory policies to promote price and financial system stability by being a trusted organisation with motivated and professional employees working for the benefit of the people of Jamaica.

OUR VISION

The world's leading central bank committed to excellence, fostering public confidence and contributing to the sustainable development of Jamaica.





The Governor

Bank of Jamaica
Nethersole Place
Kingston, Jamaica, W.I.

10 March 2020

Dr the Hon Nigel Clarke, DPhil, MP
Minister of Finance and the Public Service
Ministry of Finance and the Public Service
30 National Heroes Circle
Kingston 4

Dear Minister Clarke,

In accordance with section 44(1) of the Bank of Jamaica Act, 1960, I have the honour of transmitting herewith the Bank's report for the year 2019 and a copy of the statement of the Bank's accounts as at 31 December 2019 duly certified by the auditors.

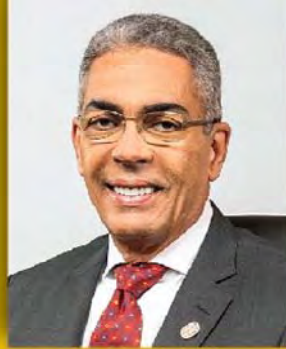
Yours sincerely,

Richard Byles



Board of Directors

as at 31 December 2019



Richard Byles
Governor & Chairman



Christine Clarke



Andrea Coy



Gary "Butch" Hendrickson, CD



Wayne Henry



Darlene Morrison
Financial Secretary



John Robinson, CD
Deputy Chairman

EXECUTIVE AND SENIOR MANAGEMENT

as at 31 December 2019



(Left to Right) Maurene Simms, Deputy Governor & Deputy Supervisor; Natalie Haynes, Deputy Governor; Karen Chin Quee Akin, Deputy Governor & General Counsel; Richard Byles, Governor & Supervisor; John Robinson, Senior Deputy Governor; George Roper, Deputy Governor; Wayne Robinson, Deputy Governor.



Calvin Brown,
Division Chief
Human Resources
Division



Robert Stennett,
Division Chief
Research & Economic
Programming Division



Jide Lewis,
Division Chief
Financial Institutions
Supervisory Division



Victory Henry,
Division Chief
Facilities Management and
Protective Services Division



Artwell Bernard,
Chief Information Officer/
Division Chief Information
Technology & Records
Management Division



Novelette Panton,
Division Chief
Financial Markets
Infrastructure Division



Chevanese Morais,
Division Chief
Banking & Currency
Operations Division



Ian Williams,
Financial Controller
Finance Division



Angela Foote,
Chief Audit Executive
Internal Audit Division



BANK OF JAMAICA
PRINCIPAL OFFICERS
As at 31 December 2019

GOVERNOR & SUPERVISOR

Richard Byles

SENIOR DEPUTY GOVERNOR

John Robinson, CD

DEPUTY GOVERNOR & DEPUTY SUPERVISOR

Maurene Simms - Financial Institutions Supervisory

DEPUTY GOVERNOR & GENERAL COUNSEL

Karen Chin Quee Akin - Corporate Secretary's Division

DEPUTY GOVERNORS

George Roper - Finance, Technology & Administration

Natalie Haynes - Banking, Currency Operations & Financial Market Infrastructure

Wayne Robinson - Research & Economic Programming
& Financial Stability

DIVISION CHIEFS

Calvin Brown - Human Resources Division

Jide Lewis - Financial Institutions Supervisory Division

Chevanese Morais - Banking & Currency Operations Division

Robert Stennett - Research & Economic Programming Division

Novelette Panton - Financial Markets Infrastructure Division

Victor Henry - Facilities Management and Protective Services Division

Artwell Bernard - Information Technology & Records Management Division

DIVISION CHIEF & FINANCIAL CONTROLLER

Ian Williams - Finance Division

DIVISION CHIEF & CHIEF AUDIT EXECUTIVE

Angela Foote - Internal Audit Division



2019 at



POLICY RATE

0.50%

The policy rate was gradually reduced from 1.75% to 0.50% at end-2019.



INFLATION

6.2%

During 2019, annual headline inflation fell below the Bank's inflation target of 4.0 per cent to 6.0 per cent on six occasions, within the target on five occasions, but closed the year slightly above the target.



GROSS RESERVES

US\$3.6 billion

The country maintained a strong reserve position, equivalent to 110.7% of the ARA metric, at end-2019.



UNEMPLOYMENT RATE

7.2%

As at October 2019.

a Glance



NO. OF DEPOSIT-TAKING INSTITUTIONS (DTIs)

11

The total number of licensed DTIs operating in Jamaica remained unchanged, comprising 8 commercial banks, 1 merchant bank and 2 building societies at end-2019.



DEPOSIT DOLLARISATION RATIO

38.1%

With improved confidence in the Jamaica Dollar, a smaller portion of deposits held at DTIs is being held in foreign currency.



NO. OF EMPLOYEES

623

At end-2019, the Bank's staff comprised of 454 permanent staff and 169 staff on fixed-term contracts.



CURRENCY IN CIRCULATION

\$150 billion

At end-2019, this represented an increase in the value of notes and coins in circulation by 11.5% when compared to end-2018.



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ABBREVIATIONS

ABM	Automated Banking Machine
ACH	Automated Clearing House
ACL	Average Circulation Life
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
BCP	Business Continuity Plan
B-FXITT	BOJ Foreign Exchange Intervention and Trading Tool
BIS	Bank for International Settlement
BMI	Benchmark Investment
Bn	Billion
BOJ	Bank of Jamaica
bps	Basis points
BSJ	Bureau of Standards Jamaica
CAR	Capital Adequacy Ratio
CARICOM	Caribbean Community
CD	Certificate of Deposit
CEO	Chief Executive Officer
CIP	Credit Information Provider
CPI	Consumer Price Index
DTIs	Deposit-taking Institutions
ERPS	Electronic Retail Payment Services
FATF	Financial Action Task Force
FRC	Financial Regulatory Committee
FSSC	Financial System Stability Committee
FX	Foreign Exchange
FY	Fiscal Year
GDP	Gross Domestic Product
GFA	Gross Foreign Assets
GOJ	Government of Jamaica
HRD	Human Resource Development

HQLA	High Quality Liquid Assets
HWEG	Housing, Water, Electricity, Gas and Other Fuels
IMF	International Monetary Fund
JamClear®-CSD	Central Securities Depository
JamClear®-RTGS	Real Time Gross Settlement
JDIC	Jamaica Deposit Insurance Corporation
JMD	Jamaica Dollar
JMMB	Jamaica Money Market Brokers
LCR	Liquidity Cash Ratio
MaFI	Macro-Financial Index
Mn	Million
MiPI	Micro-prudential Index
MPCC	Monetary Policy Consultation Clause
NIDS	National Identification System
NIR	Net International Reserves
NPL	Non-Performing Loans
NRA	National Risk Assessment
OMO	Open Market Operations
PD	Primary Dealers
POS	Point of Sale
PSE	Public Sector Entity
QIS	Quantitative Impact Study
RMB	China renminbi
RTGS	Real Time Gross Settlement
S&P	Standard and Poor's
SBA	Stand-by Arrangement
SC	Supervisory Committee
SDR	Special Drawing Rights
SGSC	Supervisory Guidance Steering Committee
SLF	Standing Liquidity Facility

US	United States
USA	United States of America
USD	United States dollar
UWI	University of the West Indies
VR	Variable Rate
WASR	Weighted Average Selling Rate
WATBY	Weighted Average Treasury Bill Yield
WGPSLAC	Working Group on Payment Systems for Latin America and the Caribbean
WTI	West Texas Intermediate (crude oil)
Y-O-Y	Year-over-Year

OVERVIEW BY THE GOVERNOR

Strategic Plan

In 2019, Bank of Jamaica continued to implement and refine the key performance indicators and strategic initiatives in our 2018-2020 **'Mission Excellence'** strategic plan. Utilizing a balanced scorecard system to facilitate enhanced corporate and individual accountability for performance management. Against this background, a clearly defined road map was designed aimed at facilitating initiatives under the four strategic themes: (i) Operational Excellence (ii) Great Place to Work (iii) Governance Excellence (iv) Financial System Excellence.



Notable achievements under the strategic plan during 2019 included support provided to the Joint Select Committee of Parliament tasked with reviewing the proposed amendments to the Bank of Jamaica Act and related legislation. These amendments will modernise the operations of the Bank, strengthen its accountability, autonomy and balance sheet. Significant strides were also made in the development of the Principles for Financial Market Infrastructure, which involves standards for payment systems, central securities and security settlement systems. Bank of Jamaica also commenced a pilot for risk-based supervision of the financial system on a solo basis and advanced work on a consolidated risk-based supervisory framework. There were also initiatives implemented to improve the physical infrastructure of the Bank through enhanced safety and security measures while simultaneously improving facilities to accommodate persons with disabilities.

In the latter half of 2019, Bank of Jamaica embarked on a critical programme of work for the development and implementation of clearly defined service level standards which will aid in the measurement of the institution's service delivery. These service level standards **will reinforce the Bank's transparency and accountability by** providing both internal and external stakeholders with distinct metrics to which the Bank will be held to account, thereby enabling more results-based management.

Monetary Policy and Economic Developments

Bank of Jamaica's primary monetary policy objective is to achieve and maintain inflation within the target of 4.0 per cent to 6.0 per cent per annum. This continuous medium-term inflation target was determined by the Minister of Finance and the Public Service in September 2017 and is consistent with the objective of the government to encourage or facilitate increased credit expansion, higher GDP growth and economic development in the context of the **Government's continued** strong commitment to fiscal consolidation. The main monetary policy tool utilized by the Bank to achieve the inflation

target is the policy interest rate, that is, the interest rate offered to deposit-taking institutions on their overnight balances at Bank of Jamaica.

During 2019, Bank of Jamaica maintained an accommodative monetary policy stance aimed at fostering an environment of faster credit expansion in support of higher levels of economic activity and job creation to support inflation remaining **within the Bank's target. Specifically, the Bank reduced its policy** interest rate on four occasions by a total of 125 basis points to the historic low of 0.50 per cent per annum. The Bank also lowered the cash reserve requirement on two occasions by a cumulative 5 percentage points to 7.0 per cent, which increased liquidity in the financial system by \$28.1 billion. In addition, the Bank narrowed the width of the interest rate corridor in order to strengthen the signalling effect of **the Bank's monetary policy actions.**

Annual headline inflation **fell below the Bank's inflation target on six occasions during 2019, inflation was within target on** five occasions but closed the year slightly above the target. The periods of lower-than-targeted inflation was mainly related to the impact of reductions in agricultural food prices as well as lower than anticipated international oil prices which resulted in a decline in domestic energy-related costs. The higher than anticipated inflation outturn at December 2019 primarily reflected the impact of higher costs for vegetable and starchy foods arising from adverse weather conditions as well as higher energy-related goods and services due to increased international oil prices. Underlying inflation generally remained relatively low below 3.0 per cent, indicative of continued weak domestic demand conditions while inflation expectations were largely anchored around the midpoint of the inflation target throughout the year. Over the next two years, the outlook is for inflation to largely remain within the inflation target. **Accordingly, the Bank's policy posture will be** geared towards maintaining inflation within target while fostering an environment for faster GDP growth.

The Jamaican economy is estimated to have recorded real GDP growth of 0.9 per cent in 2019, albeit at a slower pace than the growth of 1.9 per cent observed in 2018. The slowdown in growth was predominantly related to declines in mining and construction, given the temporary closure of the Alpart alumina plant and the completion of various road rehabilitation projects. However, manufacturing and tourism is estimated to have recorded significant expansions during the year, in the context of a rise in food production and petroleum refining as well as the staging of various sports and cultural events coupled with the addition of new and cheaper airlift to Jamaica. **Jamaica's unemployment rate declined to a record low of** 7.2 per cent at October 2019 from 8.7 per cent a year earlier. Bank of Jamaica anticipates that real GDP growth will stabilize in the range of 1.5 per cent to 2.5 per cent over the medium-term while further improvements in the labour market are anticipated over the next two years.

Economic Reform Programme

In November 2019, Jamaica successfully completed its final review under the 36-month precautionary Stand-By **Arrangement with the International Monetary Fund (IMF). The IMF noted that Jamaica's reforms under the programme** had institutionalized fiscal discipline and led to a substantial reduction in the public debt, which is on track to meet the legislated target of 60 per cent of GDP by March 2026. The Jamaican authorities remain committed to sustained policy

discipline, going forward. The Economic Programme Oversight Committee (EPOC), established by the Government in collaboration with the private sector, will continue to **monitor Jamaica's self-determined** macroeconomic targets and commitments, aimed at supporting public accountability until the fiscal council becomes fully operational.

Bank of Jamaica maintained a strong net international reserve position during 2019, with reserves increasing by US\$157.1 million to close at US\$3 162.5 million. Gross reserves amounted to US\$3 631.1 million at end-2019, representing more than **110 per cent of the IMF's Assessing Reserve Adequacy (ARA) metric. Bank of Jamaica achieved all the required targets for the non-borrowed reserves for the review year.**

In light of Jamaica's strong performance under its economic reform programme, the three main ratings agencies issued ratings upgrades for Jamaica during 2019. The rationale for the upgrades included the maintenance of strong fiscal discipline which has resulted in sustained high primary surpluses, a significant reduction in public debt levels and the entrenchment of institutional improvements in monetary and fiscal policy frameworks. Acknowledgement was also given to the move towards an independent central bank with an explicit inflation targeting policy framework as well as the impending establishment of an independent fiscal council.

Financial System Stability Oversight

In the context of continued positive macroeconomic conditions, risks to financial stability continued to be subdued during 2019. Deposit-taking institutions (DTIs) remained sound, well capitalized, liquid and profitable while recording improvements in asset quality during the year. The financial system continued to demonstrate resilience to macroprudential stress-tests during the year. Notably, the **value of the Bank's macro-financial** and micro-prudential indices remained well below the respective crisis thresholds, demonstrating the relative health of the banking system. Additionally, sensitivity analysis continued to show that the capital adequacy ratios of the DTIs would continue to remain above the 10 per cent minimum benchmark in response to hypothetical market, credit and liquidity stresses.

Payment, Clearing and Settlement System Oversight

In 2019, Bank of Jamaica's oversight of the National Payment System remained focused on mitigating systemic risk and improving the safety and efficacy of the payment, clearing and settlement framework for domestic payments. The Bank also intensified efforts aimed at encouraging greater use of electronic means of payments and implemented further upgrades to its JamClear®-RTGS and JamClear®-CSD systems. The upgrades to the JamClear systems paved the way for the upcoming implementation of a new foreign exchange trading platform, which will result in greater transparency of foreign currency transaction volumes and rates between intermediaries as they occur and facilitate straight-through settlement of these trades on dealers' accounts.

Financial Inclusion and Deepening

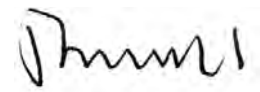
Bank of Jamaica continued to coordinate the implementation of the National Financial Inclusion Strategy through the Technical Secretariat. Notable progress was made on all action items particularly as they related to promoting the use of electronic retail payment services and improving access to financing to micro, small and medium-sized enterprises. The

Bank was also tasked with leading the development and implementation of a financial deepening agenda which seeks to **maximize the opportunities created by the high Jamaica dollar liquidity environment in a context of the Government's** continued fiscal consolidation programme. Key initiatives under this programme include the establishment of a reverse factoring electronic platform for receivables, standardizing asset quality by incentivizing the use of independent credit ratings as well as the establishment of a trading platform for fixed income securities.

Communication

Under our communication strategy which was launched in 2018, the Bank continued to takes steps to raise internal and external stakeholders' **awareness and understanding of the BOJ's operations**, as it seeks to achieve the primary mandate of price stability. In light of this objective, Bank of Jamaica further expanded its channels of communication through additional social media platforms, the introduction of a podcast series and the production of its inaugural television programme 'Centrally Speaking.' **These communication** initiatives are aimed at encouraging greater confidence in the **Bank's policy initiatives and objectives**, particularly as it transitions to a full-fledged inflation targeting policy framework.

In closing, I wish to thank the members of the Board, management and staff of Bank of Jamaica for their diligence and continued commitment to excellence as the Bank seeks to **become the world's leading central bank**.



Richard Byles



HON. NOEL N. NETHERSOLE
MINISTER OF FINANCE 1955-1958

During His Term Of Office He Laid The
Foundations For The Establishment
Of The Bank Of Jamaica

ROLE AND FUNCTIONS

Bank of Jamaica (BOJ), established by the Bank of Jamaica Act (1960), is responsible for the implementation of sound and consistent monetary policies, while ensuring financial system stability through robust supervisory and regulatory policies.

The achievement of these two main objectives is critical to the attainment of sustainable growth in the Jamaican economy, as captured in our mission statement.

Our Mission Statement



To formulate and implement monetary and regulatory policies to promote price and financial system stability by being a trusted organisation with motivated and professional employees working for the benefit of the people of Jamaica. ”

1. Monetary Policy

Bank of Jamaica conducts monetary policy with the aim of achieving a target for inflation of 4.0 per cent to 6.0 per cent. In formulating monetary policy to achieve this target, the Bank takes into consideration all prevailing and prospective developments in the macroeconomy, fiscal operations and external sector as well as relevant market information. A decision to change the stance of monetary policy is reflected in changes in the rates offered on overnight balances held by deposit-taking institutions (DTIs) at Bank of Jamaica.

2. Financial System Stability

BOJ has supervisory and regulatory oversight of commercial banks and other licensed deposit-taking institutions. As such, the Bank routinely monitors these **institutions' compliance with all the relevant legislation and regulations to ensure the highest level of prudence and integrity in their management. The Bank's overall responsibility for financial stability is supported by micro- and macro-prudential assessments, which are underpinned by the results from early warning systems and risk models.**

The Bank undertakes the expanded role of supervisory and financial system stability oversight in collaboration with the Financial Services Commission (FSC) and the Jamaica Deposit Insurance Corporation (JDIC) in the context of two statutory committees - the Financial System Stability Committee (FSSC) and the Financial Regulatory Committee (FRC).

Other Responsibilities

In addition to the two primary roles of Monetary Policy and Financial System Stability, the Bank is also responsible for:

- oversight of Jamaica's payment, clearing and settlement systems and the foreign exchange market;
- the issue and redemption of currency;
- the provision of banking services to the Government and commercial banks as well as fiscal agency services to the Government; and
- the management of the external reserves of Jamaica.

Developments in 2019

In October 2018, the Government tabled in Parliament a Bill for the amendment of the Bank of Jamaica Act and related legislation. These proposed amendments **include revisions to the Bank's mandate to identify the maintenance of price stability and financial system stability as the Bank's principal objectives with price stability as the primary objective.**

The Bill also includes proposals to upgrade **the Bank's** governance arrangements and enhance its accountability and transparency.

At end-2019, the Bill was being reviewed by a Joint Select Committee of Parliament.



[Brief History of the BOJ](#) [Father of the Bank](#)



GOVERNANCE



GOVERNANCE

The Bank of Jamaica Act stipulates that the Governor is the Chief Executive Officer of the Bank as well as Chairman of the Board of Directors. The other Directors of the Board are: the Senior Deputy Governor, the Financial Secretary and six independent

directors appointed by the Minister of Finance and the Public Service for renewable terms each not exceeding three years. Of note, the Governor, the Senior Deputy Governor and the Financial Secretary are ex-officio members of the Board.

Board of Directors

- **Membership**

At 31 December 2019, the ex-officio members of the Board of Directors were Governor Richard Byles (Chairman), who assumed the position effective 19 August 2019 succeeding Governor Brian Wynter who demitted office on 18 August 2019, Senior Deputy Governor John Robinson and Financial Secretary Darlene Morrison. The appointed members of the Board were Dr Christine Clarke, Mrs Andrea Coy, Mr Gary Hendrickson and Dr Wayne Henry who were all reappointed for a three-year period with effect from 08 April 2019. There were two vacancies on the Board at end-2019.

- **Board of Director's Meetings**

The Board held ten meetings in 2019. The legal stipulation is for the Board to meet at least ten times annually (see **Table 1**).

- **Committee Meetings of the Board**

There are three standing committees of the Board: Audit and Risk Committee, Budget Committee and Human Resource Development (HRD) Committee. These committees have terms of reference outlining their responsibilities.

The Audit and Risk Committee is chaired by Dr Christine Clarke. In 2019, this committee held four meetings. The Budget Committee is chaired by Mr Gary Hendrickson. This committee met twice in 2019, satisfying the minimum requirement. Mrs Andrea Coy chairs the HRD Committee, which meets as is necessary. Three meetings were held during 2019 (see **Table 1**).

Table 1: Board of Directors' Meetings for 2019

Board/Committee	Chair	Mandate	No. of meetings
Board of Directors	Governor Brian Wynter (01 January to 18 August 2019). Governor Richard Byles (19 August to 31 December 2019)	Has general responsibility for the affairs of the Bank. All matters of importance outside of the daily management of the Bank are submitted to the Board. ¹	10
Audit and Risk Committee	Christine Clarke	Assists the Board in executing its mandate to provide independent effective oversight of the financial reporting process and internal controls, internal audit, external audit and enterprise risk management.	4
Budget Committee	Gary Hendrickson	Responsible for monitoring and reviewing the capital and recurrent budgets of the Bank. In addition, the Committee may meet, at the request of the Board, to review the outturn against budget.	2
Human Resource Development Committee	Andrea Coy	Has the responsibility for reviewing, monitoring and making recommendations to the Board on human resources strategy and policies.	3

¹ Additionally, the Board on the recommendation of the Governor appoints the auditors, attorneys, currency agents and other agents of the Bank as well as Bank officials.

Statutory Committees

The promulgation of the Banking Services Act (BSA) and amendments to the Bank of Jamaica Act in 2015 laid the foundation for improvement in Bank of Jamaica's governance framework. These amendments enabled the Bank to more effectively and efficiently deliver on its expanded mandate. In this regard, statutory committees were established pursuant to the provisions of the BSA and the Bank of Jamaica Act to support the Bank in the administration of its supervision and financial system stability functions. These committees are: Supervisory Committee (SC), Financial System Stability Committee (FSSC) and Financial Regulatory Committee (FRC). Meetings of the statutory committees are chaired by the Governor (See **Table 2**).

● Supervisory Committee

The Supervisory Committee is responsible for functions set out in the BSA, which include making determinations on the granting, refusal and revocation of licences, among other matters. There are five members on the SC: three ex-officio and two appointed by the Governor General on the advice of the Minister of Finance and the Public Service, after consultation with the Supervisor of banks, financial holding companies and other specified financial institutions ("the Supervisor"). The Governor is the Supervisor as provided by the Bank of Jamaica Act. Ex-officio members are the Supervisor, the Deputy Supervisor as well as the senior executive of the Bank who has responsibility for the Bank's financial stability oversight. At 31 December 2019, the members of the SC were Governor Richard

Byles as the Supervisor, Deputy Supervisor Maurene Simms, Senior Deputy Governor John Robinson, Ms Shirley-Ann Eaton and Professor David Tennant. The SC had seven meetings during 2019.

Statutory committees were established pursuant to the provisions of the BSA and the Bank of Jamaica Act to support the Bank in the administration of its supervision and financial system stability functions.

● Financial System Stability Committee

The Financial System Stability Committee provides support to the Bank in respect of the identification, mitigation and control of systemic threats to the financial system. The FSSC is largely tasked with reviewing assessments in relation to financial system stability and making recommendations to the Bank on the discharge of its financial system stability mandate. In addition, the FSSC contributes to the development of prescriptive rules, standards and codes for financial institutions which specifically address gaps and imbalances that could threaten the stability of the financial system.

There are eight members of the FSSC: six ex-officio and two appointed by the Minister of Finance and the Public Service on the recommendation of the Governor. The ex-officio members of the Committee are the Governor, the

senior officer of the Bank with assigned responsibility for the Bank's financial system stability mandate, the Financial Secretary, the Deputy Supervisor, the Executive Director of the Financial Services Commission and the Chief Executive Officer of the Jamaica Deposit Insurance Corporation. At 31 December 2019, the members were Governor Richard Byles, Senior Deputy Governor John Robinson, Deputy Supervisor Maurene Simms, Financial Secretary Darlene Morrison, Mr Everton McFarlane (Executive Director of the FSC), Miss Antoinette McKain (Chief Executive Officer of JDIC). The three-year term of the appointed persons, Mr Richard Powell and Mr Karl Wright expired on 29 November 2019. **The Bank is appreciative to both for their service to the Committee over the years.** Four meetings of the FSSC were held during 2019.

● Financial Regulatory Committee

The Financial Regulatory Committee was established pursuant to the 2014 amendment of the Bank of Jamaica Act but is not a committee of the Bank. This committee was established to facilitate information sharing, coordination and cooperation among regulatory authorities. In this regard, the committee focusses on those policies and procedures appropriate to the strengthening and regulation of the financial system. The FRC is comprised of four ex-officio members. At 31 December 2019, the members were: the Governor, the Financial Secretary, the Executive Director of the FSC and the CEO of the JDIC. The FRC is statutorily required to meet at least seven times each year. During 2019, seven meetings were held.

Table 2: Statutory Committees Meetings for 2019

Committee	Mandate	No. of meetings
Supervisory Committee	To provide prudential regulation and supervision of deposit-taking institutions and their financial groups.	7
Financial System Stability Committee	To identify, mitigate and control systemic threats to the financial system.	4
Financial Regulatory Committee	To facilitate information sharing, coordination and cooperation among regulatory authorities.	7

Executive Compensation

The Bank's Executive Management comprises the Governor, Senior Deputy Governor and five Deputy Governors. These officers were appointed under fixed-term contracts by the Minister of Finance and the Public Service, as provided for under the Bank of Jamaica Act.

The salary and allowances of Executive Management for the year ended 31 December 2019 are described below:

- a. Salary Range of Executive Management
\$10 026 260.11 to \$24 000 000.00
- b. Allowances - Deputy Governors
\$1 349 813.00 to \$1 487 586.00

Members of the Executive Management team are eligible for benefits available to other members of staff, inclusive of health insurance, life insurance and staff loans. At end-2019, two of the Deputy Governors were members of the non-contributory

pension scheme sponsored by the Bank. The Governor, Senior Deputy Governor and three Deputy Governors are paid a gratuity in lieu of pension benefits.

The Governor is entitled to be provided with an official residence maintained by the Bank or an allowance and reimbursements in lieu thereof. He is also eligible for reimbursement of prescribed overseas medical insurance premium.

The Governor and the Deputy Governors are provided with motor vehicles or compensation in lieu of a motor vehicle.

Non-executive Directors of the Board are not remunerated for their services but are paid, per meeting, fees within the scale of rates approved by the Ministry of Finance and the Public Service for Directors of public bodies. These Directors are not eligible for staff related benefits.



ADMINISTRATION



Shalini Kishnani (C - Miss BOJ), Vanessa Jones (L - placed 2nd) and Capprice Clarke (R - placed 3rd) after winners were announced at the 2019 Miss BOJ competition.

ADMINISTRATION

In 2019, Bank of Jamaica continued to face challenges caused by the loss of team members possessing critical skills due to increased competitiveness in the labour market. As such, the Bank continued its focus on resourcing key roles, particularly within the mandate areas. Consequently, several strategies were utilized to enhance

recruitment, selection and retention of staff and reduce the risks to the delivery of the Bank's mandate. Also, in 2019, the Bank approved a new Competency Framework which is expected to enhance its recruitment and learning and development efforts going forward.

Organisational reviews continued

During 2019, the Bank continued the thrust towards strengthening the organisational structure and improving efficiency and effectiveness. In this regard, organisational reviews continued in earnest during the review year. Specifically, 13 work units were reviewed and approved compared to the 11 which were assessed during 2018. Interim reviews were also undertaken of specific roles and functions within select portfolios to ensure appropriate job design, pending full reviews of the Divisions/Departments.

Learning and development initiatives supported major strategic imperatives

The Bank continued to place emphasis on ensuring alignment of learning and development solutions with its strategic imperatives. In order to sustain effectiveness, focus remained on programmes which targeted the development of technical and behavioural competencies directly related to the delivery of the Bank's mandate. The learning and development solutions fell within three (3) major categories: strategy-based/mandate specific, national impact programmes and core programmes

geared towards developing specific skills and closing performance gaps.

For 2019, 160 training programmes were offered in which 463 or 74 per cent of the Bank's staff were trained.



The Internal Audit Division after completing the Bank's Cyber Security Workshop



Lakelsha Palmer (Head, Learning and Development) giving her remarks at the International Economics and Finance Workshop held at the Bank in March 2019.



Domonique Barnett (Junior Information Systems Officer) speaking at BOJ Power Speakers Toastmasters Club ceremony in her capacity as Charter Vice President - Education.

The Bank's staff complement increased

At 31 December 2019, the Bank's staff complement was 623, an increase of 5.0 per cent over the 596 at 31 December 2018. The staff complement at end-2019 comprised 454 permanent staff and 169 persons on fixed-term contracts. During the year, 72 persons were recruited while 45 staff members exited the institution, either through retirement, resignation or end of contract.

Employee relations climate remained relatively stable during the year

The negotiations for improved salaries and benefits for staff represented by the BJ Management Staff Association were completed during 2019. Several engagement activities were also implemented consistent with the Bank's Strategic Plan. Of significance, the Bank held its inaugural Employee Recognition Week celebrations during which 92 employees received awards for long service, excellence in performance and for contribution to nation building.

Key events included a church service at Scots Kirk United Church, the Long Service Awards ceremony and Employee Choice Awards. Under the Employee Choice Awards Scheme, 13 awards, one for each Division, were given in each of the following categories:

- (a) **Best Team Player** – The employee who demonstrated a commitment to the Division and by extension the Bank by displaying a willingness to undertake activities which were not necessarily related to his/her core functions but were integral to the success of the team;



Melissa Weston (Assistant Legal Counsel) receives token of recognition from Andrea Clarke (Chief Strategy Officer) at the Employee Recognition Ceremony.



Communications Team with Deputy Governor Wayne Robinson (front – right) at the Annual Employee Awards Ceremony

- (b) **Most Customer Centric** – The employee who had the internal/external customers' needs as his/her primary focus; always trying to provide an enjoyable experience and going the extra mile to satisfy even the most difficult business needs; and
- (c) **Values Ambassador** – The employee who best depicted the Bank's Core Values of Integrity, Honesty, Fairness, Teamwork, Confidentiality, Respect, Equity, Excellence and Transparency in executing his/her duties.



Team members at their Annual Administrative Professionals' Day Luncheon

During 2019 29 persons attained pensionable status

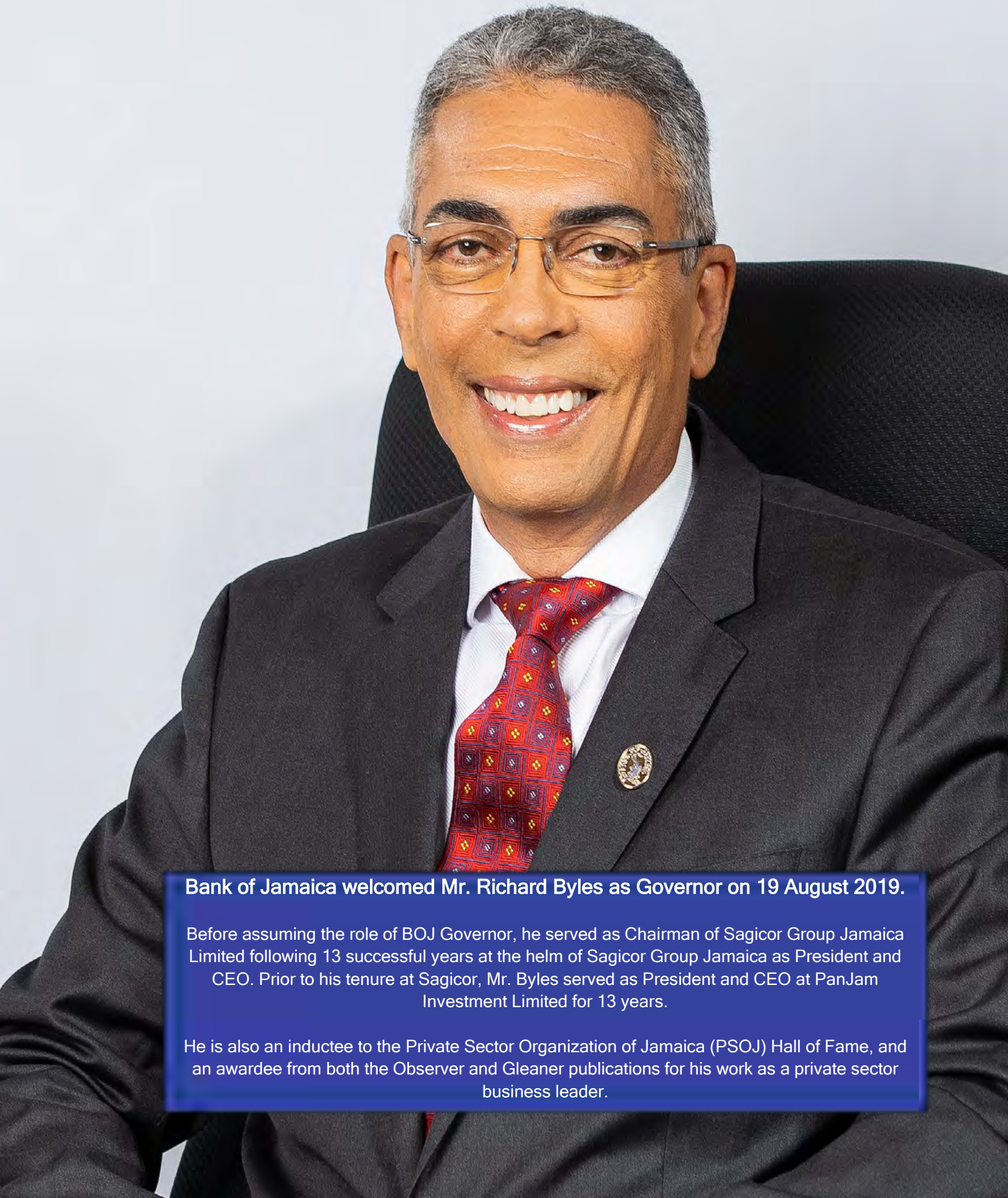
The membership in the Bank's pension scheme increased to 1 068 at 31 December 2019 from 1 054 at 31 December 2018. The membership at end-2019 consisted of 449 active members, 415 pensioners, 166 deferred pensioners and 38 beneficiaries, including spouses and dependent children. Of the 449 active members, 275 or 61 per cent were vested. During the year, 29 persons attained pensionable status, six were staff members and 23 were deferred pensioners. Of the total, two staff members proceeded on early retirement and one on late retirement.



Team members at the Annual Employee Awards Ceremony



Former Governor Brian Wynter shaking hands with Richard Byles as preparations are made for Mr Byles to assume the role of Governor in August 2019.



Bank of Jamaica welcomed Mr. Richard Byles as Governor on 19 August 2019.

Before assuming the role of BOJ Governor, he served as Chairman of Sagicor Group Jamaica Limited following 13 successful years at the helm of Sagicor Group Jamaica as President and CEO. Prior to his tenure at Sagicor, Mr. Byles served as President and CEO at PanJam Investment Limited for 13 years.

He is also an inductee to the Private Sector Organization of Jamaica (PSOJ) Hall of Fame, and an awardee from both the Observer and Gleaner publications for his work as a private sector business leader.



STRATEGIC PLAN

STRATEGIC PLAN

Bank of Jamaica's 2018-2020 Strategic Plan branded 'Mission Excellence' reflects the institution's continuous pursuit of excellence in all areas of its mandate. The strategic plan is designed to guide the

transformation of the Bank in preparation for operations in an enhanced governance framework, which will be supported by legislation.

A clear road map designed to focus the Bank in 2020

Subsequent to the launch of the strategic plan in 2018, the Bank continued to review and refine key performance indicators and strategic initiatives and projects designed to drive the performance of the 14 strategic objectives (see **Corporate Strategy Map**). A dynamic and comprehensive balanced scorecard system was used to build corporate and individual accountability for results and to provide a basis for measuring performance. By end-2019, a clear road map was designed to focus the Bank in 2020 on achieving key initiatives aimed at driving operational, financial and governance excellence and promoting the institution as a *great place to work*.



Tracey Jean Tapper (Senior Librarian) and Kirk Barham (Strategy and Project Manager) attending the Economic Seminar series on Demystifying Inflation

A dynamic and comprehensive balanced scorecard system was used to build corporate and individual accountability.

Achievements in 2019

The performance of the 14 strategic objectives was measured by 34 key performance indicators and over 90 strategic projects and sub-projects, some of which were multi-year.

Significant achievements included the support provided to the Joint Select Committee of Parliament regarding its review of the Bill for amendment of the Bank of Jamaica

Act and related legislation which is aimed at improving the central bank's governance and independence as well as strengthening its balance sheet. The development of the Principles for Financial Markets Infrastructure (PFMI) Framework, which are standards for financial market infrastructures (payment systems, central securities depositories, securities settlement systems), was completed. Other achievements were: the full roll-out of

the advancement of the RBS on a consolidated basis, development of a competency framework to guide the Bank's human capital management initiatives and implementation of communication initiatives to include a television and radio programme series "Centrally Speaking" to raise the level of the public's awareness of the inflation targeting agenda and the general role and responsibilities of the Bank.

Additionally, significant strides were made with regard to the development and implementation of the first phase of a foreign exchange trading platform which is aimed at providing higher levels of transparency in the foreign exchange market. There was also implementation of other information technology systems to enhance the efficiency and effectiveness of the Bank's business processes.

The Bank also sought to improve its physical infrastructure through enhanced safety and security measures and the establishment of facilities to accommodate persons with disabilities.

Strategy engagement programmes undertaken

A number of strategy engagement initiatives were undertaken which involved staff in the strategic planning process. These initiatives included newsletters, divisional meetings to discuss the strategy, establishment of project teams and assessments through staff surveys.

Commitment to Improving Service Delivery

In the December 2019 quarter, the Bank commenced one of its high-level initiatives to develop and implement service level standards which will assist with measuring the institution's service delivery. These service level standards seek to outline the expectations of the Bank's internal customers and external stakeholders, with regard to service delivery, drive service improvement and contribute to results-based management. The standards reinforce the Bank's accountability by making performance transparent and demonstrating the institution's commitment to service excellence.



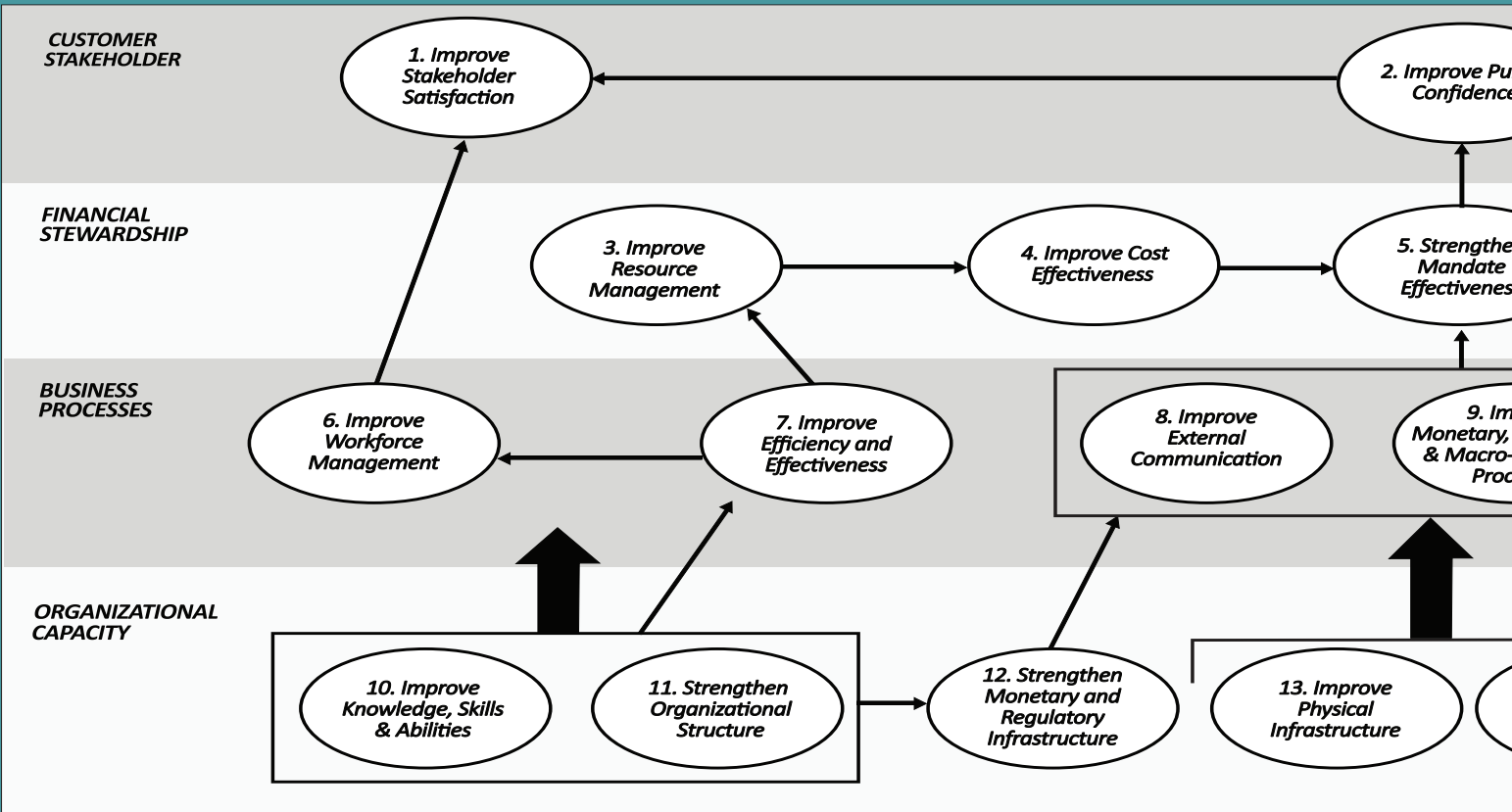
Hon. Nigel Clarke, the Minister of Finance and the Public Service, meeting with Senior Executive Management of the Bank

CORPORATE STRATEGY

Mission Excellence - Bank of Jamaica

	Vision:	The world's leading central bank committed to excellence, fostering public	
	Mission:	To formulate and implement monetary and regulatory policies to promote and professional employees working for the benefit of the people of Jamaica	
	Strategic Themes:	Operational Excellence	Great
	Strategic Results:	Timely, accurate, reliable and cost-effective performance in accordance with agreed benchmarks.	A safe, comfortable environment with r compensation that professional develop

STRATEGIC OBJECTIVES



Core Values : Fairness Equity Transparency Excellence

STRATEGY MAP

Jamaica Strategic Plan 2018 – 2020

confidence and contributing to the sustainable development of Jamaica

price and financial system stability by being a trusted organization with motivated staff.

Place to Work	Governance Excellence	Financial System Excellence
and appealing work environments and competitive salaries to promote the wellbeing and development of employees.	Strong and effective structures, systems and processes that support delivery of the highest standards of accountability, transparency, equity and fairness.	The agreed financial system development objectives are achieved.

	MEASURES	TARGETS	INITIATIVES
Public Perception	1.1) Regulated Entities Satisfaction Score	1) 25% improvement on baseline scores by 2020	1.1) Stakeholder Engagement Programme
	1.2) Government Agencies Satisfaction Score		
	1.3) Public Perception Score		
	1.4) Employee Satisfaction Score		
Human Resources	2.1) Public Confidence Score	2.1) 25% improvement on baseline scores by 2020	2.1) Public Confidence Programme
	2.2) Currency Measure	2.2) Max 50 Parts per Million (PPM)	2.2) Public Engagement Programme
	3.1) Human Resource Vacancy Score	3.1) +/- 5% of establishment	3) Resource Management Programme
	3.2) Manpower Distribution Score	3.2) 60:40 ratio (mandate vs.non-mandate)	
	3.3) IT System Availability Score	3.3) 99.5% availability	
	3.4) Maintenance Schedule Index	3.4) 95% adherence to maintenance schedules	
3.5) Environmental Safety Index	3.5) 100% adherence to OSHA		
3.6) Financial Resource Utilization Index	3.6) 5% (Max adverse variance)		
Improve Regulatory and Prudential Processes	4.1) Policy Solvency Ratio	4.1) 5% (Capital to Monetary Liabilities)	4) Cost Management Programme
	4.2) Reserve Cost Ratio	4.2) Within 5% of Budget	
	4.3) OMO Cost Ratio	4.3) Max of 5 percentage points above budget	
	4.4) Operating Cost Ratio	4.4) Max of 5 percentage points above budget	
14. Improve IT Infrastructure	5.1) Governance Framework	5.1) 100% completion of agreed targets	5.1) Governance Framework Enhancement Programme
	5.2) Governance Index	5.2) 100% compliance	
Confidentiality	6.1) Workforce Effectiveness Index	6.1) 5% improvement on baseline scores	6.1) Workforce Management Programme
	7.1) Corporate Efficiency Index	7.1) 25% improvement on baseline by 2020	7.1) Efficiency Programme 7.2) Policy Solvency Improvement Programme
Honesty	8.1) Communication Targets	8.1) 85% completion of agreed target	8.1) External Communication Engagement Programme
	9.1) Financial System Stability Score	9.1) 90% completion of agreed targets	9.1) Financial System Enhancement Programme
	9.2) Inflation Target Ratio	9.2) 90% (within targeted band over agreed period)	9.2) Enhanced Economic Surveillance Programme
Integrity	9.3) RBS Target Ratio	9.3) 90% completion of agreed targets	9.3) Risk Based Supervision Programme
	10.1) Knowledge, Skills and Abilities Index	10.1) ≤ 5% (Skills Gap)	10.1) Targeted Training and Development Programme
Respect	11.1) Organizational Structure Review	11.1) 75% org. structure has been reviewed within	11.1) Organizational Restructure Programme
	12.1) PFMI Framework	12.1) 75% completion of agreed targets	12.1) Financial Market Infrastructure Enhancement Programme
	12.2) Inflation Targeting Framework	12.2) 100% completion of agreed targets	12.2) Inflation Targeting Programme
Team Work	12.3) BCP & RBS Framework	12.3) 75% completion of agreed targets	12.3) Enhance Regulatory Framework Programme
	13.1) Capital Works (FM) Efficiency Index	13.1) 95% completion of agreed targets	13.1) Plant and Equipment Programme 13.2) Space Management Programme 13.3) Security and Safety Enhancement Programme
	14.1) Capital Works (IT) Efficiency Index	14.1) 95% completion of agreed targets	14.1) Strategic IT Projects

Confidentiality

Honesty

Integrity

Respect

Team Work



MONETARY POLICY



UNIVERSIDAD TORCUATO DI TELLA



XXII WORKSHOP

IN INTERNATIONAL ECONOMICS AND FINANCE

- Improve signal mechanism
- Develop deep



BRIAN WYNTER

DR. NIGEL CLARKE

Deputy Governor Wayne Robinson giving remarks at the International Economics and Finance workshop on Inflation

Targeting that took place in March 2019

MONETARY POLICY

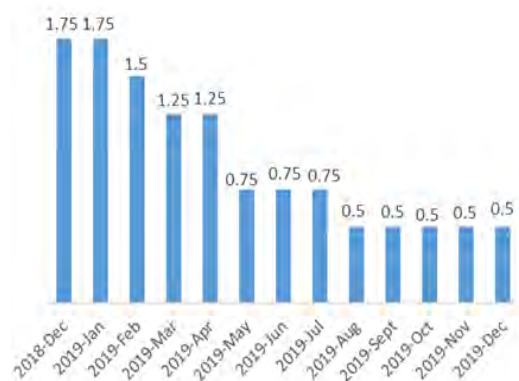
Bank of Jamaica's monetary policy objective is to achieve and maintain inflation within the target of 4.0 per cent to 6.0 per cent. The inflation target is a policy choice by the Minister of Finance and the Public Service. Inflation at this level will facilitate sustained growth and development in the economy. The main tool to achieve and maintain inflation within the target is the

policy interest rate, that is, the interest rate offered on overnight balances at Bank of Jamaica. Changes in **the policy rate signal the Bank's policy stance towards** achieving the inflation objective. These changes are transmitted to consumer prices through the financial markets and then through spending and investment decisions of firms and households.

Bank of Jamaica cut policy interest rate four times in 2019

During 2019, Bank of Jamaica maintained an accommodative monetary policy stance. Specifically, the policy interest rate was reduced on four occasions by a total of 125 basis points (bps) to 0.50 per cent at the end of the year (see **Chart 1**). This further easing of the monetary policy stance was aimed at fostering increased credit expansion, stronger growth in Gross Domestic Product (GDP) and increased job creation to support inflation within the target.

Chart 1: Policy interest rates
(percentage rate)



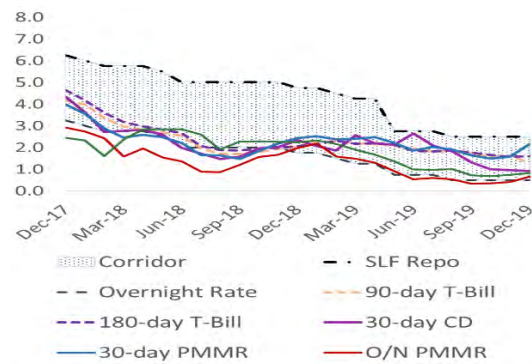
Source: BOJ

Consistent with the reduction in the policy rate, the rate on the Bank's Standing Liquidity Facility (SLF) was lowered by 225 bps to 2.50 per cent. The reduction in the rate on the SLF also translated into a narrowing in the width of the interest rate corridor to 2.0 percentage points from 3.0 percentage points in 2018. This action was aimed at strengthening the signaling effect of the **Bank's monetary policy actions**.

Market rates converged to the policy rate

Market interest rates continued the downward trend in 2019, consistent with improved liquidity conditions and **in response to the Bank's monetary policy signals (see Chart 2)**. In particular, the weighted average yields on GOJ 180-day Treasury Bills (T-Bills) declined to 1.60 per cent at end-2019 from 2.07 per cent at end-2018. Similarly, there were declines in the daily averages of private money market rates during the year. In addition, the weighted average lending rate on bank loans to the private sector at December 2019 was 12.76 per cent, a decline of 0.61 percentage point relative to December 2018.

Chart 2: Interest rate corridor and market rates (per cent)



Source: BOJ

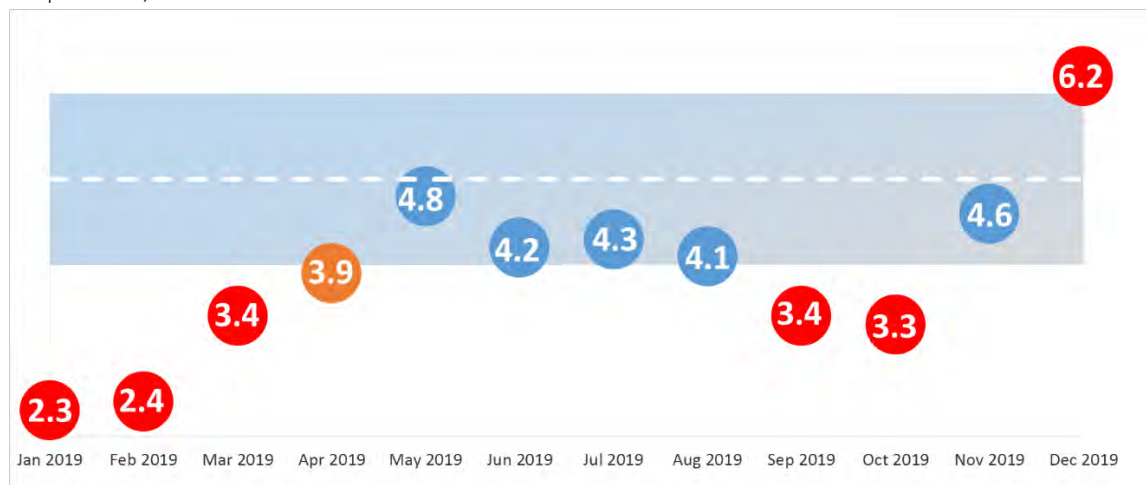
Inflation jumped given shocks to agricultural food prices

During 2019, annual headline inflation fell below the **Bank’s inflation target** of 4.0 per cent to 6.0 per cent on six occasions, but closed the year above the target. The periods of lower-than-targeted inflation reflected the impact of lower-than-forecasted international oil prices, which contributed to a fall in domestic energy-related costs, as well as reductions in agricultural food prices. Furthermore, despite evidence of increased employment and greater economic activity in the

economy, particularly in the first half of the year, there was limited pass-through of improved domestic demand conditions to prices. In December 2019, the upper-bound of the inflation target was surpassed due to higher costs for vegetables and starchy foods and energy-related goods and services. The shock to vegetable and starchy food prices was primarily related to adverse weather conditions (drought followed by heavy rains) that affected the Island between June and October 2019 as well as crop-related diseases which affected some items. Higher prices for energy-related goods and services in the December 2019 quarter was due to an increase in international oil prices.

Underlying (or core) inflation (which removes from headline inflation the impact of changes in volatile food and fuel prices) remained relatively low at 2.9 per cent in December 2019, albeit up from 2.5 per cent in the previous year. **The private sector’s** inflation expectations also increased marginally to 5.1 per cent as at December 2019 but remained broadly anchored **around the midpoint of the Bank’s inflation target.**

Chart 3: Inflation fell below target at various times in 2019 (annual per cent)



Source: STATIN, BOJ

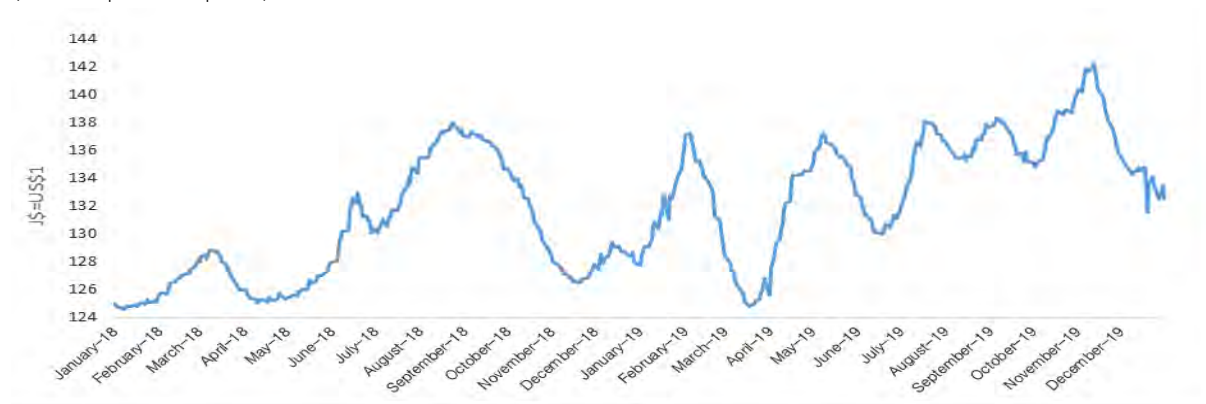
Flexible, two-way movements in the foreign exchange rate

Throughout 2019, the exchange rate was characterized by cycles of appreciation and depreciation. In particular, the Jamaica Dollar experienced five noticeable cycles of upswings followed by downswings (see **Chart 4**). The Dollar depreciated on an annual average basis by 3.6 per cent against the US dollar for the year, compared with a depreciation of 0.9 per cent for 2018. The depreciation of the local currency in 2019 was mainly due to periodic episodes of increased end-user

“The Jamaica Dollar experienced five noticeable cycles of upswings followed by downswings.”

demand to fund real sector activities and planned portfolio-related transactions. These demand pressures were, however, tempered by B-FXITT flash sale operations.

Chart 4: Continued flexible cycles in the USD/JMD exchange rate (annual point-to-point)



Source: BOJ



Carey-Anne Williams (Senior Director– Modelling and Economic Programming) presenting at Economic Seminar series

Economic Achievements in 2019

Real economic activity continued to improve

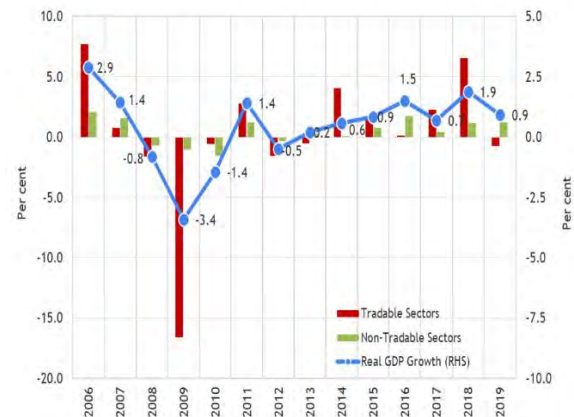
Real economic activity continued to improve in 2019, albeit at a slower pace relative to the previous year. The economy grew by an estimated 0.9 per cent in 2019, compared to the expansion of 1.9 per cent in 2018 (see **Chart 5**).¹ The estimated expansion for 2019 largely reflected a faster pace of growth in manufacturing and tourism, the impact of which was partly offset by declines in mining and construction activities. Growth in manufacturing was buoyed by a rise in food production and a significant increase in petroleum refining activities. For tourism, the expansion was associated with the staging of various sports and cultural events as well as the addition of new and cheaper airlifts to Jamaica. The decline in mining largely reflected the temporary closure of the Alpart alumina processing plant for upgrading works in the context of slowing global economic growth. The contraction in construction was mainly due to the completion of various road rehabilitation projects as well as a delay in the start of the South Coast Highway Improvement Project (SCHIP). Deceleration in the pace of growth in agriculture, due primarily to the impact of adverse weather conditions on domestic food production, also contributed to the estimated overall slower expansion in the economy.



Unemployment rate declined to 7.2% at October 2019 – record low for Jamaica.

¹ BOJ estimate.

Chart 5: The Jamaican economy grew (percentage change in GDP)



Source: STATIN, BOJ

Labour market conditions improved in 2019. In particular, the unemployment rate declined to 7.2 per cent at October 2019 from 8.7 per cent at October 2018 (see **Chart 6**). This was the lowest unemployment rate since records are being kept. The decline in the unemployment rate reflected growth of 2.2 per cent in employment, the impact of which was partially offset by an increase of 0.9 per cent in the labour force (see **Table 1**).

Chart 6: Unemployment fell to an all-time low – Annual Averages (percentage)

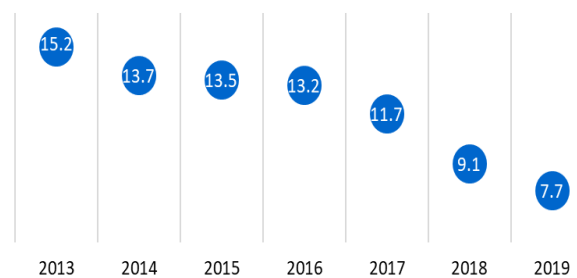


Table 1

SELECTED LABOUR FORCE INDICATORS			
	2018	2019	% Change
Total Labour Force ('000)	1,336.8	1,349.0	0.9
Employed Labour Force ('000)	1,215.1	1,244.9	2.2
Unemployment Rate (%)	9.1	7.7	-1.4
Job Seeking Rate (%)	5.3	4.9	-0.4

Jamaica successfully completed the Stand-By Arrangement (SBA)

● Monetary Targets & Performance

On 04 November 2019, the Executive Board of the International Monetary Fund (IMF) completed the sixth and final review of Jamaica's performance under the economic reform programme, supported by the 36-month precautionary Stand-By Arrangement (SBA). The IMF noted that Jamaica's reforms under the programme had institutionalized fiscal discipline and led to a substantial reduction in public debt, which was on track to meet the legislated target of 60 per cent of GDP by March 2026. Jamaica successfully met all quantitative performance targets for June 2019 and structural reforms were progressing, albeit with delays in a few measures. At June 2019, non-borrowed reserves (NBRs) were US\$385.3 million above the target while annual inflation of 4.2 per cent was within the Monetary Policy Consultation Clause of 3.5 per cent to 6.5 per cent (see Table 2).

Table 2

QUANTITATIVE PERFORMANCE CRITERIA		
IMF Monetary Targets		
Jun-19		
Reserves	Target	Outturn
Non-borrowed reserves – US\$m	2,202.00	2,587.30
Monetary Policy Consultation Clause	Target	Outturn
· CPI Inflation (%)		
Outer band (upper)	6.5	
Inflation target (centre)	5.0	4.2
Inner band (lower)	3.5	
Outer band (lower)		

Source: BOJ, IMF

Subsequent to the conclusion of the IMF precautionary SBA, the Jamaican authorities continued to demonstrate commitment to sustained policy discipline. Accordingly, the Economic Programme Oversight Committee (EPOC) was tasked with continuing to monitor Jamaica's self-determined macroeconomic targets and commitments, aimed at supporting public accountability, until a fiscal council becomes fully operational.

Under this new commitment, the stock of NBRs at end-2019 was US\$2 820.5 million, US\$480.5 million above the targeted floor (see Table 3). However, annual inflation of 6.2 per cent at December 2019 was slightly above the upper limit of the Bank's medium-term inflation target of 4.0 per cent to 6.0 per cent. The above-target inflation in December 2019 is expected to be temporary and inflation is expected to trend downwards over the next three months to the Bank's target.

Table 3

QUANTITATIVE PERFORMANCE CRITERIA				
GOJ Monetary Targets				
	Sep-19		Dec-19	
Reserves	Target	Outturn	Target	Outturn
Non-borrowed reserves – US\$m	2 187.2	2 720.2	2 340.0	2 820.5
• CPI Inflation (%)				
Outer band (upper)	6.0		6.0	
Inflation target (centre)	5.0	3.4	5.0	6.2
Inner band (lower)	4.0		4.0	

Source: BOJ, IMF

• Fiscal Management

The Government of Jamaica remained resolute in its effort to maintain fiscal prudence and firm fiscal management as outlined in its fiscal responsibility law. Additionally, in keeping with its commitment to building durable domestic policy institutions, the Government is scheduled to table legislation to establish a Fiscal Council by April 2020.

Central Government operations for April-December 2019 resulted in a fiscal surplus of 1.1 per cent of GDP, which was above the budgeted surplus (supplementary) of 0.1 per cent of GDP. The outturn reflected higher-than-budgeted Revenue & Grants as well as lower-than-budgeted expenditure.

CENTRAL GOVERNMENT SUMMARY ACCOUNTS (J\$Bn)					
	FY 2018/19	FY 2019/20	Budget		FY 2019/20
	Q1- Q3	Q1- Q3	Q1- Q3	Variance	Q1-Q3
				(% GDP)	
Revenue & Grants	448.8	469.1	459.8	9.4	21.7
Revenue	441.8	465.3	455.7	9.5	21.5
Tax Revenue	388.7	414.7	408.1	6.7	19.2
Non-Tax Revenue	50.6	49.7	46.9	2.8	2.3
Bauxite Levy	0.0	0.0	0.0	0.0	0.0
Capital Revenue	2.5	0.8	0.8	0.0	0.0
Grants	7.0	3.9	4.0	- 0.1	0.2
Expenditure	429.6	445.0	456.8	- 11.8	20.6
Recurrent Expenditure	384.2	404.8	410.5	- 5.7	18.7
Programmes	147.9	157.7	159.3	- 1.6	7.3
Wages & Salaries	136.6	147.2	147.3	- 0.1	6.8
Interest	88.5	88.6	91.9	- 3.3	4.1
Domestic	34.5	33.5	34.5	- 1.0	1.6
Foreign	54.0	55.1	57.4	- 2.3	2.5
Capital Expenditure	45.4	40.2	46.3	- 6.1	1.9
Fiscal Balance	19.2	24.1	3.0	21.2	1.1
Primary Balance	107.7	112.7	94.8	17.9	5.2
Overall Balance	- 5.2	33.0	- 3.5	36.5	1.5

Source: Ministry of Finance and the Public Service

Note: Fiscal balance equals revenue & grants minus expenditure. Primary balance equals revenue & grants minus non-interest expenditure. Overall balance equals fiscal balance plus net amortization.

Jamaica's sovereign ratings improved

Jamaica's credit rating improved in 2019 with ratings upgrades by the major three rating agencies. In particular, on 31 January 2019, Fitch Global Ratings upgraded Jamaica's long-term foreign and local currency issuer default ratings to 'B+' from 'B', respectively, and revised its outlook on Jamaica to "stable" from "positive". The agency also upgraded the country ceiling to 'BB-' from 'B'. This is Jamaica's highest rating in over ten years. Similarly, on 27 September 2019, Standard & Poor's Rating Agency (S&P) upgraded Jamaica's long-term foreign and local currency ratings to 'B+' from 'B', respectively, and revised its outlook on Jamaica to "stable" from "positive." On 11 December 2019, Moody's Rating Agency upgraded Jamaica's long-term issuer and senior unsecured ratings to 'B2' from 'B3' with an outlook of "stable".

The rationale for the upgrades included the maintenance of strong fiscal discipline, which has resulted in sustained high primary surpluses, significant reduction in the general government debt/GDP ratio and the entrenchment of institutional improvements in the monetary and fiscal policy frameworks. Institutional improvements include the move towards an independent central bank, with inflation targeting being the explicit goal of monetary policy as well as the creation of a fiscal council to

monitor compliance with the fiscal rule and increase transparency in fiscal matters. The rating upgrades were also influenced by actions taken by Jamaica to strengthen its fiscal resilience against natural disasters by developing a disaster risk financing policy with strategies to cover immediate financing needs arising from weather-related events.

Outlook

Inflation forecasted to range within target over the medium-term

Bank of Jamaica's assessment in December 2019 was that annual headline inflation would moderate and largely remain in the 4.0 per cent to 6.0 per cent target over the medium-term. This assessment was informed by trends in international commodity prices, particularly oil, and expected improvements in domestic agricultural food production. In the context of this outlook, **Bank of Jamaica's policy posture will be geared towards steering inflation within the target while fostering an environment conducive to a faster pace of economic growth.**

Near-term outlook for growth in the Jamaican economy continues to be positive

Growth in aggregate spending over the near-term is expected to be chiefly driven by increases in net external demand and consumption. Investment growth is, however, anticipated to decelerate given the non-recurrence of significant investment projects, particularly in the tourism sector. This forecast assumes expansions primarily in Hotels & Restaurants, Agriculture, Forestry & Fishing and Manufacturing. In the context of this outlook, Bank of Jamaica projects that real GDP growth will stabilize in the range of 1.5 per cent to 2.5 per cent over the medium-term.





Links to more information

▶ Releases

- [Quarterly Monetary Policy Report](http://boj.org.jm/publications/publications_show.php?publication_id=3)
http://boj.org.jm/publications/publications_show.php?publication_id=3
- [Credit Conditions Survey Report](http://boj.org.jm/publications/publications_show.php?publication_id=20)
http://boj.org.jm/publications/publications_show.php?publication_id=20
- [Inflation Expectations Report](http://boj.org.jm/publications/publications_show.php?publication_id=19)
http://boj.org.jm/publications/publications_show.php?publication_id=19
- [Monetary Policy Announcement Schedule](http://boj.org.jm/monetary_policy/monetary_policy_schedule.php)
http://boj.org.jm/monetary_policy/monetary_policy_schedule.php
- [Pres Conference Speeches](http://boj.org.jm/announcements/asearch.php?sel_sub=7)
http://boj.org.jm/announcements/asearch.php?sel_sub=7
- [Press Conference Presentations](http://boj.org.jm/publications/publications_show.php?publication_id=12)
http://boj.org.jm/publications/publications_show.php?publication_id=12
- [Inflation Performance](http://www.boj.org.jm/monetary_policy/inflation_performance.php)
http://www.boj.org.jm/monetary_policy/inflation_performance.php

▶ Additional Resources

- [Objective of Monetary Policy](http://www.boj.org.jm/monetary_policy/monetary_objective.php)
http://www.boj.org.jm/monetary_policy/monetary_objective.php
- [The Inflation Target](http://www.boj.org.jm/monetary_policy/setting_inflation_target.php)
http://www.boj.org.jm/monetary_policy/setting_inflation_target.php
- [Decision Process](http://www.boj.org.jm/monetary_policy/monetary_policy_decision_making.php)
http://www.boj.org.jm/monetary_policy/monetary_policy_decision_making.php
- [Jamaica and the IMF](https://www.imf.org/en/Countries/JAM)
<https://www.imf.org/en/Countries/JAM>



FINANCIAL SYSTEM



FINANCIAL SYSTEM

Supported by continued positive economic conditions, deposit-taking institutions remained sound during 2019. The sector continued to be well capitalized and profitable, asset quality improved, strong management persisted and

the system remained liquid. In the context of the strong capital positions, the sector continued to demonstrate resilience to macro-prudential stress tests.

DTI's balance sheet continued to expand

In a context of continued improvements in macroeconomic conditions, the total assets of DTIs grew by 10.6 per cent, relative to the expansion of 10.0 per cent in 2018. This outturn primarily reflected the sustained rate of growth in loans & advances, the dominant driver of the expansion in assets. There was also expansions in cash, bank balances and investments.

The growth in total assets was predominantly concentrated in domestic currency assets. In particular, the domestic loan portfolio grew by 17.2 per cent, compared to growth of 15.7 per cent in 2018.¹ The expansion in domestic loans in 2019 was predominantly influenced by a steady demand for loan financing (debt) by households and corporates in light of historic low levels of unemployment, relatively low interest rates and increased competition among DTIs in specific segments of the credit market.²

DTIs' asset growth was largely financed by an increase of 9.4 per cent in customer deposits, which

was largely denominated in domestic currency. The **expansion in the DTIs' asset base was also supported** by supplemental funding obtained by way of increased wholesale funding and shareholders' equity.

The number and composition of DTIs licensees operating in Jamaica at end-2019 was unchanged. Specifically, there were 11 DTIS, of which eight were commercial banks, two building societies and one merchant bank (see **Tables 4 and 5**). Notably, in February 2019, supervisory approval was granted to Cornerstone United Holdings Jamaica Limited to acquire the remaining 20 per cent equity stake in MF&G Trust and Finance Limited, subsequent to its 80 per cent acquisition in 2016. Accordingly, effective June 2019, the merchant bank was rebranded as Cornerstone Trust & Merchant Bank Limited and its financial year end changed to 30 September to align with that of its parent.

¹ The domestic loan portfolio includes both public and private sector financing.

Table 4

MARKET COMPOSITION				
Number of Licensed Deposit-taking Institutions*				
Supervised Entities	2016	2017	2018	2019
Commercial Banks	6	8	8	8
Merchants Banks	2	1	1	1
Building Societies	3	2	2	2
Total	11	11	11	11

Source: BOJ

* The proposal by the Minister of Finance and the Public Services for assumption by the Bank of Jamaica of full supervisory responsibility for credit unions, which numbered 25 as at 31 December 2019, will result in significant expansion of the supervised deposit-taking population.

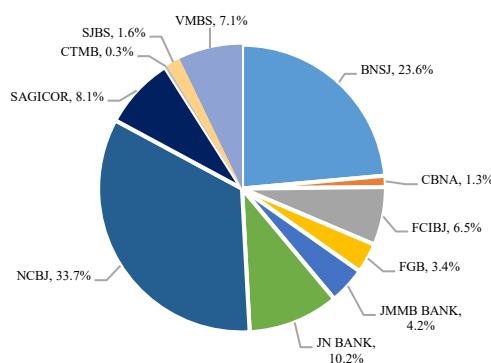
Table 5

LICENSED DEPOSIT-TAKING INSTITUTIONS	
As at 31 December 2019	
Commercial Banks	<ul style="list-style-type: none"> • Bank of Nova Scotia Jamaica Limited • Citibank N.A. • First Caribbean International Bank • First Global Bank Limited • JMMB Bank Limited • JN Bank Limited • National Commercial Bank Jamaica Limited • Sagicor Bank (Jamaica) Limited
Merchant Bank	<ul style="list-style-type: none"> • Cornerstone Trust and Merchant Bank Limited
Building Societies	<ul style="list-style-type: none"> • Victoria Mutual Building Society • Scotia Jamaica Building Society

Source: BOJ

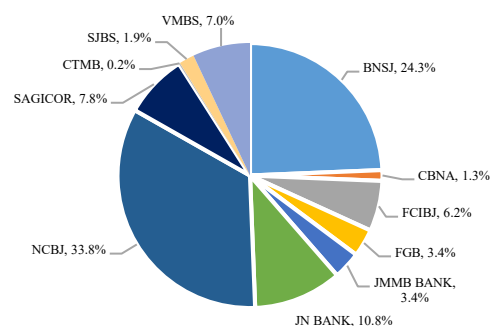
In terms of market share, the top five entities remained the same, but there was a marginal reduction in the proportion of total system assets to 82.8 per cent in 2019 from 83.7 per cent in 2018 (see Charts 7, 8 and 9).

Chart 7: Market Share of Licensees in the DTI sector 31 December 2019



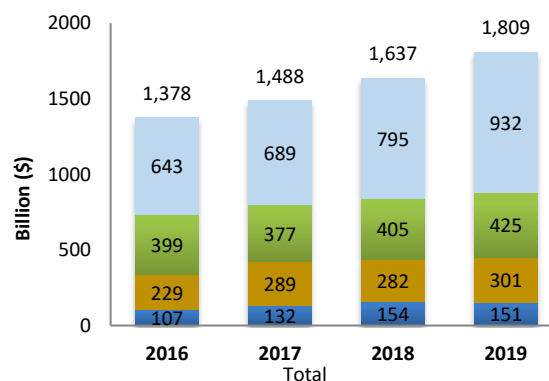
Source: BOJ

Chart 8: Market Share of Licensees in the DTI sector 31 December 2018



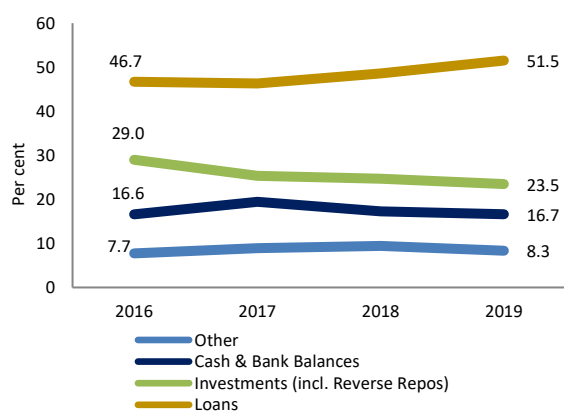
Source: BOJ

Chart 9a: Dollar Value Contribution of Assets 31 December 2016 - 2019



Source: BOJ

Chart 9b: Percentage Share of System Assets 31 December 2016 – 2019



Source: BOJ

Loans to households and corporates continued to drive overall credit growth

Net loans & allowances extended by the DTI sector expanded for 2019. During the year, there was growth in net loans & allowances of 17.2 per cent or \$136.5 billion as DTIs capitalized on increasingly favourable credit conditions and sustained demand for debt by households, corporates and overseas residents.^{3,4} Easing in credit conditions and increased marketing activity among DTIs - in the context of strong competition - facilitated the bolstered loan portfolio positions of DTIs. For 2019, loans to corporates and households increased by 20.3 per cent and 16.5 per cent, respectively (compared with 15.4 per cent and 12.0 per cent for the previous year), while loans to overseas residents expanded by 18.6 per cent relative to 81.5 per cent in 2018.⁵

³ During 2018 the growth in net loans & allowances was 15.4 per cent or \$106.2 billion.

⁴ At end-2019, as a per cent of GDP, loans to households and corporates was 23.0 per cent and 16.7 per cent, respectively, compared with 20.5 per cent and 14.5 per cent in 2018.

⁵ During 2018, the growth in loan disbursements to overseas residents was driven by several facilities extended to numerous

Customers continued to show preference for domestic currency loans as reflected in growth of 17.2 per cent (\$107.0 billion) in 2019 relative to 15.7 per cent (\$84.3 billion) in 2018. Foreign currency loans expanded by 17.0 per cent (J\$29.5 billion) compared to 14.5 per cent in 2018 (J\$21.9 billion).

Consequent on these strong growth rates, at end-2019, gross loans accounted for more than half of total assets (see Chart 9b). This was the first occurrence in over two decades.

Table 6

LICENSED DEPOSIT-TAKING INSTITUTIONS				
Balance Sheet Profile (% of GDP)*				
	2016	2017	2018	2019
Loans	36.5	36.4	39.3	44.2
Investments	22.7	19.9	20.0	20.2
Customer Deposits	49.9	51.8	52.8	55.5
Borrowings	12.5	10.2	10.7	11.9

Source: BOJ

*Prior period data may have revisions arising from amendments to prudential returns.

Cash & Bank Balances grew compared to last year's decline

For the review year, cash and bank balances increased by 6.7 per cent (\$19.0 billion), in contrast to contraction of 2.4 per cent (\$7.0 billion) in 2018. The growth in 2019 reflected increased placements of excess foreign currency liquidity with overseas banks (\$31.6 billion), the impact of which was partly offset by reduced domestic currency holdings at BOJ (\$22.5 billion) in the context of reductions in the domestic currency cash reserves requirements during the

economic sectors, including Distribution, Communication and Utilities. This was in keeping with the strategies of some DTIs to increase loan income through expansions in the overseas market.

year.⁶ Despite the rebound in cash holdings in nominal terms, the share of cash and bank balances as a share of total assets fell to 16.7 per cent as at end-2019, from 17.3 per cent as at end-2018, continuing the trend decline since 2017.

Expanded securities portfolio fueled by DTIs' pursuit of liquid domestic currency investments

During 2019, the investment holdings of DTIs expanded at a slower rate of 5.0 per cent or \$20.2 billion compared to 7.3 per cent or \$27.5 billion in 2018, as the GOJ reduced its appetite for debt. Specifically, there was a reduction in foreign currency investments of \$16.6 billion (US\$188.6 million) consequent on the early redemption of some GOJ global bonds. The effect of this contraction in foreign currency securities was partly countered by growth of 21.3 per cent or \$36.8 billion in domestic currency investments.⁷ Growth in domestic currency investments occurred in the context of reduced **domestic liquid asset requirements and DTIs' acquisition of high-quality liquid assets (HQLAs) in preparation for the full implementation of the liquidity**

coverage ratio (LCR).⁸ In the context of these developments, the ratio of total investments to total assets fell to 23.5 per cent at end-2019, the lowest level in the last 10 years.

Growth in liabilities spurred by increased reliance on borrowed funds and shareholders' equity

Customer deposits remained the key funding source for the DTI sector during 2019, with growth in net deposit inflows of 9.4 per cent (\$100.9 billion) compared with an increase of 9.0 per cent (\$88.4 billion) in 2018. This outturn reflected an uptick of 4.9 per cent (\$20.9 billion) in the Jamaica Dollar equivalent of foreign currency deposits, compared to growth of 2.7 per cent (\$11.0 billion) for 2018. This was largely reflective of greater depreciation of the local currency during the year.⁹ Conversely, the increase in domestic currency deposits slowed to 12.4 per cent from 13.7 per cent in 2018. This slower pace of growth in domestic deposits was indicative of the preference for higher yields offered on the capital and equities markets relative to the low interest rates offered on DTI deposits.

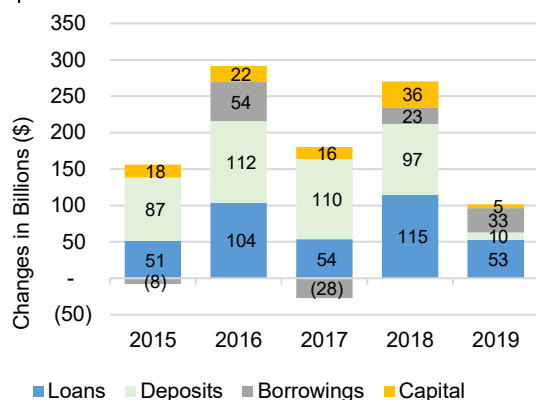
⁶ In an effort to increase system liquidity and thereby support the provision of more credit to businesses and households at lower rates and on better terms, the Bank reduced the domestic currency cash reserve requirement (CRR) by three (3) percentage points (pps) to 9 per cent effective 01 March 2019. A further reduction of two (2) percentage points (pps) to 7 per cent was effected on 03 June 2019. Following the 5.0 pps reduction in the CRR, total liquidity injected into the system was estimated at \$29.1 billion.

⁷ Licensees expanded their stock of domestic currency investments by way of increased holdings in BOJ Certificates of Deposit of \$15.9 billion, GOJ securities and Treasury Bills of \$11.4 billion, local corporate bonds of \$7.6 billion and securities acquired under repurchase agreements of \$2.0 billion.

⁸ Under the Basel III Framework, the Liquidity Coverage Ratio (LCR) measures a DTI's capacity to fund its short-term obligations with HQLAs over a 30-day stress period. The LCR Standard of Best Practice was approved by the Bank's Supervisory Committee on 09 October 2019 and subsequently published on 18 October 2019 on Bank of Jamaica's website. The minimum requirement was set at 75 per cent from 30 November 2019, with the full requirement of 100 per cent to be effected on 30 November 2020. The implementation of the LCR is one component of the Bank's transition to the Basel II/III Capital Accord Standard, which will replace the existing liquid assets requirement regime.

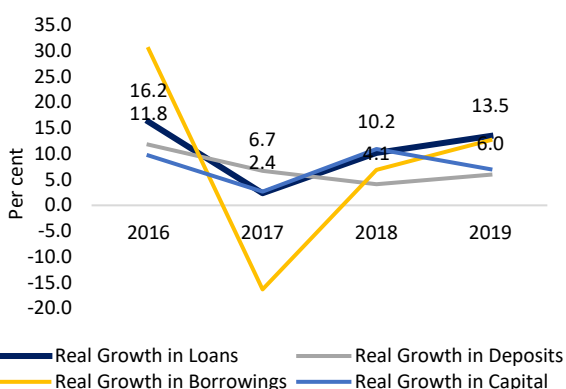
⁹ The stock of foreign currency deposits expanded by US\$37.1 million in 2019 relative to growth of US\$18.9 million for 2018.

Chart 10a: Dollar Value Change in Loans and Deposits



Source: BOJ

Chart 10b: Real Growth in Loans and Deposits



Source: BOJ

During the review period, the growth in DTIs' assets was constrained by a negative funding gap, as reflected by an expansion in loans that was larger than the increase in deposits (see **Chart 10a** and **10b**).¹⁰ As a result DTIs increased their reliance on borrowings (including securities sold under repurchase agreements) to satisfy funding needs. Borrowings grew by 16.3 per cent or \$35.3 billion (compared with 11.9 per cent or \$23.1 billion during 2018), primarily on account of new repurchase

¹⁰ Compared to a gap of 6.1 percentage points recorded in 2018.

agreements.¹¹ Shareholders' equity, a source of funding via non-traditional sources, also increased by 10.5 per cent or \$26.1 billion and was largely reflected in transfers from unappropriated profits to retained earnings reserve funds and the issuance of shares by some licensees.

DTIs balance sheet reflected a marginal increase in holdings of foreign currency assets

Foreign currency denominated assets for the system grew by 3.3 per cent or US\$155.8 million for 2019 compared to 1.9 per cent or US\$86.6 million in 2018. The outturn for the review year was reflected in increased holdings in cash & bank balances and loan disbursements. Funding for the expansion in foreign currency assets was primarily obtained from an increase in foreign currency liabilities of 2.8 per cent or US\$128.5 million relative to 3.3 per cent or US\$150.5 million in 2018.¹²

As the foreign currency component of shareholders' equity expanded by US\$59.6 million, the increase in foreign currency assets over that of foreign currency liabilities deepened the sector's net foreign currency short position to US\$64.5 million at end-2019 from US\$34.2 million at end-2018.

¹¹ Of note, deposit funding in 2019 when represented in real terms increased by 2.8 per cent relative to growth of 6.5 per cent in 2018. Furthermore, the funding gap was narrowed by expansion in wholesale funding reflecting 9.5 per cent growth in real terms for 2019 relative to 9.3 per cent in 2018.

¹² This was largely attributable to wholesale funding of US\$153.4 million and net inflows of US\$37.1 million from foreign currency deposits, moderated by net repayments of US\$48.5 million in sundry liabilities.

The system remained liquid

Consequent on the reduction in the domestic liquid asset requirement, DTIs' holdings of liquid assets fell during 2019 as surplus funds were deployed to support asset growth and repay debt obligations. Notwithstanding the lower holdings of liquid assets, the ratio of domestic currency average liquid assets to domestic currency average prescribed liabilities of 23.7 per cent for 2019 was above the liquid asset requirement of 21.0 per cent.

Conversely, in a context of limited options for liquid assets following the reduced presence of the GOJ in the debt market, DTIs increased holdings in investment-grade foreign government securities and held excess foreign currency liquidity in overseas banks. As a result, licensees recorded a higher ratio of US dollar liquid assets to US dollar prescribed liabilities of 43.3 per cent at end-2019, compared with 39.0 per cent at end-2018, well above the 29.0 per cent statutory requirement.

DTIs profitability increased marginally in 2019

Pre-tax profits as at end-December 2019 was \$51.5 billion compared with \$51.3 billion as at end-December 2018. The profit performance for 2019 was driven by an increase in income from loans, lower interest expenses arising from the low interest rate environment and income from extraordinary transactions.^{13,14} Notwithstanding the overall increase,

¹³ One large commercial bank's P&L benefitted from trading gains following the sale of a portion of its securities portfolio in 2018 and dividend income in 2019.

profits for 2019 were diluted by the impact of higher non-interest expenses (\$15.3 billion in 2019 vis-a-vis \$13.0 billion in 2018), as several DTIs sought to upgrade their digital infrastructure to drive greater efficiencies. Notably, Net Interest Margin was unchanged at 6.3 per cent.

Table 7

COMPOSITION OF ANNUAL TOTAL INCOME				
% of Total Income				
31 December 2016-2019*				
	2016	2017	2018	2019
Income from Loans**	51.5	59.5	54.7	56.8
<i>Of which,</i>				
<i>Interest Income from Loans</i>	47.9	48.1	43.8	45.6
<i>Fee Income from Loans</i>	3.6	11.4	10.9	11.2
Income from Securities & Placements	13.8	13.1	10.2	9.2
Other Fee Income	16.9	12.0	9.6	9.4
Foreign Exchange Gains	6.1	5.7	7.5	8.9
Dividend Income	8.0	4.9	5.7	8.7
Securities Trading Gains	2.0	2.6	7.9	2.2
Other Income	1.6	2.1	4.5	4.9
Total Interest Income	61.8	61.3	54.0	54.8
Total Non-Interest Income	38.2	38.8	46.0	45.2

Source: BOJ

*Prior period data may have revisions arising from amendments to prudential returns.

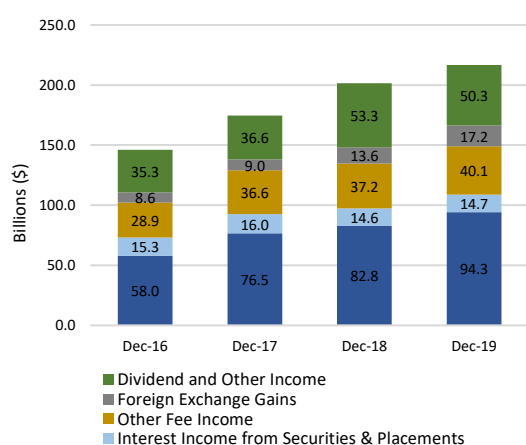
**Includes fee-income from loans issued for the period.

Although revenues from non-interest sources moderated during the year on account of reduced gains from dividend income, this segment continued to dominate a sizeable portion of total income of 45.2 per cent at end-2019 compared with 46.0 per cent in 2018 (see Table 7).^{15, 16}

¹⁴ When total revenues for both years are adjusted to exclude these one-off transactions, pre-tax profits for the DTI sector would have been \$45.6 billion in 2019 compared with \$44.4 billion in 2018.

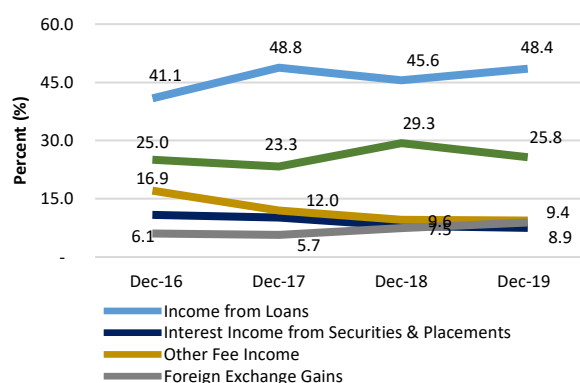
¹⁵ The main categories of non-interest income, as a proportion of total income, was fee income (9.4 per cent), dividend income (25.8 per cent) and foreign exchange gains (8.9 per cent).

Chart 11a: Composition of Annual Operating Income 31 Dec 2016 – 2019



Source: BOJ

Chart 11b: Composition of Annual Operating Income 31 Dec 2016 – 2019



Source: BOJ

Non-interest expenses for 2019 were slightly higher than that for 2018 as DTIs incurred higher management fees, staff-related costs and other operational costs. Accordingly, the supervised sector's operational efficiency deteriorated to 83.7 per cent from 82.1 per cent in 2018.^{17,18}

¹⁶ Notably, the proportion of income attributed to non-loan related fee income declined steadily from 16.9 per cent in 2016 to 9.4 per cent at end-2019.

¹⁷ In an effort to become more efficient and customer-centered, in 2019 several DTIs embarked on a process of digitization, resulting in investments in several technological platforms as a means to improve

The pre-tax profit margin for the system decelerated to 29.4 per cent in 2019 from 31.8 per cent for 2018. Similarly, shareholders realized slightly lower returns on their investments as the return on equity (ROE) for the sector was 19.8 per cent for 2019, compared with 22.3 per cent for 2018 (see Table 8).

Table 8: Select Profitability Indicators

SELECT PROFITABILITY INDICATORS				
%				
31 December 2016-2019				
	2016	2017	2018	2019
Return on Equity	20.0	18.9	22.3	19.8
Return on Assets	2.9	2.7	3.3	3.0
Profit Margin	30.8	28.6	31.8	29.4
Net Interest Margin	6.3	6.4	6.3	6.3

Source: BOJ

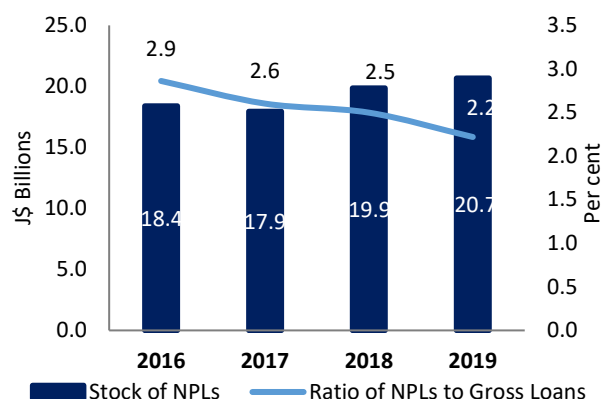
Asset quality improved

Asset quality, measured by the ratio of total non-performing loans to total loans, continued the trend improvement observed since 2011, recording 2.2 per cent at end-2019 relative to 2.5 per cent a year earlier. This improved outturn mainly reflected the impact of the increased role of credit bureaus in the credit adjudication practices of DTIs and favourable macroeconomic conditions. Non-performing loans (NPLs) grew by 4.1 per cent while the stock of performing loans rose by 17.5 per cent for the year (see Chart 12).

processes, build on productivity and extend service offerings while eliminating teller-customer interface.

¹⁸ Operating efficiency is measured by the ratio of non-interest expenses to gross income. The lower the ratio, the more efficiently gross income is used to cover operational costs.

Chart 12: Stock of NPLs (3 Months & Over) with Ratio of NPLs to Gross Loans



Source: BOJ

In the context of the continued implementation of International Financial Reporting Standard (IFRS) 9 provisioning requirements, DTIs' coverage of NPLs via loan loss provisions increased to 123.5 per cent of NPLs from 111.9 per cent in the previous year. The forward-focused approach to anticipated future losses resulted in an additional \$3.3 billion (14.7 per cent) in provisions.

Slow-down in the pace of consolidation in credit union sector

Contrary to the trend in recent years, the pace of consolidation/mergers in the credit union sector slowed during 2019, with the number of credit unions in operation declining by one to 25 at end-2019. Despite the consolidation, the branch network through which credit unions deployed their services increased marginally to 107 locations, branches, sub-branches and agencies at end-2019 from 106 at end-2018.¹⁹

¹⁹ Based on unaudited submissions to Bank of Jamaica.

Total assets held by the credit unions increased by \$7.8 billion (6.9 per cent) to \$122.2 billion during 2019, a slowdown from the growth of 9.7 per cent recorded in 2018 and 10.3 per cent in 2017.²⁰ As in previous years, the outturn mainly reflected an increase of \$7.3 billion (9.3 per cent) in loans (particularly consumer loans) which is generally the **dominant asset category on a credit union's balance sheet**. Investments continued the trend noted in 2018, increasing by \$0.3 billion (1.3 per cent) to \$23.1 billion at end-2019. Funding for asset growth was provided mainly by savings fund which increased by \$6.4 billion or 7.3 per cent to \$94.5 billion at end-2019.

There was growth of \$1.1 billion (7.7 per cent) to \$15.4 billion in the combined capital base of credit unions for the review year. However, given the stronger growth in assets, the capital to total assets ratio improved marginally to 12.6 per cent from 12.5 per cent at end-2018.

For 2019, the credit union sector's surplus declined by \$0.4 billion (18.2 per cent) to \$1.7 billion (based on data to September 2019). This outturn reflected a fall of \$2.3 billion (17.0 per cent) to \$11.2 billion in total revenues, compared to the \$13.5 billion earned in the prior year. The contraction in revenue was due to a significant reduction of \$2.2 billion or 19.3 per cent (mainly on the loan book) in interest income, resulting from lower interest rates.²¹ Despite the net decline, **the sector's surplus was positively impacted by a decrease of \$1.9 billion (16.9 per cent) to \$9.5 billion** in overall expenses, due largely to declines of \$1.4

²⁰ 2018 data may have revisions arising from resubmission of prudential information by credit unions.

²¹ Based on unaudited submission to the Bank of Jamaica.

billion or 14.6 per cent and \$0.6 billion or 26.5 per cent in overhead expenses (mainly staff costs) and interest expenses (mainly on deposits), respectively.

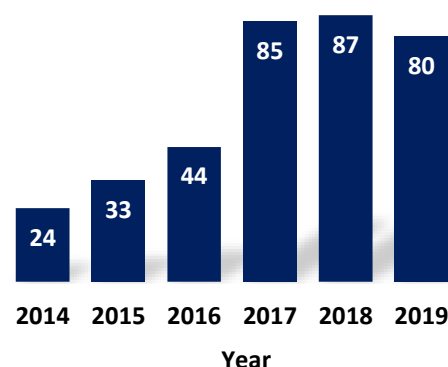
Profitability indicators reflected largely similar patterns to the reduction in surplus for the review year. Specifically, the net profit margin of the sector declined to 15.2 per cent for 2019 from 15.4 per cent in 2018, while return on assets fell to 1.4 per cent from 1.9 per cent. Similarly, the sectors return on equity decreased to 7.8 per cent from 10.3 per cent in the previous year while net interest income to average earning assets fell to 7.4 per cent in 2019 from 9.3 per cent in 2018. These results reflected the effect of a reduction in net interest income, given the low interest rate environment.

Improvement in the rate of resolution of complaints

During 2019, 80 complaints were reported to BOJ, 8.0 per cent less than the 87 complaints reported in 2018, a reversal of the increasing trend noted since 2014 (see **Chart 13**). As the Bank continued to facilitate the resolution of complaints submitted for its attention, there was a notable improvement in the resolution rate to 60.0 per cent in 2019 from 49.4 per cent in 2018.²²

²² Resolution rate means the DTI has responded and concluded the matter with the customer.

Chart 13: Trends in Complaints Data



Bank of Jamaica continues to publish annually on its website the suite of information on fees and charges for products and services offered by all DTIs in an effort to promote the transparency and access to information by financial consumers.

Continued expansion of the Credit reporting market

The Bank continued its oversight of the credit reporting framework in Jamaica during 2019, pursuant to its designation as the Supervising Authority under the Credit Reporting Act (CRA). The three licensed credit bureaus continued to experience growth as indicated by the increase in the number of credit information providers (CIPs) exchanging their **customers' credit information with the credit bureaus** and the number of reports issued. Table 9 shows the three credit bureaus in operation as at end-2019.

Table 9

Licensed Credit Bureau	
	Date Licensed
Creditinfo Jamaica Limited	March 2012
CRIF Information Bureau Jamaica Limited	April 2012
Credit Information Services Limited	August 2014

- **Market Activity**

The use of credit reports improved during the review year. The use of credit reports in the reduction of asymmetric information between borrowers and lenders in the financial system improved during the year, as the reported number of credit reports issued by credit bureaus totaled 582 822 (this figure includes 8 822 free credit reports), an increase of 25 per cent or approximately 116 291 more than the 466 531 reports provided to CIPs in the previous year.²³ During 2019, eight new CIPs entered the system (an 8 per cent increase) to exchange their customers credit information with credit bureaus. This brought signed CIP contracts with credit bureaus to 103 at end-2019 from 95 at the end-2018. Four previously signed CIPs commenced the submission of their **customers' data to credit bureaus during the year**, which moved the number of CIPs submitting their **customer's credit data to credit bureaus to 55 at the end-2019 from 51 at the end-2018.**

With the continued market expansion, there was **growth in consumers' awareness in 2019, as measured by the number of consumers' full disclosure (free) reports provided by credit bureaus.** The number of reports for the year grew by 18 per cent (1 320) to 8 636 from 7 316 in 2018.

Consistent with the growth in new data providers submitting data during the review year, the number of **data subjects in credit bureaus' databases grew by**

²³ A consumer is entitled to receive a free credit report from a credit bureau in each calendar year on submission of a written request to the credit bureau. Any subsequent requests by the consumer will require the payment of the credit bureau's fees.

9.4 per cent to 895 116 at end-2019. The increase in data subjects influenced an expansion to 46.7 per cent in population coverage at end-2019, compared to 43.0 per cent at end-2018. Key performance indicators in the market are reflected in Table 10.

Table 10

CREDIT REPORTING STATISTICS 2015 - 2019					
Activity Indicators	2015	2016	2017	2018	2019
No. of CIPs signed with credit bureaus	69	84	87	95	105
No. of CIPs submitting data to credit bureaus	19	36	41	51	55
No. of CIPs pulling data from credit bureaus	47	63	65	69	69
No. of CIPs pulling data but not yet submitting to credit bureaus	29	27	26	20	21
No. of reports issued during the year (inclusive of free reports)	129 698	250 122	442 712	466 531	582 822

- **Consumer Complaints**

Pursuant to Section 16(1) of the CRA, a consumer who disputes the accuracy or completeness of any information disclosed by a credit bureau in relation to that consumer may make a complaint in person or in writing to the credit bureau. The credit bureau shall as soon as is reasonably practicable, and in any event not later than fourteen (14) days after the complaint is made, take steps to correct or complete the information as the case may require, in order to ensure the accuracy and completeness thereof [Section 16(2)(a)]. Where a consumer is dissatisfied with any step taken by the credit bureau, the consumer may complain in writing to the Supervising Authority within thirty (30) days after receiving the report of his complaint from the credit bureau [Section 16(3)(a)].

Bank of Jamaica monitors the credit reporting market to ensure that consumers' complaints are adequately addressed for resolution within the provisions of the CRA. For 2019, the credit bureaus reported having received a combined total of 3 592 consumer complaints which represented 0.8 per cent (0.6 in 2018) of total credit reports issued during the year.

Supervision of Money Service Businesses (Cambios and Remittance Service Providers) – regulatory framework expanded

Bank of Jamaica continued to enact measures aimed at bolstering the regulatory regime for money service businesses in 2019. In that regard, the onsite and in-house monitoring processes were enhanced to ensure that each licensee implemented an effective compliance regime to mitigate Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) risks and to demonstrate compliance with recommendations of the Financial Action Task Force (FATF). Significant focus was, therefore, placed on monitoring the extent to which licensees engaged independent and competent professionals to conduct audits of their AML/CFT compliance regimes. In addition, the Bank required the licensees to effectively implement a risk-based approach to AML/CFT due diligence in their daily operations. The regulatory framework continued to expand with the Bank adopting, as a strategic objective, the implementation of a tool which will facilitate risk-based supervision of all licensees by end-2020.

The total number of cambio outlets at end-2019 was 136, compared to 135 at end-2018 (see **Table 11**). During the year, three new locations were approved while two were closed. The closures were as a result

of two entities voluntarily surrendering their respective licences. No new entities were approved to operate cambios during 2019. The number of cambio entities therefore remained at 54 at end-2019.

Table 11

Status of Cambio Licences as at 31 Dec-19		
	2018	2019
New locations licensed	1	3
Locations closed	4	2
No. of Locations	135	136
No. of Companies	54	54

The number of Remittance Service Providers (Primary Agents) remained at six in 2019 (see **Table 12**). Jamaica remained a net receiver of remittances with the USA, UK, Canada and the Cayman Islands remaining the primary source countries with shares of 65.2 per cent, 11.6 per cent, 10.4 per cent and 7.0 per cent, respectively.

Table 12

Status of Remittance Licences as at 31 Dec-19		
	2018	2019
New locations licensed	50	59
Locations closed	22	30
No. of Locations	453	482
New Licences Issued	70	77
Licences Relinquished/Revoked	92	42
No. of Licences	644	679
No. of Primary Agents	6	6

For 2019, 77 new remittance licences were issued to operate at 59 outlets. Concurrently, 42 licences representing 30 outlets were relinquished during the review period. As a result, the number of licensed

outlets increased to 482 at end-2019 from 453 at end-2018.

Financial Legislation

During 2019, Parliament passed legislation governing institutions supervised or regulated by Bank of Jamaica or affirmed rules as follows:


- **The Banking Services (Financial Holding Companies) (Licence Application) Rules**

These Rules were affirmed in Parliament in November 2019 and will take effect once published in the Gazette. These Rules for financial holding companies (FHC) under the Banking Services Act (BSA), among other things, set out the information which must be provided in an application to be licensed as an FHC under the BSA. The information required includes the same particulars that apply to applicants for a licence to operate as a deposit-taking institution (DTI). In this regard, the Rules cover areas such as ownership and group structure, financial resources and strength, strategic plans and projections, governance structure and arrangements, risk management and internal controls, corporate governance and IT systems and details of the recovery and resolution strategy and plans as well as recovery options of entities within the financial group headed by the applicant.

Pending amendments to legislation include, but not limited to:

- The Bank of Jamaica (Amendment) Bill;
- The Co-operative Societies Amendment Bill;
- The Credit Unions (Special Provisions) Bill; and
- The Micro Credit Bill.

Details on these pending amendments and developments of subsidiary legislation can be found here: [Financial System Legislation](#).²⁴



▶ **Additional Resources**

- [Supervision of Cambios](http://www.boj.org.jm/financial_sys/cambios.php)
http://www.boj.org.jm/financial_sys/cambios.php
- [Supervision of Remittance Companies](http://www.boj.org.jm/financial_sys/remittance.php)
http://www.boj.org.jm/financial_sys/remittance.php
- [Credit Reporting Oversight](http://www.boj.org.jm/financial_sys/supervised_cb_overview.php)
http://www.boj.org.jm/financial_sys/supervised_cb_overview.php
- [Supervisory Framework](http://www.boj.org.jm/financial_sys/supervised_framework.php)
http://www.boj.org.jm/financial_sys/supervised_framework.php
- [Financial Data](http://www.boj.org.jm/financial_sys/financial_data.php)
http://www.boj.org.jm/financial_sys/financial_data.php
- [Supervised Deposit -Taking Institutions](http://www.boj.org.jm/financial_sys/supervised_deposit.php)
http://www.boj.org.jm/financial_sys/supervised_deposit.php
- [Current Priorities in Supervision](http://boj.org.jm/pdf/Current-Priorities-in-Supervision-2019.pdf)
<http://boj.org.jm/pdf/Current-Priorities-in-Supervision-2019.pdf>

²⁴ http://boj.org.jm/financial_sys/supervised_legislation.php

Achievements in 2019

Risks to financial stability continued to be subdued in 2019

Risks to financial system stability continued to be minimal for the first three quarters of 2019 despite heightened contagion risk arising from global trade tensions during the year.²⁵ Notably, the value of the **Bank's** macro-financial and micro-prudential indices remained well below the respective crisis threshold value, demonstrating the relative health of the banking system. Additionally, sensitivity analysis showed that DTIs remained generally resilient to stress tests conducted by Bank of Jamaica. In particular, the results from the stress tests revealed that the capital adequacy ratios (CARs) for the DTI sector would remain above the 10.0 per cent minimum benchmark in response to hypothetical market, credit and liquidity shocks.^{26,27}

At end-December 2019, credit risk, as represented by asset quality - **which is measured by the ratio of DTIs' non-performing loans (NPLs) to total loans** – improved to 2.2 per cent relative to 2.5 per cent at end December 2018. Moreover, credit risk stress test results demonstrated that the DTI sector remained robust to the hypothetical shocks to NPLs. Specifically, the CARs of all DTIs remained above the

²⁵ Contagion risk is the risk that a shock to one financial institution spills over to others. In this way, small shocks can have significant effects. Contagion is one of the key dynamics that gives rise to systemic risk in a complex, interconnected financial system.

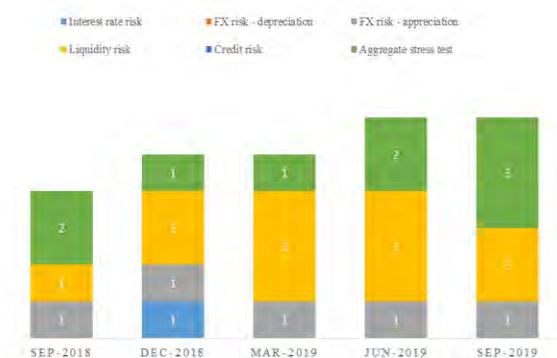
²⁶ The assessment includes the first three quarters of the calendar year, rather than the full calendar year, and was written based on available data.

²⁷ The objective of stress testing by BOJ is to determine the impact of extreme but plausible shocks to various risk factors such as credit quality, foreign exchange rates, domestic interest rates and liquidity on the capital adequacy ratios of the DTIs.

10.0 per cent prudential benchmark subsequent to hypothetical shocks of increases in NPLs ranging from 10.0 per cent to 50.0 per cent.

Liquidity conditions remained buoyant during the review period. Against this background, the results of the stress tests indicated that it would require a reduction of 78.0 per cent in deposits for the CAR of the overall DTI sector to breach the statutory benchmark of 10.0 per cent. Of note, two institutions were vulnerable to a reduction of 50.0 per cent in deposits (see **Chart 14**).

Chart 14: Stress Test Results Showing No. of Institutions Breaching Prudential Minimum^{28/}



During the first three quarters of 2019, the banking system showed increased resilience to foreign exchange risk relative to the corresponding period of **2018**. The sector's CAR remained robust in response to hypothetical depreciation and appreciation shocks ranging from 10.0 to 50.0 per cent. Notwithstanding, at end-September 2019, of the eleven DTIs, only one institution was impacted as a result of appreciation of 50.0 per cent in the exchange rate. The negative

²⁸ The stress scenarios include the following: (i) interest rate increases of 1100 bps/ 100 bps & 275 bps/ 15 bps on domestic and foreign rate sensitive assets; (ii) 50.0% depreciation & appreciation in the exchange rate; (iii) 50.0% increase in loan quality and (iv) 50.0% loss of deposits. Source: BOJ

impact on this institution's CAR was due to the magnitude of its foreign currency long position.

The DTI sector also continued to demonstrate robustness to the applied interest rate stress tests during the review period. In particular, in response to respective hypothetical increases of 1 100 bps/100 bps and 275 bps/15 bps in interest rates on domestic/foreign rate sensitive assets and liabilities, **the sector's CAR was unchanged at 14.8 per cent at end-September 2019.**^{29,30} This resilience was broadly due **to the magnitude of the sector's buffer capital** which was sufficient to absorb the impact of these contemplated shocks. Additionally, as a result of the abovementioned shock, all DTIs maintained post-shock CARs above the statutory 10.0 per cent minimum benchmark.

Results from the combined impact of severe, hypothetical but plausible shocks to interest rates, foreign currency, credit quality and deposit outflow showed that the post-shock CAR of the DTI sector remained above the prudential minimum at end-September 2019. Nonetheless, three institutions would become impaired as a result of the simultaneous contemplated shocks. The deterioration in CAR for these entities was largely due to credit quality deterioration and fair value losses.³¹

²⁹ Interest rate increases ranging from 1 100 bps to 1 400 bps and 275 bps to 350 bps are applied to domestic and foreign investment holdings, respectively, for fair value and net interest income assessment. Increases of 100 bps to 400 bps and 15 bps to 70 bps are applied to the domestic and foreign non-investment components, respectively.

³⁰ Re-pricing net gap positions are computed for each re-pricing bucket. The change in the market value of net re-pricing assets is evaluated by applying the interest rate shock and duration factor to each re-pricing gap position. The impact on capital adequacy is then evaluated.

³¹ The aggregate stress test assumptions include: increases of 1 100 bps and 100 bps in interest rates on domestic currency investment

As it relates to the **Bank's Early Warning System** (EWS) frameworks, the macro-financial index (MaFI) and micro-prudential index (MiPI) for DTIs remained well below the 1996-1998 financial crisis threshold values of 44.0 points and 50.0 points, respectively, as at end-September 2019.³²



▶ Related Reports

[Financial System Stability Annual Report](#)

http://www.boj.org.jm/publications/publications_show.php?publication_id=11

[Highlights of Macro-prudential Report](#)

http://www.boj.org.jm/publications/publications_show.php?publication_id=9

assets & liabilities and other assets & liabilities, respectively; increases of 100 bps and 10 bps in interest rates on foreign currency investment assets & liabilities and other assets & liabilities, respectively; 10.0 per cent depreciation in the JMD/USD exchange rate; 100.0 per cent of past due performing loans (1 month to under 3 months) becoming non-performing and 10.0 per cent reduction in deposits.

³² BOJ's MaFi and MiPI monitors macro- and micro- economic indicators of the banking sector via a non-parametric approach to signal banking sector vulnerability. The signal is based on the value of various indicators, which are computed based on the number of **standard deviations of each indicator from its 'tranquil period' mean** value. The tranquil period refers to an eight quarter period of relative stability that precedes the beginning of a signaling window. The scores range from 0 to 5 with a score of 5 representing the most severe signal. Banking sector vulnerability at a point in time is determined by the trend in the aggregate score (or index) over the previous eight quarters (signaling window).

Outlook

Continued growth in the sector

Bank of Jamaica's assessment is that the DTI sector will continue to experience expansion in their balance sheets, due to expected growth in demand for credit amidst generally stable macro-economic conditions, characterised by low unemployment and interest rates as well as increased competition among DTIs. These conditions are expected to persist over the short- to medium-term. However, the pace of growth in assets could decelerate due to a slowdown in the growth of **core deposits among DTI's faced with increased** competition from the capital and equities markets that may continue to provide more attractive rates of return.

Throughout the year, the expansion in lending was supported by the increased issuance of credit reports by Credit Bureaus which had benefited from increased provision of data by Credit Information Providers (CIPs). Continued expansion in the use of credit reports among DTIs is expected to support stability in the financial sector as well as increased efficiency in the credit market and thereby support improvements in the monetary policy transmission mechanism.



PAYMENT SYSTEM





Downtown Kingston, Jamaica

PAYMENT SYSTEM

In 2019, oversight of the National Payment System by Bank of Jamaica remained focused on systemic risk mitigation and improving the safety, efficiency and effectiveness of the payment, clearing and settlement infrastructure for domestic payments. The Bank intensified its efforts to achieve greater utilisation of electronic means of payments in targeted sectors with

a view to accelerate the adoption of electronic payments. Additionally, the Bank continued policy formulation initiatives aimed at enhancing the payment, clearing and settlement systems to include the adoption of the Principles for Financial Market Infrastructures (PFMIs) and the proactive monitoring of financial technology developments.

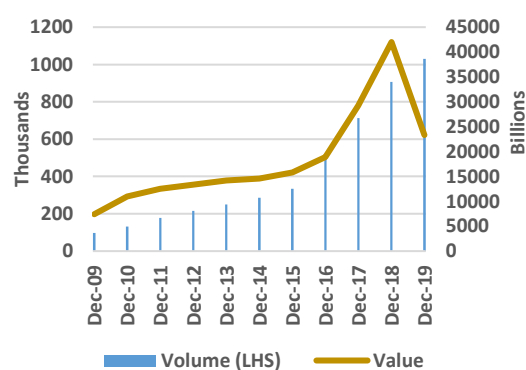
JamClear®–RTGS process in excess of 1 million transactions in 2019

In 2019, JamClear®–RTGS processed 1 033 923 transactions (USD and JMD), (see **Chart 15**). The increased system utilisation was reflected in an increase in JMD volume by 13.7 per cent (123 908 transactions) to 1 030 811 transactions.¹ The growth in the JMD volume was largely attributed to an increase in participant payments on behalf of household and corporate clients.

Conversely, transaction values declined by 44.5 per cent (\$18.7 trillion). The decline largely reflected a reduction of \$19.3 trillion in securities settlement transactions initiated from JamClear®–CSD.² The reduction in CSD transfers was largely impacted by the Bank's policy action to eliminate the Overnight Deposits facility for deposit-taking institutions.

At end-2019, the total volume of USD transactions processed in JamClear®–RTGS amounted to 3 112, a decline of 13.7 per cent (494 transactions). Similarly, transaction values fell by 20.1 per cent (US\$371.9 million) to US\$1.5 billion (see **Chart 16**). This outturn largely reflected declines in securities settlement transactions initiated through the JamClear®–CSD and participant payments.

Chart 15: JamClear-RTGS Transaction Activities (JMD)

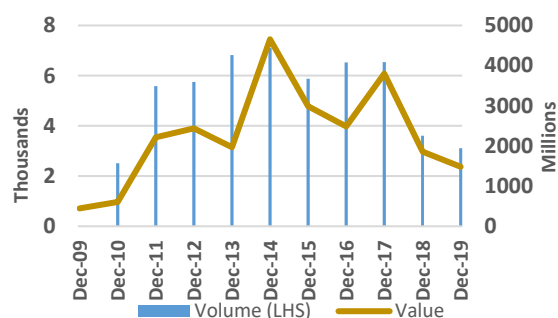


¹ JamClear-RTGS is owned and operated by Bank of Jamaica for the purpose of providing settlement services to participants in relation to large value and time critical payments.

² JamClear-CSD is an electronic system implemented to replace the paper based issue of Government of Jamaica and Bank of Jamaica fixed income securities. It brings significant efficiencies to the processes for issue, management and redemption to the domestic fixed-income securities market.

Increase in RTGS volume of transactions largely attributed to growth of 123 908 transactions in participant payments on behalf of household and corporate clients.

Chart 16: JamClear-RTGS Transaction Activities (USD)



Overall increase in the value of electronic retail payment systems

Utilisation of the retail payment systems increased marginally in 2019. Total volume of retail payment transactions processed for 2019 was 134.5 million valued at \$4 036.0 billion. This reflected increases of 0.2 per cent and 9.4 per cent in the volume and value of transactions, respectively, relative to 2018.

For 2019, the total number of debit cards in circulation increased by 11.6 per cent to 3.4 million. DTIs settled 61.5 million debit card transactions on their proprietary systems valued at \$1 207.6 billion for the review period. Debit card transactions processed on the proprietary systems of the DTIs reflected a decline

of 3.2 per cent in volume but an increase of 21.7 per cent in value, relative to 2018.

The total number of credit cards in circulation was 328 212 for 2019. This represented an increase of 8.2 per cent when compared to the previous year. Further, the total number of credit card transactions processed on the proprietary systems of DTIs was 21.5 million valued at \$539.2 billion. These results represented growth of 6.3 per cent and 14.9 per cent in volume and value of transactions, respectively, relative to 2018.

For 2019, the total number of installed automated banking machines (ABMs), as reported by DTIs, increased by 6.0 per cent (43 terminals) to 755. Approximately 15.3 million transactions valued at \$126.0 billion were processed at ABMs through the Multilink network. The volume and value of transactions processed reflected increases of 1.6 per cent and 5.2 per cent, respectively, relative to 2018.

Point of Sale (POS) terminals increased by 17.4 per cent to 40 030 for the review period. Total transactions processed on POS terminals grew in volume by 3.7 per cent to approximately 18.2 million relative to the previous year. The value of POS transactions in 2019 grew by 6.5 per cent to \$107.9 billion relative to 2018.

Decline in volume of cheques processed

The total number of cheques processed through the Automated Clearing House (ACH) over the reporting period was 5.8 million, valued at \$805.0 billion. These outturns reflected declines of 4.9 per cent in the volume and 1.4 per cent in the value of transactions, respectively, when compared to 2018. The average

value of each cheque processed in the ACH increased by 3.6 per cent to \$139 196.8 in 2019.

Foreign currency cheques cleared manually through the BOJ Clearing House reflected a decline of 6.7 per cent in value in 2019 when compared to 2018. Cheques denominated in US dollars amounted to US\$ 2 084.7 million and accounted for 99.2 per cent of the total foreign currency cheques cleared.

Volume of bill payment transactions increased

Total bill payments reported at December 2019 was 20.9 million transactions valued at \$389.7 billion, reflecting respective increases of 1.5 per cent in the volume and 16.5 per cent in the value of transactions, relative to 2018. The dominant payment method for bill payments was cash, which accounted for 46.5 per cent of the total volume in the review year. Debit cards accounted for 61.7 per cent of the total value of bill payments in 2019.

Achievements in 2019

Upgraded JamClear® -CSD

During 2019, the implementation of further upgrades to **JamClear® CSD (Phase-2)** primarily focused on the completion of new functionalities aimed at automating front office operations. These operations include, *inter-alia*, the Bank of Jamaica Foreign Exchange Intervention and Trading Tool (B-FXITT), liquidity providing auctions and access to the overnight Standing Liquidity Facility (SLF) for DTIs. Additionally, a Yield Curve module using the secondary market data in the system was at an advanced stage at year-end. This feature will result in the system being able to generate daily market valuation of the existing securities dematerialized in the depository, the automation of which will contribute to improved efficiencies in the processes for the Bank's liquidity operations. The implementation of these features was rescheduled from the December 2019 quarter to the March 2020 quarter.

The upgrades to the JamClear Systems include the implementation of a foreign exchange (FX) trading

platform (**JamClear® FX-TP**) as an extension of the existing payment and settlement systems infrastructure. The business requirements for this new platform for inter-dealer FX trades were finalized with the developers during the June 2019 quarter and will be deployed over two phases. Phase-1 is scheduled to go-live by end-March 2020. It is anticipated that the implementation of this new system will result in greater transparency of FX transaction volumes and rates between intermediaries as they occur and will facilitate the straight-through settlement of these trades on accounts held by dealer participants in **JamClear®-RTGS**. Phase-2 implementation of the FX platform is scheduled for March 2021.

Adoption of the Principles of Financial Market Infrastructures

On 31 December 2019, the Bank issued a statement on the adoption of the Committee on Payment and Settlement Systems (CPSS) and International Organization of Securities Commissions' (IOSCO) Principles for Financial Market Infrastructures (PFMIs)

in keeping with international best practice. The statement indicated that, effective 02 January 2020, the Bank would fully adopt the PFMs when carrying out its oversight of Financial Market Infrastructures (FMIs). Accordingly, the oversight framework is being revised to take into account the standards issued by the CPSS-IOSCO.

Success in meeting specific financial inclusion objectives

During 2019, the Retail Payments and Financial Infrastructure (RPMI) Working Group under the Financial Inclusion Steering Committee, achieved targeted success in financial Inclusion objectives specific to the access and usage pillar. The achievements of the RPMI working group included:

1. Furthering the education of the public on products and services in the retail payments market through the launch of a financial inclusion outreach programme in April 2019. This provided a forum for Bank of Jamaica to respond to the public's financial inclusion queries and increase public awareness of financial inclusion products via radio interviews, television broadcast, road shows and town hall meetings. Through a range of initiatives, the Financial Inclusion Secretariat in conjunction with the Payment System Department engaged in public sensitization on the work being done on financial inclusion and improving financial access.
2. Completion of an access and interoperability paper to facilitate the development and implementation of an integrated payment infrastructure (National Payment Switch).

Developments in financial technology continued to impact payment systems

During the review period, the Bank participated in initiatives to facilitate a framework for greater innovation within the financial services sector and support the establishment of a BOJ Regulatory Sandbox to include the drafting of an assessment methodology. Additionally, the Bank collaborated with regional and local groups, such as, Center for Latin American Monetary Studies and CARICOM FinTech Advisory Work Group to undertake research and exploration on FinTech developments, implications, initiatives and challenges.

BOJ drafts National Retail Payment Strategy

The Bank drafted and presented a National Retail Payment Strategy (strategy for stakeholder consultation) to the National Payments Council (NPC) during the review year. The document outlined the Bank's strategy to promote a safe, efficient and modern electronic retail payment system in Jamaica.

National Time-Stamping project initiated

The Bank signed a Memorandum of Understanding (MOU) with the Bureau of Standards Jamaica (BSJ) on 27 May 2019 for the development and implementation of standards and services for the time-stamping of financial transactions. Additionally, during 2019, the project on the time-stamping for financial transactions progressed with work on the regulatory framework, the procurement of laboratory equipment and upgrades to physical infrastructure.



Additional Resources

Payment Systems Policy

http://boj.org.jm/financial_sys/payments_systems_policy.php

Payment Systems Statistics

[http://boj.org.jm/financial_sys/payments_systems_statistics.p
hp](http://boj.org.jm/financial_sys/payments_systems_statistics.php)

Payments and Securities Clearance and Settlement
Systems in Jamaica

[http://boj.org.jm/financial_sys/Payments-and-Securities-
Clearance-and-Settlement-Systems-in-Jamaica.php](http://boj.org.jm/financial_sys/Payments-and-Securities-Clearance-and-Settlement-Systems-in-Jamaica.php)

Guidelines for Electronic Retail Payment Services

[http://www.boj.org.jm/uploads/news/2019_erps_guidelines_
for_electronic_retail_payment_services_\(erps_2\).pdf](http://www.boj.org.jm/uploads/news/2019_erps_guidelines_for_electronic_retail_payment_services_(erps_2).pdf)



CURRENCY



CURRENCY

In 2019, Bank of Jamaica continued to meet its mandate of ensuring the availability of secure, high-quality banknotes to the public. Currency in circulation increased during the year, albeit at a slower pace than 2018.

This slowdown may be related to increased use of electronic retail payments. During the year, the Bank renewed its partnership with the coin agent, GraceKennedy Payment Services Limited, which facilitated increased coin redemptions of all denominations.

Currency in circulation increased at a slower pace

The value of notes and coins in circulation stood at \$150.5 billion at end-2019, an increase of 11.5 per cent when compared to the stock at end-2018. This growth, however, was lower than the increase of 20.2 per cent recorded in 2018 and may be attributed to the increased use of electronic retail payments (see Payment System).

Decline in value of currency issued

The total value of banknotes issued for 2019 amounted to \$329.3 billion, which was 3.9 per cent below the previous year's value. However, the total value of coins issued in 2019 increased by 60.9 per cent to \$1.2 billion.

Significant increase in coins redeemed

Banknotes redeemed during 2019 were valued at \$314.4 billion, a decline of 1.9 per cent relative to 2018. In contrast, the total value of coins redeemed in 2019 was \$0.64 billion, which was 108.4 per cent above the value for 2018. This significant increase in coin redemptions largely reflected the continued impact of the coin agent partnership with GraceKennedy Payment Services

Limited which was renewed for a second year in 2019. This arrangement allows for the convenient exchange of coins for banknotes at several locations islandwide.

The Bank continued to supply high quality banknotes

During 2019, 395.5 million notes valued at \$324.2 billion were processed by the Bank. The outturn was lower than the 453.0 million notes valued at \$340.4 billion processed in the previous year.

Counterfeit detection remained a priority

The total number of counterfeit notes detected during 2019 was 2 173 valued at \$2.3 million compared to 2 546 pieces valued at \$2.8 million in 2018. The figure for 2019 was equivalent to 11.9 counterfeit notes per one million genuine notes in active circulation, a significant improvement relative to 14.7 counterfeit notes per one million genuine notes detected in 2018.

Durability of banknotes, on average, worsened

For 2019, the Average Circulation Lives (ACL) of the \$5000 and \$500 notes improved to 27.4 months and 12.2 months, respectively, from 22.2 months and 10.9 months in 2018. On the other hand, the ACLs of the \$1000, \$100, and \$50 notes deteriorated to 20.4 months, 15.6 months, and 24.2 months in 2019, respectively, from 27.1 months, 17.6 months and 27.2 months in 2018.



▶ Related Reports

Frequently Asked Questions on Currency

http://boj.org.jm/bank/bank_faqs.php?show=currency

History of our Currency

http://boj.org.jm/currency/currency_history.php

Banknotes

http://boj.org.jm/currency/currency_banknotes.php

Money Museum

http://boj.org.jm/currency/currency_museum.php



FINANCIAL MARKET OPERATIONS

14:16:37 Launchpad - MARKET UPDATE

Msg: +2

Rates Trader

1) 1-3yr 2) 3-5yr 3) 5-7yr 4) 7-10yr 5) 10-20yr 6) 20+yr

Range 3M Repo Rate 2.535

Spline Cubic

Spread	Spr C...	Z-Sco...	Carry	Roll	C+R
-0.7	-0.2	-1.73	-0.37	-0.24	-0.61
0.2	+0.2	-1.51	-0.31	-0.24	-0.55
0.2	-0.2	-1.73	-0.28	-1.06	-1.34
-0.4	-0.1	-1.74	-0.09	-1.42	-1.51
0.4	-0.2	-1.82	-0.26	-1.42	-1.68
-0.4	-0.1	-1.94	-0.32	-0.65	-0.96
0.5	-0.1	-2.04	-1.72	1.49	-0.24
-1.0	-0.2	-2.74	-0.80	0.60	-0.21
-0.9	-0.2	-2.99	-1.05	-1.87	-2.92
-0.9	-0.3	0.00			

9) Spline Spread Cubic Chart

X-axis Maturity Y-axis Spread

WATCH

11/30/23 Govt GOVY

NIM ALERT : THSCPA 7.9 03/07/21

United States of America

1) Bonds

10) Summary 11) All 12) Actives 13) Bnch 14) 0-1yr

Spread Spline Cubic Range 3M

Bond Pricing Information

Security	Dur	Price
109) T 2 11/15/21	2.6	98-23 5/8
110) T 1 3/4 11/30/21	2.7	98-00 5/8
111) T 1 7/8 11/30/21	2.7	98-11 5/8
112) T 2 5/8 12/15/21	2.7	100-11 1/8
113) T 2 12/31/21	2.8	98-21 3/4
114) T 2 1/8 12/31/21	2.8	99-00 1/8
115) T 2 1/2 01/15/22	2.8	100-00 1/8
116) T 1 7/8 01/31/22	2.9	98-08 1/8
117) T 1 1/2 01/31/22	2.9	97-07 5/8

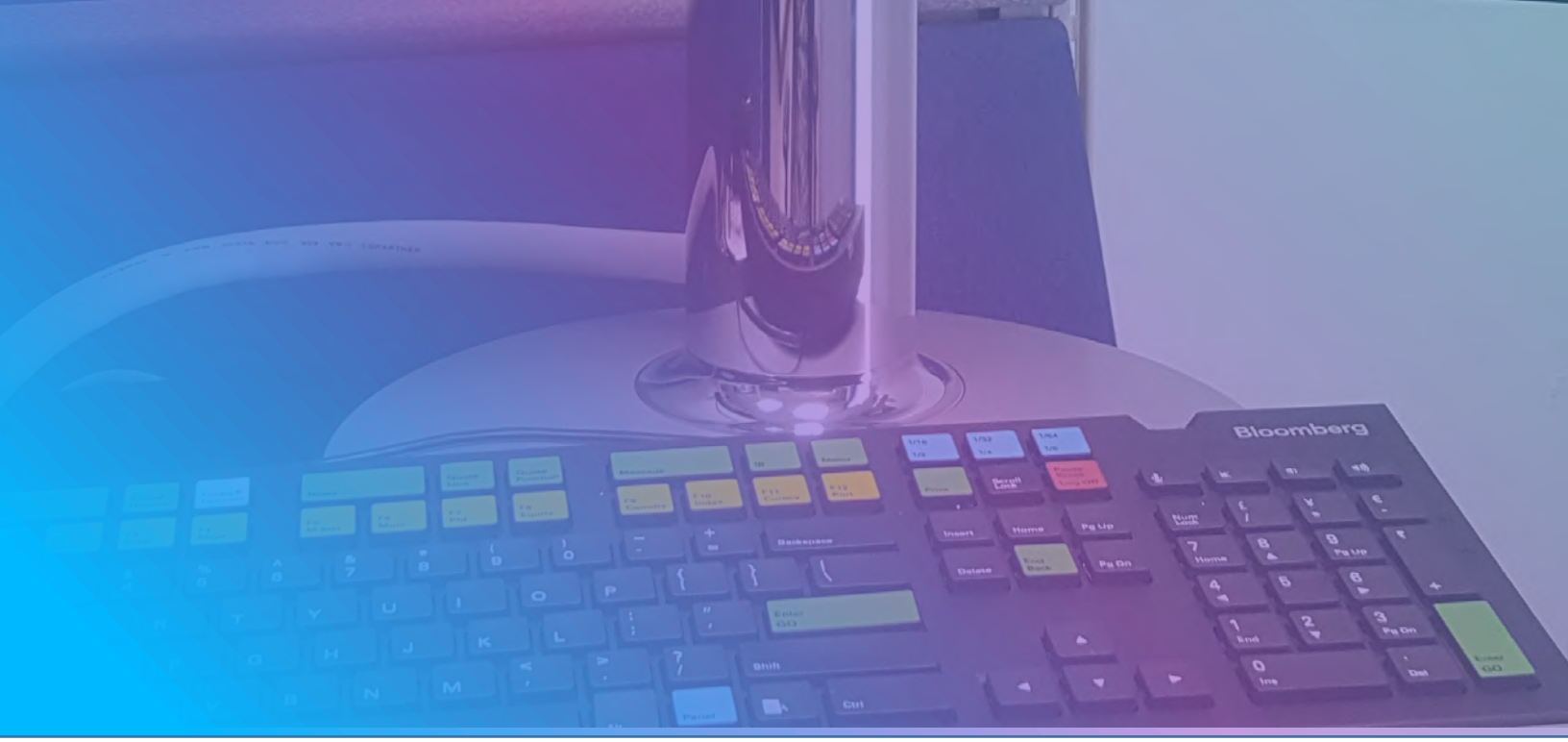
Spread 8) Spline Spread Cubic Chart

X-axis Maturity Y-axis Spread

562 NS7 14:15 Cuba News Agency: Re
 561 NS7 14:14 Cuba News Agency: Cu
 560 BMP 14:12 Moody's Assigns Defi

Primers: Quick Reads. In-depth A

Bloomberg



FINANCIAL MARKET OPERATIONS

Bank of Jamaica continued to provide ongoing liquidity assurance through its overnight Standing Liquidity Facility and the offer of its 14-day repurchase agreement on a competitive-auction basis during 2019. In addition, the Bank expanded its options of liquidity instruments to include

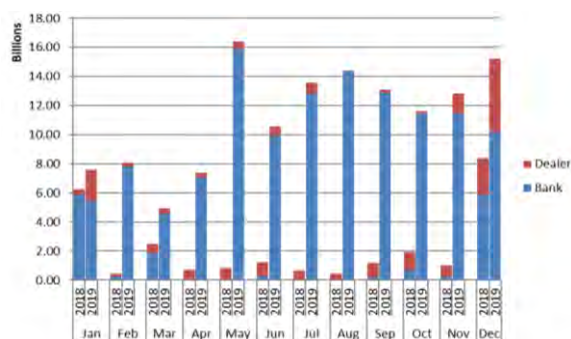
Occasional Term Repurchase Operations (OTROs) and higher volumes offered on its weekly competitive auctions of 30-day Certificates of Deposit (CDs). Of note, the Bank discontinued the offer of overnight deposits during 2019 and commenced the payment of interest on the balances in current accounts of deposit-taking institutions held at Bank of Jamaica at the existing policy rate.

Domestic Market

Increased use of auto repo facility

During 2019, Bank of Jamaica continued to provide intraday liquidity to participants via the Auto Repo Facility. This facility was accessed by ten participants on 1 579 occasions during the review year, an increase of 110.8 per cent in usage relative to 2018. Similarly, the average value of intraday liquidity increased over the period, with the highest utilisation occurring in May 2019 (see **Chart 17**). The increased usage of the facility, particularly since the June 2019 quarter, coincided with heightened participation in BOJ short term instruments by commercial banks during the second half of the year.

Chart 17: Comparison of Daily Average Liquidity Utilized – 2018 & 2019



Source: BOJ

The Bank expanded its options of liquidity instruments

The Bank expanded its liquidity operations within the financial market during 2019 with the objective of encouraging continued expansion of credit, increasing the pool of assets designated as liquid and smoothing liquidity flows in the market. The main components of these operations were:

1. Occasional Term Repurchase Operations (OTROs) were utilized as a means of advancing liquidity to deposit-taking institutions prior to the GOJ bond maturity of \$40.5 billion in July 2019. Liquidity from these instruments was used to facilitate continued credit expansion. In this regard, during the September 2019 quarter, the Bank offered a total of \$30.00 billion in OTROs via four competitive auctions. The cumulative offer was undersubscribed by 31.2 per cent and reflected an average yield of 1.72 per cent;
2. There was an increase in the volume of 30-day certificates of deposit offered in the weekly auctions. Consequently, during the 0 June 2019 quarter, the average offer size was

\$10.7 billion compared with the average maturing amount of \$8.2 billion during the corresponding period.

3. The offer of a 270-day CD designated as a liquid asset. This offer was oversubscribed by 50.14 per cent and reflected an average yield of 2.61 per cent.

Primary Dealers' placement in BOJ OMO instruments increased

Primary Dealers (PDs) participation in Open Market Operation (OMO) issues increased by 31 per cent to an average of \$27 800.1 million in 2019 compared to

the average of \$21 149.8 million in 2018. The increased participation in these issues by PDs was against the background of a heavier weighting assigned to OMO participation in their performance assessment during the year. This enabled PDs to retain the PD designation. The demand for OMO instruments was particularly strong in the context of the limited offer during the review period, with the exception of the 30-day CD, which was auctioned once weekly with a capped offer amount.

International Reserves

Jamaica maintained a strong foreign reserve position

Bank of Jamaica maintained a strong net international reserve (NIR) position for 2019 with an increase of US\$157.1 million to US\$3 162.5 million, relative to end-2018. At end-2019, gross reserves amounted to US\$3 631.1 million and represented 110.7 per cent of the **IMF's Assessing Reserve Adequacy (ARA) metric**. Gross reserves at end-2019 also represented approximately 22.9 weeks of projected goods and services imports relative to 19.5 weeks at end-2018.

For the review year, Bank of Jamaica achieved all the required targets for the non-borrowed reserves (NBR). At end-2019, the NBR accounted for 89.0 per cent of the NIR, relative to 84.0 per cent at end-2018, in **keeping with the Bank's strategic focus of continuing to** strengthen the sustainability of its external liquidity position through continued reduction in its stock of foreign currency CDs.

There was a reduction in the stock of foreign currency certificates of deposit

The Bank maintained a strategy of net-redemption of its US dollar CDs in 2019. This strategy was geared towards supporting the objective of reducing the stock of borrowed reserves. The outstanding stock of foreign currency CDs at end-2019 was US\$342.1 million, relative to US\$483.3 million at end-2018. The reduction occurred in the context of no new issuance of foreign currency CDs while total maturities amounted to US\$111.2 million, in comparison to US\$160.8 million in 2018. In addition to the scheduled maturities, BOJ continued to accelerate the reduction in the stock of these instruments through liability management operations, such as prepayments and swaps. One such operation was conducted in the first half of the year when the Bank offered a fixed rate US dollar Indexed Note with a tenor of 9 months in exchange for existing BOJ US dollar CDs held by financial institutions. This transaction allowed the Bank to achieve the dual objective of strategically managing its

profile of US dollar denominated liabilities while providing liquid Jamaica Dollar assets to financial institutions in the market. The swap operation facilitated the extension of the average term-to-maturity of BOJ's stock of US dollar liabilities, thereby improving the overall sustainability of the Bank's external liquidity position. In addition, this operation contributed US\$30 million to the overall reduction in the stock of US dollar CDs.

The Gross Foreign Assets grew year-over-year

In a context where the year-over-year growth in foreign currency inflows outpaced the increase in foreign currency outflows, Bank of Jamaica's gross foreign assets (GFA) expanded by US\$99.1 million to US\$3 631.1 million in 2019.

The growth in the GFA primarily reflected the impact of foreign currency inflows to the Government from its global bond liability management exercise as well as inflows related to the PetroCaribe Development Fund and from Government entities. The impact of these inflows on the GFA was partly offset by higher payments on behalf of the Government during the year.

There was a decline of US\$58.1 million to US\$468.6 million in the foreign liabilities in 2019. When combined with the increase in the GFA for the year, this resulted in an increase in the NIR to US\$3 162.5 million at end-2019.

Precautionary Stand-By Arrangement with the IMF concluded with no disbursements to BOJ

For the duration of the 36-month Precautionary Stand-by Arrangement with the IMF the funds available under the SBA were treated as precautionary. In this regard, no disbursements were made to BOJ under the programme.

The repayment of funds borrowed under the Extended Fund Facility Arrangement, which concluded in 2016, continued in 2019 and totaled US\$89.5 million or Special Drawing Rights (SDR) 64.8 million. Of the total amount repaid during the year, US\$55.0 million (SDR 39.8 million) was owed by BOJ while US\$34.5 million (SDR 25.0 million) was owed by the GOJ.

Table 13

SDR DISBURSEMENTS AND REPURCHASES/REPAYMENTS CALENDAR YEAR 2019				
MN				
Date	DISBURSEMENTS		REPURCHASES	
	SDR	USD ^{1/} Equiv.	SDR	USD ^{1/} Equiv.
March Qtr.	0.0	0.0	7.7	10.7
June Qtr.	0.0	0.0	22.4	31.0
September Qtr.	0.0	0.0	10.0	13.7
December Qtr.	0.0	0.0	24.7	34.1
TOTAL	0.0	0.0	64.8	89.5

^{1/} Based on the prevailing SDR = US\$ exchange rate.

Source: BOJ

Achievements in 2019

Governance framework for foreign reserve management enhanced

The Governance Framework for the Foreign Reserves Management was enhanced with the review, revision and approval of the Investment Policy Statement (IPS) and the Strategic Asset Allocation by the Bank's Management Committee. The Investment Guidelines were also reviewed and revised consistent with the IPS.

Assets under management increased due to placement with a new external fund manager, Bank for International Settlements (BIS), in January 2019.

Optimized portfolio maintained in 2019

The investment strategy was changed in April 2019 with a move along the risk/return continuum to the more active management style of an Enhanced Indexation Investment Strategy. The objective of maintaining an optimized portfolio was achieved in 2019. This placed the portfolios on the efficient frontier across several scenarios and was attained by ensuring, as much as possible, that the working capital, liquidity and investment tranche sizes were kept within specified target ranges. Additionally, the assets in the liquidity and investment tranche sub-portfolios were allocated strategically to ensure capital preservation and liquidity while facilitating competitive risk-adjusted returns.

Assets under management increased

No new class of assets was added to the portfolio in 2019. However, the assets under management increased due to placement of US\$200 million with a new external fund manager, Bank for International Settlements (BIS), in January 2019. An additional US\$18 million equivalent in Chinese Renminbi (RMB) was placed with the BIS Investment Pool Funds (BISIP CNY) at end-2019. **Table 14** details the composition of the portfolio as at 31 December 2019 relative to 31 December 2018.

Table 14

Distribution of Foreign Assets For Years Ended 31 December 2017 and 2018				
Assets	2017		2018	
	US\$MN	% of Holdings	US\$MN	% of Holdings
Working Capital Tranche	670.2	17.7	319.2	9.0
Liquidity Tranche	2,138.6	56.6	2,122.8	60.1
Investment Tranche				
Capital Market Investments	306.5	8.1	327.3	9.3
External Funds	349.7	9.2	473.2	13.4
Total Funds Invested	3,464.9	91.6	3,242.4	91.8
Allocation of Special Drawing Rights	316.2	8.4	289.6	8.2
Total	3,781.2	100.0	3,532.0	100.0

Source: BOJ

Average return on portfolio increased

Average income earning assets for the year was US\$3 305 million. This represented a reduction of US\$77.4 million or 2.3 per cent when compared to 2018 (see **Table 15**). Total cash income, however, grew by US\$14.2 million or 23.2 per cent to US\$75.3 million during 2019. The average return on the portfolio was 2.3 per cent per annum in 2019, an increase of 47 basis points relative to 2018. This improved performance was a direct result of the long duration positioning of the investments in the

light of three 25 basis points cuts in the target federal fund rate by the Federal Reserve Bank during 2019. The Federal Reserve Bank started 2019 with its target rate in the range of 2.25 per cent to 2.50 per cent and ended the year at 1.50 per cent to 1.75 per cent.

The performance of the foreign investment portfolio, in terms of interest income, for the years ended December 2018 and 2019 is highlighted in Table 15.

Table 15

Foreign Investment Income For Years Ended 31 December 2018 and 2019				
Assets	2018		2019	
	Earnings US\$MN	% of Earnings	Earnings US\$MN	% of Earnings
Working Capital Tranche	9.1	14.9	8.3	11.0
Liquidity Tranche	38.5	63.0	45.2	60.0
Investment Tranche				
Capital Market Investments	4.6	7.5	5.5	7.3
External Funds	6.9	11.3	14.2	18.9
SDR Holdings	2.0	3.3	2.1	2.8
Total	61.1	100	75.3	100
Average Income Earning Assets	3 382		3 305	
Rate of Return (%)	1.81		2.28	

Source: BOJ



Links to more information

▶ Additional Resources

- [Net International Reserves Statistics](http://boj.org.jm/uploads/excel/Table_34a.xls)
http://boj.org.jm/uploads/excel/Table_34a.xls
- [Net International Reserves Announcements](http://boj.org.jm/announcements/asearch.php?sel_)
http://boj.org.jm/announcements/asearch.php?sel_



FINANCIAL INCLUSION

FINANCIAL INCLUSION

During 2019, Bank of Jamaica continued to coordinate the implementation of the National Financial Inclusion Strategy (NFIS) through the Technical Secretariat. Progress was made on all action items and several initiatives took place during the year to improve the public's understanding of the NFIS and the role of Bank

of Jamaica as a regulator of deposit-taking institutions, electronic retail payment services providers, cambios and remittance agencies.

Achievements in 2019

Financial Access and Usage – Promoting the use of Electronic Retail Payment Services

In August 2019, the Financial Inclusion Technical Secretariat presented a policy paper on “Facilitating Open and Fair Access to the Financial Payments Infrastructure” to the Retail Payments and Financial Infrastructure Working Group. Subsequently, the paper was presented to the National Payments Council in November 2019. The paper outlined various options to improve the retail payments infrastructure and interoperability of payments. Following stakeholder consultation, a decision was made to explore the feasibility of a national payments switch.

The Banking Competition Study was completed in October 2019 and the findings presented to the Ministry of Finance and the Public Service, Bank of Jamaica, the Fair Trading Commission and other key stakeholders in the private and public sector.

In November 2019, the Financial Inclusion Technical Secretariat presented a paper on “Digitization of Government Welfare Payments: Promoting Financial Inclusion” to the Retail Payments and Financial Infrastructure Working Group. The Payment System Department at BOJ also presented its updated Retail Payments Strategy to the National Payments Council. Stakeholder consultation is ongoing.

The Government, in November 2019, passed the amendments to the Proceeds of Crime Act and the Proceeds of Crime (Money Laundering Prevention) Regulations. Spearheaded by the Ministry of National Security and with the support of the multi-agency National Anti-Money Laundering Committee (NAMLAC), the amendments addressed a number of issues; including enhancing the risk-based approach for managing money laundering and financing of terrorism risks and simplified due diligence requirements.

Financing for Growth – Promoting MSME Finance, Agriculture Finance and Housing Finance

In January 2019, Bank of Jamaica published its Standard of Sound Practice on Problem Asset Management, Provisioning and Managing Expected Credit Losses. This standard made specific reference to the Security Interests in Personal Property Act (SIPPA) and the use of a principles-based approach for management of credit risks.

The Ministry of Finance and the Public Service tabled the Micro-Credit Bill in Parliament in February 2019. The proposed legislation will provide a framework for regulating micro-finance institutions. Additionally, in August 2019, Parliament enacted amendments to the Superannuation Funds and Retirement Schemes (Investment) Regulations, which expanded the categories of permissible investments for private pension plans to include private equity. These amendments are expected to provide opportunities for investment in MSMEs.

In October 2019, the Ministry of Industry, Commerce, Agriculture and Fisheries (MICAFA) advanced work on the secured transactions regime with the assistance of the International Finance Corporation. This work included the development of policy proposals for legislative amendments to the regulations under SIPPA. MICAFA completed its study on the feasibility of utilizing unclaimed funds to assist with improving access to finance for MSMEs. MICAFA also commenced work on developing secondary markets for the realization of moveable collateral through the engagement of a consultant.

Under the Access to Finance Project with the World Bank, led by the Development Bank of Jamaica (DBJ), work advanced on the development of an electronic factoring platform to facilitate reverse factoring during the year, which will improve trade credit terms for MSMEs. Work also continued on the establishment of the SME Fund and revamping the Partial Credit Guarantee scheme.



Highlights from the Financial Inclusion Outreach Programme, the BOJ Financial Inclusion/Communication team interacting with the Public.



Highlights from the Financial Inclusion Outreach Programme, Executive Director (Communications Department at BOJ) interacting with the Public.



Highlights from the Financial Inclusion Outreach Programme, Financial Inclusion team interacting with the Public.

Building NFIS Awareness

Throughout 2019, the Financial Inclusion Technical Secretariat engaged in a range of initiatives to improve **the public's understanding of the National Financial Inclusion Strategy** and the role of Bank of Jamaica as a regulator of deposit-taking institutions, electronic retail payment services providers, cambios and remittance agencies. Through outdoor radio broadcasts, town halls, seminars, television and social media, Bank of Jamaica and its financial inclusion partners engaged in public outreach and sensitization. **Initiatives included the programme "Under the Law" and "Let's Talk Finance"**.

Improving data infrastructure for Financial Inclusion

The Financial Inclusion Technical Secretariat in conjunction with the Office of Technical Assistance held a workshop on improving the data infrastructure for financial inclusion indicators in January 2019. Further, the financial inclusion team developed survey instruments on financial inclusion thematic areas including measuring levels of retail payments, digital finance, consumer knowledge, attributes and behaviour as well as financial literacy. Bank of Jamaica

participated in the Diaspora Conference held in September 2019 and administered its survey to 100 participants. The results of that survey will inform the implementation of the financial inclusion public sensitization engagement and project implementation in 2020.

In June 2019, the Financial Inclusion Technical Secretariat presented Jamaica's experience in implementing the National Financial Inclusion Strategy and digital finance at National Bank of Ukraine's Forum on Financial Inclusion.



▶ Additional Resources:

- [Financial Inclusion Strategy](http://www.boj.org.jm/financial_sys/national_financial_inclusion_strategy.php#)
- <https://www.youtube.com/watch?v=DqIzwBgt0T8>
- <https://www.youtube.com/watch?v=6BAx6SCpGUo>
- <https://www.youtube.com/watch?v=T6R57QzIx8E>



FINANCIAL DEEPENING

FINANCIAL DEEPENING

Bank of Jamaica was tasked with leading the development and implementation of a financial deepening agenda in an effort to maximize the opportunities created by the high Jamaica dollar liquidity environment as the Government of Jamaica (GOJ) continued its fiscal consolidation programme. In November 2018, the Minister of Finance and the Public Service established a multi-agency group comprising BOJ, Development Bank of Jamaica (DBJ), the Financial Services Commission (FSC) and the Jamaica

Stock Exchange (JSE). The team was tasked with **overseeing and executing Jamaica's Financial Deepening Agenda**, that is, a set of reforms centred on initiatives to expand the universe of domestic assets that are formally intermediated.

The near-term agenda included: (i) accelerating access to finance; (ii) standardizing asset quality for sound investment; (iii) increasing transparency and price discovery in markets; and (iv) accelerating the creation of domestic investible assets.

Achievements in 2019

Accelerating Access to Finance – progress on a reverse factoring electronic platform

During 2019, the DBJ continued to lead an initiative to scale the use of reverse factoring of receivables in Jamaica via an electronic platform.¹ This is aimed at providing compliments to traditional collateral based financing for domestic supply chains. The establishment of the platform falls within component 3A of the World Bank's US\$15 million Access to Finance project which was approved in January 2018. The financial deepening team facilitated discussions between the DBJ and Private Sector Organization of Jamaica (PSOJ) to strengthen their collaboration towards effective market engagement on the proposed

product. In collaboration with the PSOJ, industry consultations were held in April and May 2019 with various deposit-taking institutions and buyers (anchor firms) to discuss the product and gauge possible interest.

In September 2019, the DBJ selected the reverse factoring electronic platform provider. Official letters of intent to utilize the platform along with signed non-disclosure agreements were submitted to the DBJ by DTIs in December 2019. This allowed the DBJ to share additional information about the platform with the financial institutions.

¹ Under reverse factoring, a supplier receives finance in relation to its receivables (money for goods/services delivered) by a process that is started by the Buyer (ordering company). It allows the supplying company to receive better finance terms than it would otherwise be able to receive from a lender. Reverse factoring would allow suppliers

to be paid in a timely manner for a fee that is determined between large retailers and banks.

Standardizing Asset Quality for Sound Investments – incentivizing use of independent credit ratings

The drive to standardize asset quality was centred on establishing a programme to expand the independent credit ratings of issuers of fixed income securities. During the March 2019 quarter, BOJ and FSC, in collaboration with Caribbean Information and Credit Ratings Services Ltd (CariCris), identified a set of ongoing and proposed regulatory reforms that would incentivize the use of independent credit ratings. Stakeholder meetings were held with the **Jamaica Securities Dealers Association and Jamaica Bankers' Association** in April and July 2019, to sensitise them of impending regulatory changes and implications for credit ratings.

The amendments to the Pensions Investments Regulations in August 2019 and the phased implementation of the Liquidity Coverage Ratio (LCR) framework effective October 2019, bolstered efforts to incentivize the use of independent credit ratings. The amended Pension Investment Regulations allow pension funds to invest in an expanded pool of highly rated instruments while the LCR framework requires corporate debt qualifying as high-quality liquid assets to be highly rated, among other things. The investment grade is defined on a national scale where the GOJ rating sets the benchmark risk-free asset price and the ratings of all other issuers are determined by their relative creditworthiness.

Increasing Transparency and Price Discovery in Markets – establishing a trading platform for fixed income securities

In January 2019, BOJ, JSE, FSC and the Ministry of Finance & the Public Service met to explore options to foster greater transparency and efficient price discovery for GOJ securities. A new trading platform that will accommodate the trading of fixed income securities is being commissioned by the JSE. During the year, the JSE, BOJ and the FSC collaborated on creating an enabling environment to support the effective implementation and utilisation of the new platform. Specifically, **in September 2019, the FSC's Board approved the modification of guidelines to allow listed entities that have met financial disclosure requirements to find it easier to offer debt.** The FSC also proposed amendments to the fee structure to allow for more competitive pricing.

On 02 December 2019, the JSE National Association of Securities Dealers Automated Quotations (NASDAQ) trading platform was commissioned with the migration of equities. During that month, BOJ and the JSE had preliminary discussions regarding work to implement the procedural interface that will be required for the trading of GOJ bonds on the new JSE platform. Technical assistance from the IMF was also provided **in December 2019 to strengthen the Primary Dealers' system.** This will result in a more transparent and meaningful yield curve.

Accelerating the Creation of Domestic Investible Assets – GOJ entities aim to raise funding from the market

In an effort to leverage DBJ's privatization programme, active discussions were held during 2019 with other Government agencies (Port Authority of Jamaica, Factories Corporation of Jamaica, and Urban Development Corporation) on ways in which entities can raise funds directly from the market.



COMMUNICATIONS & CORPORATE SOCIAL RESPONSIBILITY



RICHARD BYLES
Governor, Bank of Jamaica

Quarterly Monetary Policy Report Press Conference.

Governor Richard Byles

COMMUNICATIONS AND CORPORATE SOCIAL RESPONSIBILITY

Bank of Jamaica is of the view that efficient communication on monetary and financial stability issues is central to the achievement of its mandate. 2019 saw further expansion of the platforms through which the Bank interfaces with the public and to reach a wider cross-section of society. The Bank increased its channels of communication through social media platforms in 2019 to include Facebook and YouTube,

following the successful launch of its Twitter page in 2018.

During 2019, Bank of Jamaica continued to engage in several public outreach programmes that support education and the arts. This was consistent with the **Central Bank's long-held** view that despite the limitations of our primary role, such service to the community is important.

Increased communication and engagement

- **Quarterly Monetary Policy Report Press Conference**

In 2019, the Bank held four press conferences aimed at explaining its most recent monetary policy decision, presenting a brief analysis of recent economic developments and providing updates of its near- and medium-term forecasts of macroeconomic variables in **the international and domestic economies. The Bank's quarterly monetary policy report (QMPR) was launched at each press conference. This publication discusses, in a non-technical manner, economic developments for the review quarter and provides forecasts of key macroeconomic variables, including inflation. This report is also made available on the Bank's website. See [Quarterly Monetary Policy Report](#) and [Quarterly Press Conference Presentation](#).**

- **Schedule for Policy Rate Announcements**

The Bank published its schedule of eight announcements of monetary policy decisions for 2019. The announcements, at minimum, took the form of a press release, which indicated the decision on the policy rate and explained the rationale for monetary policy actions as well as highlighted the risks to the inflation forecast (see [Calendar of Announcements](#)).

- **Financial Stability Reports**

Financial system stability issues for 2019 were communicated through highlights in the annual Financial Stability Report and the Quarterly Macro-Prudential Report. These reports can be viewed on the **Bank's website** at [Macro-Prudential Report](#) and [Financial Stability Report](#).

Continued support for education and the visual and performing arts

● Money Museum

Bank of Jamaica's Money Museum is the repository for the Bank's collection of ancient and modern currency and other items of Jamaican and international culture. Patrons of all ages are welcome to tour the Bank's museum free of cost. In 2019, the Museum registered 6 407 visitors, with more than 95 per cent of this number coming from schools across Jamaica, attesting to the important role the museum plays as an educational resource.



High School students visiting the Money Museum in 2019

● Schools' Education Programme

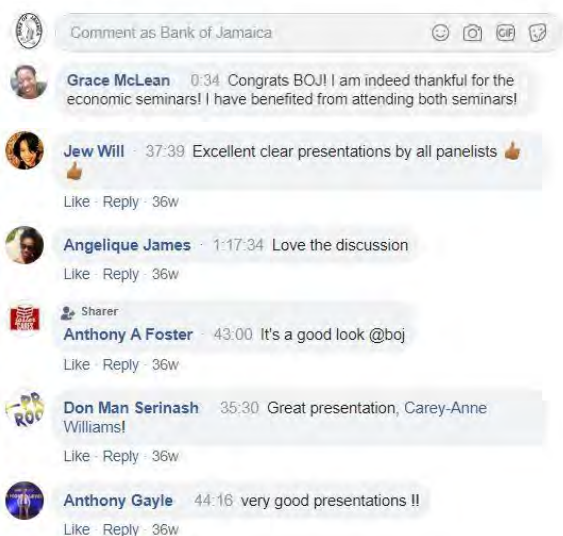
The School's Education Programme continued to support the school curriculum in the areas of central banking and currency. A total of 18 groups of secondary school students, mostly from business departments, benefited from lectures on the operations of the Bank throughout 2019. Students interacted with Bank staff and visited the museum and banking hall.

¹ The adjustment to the value of the award was based on the cost of pursuing a full time Masters of Science Economics programme at the University of West Indies Mona Campus. The cost of study includes tuition, miscellaneous costs as well as the estimated costs for subsistence expenses, including accommodation and living

● Seminars in Economics

The annual *Revision Seminars in Economics* for students sitting the CAPE economics examination were offered from 02 - 03 April 2019, with 604 students registered to attend over the two-day period. Economists from the Bank's Research and Economic Programming Division and the then local IMF representative in Jamaica, Mr. Constant Lonkeng Ngouana, made audio-visual presentations to the students.

Most Relevant ▾



● G. Arthur Brown Scholarship

The 2019 G. Arthur Brown Memorial Scholarship was awarded to Ms Melissa Foster to pursue the Master of Science degree in Economics at the University of the West Indies. The scholarship is for two years and coverage began in September 2019. Effective academic year 2019/20, the value of the award under the G. Arthur Brown Memorial Scholarship was increased to \$900,000.00 per year from the previous award of \$350,000.00 per year.¹

expenses. The value of the award under the scholarship was last adjusted in 2004.

- **St. Michael’s Primary School**

Bank of Jamaica continued to provide support to St Michael’s Primary School, situated on Tower Street in Kingston. In July 2019, the Bank subsidised the school’s three-week summer programme. In addition, the Bank sponsored the annual Boys’ Day and Girls’ Day and assisted with the photocopying of educational material throughout the review year.

- **Art Collection and Exhibitions**

The Bank continued to encourage the work of local artists and made additions to its art collection in 2019. **Notably, three sculptures from the Bank’s collection** were loaned to the National Gallery of Jamaica and were shown in the retrospective exhibition on the works of late Jamaican master sculptor Lawrence Edwards, The Bank also mounted a Jamaican money exhibit at the Annual Seville Expo in St. Ann.

- **Lunch Hour Concerts**

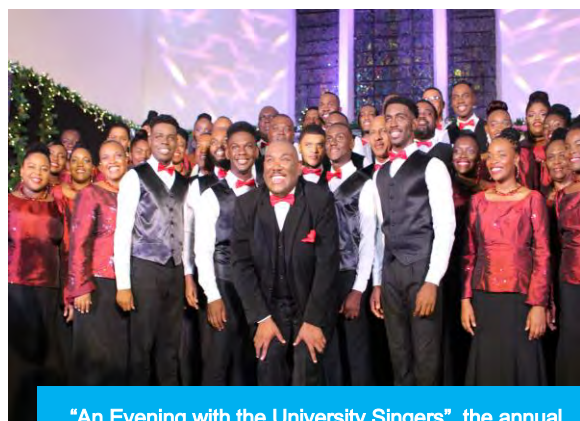
The monthly lunch hour concert programme continued during 2019 and covered theatre, dance and music. Over 3 000 patrons attended the 2019 concert series.

- **An Evening with the University Singers**

The annual concert, “An Evening with the University Singers” which is sponsored by the Bank during the Christmas season was held at the University Chapel, UWI, to a capacity crowd. The concert continues to be a coveted **calendar event** and a “**must see**” for everyone.



Dahlia Harris (Jamaican Actress) performing at a BOJ Lunch Hour concert



“An Evening with the University Singers”, the annual concert sponsored by the Bank in the Christmas season



Wayne Armond of Challice (Reggae Band) performing at a BOJ Lunch Hour concert

Achievements in 2019

Bank of Jamaica establishes itself as a social media influencer

Bank of Jamaica expanded its channels of communication through social media platforms in 2019 to include Facebook and YouTube, following the successful launch of its Twitter page in 2018. This interface has proved to be an effective tool for reaching a wider cross-section of the public some of whom digest their news primarily through social media.

The Twitter page has become a major success and continues to constantly earn the Bank a flood of commendations from local and international followers. It has earned **BOJ the unofficial title of “World’s Coolest Central Bank”** and more seriously, is already widely regarded as the best central bank social media page in the world.

The Bank also commenced a podcast series in mid-2019 which is available on four platforms - Buzz Sprout, Soundcloud, Stitcher and Apple podcast. This **initiative further enhanced the Bank’s thrust of promoting and educating the public on the Bank’s operations**, particularly as the Bank seeks to transition to a full-fledged inflation targeting framework.

Traditional media still remains a critical tool

The Bank produced its inaugural flagship television production, **Centrally Speaking**, which aired on Television Jamaica (TVJ). The programme is also **available on the Bank’s digital platforms, including Twitter, Facebook and YouTube**. A radio version of the programme aired on Irie FM as well as Radio Jamaica.

Topics included inflation targeting, credit reporting, financial stability and financial inclusion.

Revolutionary inflation education campaign continued in 2019

The Bank also continued and expanded its revolutionary inflation education campaign launched in 2018 to include outdoor advertising via digital billboards nationwide in addition to the use of traditional print, electronic media and our social media platforms.

In 2019, BOJ also became the first central bank in the world to have a presence at a music festival, as our inflation advertisements were featured on the venue video screens at Reggae Sumfest.

Feedback on the enhanced communication thrust has been impressive. The Bank has received international recognition for this non-traditional approach to communication by a central bank, while in Jamaica, the general public has displayed increased interest in the **Bank’s role in preserving price stability and the move towards full-fledged inflation targeting**.



BOJ's "Centrally Speaking" co-hosts Sheena Woodburn and Anna-Kaye Smith

Not too HIGH...

Not too LOW...

Mmmmm!
Just right!

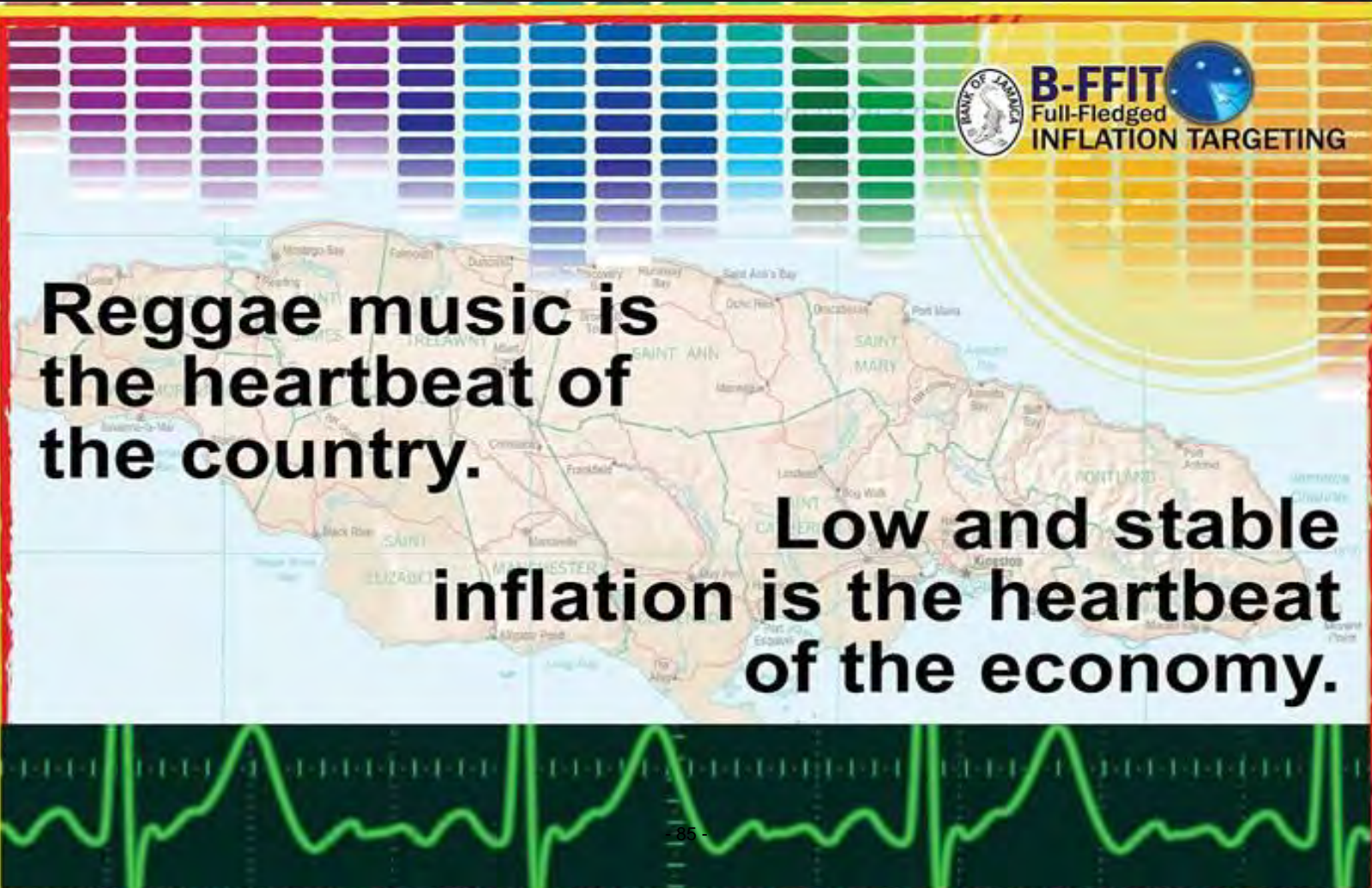


 **B-FFIT**
Full-Fledged
INFLATION TARGETING

**Reggae music is
the heartbeat of
the country.**

**Low and stable
inflation is the heartbeat
of the economy.**

 **B-FFIT**
Full-Fledged
INFLATION TARGETING





FINANCIAL STATEMENTS

BANK OF JAMAICA
FINANCIAL STATEMENTS
DECEMBER 31, 2019



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Chartered Accountants
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
BANK OF JAMAICA

Pursuant to Section 43(1) of the Bank of Jamaica Act, we have audited the financial statements of Bank of Jamaica ("the Bank"), set out on pages 4 to 66, which comprise the statement of financial position as at December 31, 2019, the statements of profit or loss and other comprehensive income, changes in capital and reserves and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG, a Jamaican partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

R. Arun Handa
Dyrrha L. Lawrence
Rajni Taneer
Newman O. Rainford
Nigel R. Chambers

Kyasa A. Johnson
W. Gibran C. de Mel
Wilbert A. Spence
Rebbecca N. Stephenson
Sandria A. Edwards



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Board of Directors of
BANK OF JAMAICA

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Board of Directors of
BANK OF JAMAICA

Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A handwritten signature in blue ink that reads 'KPMG'.

Chartered Accountants
Kingston, Jamaica

March 2, 2020.

BANK OF JAMAICAStatement of Financial Position
December 31, 2019

	<u>Notes</u>	<u>2019</u> J\$'000	<u>2018</u> J\$'000
<u>ASSETS</u>			
Foreign assets:			
Notes and coins		179,417	153,732
Cash and cash equivalents	5	43,678,754	43,741,603
Securities held in funds managed by agents	6	92,320,100	60,011,668
Investment securities	7	311,141,746	312,015,085
International Monetary Fund - Holding of Special Drawing Rights		25,386,620	26,532,744
Quota subscription	8	<u>10,716,577</u>	<u>10,360,927</u>
Total foreign assets		<u>483,423,214</u>	<u>452,815,759</u>
Local assets:			
Notes and coins		163,241	109,340
Resale agreements	9	16,400,000	9,200,000
Investment securities	10	172,678,294	154,762,684
Due from Government and Government agencies	11	-	11,012,752
Property, plant and equipment	12	5,131,049	4,907,842
Intangible asset	13	332,722	219,108
Employee benefits asset	14(a)	6,172,600	6,771,900
Other	15	<u>5,038,846</u>	<u>5,434,617</u>
Total local assets		<u>205,916,752</u>	<u>192,418,243</u>
Total assets		<u>689,339,966</u>	<u>645,234,002</u>

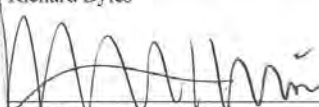
The accompanying notes form an integral part of the financial statements.

BANK OF JAMAICAStatement of Financial Position (continued)
December 31, 2019

	<u>Notes</u>	<u>2019</u> J\$'000	<u>2018</u> J\$'000
<u>LIABILITIES, CAPITAL AND RESERVES</u>			
Liabilities:			
Notes and coins in circulation	16	148,856,570	133,518,443
Deposits and other demand liabilities	17	339,800,202	300,274,770
Open market liabilities	18	107,807,539	144,119,384
International Monetary Fund - Allocation of Special Drawing Rights	19	47,950,820	46,359,483
Foreign liabilities		3,678	3,790
Due to Government and Government agencies	11	18,170,929	-
Employee benefits obligation	14(b)	2,303,600	1,920,800
Lease liability	20	87,188	-
Bilateral accounts		40,900	39,539
Other	21	<u>1,700,156</u>	<u>1,708,507</u>
Total liabilities		<u>666,721,582</u>	<u>627,944,716</u>
Capital and reserves:			
Share capital	22	4,000	4,000
Capital contribution	23	3,021,352	-
General reserve fund	24	20,000	20,000
Special stabilisation account	25	1,614,935	1,482,511
Other reserves	26	<u>17,958,097</u>	<u>15,782,775</u>
Total capital and reserves		<u>22,618,384</u>	<u>17,289,286</u>
Total liabilities, capital and reserves		<u>689,339,966</u>	<u>645,234,002</u>

The financial statements on pages 4 to 66 were approved for issue by the Board of Directors on February 27, 2020 and signed on its behalf by:


Governor

Richard Byles

Senior Deputy Governor


Financial Controller

Ian Williams

The accompanying notes form an integral part of the financial statements.

BANK OF JAMAICAStatement of Profit or Loss and Other Comprehensive Income
Year ended December 31, 2019

	<u>Notes</u>	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Operating income:			
Interest, calculated using the effective interest method	27	23,813,003	20,657,512
Foreign exchange gain, net	28	7,314,230	6,285,525
Other		<u>447,587</u>	<u>522,623</u>
Total operating income		<u>31,574,820</u>	<u>27,465,660</u>
Operating expenses:			
Interest on deposits and open market liabilities	29	5,906,495	8,077,290
Interest on IMF loan		1,750,844	2,225,038
Interest on lease liability	20	1,869	-
Staff costs	30	4,879,598	4,440,106
Currency expenses		1,383,413	1,236,192
Depreciation and amortisation		539,768	460,606
Other property expenses		633,505	626,033
Other operating expenses	31	<u>1,129,668</u>	<u>887,949</u>
Total operating expenses		<u>16,225,160</u>	<u>17,953,214</u>
Operating profit		15,349,660	9,512,446
Other incomes/(expenses):			
Pension, medical and life insurance	14	59,400	(138,100)
Credit/(charge) on remeasurement of staff loans		46,332	(11,521)
Gains on securities measured as FVTPL		525,541	46,249
Losses on disposal of FVOCI securities		(43,065)	(183,040)
Gains on disposal of property, plant and equipment		<u>6,959</u>	<u>4,876</u>
Profit for the year before transfer to pension equalisation reserve		15,944,827	9,230,910
Transfer to pension equalisation reserve	26(c)	(132,200)	(129,700)
Profit for the year transferred to general reserve fund	11(b)	<u>15,812,627</u>	<u>9,101,210</u>
Other comprehensive income:			
Items that will never be reclassified to profit or loss:			
Remeasurement of employee benefits asset and obligation, net	14	(1,104,800)	2,399,400
Items that are or will be reclassified to profit or loss:			
Change in fair value of securities at FVOCI		<u>3,008,422</u>	<u>3,566,378</u>
Other comprehensive income for the year		<u>1,903,622</u>	<u>5,965,778</u>
Total comprehensive income for the year		<u>17,716,249</u>	<u>15,066,988</u>

The accompanying notes form an integral part of the financial statements.

BANK OF JAMAICA**Statement of Changes in Capital and Reserves**
Year ended December 31, 2019

	Share capital J\$'000 (Note 22)	General reserve fund J\$'000 (Note 24)	Capital contribution J\$'000 (Note 23)	Special stabilisation account J\$'000 (Note 25)	Other reserves J\$'000 (Note 26)	Total J\$'000
Balance as at January 1, 2018	4,000	20,000	-	1,377,337	9,545,097	10,946,434
Total comprehensive income for the year 2018:						
Profit for the year	-	9,101,210	-	-	-	9,101,210
Other comprehensive income:						
Realised change in fair value of securities at FVOCI	-	-	-	-	(89,269)	(89,269)
Unrealised change in fair value of securities at FVOCI	-	-	-	-	3,655,647	3,655,647
Remeasurement of pension asset and obligation, net	-	-	-	-	3,566,378	3,566,378
Other comprehensive income	-	-	-	-	2,399,400	2,399,400
Total comprehensive income	-	9,101,210	-	-	5,965,778	15,066,988
Other changes in reserves:						
Due to consolidated fund [note 11(b)]	-	(9,101,210)	-	-	-	(9,101,210)
Transfer from coins in circulation	-	-	-	105,174	-	105,174
Transfer of surplus on defined benefit pension scheme	-	-	-	-	271,900	271,900
	-	(9,101,210)	-	105,174	271,900	(8,724,136)
Balances at December 31, 2018	4,000	20,000	-	1,482,511	15,782,775	17,289,286
Total comprehensive profit for the year 2019:						
Profit for the year	-	15,812,627	-	-	-	15,812,627
Other comprehensive income:						
Realised change in fair value of securities measured at FVOCI	-	-	-	-	(242,016)	(242,016)
Unrealised change in fair value of securities Measured at FVOCI	-	-	-	-	3,250,438	3,250,438
Remeasurement of pension asset and obligation, net	-	-	-	-	3,008,422	3,008,422
Other comprehensive income	-	-	-	-	(1,104,800)	(1,104,800)
Total comprehensive income	-	15,812,627	-	-	1,903,622	1,903,622
Other changes in reserves:						
Capital contribution	-	-	3,021,352	-	-	3,021,352
Due to consolidated fund [note 11(b)]	-	(15,812,627)	-	-	-	(15,812,627)
Transfer from coins in circulation	-	-	-	132,424	-	132,424
Transfer of surplus on defined benefits pension scheme	-	-	-	-	271,700	271,700
	-	(15,812,627)	3,021,352	132,424	271,700	(12,387,151)
Balances at December 31, 2019	4,000	20,000	3,021,352	1,614,935	17,958,097	22,618,384

The accompanying notes form an integral part of the financial statements.

BANK OF JAMAICA**Statement of Cash Flows**
Year ended December 31, 2019

	<u>Notes</u>	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Cash flows from operating activities:			
Profit for the year		15,944,827	9,230,910
Adjustments for:			
Depreciation - property, plant and equipment	12	450,001	373,837
Amortisation - intangible asset	13	89,767	86,768
Gain on disposal of property, plant and equipment		(6,959)	(4,876)
Employee benefits, net		16,800	229,487
Unrealised exchange gain		(19,403,835)	(5,499,438)
Unrealised exchange (gain)/loss on International Monetary Fund Quota Subscription	8	(355,650)	13,235
Unrealised exchange loss on International Monetary Fund - Allocation of SDR's		1,146,123	(59,218)
Interest income	27	(23,813,003)	(20,657,512)
Interest expense		<u>7,659,208</u>	<u>10,302,328</u>
Operating loss before changes in other assets and other liabilities		(18,272,721)	(5,984,479)
Other assets		130,627	(1,768,981)
Other liabilities		300,905	(318,089)
Due from Government and Government Agencies		13,534,049	21,675,229
Interest received		23,915,151	20,106,655
Interest paid		<u>(7,966,595)</u>	<u>(10,668,628)</u>
Net cash provided by operating activities		<u>11,641,416</u>	<u>23,041,707</u>
Cash flows from investing activities:			
International Monetary Fund - Holding of Special Drawing Rights		1,591,337	2,487,611
Securities held in funds managed by agents		(29,925,113)	(15,385,500)
Foreign currency denominated investments		13,418,072	(4,493,214)
Local currency denominated investments		(14,907,188)	(23,041,879)
Resale agreements		(7,200,000)	(8,850,000)
Additions to property, plant and equipment	12	(614,583)	(750,534)
Additions to intangible asset	13	(203,381)	(72,238)
Proceeds from disposal of property, plant and equipment		<u>41,188</u>	<u>35,070</u>
Net cash used by investing activities		<u>(37,799,668)</u>	<u>(50,070,684)</u>
Cash flows from financing activities:			
Notes and coins in circulation		15,470,550	22,712,925
Deposits and other demand liabilities		42,437,629	(5,336,158)
Open market liabilities		(36,311,844)	(33,016,781)
Foreign liabilities		(654)	35
Payment of lease liability		(7,536)	-
Capital contribution		<u>3,021,352</u>	<u>-</u>
Net cash provided/(used) by financing activities		<u>24,609,497</u>	<u>(15,639,979)</u>
Net decrease in cash and cash equivalents		(1,548,755)	(42,668,956)
Cash and cash equivalents at beginning of year		44,004,675	86,020,767
Effect of exchange rate fluctuation on cash held		<u>1,565,492</u>	<u>652,864</u>
Cash and cash equivalents at end of year		<u>44,021,412</u>	<u>44,004,675</u>
Comprising:			
Foreign cash and cash equivalents	5	43,678,754	43,741,603
Foreign notes and coins		179,417	153,732
Local notes and coins		<u>163,241</u>	<u>109,340</u>
		<u>44,021,412</u>	<u>44,004,675</u>

The accompanying notes form an integral part of the financial statements.

BANK OF JAMAICA**Notes to the Financial Statements**
Year ended December 31, 2019**1. Identification**

Bank of Jamaica (hereafter “the Bank”) was established under the Bank of Jamaica Act (hereafter “the Act”), which was most recently amended on November 21, 2017. The Bank is domiciled in Jamaica and its principal office is located at Nethersole Place, Kingston, Jamaica.

The principal objects of the Bank, as set out in the Act, are to issue and redeem notes and coins; to keep and administer the external reserves of Jamaica; to influence the volume and conditions of supply of credit so as to promote the fullest expansion in production, trade and employment, consistent with the maintenance of monetary stability in Jamaica and the external value of the currency; to foster the development of money and capital markets in Jamaica; and to act as banker to the Government of Jamaica.

2. Basis of preparation**(a) Statement of compliance**

The financial statements are prepared in accordance with the relevant provisions of the Bank of Jamaica Act and International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

The Bank has adopted IFRS 16 *Leases* with a date of initial application of January 1, 2019. Changes to significant accounting policies are described in note 3.

(b) Functional and presentation currency

The financial statements are prepared in Jamaica Dollars (JMD), which is the Bank’s functional currency, and are presented in thousands of Jamaica Dollars (J\$’000) except as otherwise indicated.

(c) Basis of measurement

The financial statements are prepared on the historical cost basis, except for the following:

- (i) debt instruments at fair value through other comprehensive income (FVOCI) measured at fair value.
- (ii) securities held in funds managed by agents, measured at fair value.
- (iii) IMF Quota subscription designated as at FVOCI, measured at fair value.
- (iv) certain classes of property, plant and equipment, are measured at fair value; and
- (v) employee benefits asset, measured at the net of the fair value of the plan assets and the present value of the defined benefit obligation plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses.
- (vi) employee benefits obligation, measured at the present value of the defined benefit obligation plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

2. Basis of preparation (continued)

(d) Accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates, based on assumptions. It also frequently requires management to exercise its judgement in the process of applying IFRS and the Bank's accounting policies. These estimates and judgements affect the reported amounts of, and disclosures relating to assets, liabilities, income, expenses, contingent assets and contingent liabilities.

Estimates and the assumptions underlying them are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from the estimates.

Information about judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with material uncertainty that have a significant effect on amounts in the financial statements or that have a significant risk of material adjustment in the next financial year are set out below:

(i) Judgements

For the purpose of these financial statements prepared in accordance with IFRS, judgement refers to the informed identification and analysis of reasonable alternatives, considering all relevant facts and circumstances, and the well-reasoned, objective and unbiased choice of the alternative that is most consistent with the agreed principles set out in IFRS.

(1) Classification of financial assets:

The assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest (SPPI) on the principal amount outstanding requires management to make certain judgements on its business operations.

(2) Impairment of financial assets:

Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of expected credit loss (ECL) and selection and approval of models used to measure ECL requires significant judgement.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

2. Basis of preparation (continued)**(d) Accounting estimates and judgements (continued)****(ii) Key assumptions and other sources of estimation uncertainty**

Financial statement amounts that have been significantly affected by estimates, and/or which could change significantly in the next financial year as a result of a change in the estimate, are as follows:

(1) Pension and other post-retirement benefits

The amounts recognised in the statements of financial position and profit or loss and other comprehensive income for pension and other post-retirement benefits are determined actuarially using several assumptions. The primary assumptions used in determining the amounts recognised include the discount rate used to determine the present value of estimated future cash flows required to settle the pension and other post-retirement obligations, and the expected rate of increase in medical costs for post-retirement medical benefits.

The discount rate is determined based on the estimate of yield on long-term Government securities that have maturity dates approximating the terms of the Bank's obligation. In the absence of such instruments in Jamaica, it has been necessary to estimate the rate by extrapolating from the longest-tenure security on the market. The estimated rate of increase in medical costs is determined based on inflationary factors. Any changes in these assumptions will impact the amounts recorded in the financial statements for these obligations.

(2) Fair values of financial instruments

There are no quoted market prices for a significant portion of the Bank's financial instruments. Accordingly, fair values of such financial assets are estimated using prices obtained from a yield curve. That yield curve is, in turn, obtained from a pricing source which estimates the yield curve on the basis of indicative prices submitted by licensed banks and other financial institutions in Jamaica. There is significant uncertainty inherent in this approach which is categorised as a level 2 fair value; consequently, the estimates arrived at may be different from the actual price of the instrument in an actual arm's length transaction (see notes 7, 10 and 35).

(3) Fair value of property, plant and equipment

Fair values of the Bank's non-financial assets are not readily determinable. The fair value of property, plant and equipment is therefore determined by property valuers, as set out in note 12, using largely unobservable inputs, making it a level 3 fair value.

(4) Allowance for impairment losses

In determining amounts recorded for impairment of debt securities and other financial assets in the financial statements, management makes assumptions in determining the inputs to be used in the ECL measurement model, including incorporation of forward-looking information. Management also estimates the likely amount of cash flows recoverable on the financial assets in determining loss given default. The use of assumptions make uncertainty inherent in such estimates.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

3. Changes in significant accounting policies

Except for the changes below, the Bank has consistently applied the accounting policies to all periods presented in these financial statements.

The Bank applied IFRS 16 *Leases* with a date of initial application of January 1, 2019. A number of other new standards and interpretations are also effective from January 1, 2019 but they did not have a material effect on the Bank's financial statements.

The Bank applied IFRS 16 *Leases* using the modified retrospective approach, under which the cumulative effect of initial application is recognised at January 1, 2019. Accordingly, the comparative information presented in 2018 is not restated – i.e. is presented as previously recorded, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below:

(a) Definition of a lease

Previously, the Bank determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Bank assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 4(e).

On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

(b) As a lessee

As a lessee, the Bank previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards of ownership of the underlying assets to the Bank. Under IFRS 16, the Bank recognises right-of-use assets and lease liabilities for leases.

Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Bank used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

BANK OF JAMAICANotes to the Financial Statements (Continued)
Year ended December 31, 20193. Changes in significant accounting policies (continued)

(b) As a lessee (continued)

Impact on financial statements:

On transition to IFRS 16, the Bank recognised right-of-use asset and lease liability of \$92,855,000.

When measuring lease liabilities, the Bank discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted average rate applied is 2.06%.

	J\$'000
Operating lease commitment at December 31, 2018 as disclosed in the financial statements	<u>90,668</u>
Discounted using the incremental borrowing rate	76,136
Extension options reasonably certain to be exercised	<u>16,719</u>
Lease liability at January 1, 2019	<u>92,855</u>

4. Significant accounting policies

(a) Financial instruments – Classification, recognition and de-recognition, and measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. In these financial statements:

- Financial assets have been determined to comprise cash and cash-equivalents, securities held in funds managed by agents, investment securities, IMF – holding of special drawing rights, bilateral accounts, resale agreements, IMF – quota subscription, due from Government and Government agencies and staff and ex-staff loans.
- Financial liabilities comprise deposits and other demand liabilities, open market liabilities, IMF – allocation of special drawing rights, foreign liabilities and bilateral accounts and payables.

Financial instruments are classified, recognised and measured in accordance with the substance of the terms of the contracts as set out herein.

(i) Recognition and initial measurement

The Bank recognises a financial instrument when it becomes a party to the contractual terms of the instrument. The Bank initially recognises loans and receivables and debt securities on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition and de-recognition, and measurement (continued)

(ii) Classification of financial instruments

Financial assets

On initial recognition, a financial asset is classified as measured at amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; or fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

Debt instruments measured at amortised cost are initially measured at fair value plus incremental direct transaction costs and subsequently at their amortised cost using the effective interest method.

A debt instrument is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. The election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL. On initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Debt securities classified or designated as at FVTPL are measured at fair value with changes recognised immediately in profit or loss.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition and de-recognition, and measurement (continued)

(i) Classification of financial instruments (continued)

Financial assets (continued)

Business model assessment:

The Bank makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity. However, the information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

The Bank's objective is achieved by both collecting contractual cash flows and selling financial assets.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition and de-recognition, and measurement (continued)

(ii) Classification of financial instruments (continued)

*Financial assets (continued)***Business model assessment (continued):**

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Bank considers the following:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- leverage features, that modify consideration of the time value of money such as periodic reset of interest rates;
- prepayment and extension features; and
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely for payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Reclassifications:

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first reporting period following the change in business model.

Financial liabilities

The Bank classifies financial liabilities as measured at amortised cost.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

4. Significant accounting policies (continued)

- (a) Financial instruments – Classification, recognition and derecognition, and measurement (continued):

(iii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains all or substantially all the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

The Bank derecognises a financial liability when its contractual obligations expire, are discharged or cancelled.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has the legal right to offset the amounts and intends either to settle them on a net basis, or to realise the assets and settle the liabilities simultaneously.

(v) Specific items

(1) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents comprise short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term commitments (these investments include short-term deposits where the maturities do not exceed three months from the acquisition date). Cash and cash equivalents are classified and measured at amortised cost.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition and de-recognition, and measurement (continued):

(v) Specific items (continued)

(2) Resale agreements

Resale agreements are accounted for as short-term collateralised lending. They are classified and measured at amortised cost.

Interest earned on resale agreements is recognised as interest income over the life of each agreement using the effective interest method.

(3) Other assets

Other assets are classified and measured at amortised cost, less impairment losses.

(4) Other liabilities

Other liabilities are measured at amortised cost.

(5) International Monetary Fund Quota subscription is designated as FVOCI and measured at fair value as it is held for strategic purposes and the Bank has no intention of liquidating it.

(6) International Monetary Fund – allocation of Special Drawing Rights is classified and measured at amortised cost.

(b) Impairment of financial assets

The Bank recognises loss allowances for expected credit losses (ECL) on financial assets that are debt instruments measured at amortised cost and FVOCI.

The Bank measures loss allowances at an amount equal to life-time ECL, except for investment securities that are determined to have low credit risk at the reporting date and other financial instruments on which credit risk has not increased significantly since their initial recognition. Loss allowances on these are measured at 12-month ECL.

The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

4. Significant accounting policies (continued)

(b) Impairment of financial assets (continued)

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of ECL

ECL are probability-weighted estimates of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive); and
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets').

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

4. Significant accounting policies (continued)

(b) Impairment of financial assets (continued)

Credit-impaired financial assets (continued)

- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Debt instruments measured at FVOCI; no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is fair value. However, the loss allowances are disclosed and recognised in the fair value reserve.

(c) Foreign currencies

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the foreign exchange rates prevailing at that date. Transactions in foreign currencies are translated at the foreign exchange rates ruling at the dates of those transactions.

The rate of exchange of the Jamaica Dollar to the United States dollar is determined by the weighted average rate of trades reported by authorised foreign exchange dealers and cambios and the rate at which the Bank itself buys United States dollars. The rates of exchange for other currencies are determined using rates published by The World Markets Company Plc (WM Reuters).

Gains and losses arising on fluctuations in exchange rates are included in profit or loss.

(d) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses, except for freehold land and buildings, which are measured at fair value.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

4. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(i) Owned assets (continued)

• Cost

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset to the location and condition where it is ready for its intended use.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and it can be measured reliably.

The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

• Fair value

The fair value of freehold land and buildings is the price that would be received to sell them in an orderly transaction between market participants at the valuation date. Such fair value is determined by an external, independent valuer, with appropriate recognised professional qualification and recent experience in the location and category of land and buildings being valued. The Bank's policy is to obtain an independent professional valuation of all its land and buildings every five years. Management's assessment of significant movement in fair value is done for the intervening years and adjustment made to valuation, as necessary.

(ii) Depreciation

Property, plant and equipment are depreciated on the straight-line basis at annual rates estimated to write down the assets to their residual value over their estimated useful lives. Leasehold property is amortised in equal instalments over the shorter of the lease term and the property's estimated useful life.

Land, works of art and museum coins are not depreciated.

The estimated useful lives are as follows:

Buildings	10 – 20 years
Leasehold property	Shorter of lease term and useful life
Furniture, plant and equipment	10 years
Computer equipment	5 years
Motor vehicles	5 years
Right-of-use asset (property)	Lease term

The depreciation methods, useful lives and residual values are reassessed at each reporting date.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

4. Significant accounting policies (continued)**(e) Leases**

The Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from January 1, 2019

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after January 1, 2019.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Bank has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Bank at the end of the lease term or the cost of the right-of-use asset reflects that the Bank will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the contracted lease payments discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, at the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

4. Significant accounting policies (continued)

(e) Leases (continued)

Policy applicable from 1 January 2019 (continued)

As a lessee (continued)

The Bank determines its incremental borrowing rate by reference to those paid on its open market liabilities.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liability in 'the statement of financial position.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before January 1, 2019

Assets held under other leases were classified as operating leases and were not recognised in the statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

4. Significant accounting policies (continued)

(f) Notes and coins in circulation

The nominal value of numismatic coins sold is included in notes and coins in circulation. The net proceeds from such sales are included in profit or loss.

Notes and coins in circulation are measured after a deduction of 25% of the value of coins in circulation in accordance with the Bank of Jamaica (Value of Coins in Circulation) Order 1973, as permitted under Section 22 of the Act. The deductions are credited to the special stabilisation account.

(g) Taxation

The Bank is exempt from income tax under Section 12(b) of the Income Tax Act. The Bank's supplies are substantially exempt from General Consumption Tax (GCT); it incurs GCT at standard rates on taxable supplies acquired.

(h) Employee benefits

Employee benefits comprise all forms of consideration given by the Bank in exchange for service rendered by employees. These include current or short-term benefits such as salaries, NIS contributions, annual vacation leave, and non-monetary benefits such as medical care and life insurance; post-employment benefits such as pension and medical care; and other long-term employee benefits such as termination benefits.

(i) General benefits

Employee benefits that are earned as a result of past or current service are recognised in the following manner: short-term employee benefits are recognised as a liability, net of payments made, and charged as expense. The estimated cost of accumulated vacation leave is recognised annually. Post-employment benefits are accounted for as described in (ii) and (iii) below.

(ii) Post-employment benefits - defined benefit pension plan

In respect of defined-benefit arrangements, employee benefits and obligations included in the financial statements are determined annually by a qualified independent actuary, appointed by management. The appointed actuary's report outlines the scope of the valuation and the actuary's opinion. The actuarial valuations are conducted in accordance with IAS 19, and the financial statements reflect the Bank's post-employment benefit asset and obligation as computed by the actuary. In carrying out their audit, the auditors rely on the work of the actuary and the actuary's report.

The cost of the pension benefits the Bank is committed to providing is the total of (1) the net obligation under the plan for services rendered and (2) the cost of administration of the plan - both of which costs are borne by the Bank.

The Bank's net obligation under its defined-benefit pension plan is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; that value is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is determined by reference to the yield at the reporting date on long-term government securities with maturities approximating the terms of the Bank's obligation. The calculation is performed by a qualified actuary using the projected unit credit method.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

4. Significant accounting policies (continued)

(h) Employee benefits (continued)

(ii) Post-employment benefits - defined benefit pension plan (continued)

Remeasurements of the net defined benefit asset, which comprise actuarial gains and losses and the effect of the asset ceiling (if any, excluding interest), are recognised in other comprehensive income. The Bank determines the net interest income on the net defined benefit asset for the period by applying the discount rate used to measure the defined benefit asset at the beginning of the year to the net defined benefit asset, taking into account any changes in the net defined benefit asset during the year as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of the plan are changed or when the plan is contracted, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Bank recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Where the calculation results in a benefit to the Bank, the recognised asset is limited to the net present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

(iii) Post-employment defined benefits – medical care and life insurance

The Bank's obligation in respect of unfunded long-term employee medical care and life insurance are the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is then discounted to determine its present value. The discount rate is determined as per the defined benefit pension plan set out at (ii) above. The calculation is performed by a qualified actuary using the projected unit credit method. Remeasurements of the defined obligation as well as net interest expense is recognised in the same manner as described at (ii) above for the defined-benefit pension plan.

(i) Statutory transfer of profits and losses

Section 9 of the Act provides for each financial year's net income to be credited, or net loss to be charged, to the General Reserve Fund, and for the balance on the General Reserve Fund in excess of five times the Bank's authorised share capital to be transferred to the Consolidated Fund. Likewise, any losses not covered by reserves are required by the Act to be funded by Government out of the Consolidated Fund.

(j) Intangible asset

Intangible asset represents software and is measured at cost less accumulated amortisation and impairment losses. The asset is amortised on the straight line basis to its residual value over its estimated useful life of 5 years.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

4. Significant accounting policies (continued)

(k) Interest income and interest expense

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount:

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method, of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense:

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

4. Significant accounting policies (continued)

(k) Interest income and interest expense (continued):

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes interest on financial assets and financial liabilities measured at amortised cost and interest on debt instruments measured at FVOCI.

(l) Investment securities

The 'investment securities' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost (see note 10); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt securities measured at FVOCI; and
- investment securities measured at FVTPL.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When a debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

(m) Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs.

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

4. Significant accounting policies (continued)

(m) Impairment of non-financial assets (continued)

Impairment losses are recognised in profit or loss.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(n) Fee and commission income

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfer control over a service to a customer.

The Bank provides payment systems, central securities depository, settlement (RTGS) custodial and other central banking services. Fees are charged to customers on a transaction-by-transaction basis.

Revenue related to these transactions are recognised at the point in time when the related services are performed.

(o) Standards and interpretations issued that are not yet effective

At the date of authorisation of these financial statements, certain new and amended standards and interpretations have been issued which were not effective at the reporting date and which the Bank has not early-adopted. The Bank has assessed them with respect to its operations and has determined that the following is relevant to its financial statements:

(i) *Amendments to References to Conceptual Framework in IFRS Standards* is effective retrospectively for annual reporting periods beginning on or after January 1, 2020. The revised framework covers all aspects of standard setting including the objective of financial reporting.

The main change relates to how and when assets and liabilities are recognised and de-recognised in the financial statements.

- New 'bundle of rights' approach to assets will mean that an entity may recognise a right to use an asset rather than the asset itself;
- A liability will be recognised if an entity has no practical ability to avoid it. This may bring liabilities on balance sheet earlier than at present.
- A new control-based approach to de-recognition will allow an entity to derecognise an asset when it loses control over all or part of it; the focus will no longer be on the transfer of risks and rewards.

The Bank does not expect these amendments to have a significant impact on its financial statements.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

5. Cash and cash equivalents

	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Current accounts and money at call with foreign banks	42,825,220	42,455,291
Current accounts with local banks	<u>853,534</u>	<u>1,286,312</u>
	<u>43,678,754</u>	<u>43,741,603</u>

6. Securities held in funds managed by agents

This represents investments managed by Crown Agents Investment Management Limited ("CAIIML"), the International Bank for Reconstruction and Development (IBRD) and the Bank of International Settlements (BIS) on behalf of the Bank and classified as fair value through profit and loss (FVTPL). The portfolio consists of investments in government bonds, treasury bills and corporate bonds.

	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Units in pooled fund	2,457,595	2,314,404
Sovereign bonds	82,122,664	53,166,246
Corporate bonds	<u>7,739,841</u>	<u>4,531,018</u>
	<u>92,320,100</u>	<u>60,011,668</u>

7. Foreign currency denominated investments

	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Securities measured at fair value through other comprehensive income (FVOCI):		
USD Bonds issued primarily by specialised financial corporations	42,369,287	41,579,076
Securities measured at amortised cost:		
Short-term deposits with foreign banks	<u>268,773,987</u>	<u>270,437,709</u>
	311,143,274	312,016,785
Less allowance for ECL on investments at amortised cost	<u>(1,528)</u>	<u>(1,700)</u>
	<u>311,141,746</u>	<u>312,015,085</u>

8. International Monetary Fund – Quota Subscription

This represents the portion of Jamaica's fee for membership of the International Monetary Fund (IMF), based on its quota, which was paid by the Bank (the other portion having been subscribed by the Government of Jamaica). The Bank holds, on behalf of the IMF, promissory notes issued by the Government reflecting the Jamaica dollar value of the unpaid subscription quota allocated to Jamaica. The Jamaica dollar value of the promissory notes issued are determined by the Special Drawing Rights (SDR) to Jamaica Dollar (JMD) at April 30 of each year.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

8. International Monetary Fund – Quota Subscription (continued)

The Jamaica dollar amounts in the table below are computed using the SDR: J\$ rate at December 31. Jamaica is assigned a quota of SDR 382,900,000, which represents 0.008% of the total quota allocated by the IMF. Quotas are reviewed every five years, when adjustments may be considered.

	SDR'000	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Amount subscribed by the Government of Jamaica (substituted by securities)	324,425	59,456,611	57,483,433
Amount subscribed by the Bank	<u>58,475</u>	<u>10,716,577</u>	<u>10,360,927</u>
Total quota	<u>382,900</u>	<u>70,173,188</u>	<u>67,844,360</u>
	SDR'000	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Amount subscribed by the Bank:			
At beginning of year	58,475	10,360,927	10,374,162
Effect of exchange rate fluctuation *	<u>-</u>	<u>355,650</u>	<u>(13,235)</u>
At end of year	<u>58,475</u>	<u>10,716,577</u>	<u>10,360,927</u>

*The exchange rate at the reporting date is set out at note 17(d)(iv).

9. Resale agreements

The Bank, as one of its options in pursuing its monetary policy objectives, enters into various resale agreements with financial institutions. Under these agreements, the Bank purchases Government of Jamaica ("GOJ") securities and agrees to resell them to the respective counterparties on specified dates and at specified prices. These are accounted for as short-term collateralised lending [note 4(a)(v)(2)]. Section 23(f) of the Act requires the Bank to obtain security for loans and advances provided that a loan granted on such security shall not exceed seventy five percent of the current market value of that security. At December 31, 2019, securities held as collateral had a fair value of \$21,860,217,000 (2018: \$12,212,990,000).

10. Local currency denominated investments

	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Securities at FVOCI:		
Jamaica Government securities:		
Variable rate benchmark investments	41,110,201	41,733,979
Fixed rate benchmark investments	<u>49,397,025</u>	<u>32,288,531</u>
	<u>90,507,226</u>	<u>74,022,510</u>

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

10. Local currency denominated investments (continued)

	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Securities at amortised cost:		
Jamaica Government securities:		
Fixed rate accreting notes ("FRANs") [See note re National Debt Exchange ("NDX") below]	82,171,291	80,740,174
Less allowance for ECL on investments at amortised cost	(223)	-
	<u>82,171,068</u>	<u>80,740,174</u>
	<u>172,678,294</u>	<u>154,762,684</u>

As part of the NDX, GOJ mandated the Bank [and all other state-owned/controlled entities that held GOJ - issued notes ("Old Notes")] to exchange those Old Notes for new notes - FRANs - as at February 22, 2013. Old notes with a carrying amount of \$94,833,000,000 at that date were exchanged for FRANs with a fair value of \$73,748,000,000 resulting in a loss of \$21,085,000,000 for the Bank.

In summary, under the terms of the FRANs:

- (i) A holder of Old Notes was issued J\$80 of initial principal value of FRANs for every J\$100 of principal value of Old Notes;
- (ii) Interest is payable semi-annually on February 15 and August 15 at a fixed rate of 10% p.a. on the accreted principal value with the first payment made on August 15, 2013;
- (iii) Accretion for the additional J\$20 of principal value commenced in August 2015 as follows:
 - 0.5% of \$100 every six months from August 15, 2015 until August 15, 2020;
 - Thereafter, 1.0% of \$100 every six months until August 15, 2026; and
 - Thereafter, 1.5% of \$100 every six months until August 15, 2027.
- (iv) The FRANs may be redeemed by GOJ on any interest payment date after August 15, 2020. The value at which the FRAN could be redeemed was not specified in the offer document.

11. Due from/(to) Government and Government Agencies

	2019			At end of year J\$'000
	At beginning of year J\$'000	<u>Movements during the year</u>		
		Advances/ (profit) J\$'000	Settlement J\$'000	
Withholding tax refund due [see notes (c) and (d) below]	4,785,479	2,000,136	(3,979,204)	2,806,411
Accrued interest on Government securities	3,653,382	3,816,376	(3,653,382)	3,816,376
Net loss/(profit) receivable from/(payable to) Consolidated Fund [see (b) and (d) below]	<u>2,573,891</u>	<u>(15,812,627)</u>	<u>(11,554,980)</u>	<u>(24,793,716)</u>
	<u>11,012,752</u>	<u>(9,996,115)</u>	<u>(19,187,566)</u>	<u>(18,170,929)</u>

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

11. Due from/(to) Government and Government Agencies (continued)

	2018			At end of year J\$'000
	At beginning of year J\$'000	Movements during the year		
		Advances/ (profit) J\$'000	Settlement J\$'000	
Withholding tax refund due [see notes (c) and (d) below]	4,955,980	1,098,012	(1,268,513)	4,785,479
Accrued interest on Government securities	3,439,330	3,653,383	(3,439,330)	3,653,383
Net loss/(profit) receivable from/(payable to) Consolidated Fund [see (b) and (d) below]	<u>33,224,982</u>	<u>(9,101,210)</u>	<u>(21,670,000)</u>	<u>2,453,772</u>
	41,620,292	(4,349,815)	(26,377,843)	10,892,634
Adjustment arising on initial application of IFRS 9	<u>120,118</u>	-	-	<u>120,118</u>
	<u>41,740,410</u>	<u>(4,349,815)</u>	<u>(26,377,843)</u>	<u>11,012,752</u>

- (a) By virtue of Section 36 of the Act, the Bank is empowered to make advances to the Government of up to thirty percent of the estimated revenue of Jamaica for the financial year of the Government. Such advances are to be repaid within three months of the end of the financial year in which the advances were made. Where advances are not duly repaid, the Bank is prohibited from granting further advances in any subsequent financial year until the outstanding advances are repaid. There was no advance given in 2019 and 2018.
- (b) The Government is required by the Act to pay to the Bank, out of the Consolidated Fund, amounts to cover losses incurred by the Bank. Section 9(3) of the Act provides that if, in the opinion of the Minister of Finance, payment to clear the losses cannot be made from the Consolidated Fund, such losses may be cleared by the issue of securities to the Bank chargeable to the Consolidated Fund.
- (c) Income tax is withheld on income earned by the Bank on its holding of securities (in practice, this is GOJ securities) in accordance with Section 31A of the Income Tax Act as an advance on payment of income tax which may be due. However, as the Bank is exempt from income tax, the entire amount of tax withheld is recoverable from Tax Administration Jamaica.

At the reporting date, the age profile of the withholding tax recoverable was as follows:

	<u>2019</u> J\$'000	<u>2018</u> J\$'000
1-6 months	8,539	740,803
6-12 months	1,909,531	474,601
1-5 years	888,341	1,423,844
Over 5 years	-	<u>2,146,231</u>
	<u>2,806,411</u>	<u>4,785,479</u>

BANK OF JAMAICANotes to the Financial Statements (Continued)
Year ended December 31, 201911. Due (to)/from Government and Government Agencies (continued)

- (d) The Bank and the Government of Jamaica (GOJ) entered into a memorandum of understanding dated December 21, 2013 (amended by supplemental memorandum of understanding dated 28 February 2014) for the settlement of accumulated losses and the recovery of withholding tax refunds due to the Bank.
- (i) The Bank and the Ministry of Finance further undertook to agree on settlement dates for subsequent amounts that may be due to the Bank under Section 9(3) of the Bank of Jamaica Act. Accumulated losses for the periods 2013-2016 amounted to \$15.574 billion. An agreement was made to settle this amount by payment of Government issued Benchmark instruments (BMI) during the financial year 2018. Of this amount, \$12.032 billion was settled as at December 2018. The remaining balance of \$3.33 billion was settled on January 25, 2019.
- (ii) In respect of \$3.2 billion withholding taxes refund due as at December 31, 2012, it was agreed that these would be settled in five equal instalments commencing in the financial year 2014/2015. The Government has been honoring this commitment and has made four instalments amounting to \$2.6 billion, of which \$655 million was made during the financial year ended December 31, 2018. The remaining balance of \$655.34 million was settled in March 2019.

The agreement also stipulates that all refunds in relation to subsequent withholding taxes will be made on submission of the returns and verification by the Commissioner General, Tax Administration Jamaica. Subsequent to the submission of the required returns a total of \$7.7 billion has been refunded to the Bank for the period January 1, 2013 to December 31, 2019.

12. Property, plant and equipment

	Freehold land and buildings J\$'000	Leasehold property J\$'000	Furniture, plant and equipment J\$'000	Motor vehicles J\$'000	Total J\$'000
Cost or valuation:					
December 31, 2017	4,023,355	83,245	2,258,208	427,309	6,792,117
Additions	199,105	872	428,177	122,380	750,534
Disposals/write-offs	-	-	-	(93,498)	(93,498)
December 31, 2018	4,222,460	84,117	2,686,385	456,191	7,449,153
Recognition of right-of-use asset on initial application of IFRS 16	-	92,855	-	-	92,855
Adjusted balances at January 1, 2019	4,222,460	176,972	2,686,385	456,191	7,542,008
Additions	184,772	3,907	283,595	142,309	614,583
Disposals/write-offs	-	-	(3,577)	(89,742)	(93,319)
December 31, 2019	4,407,232	180,879	2,966,403	508,758	8,063,272

BANK OF JAMAICA**Notes to the Financial Statements (Continued)**
Year ended December 31, 2019**12. Property, plant and equipment (continued)**

	Freehold land and buildings	Leasehold property	Furniture, plant and equipment	Motor vehicles	Total
	J\$'000	J\$'000	J\$'000	J\$'000	J\$'000
Depreciation:					
December 31, 2017	369,757	48,113	1,666,907	146,001	2,230,778
Charge for the year	175,342	7,426	115,596	75,473	373,837
Eliminated on disposals	-	-	-	(63,304)	(63,304)
December 31, 2018	545,099	55,539	1,782,503	158,170	2,541,311
Charge for the year	184,365	14,247	151,946	99,443	450,001
Eliminated on disposals	-	-	(375)	(58,714)	(59,089)
December 31, 2019	<u>729,464</u>	<u>69,786</u>	<u>1,934,074</u>	<u>198,899</u>	<u>2,932,223</u>
Net book values:					
December 31, 2019	<u>3,677,768</u>	<u>111,093</u>	<u>1,032,329</u>	<u>309,859</u>	<u>5,131,049</u>
December 31, 2018	<u>3,677,361</u>	<u>28,578</u>	<u>903,882</u>	<u>298,021</u>	<u>4,907,842</u>
December 31, 2017	<u>3,653,598</u>	<u>35,132</u>	<u>591,301</u>	<u>281,308</u>	<u>4,561,339</u>

An independent valuer assesses the fair value of the land and buildings when requested by the Bank, which is expected to be every five years (or more frequently if the Bank has compelling reasons to believe the fair value has changed materially in the intervening years) [note 4(d)(i)].

A revaluation was performed in November 2015 and October 2016 by C. D. Alexander Company Realty Limited, Real Estate Broker, Appraiser and Auctioneer.

The management of the Bank is of the opinion that there have been no identifiable factors to suggest any material change in commercial property values in Kingston, Jamaica between the valuation date and reporting date.

The surplus arising on revaluation, inclusive of depreciation no longer required, is included in property revaluation reserve [note 24(b)].

The valuations were done using the depreciated replacement cost approach, and management accepted these as reasonable estimates of fair value. The fair value of land and buildings is categorised as Level 3 in the fair value hierarchy. The significant unobservable inputs used in determining the fair value and the effect of each of them on the value determined, are summarised below:

Valuation techniques	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Depreciated replacement cost. This model takes into account:	<ul style="list-style-type: none"> Estimates of material, labour, professional fees and other costs of planning, design and construction, expressed as costs per square foot. 	The estimated fair value would increase (decrease) if: <ul style="list-style-type: none"> the cost per square foot were higher (lower)
Building:		
(i) An estimate of the full replacement cost at the reporting date		

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

12. Property, plant and equipment (continued)

Valuation techniques	Significant unobservable inputs	Inter-relationship between unobservable inputs and fair value measurement
<u>Building (continued):</u>		
(ii) An estimate of depreciation based on the age and condition of the building	• Judgements about the physical condition of the building	The estimated fair value would increase (decrease) if (continued):
(iii) Deducing the estimated depreciation from the current replacement cost	• Judgements about the environment in which the building is located	• judgement about the condition of the building had determined the condition to be better or worse.
<u>Land:</u>		
(i) An estimate of the site improvements made		
(ii) An estimate of the market value of the land with the site improvements		

13. Intangible asset

	<u>Computer software</u>	
	<u>2019</u>	<u>2018</u>
	J\$'000	J\$'000
Cost:		
At the beginning of year	978,096	905,858
Addition	<u>203,381</u>	<u>72,238</u>
At end of year	<u>1,181,477</u>	<u>978,096</u>
Amortisation:		
At the beginning of year	758,988	672,220
Charge for the year	<u>89,767</u>	<u>86,768</u>
At end of year	<u>848,755</u>	<u>758,988</u>
Net book value	<u>332,722</u>	<u>219,108</u>

14. Employee benefits

The Bank operates non-contributory defined benefit pension, medical, and life insurance schemes for all its permanent eligible employees and funds supplemental retirement benefits. Benefits under the pension scheme are computed by reference to final salary. The assets of the scheme, which are held separately from those of the Bank, are under the control of a board of trustees, with day-to-day management by employees of the Bank.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

14. Employee benefits (continued)

(a) Pension asset recognised:

	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Present value of funded obligations	(14,735,600)	(12,963,500)
Fair value of plan assets	<u>20,908,200</u>	<u>19,735,400</u>
Recognised asset	<u>6,172,600</u>	<u>6,771,900</u>

(i) Movements in the present value of defined benefit obligations

	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Balance at beginning of year	12,963,500	11,072,700
Benefits paid	(707,000)	(507,800)
Service costs	324,000	236,000
Interest costs	905,400	884,400
Remeasurement loss on obligation included in other comprehensive income (iv)	<u>1,249,700</u>	<u>1,278,200</u>
Balance at end of year	<u>14,735,600</u>	<u>12,963,500</u>

(ii) Movements in plan assets

	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Fair value of plan assets at beginning of year	19,735,400	15,809,300
Contributions paid	139,500	142,200
Interest income on plan assets	1,361,600	1,250,100
Benefits paid	(707,000)	(507,800)
Remeasurement gain on assets include in other comprehensive income (iv)	<u>378,700</u>	<u>3,041,600</u>
Fair value of plan assets at end of year	<u>20,908,200</u>	<u>19,735,400</u>
Plan assets consist of the following:		
Government of Jamaica securities	19,048,900	17,952,700
Bank of Jamaica certificates of deposit	1,549,900	1,408,000
Real estate	138,100	138,100
Other	<u>171,300</u>	<u>236,600</u>
	<u>20,908,200</u>	<u>19,735,400</u>

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

14. Employee benefits (continued)

(a) Pension asset recognised (continued):

(iii) Credit recognised in profit or loss

	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Current service costs	324,000	236,000
Interest on obligations	905,400	884,400
Interest income on assets	<u>(1,361,600)</u>	<u>(1,250,100)</u>
	<u>(132,200)</u>	<u>(129,700)</u>

(iv) Items recognised in other comprehensive income

	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Remeasurement loss on obligation:		
Experience adjustment	(1,249,700)	(1,278,200)
Remeasurement gain on assets	<u>378,700</u>	<u>3,041,600</u>
	<u>(871,000)</u>	<u>1,763,400</u>

(v) Principal actuarial assumptions at the reporting date (expressed as weighted averages)

	<u>2019</u> %	<u>2018</u> %
Discount rate	7.5	7.00
Future pension increases	2.0	1.50
Future salary increases	<u>4.5</u>	<u>3.50</u>

(vi) A one percentage point change at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligations by amounts shown below:

<u>Actuarial assumption</u>	<u>One percentage point increase</u> J\$'000	<u>One percentage point decrease</u> J\$'000
Discount rate	(1,005,600)	1,129,700
Assumed rate of salary escalation	285,000	(261,300)
Future rate of pension	<u>844,200</u>	<u>(767,800)</u>

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

14. Employee benefits (continued)

(b) Obligations for post-retirement life insurance and medical benefits:

(i) Liability recognised in statement of financial position

	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Balance at beginning of year	1,920,800	2,327,800
Current service cost	54,800	77,000
Interest cost	136,800	190,800
Benefits paid	(42,600)	(38,800)
Remeasurement loss on obligation, included in other comprehensive income [see (iii)]	<u>233,800</u>	<u>(636,000)</u>
Balance at end of year	<u>2,303,600</u>	<u>1,920,800</u>

(ii) Expense recognised in profit or loss:

	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Current service costs	54,800	77,000
Interest on obligations	<u>136,800</u>	<u>190,800</u>
	<u>191,600</u>	<u>267,800</u>

(iii) Items in other comprehensive income

	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Change in financial assumptions	(197,300)	387,600
Experience adjustment	<u>(36,500)</u>	<u>248,400</u>
Remeasurement (loss)/gain on obligation	<u>(233,800)</u>	<u>636,000</u>

(iv) Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	<u>2019</u> %	<u>2018</u> %
Discount rate	7.50	7.00
Future salary increase	4.50	3.50
Medical claims growth	<u>6.00</u>	<u>5.00</u>

Assumptions regarding future mortality are based on the GAM 94 [2018: GAM (94)] mortality table for pensioners (British mortality tables), but with each age rated down by five (2018: five) years.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

14. Employee benefits (continued)

- (c) At the reporting date, changes to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by amounts shown below:

	One percentage <u>point increase</u> J\$'000	One percentage <u>point decrease</u> J\$'000
Discount rate	(200,000)	227,700
Assumed medical cost trend rate and rate of salary escalation	<u>226,000</u>	<u>(198,400)</u>

- (d) The estimated pension contributions expected to be paid into the plan during the next financial year amounts to J\$190,154,000 (2018: J\$180,130,000). See note 14(a)(ii) for actual contributions paid during the current and previous years.

15. Other assets

	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Inventory of unissued notes and coins	1,917,780	2,151,981
Staff loans, gross	2,061,873	1,926,264
Ex-staff loans, gross	64,390	106,787
Accrued interest receivable	699,366	882,346
SDR equalisation provision [note 17(d)(iii)]	592,654	674,262
Salaries and wages paid in advance	108,596	6,548
Stock of souvenir coins	82,715	83,139
Payment on capital accounts	-	114,981
Other	<u>59,921</u>	<u>85,083</u>
	5,587,295	6,031,391
Less:		
Remeasurement of staff loans	(537,295)	(583,988)
Allowance for ECL: ex-staff loans	<u>(11,154)</u>	<u>(12,786)</u>
	<u>5,038,846</u>	<u>5,434,617</u>

16. Notes and coins in circulation

	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Notes	144,011,765	129,070,910
Coins	<u>4,844,805</u>	<u>4,447,533</u>
	<u>148,856,570</u>	<u>133,518,443</u>

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

16. Notes and coins in circulation (continued)

Section 21 of the Act requires the Bank to hold specified assets of an amount in value sufficient to cover the value of the total amount of notes and coins in circulation as defined in that section. The assets held shall include, *inter alia*, (a) gold; (b) "hard currency" cash, bank balances or securities issued by a foreign government or international financial institution of which Jamaica is a member; or (c) Special Drawing Rights. Specified assets held by the Bank, as at December 31, 2019, were 3.17 (2018: 3.31) times the value of notes and coins in circulation at that date.

Coins in circulation are shown net of a reserve of 25% of the gross amount of coins in circulation (note 25).

17. Deposits and other demand liabilities

(a) Deposits and other demand liabilities comprise the following:

	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Government and Government agencies	132,562,982	92,007,508
Commercial banks and specified financial institutions	140,603,397	133,697,930
International Monetary Fund [see (d) below]	62,825,776	68,003,296
Others	<u>3,808,047</u>	<u>6,566,036</u>
	<u>339,800,202</u>	<u>300,274,770</u>
Jamaica dollar equivalent of foreign currency deposits	226,229,420	199,831,786
Jamaica dollar deposits	<u>113,570,782</u>	<u>100,442,984</u>
	<u>339,800,202</u>	<u>300,274,770</u>

(b) Deposit and other demand liabilities include the reserve deposits prescribed by Section 28 of the Bank of Jamaica Act. Reserve deposits at the reporting date were \$114,427,142,000 (2018: \$131,762,706,000).

(c) Under Section 28A of the Bank of Jamaica Act, commercial banks and specified financial institutions may be required to make special deposits with the Bank in the form of cash or specified securities. There were no special deposits at the reporting date.

(d) IMF related information

(i) The IMF² balance consists of the following loans:

	<u>SDR'000</u>		<u>J\$'000</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
2013 Extended fund facility	338,838	378,657	62,690,027	67,871,782
Other IMF amounts	<u>734</u>	<u>734</u>	<u>135,749</u>	<u>131,514</u>
Total IMF liability	<u>339,572</u>	<u>379,391</u>	<u>62,825,776</u>	<u>68,003,296</u>

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

17. Deposits and other demand liabilities continued

(d) IMF related information (continued)

(ii) In November 2016, the Government of Jamaica discontinued the 2013 extended fund facility that would have expired in March 2017; and replaced it with a three-year precautionary standby agreement. The precautionary standby agreement expired in November 2019.

(iii) The following reconciliation shows the total IMF liability converted at the SDR to J\$ exchange rates prevailing at April 30 and December 31.

	<u>2019</u> J\$'000	<u>2018</u> J\$'000
At the December 31 SDR rate:		
Amount at which the loan is carried by the Bank	62,232,578	67,222,508
Effect of exchange rate depreciation between April 30 and December 31 (note 15)	<u>593,198</u>	<u>780,788</u>
At the April 30 SDR rate:		
Amount at which the loan is carried by the IMF [per (a) above]	<u>62,825,776</u>	<u>68,003,296</u>

(iv) The following table shows the rate of exchange of J\$1 for SDR at April 30 and December 31.

	<u>2019</u> SDR	<u>2018</u> SDR
April 30	J\$1 = 0.0054049800	0.0055790
December 31	J\$1 = 0.0054565	0.0056438

As at February 27, 2020, the date of approval of these financial statements, the exchange rate was J\$1 = SDR 0.0052940.

(v) There was no disbursement to Government for fiscal support during 2019.

18. Open market liabilities

As part of the process of controlling liquidity in the financial system, the Bank acquires funds from or makes funds available to financial institutions. One mechanism for doing this is entering into short-term agreements with the institutions. In the case of funds acquired, receipt of funds is evidenced by the Bank issuing Certificates of Deposit to the depositor.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

19. International Monetary Fund - Allocation of Special Drawing Rights

This represents the Bank's obligation for Special Drawing Rights (SDRs) allocated to it. This allocation does not change unless there are cancellations or further allocations.

	<u>SDR</u> <u>'000</u>	<u>2019</u> <u>J\$'000</u>	<u>2018</u> <u>J\$'000</u>
At beginning of year	261,644	46,359,483	46,418,701
Effect of exchange rate fluctuation	-	<u>1,591,337</u>	<u>(59,218)</u>
At end of year	<u>261,644</u>	<u>47,950,820</u>	<u>46,359,483</u>

20. Leases

The Bank leases a building for office space. The term of the lease is for fifteen (15) years commencing April 2013 and includes an option to renew for an additional period of five (5) years. The Bank expects to exercise the option.

(i) Right of use asset:

	<u>Leasehold</u> <u>property</u> <u>J\$'000</u> <u>2019</u>
Balance at January 1	92,855
Depreciation charge for the year	<u>(6,516)</u>
	<u>86,339</u>

This is included in property plant and equipment at note 12.

(ii) Lease liability:

	<u>2019</u> <u>J\$'000</u>
Undiscounted cashflows of lease liability	
Less than one year	7,536
One to five years	37,680
More than five years	<u>54,635</u>
	99,851
Less future interest expense	<u>(12,663)</u>
Carrying amount of lease liability	<u>87,188</u>
Current	5,784
Non-current	<u>81,404</u>
	<u>87,188</u>

BANK OF JAMAICA**Notes to the Financial Statements (Continued)**
Year ended December 31, 2019**20. Leases (continued)**

(iii) Amounts recognised in profit or loss:

	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Lease under IFRS 16		
Interest on lease liability	<u>1,869</u>	<u>-</u>
Operating of lease under IAS 17		
Lease expense	<u>-</u>	<u>7,536</u>

(iv) Amounts recognised in statement of cashflows

	<u>2019</u> J\$'000
Total cash outflow for leases	<u>7,536</u>

21. Other liabilities

	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Interest payable	936,101	1,245,357
Staff and staff-related expenses	583,149	385,728
Other	<u>180,906</u>	<u>77,422</u>
	<u>1,700,156</u>	<u>1,708,507</u>

22. Share capital

Pursuant to Section 8 of the Act the capital of the Bank is J\$4,000,000, which has been paid by the Government of Jamaica.

23. Capital contribution

During the year, the Government of Jamaica made a capital contribution of \$3,021,352,000 from the Consolidated Fund. It will be used to increase the Bank's share capital, subject to the required approvals.

24. General reserve fund

Section 9 of the Act provides that the Bank shall establish and maintain a General Reserve Fund:

- (a) to which, at the end of each financial year, the net income for that year shall be transferred or the net losses charged;
- (b) from which shall be paid to the Consolidated Fund the amount by which, at the end of the financial year, the balance thereon exceeds five times the Bank's authorised share capital;
- (c) into which should be paid from the Consolidated Fund at the end of the financial year, the amount by which the Bank's net loss exceeds the balance in the General Reserve Fund.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

25. Special stabilisation account

The special stabilisation account is maintained at 25% of the gross amount of coins in circulation as a reserve against coins that are unlikely to be redeemed (note 16).

26. Other reserves

This represents the following:

	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Securities revaluation reserve [see (a)]	8,578,061	5,569,639
Property revaluation reserve [see (b)]	3,692,536	3,692,536
Pension equalisation reserve [see (c)]	6,172,600	6,771,900
Employee benefit obligation reserve [see (c)]	(485,100)	(251,300)
	<u>17,958,097</u>	<u>15,782,775</u>

- (a) This represents the net unrealised gains and losses on the revaluation of FVOCI investments securities, net of impairment allowance.
- (b) The property revaluation reserve represents the surplus arising on the revaluation of certain freehold properties (see note 12).
- (c) The pension equalisation and employee benefit obligation reserves represent the pension surplus and employee benefit obligation arising on the actuarial valuation, under IAS 19, of the Bank's pension scheme and medical benefits. Annual changes in the value of the plan are shown in the statement of comprehensive income, then transferred to this reserve.

27. Interest income

(a) Interest income calculated using the effective interest method comprises:

	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Assets at amortised cost:		
Cash and cash equivalents	1,128,256	1,193,509
Investment securities	15,816,745	14,886,038
Resale agreements	292,230	51,296
Other	353,972	355,267
Securities at FVOCI:		
Investment securities	<u>6,221,800</u>	<u>4,171,402</u>
	<u>23,813,003</u>	<u>20,657,512</u>
(b) Analysed as follows:		
Government of Jamaica (note 32)	13,175,002	12,077,440
Other sources	3,938,335	2,895,814
Open market	292,230	51,296
International	<u>6,407,436</u>	<u>5,632,962</u>
	<u>23,813,003</u>	<u>20,657,512</u>

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

28. Foreign exchange (net)

	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Net gains on translation and settlement of foreign currency assets and liabilities, other than on IMF deposit liabilities	6,886,258	6,198,470
Losses on translation and settlement of IMF deposit liabilities	(2,220,018)	(96,183)
Realised exchange gains on purchases and sales of foreign currencies	<u>2,647,990</u>	<u>183,238</u>
	<u>7,314,230</u>	<u>6,285,525</u>

29. Interest on deposits and open market liabilities

	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Certificates of deposit - Open market liabilities	3,810,290	5,398,792
Deposits:		
- Government and Government agencies (note 32)	1,674,609	1,371,268
- Commercial banks and specified financial institutions	401,934	1,260,796
- Other	<u>19,662</u>	<u>46,434</u>
	<u>5,906,495</u>	<u>8,077,290</u>

30. Staff numbers and costs

	<u>2019</u>	<u>2018</u>
Number of employees at the end of the year		
Full-time	452	444
Contract	<u>166</u>	<u>152</u>

The related costs for these employees were as follows:

	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Salaries and wages	3,721,177	3,447,872
Statutory payroll contributions	216,159	207,427
Uniforms	51,017	52,236
Staff development	133,820	102,728
Subsidy on canteen operations	93,859	93,794
Staff welfare	399,252	390,352
Pension fund related costs	<u>264,314</u>	<u>145,697</u>
	<u>4,879,598</u>	<u>4,440,106</u>

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

31. Other operating expenses

	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Communication	62,562	45,635
Travelling and motor vehicle expenses	90,253	84,285
Commission paid to commercial banks	324,524	267,305
Auditor's remuneration	12,529	11,933
General office expenses	151,050	135,927
Fees on investment managed portfolio	79,049	51,921
Other administrative expenses	<u>409,701</u>	<u>290,943</u>
	<u>1,129,668</u>	<u>887,949</u>

32. Related parties(a) Definition of related party

A related party is a person or entity that is related to the Bank:

(i) A person or a close member of that person's family is related to the Bank if that person:

- (1) has control or joint control over the Bank;
- (2) has significant influence over the Bank; or
- (3) is a member of the key management personnel of the Bank

(ii) An entity is related to the Bank if any of the following conditions applies:

- (1) The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (2) The entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank.
- (3) The entity is controlled, or jointly controlled, by a person identified in (i).
- (4) A person identified in (i)(1) has significant influence over the Bank or is a member of the key management personnel of the Bank.
- (5) The entity, or any member of a group of which it is a part, provides key management personnel services to the Bank.

A related party transaction is a transfer of resources, services or obligations between the Bank and a related party, regardless of whether or not a price is charged.

(b) Identity of related parties

The Bank has related party relationships with its Board of Directors, the members of the Executive management, the Bank of Jamaica Pension Scheme and the Government of Jamaica and its agencies (see notes 11 and 17).

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

32. Related parties (continued)

(c) Related party amounts

- (i) The statement of financial position includes balances, arising in the ordinary course of business, with related parties, other than those disclosed at note 11 and 17 as follows:

	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Loans:		
Executive management (included in staff loans, note 15)	94,889	80,618
Open market liabilities: Pension fund	<u>1,549,930</u>	<u>1,407,912</u>

The executive management team consists of twenty three (23) [2018: fifteen (15) persons].

The interest rates applicable on loans to executive management range from 1% - 3%. In addition, a deemed taxable income is computed on the interest benefit of the concessionary interest rate. No non-executive director receives emoluments or is in receipt of a loan from the Bank.

- (ii) The statement of profit or loss and other comprehensive income includes income earned from/expenses incurred in transactions with related parties, in the ordinary course of business, as follows:

	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Interest expense:		
Government and Government agencies (note 29)	1,674,609	1,371,268
Pension scheme	2,800	30,049
Executive management and pension scheme (current accounts)	724	5,332
Interest income:		
Government of Jamaica [note 27(b)]	13,175,002	12,077,440
Executive management	3,123	2,240
Pension contribution and other benefits	<u>152,675</u>	<u>149,031</u>
Executive management compensation, included in staff costs (note 30)	<u>417,711</u>	<u>307,635</u>

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Notes to the Financial Statements (Continued)
Year ended December 31, 2019

33. Commitments

Capital commitments as follows:

	<u>2019</u>	<u>2018</u>
	J\$'000	J\$'000
Authorised and contracted	336,582	164,072
Authorised but not contracted	<u>318,774</u>	<u>6,923</u>
	<u>655,356</u>	<u>170,995</u>

34. Contingent liabilities

At the reporting date, the Bank was a defendant in various suits and action claiming damages. The Bank is of the view that the claims are generally without merit or will not result in any material losses to the Bank.

35. Fair value of financial instruments

The Bank's accounting policies on measurement and disclosure require the measurement of fair values for financial assets and financial liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When measuring fair value of an asset or liability, where a quoted market price is available, fair value is computed by the Bank using the quoted bid price at the reporting date, without any deduction for transaction costs or other adjustments. Where a quoted market price is not available, fair value is computed using alternative techniques making use of available input data; the Bank uses observable data as far as possible. Fair values are categorised into different levels in a three-level fair value hierarchy, based on the degree to which the inputs used in the valuation techniques are observable.

The different levels in the hierarchy have been defined as follows:

Level 1: Financial assets and financial liabilities that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2: Financial assets and financial liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions, and for which pricing is obtained via pricing services, but where prices have not been determined in an active market. This includes financial assets with fair values based on broker quotes, investments in funds with fair values obtained via fund managers, and assets that are valued using a model whereby the majority of assumptions are market observable.

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Notes to the Financial Statements (Continued)
Year ended December 31, 2019

35. Fair value of financial instruments (continued)

The different levels in the hierarchy have been defined as follows (continued):

Level 3: Financial assets and financial liabilities that are measured using non-market observable inputs. This means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data.

The table below analyses financial instruments measured at fair value and those not measured at fair value but for which fair value has been disclosed.

The fair value of the amount due from Government and Government Agencies has not been estimated, as there is no practical means of estimating its fair value.

The fair value of certain short-term financial instruments as well as IMF Quota subscription were determined to approximate their carrying value and are not disclosed in the table below:

(a) Securities measured at fair value

	2019		
	Level 1 J\$'000	Level 2 J\$'000	Total J\$'000
Securities at FVOCI:			
USD Bonds issued primarily by specialised financial corporations	42,369,287	-	42,369,287
Government of Jamaica securities	-	90,507,226	90,507,226
Securities at FVTPL:			
Securities included in funds managed by agents			
- Sovereign bonds	-	82,122,664	82,122,664
- Corporate bonds	-	7,739,841	7,739,841
- Units in pooled funds	-	2,457,595	2,457,595
	<u>42,369,287</u>	<u>182,827,326</u>	<u>225,196,613</u>
	2018		
	Level 1 J\$'000	Level 2 J\$'000	Total J\$'000
Securities at FVOCI:			
USD Bonds issued primarily by specialised financial corporations	41,579,076	-	41,579,076
Government of Jamaica securities	-	74,022,510	74,022,510
Securities at FVTPL:			
Securities included in funds managed by agents			
- Sovereign bonds	-	53,166,246	53,166,246
- Corporate bonds	-	4,531,018	4,531,018
- Units in pooled funds	-	2,314,404	2,314,404
	<u>41,579,076</u>	<u>134,034,178</u>	<u>175,613,254</u>

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

35. Fair value of financial instruments (continued)

(b) Securities not carried at fair value

	2019		2018	
	Carrying value	Fair value	Carrying value	Fair value
Securities at amortised cost:				
Government of Jamaica securities (FRANs)	82,171,068	129,308,181	80,740,174	127,169,974

(c) Valuation techniques for investment securities classified as Level 2.

The following table shows the valuation techniques used in measuring the fair value classified in the Level 2 hierarchy.

Type of security	Valuation techniques
GOJ JS securities	<ul style="list-style-type: none"> Obtain bid yield from yield curve provided by a recognised pricing source (which uses Jamaica-market-supplied indicative bids) <ul style="list-style-type: none"> Using the yield, determine price Apply price to estimate fair value
Securities in funds managed by agent	<ul style="list-style-type: none"> Estimated using bid prices published by major overseas broker.

36. Financial risk management

(a) Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. It has established four committees for this purpose:

- Investment Committee, which is responsible for providing oversight on the conversion of investment strategy into performance, portfolio construction and risk modelling for the Bank's Foreign Reserves;
- Credit Committee, which is responsible for evaluating and approving applications for staff loans.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

36. Financial risk management (continued)

(a) Introduction and overview (continued)

- (iii) Risk Management Committee (RMC), which is responsible for assisting the Management Committee in its oversight and management of key risks, including strategic, reputational, financial and operational risks, in relation to the Bank's operations. The RMC oversees the establishment of guidelines, policies and processes for monitoring and mitigating risks, while promoting the development and administration of the corporate risk management framework.

The above-listed three committees report to the Committee of Administration, which, in turn, reports to the Management Committee on a weekly basis. The Management Committee reports on a monthly basis to the Board of Directors;

- (iv) Audit and Risk Committee – which is responsible for monitoring compliance with the Bank's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit and Risk Committee is assisted in these functions by the Internal Audit Division. This division undertakes both regular and *ad hoc* reviews of risk management controls and procedures, the results of which are reported to the Board of Directors and the Audit and Risk Committee.

The nature of the risks and manner in which they are measured and managed are as set out below.

(b) Credit risk

Credit risk is the risk of loss arising from a counter-party to a financial contract failing to discharge its obligations. This risk arises primarily from the Bank's foreign and local currency investment securities, resale agreements, cash and cash equivalents, securities held in funds managed by agents, due from Government and Government Agencies and other assets.

(i) Management of credit risk on classes of financial assets exposed to that risk:

- Foreign currency investments including interest in funds managed by agents

Credit risk on the foreign currency investment portfolio is managed by restricting the holdings of investments substantially to USD Bonds issued primarily by specialised financial corporations, other highly rated sovereign securities, Jamaica Government USD securities and placements in highly rated supranational institutions. The Bank uses the credit ratings ascribed by Moody's Investor Services and Standard & Poors Financial Services LLC and Fitch as its main criteria for assessing the creditworthiness of financial institutions and sovereigns. The Bank's foreign investments are restricted to money market placements with financial institutions with minimum short-term credit ratings of A-2/P-2/F2 and with minimum long-term ratings of A+/A1/A+ of any two of the three rating institutions.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

36. Financial risk management (continued)**(b) Credit risk (continued)****(i) Management of credit risk on classes of financial assets exposed to that risk (continued):**

- Foreign currency investments including interest in funds managed by agents (continued)

Additionally, capital market issues must have a minimum credit rating of A+/A1/A+. In order to reduce consolidated credit risk exposure, the Bank has investment limits in place. The Bank's foreign investment portfolio consists of short-, medium- and long-term investments, each of which has stipulated percentage limits (upper and lower) of the portfolio at market value.

- Local investment securities

Credit risk for local securities is managed by investing only in Government of Jamaica securities. Management does not expect this counterparty to fail to meet its obligations.

- Resale agreements

Credit risk is managed by requiring institutions to deposit with the Bank or its agents, designated securities sufficient to collateralise the amounts advanced under the resale agreements. The minimum collateral value of securities accepted is set at defined percentage of market value. The Bank considered that resale agreements have low risk and the 12- month expected credit loss is not considered significant.

- Cash and cash equivalents

Cash and cash equivalents are held in financial institutions which management regards as strong. The strength of these financial institutions is continually reviewed by the Investment Committee. In addition, there are procedures in place to manage potential concentration. Credit risk is considered low with no material expected credit losses.

- Due from Government and Government Agencies.

These amounts are in respect of accrued interest, withholding taxes and losses recoverable from the Government of Jamaica. Management does not expect this counterparty to fail to meet its obligations. Credit risk is considered low with no significant expected credit losses.

- Other assets

Other credit exposures consist mainly of staff loans for housing and motor vehicles. There is a documented credit policy in place which guides the Bank's credit process for staff loans. The policy includes established procedures for the authorisation of credit. Staff loans are limited to a percentage of the value of the assets being purchased. Mortgages and liens are obtained for staff housing and motor vehicle loans, respectively, which must also be insured.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

36. Financial risk management (continued)

(b) Credit risk (continued)

(ii) Exposure to credit risk

Current credit exposure is the amount of loss that the Bank would suffer if all counterparties to which the Bank was exposed were to default all at once; this is represented substantially by the carrying amount of financial assets shown on the statement of financial position.

Exposures to credit risk attached to financial assets are monitored through credit rating and lending limits, which are regularly reviewed. In addition, securities issued or guaranteed by the Government of Jamaica are required to collateralise advances to financial institutions.

There has been no change to the nature of the Bank's exposure to credit risk or the manner in which it measures and manages the risk.

The Bank's significant concentrations of credit exposure by geographical region (based on the region of ownership of the entity that issued the security or holds the cash or cash equivalents) are as follows:

	<u>2019</u> J\$'000	<u>2018</u> J\$'000
Caribbean	194,281,271	180,753,242
North America	274,573,885	233,078,191
Europe	208,317,351	219,061,957
Other	<u>191,390</u>	<u>178,690</u>
Total financial assets	<u>677,360,937</u>	<u>633,072,080</u>

Total credit exposure is the total of receivables and investment securities recognised in the statement of financial position, as there are no other credit exposures.

(iii) Credit quality analysis

The following table sets out information about the credit quality of certain financial assets measured at amortised cost and FVOCI debt securities. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. The analysis has been based on Moody's ratings.

	<u>2019</u> J\$'000	<u>2018</u> J\$'000
	<u>Stage 1</u>	<u>Stage 1</u>
Foreign currency denominated securities at FVOCI		
Rated AAA	41,521,291	39,937,471
Rated AA- to AA	<u>847,996</u>	<u>1,641,605</u>
	<u>42,369,287</u>	<u>41,579,076</u>
Loss allowance	<u>(247)</u>	<u>(311)</u>

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

36. Financial risk management (continued)**(b) Credit risk (continued)****(iii) Credit quality analysis (continued)**

	<u>2019</u> J\$'000 Stage 1	<u>2018</u> J\$'000 Stage 1
Foreign currency denominated securities at amortised cost		
Rated AAA	204,100,960	215,368,820
Rated AA- to AA	<u>64,673,027</u>	<u>55,068,889</u>
	268,773,987	270,437,709
Loss allowance	<u>(1,528)</u>	<u>(1,700)</u>
Carrying amount	<u>268,772,459</u>	<u>270,436,009</u>

	<u>2019</u> J\$'000 Stage 1	<u>2018</u> J\$'000 Stage 1
Local currency denominated securities at FVOCI		
Rated BBB	<u>90,507,226</u>	<u>74,340,158</u>
Loss allowance	<u>217</u>	<u>176</u>

	<u>2019</u> J\$'000 Stage 1	<u>2018</u> J\$'000 Stage 1
Local currency denominated securities at amortised cost		
Rated BBB	82,171,291	80,740,174
Loss allowance	<u>(223)</u>	<u>-</u>
	<u>82,171,068</u>	<u>80,740,174</u>

	<u>2019</u>			
	<u>J\$'000</u> Stage 1	<u>J\$'000</u> Stage 2	<u>J\$'000</u> Stage 3	<u>J\$'000</u> Total
Other assets – staff loans receivable				
Low risk	2,084,728	-	-	2,084,728
Doubtful	<u>-</u>	<u>2,448</u>	<u>39,087</u>	<u>41,535</u>
	2,084,728	2,448	39,087	2,126,263
Loss allowance	<u>(19)</u>	<u>(1,079)</u>	<u>(10,056)</u>	<u>(11,154)</u>
	<u>2,084,709</u>	<u>1,369</u>	<u>29,031</u>	<u>2,115,109</u>

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

36. Financial risk management (continued)

(b) Credit risk (continued)

(iii) Credit quality analysis (continued)

	2018		
	J\$'000	J\$'000	J\$'000
	Stage 1	Stage 3	Total
Low risk	1,964,427	-	1,964,427
Doubtful	-	68,624	68,624
	1,964,427	68,624	2,033,051
Loss allowance	(32)	(12,754)	(12,786)
	<u>1,964,395</u>	<u>55,870</u>	<u>2,020,265</u>

(iv) Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy at note 4(b).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and third party policies including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 90 days past due.

Credit risk grades:

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

36. Financial risk management (continued)

(b) Credit risk (continued)

(iv) Amounts arising from ECL (continued)

Credit risk grades for investments are determined and calibrated based on third party rating agencies credit transition matrices.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data:

- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes.
- Data from credit reference agencies, press articles, changes in external credit ratings.
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.
- External data from credit reference agencies, including industry-standard credit scores.
- Payment record – this includes overdue status as well as a range of variables about payment ratios.
- Existing and forecast changes in business, financial and economic conditions.

Determining whether credit risk has been increased significantly:

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower.

Credit risk is deemed to increase significantly where the credit rating of a security has shifted downwards by two grades based on rating of two of the top three rating agencies and the risk grade of staff loans has moved from low risk to sub-standard.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 90 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

36. Financial risk management (continued)

(b) Credit risk (continued)

(iv) Amounts arising from ECL (continued)

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Bank determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 90 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Definition of default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Bank;
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

36. Financial risk management (continued)

(b) Credit risk (continued)

(iv) Amounts arising from ECL (continued)

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The key inputs into the measurement of ECL are the term structure of the following

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

36. Financial risk management (continued)

(b) Credit risk (continued)

(iv) Amounts arising from ECL (continued)

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

(v) *Loss allowance*

	<u>2019</u>	<u>2018</u>
	J\$'000	J\$'000
	<u>Stage 1</u>	<u>Stage 1</u>
Securities at FVOCI:		
Balance at the beginning of the year	487	-
Remeasurement on January 1, 2018 (IFRS 9)	-	744
Net re-measurement of loss allowance	(23)	(257)
Balance at year end	<u>464</u>	<u>487</u>

The above loss allowance is not recognised in the statement of financial position as the carrying amount of debt securities at FVOCI is their fair value.

Financial assets at amortised cost:

	<u>2019</u>			
	<u>J\$'000</u>	<u>J\$'000</u>	<u>J\$'000</u>	<u>J\$'000</u>
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Balance at January 1, 2019	1,733	-	12,754	14,487
Net re-measurement of loss allowance	<u>473</u>	<u>528</u>	<u>(2,583)</u>	<u>(1,582)</u>
Balance at December 31, 2019	<u>2,206</u>	<u>528</u>	<u>10,171</u>	<u>12,905</u>

	<u>2018</u>		
	<u>J\$'000</u>	<u>J\$'000</u>	<u>J\$'000</u>
	<u>Stage 1</u>	<u>Stage 3</u>	<u>Total</u>
Balance at January 1, 2018 (IAS 39)	-	11,605	11,605
Remeasurement on January 1, 2018 (IFRS 9)	1,486	(5,880)	(4,394)
Net re-measurement of loss allowance	<u>247</u>	<u>7,029</u>	<u>7,276</u>
Balance at December 31, 2018	<u>1,733</u>	<u>12,754</u>	<u>14,487</u>

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Notes to the Financial Statements (Continued)
Year ended December 31, 2019

36. Financial risk management (continued)**(c) Liquidity risk**

Liquidity risk is the risk that the Bank will not be able to meet its financial liabilities as they fall due. Prudent liquidity management requires maintaining sufficient cash and marketable securities, and ensuring the availability of funding through an adequate amount of committed standby credit facilities to meet commitments.

The Bank's exposure to liquidity risk to meet foreign liabilities, as an institution, is limited due to the minimal amount owed to overseas creditors/lenders. Management of liquidity risk relates primarily to the availability of liquid foreign resources to sell to the Government of Jamaica and its agencies to repay their suppliers and lenders. The Bank manages this risk through a combination of:

- Budgetary procedures to identify the timing of foreign payments by Government of Jamaica.
- Scheduling the maturity of foreign deposits to coincide with the demands of Government and its Agencies.
- Maintaining a portion of its foreign assets in cash or near cash as precautionary funds to meet unforeseen demands.

The Bank, like all central banks, has no real liquidity risk in relation to its domestic financial obligations. The Bank is not subject to any imposed liquidity limit.

There were no changes to the nature of the Bank's exposure to liquidity risk or the manner in which it measures and manages it.

The following table presents the undiscounted contractual maturities of financial liabilities:

	2019					Contractual cash flow J\$'000	Carrying amount J\$'000
	Within 1 Month J\$'000	1 to 3 months J\$'000	3 to 12 months J\$'000	1 to 5 years J\$'000			
Deposits and other demand liabilities	339,800,435	-	-	-	339,800,435	339,800,202	
Open market liabilities	48,186,114	-	23,946,451	41,779,642	113,912,207	107,806,539	
International Monetary Fund - Allocation of Special Drawing Rights	-	-	-	47,998,241	47,998,241	47,950,820	
Foreign liabilities	3,678	-	-	-	3,678	3,678	
Other	1,700,156	-	-	-	1,700,156	1,700,156	
Due to Government and Government agencies	-	-	18,170,929	-	18,170,929	18,170,929	
Commitments	971	86,607	361,999	252,552	702,129	-	
	<u>389,691,354</u>	<u>86,607</u>	<u>42,479,379</u>	<u>90,030,435</u>	<u>522,287,775</u>	<u>515,433,324</u>	

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

36. Financial risk management (continued)**(c) Liquidity risk (continued)**

	2018					Carrying amount J\$'000
	Within 1 month J\$'000	1 to 3 months J\$'000	3 to 12 months J\$'000	1 to 5 years J\$'000	Contractual cash flow J\$'000	
Deposits and other demand liabilities	301,210,474	-	-	-	301,210,474	300,274,770
Open market liabilities	53,437,466	-	33,153,760	67,134,821	153,726,047	144,119,384
Foreign liabilities	3,790	-	-	-	3,790	3,790
International Monetary Fund - Allocation of Special Drawing Rights	-	-	-	46,420,526	46,420,526	46,359,483
Other	1,708,507	-	-	-	1,708,507	1,708,507
Commitments	971	70,093	111,586	35,117	217,767	-
	<u>356,361,208</u>	<u>70,093</u>	<u>33,265,346</u>	<u>113,590,464</u>	<u>503,287,111</u>	<u>492,465,934</u>

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on financial assets. Market risk exposures are measured using sensitivity analysis.

There was no change during the year in the Bank's exposure to market risk or the manner in which it measures and manages the risk.

(i) Currency risk

Currency risk is the risk that the market value of, or the cash flows from, financial instruments will vary because of exchange rate fluctuations. The Bank is exposed to foreign currency risk due to fluctuations in exchange rates on transactions and balances that are denominated in currencies other than the Jamaica dollar. At the reporting date, the Bank's net exposure to foreign exchange rate fluctuations, in Jamaica dollar equivalent, was as follows, based on currencies in which reported amounts are denominated:

	2019				Total J\$'000
	USD J\$'000	EUR J\$'000	GBP J\$'000	Other J\$'000	
Foreign currency assets:					
Notes and coins - for local sale	23,520	3,213	7,333	3,826	37,892
- for repatriation	100,839	1,965	10,590	66,023	179,417
Cash and cash equivalents	41,531,044	514,624	868,040	765,046	43,678,754
Securities in funds managed by agents	89,862,505	-	-	2,457,595	92,320,100
Interest receivable on BHAs	659,304	-	-	33,049	692,353
Investment securities	311,141,746	-	-	-	311,141,746
IMF - Holding of special drawing rights	-	-	-	25,386,620	25,386,620
IMF - Quota subscription	-	-	-	10,716,577	10,716,577
	<u>443,318,958</u>	<u>519,802</u>	<u>885,963</u>	<u>39,428,736</u>	<u>484,153,459</u>

BANK OF JAMAICA**Notes to the Financial Statements (Continued)**
Year ended December 31, 2019**36. Financial risk management (continued)****(d) Market risk (continued)****(i) Currency risk (continued)**

	2019				
	USD J\$'000	EUR J\$'000	GBP J\$'000	Other J\$'000	Total J\$'000
Foreign currency liabilities:					
Open market liabilities	58,980,201	-	-	-	58,980,201
Deposits - current accounts	155,758,021	61,673	5,929,860	1,654,090	163,403,644
Deposits - IMF	-	-	-	62,825,776	62,825,776
IMF - Allocation of special drawing rights	-	-	-	47,950,820	47,950,820
Foreign liabilities	3,678	-	-	-	3,678
Bilateral accounts	-	-	-	40,900	40,900
Interest payable	677,101	251	-	236,270	913,622
	<u>215,419,001</u>	<u>61,924</u>	<u>5,929,860</u>	<u>112,707,856</u>	<u>334,118,641</u>
Net foreign currency assets/ (liabilities)	<u>227,899,957</u>	<u>457,878</u>	<u>(5,043,897)</u>	<u>(73,279,120)</u>	<u>150,034,818</u>
	2018				
	USD J\$'000	EUR J\$'000	GBP J\$'000	Other J\$'000	Total J\$'000
Foreign currency assets:					
Notes and coins - for local sale	20,689	1,503	4,713	3,628	30,533
- for repatriation	93,990	2,146	8,089	49,507	153,732
Cash and cash equivalents	41,945,434	423,900	339,912	1,032,357	43,741,603
Interest in funds managed by agents	57,697,264	-	-	2,314,404	60,011,668
Interest receivable on BHAs	811,724	-	-	134,038	945,762
Investment securities	312,015,085	-	-	-	312,015,085
IMF - Holding of special drawing rights	-	-	-	26,532,744	26,532,744
IMF - Quota subscription	-	-	-	10,360,927	10,360,927
	<u>412,584,186</u>	<u>427,549</u>	<u>352,714</u>	<u>40,427,605</u>	<u>453,792,054</u>
Foreign currency liabilities:					
Open market liabilities	78,504,132	-	-	-	78,504,132
Deposits - current accounts	124,944,661	59,047	5,304,340	1,520,442	131,828,490
Deposits - IMF	-	-	-	68,003,296	68,003,296
IMF - Allocation of special drawing rights	-	-	-	46,359,483	46,359,483
Foreign liabilities	3,790	-	-	-	3,790
Bilateral accounts	-	-	-	39,539	39,539
Interest payable	904,344	232	-	293,630	1,198,206
	<u>204,356,927</u>	<u>59,279</u>	<u>5,304,340</u>	<u>116,216,390</u>	<u>325,936,936</u>
Net foreign currency assets/ (liabilities)	<u>208,227,259</u>	<u>368,270</u>	<u>(4,951,626)</u>	<u>(75,788,785)</u>	<u>127,855,118</u>

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

36. Financial risk management (continued)

(d) Market risk (continued)

(i) Currency risk (continued)

Exchange rates at December 31:

	<u>2019</u>	<u>2018</u>
USD1 to JMD	132.53	127.40
GBP1 to JMD	175.57	162.26
CDN1 to JMD	102.20	93.28
EUR1 to JMD	<u>148.77</u>	<u>145.64</u>

At February 27, 2020, the date of approval of these financial statements, the exchange rates were US1 to J\$138.33275, UK1 to J\$180.05391, CDN1 to J\$104.1231 and EUR1 to J\$150.29162.

The exchange rate for SDR to J\$ is shown in note 17(d)(iv).

Sensitivity to exchange rate movements

A 6 percent (2018: 4 percent) devaluation of the Jamaica Dollar against currencies which expose the Bank to risk at December 31 would have increased profits by \$8,999,000 (2018: \$5,114,032) while a 4 percent (2018: 2 percent) revaluation would have decreased profits by \$5,999,000 (2018: \$2,557,016,000). The analysis assumes that all other variables, in particular, interest rates, remain constant, and has been performed on the same basis as for 2018.

(ii) Interest rate risk:

Interest rate risk is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. It arises when there is a mismatch between interest-earning assets and interest-bearing liabilities which are subject to interest rate adjustments within a specified period. It can be reflected as a loss of future net interest income and/or a loss of current market values. The Bank manages this risk by monitoring interest rates daily and ensuring that, even though there is no formally predetermined gap limits, to the extent practicable, the maturity profile of its financial assets is, at least, matched by that of its financial liabilities.

BANK OF JAMAICA**Notes to the Financial Statements (Continued)**
Year ended December 31, 2019**36. Financial risk management (continued)****(d) Market risk (continued)****(ii) Interest rate risk:**

The following table summarises the carrying amounts of financial assets and liabilities to arrive at the Bank's interest rate gap based on the earlier of contractual re-pricing and maturity dates.

	2019					Total J\$'000	Weighted average interest %
	Within 3 months J\$'000	Three to 12 months J\$'000	Over 12 months J\$'000	Payable after notice J\$'000	Non-rate sensitive J\$'000		
Assets							
Notes and coins	-	-	-	-	342,658	342,658	-
Cash and cash equivalents	-	-	-	-	43,678,754	43,678,754	-
Securities in funds managed by agents	-	-	-	92,320,100	-	92,320,100	2.03
Foreign currency denominated investments	272,726,516	11,694,900	26,720,330	-	-	311,141,746	2.03
International Monetary Fund Holding of Special Drawing Rights	-	-	-	-	25,386,620	25,386,620	-
Resale agreements	16,400,000	-	-	-	-	16,400,000	1.28
Local currency denominated investments	-	9,163,625	163,514,669	-	-	172,678,294	7.54
International Monetary Fund – Quota Subscription	-	-	-	-	10,716,577	10,716,577	-
Due from Government and Government agencies	-	-	-	-	-	-	-
Other assets	-	-	-	-	5,038,846	5,038,846	-
Total financial assets	289,126,516	20,858,525	190,234,999	92,320,100	85,163,455	677,703,395	
Liabilities							
Notes and coins in circulation	-	-	-	-	148,856,570	148,856,570	-
Deposits and other demand liabilities:							
Jamaica dollar equivalent of foreign currency deposits	158,430,848	-	-	67,798,572	-	226,229,420	2.09
Jamaica dollar deposits	65,779,120	-	-	47,791,662	-	113,570,782	0.24
Open market liabilities	47,364,389	22,468,067	37,975,083	-	-	107,807,539	3.10
International Monetary Fund – Allocation of Special Drawing Rights	-	-	-	-	47,950,820	47,950,820	-
Foreign liabilities	-	-	-	-	3,678	3,678	-
Due to Government and Government agencies	-	-	-	-	18,170,929	18,170,929	-
Bilateral accounts	-	-	-	-	40,900	40,900	-
Lease liability	1,435	4,349	81,404	-	-	87,188	-
Other liabilities	-	-	-	-	1,700,156	1,700,156	-
Total financial liabilities	271,575,792	22,472,416	38,056,487	115,590,234	216,723,053	664,417,982	
Total interest rate sensitivity gap	17,550,724	(1,613,891)	152,178,512	(23,270,134)	(131,559,598)	13,285,613	
Cumulative gap	17,550,724	15,936,833	168,115,345	144,845,211	13,285,613		

BANK OF JAMAICA**Notes to the Financial Statements (Continued)**
Year ended December 31, 2019**36. Financial risk management (continued)****(d) Market risk (continued)****(ii) Interest rate risk (continued):**

	2018					Total J\$'000	Weighted average interest %
	Within 3 months J\$'000	Three to 12 months J\$'000	Over 12 months J\$'000	Payable after notice J\$'000	Non-rate sensitive J\$'000		
Assets							
Notes and coins	-	-	-	-	263,072	263,072	
Cash and cash equivalents	-	-	-	-	43,741,603	43,741,603	
Interest in funds managed by agents:				60,011,668	-	60,011,668	1.81
Foreign currency denominated investments	273,917,630	12,086,487	26,010,968	-	-	312,015,085	1.81
International Monetary Fund Holding of Special Drawing Rights	-	-	-	-	26,532,744	26,532,744	
Resale agreements	9,200,000	-	-	-	-	9,200,000	3.91
Local currency denominated investments	-	-	154,762,684	-	-	154,762,684	8.29
International Monetary Fund – Quota Subscription	-	-	-	-	10,360,927	10,360,927	
Due from Government and Government Agencies	-	-	-	-	11,012,752	11,012,752	
Other assets	-	-	-	-	5,434,617	5,434,617	
Total financial assets	283,117,630	12,086,487	180,773,652	60,011,668	97,345,715	633,335,152	
Liabilities							
Notes and coins in circulation	-	-	-	-	133,518,443	133,518,443	
Deposits and other demand liabilities:							
Jamaica dollar equivalent of foreign currency deposits	136,274,333	-	-	63,557,453	-	199,831,786	1.65
Jamaica dollar deposits	31,726,354	-	-	68,716,630	-	100,442,984	1.64
Open market liabilities	52,343,365	31,258,123	60,517,896	-	-	144,119,384	3.02
International Monetary Fund – Allocation of Special Drawing Rights	-	-	-	-	46,359,483	46,359,483	
Foreign liabilities	-	-	-	-	3,790	3,790	
Bilateral accounts	-	-	-	-	39,539	39,539	
Other liabilities	-	-	-	-	1,708,507	1,708,507	
Total financial liabilities	220,344,052	31,258,123	60,517,896	132,274,083	181,629,762	626,023,916	
Total interest rate sensitivity gap	62,773,578	(19,171,636)	120,255,756	(72,262,415)	(84,284,047)	7,311,236	
Cumulative gap	62,773,578	43,601,942	163,857,698	91,595,281	7,311,236		

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2019

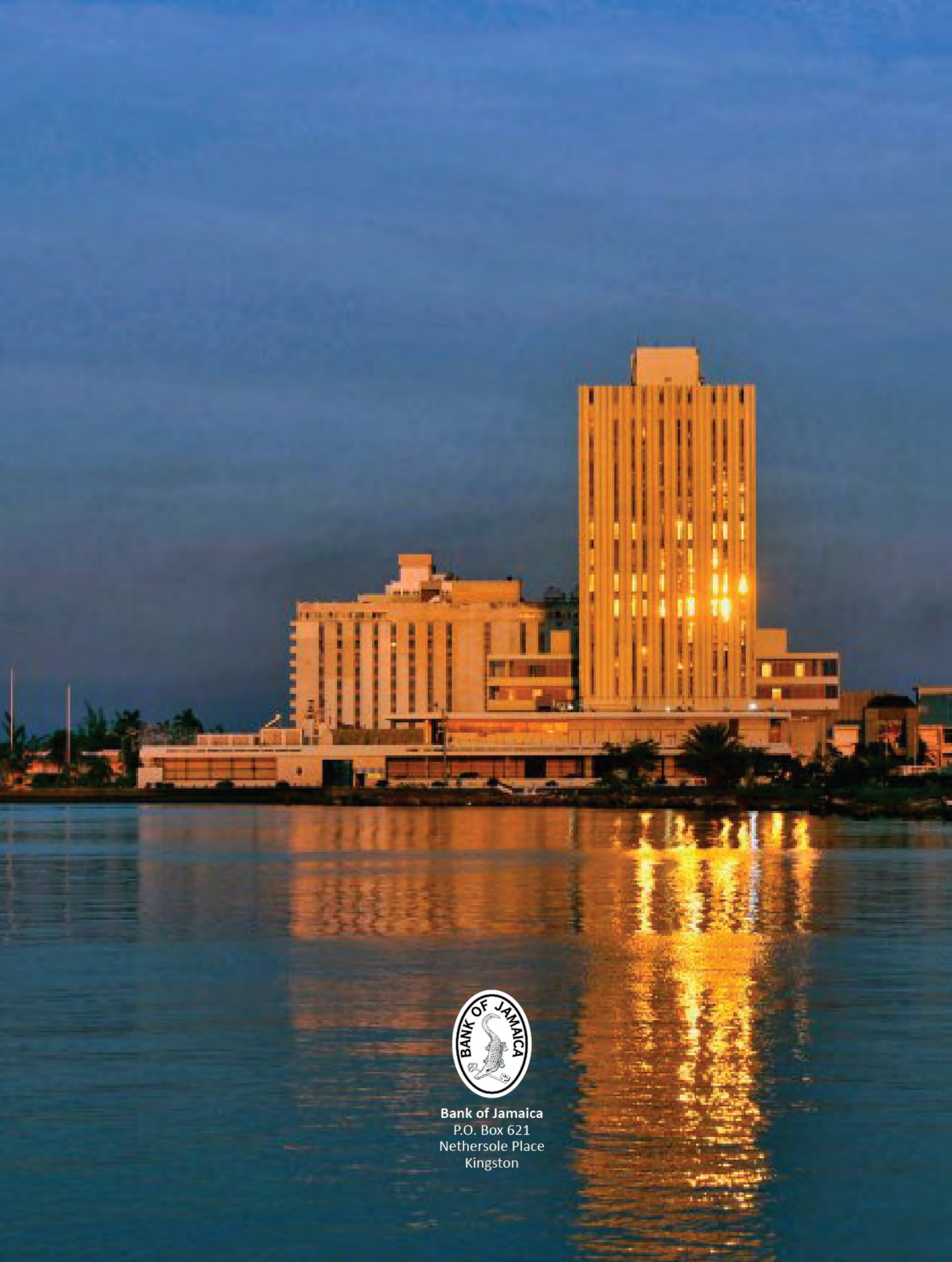
36. Financial risk management (continued)**(d) Market risk (continued)****(ii) Interest rate risk (continued):****Sensitivity to interest rate movement**

An increase of 100 (2018: 100) basis points and a decrease of 100 (2018:100) basis points in interest rates for Jamaica dollar financial instruments and an increase of 100 (2018: 100), and a decrease of 100 (2018: 100) basis points for United States dollar financial instruments would have increased or decreased profit and reserve by the amounts shown below. The analysis assumes that all other variables, in particular, foreign currency rates, remain constant. The analysis has been performed on the same basis as for 2018.

	Increase		Decrease	
	Effect on profit/loss J\$'000	Effect on reserves J\$'000	Effect on profit/loss J\$'000	Effect on reserves J\$'000
	2019			
Fixed rate financial instruments		(4,458,255)	-	5,076,425
Variable rate financial instruments	(411,002)	(53,526)	411,002	53,470
	<u>(411,002)</u>	<u>(4,511,781)</u>	<u>411,002</u>	<u>5,129,895</u>
	2018			
Fixed rate financial instruments	-	(3,362,757)	-	3,329,426
Variable rate financial instruments	(417,156)	(54,356)	417,156	54,729
	<u>(417,156)</u>	<u>(3,417,113)</u>	<u>417,156</u>	<u>3,384,155</u>

(e) Capital management

The Bank's capital consists of share capital, general reserve fund, special stabilisation account, securities revaluation reserve, property revaluation reserve and pension equalisation reserve. The share capital of the Bank may be increased by resolution of the Board of Directors; however, such a resolution would have to be approved by the House of Representatives of Jamaica. The Bank's annual profit is transferred to the general reserve fund. Whenever the credit in the reserve fund exceeds five times the authorised share capital such excess profit is paid to the Consolidated Fund. The Bank has been complying with this requirement. There were no changes in the Bank's approach to capital management during the year.



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