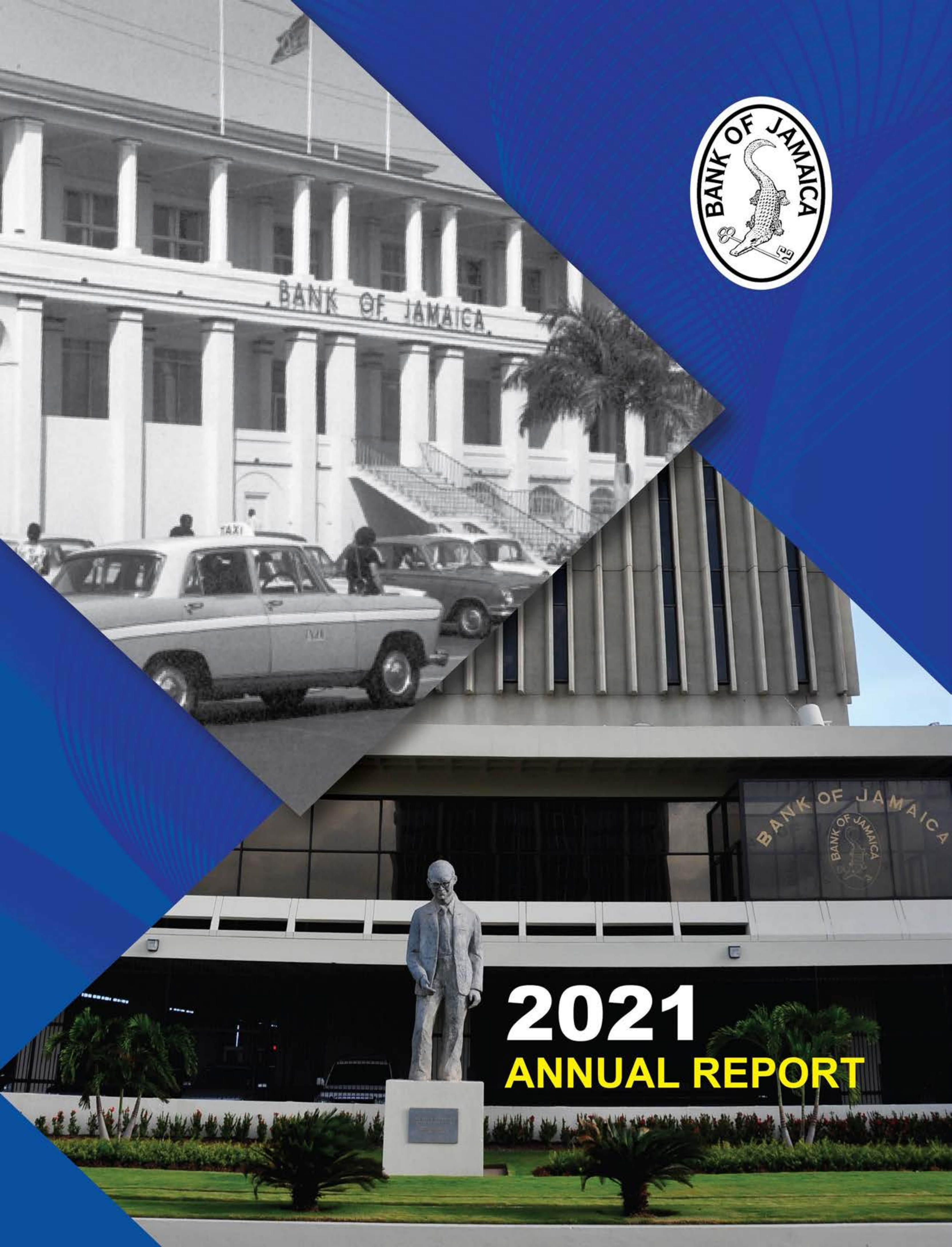

2021
ANNUAL REPORT

ANNUAL REPORT 2021

Report and Statement of Accounts for the
Year Ended 31 December 2021

Nethersole Place
Kingston
Jamaica W.I.

Telephone: (876) 922 0750-9
Fax: (876) 967 4265
Email: library@boj.org.jm
Website: www.boj.org.jm
Twitter: @CentralBankJA
Facebook: @CentralBankJA
YouTube: Bank of Jamaica

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Bank of Jamaica Annual Report and Financial Statements
for the year ended 31 December 2021,
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 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 contributing to the development of Jamaica.

The Governor

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

7 March 2022

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

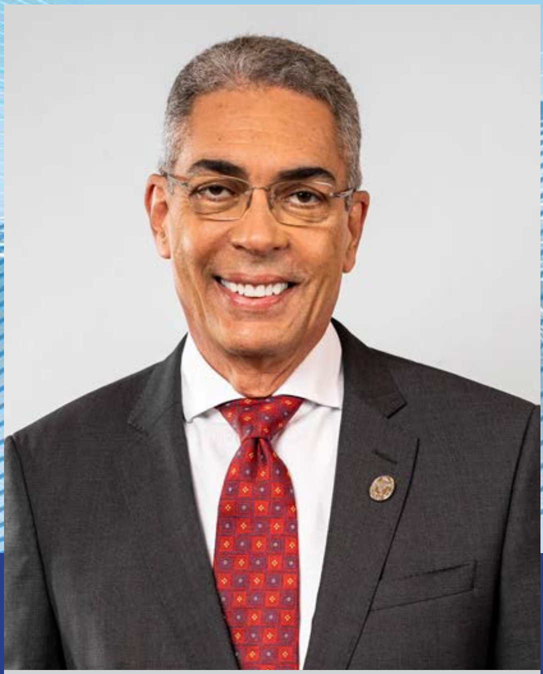
Dear Minister Clarke:

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 2021 and a copy of the statement of the Bank's accounts as at 31 December 2021 duly certified by the auditors.

Yours sincerely,

Richard Byles

BOARD OF DIRECTORS



Richard Byles
Governor & Chairman

Wayne Robinson
Deputy Chairman

Christine Clarke

Andrea Coy

Gary Hendrickson, C.D, J.P.

Howard Mitchell, C.D, J.P.

Richard Powell

E. George Roper

MANAGEMENT COMMITTEE

as at 31 December 2021

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

COMMITTEE OF ADMINISTRATION

E. George Roper
Deputy Govenor/Chairman

Mark Anderson
Executive Director,
Financial Markets

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

Calvin Brown
Division Chief
Human Resources

Andrea Clarke
Chief Strategy Officer,
Strategic Planning and Project Management Centre

Sherene Bailey
Head, Financial Stability

Noel Greenland
Executive Director,
Communications

Victor Henry
Division Chief,
Facilities Management & Protective Services

COMMITTEE OF ADMINISTRATION
Cont'd

Avlana Johnson
Deputy General Counsel,
Legal

Jide Lewis
Chief Prudential Officer,
Financial Institutions Supervisory

Chevanese Morais
Division Chief,
Banking & Currency Operations

Novelette Panton
Division Chief,
Financial Markets Infrastructure

Carey-Anne Williams
Division Chief,
Research & Economic Programming

Ian Williams
Financial Controller/Division Chief,
Finance

OTHER SENIOR MANAGEMENT

Keron Burrell
Deputy Division Chief – Regulation and Policy, Financial Institutions Supervisory Division

Wainet Fearon
Division Chief – Bank Examination, Financial Institutions Supervisory Division

Angela Foote
Chief Audit Executive
Internal Audit Division

Sharon Miller-Betty
Deputy Division Chief, Monetary Policy Development and Research, Research & Economic Programming Division

Odean White
Chief Risk Officer, Corporate Risk Management

BANK OF JAMAICA
PRINCIPAL OFFICERS
As at 31 December 2021

GOVERNOR & SUPERVISOR
Richard Byles

SENIOR DEPUTY GOVERNOR
Wayne Robinson

DEPUTY GOVERNORS

Maurene Simms, C.D. (Deputy Supervisor of Banks)	–	Financial Institutions Supervisory Division
Karen Chin Quee Akin (General Counsel)	–	Corporate Secretary and Legal Services Division
E. George Roper	–	Finance, Technology & Administration Division
Natalie Haynes	–	Banking, Currency Operations & Financial Market Infrastructure Division
Robert Stennett	–	Research & Economic Programming & Financial Stability Division

DIVISION CHIEFS

Jide Lewis (Chief Prudential Officer)	–	Financial Institutions Supervisory Division
Calvin Brown	–	Human Resources Division
Wainet Fearon	–	Financial Institutions Supervisory Division
Chevanese Morais	–	Banking & Currency Operations Division
Carey-Anne Williams	–	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
Ian Williams (Financial Controller)	–	Finance Division
Angela Foote (Chief Audit Executive)	–	Internal Audit Division

2021 STRATEGIC HIGHLIGHTS

The pilot for a Central Bank Digital Currency (CBDC) was successfully completed by the Bank in 2021. The national roll-out of CBDC is on track for 2022.

The Bank led the process for Jamaica to complete its National Risk Assessment (NRA) and prepare the corresponding Action Plan. The NRA identifies the vulnerabilities and threats to the country's Anti-Money Laundering (AML) and Counter Financing of Terrorism (CFT) regime.

Significant progress made on the Bank's Succession Management Programme. Candidates for the programme were identified, an assessment of competency gaps was completed and work began on the individual development plans.

An Enterprise Risk Management System was implemented and tested within the Bank. Implementation of this system will allow for more efficient and effective management of the risks faced by the organization.

Significant progress was made on the JamFIRMS II project during 2021. This project is aimed at reducing the turnaround times for: (i) carrying out updates to Corporate Profiles, (ii) undertaking fit and proper assessments; and (iii) assessing licensing and approval applications.

638 STAFF MEMBERS

38 persons
Recruited

1107 members
BOJ Pension Fund

46 persons
Exited

STAFF STATISTICS

93%
Retention rate

2%
Staff Earning
Higher Education

138 Courses
Targeted Training Courses
Executed (137 Online)

QUALIFICATION

10%
Promotion Rate

6%
External Hire Rate*

14%
Internal Hire Rate

7%
Turnover Rate

20 Units
New work units approved for implementation in the organizational structure

** External Hire Rate = External Hires divided by Average Head Count multiplied by 100*

2021 at

POLICY RATE

2.50%

The key policy rate was increased to 2.50 per cent per annum throughout the second half of the year.

INFLATION

7.3%

Inflation remained within the target for 5 months, breaching the upper limit multiple times due to a shock in international commodity prices associated with shortages and increases in demand.

GROSS RESERVES

US$4.8 billion

The country maintained a strong reserve position, equivalent to 156.9% of the ARA metric, at end-2021.

UNEMPLOYMENT RATE

7.1%

As at October 2021.

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.

DEPOSIT DOLLARISATION RATIO

39.6%

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

NO. OF EMPLOYEES

638

At end-2021, the Bank's staff comprised of 461 permanent staff and 177 staff on fixed-term contracts.

CURRENCY IN CIRCULATION

$227 billion

At end-2021, this represented an increase in the value of banknotes in circulation by 19.0% when compared to end-2020.

CONTENTS

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
CBDC	Central Bank Digital Currency
CD	Certificate of Deposit
CEO	Chief Executive Officer
CIP	Credit Information Provider
CPI	Consumer Price Index
DTIs	Deposit-taking Institutions
EPOC	Economic Programme Oversight Committee
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
RFI	Rapid Financing Instrument
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

Bank of Jamaica's operations continued to be impacted by the spread of the coronavirus (COVID-19) during 2021. The pandemic also created major challenges for global economic activity, particularly in relation to supply chains and commodity prices and, relatedly, economic activity in Jamaica.

In the context of shocks to international commodity and shipping prices, inflation breached the Bank's inflation target of 4.0 per cent to 6.0 per cent during the latter half of 2021. Accordingly, Bank of Jamaica's Monetary Policy Committee ("MPC") instituted measures to reduce the level of monetary policy accommodation during the year, in order to limit the second-round effects of the shocks and to guide inflation back within the target range.

In this regard, the Bank's policy interest rate was increased by 200 basis points to 2.50 per cent. The MPC also instituted other measures to contain Jamaican Dollar liquidity expansion and reiterated that, while not targeting any specific level of the exchange rate, the Bank would try to ensure that movements in the exchange rate do not further threaten the inflation target.

Real GDP is estimated to have partially rebounded by 4.3 per cent in 2021, in contrast to the decline of 9.9 per cent recorded for the previous year. The estimated expansion for 2021 reflected partial recovery in tourism and its affiliated services as well as production and distribution activities in the context of a general easing of stringency measures employed to curtail the spread of the COVID-19 pandemic. Growth was also estimated for other industries such as Manufacturing, Construction, Agriculture and Wholesale & Retail Trade, reflecting the impact of higher domestic demand. However, mining activities contracted during the year due to the temporary closure of the Jamalco alumina plant as a result of a fire in the September 2021 quarter.

The country's international reserves remained buoyant and well above levels considered adequate by international standards. The reserves were boosted by the receipt of an allocation of International Monetary Fund (IMF) Special Drawing Rights (SDR) equivalent of US$520.6 million in August 2021. Notwithstanding the adverse impacts of COVID-19 on the country, Jamaica did not suffer rating downgrades from major credit rating agencies in 2021. Jamaica's sovereign ratings were reaffirmed by the three major international rating agencies, related to the deployment of sound monetary and fiscal policies during the crisis as well as the maintenance of adequate external liquidity.

A milestone for the Bank during the year was the implementation of the Bank of Jamaica (Amendment) Act, 2020 on 16 April 2021. This amendment to the new law refocussed the primary objectives of the Bank to the maintenance of price stability and financial system stability with the primary mandate being of the Bank towards the maintenance of price stability while strengthening its governance, accountability and financial arrangements, in-line with international best practices. The Bank now has the authority, among other things, to make monetary policy decisions towards the attainment of the government's inflation target without any external influence. It is now fully accountable to the public, through Parliament, for these decisions. In this context, the amended law established two new statutory committees, a Monetary Policy Committee (MPC) and Financial Policy Committee (FPC) to make monetary policy and financial policy decisions respectively. Following the passage and implementation of the amendment to the law the Bank developed and implemented a revised governance framework to ensure compliance with the Act.

The Bank also modified its operations to ensure that staff remained capable and equipped to safely carry out their duties in the midst of the COVID-19 pandemic. This included the operationalisation of a Work from Home (WFH) Arrangement for employees capable of effectively carrying out their duties remotely. In an effort to facilitate this arrangement, the Bank acquired and distributed portable computers and other mobile devices to relevant staff members to carry out their duties.

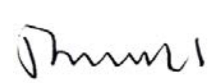
At the start of the year, the Bank launched its new three-year strategic plan – 2021 to 2023 'Mission Excellence…Resilience & Innovation' – which continued to build the structures in support of the Bank's focus on its mandate of price and financial system stability while maintaining the vision of becoming the world's leading central bank, contributing to the development of Jamaica. Notable achievements under the strategic plan during 2021 included the successful pilot of a Central Bank Digital Currency (CBDC). In August 2021, $230.0 million of the CBDC was minted and, by the end of the year, $6.0 million was in circulation for the pilot exercise. Plans are on track for a national roll-out of CBDC in the first half of 2022, subject to relevant amendments being made to the Bank of Jamaica Act to accommodate the CBDC as legal tender. The Bank also developed and deployed a foreign currency trading platform, which allows deposit-taking institutions (DTIs) and cambios to buy and sell foreign currency virtually. Implementation of this system led to an improvement in the level of transparency within the local foreign exchange market.

Jamaica's financial system remained sound, profitable, adequately funded and capitalised, despite the continued impact of the COVID-19 pandemic. DTIs generally maintaining capital adequacy ratios above the regulatory benchmark in response to hypothetical market, credit and liquidity shocks. There however continued to be slower growth in loans relative to pre-pandemic rates but loan quality deteriorated only marginally during the year. DTIs generally recorded a higher level of profitability, on account of a rebound in non-interest revenue streams. In the context of the normalisation of economic activity and BOJ's suspension of its special regulatory treatment of these COVID-19 related payment accommodations, DTIs commenced a gradual phase-out of moratorium facilities during the year. As a result, the stock of loans remaining under moratorium facilities related to COVID-19 declined to $15.4 billion at end-November 2021, from $70.2 billion at end-2020. Regarding the payment system, Bank of Jamaica's oversight of the Financial Market Infrastructures remained focused on mitigating systemic risk and improving the safety and efficacy of the payment, clearing and settlement framework for domestic payments.

The Bank in 2021 led the process for Jamaica to complete its National Risk Assessment, which identifies the vulnerabilities and threats to the country's Anti-Money Laundering (AML) and Counter Financing of Terrorism (CFT) regime. The Bank also completed important initiatives to institute the regulation of the Micro-Credit sector.

Effective and clear communication continued to be an important aspect of the Bank's work in 2021. Given the ongoing pandemic, face-to-face interactions were limited during the review period. As such, the Bank adjusted its operations by increasing its communication via online platforms, including the hosting of its scheduled quarterly monetary policy press conferences and other special briefings. The Bank also launched its newly redesigned website during the year which was aimed at improving its visibility, credibility and access. These communication initiatives were aimed at encouraging greater confidence in the Bank's policy framework, particularly in the context of the transition towards a full-fledged inflation targeting regime.

In closing, while the challenges of the pandemic persisted in 2021, Bank of Jamaica remained committed to the effective discharge of its mandate. This commitment will continue to guide our work going forward. As such, I wish to thank the members of the Board, members of the statutory committees, management and staff for their diligence and extraordinary commitment to excellence as the Bank seeks to become the world's leading central bank – "Gratitude is a Mus".



Richard Byles


HON. NOEL N. NETHERSOLE
MINISTER OF FINANCE 1955-1959
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.

Under the Bank of Jamaica (Amendment) Act, 2020, which became effective on 16 April 2021, the mandate of Bank of Jamaica was revised. The amended law provides that the principal objectives of the Bank shall be the maintenance of price stability and financial system stability with the primary objective being the maintenance of price stability.

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, *inter-alia*, in changes in the rates offered to deposit-taking institutions (DTIs) on overnight placements with Bank of Jamaica. Monetary policy decisions are taken by majority vote by the five-member Monetary Policy Committee (MPC).

2. Financial System Stability

BOJ has supervisory and regulatory oversight of commercial banks and other licensed DTIs. 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 three statutory committees – the Financial System Stability Committee (FSSC), the Financial Regulatory Committee (FRC) and the newly appointed Financial Policy Committee (FPC). The FPC became effective on 16 April 2021.

Other Responsibilities

In addition to the two primary roles of price stability 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 2021

The Bank of Jamaica (Amendment) Act, 2020 became effective on 16 April 2021. The amendments included 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 Act also includes provisions to upgrade the Bank's governance arrangements and enhance its accountability and transparency.

Monetary Policy   Financial System Stability

GOVERNANCE

GOVERNANCE

The Bank of Jamaica (Amendment) Act, 2020, which came into effect on 16 April 2021, included several significant amendments to the Bank's governance framework. The amended law includes, among other matters, provisions that (i) clarify the Bank's mandate; (ii) provide for a strengthened governance structure that ensures a more independent central bank; (iii) ensure that the Bank is properly capitalized for greater financial independence; (iv) enshrine inflation targeting as the monetary policy tool; and (v) provide for greater accountability and transparency. The Act also includes amendments to the governance framework of the Bank including the governance of the BOJ Board of Directors and statutory committees.

BOJ (Amendment) Act, 2020 became effective on 16 April 2021

Under the amended law, the mandate of the Bank was clarified with the principal objectives of the Bank being stated as the maintenance of price stability and financial system stability with the primary objective being the maintenance of price stability. In addition, the responsibilities of the Board of Directors were strengthened to include oversight of the statutory committees of the Bank to ensure that these committees effectively discharge their statutory mandates while not interfering with the committees' decision-making functions. The independence of the Board was also made more robust by staggered board appointments, which prevent the entire Board from being changed in a single political administration. Instead, a single Board vacancy will arise every two years. Other changes included the establishment of two new statutory committees, a Monetary Policy Committee (MPC) and Financial Policy Committee (FPC). These committees have responsibility for the Bank's monetary policy and financial policy decisions respectively with membership including non-executive independent members.

The Bank of Jamaica Act stipulates that the Governor, who is appointed for a period of five years and is eligible for reappointment, 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, a Deputy Governor appointed by the Governor General in Council on the recommendation of the Board, and five independent directors appointed by the Governor General in Council. The term for the independent directors of the Board is ten years each, provided however that the initial appointments after the effective date of the amended law, were staggered (10, 8, 6, 4 and 2 years, respectively). The directors, so appointed, are eligible for reappointment following the expiry of their respective terms for a further term of 10 years. This allows for longer Board terms and continuity across political cycles. Save for the first member appointed for 10 years, no member is eligible for reappointment after serving a full 10-year term. Of note, the Governor, Senior Deputy Governor and Deputy Governor are ex-officio members of the Board. Under the amended law, an employee of Government, statutory body or authority, an executive agency or government company does not qualify for appointment to the Board.

In light of the continued impact of the COVID-19 pandemic during the year, sittings of the Board, Board Committees and Statutory Committees were held virtually with the concurrence of members to ensure observance of precautionary measures and protocols announced by the Ministry of Health and Wellness.

Board of Directors

- Membership

Under the Bank of Jamaica (Amendment) Act, 2020, the Board is comprised of eight members compared to nine members previously. Prior to 16 April 2021, the effective date of the Bank of Jamaica (Amendment) Act, 2020, the members of the Board were: Governor Richard Byles (Chairman), Senior Deputy Governor Dr Wayne Robinson and non-executive directors, Dr Christine Clarke, Mrs. Andrea Coy, Mr. Weiden Daley (resigned effective 18 February 2021), Mr. Gary Hendrickson, Dr Wayne Henry and Ms. Darlene Morrison (Financial Secretary, ex-officio).

On the effective date of the 2020 amendments to the Bank of Jamaica Act, the new Board of the Bank became effective with members as follows: Ex-officio members: Governor Richard Byles (Chairman) and Senior Deputy Governor Dr Wayne Robinson. Appointed members of the Board: Dr Christine Clarke, Mrs. Andrea Coy, Mr. Richard Powell, Mr. Gary Hendrickson and Mr. Howard Mitchell were appointed to the Board effective 16 April 2021 for 10, 8, 6, 4 and 2 years, respectively. Pursuant to the Act, Deputy Governor Edmond George Roper was appointed as the third executive director of the Board by the Governor General in Council on the advice of the Board for the period 12 July 2021 to 24 February 2024.

- Board of Directors' Meetings

The Board held fifteen meetings in 2021. 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: The Audit and Risk Committee, Budget Committee and Human Resource Development (HRD) Committee. These committees have terms of reference outlining their respective responsibilities.

The Audit and Risk Committee is chaired by Dr Christine Clarke. In 2021, this committee held six meetings. The Budget Committee is chaired by Mr. Gary Hendrickson. This committee met twice in 2021, satisfying the minimum requirement. The HRD Committee, which is chaired by Mrs. Andrea Coy, meets as is necessary. There were four meetings of this committee during 2021 (see Table 1).

Statutory Committees

The statutory committees of the Bank are the Supervisory Committee (SC) established by the Banking Services Act of 2014, the Financial System Stability Committee (FSSC) established by the 2015 amendment to the Bank of Jamaica Act and the Monetary Policy Committee and Financial Policy Committee established by the 2020 amendment to the Bank of Jamaica Act. There is also the Financial Regulatory Committee (FRC) which is a committee of regulators established in 2014 by the amendments to the Bank of Jamaica Act. Meetings of these statutory committees are chaired by the Governor (see Table 2).

Table 1: Board of Directors' Meetings and Board Committee Meetings for 2021

Committee	Chair	Mandate	No. of meetings
Board of Directors	Governor Richard Byles	The Board is responsible for strategy, policies, general oversight and administration of the affairs of the Bank. In carrying out these functions the Board provides oversight of the performance of the Bank and the Governor. It is provided by the Bank of Jamaica Act that in carrying out its responsibilities the Board is required to oversee the general functions of the statutory committees of the Bank, (save and except for the decisions made by said committees) in order to ensure that said functions are carried out in accordance with their statutory mandate.	15
Audit and Risk Committee	Christine Clarke	The Committee assists the Board in executing its mandate to provide effective independent oversight of the Bank's financial reporting process, system of internal controls, internal audit, external audit, the enterprise risk management functions, compliance with relevant laws and regulations, and the Bank's codes of conduct.	6
Budget Committee	Gary Hendrickson	This Committee is 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	The Committee has the responsibility for reviewing, monitoring and making recommendations to the Board on human resources strategy and policies.	4

- Supervisory Committee

The Banking Services Act (BSA) 2014, section 6(1), established the Supervisory Committee as the final decision-making authority in the prudential regulation and supervision of deposit-taking institutions and the financial groups of which they are a part. In that regard, the SC is responsible for functions set out at section 7(1) of the BSA, as amended by the Bank of Jamaica (Amendment) Act, 2020, which include making determinations on the granting, refusal and revocation of licences, among other matters. The SC is empowered to ratify, veto or vary supervisory determinations and accept or reject recommendations made via the Bank's supervision department. The establishment of this committee has strengthened the accountability, transparency and general governance structure of the Bank's regulatory framework.

The SC is comprised of five members, three of whom are ex-officio and two who are appointed by the Governor General in Council for a period of five years. The Governor is the Supervisor as provided by the Bank of Jamaica Act. Ex-officio members are the Supervisor, the Deputy Supervisor and a member of the senior executive staff of the Bank who has responsibility for the Bank's financial stability oversight. At 31 December 2021, the members of the SC were Governor Richard Byles, Deputy Supervisor Maurene Simms, Senior Deputy Governor Dr Wayne Robinson, Ms. Shirley-Ann Eaton and Professor David Tennant. The SC had five meetings during 2021.

> *On the passage of the amendments to the BOJ Act in 2020, the FSSC began to make its recommendations to the Bank through the FPC in respect of policies related to its financial system stability mandate.*

- 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 (i) undertaking assessments in relation to developments in the financial system and international markets as well as the links between the financial sector and developments in other sectors of the Jamaican economy and the global economy; and (ii) giving oversight to the design and conduct of periodic stress tests regarding plausible systemic threats to the stability of Jamaica's financial system. 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. On the passage of the amendments to the BOJ Act in 2020, the FSSC began to make its recommendations to the Bank through the FPC in respect of policies related to its financial system stability mandate.

There are eight members of the FSSC: six ex-officio members and two members 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 (ED) of the Financial Services Commission (FSC) and the Chief Executive Officer (CEO) of the Jamaica Deposit Insurance Corporation (JDIC). At 31 December 2021, the members were Governor Richard Byles, Senior Deputy Governor Dr Wayne Robinson, Deputy Supervisor Maurene Simms, Financial Secretary Darlene Morrison, Mr. Everton McFarlane (ED of the FSC) and Miss Antoinette McKain (CEO of JDIC). Mr. David Marston and Professor Claremont Kirton are the appointed members of the Committee having been each appointed for a three-year term effective 02 January 2020. Five meetings of the FSSC were held during 2021.

Table 2: Statutory Committees Meetings for 2021

Committee	Mandate	No. of meetings
Supervisory Committee	The SC provides prudential regulation and supervision of deposit-taking institutions, their financial groups and holding companies.	5
Financial System Stability Committee	The FSSC identifies, mitigates and controls systemic threats to the financial system.	5
Monetary Policy Committee	The MPC determines the monetary policy of the Bank through its consideration of the results of research and analysis relevant to financial markets, the domestic economy and the international economy.	18
Financial Policy Committee	The Committee is responsible for financial policies of the Bank including those related to prudential supervision and macro prudential policy (financial system stability) as well as statutory mandates or functions delegated by the Minister of Finance and the Public Sector in relation to remittances and cambios. The FPC is also responsible for matters relating to the payments and settlements systems, credit reporting and other financial policy matters for which the Bank is given responsibility.	5
Financial Regulatory Committee	The FRC facilitates information-sharing, coordination and cooperation among regulatory authorities.	8

- Monetary Policy Committee

The Monetary Policy Committee was established by the 2020 amendment of the BOJ Act with responsibility for determining the monetary policy of the Bank. The Act provides that, in carrying out its functions, the MPC is required to achieve and maintain price stability as defined by the inflation target set by the Minister of Finance and the Public Service.

There are five members of the MPC, two of whom are members appointed by the Governor General in Council. The appointed members were each appointed for a five-year term, effective 16 April 2021. The three ex-officio members are the Governor (Chairman), the senior executive responsible for monetary policy and another senior executive appointed by the Board. At 31 December 2021, the ex-officio members were Governor Richard Byles, Senior Deputy Governor Dr Wayne Robinson and Deputy Governor Robert Stennett. The appointed members were Dr Nadine McCloud and Mr. David Marston. During the year, there were18 meetings of the MPC.

- Financial Policy Committee

The Bank of Jamaica (Amendment) Act, 2020 also established the Financial Policy Committee charged with the responsibility for determining the financial policies of the Bank which govern the conduct and promote the proper functioning of the financial system. The committee also has responsibility for decisions on all issues related to financial policy including matters relating to (i) prudential supervision and macro prudential policy; (ii) financial policies related to the regulation of remittances and cambios; (iii) payments and settlements systems; (iv) credit reporting; and (v) other financial policy matters for which the Bank is given responsibility.

The FPC is comprised of six members. These include two appointed members, and four ex-officio members. The appointed members were each appointed for a five-year term, effective 16 April 2021. The four ex-officio members are the Governor (Chairman), the Senior Deputy Governor, the senior executive of the Bank responsible for the financial stability oversight function or, where such person is either the Governor, Senior Deputy Governor or Supervisor, such other senior executive of the Bank determined by the Board, and the Deputy Supervisor. At 31 December 2021, the members were Governor Richard Byles, Senior Deputy Governor Dr Wayne Robinson, Deputy Supervisor Maurene Simms, Deputy Governor Natalie Haynes, Mrs. Myrtle Halsall and Professor David Tennant. During 2021, five meetings were held.

- Financial Regulatory Committee

The Financial Regulatory Committee is an inter-agency committee of regulators created pursuant to section 34BB of the Bank of Jamaica Act, per the 2014 amendment to the law, and replaces the Financial Regulatory Council established in 2000. It is not a committee of the Bank. This committee was established to facilitate information-sharing, coordination and cooperation among regulatory authorities. In that regard, interactions among regulators are governed by a Memorandum of Understanding (MOU) agreed and signed by each regulatory member-agency of the FRC on 14 March 2018. The MOU reflects each member's intent to facilitate information-sharing, coordination and cooperation with a view to: (i) facilitating members' effective performance of their statutory duties; (ii) minimizing opportunities for regulatory arbitrage; (iii) adequately preparing for intervention and other regulatory actions; and (iv) reducing the regulatory burden, among other objectives. In general, the objectives focus 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 2021, 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 2021, eight meetings were held.

Establishment of the Supervisory Appeals Board

In 2021, a significant development was the operationalizing of the Supervisory Appeals Board (SAB) which was established by section 27 of the Banking Services Act. The SAB was established to hear appeals made by persons aggrieved by a decision of Bank of Jamaica's Supervisory Committee or the Supervisor (BOJ Governor) on certain specified matters, namely:

(i) decisions as to whether a person is fit and proper;

(ii) objections as to whether an external auditor is an eligible auditor or any decision for removal of an external auditor; and

(iii) questions of compliance with a code of conduct.

Pursuant to paragraph 1(1) of the Fourth Schedule to the Banking Services Act, 2014, the following persons have been appointed as Members of the Supervisory Appeals Board for a period of two years, with effect from 09 February 2021.

(i) Hon Ms. Justice Ingrid Mangatal (retired)
(ii) Mrs. Audrey Anderson, C.D., retired Senior Deputy Governor, Bank of Jamaica
(iii) Mr. Barrington Chisholm, J.P., retired banker

The appointments were published in the Jamaica Gazette of 02 March 2021. Under the BSA, the Bank is charged with the responsibility of providing administrative support to the SAB. In 2021, an orientation session for members was held as well as one meeting of the members.

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 2021 are described below:

a. Salary Range of Executive Management

   – $10 948 676 – $26 208 000

b. Allowances – Deputy Governors

   – $1 557 215 – $5 400 680

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 the end of 2021, the Senior Deputy Governor and two of the Deputy Governors were members of the non-contributory pension scheme sponsored by the Bank. The Governor and three Deputy Governors were paid gratuities 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 paid an annual retainer and per meeting fees as approved by the Minister of Finance and the Public Service. These Directors are not eligible for staff-related benefits.

Appointed members of the statutory committees are also paid an annual retainer and per meeting fees as approved by the Minister of Finance and the Public Service. This applies to all statutory committees of the Bank, namely; the Supervisory Committee, the Financial System Stability Committee, Monetary Policy Committee and Financial Policy Committee. Statutory Committee members are not eligible for staff-related benefits.

Appointed members of the Supervisory Appeals Board are also paid an annual retainer and per meeting fees as approved by the Minister of Finance and the Public Service

ADMINISTRATION

Anna-Kaye Smith (Administrative Support & Research Officer) at the Bank's 2021 Strategic Kick-off meeting.

ADMINISTRATION

In 2021, Bank of Jamaica's work arrangements and productivity continued to be negatively affected by the pandemic. In this context, dedicated and concerted efforts were made to continue the adjustments to work arrangements and to provide support to our employees through a number of strategic initiatives, including an enhanced Employee Engagement Programme. In addition, work began in earnest on the Bank's Succession Management Programme. The suite of learning and development programmes for staff was also further expanded. Importantly, the Bank approved a new Policy Governance Framework aimed at establishing standards and principles to promote improved governance.

Bank supports staff in light of the continued COVID-19 pandemic

In light of the continued pandemic, the Bank provided support to staff through a number of initiatives during the year. These included:

(i) Special support to facilitate work from home;

(ii) Periodic bulletins to staff on COVID-19 Protocols, keeping staff abreast of new developments;

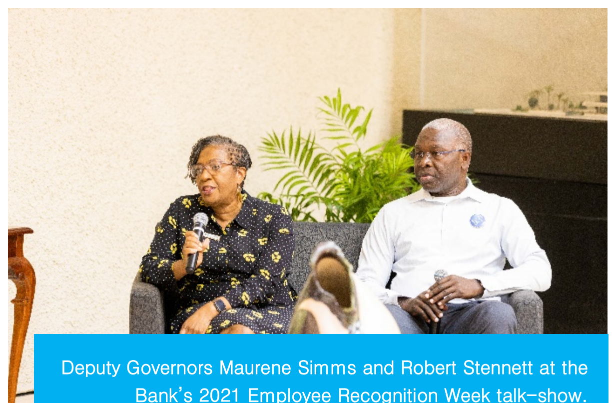
(iii) Reminders on Return to Work Protocols;

(iv) Group counselling session on coping with COVID-19; and

(v) Special presentation by Professor Peter Figueroa on vaccination.

The Bank approves Policy Governance Framework

In keeping with legislative independence, heightened focus was placed on governance. In this regard, in 2021, the Bank approved a new Policy Governance Framework which supports good governance by establishing standards and principles for policy development, approval, review and maintenance. Additionally, a number of important policies and procedures were either developed or updated to ensure relevance and consistency. The policies which were approved included the Protected Disclosures Policy and the policy covering requests for staff to serve on Committees/Boards (Private/Public Sector) Policy. While not yet approved, an Ethics Policy & Guidelines for Business Conduct was also developed and is currently in the stakeholder consultation phase.



Deputy Governors Maurene Simms and Robert Stennett at the Bank's 2021 Employee Recognition Week talk-show.

Deputy Governors Karen Chin Quee Akin and Natalie Haynes with Edge 105 FM radio host Ron Muschette at the Bank's 2021 Employee Recognition Week talk-show.

The Bank starts implementation of its Succession Management Programme

To support its strategic resourcing objective, the Bank, in 2021, commenced in earnest, the implementation of its Succession Management Programme and undertook a review of its compensation arrangements. In respect of Phase 1 of the Succession Management Programme, a number of possible successors were identified for key positions. These candidates have been enrolled in special development programmes. Without increasing cost, the Bank sought to enhance the flexibility of many of its benefit programmes by allowing staff to choose between different options for accessing benefits.

Organisational reviews continued

Within the context of new and expanded mandates, the Bank continued to review its work processes and organisational structure. These organisational reviews were focused on improving efficiency and effectiveness, ensuring that they were fit for purpose and facilitating effective governance arrangements required of greater levels of independence. The review of 20 work units were completed and implemented in 2021, representing an 11 per cent increase over 2020. Interim reviews also continued for 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

Following the 2020 introduction of structured remote learning, in 2021, the suite of learning and development programmes was further expanded, with particular focus on developing the leadership and management competencies of the junior and middle management cadre of staff. Two specially designed programmes were delivered over the year; Leadership Leverage Coaching (LLC), offered in partnership with Global Empowerment Institute, and Leadership Excellence and Development (LEAD) Programme, facilitated by FranklinCovey; both of which were in direct support of the Bank's Succession Management Programme. These programmes also sought to build capabilities in the management of remote teams.

A bespoke competency-based programme which sought to address behavioural competency gaps for staff at the junior, technical and administrative levels was also delivered through the Learning Management System. During the year, 138 courses were administered of which 137 were online, representing an 82.6 per cent increase in the number of courses offered relative to the previous year.

The Bank recruited 38 new staff members

At 31 December 2021, the Bank's staff complement was 638, comprising 461 permanent staff and 177 staff on fixed-term contracts. During the year, 38 persons were recruited while 46 staff members exited the organisation, either through retirement, resignation, death or the conclusion of contract.

The Bank takes steps to improve employee engagement

In 2021, Bank of Jamaica via Pricewaterhouse Coopers conducted an Employee Engagement survey to ascertain engagement levels in the Bank as well as to identify specific areas of concern for improvement. Notwithstanding the continued impact of the COVID-19 pandemic, a number of initiatives were implemented to continue to engage staff and to address the findings of the survey. Of significance, the Bank held its Annual Employee Recognition Week celebrations during the period 22 – 26 November 2021 under the theme "Employees – Solid as a Rock". Key events included the Employee Choice Awards, Solid Fun and Games and Bank of Jamaica's "Gratitude is a Mus" talk show.

Divisional Engagement Ambassadors were also nominated to assist with the planning and execution of engagement activities across divisions/ departments.

The industrial relations (IR) climate continued to show improvement during the year. At end-2021, there were no unresolved IR issues pending. Steps were also taken to deepen the process of consultation with staff representative groups.

Pensionable status attained by 33 persons

The membership in the BOJ Pension Fund at 31 December 2021 was 1 107. This comprised of 457 active members, 463 pensioners, 141 deferred pensioners and 46 beneficiaries (38 spouses and eight dependent children). Of the 457 active members, 265 or 58 per cent were vested. During the year, 33 persons attained pensionable status, 17 were staff members and 16 were deferred pensioners.

Deputy Governor Robert Stennett at the Bank's 2021 Employee Recognition Week talk-show.

STRATEGIC PLAN

STRATEGIC PLAN 2021-2023

At the beginning of 2021, the Bank embarked on its new three-year strategic plan – 2021 to 2023. The key elements of the plan were unchanged from the previous plan as the Bank continued to be keenly focused on its mandate of price stability and financial system stability, and maintained its vision of becoming the world's leading central bank contributing to the development of Jamaica. concise, so as to allow for a more focused execution of the strategy.

The Bank remained keenly focused on its mandate in charting future direction

The main change in the Bank's Strategic plan 2021–2023 was that the Strategy Map and Balanced Scorecard were adjusted to be more concise, so as to allow for a more focused execution of the strategy.

Undoubtedly, the challenges caused by COVID-19 persisted, during 2021, and played a significant role in the Bank's mode of operation. In spite of the challenges, significant progress was made on the strategic initiatives and there were some outstanding accomplishments.

"The Strategy Map and Balanced Scorecard were adjusted to be more concise, so as to allow for a more focused execution of the strategy."

Governor Richard Byles

Organizational Capacity

Strategic Perspective

1

- The Bank considers its team as the foundation for successful strategy execution. Consequently, during the year, activities were undertaken to keep team members engaged, especially in light of the COVID-19 pandemic. In addition, significant progress was made with the succession management programme. Candidates for the programme were identified, an assessment of competency gaps was completed and work began on the individual development plans.
- Strategic initiatives aimed at improving work process efficiency commenced during the year. Cabinet approval was received in November 2021 for the implementation of an Enterprise Document and Records Management System (EDRMS), and the contract was awarded during that month. Additionally, approvals for the implementation of other key systems, to include a system to eliminate data siloes for statistical and econometric data used across the organization, and a Human Capital Management System, were in the process of being obtained.

Staff members at the Bank's 2021 Strategic Kick-off meeting.

Senior Deputy Governor Dr Wayne Robinson at the Bank's 2021 Strategic Kick-off meeting.

Business Processes

Strategic Perspective

2

- The Bank's flagship project for 2021, the piloting of a Central Bank Digital Currency (CBDC), was completed successfully. CBDC in the amount of $230 million was minted on 09 August 2021 and, by the end of the year, $6 million of it was in circulation. The national roll-out of CBDC is on track for 2022 (see Payment System).

- The implementation of a Foreign Exchange Trading Platform (FXTP) was also completed successfully during 2021. The platform allows authorized foreign currency traders to: (i) trade US dollars anonymously, (ii) contact each other directly within the FXTP to negotiate and settle US dollar trades on a bilateral basis; and (iii) use the platform to report trades to the Bank of Jamaica. Implementation of this system led to an improvement in the level of transparency within the local foreign exchange market.

- Significant progress was made on the JamFIRMS II project during 2021. This project aims to reduce the turnaround times for: (i) carrying out updates to Corporate Profiles, (ii) undertaking fit and proper assessments; and (iii) assessing licensing and approval applications. A soft launch of the Corporate Profile module of the system took place in December 2021.The module is set to be fully launched early in 2022, with the other two modules to follow shortly thereafter.

Governor Byles presenting reward to Ashley Payne – winner of the CBDC name and tagline competition.

Governor Byles presenting reward to Gerrard Harvey – winner of the CBDC logo competition.

Stewardship

Strategic Perspective

3

- Following the BOJ (Amendment) Act being passed in December 2020 and taking effect 16 April 2021, the Bank developed and implemented a revised governance framework to ensure compliance with the Act. This framework included developing policies and procedures to operationalize the Act as well as developing tools to monitor compliance with the Act.

- Importantly, during 2021, the Bank led the process for Jamaica to complete its National Risk Assessment (NRA) and prepared the corresponding Action Plan. The NRA identifies the vulnerabilities and threats to the country's Anti-Money Laundering (AML) and Counter Financing of Terrorism (CFT) regime. The Action Plan sets out the measures that are to be taken to address the outstanding risks that require attention. During the year, the Bank also completed important initiatives to institute regulation of the MicroCredit sector in the AML/CFT regime. These steps included the drafting of the MicroCredit Act, which was passed by Cabinet, instituting the related Regulations, and establishing an appropriate structure within the Bank to carry out risk-based supervision of the sector.

- In addition, during the year, an Enterprise Risk Management System was implemented and tested within the Bank. Implementation of this system will allow for more efficient and effective management of the risks faced by the organization. Full roll-out of the system to departments is expected to be completed in 2022.

Deputy Governor Natalie Haynes and Governor Richard Byles.

Staff members with CBDC competition winners.

Stakeholders

Strategic Perspective

4

- All of the initiatives that were undertaken, and continue to be undertaken, are aimed at meeting the needs of the Bank's stakeholders. In this regard, in order to evaluate stakeholders' level of satisfaction with the Bank's performance, surveys were conducted during the year.

The results of these surveys indicated that there was generally a high level of satisfaction with the Bank's performance as well as a high level of confidence in the Bank. The surveys also highlighted areas for improvement. Those areas are being addressed, as the Bank seeks to better meet stakeholders' needs going forward

Governor Richard Byles at the Bank's 2021 Strategic Kick-off meeting.

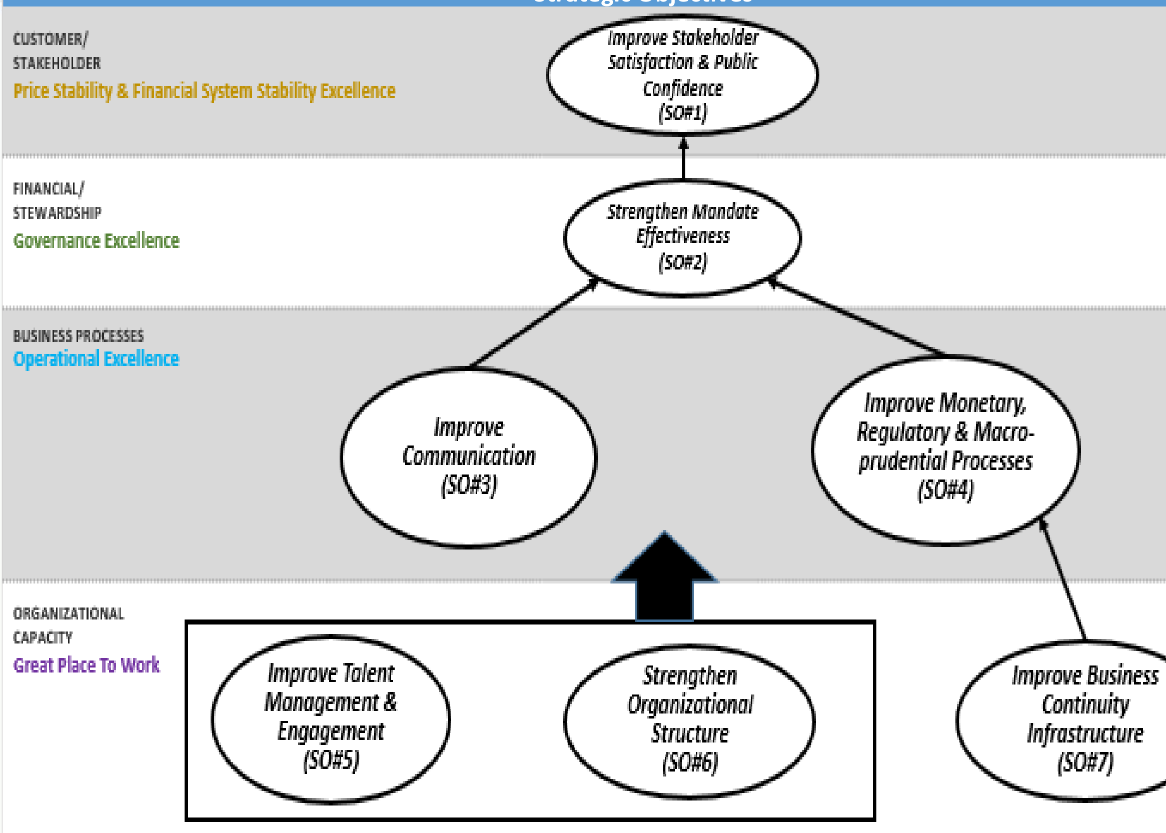
CORPORATE ST

Bank of Jamaica Strat

Tagline: Mission Excellenc

Vision	The world's leading central bank contributing to the developme	
Mission	To formulate and implement monetary and regulatory policies to promote pric	
Strategic Themes	**Operational Excellence**	C
Strategic Results	Timely, accurate, reliable and cost-effective performance in accordance with agreed benchmarks.	A safe, comfortable rewards and compe wellbeing and profe

Strategic Objectives



Core Values :	Fairness	Equity	Transparency	Excellen

TRATEGY MAP

tegic Plan 2021 – 2023

e...Resilience & Innovation

ent of Jamaica.

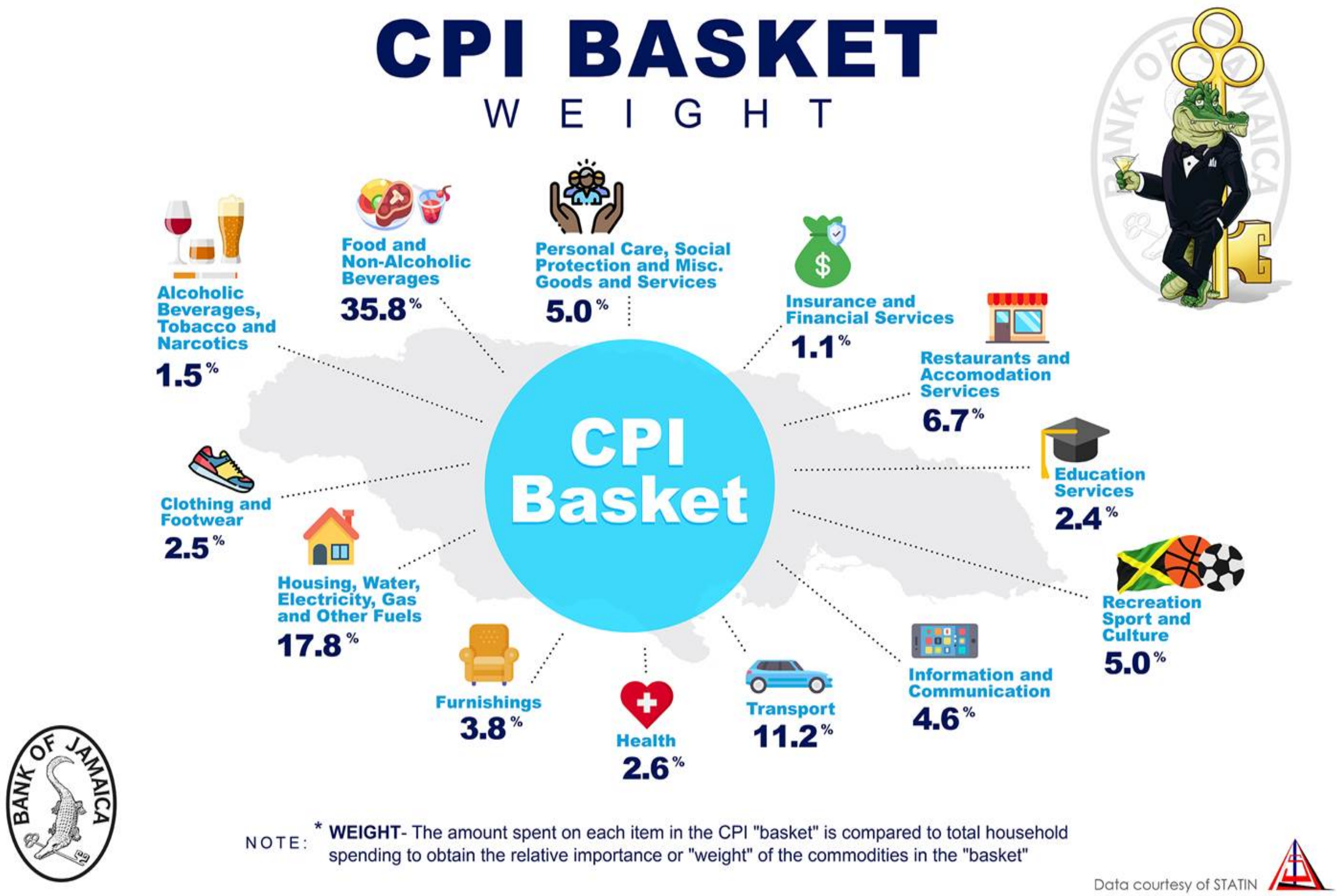
ce and financial system stability by being a trusted organization with motivated and professional employees working for the benefit of the people of Jamaica.

Great Place to Work	Governance Excellence	Price Stability & Financial System Stability Excellence
and appealing work environment with titive compensation that promotes the ssional 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 price stability and financial system stability development objectives are achieved.

	2021 Measures (KPIs)	2021 Initiatives
	1. Stakeholder Relations Index	1. Service Level Standards Assessment Programme
	2. Inflation Target Ratio 3. Financial System Stability score 4. Governance Index	2. Governance Structure Programme 3. Enterprise Risk Appetite Framework 4. FATF/ICRG Action Plan
	5. Awareness Index 6. Corporate Efficiency Index	5. Enhanced Communication Programme 6. CBDC Pilot in Sandbox 7. JamFIRMS II 8. Foreign Exchange Trading Platform (FXTP) 9. Centralized Data Warehouse 10. Macro-prudential toolkit and stress testing 11. RBS Consolidated Supervision 12. RBS Tool for MSBs 13. Special Resolution Regime (SRR) 14. Regulatory framework for PSPs
	7. Employee Engagement Score 8. Org. Structure Index 9. Enterprise Resilience Index	15. Enhanced Employment Engagement Programme 16. Succession Management Programme 17. Implementation of HCM 18. Enhanced Performance Management Programme (360 degrees) 19. Implementation of High-Level Organizational Review and Compensation Strategy 20. Enterprise Document & Records Management System (EDRMS) 21. Information Data Governance (includes KIOSK) 22. Business Continuity Programme

ce	*Confidentiality*	*Honesty*	*Integrity*	*Respect*	*Team Work*

MONETARY POLICY


CPI BASKET
WEIGHT
Alcoholic Beverages, Tobacco and Narcotics
1.5%
Food and Non-Alcoholic Beverages
35.8%
Personal Care, Social Protection and Misc. Goods and Services
5.0%
Insurance and Financial Services
1.1%
Restaurants and Accomodation Services
6.7%
CPI Basket
Clothing and Footwear
2.5%
Education Services
2.4%
Housing, Water, Electricity, Gas and Other Fuels
17.8%
Recreation Sport and Culture
5.0%
Furnishings
3.8%
Health
2.6%
Transport
11.2%
Information and Communication
4.6%
BANK OF JAMAICA
NOTE: * WEIGHT- The amount spent on each item in the CPI "basket" is compared to total household spending to obtain the relative importance or "weight" of the commodities in the "basket"
Data courtesy of STATIN

MONETARY POLICY

Jamaica's macroeconomic environment continued to be adversely impacted by the COVID-19 pandemic in 2021. Due to various pandemic related supply and demand shocks, Bank of Jamaica was confronted with multiple breaches of the inflation target of 4.0 per cent to 6.0 per cent. The outlook indicates continued breaches over the near-term. In the context of the inflation outlook and in order to meet the inflation target sustainably in the medium-term, the Bank began reducing the level of monetary accommodation via a suite of monetary policy measures. These measures involved increases in the Bank's policy rate, measures to contain Jamaican dollar liquidity expansion and to ensure that further movements in the exchange rate do not threaten the inflation target. As part of its forward guidance strategy, the Bank publicly indicated that it would consider further increases in its policy rate and accompanying measures at subsequent meetings, subject to inflation expectations and other macroeconomic data evolving as projected.

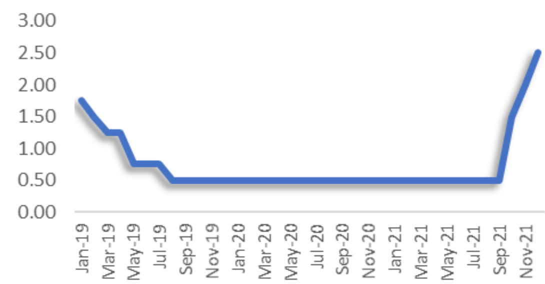
BOJ reduces monetary accommodation in 2021

In order to limit the second-round effects of the pandemic related supply and demand shocks and to guide inflation back within the target range over the next two years, Bank of Jamaica's Monetary Policy Committee agreed to reduce the level of monetary policy accommodation. In this regard, the policy interest rate (the rate offered to deposit-taking institutions on overnight placements with BOJ) was increased by 200 basis points to 2.50 per cent per annum. The Committee also decided to maintain other measures to contain Jamaica Dollar liquidity expansion and reiterated that, while not targeting any specific level of the exchange rate, the Bank would continue to ensure that movements in the exchange rate do not threaten the inflation target.

Notwithstanding the reduction in monetary policy accommodation during the year, the real rate of interest on the Bank's policy instrument remained negative.

Consistent with the increased policy rate, the rate on the Bank's Standing Liquidity Facility (SLF) rose to 4.50 per cent.[1] This translated to an interest rate corridor width of 2.0 percentage points, in line with that of the previous year. This action continued to support the signalling effect of the Bank's monetary policy actions.

Chart 1: Policy interest rates
(percentage rate)



Source: BOJ

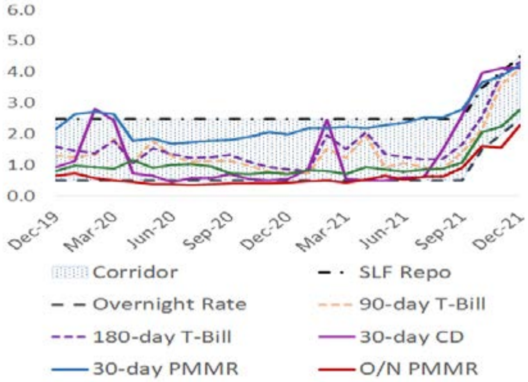
Market rates generally converged to the policy rate

In the context of the higher policy rate, market interest rates increased in 2021. The Bank's monetary policy signals were the major contributor to the upward trend in market interest rates (see Chart 2). In this regard, the weighted average yields on GOJ 180-day Treasury Bills increased to 4.33 per cent at end-2021 from 0.86 per cent at end-2020. Similarly, there were increases in the daily averages of private money market rates during the year. In contrast, the weighted average lending rate on bank loans to the private sector as at November 2021 was

[1]Effective 18 March 2020, the limit on the SLF was removed.

[11.78] per cent, a decline of 29 bps relative to December 2020.

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



Source: BOJ

Persistent inflationary pressures related to the COVID-19 pandemic

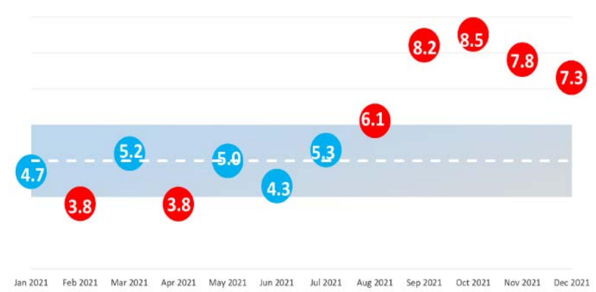
During the year, domestic inflation breached the target of 4.0 per cent to 6.0 per cent on seven occasions. These breaches were largely influenced by the continued impact of the COVID-19 pandemic. In particular, there were five breaches of the upper-end of the inflation target in the latter half of the calendar year due to pandemic-related factors. These factors included the impact of supply disruptions in international commodity markets and higher global shipping costs on prices for items such as grains and fuel. Of note, on two occasions, inflation fell below the target range due to supply shocks (lower trends in agricultural food prices associated with surplus supplies coupled with weak demand conditions) and a fall in energy-related costs.

In light of the aforementioned, accelerated inflation was observed in processed food, services and energy costs over the latter half of 2021 (see Chart 3). In this context, the 12-month point-to-point inflation at December 2021 accelerated to 7.3 per cent from 5.2 per cent at December 2020. Notably, prices for Meat and other parts of slaughtered land animals within the Food & Non-Alcoholic Beverages division as well as those for processed foods increased during the year, influenced largely by higher costs for raw material inputs and shipping.

The inflation outturn also reflected increases in the Electricity, Gas and Other Fuels subdivision, influenced by higher rates for electricity due to the rise in oil prices. Finally, prices for goods and services, such as those offered in fast food restaurants within the Restaurants and Accommodation division, increased during the year, influenced by a rise in input costs.

Underlying (or core) inflation (which removes from headline inflation the impact of changes in volatile food and fuel prices) was 9.1 per cent at December 2021, a sharp uptick from the 3.6 per cent in the previous year. This uptick in core inflation was primarily influenced by the lagged impact of higher imported inflation and elevated inflation expectations. Inflation expectations (measured through a survey of business firms) increased to 9.8 per cent at December 2021, above the upper-end of the Bank's inflation target as well as the 7.2 per cent recorded at December 2020. Additionally, an improvement in domestic demand, owing to the gradual recovery in the domestic and external economies throughout the year, supported higher core inflation.

Chart 3: Inflation breached the target on multiple occasions in 2021
(annual per cent)



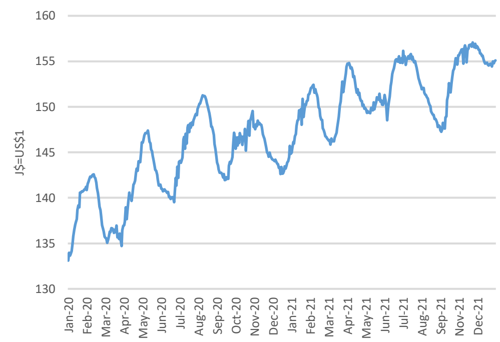
Source: STATIN, BOJ

Flexible, two-way movements in the foreign exchange rate

Throughout 2021, the exchange rate was characterized by cycles of appreciation and depreciation (see Chart 4). The Dollar depreciated on an annual average basis by 5.9 per cent against the US dollar in 2021, compared to an average depreciation of 6.6 per cent in 2020. The depreciation of the local currency in 2021 was mainly due to episodes of increased end-user demand for portfolio-related purposes.

These demand pressures were attenuated by a number of measures effected by the BOJ which provided over US$800 million to the system. These measures included B-FXITT sale operations, direct sales to key entities and FX swap transactions. The August 2021 general Special Drawing Rights (SDR) allocation from the International Monetary Fund (IMF), the equivalent of US$520.6 million, served to bolster the country's stock of FX reserves.

Chart 4: Continued flexible cycles in the USD/JMD exchange rate



Source: BOJ

Division Chief Carey-Anne Williams explains inflation outturn in 'Inflation Watch' episode.

Economic Developments in 2021

Partial rebound in economic activity for 2021

Real economic activity expanded in 2021 relative to a contraction in the previous year. The economy grew by an estimated 4.3 per cent in 2021, reflecting a partial rebound in economic activity relative to the fallout of 9.9 per cent in 2020 occasioned by the COVID-19 pandemic (see Chart 5). The estimated growth for CY 2021 largely reflected partial recovery in tourism and its affiliated services as well as increased production and distribution activities in the context of a general easing of restrictive and lockdown measures that had been employed to curtail the spread of COVID-19. In this regard, there was significant growth in value added in the services industries, in particular, Hotels & Restaurants, Other Services and Transport, Storage & Communication due to improvements in travel and activities at the ports.

Growth was also estimated for Manufacturing, Construction, Agriculture and Wholesale & Retail Trade, reflecting the impact of higher domestic demand. With regard to Manufacturing, the growth was driven by expansion in both sub-industries, Food, Beverages & Tobacco and Other Manufacturing. The expansion in the Food, Beverages & Tobacco sub-industry was primarily influenced by higher demand due to the reopening of hotels, restaurants and other commercial entities. For the Other Manufacturing sub-industry, the expansion reflected growth in refined petroleum products, non-metallic minerals, chemicals and chemical products. Construction was positively impacted by growth in residential and non-residential construction as well as civil engineering activities due to increased expenditure on the South Coast Highway improvement project, relative to 2020. The expansion in Wholesale & Retail Trade largely reflected the impact of the uptick in output levels in the Agriculture, Manufacturing and Construction industries as well as an improvement in imports.

For Agriculture, Forestry & Fishing, growth throughout the year occurred in the context of increased demand from Tourism as well as the rebound in domestic crop production from the low yields experienced in 2020 as a result of the flood rains experienced in the December 2020 quarter. Tourism benefited from an improvement in travel, associated with growth in visitor arrivals, as well as government investment initiatives to foster revitalization in the industry.

Chart 5: The Jamaican economy expanded in 2021
(percentage change in GDP)

Source: STATIN, BOJ

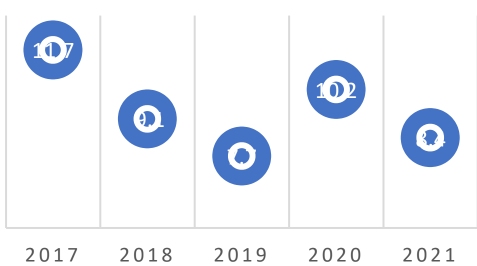
For Transport, the industry experienced a partial rebound due to increased activities at the airports and the resumption of cruise passenger arrivals to the Island in August 2021. In addition, public passenger transport increased in the context of the relaxation of some curfew measures as well as the reopening of commercial activities and some schools.

The growth in these industries was, however, partly offset by the impact of contraction in Mining due, in part, to the closure of the Jamalco alumina plant as a result of a fire in the September 2021 quarter.

"Notably, the unemployment rate at October 2021 was 7.1%, the lowest rate recorded since the pre-pandemic low of 7.2%"

Labour market conditions improved in 2021. This was evidenced by a decline of 1.8 percentage points in the unemployment rate to an average of 8.4 per cent relative to 2020 (see Chart 6). Notably, the unemployment rate at October 2021 was 7.1 per cent, the lowest rate recorded since the pre-pandemic low of 7.2 per cent at October 2019. The reduction in the unemployment rate in 2021 reflected respective growth of 2.7 per cent and 0.7 per cent in employment and the labour force (see Table 3).

Chart 6: Unemployment fell – Annual Averages (percentage)



Source: STATIN

Table 3

SELECTED LABOUR FORCE INDICATORS	2020	2021	% Change
Total Labour Force ('000)	1,315.2	1,324.5	0.7
Employed Labour Force ('000)	1,181.7	1,213.8	2.7
Unemployment Rate (%)	10.2	8.4	-17.6
Job Seeking Rate (%)	6.3	5.1	-19.0

Source: STATIN

- Fiscal Management

Despite the various challenges posed by the COVID-19 pandemic on the Jamaican economy, the Government of Jamaica (GOJ) remained resolute in its efforts to maintain prudent fiscal management as outlined in its Fiscal Responsibility Law. In this regard, the GOJ tabled its budget for FY2021/22 to achieve fiscal balances consistent with the downward trajectory of the debt/GDP ratio of no more than 60.0 per cent of GDP by end-March 2028.

The budget included expenditure for social and economic recovery, in particular, the COVID-19 Allocation of Resources for Employees Programme (CARE) and the Social and Economic Recovery and Vaccine Programme for Jamaica (SERVE).[2] The SERVE programme was facilitated by a dividend of $33.2 billion from the BOJ and included health as well as economic initiatives to facilitate a faster pace of economic recovery.[3]

The First Supplementary budget was tabled in September 2021 with revisions to both revenues and expenditure. There was an improvement in revenues, which reflected the impact of the expansion in real economic activity, and facilitated additional expenditure. The improvement in real economic activity influenced increases in several tax

[2] The CARE Programme package involved the temporary transfer of cash to individuals and businesses to cushion the impact of the pandemic on the economy. The SERVE Jamaica Programme is the GOJ's social and economic recovery programme that is designed to respond to the challenges posed by COVID-19. It is aimed at facilitating timely recovery from the COVD-19 pandemic and its effects by boosting the economy while attempting to achieve herd immunity from the coronavirus.

[3] The economic component of the SERVE Jamaica Programme was allocated $31.1 billion to increase job growth and economic activity, improve productivity and strengthen resilience. This component comprised of several infrastructure projects; most notable among them is the South Coast Highway. The health component was comprised of an allocation of $10.5 billion to the Ministry of Health and Wellness for special resources such as the purchasing of vaccines, personal protective equipment as well as drugs and reagents.

types, particularly those in the international trade, production & consumption and, to a lesser extent, the income & profit categories. The increase in international trade taxes relative to the original budget was mainly attributable to greater imports as well as increased visitor arrivals due to the easing of travel restrictions imposed in the Island as well as by source countries. Higher production & consumption tax inflows were due primarily to increased economic activity attributable to the re-opening of various industries.

Central Government operations, for April to December 2021, resulted in a fiscal deficit of 0.2 per cent of GDP, in comparison to the budgeted deficit (first supplementary) of 0.8 per cent of GDP.[4] The outturn reflected lower-than-budgeted expenditure as well as marginally higher-than-budgeted Revenue & Grants.

Jamaica's sovereign ratings reaffirmed in 2021

There were similar sovereign credit ratings from major credit rating agencies in 2021. In particular, on 18 March 2021, Fitch affirmed Jamaica's long-term foreign and local currency issuer default ratings at 'B+' with the outlook on Jamaica remaining at "stable". The agency's outlook reflected (i) the country's favourable business climate, (ii) the expectation that Jamaica will be one of the few Fitch-rated sovereigns to post a primary surplus for the fiscal year and (iii) that the Government planned to cover 70.0 per cent of its funding requirements locally. Additionally, the agency's stable outlook was underpinned by the expectation that the public debt level will return to a downward trajectory, supported by the Government's maintenance of a high primary surplus, the resilience of the country's external finances as well as the institution of stronger economic policy.

On 04 October 2021, Standard & Poor reaffirmed Jamaica's long-term foreign and local currency issuer default ratings at 'B+' and revised its outlook on Jamaica from "negative" to "stable". The agency's revised outlook for Jamaica stemmed from the optimism in the global capital markets and the ability of the country to meet its financial obligations despite the ongoing uncertainties associated with the continued adverse impact of the COVID-19 pandemic on the country's resources.

On 23 November 2021, Moody's Investors Service affirmed Jamaica's long-term foreign and local currency ratings of 'B2' and maintained its "stable" outlook on Jamaica. The agency's rating reflected expectations that the deterioration in Jamaica's debt metrics, caused by the effects of the pandemic, would be temporary given Jamaica's strong commitment to fiscal consolidation. Moody's expected Jamaica's debt burden to begin declining in FY2021/22 in light of the GOJ's programmed primary balance of 6.0 per cent of GDP. Further, Moody's noted that the Government's revenues had recovered quickly, and while the revenue intake benefitted from a substantial dividend from the Bank of Jamaica, the easing of containment measures and normalization of economic activity will support revenue returning to pre-pandemic levels by FY2022/23. In addition, Moody's indicated that the country was expected to experience robust growth in calendar year 2021, with real GDP expanding by 4.5 per cent, followed by another year of above normal growth of 2.7 per cent in calendar year 2022, before normalizing at growth of about 2.0 per cent in subsequent calendar years. The stable outlook for Jamaica reflected Moody's expectation that the pace of economic recovery would continue to be predicated on the performance of the tourism sector and the economy's vulnerability to weather-related shocks.

[4] For comparison, the GDP used was from the first supplementary budget, that is, $2,227.9 billion.

Outlook

Inflation forecasted to trend above target in near term

Bank of Jamaica's most recent assessment indicates that annual headline inflation is likely to trend above the upper limit of the 4.0 per cent to 6.0 per cent target for most of calendar year 2022 but moderate subsequently. Supported by a recovery in domestic demand, the lagged impact of imported inflation is forecasted to drive inflationary pressures during the year. Specifically, shipping costs and the prices of grains and oil are expected to remain elevated, relative to their pre-pandemic levels. In this context, domestic processed food price inflation is projected to reflect a moderate pace of increase over the forecast horizon. Additionally, energy-related inflation is projected to reflect annual increases over the forecast period. Consistent with meeting its inflation target, sustainably, in the medium-term, the MPC agreed to consider further increases in the Bank's policy rate in conjunction with other accompanying measures at subsequent policy meetings to ensure inflation returns to the target.

Positive near-term outlook for growth

The projection is for growth in aggregate spending over the near-term. This growth is predicated on improvements in external demand as the impact of the COVID-19 pandemic lessens. This forecast indicates expansions primarily in Hotels & Restaurants and its related industries as well as Construction, Electricity & Water and Wholesale & Retail Trade. 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.

Senior Director Lance Rochester explains inflation outturn in 'Inflation Watch' episode.

Links to more information

Releases

- Quarterly Monetary Policy Report
  https://boj.org.jm/boj-publications/quarterly-reports/
- Credit Conditions Survey Report
  https://boj.org.jm/boj-publications/survey-reports/
- Inflation Expectations Report
  https://boj.org.jm/boj-publications/survey-reports/
- Monetary Policy Announcement Schedule
  https://boj.org.jm/core-functions/monetary-policy/policy-schedule/
- Pres Conference Speeches
  https://boj.org.jm/news/boj-speeches/
- Press Conference Presentations
  https://boj.org.jm/boj-publications/quarterly-reports/
- Inflation Performance
  https://boj.org.jm/statistics/real-sector/inflation/

Additional Resources

- Objective of Monetary Policy
  https://boj.org.jm/core-functions/monetary-policy/what-is-monetary-policy/
- The Inflation Target
  https://boj.org.jm/core-functions/monetary-policy/what-is-inflation/the-inflation-target/
- Decision Process
  https://boj.org.jm/core-functions/monetary-policy/monetary-policy-decision-making/
- Jamaica and the IMF
  https://www.imf.org/en/Countries/JAM

FINANCIAL SYSTEM

The outlook over the medium term does not indicate an overheating in asset markets.

FINANCIAL SYSTEM

In the context of improvement in real economic activity, the risks to the financial stability of deposit-taking institutions remained moderate in 2021. Despite the ongoing impact of the COVID-19 pandemic on households' and businesses' balance sheets, DTIs remained well capitalized. Furthermore, the sector continued to be profitable and liquidity levels remained adequate. As such, macro-prudential stress tests showed that the DTI sector remained broadly robust to contemplated shocks.

DTIs' balance sheets displayed increased holdings of liquid assets as the COVID-19 pandemic continued to impact business operations

Notwithstanding the continued adverse impact of the COVID-19 pandemic on the performance of the local economy, total assets for the DTI sector grew by 13.6 per cent ($275.3 billion) during 2021, stronger than the growth of 11.9 per cent ($214.9 billion) recorded in 2020. Asset expansion for the sector was mainly reflected in increased investments, cash and bank balances. Growth in gross loans continued to be constrained by the adverse effects of the pandemic.

While the stock of total assets for the supervised sector continued to be predominantly concentrated in domestic currency assets (62.7 per cent of total assets), growth in total assets for 2021 largely reflected an expansion of 19.9 per cent ($142.3 billion) in foreign currency assets, a faster pace of growth than the 13.0 per cent ($82.6 billion) recorded in the previous year. The growth in foreign currency assets was mainly influenced by the acquisition of foreign currency securities and increased foreign currency cash balances, as well as the impact of depreciation in the Jamaica Dollar vis-a-vis the US dollar.[1] Domestic currency assets grew at a slightly slower pace of 10.2 per cent ($133.1 billion) in 2021, compared with the 11.2 per cent ($132.3 billion) registered in 2020.

The growth in the DTIs' assets continued to be predominantly funded by buoyant inflows from customer deposit accounts, which grew by 13.3 per cent ($181.1 billion),albeit, a deceleration relative to the 16.8 per cent ($196.1 billion) recorded in 2020. Notably, foreign currency liabilities grew at an average rate of 7.6 per cent (US$370.7 million or $97.6 billion) over the past three years and reflected an increase 6.0 per cent (US$212.7 million or $62.8 billion) in deposits. Supplemental funding was also obtained from borrowings and shareholders' equity.

The number and composition of supervised institutions operating in Jamaica at end-2021 remained at 11, of which eight were commercial banks, two building societies and one merchant bank (see Tables 4 and 5).

Table 4

MARKET COMPOSITION Number of Licensed Deposit-taking Institutions*				
Supervised Entities	2018	2019	2020	2021
Commercial Banks	8	8	8	8
Merchants Banks	1	1	1	1
Building Societies	2	2	2	2
Total	11	11	11	11

Source: BOJ

** The proposal by the Minister of Finance and the Public Service for the assumption by Bank of Jamaica of full supervisory responsibility for credit unions, which numbered 25 as at 31 December 2021, will result in significant expansion of the supervised deposit-taking population.*

[1] During 2021, the depreciation in the Jamaica Dollar relative to the US dollar added $72.9 billion to total asset growth, compared with $50.9 billion in 2020.

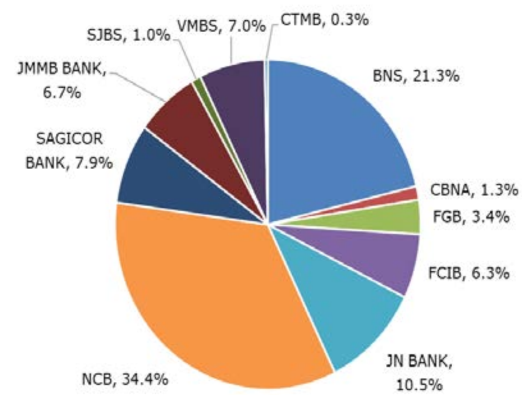
Table 5

LICENSED DEPOSIT-TAKING INSTITUTIONS As at 31 December 2021
Commercial Banks
• Bank of Nova Scotia Jamaica Limited
• Citibank N.A.
• First Caribbean International Bank Jamaica Limited
• First Global Bank Limited
• JMMB Bank Limited
• JN Bank Limited
• National Commercial Bank Jamaica Limited
• Sagicor Bank (Jamaica) Limited
Merchant Bank
• Cornerstone Trust and Merchant Bank Limited
Building Societies
• Victoria Mutual Building Society
• Scotia Jamaica Building Society

Source: BOJ

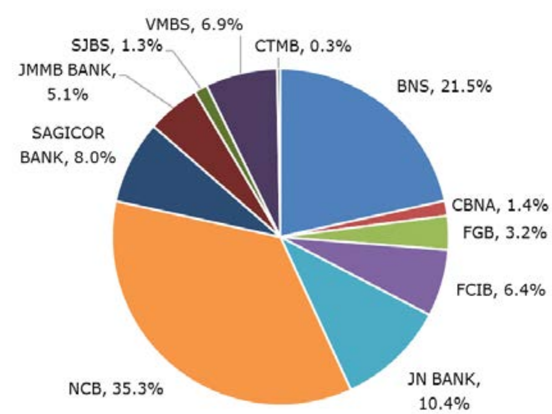
In terms of market share, the five largest DTIs recorded a small reduction in their proportion of total system assets to 81.0 per cent at end-2021 compared to 82.2 per cent at end-2020. This shift in market share reflected the impact of successful market growth initiatives by a few smaller DTIs, while some of the larger licensees pursued more conservative growth strategies, commensurate with their risk appetites (see **Charts 7, 8** and **9a**).

Chart 7: Market Share of Licensees in the DTI sector 31 December 2021



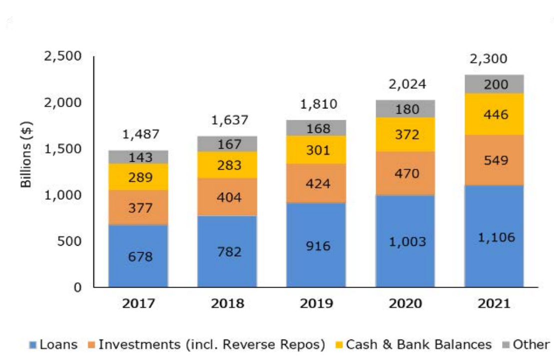
Source: BOJ

Chart 8: Market Share of Licensees in the DTI sector 31 December 2020



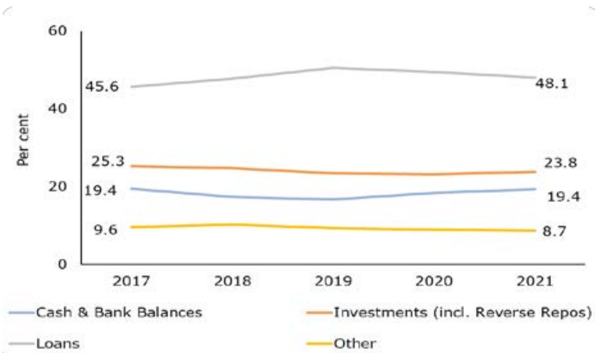
Source: BOJ

Chart 9a: Dollar Value Contribution of Assets 31 December 2017 – 2021



Source: BOJ

Chart 9b: Percentage Share of System Assets
31 December 2017 – 2020



Source: BOJ

Licensees bolstered holdings in foreign government and GOJ security holdings while storing excess liquidity in low risk assets

The securities holdings of DTIs expanded sharply by 16.8 per cent ($79.0 billion) for 2021, relative to growth of 10.7 per cent ($45.3 billion) for 2020. The increase in investments reflected a larger take-up of foreign government securities ($37.5 billion) and GOJ securities ($31.8 billion) as licensees stored excess liquidity from deposit inflows in low-risk assets. This strategy reflected the ongoing negative impact of the pandemic as well as the absence of higher yielding non-government issued foreign currency securities for investment within their respective risk appetites. Additionally, securities acquired under reverse repurchase agreements increased during the period ($5.4 billion) as licensees sought to bolster profits by extending excess funding to other financial institutions.

During 2021, licensees continued to record large holdings of cash and bank balances, as some institutions experienced continued declines in corporate loan demand. DTIs also maintained higher liquid balances to meet future deposit withdrawals and adjusted their business models to better manage emerging credit risk exposures. Resultantly, cash and bank balances increased by 19.8 per cent ($73.7 billion) compared with growth of 23.5 per cent ($70.7 billion) in 2020. The growth in 2021 reflected higher current account and cash reserve balances at BOJ ($38.2 billion) and increased placements with other banks ($24.1 billion). This occurred as DTIs stored excess flows from customer deposits in interest-bearing accounts eligible as liquid assets and increased cash reserves held against the higher levels of prescribed deposit liabilities. In this regard, cash and bank balances as a share of total assets grew to 19.4 per cent at end-2021 from18.4 per cent at end-2020.

Loan growth was constrained by a reduction in credit supply and lower demand for business credit

For 2021, loans and advances net of provisions for International Financial Reporting Standards (IFRS) losses grew by 10.2 per cent ($102.5 billion), compared to the previous year's growth of 9.5 per cent ($87.4 billion). The faster growth in net loans was attributable to a reduction in IFRS provisions, as the gross stock of loans grew by 9.6 per cent ($99.3 billion) for the year, representing the second consecutive year of a slowdown owing to the impact of the pandemic.[2] The reduction in provisions occurred as some licensees wrote-back a portion of their IFRS provisions to profits following a more optimistic outlook with regard to the impact of the pandemic on the local economy.

The overall slowdown in gross loans reflected a reduction in credit supply by some lenders as a precautionary measure against the potential impact of the heightened credit risk environment on DTIs' balance sheets. As a result, growth in corporate loans slowed markedly to 4.5 per cent ($17.6 billion) from 12.8 per cent ($44.8 billion) in 2020. In comparison, growth in personal loans improved to 9.9 per cent ($52.2 billion) from 8.6 per cent ($41.9 billion) in 2020.[3] Of note, in an effort to support

[2] During 2020, total gross loans for the DTI sector increased by 10.9 per cent ($101.1 billion) compared with growth of 17.3 per cent ($137.4 billion) at end-2019.

[3] The reduction in loan disbursements to key corporate sectors during 2021 followed increased lending during the preceding year as some businesses (mainly in the Tourism, Professional Services, Utilities, and Distribution sectors) obtained financing to

growth targets, some licensees expanded their reach into overseas markets. Consequently, loans to overseas residents increased by 36.7 per cent ($30.1 billion) for 2021 as banks provided funding to non-resident individuals, businesses and financial institutions.[4]

Chart 10: Dollar Value Change in Loans by Customer Group

Source: BOJ

The growth in total loans for the year predominantly reflected an expansion in domestic currency loans of 10.7 per cent ($86.8 billion), relative to the previous year's increase of 11.4 per cent ($83.4 billion). Concurrently, foreign currency loans expanded by 5.7 per cent ($12.5 billion), relative to growth of 8.7 per cent ($17.7 billion) in 2020, primarily reflecting the impact of revaluation gains on the stock of foreign currency facilities.

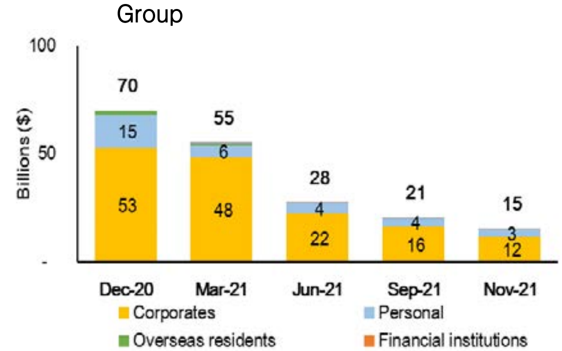
Consequent on these developments in total loans, at end-2021, loans accounted for a lower share of total assets (48.1 per cent) relative to the previous year (49.5 per cent) (see Chart 9b).

Some DTIs continued payment holidays to mitigate the impact of the pandemic on asset quality

In the context of the BOJ's suspension of its special regulatory treatment of COVID-19 related payment accommodations, effective 03 May 2021, some licensees commenced a gradual phase-out of deferral arrangements and transitioned to an incorporation of these facilities into the general portfolio of restructured credits. However, some DTIs continued to hold these moratorium arrangements throughout 2021 in support of customers who were adversely impacted by the pandemic. As a result, the stock of loans remaining under moratorium facilities related to COVID-19, at end-November 2021, stood at $15.4 billion and was spread across five licensees. This compared with the stock of $70.2 billion reported by nine institutions in the previous year. These outstanding deferral arrangements were slightly biased to domestic currency facilities, representing 58.9 per cent of all moratoriums. By customer group, corporate clients and individuals were the main beneficiaries of payment holidays at end-November 2021 (see Chart 11).

Overall, the outstanding stock of loans that have benefitted from moratorium arrangements since the onset of the pandemic totalled $176.1 billion at end-2021 (15.9 per cent of total DTI loans). This represented a decline of 18.5 per cent ($39.9 billion) relative to the stock reported at end-2020, as customers who formerly received payment holidays made principal repayments on the outstanding loan stock. Additionally, some licensees engaged in debt write-offs for some impaired credits.

Chart 11: Dollar Value Composition of Loans Under Moratorium by Customer Group



Source: BOJ

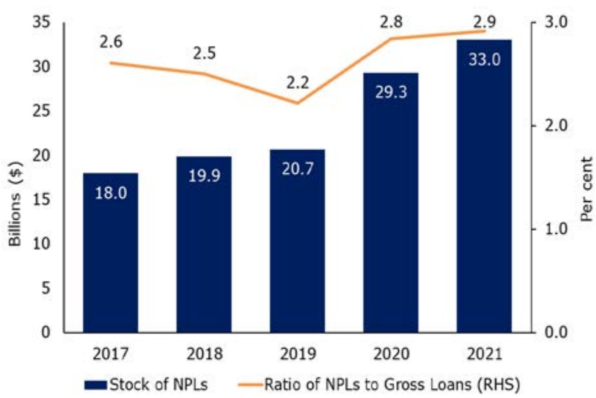
support working capital needs and debt restructuring amidst the pandemic.

[4] For 2020, loans to overseas residents grew by 15.4 per cent ($10.9 billion).

Asset quality was further impaired by the increased inability of some borrowers to meet debt obligations

As income levels continued to be adversely affected by the economic fallout from the pandemic, the stock of non-performing loans (past due 3 months and over) (NPLs) increased by 12.6 per cent ($3.7 billion) to $33.0 billion at end-2021 (see **Chart 12**). Although the growth in NPLs was lower than the previous year's outturn of 41.9 per cent ($8.6 billion), asset quality, measured by the ratio of total NPLs-to-total loans, deteriorated to 2.9 per cent, which was the highest ratio since end-2016 (2.9 per cent). The increase in delinquencies was primarily reported in loans to overseas residents ($1.8 billion), followed by corporates ($1.3 billion) and individuals ($0.6 billion).

Chart 12: Stock of NPLs with Ratio of NPLs to Gross Loans

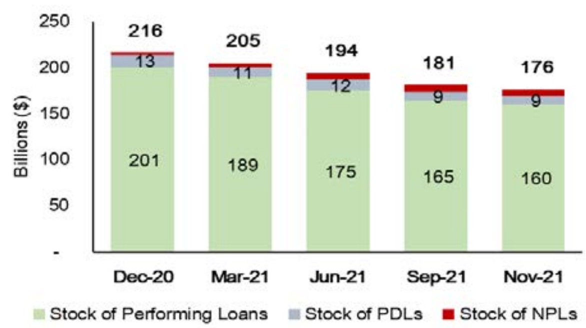


Source: BOJ

On the other hand, past due loans (past due 1 month to 3 months) (PDLs) continued to decline. Specifically, PDLs fell by 5.4 per cent ($1.7 billion), following the reduction of 16.0 per cent ($5.9 billion) in the previous year. As a result, the lead indicator of asset quality, measured by the ratio of total PDLs-to-total loans, improved to 2.6 per cent at end-2021 from3.0 per cent at end-2020.

Within the portfolio of loans granted moratorium, the stock of loans that transitioned to non-performing status following the expiration of their deferral arrangements stood at $7.5 billion at end-November 2021, above the previous year's total of $2.7 billion (see **Chart 13**). This represented 22.5 per cent of the overall stock of NPLs held by DTIs (9.2 per cent at end-2020) and was largely recorded among local individuals ($6.4 billion). The stock of past due moratorium facilities, however, declined to $8.8 billion at end-November 2021 ($12.7 billion at end-2020) following the regularization of large valued business facilities.

Chart 13: Dollar Value Composition of Loans Under Moratorium by Performing Status



Source: BOJ

Despite the rise in delinquencies, provisioning levels and capital levels remained strong

As the quality of the lending environment deteriorated, DTIs increased loan loss provisions (primarily general provisions for performing loans) by 2.3 per cent ($0.8 billion) during the year, though lower than the previous year's 34.3 per cent ($8.8 billion). The slowdown in the growth of provisioning occurred as some institutions were optimistic about the recovery of the macroeconomic environment, leading to a decline in provisions made in accordance with IFRS 9 requirements. As a result, due to the faster rate of growth of NPLs, DTIs' coverage of NPLs via provisions declined to 106.9 per cent of NPLs in 2021 from 117.7 per cent in 2020. Notwithstanding this decline, provisions were deemed sufficient to meet potential future deterioration in loan quality.

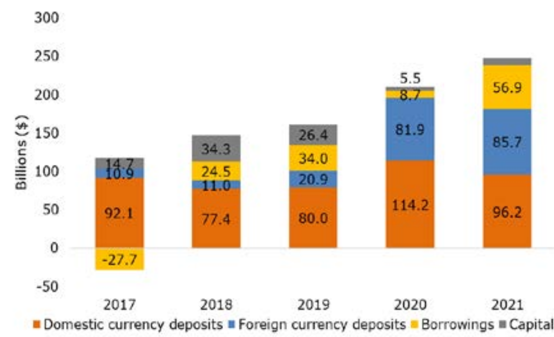
At the end of the review year, both the Primary Ratio and Capital Adequacy Ratio (CAR) remained comfortably above their respective statutory minima of 6.0 per cent and 10.0 per cent with outturns of 15.2 per cent and 14.2 per cent, respectively.

Funding remained strong, supported by increased reliance on borrowings

Despite an increase in reliance on borrowings (including securities sold under repurchase agreements) to meet funding needs, customer deposits, which grew by 13.3 per cent ($181.8 billion), provided the major support for asset growth during 2021. This growth was however lower than the previous year's increase of 16.8 per cent ($196.1 billion). The higher stock of deposits for 2021 reflected an increase of 16.2 per cent ($85.7 billion) in the Jamaica Dollar equivalent of foreign currency deposits and growth of 11.5 per cent ($96.2 billion) in domestic currency accounts (see Chart 14). The slower pace of growth in customer deposits for the year could be attributed to increased spending among customers following the loosening of some COVID-19 containment measures as well as higher costs of goods and services as reflected in the inflation outturn for the year.

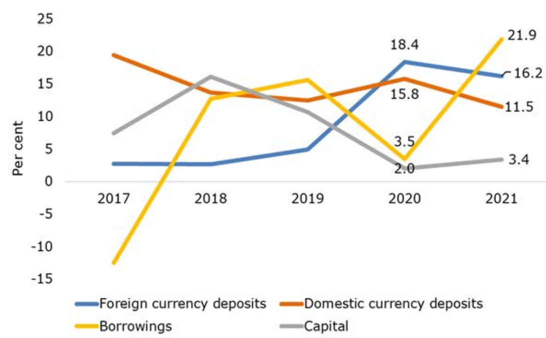
As inflows from deposit accounts slowed, DTIs utilized wholesale borrowings to support their operations, leading to year-over-year growth of 21.9 per cent ($56.9 billion) in 2021, compared with an increase of 3.5 per cent ($8.7 billion) in 2020. Licensees increased their reliance on net funding from overseas institutions, new repurchase agreements and from other local banks. Shareholders' equity, a non-traditional source of funding, also recorded growth of 3.4 per cent ($9.4 billion), relative to expansion of 2.0 per cent ($5.5 billion) in 2020, as DTIs strengthened core capital through the receipt of capital injections and via profit transfers to reserve funds.

Chart 14a: Dollar Value Change in Funding Sources



Source: BOJ

Chart 14b: Rate of Growth in Funding Sources



Source: BOJ

Foreign exchange risk to DTIs' balance sheets remained within reasonable limits

Despite heightened exposure to foreign exchange risk, licensees maintained their risk exposure within prescribed limits through the implementation of various measures to stymie the impact of currency depreciation on business operations. Through the purchase of BOJ Indexed Bonds and new foreign currency forward contracts, the average net open position (NOP) in foreign currency for the system, which is the primary measure of foreign exchange risk, reflected a net long position of 4.0 per cent of regulatory capital. This was well within the required limit of 15.0 per cent for long positions and 25.0 per cent for short positions.[5]

[5] On 18 November 2021, Bank of Jamaica advised that the limit on the foreign currency net open positions (FXNOP) of Authorised Dealers will be adjusted, effective 06 December 2021. The adjustments include:

The limit for short positions will be 25% of regulatory capital denominated in Jamaica Dollars, or J$7.0 billion (whichever is lower).

The limit for long positions will be 15% of regulatory capital denominated in Jamaica Dollars, or J$4.5 billion (whichever is lower).

Liquidity was sufficient to meet short-term obligations, bolstered by policy changes during the year

At end-November 2021, all licensees reported liquidity coverage ratios (LCRs) above the minimum requirement of 100 per cent of high-quality liquid assets (HQLAs) to net cash outflows (NCOFs) for the aggregated Jamaica Dollar equivalent of NCOFs in all currencies. These ranged from a low of 114.8 per cent to a high of 780.6 per cent. However, one DTI registered insufficient coverage for NCOFs in Jamaica Dollar only. The Bank continues to monitor and hold discussions with this entity to ensure timely compliance with the prudential requirement.

Despite the protracted effects of the pandemic on the ability of DTIs to adequately cover short-term liquidity obligations, occasioned by unexpected deposit withdrawals by customers and the increased utilization of short-term wholesale funding to meet liquidity needs, the system remained adequately liquid during 2021. This is as a result of licensees benefitting from the revision of haircuts applicable to GOJ securities based on the BOJ's updated policy on Eligible Collateral.[6] As a result of the revision, which became effective in June 2021, the stock of eligible HQLAs increased by approximately $40 billion, leading to net improvements in the LCRs of the industry.

Profitability levels rebounded as DTIs showed increased reliance on non-interest revenue

Pre-tax profits for 2021 totalled $47.0 billion, higher than the 2020 outturn of $25.4 billion, on account of a rebound in some non-interest revenue streams (particularly dividends and fee income on loans). Consequently, the pre-tax profit margin for the system increased to 21.5 per cent (13.5 per cent in 2020), while the return on equity (ROE) for the sector climbed to 16.6 per cent (9.2 per cent in 2020). Notwithstanding these improvements, the net interest margin (NIM) for the sector moderated to 5.4 per cent, from 5.9 per cent in 2020, on account of constrained loan growth, the increased stock of non-performing assets and the greater share of lower-yielding assets, such as bank balances and low-risk securities, amidst the protracted impact of the pandemic (see Table 6).

Table 6: Select Profitability Indicators

SELECT PROFITABILITY INDICATORS % 31 December 2017-2021	2017	2018	2019	2020	2021
Return on Equity	18.2	22.7	19.9	9.2	16.6
Return on Assets	2.6	3.3	3.0	1.3	2.2
Profit Margin	23.9	28.6	26.6	13.5	21.5
Net Interest Margin	6.2	6.3	6.3	5.9	5.4

Source: BOJ

The improved profit performance for 2021 was largely reflected in non-interest income which increased by 35.1 per cent ($27.3 billion), countering the contraction of 11.7 per cent ($10.3 billion) reported in the previous year. Licensees increased their dependency on revenues generated from dividends, foreign exchange trading gains, and the write-back of some loan loss provisions to income. DTIs also recorded increased income from fees and other charges on card services (particularly credit cards) as some banks resumed the application of fees and charges to customer accounts following temporary waivers during 2020. In addition, consumers increased their reliance on short-term unsecured debt to meet funding needs. Notably, commensurate with the slow rate of loan growth and increased investments in low risk assets

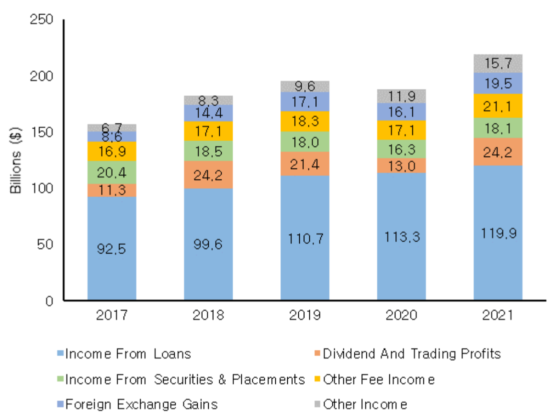
The decision to re-impose absolute FXNOP limits was aimed at addressing the cyclical patterns in the exchange rate and was consistent with the Bank's commitment to conduct periodic reviews of the limit since its introduction in 2018. All other guidelines relating to the FXNOP limit were unchanged.

[6] Effective 07 June 2021, the BOJ's policy on Eligible Collateral was revised for consistency with amendments made to the Bank of Jamaica Act. Accordingly, as indicated in the Liquidity Coverage Ratio Standard of Sound Practice (SSP), the haircuts applied to GOJ securities eligible as High-Quality Liquid Assets (HQLAs) and certain cash outflows and cash inflows collateralized by these securities were adjusted as follows: (i) the haircut on GOJ Benchmark Investment Notes and Treasury Bills was reduced from 25 per cent to 10 per cent, and (ii) the haircut on GOJ Global Bonds and Other GOJ Bonds was reduced from 60 per cent to 20 per cent.

by licensees, fees from loans and investment activities as a proportion of non-interest income, declined to 23.5 per cent at the end-2021, relative to 25.4 per cent at end-2020, representing the lowest proportion over the past five years.

Total revenue growth was supported by an increase of 3.2 per cent ($3.5 billion) in interest income, compared with growth of 2.7 per cent ($2.9 billion) in 2020. Although licensees were impacted by slower growth in interest income from loans, due to the continued suspension of earnings from loans under moratorium arrangements and the constrained supply of credit to the market, interest income was bolstered by higher income from investment channels (see **Chart 15a and Table 7**).

Chart 15a: Composition of Annual Operating Income



Source: BOJ

Improved profitability for 2021 was aided by slower growth in total operating costs for DTIs of 4.0 per cent ($6.7 billion), compared with the previous year's sizeable increase of 15.2 per cent ($22.4 billion) in expenditure. Lower expenses were reported in provisions for future loan losses, which declined by $10.3 billion. This was largely offset by higher costs associated with borrowings, fees and other sundry costs (see **Chart 15b**). Accordingly, operational efficiency improved to 71.9 per cent in 2021, from 75.2 per cent in 2020.[7]

Table 7

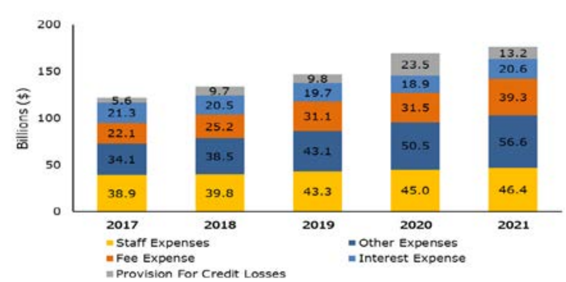
COMPOSITION OF ANNUAL TOTAL INCOME % of Total Income 31 December 2017-2021*	2017	2018	2019	2020	2021
Income from Loans**	59.1	54.7	56.7	60.4	54.9
Of which,					
Interest Income from Loans	47.7	43.8	45.6	49.8	43.6
Fee Income from Loans	11.4	10.9	11.2	10.6	11.3
Income from Securities & Placements	13.0	10.2	9.2	8.7	8.3
Other Fee Income	10.8	9.4	9.4	9.1	9.7
Foreign Exchange Gains	5.5	7.9	8.8	8.6	8.9
Dividend Income	4.9	5.7	8.7	4.0	8.0
Securities Trading Gains	2.3	7.6	2.3	2.9	3.1
Other Income	4.3	4.5	4.9	6.3	7.2
Total Interest Income	60.7	54.0	54.8	58.5	51.8
Total Non-Interest Income	39.3	46.0	45.2	41.5	48.2

Source: BOJ

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

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

Chart 15b: Composition of Annual Operating Expenses



Source: BOJ

Preparation underway for oversight of Credit Unions by Bank of Jamaica

During 2021, Bank of Jamaica continued it's monitoring of the credit union sector, in preparation for formal assumption of supervisory oversight. The Bank also engaged in more frequent dialogue with the Regulator of cooperative societies, including

[7] 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.

credit unions, Department of Cooperatives and Friendly Societies. Concurrently, work continued on the development of the following two companion pieces of legislation which will facilitate the licencing and supervision of credit unions by BOJ:

- Credit Unions (Special Provisions) Bill; and
- Cooperative Societies (Amendment) Bill.

In this regard, the legislative process is at an advanced stage with review and feedback of the latest draft of the Bills being undertaken, to be followed by any necessary redrafting prior to tabling in Parliament for debate.

Similar to 2020, the number of credit unions in the sector was unchanged at 25. These institutions continued to deploy their services through 108 branches and sub-branches island-wide, servicing major population centres in Jamaica.

Credit Unions remained resilient amid ongoing COVID-19 pandemic

Notwithstanding the continued impact of the COVID-19 pandemic on the sector, credit unions remained resilient during 2021. Total assets grew by $12.9 billion (9.4 per cent) to $150.1 billion, marginally higher than the growth of $12.6 billion or 10.1 per cent for 2020.[8,9] Similar to 2020, asset growth was mainly reflected in Investments which increased by $5.6 billion (18.9 per cent) to $35.5 billion, due to the redeployment of liquid funds to short-term investments, in light of a reduction in loan demand. Net loans increased by $4.4 billion (4.8 per cent) to $96.0 billion, marginally higher than the growth of $3.3 billion in 2020, as opportunities to lend were constrained for most of 2021. Nonetheless, net loans remained the largest asset class held by credit unions, despite falling in proportion to total net assets to 64 .0 per cent from 66.7 per cent at end-2020.

In an effort to provide relief to borrowers affected by the pandemic, several credit unions continued to extend moratorium arrangements to members up to 30 September 2021. The majority of the arrangements ended in line with BOJ's advisory to the industry, which required that the special regulatory treatment of COVID-19 related payment accommodations be rescinded, effective 01 October 2021.

The impact of the pandemic was also manifested in a deterioration of loan quality, as non-performing loans increased by $1.5 billion (38.5 per cent) to $5.5 billion or 5.5 per cent for the review period and represented 5.4 per cent of total loans.[10] In line with the increase in non-performing loans, loan loss provisions grew by $1.2 billion or 34.3 per cent to $4.7 billion . At the same time, there was a notable reduction in the coverage of non-performing loans to 86.6 per cent from 89.3 per cent at end-2020, given the faster growth in non-performing loans. It is anticipated that, going forward, further deterioration in loan quality is likely, given the cessation of payment accommodations as well as the continued challenges being faced by members employed to vulnerable economic sectors, including tourism, entertainment and transportation. However, the extent of deterioration will be dependent on the pace of economic recovery within these sectors.

Funding for asset growth continued to be dominated by increased deposits by members. These deposits grew by $10.4 billion (9.9 per cent) to $116.1 billion , marginally above the growth of $10.2 billion (10.7 per cent) to $105.7 billion at end-2020. Capital increased by $1.2 billion (7.2 per cent) to $18.2 billion , mainly reflecting a higher earnings retention of $1.0 billion . The primary ratio however, declined marginally to to12.1 per cent from 12.3 per cent in 2020, given the higher growth of assets compared to capital.

Consistent with the economic constraints occasioned by the COVID-19 pandemic, there was

[8] Based on November 2021 unaudited prudential data received by BOJ.

[9] 2020 data may have revisions arising from the resubmission of prudential information by credit unions.

[10] Non-performing loans increased by $1.0 billion or 33.5 per cent to $3 billion during 2020, representing 4.2 per cent of total loans.

a marginal reduction in the outturn for the period up to November 2021 of $0.1 billion or 6.1 per cent to $2.0 billion, from $2.1 billion in 2020. [11] The reduced profitability largely reflected the impact of lower earnings from operations partially offset by the containment of expenses. Gross revenues declined by $0.5 billion or 3.5 per cent to $14.7 billion , given lending constraints during the year, as interest earned on loans declined by $0.9 billion or 7.8 per cent to $11.3 billion offset by growth of $0.2 billion and $0.2 billion respectively in investment and non-interest income. Consistent with the reduction in earnings, credit unions implemented cost containment measures aimed at reducing overhead expenses. As such, total expenses decreased by $$0.7 billion or 4.5 per cent from $14.7 billion at end-2020. Overhead expenses decreased by $0.5 billion or 4.6 per cent to $10.8 billion, influencing an improvement in operating efficiency to 85.3 per cent from 86.2 per cent at end-2020. Despite the increase in non-performing loans, loan loss provisioning charges declined to $1.3 billion from $1.4 billion at end-2020. Consistent with the marginal decrease in surplus, profitability ratios, including the net profit margin, return on assets and return on capital, decreased to 13.5 per cent , 1.4 per cent and 11.3 per cent , respectively. [12] Similarly, the sector's net interest margin decreased to 8.1 per cent in 2021 from 9.4 per cent at end-2020, given the reduction in interest income.

Increasing Trend in Customer Complaints

At end-2021, the majority of complaints were classified in the account related category and were largely in relation to issues experienced with the use of electronic banking channels (see Charts 16 and 17). This was consistent with the thrust for greater technological usage by DTIs consequent on government measures imposed in response to the COVID-19 pandemic. Against this background, BOJ continued to facilitate the resolution of complaints submitted, but recorded a decline in the resolution rate to 80.7 per cent at end-2021, from the 93.2 per cent recorded at end-2019.

Chart 16: Trends in Complaints Data

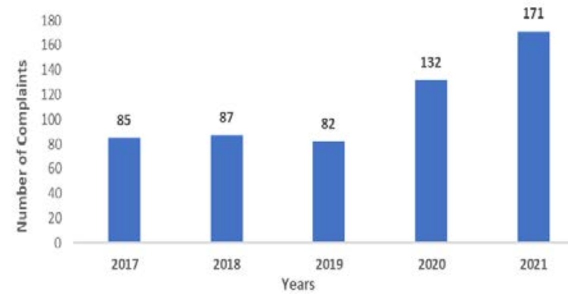
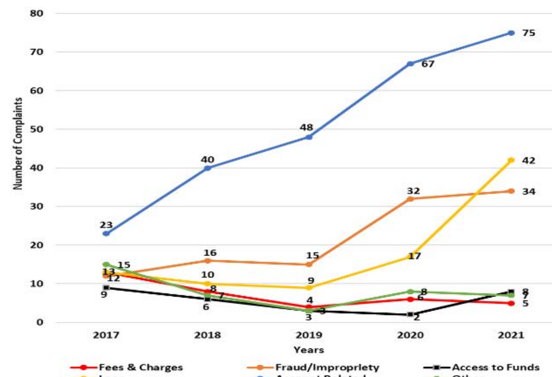


Chart 17: Complaints by Category



In continuance of efforts to promote transparency and access to comparative information regarding data on fees and charges, Bank of Jamaica continued to publish on its website the annual suite of information on fees and charges for products and services offered by DTIs. [13]

Moderate Improvements in the performance of the Credit Reporting Sector

Bank of Jamaica continued to be responsible for the oversight of the credit reporting framework in Jamaica, pursuant to its designation as the Supervising Authority under the Credit Reporting Act (CRA). For 2021, there was a modest rebound in loan demand (notwithstanding constrained loan growth) and a consequent moderate improvement

[11] Annual surplus for 2020 reflected a marginal increase of $0.03 billion or 1.44 per cent.

[12] At December 2020, net profit margin, return on assets and return on equity ratios computed at 13.9 per cent, 1.6 per cent and 13.0 per cent, respectively.

[13] http://www.boj.org.jm/finanical_sys/rates_charges.php

in performance by the three licensed credit bureaus (see **Table 8**). This outturn followed the negative impact of the COVID-19 pandemic, in 2020, on both the volume of loans and credit reports issued, which contributed to a decline in the operations of the credit bureaus.

Table 8

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

Source: BOJ

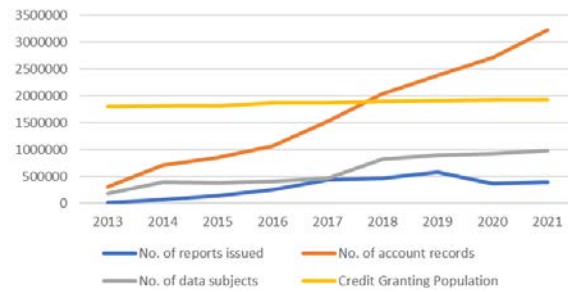
- ### Market Activity

For 2021, the use of credit reports by lenders in the financial system increased by 25 982 reports (7.2 per cent) to 389 002, relative to the previous year. However, the 2021 figure was 33.0 per cent below the amount of credit reports issued in 2019, a pre-pandemic year (see **Table 9**). The modest, but important increase in issued reports in 2021, can be attributed to overall growth in customer loans.

For 2021, the number of "consumers free reports" issued rose by 1 509 (19.9 per cent) to 9 083, relative to the previous year. Additionally, there was a 5.0 per cent uptick in the reported number of subjects in the database of the credit bureau to 971 902, covering approximately 51.0 per cent of Jamaica's adult population.[14] There was also a 14.0 per cent increase in the number of account records in 2021 when compared with 2020.

The number of Credit Information Providers (CIPs) pulling data and submitting data remained at 75 and 55, respectively. However, there was a slight decrease in the number of CIPs signed to credit bureaus to 114 from 115 (see **Table 9**). Also, the CIP hit rate (percentage of CIPs using credit bureau services) declined by 4.9 percentage points to 85.1 per cent at end-2021.

Chart 18: Credit Reporting Activities 2013 – 2021



- ### 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 it is reasonably practicable, and in any event not later than 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 30 days after receiving the report of his complaint from the credit bureau [Section 16(3)(a)].

During 2021, one complaint was escalated to the Supervising Authority, which was resolved. Further, in 2021, Credit Bureaus reported receiving 3 860 consumer complaints, an increase of 26.0 per cent (797) when compared to 2020. The 2021 consumer complaints represented just under 1.0 per cent of the total credit reports issued in the year, compared to the 0.8 per cent share recorded in 2020.

[14] Jamaica's most recent adult population aged 18 – 74 years estimate by the Statistical Institute of Jamaica as at 2019, is 1,917,556: https://statinja.gov.jm/Demo_SocialStats/PopulationStats.aspx

Table 9

CREDIT REPORTING STATISTICS 2017 – 2021					
Activity Indicators	2017	2018	2019	2020	2021
No. of CIPS signed with credit bureaus	87	95	103	115	114
No. of CIPs submitting data to credit bureaus	41	51	55	55	55
No. of CIPs pulling data from credit bureaus	65	69	69	75	75
No. of reports issued during the year (inclusive of free reports)	442 712	466 531	582 822	363 020	389 002
No. of consumers free reports issued per section 15(3) of CRA	6 758	7 316	8 636	7 574	9 083
No. of data subjects in data base of the credit bureau with the largest number at year end	467 432	818 172	895 116	925 114	971 902

Supervision of Money Service Businesses (Cambios and Remittance Service Providers)

In 2021, Bank of Jamaica continued to implement measures to enhance the regulatory regime for money service businesses (MSBs). In that regard, in addition to continued in-house and on-site monitoring of the operations of licensees, the Bank engaged in further work including:

a. Updates to the proposed amendments to the Bank of Jamaica Act (BOJA) to address AML/CFT deficiencies identified at the Caribbean Financial Action Task Force Mutual Evaluation, 2017; and
b. The development of a risk-based approach (RBA) to the supervision of MSBs.

Amendments to the Bank of Jamaica Act

The proposed amendments to the BOJA, which had been documented in 2020, were updated and enhanced to explicitly include the supervisory powers of the Bank to implement a licensing regime for MSBs and to subject the relevant operators of MSBs to the Bank's 'fit and proper' criteria as a condition for licence issuance and renewal. The enhanced proposed amendments took into consideration feedback from stakeholders and reviews of measures implemented by other jurisdictions, particularly in addressing the deficiency in relation to penalties for offences, which had not been deemed prohibitive. The revised proposals were submitted to the Ministry of Finance and the Public Service for drafting instructions. The BOJA became effective on 16 April 2021.

The enhancement of the BOJA in these areas, was a necessary measure to strengthen Jamaica's AML/CFT framework and place the country in an improved position at the next round of CFATF mutual evaluations.

Risk-Based Supervision

Risk-based supervision (RBS) is a structured methodology designed to facilitate proactive and dynamic assessment of supervised institutions. It is outcome focused with sufficient flexibility to enable the Supervisor to identify and respond to new and emerging risks through an integration of macro-economic and industry perspectives in the assessment of MSBs.

In that regard, during 2021, the Bank continued to pursue its strategic objective of developing a risk-based tool for supervision of MSBs. This included the:

(i) finalization of the risk matrix for the RBS of cambios; and

(ii) identification of a framework for RBS of remittance companies. The RBA for supervision of remittance companies will be informed by thematic studies that are being finalized.

- Regulatory Action

One MSB, which offered both cambio and remittance services, was the subject of regulatory action in 2021, requiring the company to suspend operations at all locations. This regulatory action is pending the outcome of investigations by the Financial Investigations Division (FID) against its principals.

- Supervisory Framework

The Bank continued to implement a robust regulatory regime utilizing analyses from both in-house monitoring and findings from on-site inspections to assess the performance of MSBs as a condition for maintaining their licences. The in-house monitoring operations entailed, *inter alia,* ongoing assessment of operators of MSBs under the Bank's 'Fit and Proper' criteria as well as monitoring of compliance with the requirements for licensing. On-site inspections were conducted using the virtual approach, which was introduced in 2020 to mitigate the spread of COVID-19. These virtual inspections facilitated rigorous assessments of the entities' compliance regimes, without compromising the safety of the Bank's officers.

- Cambios

The number of cambio locations increased to 139 at end-2021 from138 at end-2020 (see Table 10). This resulted from the granting of approvals to operate at five new locations, while four locations closed operations. During the year, one new entity entered the cambio market, while two discontinued operations. Consequent on the Regulatory Action which affected one entity, there were 49 active cambio entities at end-2021, relative to 51 at end-2020.

Remittance Service Providers

In 2021, the Bank approved one additional Remittance Service Provider (Primary Agent). However, resulting from the suspension of one Primary Agent, the number of active Primary Agents at end-2021 was unchanged relative to end-2020 (see Table 11). During the year, 114 new remittance licences were issued, while 31 were voluntarily surrendered, bringing the total number of licences issued to 782 at end-2021, relative to 699 at end-2020. Remittance operations commenced at 35 new locations/service points. However, 69 locations/service points were closed, of which 25 resulted from the voluntary surrender of licences, while 44 were as a result of the suspension of the abovementioned Primary Agent. Consequently, there were 463 locations in operation as at end-2021, relative to 497 at end-2020.

Table 10

Status of Cambio Licences as at 31-December	2020	2021
New Locations Licensed	8	5
Locations Closed	2	4
Locations Suspended	0	5
No. of Active Locations	138	139
No. of Active Entities	51	49

Source: BOJ

Table 11

Status of Remittance Licences as at 31-December	2020	2021
New Locations Licensed	42	35
Locations Voluntarily closed	27	25
Locations Suspended	0	44
No. of Active Locations	497	463
New Licences Issued	80	114
Licences Relinquished/Revoked	60	31
Total Licences Issued	699	782
No. of Primary Agents in Operation	6	6

Source: BOJ

Remittance inflows remained buoyant during 2021, in spite of the negative impact of the COVID-19 pandemic on global economy. This buoyancy was evidenced by a year-on-year increase of approximately 22.5 per cent in remittance inflows, relative to 2020. The USA, UK, Canada and the Cayman Islands remained the primary source countries with shares of 70.2 per cent, 10.9 per cent, 10.4 per cent and 5.2 per cent, respectively.

Financial Legislation

During 2021, the Houses of Parliament passed The Microcredit Act and affirmed the Licensing, Grant of Licence and Fees Regulations under that Act. This Act and the related Regulations took effect at end-July 2021.

Pending legislation and amendments to legislation include, but are not limited to:

- The Financial Institutions Resolution Bill;
- The Co-operative Societies Amendment Bill; and
- The Credit Unions (Special Provisions) Bill.

Details on these pending amendments and developments of subsidiary legislation can be found here: Financial System Legislation.

▶ Additional Resources

Supervision of Cambios and Remittance Companies
https://boj.org.jm/core-functions/financial-system/cambios-remittance/

Credit Reporting Oversight
https://boj.org.jm/core-functions/financial-system/credit-reporting/

Financial Data
https://boj.org.jm/core-functions/financial-stability/indicators/

Supervision of Deposit -Taking Institutions
https://boj.org.jm/core-functions/financial-system/deposit-taking-institutions/

Box 1: Current Priorities in Banking Supervision

Introduction

The Bank of Jamaica (Amendment) Act 2020 (BOJA), which became effective on 16 April 2021, has paved the way for an independent and modernized central bank, by clarifying the principal objectives of the Bank to be the maintenance of price stability and financial system stability with the primary objective being the maintenance of price stability. These reforms have also strengthened the Bank's overall corporate governance framework and *inter alia*, maximized its democratic accountability and control with respect to monetary and financial policy initiatives.

The financial stability objective of the Bank continues to focus on ensuring a well-functioning and resilient local financial system.[15] In achieving this mandate, the Bank, through its Financial Institutions Supervisory Division (FISD), identifies, formulates and implements prudential and regulatory policies, guidance notes and standards of sound business and financial practices, to curtail the build-up of micro-prudential risks that may threaten the safety and soundness of deposit-taking institutions (DTIs) licensed under the Banking Services Act, 2014 (BSA), their financial groups, and the deposit-taking system as a whole.

Section 34A of the BOJA ascribes the regulation and supervision of DTI's and specified financial institutions to the FISD. In accordance with this responsibility, the FISD continues to enhance the regulatory and supervisory frameworks to strengthen the resilience of the financial system by utilizing various strategic initiatives. This includes the adaptation of a risk-based supervisory approach to assess the continued safety and soundness of DTI's and their financial groups. The Bank's risk-based supervisory framework uses a combination of ongoing offsite surveillance monitoring, and onsite review supervisory tools to assess licensees': (i) risk profile, (ii) risk management practices; (iii) financial condition; and (iv) general compliance with applicable laws and regulations, as well as, *inter alia*, coordinate supervisory activities and allocate supervisory resources/attention to those key risk areas that pose the greatest risk to the stability of the financial system.

The BSA is the principal legislation governing commercial banks, merchant banks, building societies and their financial holding companies (FHCs). Accordingly, the Bank made further advancement with the licensing of the FHCs that hold at least one DTI in their group structure. In that regard, in May 2021, the Bank licensed its first FHC, which is one of the largest conglomerates in the Caribbean region. For 2022, this licensing regime will continue to be among the prioritized regulatory imperatives, along with the Bank's continued efforts to roll out its solo, and conglomerate, risk-based supervisory programme. The Bank also continued to embark on various regulatory and supervisory reform initiatives to modernize and align its legal framework and supervisory architecture with international best practices. Specifically, this included the Bank's roll out of Phase I of its Basel III implementation programme, inclusive of capital and liquidity requirements; with further work to be done during the implementation of Phases II and III.

Importantly, the Bank continued to utilize the support provided from technical assistance (TA) programmes from multilateral institutions aimed at bolstering the local financial system's regulatory and supervisory frameworks. In particular, the Bank sought TA programmes aimed at improving its understanding of risk-based supervision as well as the implementation of the Basel III programme, among others.

I. The Bank's Basel III Implementation Programme

[15] The Bank in collaboration with other relevant authorities ensured that the financial stability objectives are achieved, which involves the Financial Services Commission, who is the regulator that oversees the regulation of Jamaica's insurance, securities and pension industries; as well as the Jamaica Depository Insurance Company (JDIC) that offers protection/coverage against customers monies held at deposit-taking institutions.

During 2021, the Bank concluded the consultation process of its Phase I Basel III Programme, which is aimed at improving and strengthening the frameworks for prescribed capital and liquidity requirements for deposit-taking institutions. In this vein, the Bank continued to deliver on its commitments of modernizing the regulatory and supervisory frameworks of the banking sector, by aligning the regulatory and supervisory requirements with the internationally-agreed Basel III framework.

The implementation of the internationally-agreed Basel III framework involved three phases, with Phase I focused on the consultation on, and implementation of, the Basel III capital adequacy framework. Specific focus was on the minimum capital requirements for credit, market and operational risk components under Pillar I of the Basel III framework as well as the consultation on, and implementation of, a revised definition of regulatory capital. On 28 December 2021, BOJ published the frequently asked questions (FAQs) in relation to its consultation paper on the implementation of Phase I, that was published on the 28 December 2020. The FAQ paper considered the Bank's responses to the industry's frequently asked questions as well as other key feedback in relation to the proposals on the credit, market and operational risk components along with the revised definition of regulatory capital. The Bank will continue the implementation of Phase I with a planned industry training session scheduled for the second quarter of 2022. During this session, the Bank will also publish the Standard of Sound Practice on Phase I of the Basel III Capital Adequacy Framework.

Furthermore, the Bank intends to commence the research and development of proposals for Phase II of the Basel III implementation programme in the June 2022 quarter, which will include (at minimum) the consultation on and implementation of Pillar II components of the Basel III framework. This will include the Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP) as well as the consultation on and implementation of the framework for designating Domestic Systemically Important Financial Institutions (D-SIFIs).

The final phase will focus on Pillar III of the Basel III framework vis-à-vis market disclosures and will comprise the consultation on and implementation of additional capital and liquidity measures, including capital buffers, and the Net Stable Funding Ratio (NSFR). [16] In light of the above, Phases II and III of the Bank's Basel III implementation programme are expected to be fully implemented by the fourth quarter of 2024.

II. Legislative Changes/ Regulatory Developments

Legislative activities relating to the strengthening of the Bank's legal framework and regulatory and supervisory architecture continued to be among prioritized supervisory imperatives during 2021. In this context, the amendments to the BOJA, which took effect in April 2021, operationalized two statutory committees, namely the Monetary Policy Committee and the Financial Policy Committee . The FPC was established to enhance the Bank's corporate governance framework, accountability, and transparency as it relates to the determination of financial policies to, *inter alia*, govern the conduct and proper functioning of the Jamaican financial system.

Additionally, the Microcredit Act, 2021, (the Act), which was passed in January 2021 and took effect in July 2021, aims to strengthen the Bank's anti-money laundering and combatting the financing of terrorism (AML/CFT) initiatives as well as increase the effectiveness of the FISD's market conduct oversight of the financial sector, by *inter alia*, bringing the microcredit institution sector under the Bank's regulatory ambit to control these entities' predatory pricing strategy. [17] Against this backdrop, the commencement of the Act ensured Jamaica's continued commitment to align the supervisory and regulatory frameworks relating to AML/CFT to be in compliance with international best practice. The operationalization of the Act brought the microfinance sector under the Bank's

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[16] Capital Buffers refers to capital conservation and countercyclical buffers, amongst other things.
17 The effective date of July 2021 was after the affirmation of the relevant suite of Rules and Regulations and announcement of the commencement date.

regulatory and supervisory ambit, in particular, as it relates to the Bank's AML/CFT risk-based supervision methodology.

The Act provided for a 12-month transitional period for existing operators, with the expectation that the licensing process of these operators will commence on 30 July 2022. In this regard, microcredit operators must be licensed under the Act in order to continue their operations in Jamaica. Notably, the Bank had dialogue with some of these operators in order to allow for a smooth licensing process, which was supported by the Bank publishing on its website, the relevant legal documents and forms, including the Act and the supporting rules and regulations. In addition, the Bank continued to provide updates to the microfinance sector as it related to the licensing requirements.

Lastly, in 2021, the BSA and its subsidiary legislations became due for their mandatory seven years review assessment process, as prescribed by Section 137 of the BSA. In that regard, on 29 March 2021, the Bank invited the relevant stakeholders to provide comments and feedback on sections of the BSA and subsidiary pieces of legislation that, in their opinion, required revision. The Bank is currently in the process of finalizing these recommendations from the relevant stakeholders and will, *inter alia,* develop a consultation paper for final feedback from the industry, in relation to the proposed amendments to the BSA.

III. Prudential Risk-Based Supervision (RBS) Methodology

During 2021, the Bank continued the rollout of its risked-based supervisory approach at the solo level as well as continued its ongoing offsite monitoring of the pilot FHC. These reviews involved, *inter alia*: (i) an assessment of DTI's and FHC's financial performance; (ii) periodic discussions with licensees' management; (iii) review of licensees' relevant Board and sub-committees' minutes and papers; (iv) reviews of prudential reports submitted by subsidiaries of the pilot financial groups to our local regulatory counterpart; and (v) continued dialogue and collaboration with other regulators.[18] The reviews facilitated the development and understanding of licensees' risk profiles as well as the formulation of a related supervisory programme, which was also being guided by the reviews of relevant minutes and papers, in relation to meetings convened by the pilot groups' board and other sub-committees.

Additionally, in May 2021, following the operationalization of the licensing regime for FHCs, the Bank granted its first FHC license to the pilot financial group, with related conditions, and continued its ongoing monitoring exercise of the FHC. Furthermore, the Bank continued to develop key supervisory strategies for the pilot financial group. Of note, the development and assessment of the risk profile of the pilot financial group will be a multi-year process, and as such, the Bank continued to intensify its supervisory efforts and collaboration with local and regional regulators, and will continue to develop applicable memorandums of understanding with the relevant regional regulators. The Bank continued to benefit from technical assistance for conglomerate RBS from multilateral institutions as well as ongoing training by consultants geared at strengthening the Bank's capacity and regulatory framework for RBS.

Importantly, a Regional Consolidated Supervision Working Group (TWG) was established in 2021 to facilitate cooperation and collaboration between local as well as regional regulatory authorities, and to bolster the Bank's understanding of the application of the risk-based conglomerate methodology. The TWG met virtually on several occasions during the year and continued to work on a Regional Consolidated Supervisory Framework document, under the guidance of the Caribbean Regional Technical Assistance Centre (CARTAC). This particular TWG's workstream was led by Bank of Jamaica.

[18] The local regulatory counterpart is the FSC. Information sharing between the Bank and FSC is done through an established technical working group between both institutions.

IV. Regulatory Approvals

Bank of Jamaica is committed to conducting a transparent, open and clear regulatory approval process while maintaining a robust assessment process of the varied applications and their attendant service level agreements (SLAs) within the regulatory approval ambit of the Bank. Regulatory approvals are an important part of the Bank's overall supervisory framework. Notwithstanding the impact of the COVID-19 pandemic, during the year the Bank continued to assess applications submitted for regulatory approvals within the ambit of its regulatory service level standards. Over the period, the Bank, through the Approvals and Licensing Department, processed 34 regulatory approval applications pursuant to the BSA, a reduction of 31.3 per cent or 10 regulatory approval applications, when compared to the 42 applications processed in 2020. Of these 34 processed applications, 12 were assessed under Section 7(1) (Functions of the Supervisory Committee), nine under Section 39(5) (Duty to notify for Major Changes); four under Section 55 (Permitted Activities); two under Section 19(2) (Licence); one under Section 30 (Restriction on Alteration of Incorporating documents); and six under other sections of the BSA. The Bank also returned two applications under Section 7(1) of the BSA during 2021, due to incomplete submission of documentation required for assessment of the requests.

At 31 December 2021, there were three applications related to Section 7(1) of the BSA on hold. Notwithstanding the impact of COVID-19 on the operations of the Bank, 85.0 per cent of the applications were assessed within the compliance of the Bank's regulatory service level standards.

V. Other Supervisory Initiatives

a) The Country's Anti-Money Laundering, Combatting the Financing of Terrorism (AML/CFT), and Proliferation of Weapons of Mass Destruction (PWMD) Assessment

As part of the global community, Jamaica shares the world-wide goal of preventing criminals from perpetrating acts of money laundering (ML), terrorism financing (TF) and proliferation financing (PF). The Bank, in collaboration with other stakeholders, continued to strengthen the country's AML/CFT framework by assessing its ML/TF/PF risk exposures. In this regard, Jamaica embarked on the conduct of a National Risk Assessment with the objectives to: (i) help the country identify and understand its ML and TF risks; (ii) facilitate the targeting of resources to address the areas of greatest risk and vulnerability; and (iii) maintain a sustainable/ongoing national programme designed to strengthen Jamaica's AML/CFT/CPF framework.[19]

The NRA was completed against the backdrop of the 2018 mutual evaluation report conducted by the Caribbean Financial Action Task Force (CFATF), which identified deficiencies within Jamaica's AML/CFT framework. As a consequence, in February 2020, Jamaica was placed on the Financial Action Task Force's (FATF) grey list, the European Union Blacklist, in May 2020, and the United Kingdom's list of high-risk, money laundering countries, in March 2021.

The purpose of the NRA, which covered the period 2016 to 2019, was to identify, assess and therefore acutely understand the ML/TF risks within the country. Bank of Jamaica was selected by the Ministry of Finance and the Public Service to be the Lead Coordinating Agency for Jamaica's NRA project, with the responsibility of project oversight and supervision placed directly with the office of the Deputy Governor/Deputy Supervisor of Banks.

Bank of Jamaica in collaboration with several stakeholders across many agencies, including the government, the private sector, regulatory bodies and law enforcement agencies, finalized and published the NRA in August 2021with the country's overall ML risk assessed as ***Medium-High*** for both the national threat and vulnerability.[20]

[19] CPF refers to Countering Proliferation Financing.

[20] The NRA report is available on the Bank's website. Additionally, with the completion of the NRA, the country received re-rating of 13 Recommendations (that is, Recommendations 12, 21, 33 are re-rated as Compliant; Recommendations 2, 6, 10, 11, 14, 17, 18, 19 are re-rated as Largely Compliant; Recommendation 8 is re-rated as Partially Compliant and Recommendation 15 is re-rated as Partially Compliant).

The assessment concluded that the risk of terrorism financing was *Low*. The completion of the NRA was a major accomplishment under Jamaica's Action Plan agreed with the FATF, which includes 13 areas to be addressed by end-January 2022.

- Jamaica substantially completed two other strategic deliverables from its Action Plan including: (i) the passing of the Micro-credit Act and licensing rules for operators within the micro-finance sector; and (ii) the establishment of a Micro-credit Examination Portfolio within FISD to oversee micro-credit institutions.[21]
- There are a number of strategic objectives in-progress to aid in strengthening of Jamaica's AML/CFT regime, such as: (i) legislation for Trust & Company Service Providers (TCSPs), which are currently not subject to risk-based supervision; (ii) amendments to the Companies Act, regarding the definition of beneficial ownership in line with FATF's definition and the maintenance of a beneficial ownership register; (iii) implementation of RBS methodology by all supervisors of Designated Non-Financial Businesses and Professions (DNFBPs); and (iv) the implementation of a RBS framework for Non-Profit Organisations (NPO).[22,23]

b) The Bank's activities relating to the strengthening of the Anti-money Laundering, Combatting the Financing of Terrorism (AML/CFT), and Proliferation of Weapons of Mass Destruction (PWMD) framework in the banking sector.

Throughout the course of 2021, the AML/CFT Unit continued off-site monitoring to strengthen the AML/CFT framework of licensees under the BSA. Licensees are expected to continue to provide the Bank with semi-annual AML/CFT related information on their operations. The Bank used the information collected during 2021 to complete licensees' risk matrix in which DTIs were ranked according to their risk levels. Licensees were ranked either high, above average, moderate, or low risk. The outcome from the risk matrix will continue to inform the requisite risk-based assessments on an ongoing basis.[24]

To evaluate the effectiveness of remedial actions, controls and other action plans by licensees to address identified deficiencies in their AML/CFT framework, the Bank continued to make strides on several follow-up activities. In this vein, the Bank used: (i) supervisory technology to bolster its evaluation of licensees' AML/CFT framework; and (ii) the assistance of an external service provider, which include, *inter alia*, the conducting of thematic reviews in relation to: (a) a follow-up review of licensees' sanction screening systems in December 2021 (these results will be made available to licensees in the first quarter of 2022); and (b) a review of the transactions monitoring system of five licensees which were selected based on their risk profile.

Bank of Jamaica continued its engagement with the industry regarding developments in its AML/CFT regulatory framework by disseminating notices relating to AML/CFT matters to financial institutions. Communication with the relevant stakeholders was also bolstered during the review year.

d) The Fitness and Propriety of Substantial Shareholders, Directors, Officers and Key Employees of DTIs.

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[21] Currently, the Bank is building out the infrastructure to implement microcredit supervision and is expected to commence licensing of existing players in 2022.
[22] The results of the NRA highlighted some important policy implications, and it should be noted that policy setting, arising from the findings and the recommendations of the NRA, is the purview of the Cabinet.
[23] Notably, the framework to regulate TCSPs is currently in an advanced stage of development and should become operational by the first quarter of 2022.
[24] DTIs continued to submit quarterly information on know-your-customer/customer due diligence (KYC/CDD) compliance on their respective customer bases, aimed at identifying and closing any existing information gaps.

The Bank through its Fit and Proper Department ensures that DTIs and their FHCs are owned, managed and operated by persons deemed to be fit and proper and who maintain high ethical standards, are competent, qualified for the roles they have and whose dealings generally reflect overall integrity and probity. In 2021, the Bank improved the assessment criteria by including the candidate's "suitability" criterion in the evaluation process, in addition to the candidates' competence, probity and financial soundness, in line with global best practice. Consequently, the Bank commenced the review and update of the Standard of Sound Practice on Fit and Proper Assessments, which include the global best practice suitability considerations. The new "Standard" is set for publication by the second quarter of 2022.

In 2021, the Bank's Fit and Proper Review Committee (FPRC) met on 10 occasions. There were no adverse recommendations from these meetings. In this context, 38 non-objection recommendations were made to the Supervisor for subsequent approval. All applications were approved. The number of approvals in 2021 equalled that of 2020.[25]

In addition, the following summary reviews were undertaken:

i. 16 reviews for licensing and approvals, a 5.0 per cent decline compared to 2020;

ii. 993 reviews related to Cambios, Remittance Service Providers, Primary Dealers and Payment Services providers. This represented a 49.0 per cent increase compared to 2020;

iii. A special review of 12 directors and key officers for an international financial technology (fintech) company, that operates under the remit of FMID;[26] and

iv. A special in-depth review of two previously debarred persons seeking to be cleansed.

During 2021, there were no assessments of Agent Banking or Credit Reporting Fit and Proper. This was in a context where there no agent banking applications were received, nor were there requests for reassessments of Credit Reporting candidates. Additionally, the annual audit of the Fit and Proper department's database was undertaken to ensure its robustness and close information gaps which occurred during the year.[27] Furthermore, the Bank through the Fit and Proper Department contributed significantly towards the development of the fit and proper model of the JAMFIRMS Phase II implementation which is slated to roll-out in the first quarter of 2022.

e) Jamaica Special Resolution Regime (SRR) Updates

The Jamaican Special Resolution Regime was designed to make feasible, the resolution of non-viable financial institutions operating in Jamaica without severe systemic disruption and without exposing taxpayers to undue losses, while protecting vital economic functions. The Special Resolution Regime Technical Working Group (SRR TWG), which consists of representatives from Bank of Jamaica, the Financial Services Commission, Jamaica Deposit Insurance Company and the Ministry of Finance and the Public Services (MOFPS), continued to develop and implement the SRR for financial institutions (FIs) in Jamaica. Notwithstanding the change in timeline to submit the completed Bill to Parliament, the SRR TWG continued the review of the draft bill entitled the 'Financial Institution Resolution Act'. It is anticipated that all the necessary revisions will be submitted to MOFPS for eventual onward submission to the Chief Parliamentary Counsel (CPC) by the second quarter of 2022. Subsequently, the draft Bill is expected to be tabled before Parliament by the fourth quarter of 2022.

[25] 79 per cent of the applications were approved within the Bank's regulatory service level standard timelines.
[26] eCurrency.
[27] The auditing of the Fit and Proper department's database done on an annual basis.

Additionally, a consultation paper is being drafted on the implications of the powers being proposed under the SRR for the financial sector as well as Bank of Jamaica's powers under the proposed regime. This consultation paper is to be issued to the industry by the second quarter of 2022.

f) Prudential Treatment of Exit from Temporary Payment Accommodations and Provisioning Guidelines

In 2021, Bank of Jamaica took supervisory action to discontinue the special prudential treatment of temporary COVID–19 related payment accommodations and provisioning of loans by deposit–taking institutions as well as credit unions. The exit from the special treatment of all COVID–19 related payment accommodations was on the basis that the quantum of loans afforded the special treatment contracted significantly. In addition, the Bank was of the view that DTIs and their FHCs were better placed to manage the disruptions caused by the COVID–19 pandemic.

The Bank continued to bolster its communication with the industry on developments related to disruptions resulting from the pandemic. In this context, DTIs and their FHCs were advised on, *inter alia*: (i) the importance of using stress tests in order to identify their vulnerabilities; and (ii) assessment of their borrowers' creditworthiness.

Achievements in 2021

Risks to financial stability remained muted in 2021 supported by recovery in real economic activity

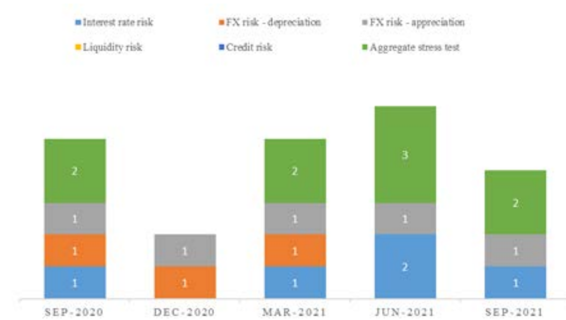
The Bank's composite indicator of macro-financial conditions showed an improved environment at end-September 2021, relative to the outturn at end-2020, as there was evidence of a rebound in macroeconomic activity subsequent to the onset of the COVID-19 pandemic. This recovery was reflected in improved asset and credit market performance as well as expansion in real GDP.[28] However, there was increased volatility in inflation. The Bank's Early Warning System framework for the soundness of licensees showed that, in light of these conditions, licensees maintained relatively sound balance sheet positions.

Stress tests conducted by Bank, at end-September 2021, indicated that capital adequacy ratios (CAR) for the DTI sector remained above the 10.0 per cent minimum benchmark in response to hypothetical market, credit and liquidity shocks.[29,30] This resilience was largely due to the improvement in real economic activity as well as actions undertaken by the Government of Jamaica and supervisory authorities, since 2020, to mitigate the impact of the COVID-19 pandemic on DTIs' balance sheets.

As it relates to credit risk, DTIs' non-performing loans (NPLs) to total loans ratio improved to 2.7 per cent at end-September 2021 from 2.8 per cent at end-2020. Furthermore, credit risk stress test results at end-September 2021 showed that the DTI sector continued to be robust to the hypothetical shocks applied to NPLs. In particular, the CARs of all DTIs remained above the 10.0 per cent prudential capital benchmark subsequent to hypothetical increases in NPLs which ranged from 10.0 per cent to 50.0 per cent.

In addition, the DTI sector remained resilient to a hypothetical 20.0 per cent deposit withdrawal at end-September 2021. The results of the liquidity stress tests indicated that it would require a withdrawal of 71.0 per cent of deposits for the overall DTI sector's CAR to fall below the prudential benchmark of 10.0 per cent. However, this result was lower than the outturn at end-September 2020 when it would have required a deposit withdrawal shock of 75.0 per cent for the DTI sector's CAR to fall below 10.0 per cent. This lower outturn was due to a marginal decline in liquid assets over the review period.

Chart 19: Stress Test Results Showing No. of Institutions Breaching Prudential Capital Benchmark[31/]



Source: BOJ

At end-September 2021, the banking system showed broad resilience to foreign exchange risks. The DTI sector's CAR remained robust in response to hypothetical depreciation and appreciation

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[28] 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).

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

[30] 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.

[31] 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) 20.0% loss of deposits.

shocks ranging from 10.0 to 50.0 per cent (see Chart 19).

Interest rate stress tests results showed that the DTI sector remained resilient to the contemplated interest rate shocks applied at end-September 2021. More specifically, the sector's CAR remained at 14.4 per cent 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.[32,33] This result represented an improvement relative to end-September 2020, when the post-shock CAR declined marginally by 0.9 percentage point to 13.4 per cent. This improved resilience was largely attributed to the sector's stronger capital position relative to end-September 2020.

Subsequent to the simultaneous impact of hypothetical increases in interest rates, currency depreciation, credit quality deterioration and deposit outflow, the post-shock CAR of the DTI sector remained above the prudential minimum benchmark at end-September 2021.[34]

▶ Related Reports

Financial System Stability Annual Report
https://boj.org.jm/boj-publications/annual-publications/

Highlights of Macro-prudential Report
https://boj.org.jm/boj-publications/quarterly-reports/

Outlook

Prospects for the financial sector points to continued stability and an increase in the digitisation of the system

The DTI sector remained stable through 2021, as reflected in the continued strong solvency levels and the expansion in the financial system's assets despite the effects of the pandemic. Notably, the sector also maintained sufficient levels of liquidity throughout the year. Going forward, the Bank anticipates that the financial system will see a continuation of the uncertainties associated with the ongoing pandemic. In this regard, the banking sector should maintain the spotlight on the business sectors that experienced significant and prolonged disruptions associated with the pandemic, while continuing proactive management of credit risk exposures.

In 2022, the Bank anticipates a rise in digitisation within the financial sector associated with the following: (i) BOJ's launch of CBDC set for the first quarter of 2022; (ii) an increase in digital payment platforms; and (iii) the enablement of data portability. These emerging areas and the associated impact will require a regulatory response from the Bank.

The implementation of key reforms arising from the latest Financial Sector Assessment Programme (FSAP) will continue apace in 2022, and will include: (i) the operationalisation of the Basel III Capital Adequacy Framework; (ii) the continued operationalisation of risk-based supervision on a solo and consolidated basis; and (iii) further work on the Special Resolution Regime project for financial institutions. The Bank will be actively implementing the recommendations of the successfully concluded

[32] 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.

[33] 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.

[34] The aggregate stress test assumptions include: increases of 1 100 bps and 100 bps in interest rates on domestic currency investment 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 and10.0 per cent reduction in deposits.

National Risk Assessment programme, which will assist in strengthening the sector against money laundering, terrorism financing and proliferation risks while making it more resilient and nimbler.

PAYMENT SYSTEM

BOJ MINTS $230 MILLION

BOJ on 9 August 2021 minted $230 million worth of its CBDC to be issued to deposit-taking institutions and authorized payment service providers which initiated the start of the pilot exercise expected to end in December.

TIMELINE IN PILOT

PAYMENT SYSTEM

Notwithstanding the ongoing COVID-19 pandemic, the financial market infrastructures (FMIs) remained safe and reliable as well as performed efficiently and effectively during 2021. Key achievements during the year included the launch and successful completion of a Central Bank Digital Currency (CBDC) pilot in the Bank's Fintech Regulatory Sandbox. The Bank also commenced the migration of Jamaica's Financial Market Infrastructures from the Swift Message Type (MT) standard to the ISO 20022 – 'Universal Financial Industry Message Scheme' format. This medium-term project is scheduled for completion at end- 2025. In addition, the Bank completed its assessment of the JamClear® systems against the Principles of Financial Market Infrastructures (PFMIs) and the findings indicated that the systems were generally compliant.

JamClear®-RTGS utilization increased in 2021

For the review year, JamClear®-RTGS processed 2 852 648 transactions (representing settlement of USD and JMD payments). System utilisation reflected an increase in JMD volume by 81.7 per cent (1 281 357 transactions) to 2 848 839 transactions (see Chart 20). Growth in the JMD volume was largely attributed to an 86.2 per cent increase in participant payments on behalf of household and corporate clients.

Similarly, JMD transaction values increased by 27.2 per cent ($4.6 trillion) to $21.4 trillion. The increase largely reflected a 55.9 per cent ($3.3 trillion) increase in securities settlement transactions initiated from JamClear®-CSD.[1] The growth in securities settlement transactions was largely attributed to an increase in BOJ and GOJ bond issuance and market participants requesting liquidity via long-term repurchase agreement operations.

At end-2021, the total volume of USD transactions processed in JamClear®-RTGS amounted to 3 809, an increase of 41.9 per cent (1 125 transactions). The increase in volume largely stemmed from a 151.2 per cent increase in participant payment transactions. Total USD transaction values increased by 91.1 per cent (US$1.7 billion) to US$3.6 billion (see Chart 21). This outturn reflected an increase in participant payments (180.3 per cent).

Chart 20: JamClear®-RTGS Transaction Activities (JMD)

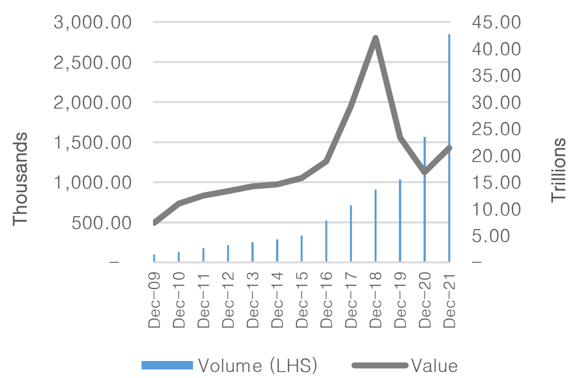
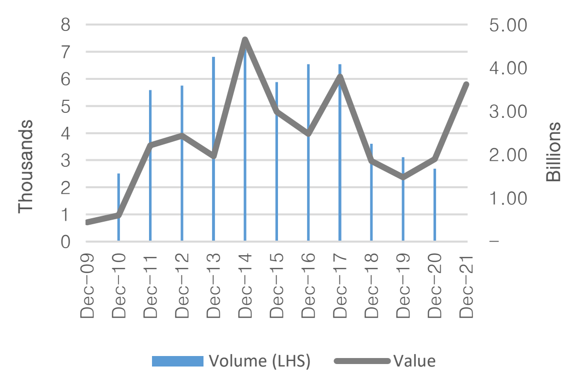


Chart 21: JamClear®-RTGS Transaction Activities (USD)



[1] JamClear®-CSD provides the authentic record of ownership of BOJ and GOJ securities. It brings significant efficiencies to the processes for issue, management and redemption to the domestic fixed-income securities market.

Increases in utilisation of electronic retail payment systems – as at December 2021

Utilisation of the electronic retail payment systems increased in 2021.[2] Total volume of retail payment transactions processed during 2021 was 128.9 million, valued at $4.1 trillion. This reflected increases of 7.0 per cent (8.4 million) and 8.7 per cent ($326.8 billion) in the volume and value of transactions, respectively, relative to 2020. The growth in utilisation mainly reflected rises in both the volumes and values of credit card transactions by 36.3 per cent (7.4 million) and 26.0 per cent ($142.2 billion), respectively.

The number of debit cards in circulation increased by 13.0 per cent to 4.5 million. DTIs settled 48.8 million debit card transactions, valued at $1.5 trillion, on their proprietary systems. Debit card transactions processed on the proprietary systems of the DTIs reflected a decline of 8.0 per cent (4.2 million) in volumes and an increase of 13.3 per cent ($171.1 billion) in value relative to 2020.

Credit cards in circulation for the year amounted to 359 295, an increase of 7.1 per cent when compared to 2020. The number of credit card transactions processed on the proprietary systems of DTIs in 2021 was 27.9 million valued at $688.5 billion. These figures represented increases of 36.3 per cent (7.4 million) and 26.0 per cent ($142.2 billion) in volume and value of transactions, respectively, relative to 2020.

The number of installed automated banking machines (ABMs), as reported by DTIs, decreased by 0.3 per cent (2 terminals) to 793. Approximately 15.7 million transactions valued at $167.6 billion were processed at ABMs through the MultiLink network during the year. The volume of transactions processed reflected an increase of 14.0 per cent (1.9 million) and transaction values reflected an increase of 30.2 per cent ($38.8 billion) relative to 2020.

For the review year, the number of Point of Sale (POS) terminals increased by 5.3 per cent to 47 366. Total transactions processed on POS terminals increased in volume by 20.1 per cent (3.4 million) to approximately 20.5 million, relative to the previous year. The value of POS transactions increased by 30.8 per cent ($34.6 billion) to $147.1 billion, relative to 2020.

An overall decline in cheques processed

The total number of cheques processed through the Automated Clearing House (ACH) over the reporting period was 3.9 million, valued approximately $565 billion. These outturns reflected declines of 15.2 per cent (698 468) in volume and 9.1 per cent ($56.3 billion) in the value of transactions, when compared to 2020. The lower volume and value of cheques processed may be attributed to the success of the ACH value threshold of $1.0 million.[3] The average value of each cheque processed in the ACH increased by 7.2 per cent to $144 430.1 in 2021 when compared to $134 761.3 in 2020.

Foreign currency cheques cleared manually through the BOJ Clearing House reflected a decline of 13.3 per cent in value when compared to 2020. Cheques denominated in US dollars amounted to US$1.2 billion and accounted for 99.2 per cent of the total foreign currency cheques cleared.

Bill payment transactions increased

Total bill payments reported in 2021, was 23.6 million transactions valued at $436.8 billion. This reflected increases of 7.1 per cent (1.6 million) in volume and 13.3 per cent ($51.2 billion) in the value of transactions, relative to 2020. The dominant method for bill payment was debit card, which accounted for 48.6 per cent of the total volume in the review year. Debit cards also accounted for 66.5 per cent of the total value of bill payments in 2021.

[2] Electronic Retail Payment Systems comprise Debit Cards, Credit Cards, MultiLink and Cheque activities.

[3] The ACH Value Threshold is a strategy implemented by the Bank to reduce the value of transactions processed through the Automated Clearing House ≥ $1 million to reduce settlement risk.

Regulatory Action - Revocation of Participation in the Sandbox

On 3 December 2021, regulatory action was taken against a Payment Service Provider (PSP) in a context where charges were laid by the Financial Investigations Division (FID) against the principals of an entity operating in the Sandbox. In this regard, there was an immediate revocation of the PSP's authorization to operate in the Sandbox.

Achievements in 2021

JamClear® further modernized in 2021

During 2021, the Bank continued to improve the JamClear® systems as part of the modernization plan. Phase-2 of the JamClear® Foreign Exchange Trading Platform (FXTP) project was completed with the implementation of the following: (i) Negotiated Market (NM) for bilateral trading between participants; (ii) External Market (EM), to replace the previous end of day reporting in eGATE; and (iii) an automated framework for the calculation of the surrender requirements and the Cambio FX position. Utilisation of this framework is dependent on completion of the transition phase for all licensees to the FXTP.

> *"Other oversight initiatives included the development of an enabling regulatory framework and the adoption of ISO20022."*

Waiver of transaction fees continued in 2021

The Bank extended the waiver of transaction fees associated with the settlement of customer payment transactions in JamClear®-RTGS to 31 March 2022.[4] The objective was aimed at encouraging the use of this means of payment as a COVID-19 containment measure.

JamClear® systems generally compliant with the Principles of Financial Market Infrastructures (PFMIs)

For the review year, the Bank completed its preliminary assessment of the JamClear® Systems (JamClear®-RTGS & JamClear®-CSD) against the PFMIs. JamClear®-RTGS was assessed against 16 of 24 principles and JamClear®-CSD was assessed against 12 of 24 principles. The Bank's findings indicated that the JamClear® systems were generally compliant with the principles. This means that identified gaps and shortcomings were not issues of concern and were minor, manageable, and of a nature that the JamClear® systems operators could consider taking up in the normal course of its business.

Development of an Enabling Regulatory Framework for Payment Service Providers (PSPs)

During the year, work continued on the regulatory framework aimed at enhancing the Bank's supervisory powers over Payment Service Providers (PSPs). In this context, the Bank finalised the stakeholder consultation process and submitted a concept paper to the Ministry of Finance and the Public Service. Work is ongoing on the development of a supervisory

[4] 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.

manual for the oversight of PSPs, which benefited from lessons learned in the Sandbox.

Jamaica to migrate to ISO 20022 standard by end-2025

Bank of Jamaica took a leading role in co-ordinating Jamaica's Financial Market Infrastructures migration from the Swift Message Type (MT) standard to the ISO 20022 – 'Universal Financial Industry Message Scheme' format by end –2025. Adoption of the ISO 20022 standard should improve payment processing efficiency and promote interoperability among financial institutions, financial market infrastructures and end-users. This initiative is part of the Bank's strategic vision to enhance end-to-end efficiency for domestic and cross-border payments. In this regard, the Bank has developed a Terms of Reference for the Working Group on the Implementation of ISO 20022 and a Statement of Adoption for the standard, which will be published in the first quarter of 2022.

Fintech Regulatory Sandbox Development and CBDC

Testing continues in the BOJ Fintech Regulatory Sandbox

The Fintech Regulatory Sandbox (Sandbox) continued to provide a controlled environment for the deployment and refinement of financial technology. The Sandbox allows for the adaptation of regulatory requirements or procedures that may unintentionally inhibit innovation or render the products, services or business models non-viable. At end-2021, the Bank received 32 applications from 31 applicants (one entity submitted two applications), of which 20 applications were approved for testing in the Sandbox. By year end, 19 entities were at different stages of testing their respective product/service. Additionally, three entities had their authorization to operate in the Sandbox revoked for reasons which included, underperformance and ineligibility to participate due to fit and proper concerns.

Central Bank Digital Currency (CBDC) pilot completed in 2021

In 2021, the Bank successfully completed the CBDC pilot. On 9 August 2021, BOJ minted $230 million worth of digital currency for issuance to deposit-taking institutions and authorized payment service providers. Of this amount, $5 million was issued to the first wallet provider, National Commercial Bank, on 29 October 2021. By end year, this wallet provider successfully onboarded 57 customers which included four small merchants and 53 consumers. These customers conducted person-to-person, cash-in and cash-out transactions through 37 accounts and completed transactions with small merchants. The national roll-out of the CBDC is scheduled for the first quarter of 2022.

▶ Additional Resources

Payment Systems Data Bulletin
https://boj.org.jm/boj-publications/boj-monthly-reports/

CURRENCY

Bank of Jamaica banking hall.

CURRENCY

Despite the global shipping crisis and the protracted presence of the COVID-19 pandemic, the Bank continued to fulfill its statutory requirement of satisfying the public demand for banknotes and coins. This was due to efficient and timely forward planning.

There were two periods of disruptions to currency operations, February and August 2021, due to the COVID-19 pandemic. However, continuity was maintained through the activation of the Bank's business contingency arrangements.

Currency in circulation increased at a slower pace

The total value of currency in circulation was $226.86 billion at end-2021. This outturn represented an increase of 19.0 per cent when compared to the corresponding figure at end-2020. However, the growth in currency in circulation in 2021 decelerated relative to the increase of 27.8 per cent in 2020, primarily due to lower net issues during the year. Notably, the stock of currency in circulation at end-2021 included $6 million in Central Bank Digital Currency.

Increase in value of currency issued

The total value of banknotes issued for 2021 amounted to $329.4 billion, which was 6.6 per cent above that of 2020. Similarly, the total value of coins issued in 2021 increased by 17.8 per cent to $1.3 billion, relative to $1.1 billion in 2020.

Growth in the value of banknote and coin redemptions

Banknote redemptions during 2021 were valued at $293.5 billion, an increase of 9.6 per cent relative to 2020. Coins redeemed in 2021 were valued at $0.6 billion, representing an increase of 4.4 per cent relative to the value redeemed in 2020.

Less banknotes processed in 2021

During 2021, 222.5 million pieces of banknotes valued at $246.9 billion were processed by the Bank. This outturn represented a decline of 7.3 per cent relative to the 240.1 million banknotes ($238.0 billion) processed in the previous year.

Counterfeit detection remained a priority

The total number of counterfeit banknotes detected during 2021 was 571 valued at $0.7 million compared to 1 547 pieces valued at $1.8 million in 2020. The figure for 2021 was equivalent to 2.5 counterfeit banknotes per million genuine banknotes in active circulation. This result reflected a significant improvement relative to 7.2 counterfeit banknotes per one million genuine banknotes detected in 2020.

Durability of all banknotes improved

For 2021, the Average Circulation Lives (ACL) of the $5000, $1000, $500, $100 and $50 banknotes were calculated at 31.8 months, 28.9 months, 18.8 months, 34.0 months and 53.0 months, respectively. These outturns reflected improvements relative to the figures of 21.0 months, 23.6 months, 15.8 months, 27.2 months and 40.8 months for the $5000, $1000, $500, $100 and $50 notes, respectively, in 2020. This occurred in a context where there has been an observed improvement in the quality of notes redeemed to the Bank, suggesting better banknote handling practices by the public.

Achievements in 2021

First Batch of Central Bank Digital Currency Minted

During the review year, the first batch of Central Bank Digital Currency, totalling $230.0 million, was minted on 09 August 2021, a historic achievement for Bank of Jamaica (see Payment System). Of this amount, a total of $12.0 million was issued into circulation through two financial institutions. However, only $6.0 million remained in circulation at end-2021 after a redemption exercise for $6.0 million was conducted in December 2021.

Contract with the Bank's Coin Agent Renewed

In June 2021, the Bank completed the process of renewing its partnership with its coin agent, GraceKennedy Payment Services Limited, to facilitate the redemption of all coin denominations (active circulation coins and withdrawn coins). The renewal of this contract was crucial because this arrangement has allowed the Bank to be more reliant on re-issuable coins to meet public demand. Of note, the coin agent accounted for 93.0 per cent of the total number of coins redeemed in 2021.

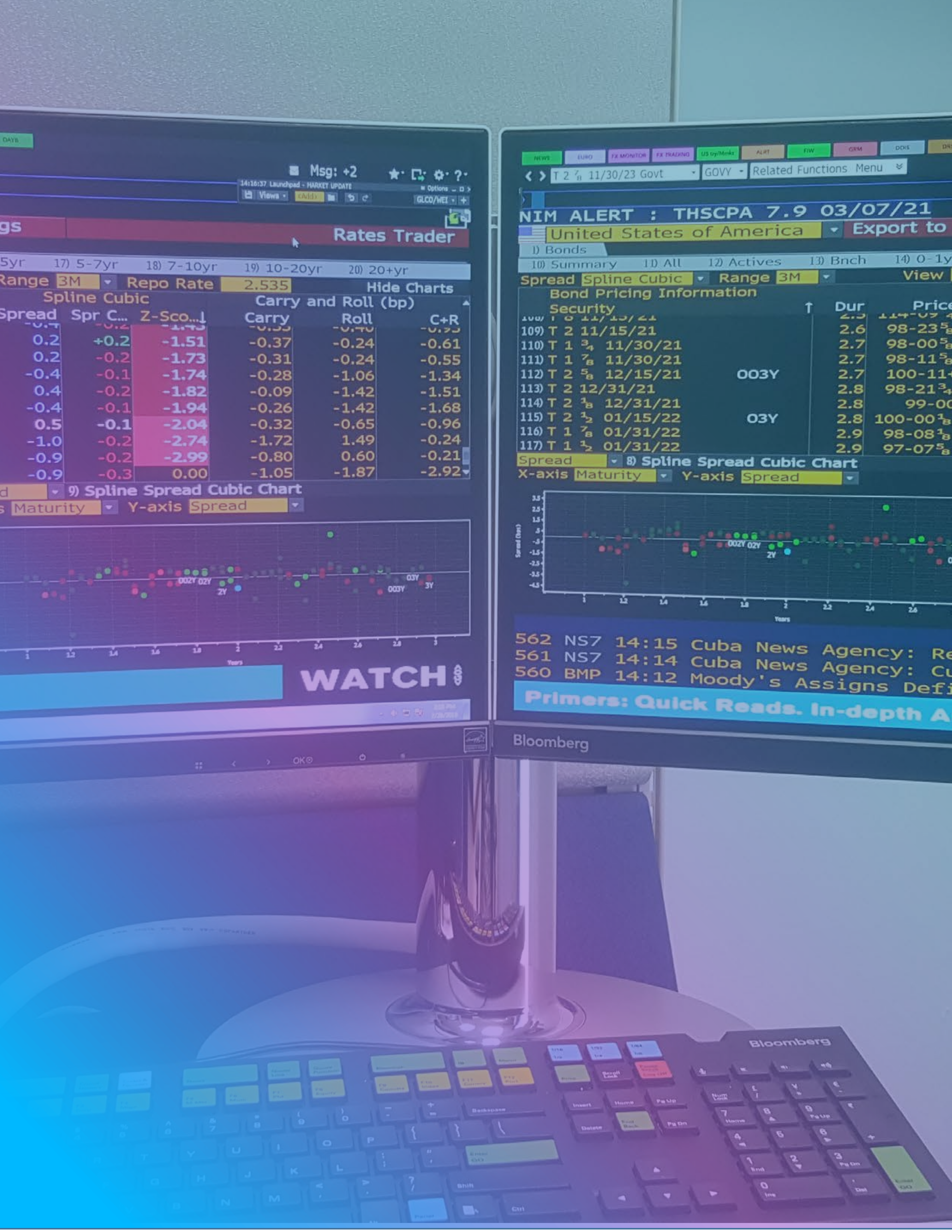
▶ Related Reports

Jamaica's Central Bank Digital Currency (CBDC)
https://boj.org.jm/core-functions/currency/cbdc/

History of our Currency
https://boj.org.jm/core-functions/currency/history/

Banknotes
https://boj.org.jm/core-functions/currency/bank-notes/

FINANCIAL MARKET OPERATIONS



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FINANCIAL MARKET OPERATIONS

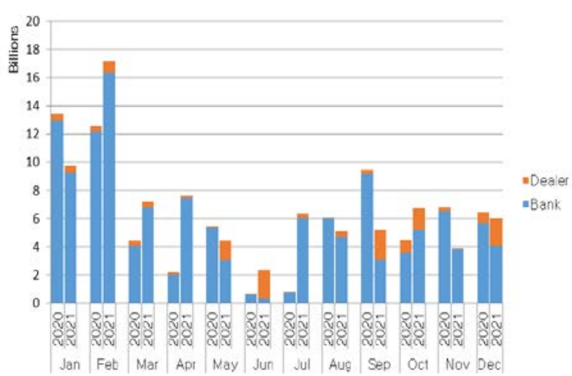
During 2021, Bank of Jamaica continued to utilize its monetary policy tools in an effort to guide inflation towards its target range of 4.0 to 6.0 per cent. This thrust influenced the Bank's open–market operations throughout the year, in particular the management of Jamaica Dollar liquidity in the financial system. The Bank also provided adequate access to liquidity in both the foreign and domestic markets through its repurchase facilities and via its intervention platform. Jamaica's international reserves position remained robust in the year, buoyed by the receipt of a Special Drawing Rights allocation, the equivalent of US$520.6 million, in August 2021.

Domestic Market

Decreased usage of auto repo facility

The Bank continued to provide intraday liquidity to eligible participants through the Auto Repo Facility during 2021. The facility was accessed 1 092 times by nine participants during the review year, reflecting a marginal increase of 3.8 per cent in usage relative to 2020. Similarly, the average value of intraday liquidity increased marginally over the review year, with the highest utilization occurring in the March quarter (see Chart 21). There was general slowdown in the usage of the Auto Repo Facility during the second half of the year, largely due to a moderation in the absorptive impulse emanating from the Bank's open market operations during this period.

Chart 21: Comparison of Daily Average Liquidity Utilized – 2020 & 2021



Source: BOJ

The Bank expanded its liquidity management toolkit

In an effort to manage Jamaica Dollar liquidity during 2021 the following measures were employed:

(i) The continuation of offers of 30–day certificates of deposit (CDs) once weekly via auctions. For 2021, $425.7 billion was successfully allocated via 30–day CD auctions compared with the maturing amount of $423.6 billion for 2020.

(ii) The issue of five special instruments via competitive auction with limited offer amounts;

(iii) The issuance of three fixed rate certificates of deposit with an average tenor of one year and six months and a total offer size of $29.5 billion. Notably, all three instruments were oversubscribed.

(iv) The issuance of two US–Indexed Notes with an average tenor of 2.7 years and a total offer size of US$175.0 million.

In addition to these measures, the Bank provided liquidity assurance to DTIs through its overnight repurchase facility (which offers unlimited support). Subsequent to its Jamaica Dollar liquidity assessment, the Bank also offered liquidity to DTIs once weekly via its 14–day repurchase operations.

Primary Dealers' participation in BOJ Open Market Operations (OMO) instruments increased

In 2021, participation in OMO issues by Primary Dealers averaged $32.0 billion, a decline of 14,0 per cent, relative to the average of $37.3 billion in 2020. In spite of the decline for 2021, Primary Dealers' demand for OMO instruments was considered to be robust in the context of the limited BOJ and GOJ offers. This demand continued in the context of PDs' need to meet the periodic minimum performance assessment score.

At end-2021, the number of PDs remained at seven. A total of 13 candidates were assessed under the Bank's 'Enhanced Fit and Proper Criteria'. These assessments were conducted in accordance with the policy for designating entities as well as the requirements for the annual renewal of the PD designation.

BANK OF JAMAICA

B-FXITT

FOREIGN EXCHANGE INTERVENTION & TRADING TOOL

International Reserves

Jamaica maintained a strong Foreign Reserve position

Bank of Jamaica maintained a strong net international reserve (NIR) position for 2021. The NIR ended the year at US$4 000.8 million, an increase of US$870.0 million relative to end-2020. At end-2021, gross reserves amounted to US$4 833.4 million, which represented 156.9 per cent of the IMF's Assessing Reserve Adequacy (ARA 100%) metric. The gross reserves at end-2021 also represented approximately 33.5 weeks of projected goods and services imports.

At end-2021, the non-borrowed reserves (NBR) accounted for 94.5 per cent of the NIR, relative to 90.8 per cent at end-2020. This improvement was 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 borrowed reserves, specifically foreign currency CDs.

BOJ continued to reduce its stock of foreign currency Certificates of Deposit

The Bank maintained a strategy of net-redemption of its US dollar CDs in 2021 in keeping with its objective of reducing stock of borrowed reserves. Against this background, the outstanding stock of foreign currency CDs at end-2021 was US$221.7 million, relative to US$286.5 million at end-2020. The reduction occurred in the context of no new issuance of foreign currency CDs during the year as well as maturities amounting to US$64.8 million, in comparison to US$55.5 million in 2020. The majority of maturities in 2021 occurred in the December quarter, amounting to approximately US$42.6 million or 65.7 per cent of total maturities for the year (see Table 12). Of note, two US dollar-indexed bonds, totalling US$175.0 million, were issued to investors seeking a hedge against exchange rate movements during the year.

Table 12

BOJ USD CERTIFICATES OF DEPOSIT: 2021

Quarters	Maturing Amounts (US$ mn)	Nominal Outstanding (US$ mn)
March	0.0	286.5
June	0.0	286.5
September	22.2	264.3
December	42.6	221.7
TOTAL	64.8	221.7

Source: BOJ

The Gross Foreign Assets grew year-over-year

In 2021, Bank of Jamaica's gross foreign assets (GFA) increased by US$747.7 million to US$4 833.4 million , relative to 2020. The growth in the GFA primarily reflected the impact of receipts from the IMF general SDR allocation, surrenders, foreign currency inflows to the Government from multilaterals and foreign currency inflows from Government entities. The SDR allocation amounted to the equivalent of US$520.6 million. For the year, the impact of the SDR allocation as well as the other major inflows on the GFA was partly offset by Government payments as well as BOJ's foreign currency sales to the market, which included sales via B-FXITT auctions as well as sales to the energy sector and to Public Sector Entities. Sales through the B-FXITT totalled US$388.8 million for the year.

As part of its strategy to manage conditions in the foreign exchange market, the Bank offered foreign currency swaps during the year, with issuances amounting to US$22.0 million. However, these transactions had no net impact on the GFA in a context where all of the swap contracts matured within the year. Of note, there were no new issuances under the US dollar repurchase facility during the year. However, repayments amounted to US$17.8 million, relative to US$138.1 million in 2020.

During the year, the repayment of funds borrowed under the Extended Fund Facility Arrangement, which concluded in 2016, continued and amounted to US$132.2 million or SDR 93.1 million (see Table 13). Of the total amount repaid during the year, US$96.7 million (SDR 68.1 million) was owed by BOJ while US$35.5 million (SDR 25.0 million) was owed by the GOJ.

Concurrent with the increase in the GFA, there was a decline of US$122.3 million in the foreign liabilities which stood at US$832.6 million at end-2021. In the context of these developments, the NIR increased to US$4 000.8 million in 2021.

Table 13

SDR DISBURSEMENTS AND REPURCHASES/REPAYMENTS

CALENDAR YEAR 2021

MN

Date	DISBURSEMENTS[1/] SDR	DISBURSEMENTS[1/] USD[2/] Equiv.	REPURCHASES SDR	REPURCHASES USD[2/] Equiv.
March Qtr	0.0	0.0	14.7	21.0
June Qtr	0.0	0.0	31.8	45.6
September Qtr	0.0	0.0	14.7	20.9
December Qtr	0.0	0.0	31.8	44.6
TOTAL	**0.0**	**0.0**	**93.1**	**132.2**

[1/] Excludes receipt of SDR 366.99 million (USD equivalent $ 520.57 million) in September Qtr. which was not a debt-related facility.
[2/] Based on the prevailing SDR =US$ exchange rate.
Source: BOJ

Achievements in 2021

Implementation of Bloomberg Assets and Investment Manager (AIM)

The major achievement for 2021 was the implementation of Bloomberg AIM on 04 January 2021. Blomberg AIM replaced the World Bank's Portfolio Analytics Tool (PAT2), which was an integral part of the Reserves Advisory and Management Programme (RAMP), designed to manage the foreign reserves portfolio of central banks. PAT2 was subsequently retired but the legacy data was imported into the Bloomberg AIM repository. The project was managed using the Agile project management methodology and included, at the core, the Bloomberg AIM Emerging Markets Order Management System supported by the Vision Interface and the External Fund Manager as well as Cash Interface feeds. The main modules included Trade Execution, Aggregated Position Management, Compliance, Audit and Comprehensive Reporting and Analytics.

The launch involved the implementation of the revised investment approach which included the implementation of straight through processing from trade execution in the Front Office to trade settlement in the Back Office. This was in keeping with the Bank's strategic objective of "Foreign Reserves Enhancement" and was a recommendation arising from a World Bank workshop aimed at providing technical support for the review of BOJ's Strategic Asset Allocation (SAA), Investment Policy Statement (IPS) and the Investment Guidelines (IG).

"Blomberg AIM replaced the World Bank's Portfolio Analytics Tool (PAT2), which was an integral part of the Reserves Advisory and Management Programme."

Governance Framework for foreign reserve management further enhanced

A review of the governance framework of the Foreign Reserves Management commenced in 2021 and the recommended changes to the IPS and the IG, were completed and will be presented to the Board for approval in the first quarter of 2022. These revisions took into account the Bank of Jamaica (Amendment) Act, 2020, which became effective 16 April 2021. Subsequent to the approval of the revised IPS and IG, the SAA will also be revised to reflect the relevant parameters in the amendments.

Investment Strategy

The investment strategy was unchanged in 2021. However, there was a reduction in the duration of the reserve portfolio. This reduction occurred against the background of the continued market uncertainty due to the ongoing adverse impact of the COVID-19 pandemic as well as rising inflationary pressures. Tactically, the injection of new funding was allocated to the Working Capital Tranche or the Liquidity Tranche. This had a two-fold impact of providing additional liquidity and reducing the overall market risk exposure of the portfolio. Additionally, the Investment Tranche asset classes experienced a negative return as yields on the longer end of the curve increased due to a preference for risk on trades and inflationary pressures among other factors. In this regard, no additional funds were allocated to this Tranche. Additionally, assets in the Liquidity and Investment Tranche sub-portfolios were allocated tactically to ensure capital preservation while providing competitive risk-adjusted returns.

Assets under management increased

The assets under management (AUM) increased during the year, mainly due to the receipt of a Special Drawing Rights (SDR) 367 million (US$520.6 million) allocation from the IMF in August 2021. Arrangements are advanced to deploy these proceeds to a new SDR Tranche during the first quarter in 2022 in order to achieve incremental returns. Holdings in the Working Capital Tranche were reduced as confidence and calm persisted in the domestic market. These funds were transferred to the Liquidity Tranche to generate additional returns. Table 14 details the composition of the portfolio as at 31 December 2021 relative to end-2020.

Table 14

Distribution of Foreign Assets
For Years Ended 31 December 2020 and 2021

Assets	2020		2021	
	US$MN	% of Holdings	US$MN	% of Holdings
Working Capital Tranche	844.4	20.7	519.6	10.7
Liquidity Tranche	1,915.5	46.9	2,490.8	51.5
Investment Tranche				
Capital Market Investments	344.8	8.4	343.8	7.1
External Funds	716.6	17.5	717.2	14.8
Total Funds Invested	3,821.2	93.5	4,071.4	84.2
Allocation of Special Drawing Rights	264.6	6.5	762.0	15.8
Total	4,085.8	100.0	4,833.4	100.0

Source: BOJ

Portfolio Performance

The average income earning assets for the year amounted to US$4 266 million, an increase of US$658 million or 18.2 per cent, compared to 2020. Total income on an accrual basis of US$11.9 million at end-2021 was US$16.5 million or 58.1 per cent lower than in 2020. This reduced income occurred in the context of the average returns on the portfolio falling to 0.3 per cent per annum in 2021, 51 basis points less than the figure for 2020 (see Table 15). The return for 2021 was largely influenced by the lower than projected returns on investments throughout 2021. Increased optimism due to success in the global vaccination drive and a change in the rhetoric of the Federal Open Market Committee (FOMC) amidst inflationary pressures led to the market pricing in projected interest rate hikes in the fourth quarter of 2021, which negatively impacted bond values.

Table 15

Foreign Investment Income
For Years Ended 31 December 2020 and 2021

Assets	2020		2021	
	Earnings US$MN	% of Earnings	Earnings US$MN	% of Earnings
Working Captial Tranche	1.2	4.2	0.3	2.3
Liquidity Tranche	1.7	5.9	0.3	2.9
Investment Tranche				
Capital Market Investments	5.7	19.9	2.6	22.1
External Funds	19.4	68.0	8.5	71.4
SDR Holdings	0.6	2.1	0.2	1.4
Total	28.5	100	11.9	100
Average Income Earning Assets	3 608		4 266	
Rate of Return (%)	*0.79*		*0.28*	

Source: BOJ

Links to more information

▶ Additional Resources

- Official International Reserves Statistics
  https://boj.org.jm/statistics/external-sector/official-international-reserves/
- International Reserves Announcements
  https://boj.org.jm/category/notices/

FINANCIAL INCLUSION

FINANCIAL INCLUSION

In 2021, Bank of Jamaica continued the implementation of its financial inclusion objectives through its Financial Inclusion Technical Secretariat (FITS). The National Financial Inclusion Strategy (NFIS) was revised to support the creation of a digital economy that allowed households and firms to better utilize banking services and digital services with robust financial literacy and consumer protection mechanisms.

Achievements in 2021

NFIS Priorities for 2021

In keeping with its discussions with the Minister of Finance and the Public Service, it was agreed that the Bank's financial inclusion priorities for the period 2021 – 2024 are:

(i) Promoting financial literacy initiatives to encourage greater understanding and use of banking services and digital payments;

(ii) Enhancing the legislative and regulatory framework for consumer protection in relation to the Bank's regulated entities;

(iii) Strengthening the legislative and regulatory framework for payment service providers to encourage greater use of digital payments;

(iv) Encouraging improved access to finance for Micro, Small and Medium-Sized Enterprises (MSMEs); and

(v) Improving the data infrastructure for measuring financial inclusion indicators through the use of demand side surveys and enhanced monitoring and evaluation.

These priorities complemented other financial inclusion initiatives being pursued by the Bank's financial inclusion partners.

Financial Literacy Campaign

In 2021, the Bank, through its FITS, created financial literacy content in the form of animated videos, audio tips and games which were disseminated via traditional and digital media channels.

A critical pillar of the Financial Literacy Communication Campaign was the publication of 19 videos on the Bank's social media platforms. These videos were part of two distinct series namely: (i) BOJ RealTalk; and (ii) BOJ Empowering You. Topics discussed in these videos included: (i) savings and budgeting (ii) home ownership; (iii) opening a bank account (iv) Know Your Customer and simplified due diligence requirements (v) importance of deposit insurance; (vi) protecting financial information; and (vii) the role of BOJ as regulator of the financial system.

Starting in March 2021, the Bank began airing financial literacy tips on the radio. These tips were aired on three radio stations which had significant market share and/or key niche groups which allowed for delivery of financial literacy messages to the financially underserved, including young adults.

In three quarters of the year, the Bank sponsored episodes of the Under the Law Programme, which aired on four radio stations. The topics covered included, consumer protection, digital payments, Fintech and regulation of Cambios, Remittance Agents and Agencies. Legislation, regulations and/or supervisory guidance featured in the series included the Bank of Jamaica Act, the Banking Services (Deposit -Taking Institutions) (Consumer Related Matters) Code of Conduct, the Credit Reporting Act as well as the Payment Clearing and Settlement Act.

The Bank's financial literacy and public sensitization efforts were greatly assisted by collaboration with its financial inclusion partners, most notably, the Financial Services Commission, Jamaica Deposit Insurance Corporation, Jamaica Stock Exchange and the Private Service Organisation of Jamaica Access to Finance Facilitation Panel (PSOJ A2FFP).

Notable events in which the Bank presented on its work to promote financial literacy included:

(i) the Jamaica Stock Exchange's National Investor Education Week Youth Forum on financial literacy in September 2021; and

(ii) the Financial Services Commission's Regulatory Summit in October 2021.

During 2021, the Bank also shared with its international partners the work being undertaken on financial literacy and broader financial inclusion programmes such as digital payments and remittances. This sharing occurred as part of conferences and workshops. Presentations were made as part of the work done by the Alliance for Financial Inclusion, Amazon Web Services and the Bank for International Settlements.

In December 2021, work began on the development of short 30-second advertisements, which would function as public service announcements. The Bank also developed financial literacy games for publication in a nationally circulated newspaper, the STAR, which has a strong following among the financially underserved and unbanked population.

Enhancing Consumer Protection for the Bank's Regulated Entities

In 2021, the Bank continued to support the Ministry of Finance and the Public Service in the development of legislation meant to enhance the consumer protection mechanisms for consumers of services from the Bank's regulated entities. The legislative process is ongoing. Matters to be addressed will include supervisory powers for market conduct supervision, disclosure requirements and dispute resolution. This work complements the enactment of the Microcredit Act in 2021, which included detailed provisions for protection for consumers of services from microcredit institutions

During the year, the NFIS Consumer Protection and Financial Capability Working Group members pursued policy development and legislative reform aimed at strengthening the market conduct supervision of securities dealers, private pension plans and insurance providers. The Financial Services Commission continued its work on developing the legislative framework for microinsurance products, which has the potential of enhancing risk mitigation through affordably priced insurance products targeted at the lower income population.

Enhancing the Legislative and Regulatory Framework for Payment Service Providers

The FITS supported the work of the Bank's Financial Markets Infrastructure Division in enhancing the legislative and regulatory framework for Payment Service Providers. Critical achievements by the Bank included the completion of the concept paper outlining proposed amendments to the Payment Clearing and Settlement Act (PCSA) and the amendment of the Banking Services Act to recognize electronic retail payment services as financial services. The legislative process for the amendment of the PCSA is ongoing.

Improving Access to Finance for MSMEs

The Bank, through its FITS, supported the work of the Development Bank of Jamaica (DBJ). in the Access to Finance Programme for MSMEs funded by the World Bank. In FY2020/21, US$1.0 million was injected in the Credit Enhancement Facility (CEF), which supported an increase in the number of guarantees issued by the DBJ. For the period April to September 2021, there were 162 new guarantees issued under the CEF valued at $972.2 million supporting loans valued at $1.7 billion.

The Inter-American Development Bank's (IDB) Credit Enhancement Programme for MSMEs, has the objective of improving access to finance for MSMEs in Jamaica via a US$20.0 million project that is being executed over the period September 2017 to September 2022. As at March 2021, the funding received under the IDB Programme supported an additional 427 guarantees to MSMEs valued at $2.3 billion as well as loans totalling just under $5.0 billion. MSMEs from the Services and Transport sector accounted for the largest number of loans, followed by the Distribution sector.

During 2021, the Bank's FITS was designated as a member of the New Economy Taskforce, along with representatives from the Ministry of Education, JAMPRO, DBJ and PSOJ. This taskforce was charged with the responsibility of creating policies in support of the development of a digital eco-system for MSMEs.

As a further development to the work of the New Economy Taskforce, DBJ launched its SERVE Programme in 2021. The SERVE Programme has three components:

(i) Eligible MSMEs qualified for grants under the Go-Digital Programme to access loans of up to $800,000 at 2.0 per cent interest for the implementation of digitalization activities, such as e-commerce development or acquiring software;

(ii) Establishing two equity funds for MSMEs funded by $2.0 billion in seed financing from the Government; and

(iii) Providing $2.0 billion for lending to MSMEs at interest rates of 7.0 per cent or less, through DBJ's approved financial institutions.

The Bank collaborated with the Ministry of Industry, Investment and Commerce (MIIC) on its project to develop a secondary market for moveable collateral by the creation of an e-commerce digital payment platform for the sale of moveable collateral. This MIIC project is supported by the International Finance Corporation.

Improving the Data Infrastructure for Measuring Financial Inclusion

In 2021, the Bank sought to enhance data collection and monitoring and evaluation processes for measuring financial inclusion. In this regard, work advanced on the development of a monitoring and evaluation dashboard, which will measure key indicators that focus on Financial Access, Usage of Digital Payments, Financing for Growth and Financial Literacy and Consumer Complaints Handling.

To augment the quality of financial data, in 2021, the Bank collaborated with its financial inclusion partners to commence the administration of the following demand-side surveys:

(i) Financial Literacy Survey (Youth) –The objective of the survey is to measure the levels of financial literacy and capability competencies among youth aged 12 – 18 years old. The final report will provide data and recommendations to facilitate the enhancement of Financial Literacy interventions by the Ministry of Education, the Bank, CAC, FSC and the JDIC in keeping with the National Financial Literacy Action Plan;

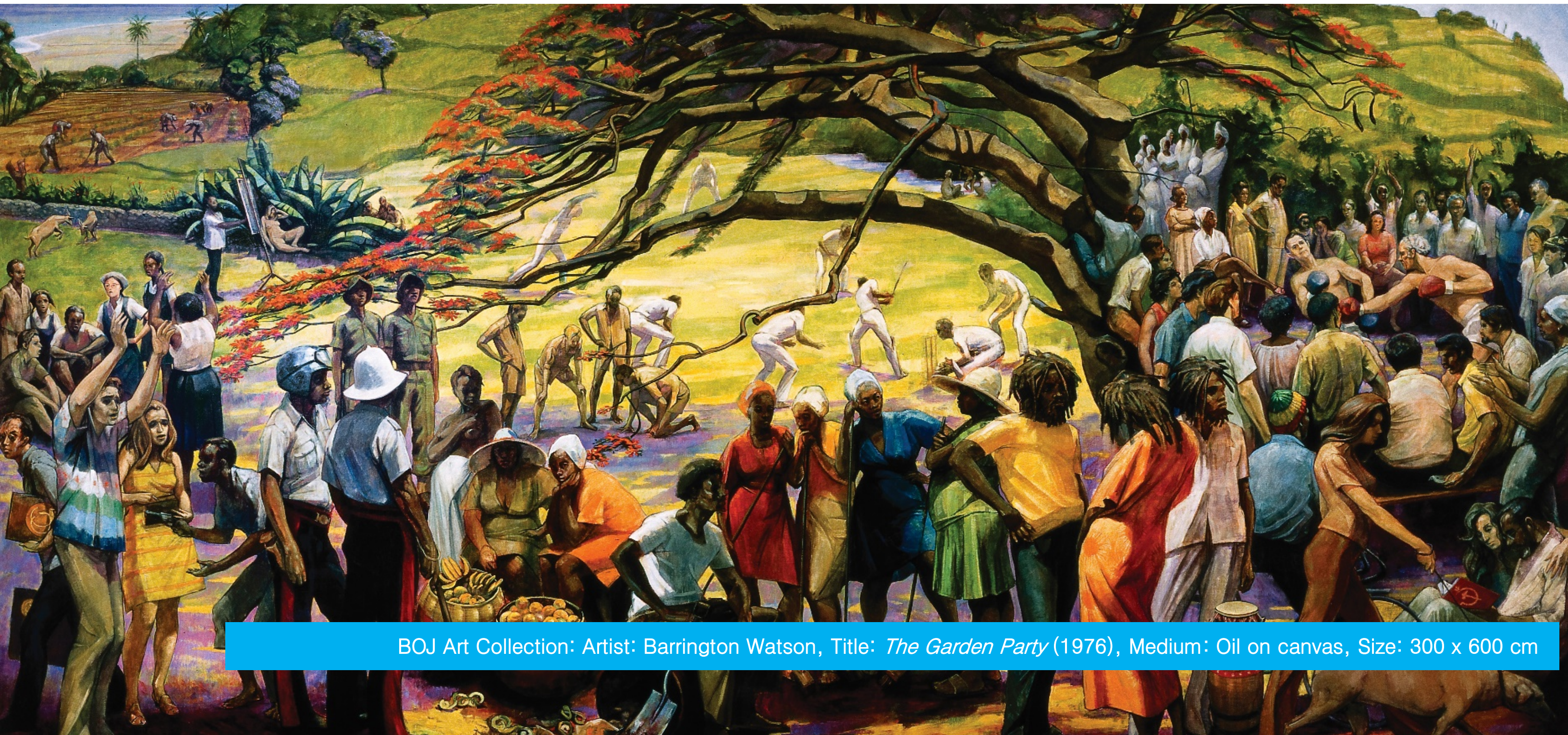
(ii) MSME Access to Finance survey – The objective of the survey is to measure the barriers for formal MSMEs accessing finance from regulated financial institutions. This survey seeks to give an impact assessment of measures taken to improve the ease of accessing financial services, particularly credit; and

(iii) Utilisation of Simplified Customer Due Diligence (CDD) Requirements by deposit-taking institutions –. The survey instrument was disseminated to DTIs and sought to gather quantitative and qualitative data on the adjustments made by DTIs to facilitate account opening using the simplified CDD requirements for customers assessed to have been low risk for money laundering, financing of terrorism and proliferation of weapons. The results of the survey will assess the extent to which the simplified CDD requirements as created by the Proceeds of Crime Act and attendant regulations have assisted in the banking of low-risk individuals and MSMEs.

In addition to the foregoing, in the last quarter of 2021, the Bank began procurement processes to identify a firm to administer a demand-side Digital Payments Survey. This survey will measure the share of the unbanked population as well as the factors which impact utilization of digital payments versus bank notes.

Additional Resources:

- Financial Inclusion Strategy
  https://boj.org.jm/national-financial-inclusion-strategy/
- https://www.youtube.com/watch?v=6BAx6SCpGUo
- https://www.youtube.com/watch?v=T6R57QzIx8E
- https://www.youtube.com/channel/UCZkm1rSxVMhynjN8gdwWqYw



BOJ Art Collection: Artist: Barrington Watson, Title: *The Garden Party* (1976), Medium: Oil on canvas, Size: 300 x 600 cm

FINANCIAL DEEPENING

FINANCIAL DEEPENING

The implementation of Jamaica's financial deepening agenda continued to be led by BOJ. During its third year of implementation, BOJ, with the support of the Financial Services Commission, the Jamaica Stock Exchange and the Development Bank of Jamaica, continued to undertake reforms and initiatives to enhance transparency and price discovery in markets as well as to improve the financial system for the issuing, listing, trading and rating of Jamaican securities. These reforms were complemented by continued progress on regulatory reforms which will create additional incentives to deepen Jamaica's capital market.

Achievements in 2021

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

The Bank of Jamaica and the FSC continued to undertake various reforms that, when implemented, will have the additional benefit of incentivizing the use of credit ratings in Jamaica. During 2021, BOJ progressed with work towards reform of the capital adequacy framework for deposit-taking institutions while the FSC initiated early stage work for capital and liquidity reforms for the non-banking sector. [1] These liquidity and capital reforms will positively impact the credit rating ecosystem and are necessary for incentivizing issuers and market making functions.

During 2021, BOJ and the FSC had discussions regarding the modality and timeline to effect proposed changes to the credit ratings infrastructure, particularly with respect to those concerning unsophisticated retail investors. This follows from the FSC's study in 2020 which identified gaps in the credit ratings infrastructure and made recommendations. The FSC prepared the credit rating proposed amendments for inclusion in a Market Conditioning consultation paper which will be finalized and submitted to the industry in early-2022 for consultation and feedback.

In April 2021, Caribbean information and Credit Ratings Services Ltd (CariCRIS) opened a branch office in Jamaica in response to recent and expected increase in the demand for credit ratings by Jamaican corporates. The branch office is the first outside of the head office in Trinidad & Tobago. In the financial year ended March 2021, five new ratings were conducted for Jamaican corporates which accounted for 63.0 per cent of CariCRIS' new business.[2] This was higher than the prior three-year average of ratings in Jamaica which accounted for 47.0 per cent of new business. For 2021, eight new ratings were conducted. [3] CariCRIS' presence in Jamaica bodes well for the ecosystem and efforts to deepen the capital market.

Increasing Transparency and Price Discovery in Markets – facilitating increased utilization of a trading platform for fixed income securities

During the year, BOJ collaborated with both the public and private sectors on various initiatives to increase transparency and price discovery in

[1] The reforms will permit licensees to utilize credit ratings issued by external credit assessment institutions that are recognized by national supervisors as eligible for regulatory capital purposes, in determining the risk-weights on credit exposures. This incentivizes DTIs to take advantage of the lower capital charges, that is, lower capital adequacy requirements associated with better external ratings.

[2] Source: CariCRIS Annual Report 2021

[3] During 2020 and 2021, a total of 16 new credit ratings were conducted for Jamaica by CariCRIS. This compares with a total of eight new credit ratings done for the two-year period 2018 to 2019.

markets as well as to explore and implement initiatives to improve the ecosystem for the issuing and listing of securities. The collaborative work included:

(i) Private Market Trading Platform

The JSE launched its private market trading platform on 11 January 2021 to enable the electronic trading of private securities and thereby enhance trading efficiency and facilitate price discovery relative to the current over-the-counter operation. Following the launch, the JSE continued to build out its private market trading platform with additional enhancements. One such enhancement was an amendment to the treatment of withholding tax on accrued interest on the platform. BOJ facilitated discussions with the JSE, the Jamaica Securities Dealers Association (JSDA) and the Tax Administration Jamaica (TAJ) regarding the proposal. In June 2021, TAJ approved the proposal and outlined the terms and conditions for implementation. The amendment should facilitate reliable price discovery for corporate bonds trading on the JSE platform.

As at 31 December 2021, there were 11 securities listed on the Private Market of the JSE with market value of $17.8 billion. The Private Market was active with over 67 transactions traded since its inception with volumes of 375.9 million units, valued at $38.2 billion.

(ii) Facilitating the listing and trading of Government of Jamaica (GOJ) domestic securities

In 2021, work continued on the initiative to facilitate the listing and trading of GOJ domestic debt securities on the JSE trading platform. The proposed framework is to be facilitated via the interface of the JSE trading platform and the JamClear®-CSD. In March 2021, the business requirements specifications document was finalized and subsequently signed by all stakeholders – BOJ, JSE, FSC, JSDA and the Ministry of Finance and the Public Service.

The JSE subsequently submitted the relevant sections of the requirement document to NASDAQ to get feedback on the required JSE platform modification and timelines. In June 2021, BOJ drafted detailed specifications regarding the expected modifications and new features of the Central Securities Depository and submitted it to the CSD platform developer ahead of discussions which began in July 2021. In the latter half of the year, discussions continued between BOJ, the JSE and the platform providers regarding the technical specifications needed to facilitate the interface.

(iii) Facilitating an easier registration process for listed companies

During 2021, BOJ collaborated with the FSC to bring to completion the final requirements needed for the implementation of a proposal to improve the ecosystem for the issuance of securities. The specific proposal pertained to the implementation of a simpler registration requirement for listed companies interested in issuing additional securities publicly. The effect of the proposed changes would see a reduction in the processing time for applications and the time needed by issuers to prepare documents for registration. The proposal, which already had FSC Board level approval in 2019, received non-objection from the Companies Office of Jamaica (COJ) in November 2021. The latter is an important step to facilitate allowances for short form documents being registered by the COJ, a key element of the proposed modifications. The non-objection paved the way for the implementation of the proposal. The FSC will finalize an issuers guideline and submit it to the market with details regarding implementation.

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

The GOJ can play a direct role in increasing the supply of domestic assets in the market. In this regard, during 2021, BOJ continued to hold discussions with the DBJ regarding efforts to monetize non-core government assets. The DBJ continued work towards the sale of GOJ's shareholding in the Jamaica Public Service Company Limited (JPS) and the privatization of

Jamaica Mortgage Bank (JMB) via the JSE. In support of this effort, the DBJ worked with relevant MDAs and the enterprise team and a draft Cabinet submission regarding the transaction structure was being finalized for Cabinet approval. In relation to the JPS transaction, the associated enterprise team approved the transaction structure in December 2021. It is anticipated that both the JMB and the JPS transactions will be completed in FY2022/23.

In May 2021, BOJ engaged the Port Authority of Jamaica (PAJ) on the ways in which the entity was considering monetizing some of its assets. PAJ was exploring initiatives to raise funds directly from the market to allow for additional investment.

Accelerating Access to Finance – Reverse Factoring

During 2021, the DBJ continued work to secure participation on its electronic platform, which was acquired to accelerate reverse factoring in Jamaica and became available for use in 2020. The five DTIs that expressed interest in the product, conducted their respective internal due diligence during 2021. One of the DTIs was granted sandbox type access credentials to the electronic platform in June 2021 and began reviewing their customer base to identify a client for their pilot of the product.

Throughout the year, the DBJ worked on finalizing other operational and governance matters. In March 2021, the agency approved a revised participant fee structure following feedback from DTIs on the initial fee proposal. In April 2021, the DBJ's Board approved a risk management framework to guide the entity's participation as a factoring agent on the platform and also signed off on an exposure limit.

During the second half of the year, the initial demand declined for the electronic platform. Of note, during the same period, the DBJ also began prioritizing efforts towards the implementation of the SERVE Programme which has about $5.0 billion earmarked to assist small businesses. The DBJ was tasked to have the funds committed (loans and grants). DTIs are to assist with the roll out.

CORPORATE RISK MANAGEMENT

CORPORATE RISK MANAGEMENT

The COVID-19 pandemic occasioned an extension of the work-from-home (WFH) arrangements, which continued to be constrained by recurrent interruptions in power supply and internet services throughout the year. Nevertheless, staff remained resilient in achieving the Bank's key objectives. The Bank continued its efforts to fortify its risk governance arrangements and to enhance the organization's risk culture, with a view to enable more explicit risk-based decision making . For the year ahead, policy revisions and development as well as dynamic risk reporting will continue to be undertaken.

Achievements in 2021

The Bank's risk framework was strengthened in the following areas:

1. Implementation of the Enterprise Risk Management IT Solution

In its effort to improve efficiency and effectiveness in the risk reporting process, the Bank completed the implementation and operationalization of an Enterprise Risk Management IT solution. This involved rigorous consultations with the third-party provider of the solution as well as key stakeholders across the Bank. Divisional risk champions were designated and sensitized in the usage of the solution with a view to improving and aligning the identification, monitoring and reporting of key enterprise-wide risk exposures. The benefits to accrue from its implementation include:

(i) Improved risk culture – increased conversations about risk promotes sound risk management practices amongst staff in their daily activities. This bodes well for improved and proactive decision-making around key risk issues;

(ii) Structured risk analysis and assessment processes – conventional wisdom and practice reveals that better risk analysis leads to better decision-making. In addition, reports generated from the solution will be clear, easy to understand, timely and user friendly – thereby facilitating the embedding of a sound risk culture throughout the organization;

(iii) Sensitization of risks – staff will be empowered and equipped in identifying and pointing out changes in business activities that may have risk inducing potentials;

(iv) More efficient use of available resources – time saved in what was previously a highly manual risk management process will reduce redundancy and increase productivity Bank-wide; and

(v) Coordinated compliance monitoring at the corporate level – controls can be better regulated and monitored to ensure a sound control environment across the Bank.

2. Staging of the 2nd annual Enterprise Risk Management Workshop (virtually)

In order to improve risk awareness and risk intelligence within the Bank, a virtual risk workshop was conducted during 01 – 09 November 2021. Participants from 19 departments Bank-wide were placed in seven groups to allow for cross-functional discussions and interrogation in relation to each department's risk control self-assessment templates (RCSAs) – the primary inputs into the compilation of the Bank's corporate risk register. This format for the workshop was well received by divisional heads, heads of department and risk champions, as they were able to gain a better understanding and appreciation of each other's job functions and related risks. The workshop format also had a positive impact on the review and finalization of the departmental RCSAs, which will be collated into an updated risk register and escalated for ratification at the Executive management and Board levels.

3. Engaged in Training and Capacity Building

Given the ongoing need to keep abreast of developments and best practices in risk management, targeted training and capacity building from reputable organizations, including the World Bank and the IMF, were provided to staff members during the year. The benefits derived from these interventions were consistently reflected in the quality of outputs and insights from the risk department.

4. Financial Risk Management

The Bank, through its Corporate Risk Management department (CRMD), continued to provide independent reviews of the management of financial risks inherent in the Bank's balance sheet. This included the refinement of key assumptions in the expected credit loss estimation model, which routinely informs the preparation of the Bank's financial statements.

Additionally, there was continued monitoring of the foreign reserves and pension fund investment portfolios to ensure compliance with prescribed limits and thresholds outlined in the relevant policies.

5. Non-Financial Risk Management

(i) Monitoring of RCSAs and Business Continuity Plans (BCPs)

Quarterly reviews of RCSAs and semi-annual reviews of departmental BCPs submitted by risk owners continued throughout 2021. These reviews helped to foster proactive and effective management of key operational risks on an ongoing basis, which ensured the Bank's operations remained resilient to risk events/threats.

(ii) Implementation of COVID-19 Threat Level System

Coming out of a COVID-19 risk assessment conducted in 2020, the Bank, through its CRMD, designed and recommended the use of a COVID-19 dashboard and trigger response system to enhance the Bank's response to the pandemic. This recommendation was endorsed by Executive management in the first quarter of 2021 and is being utilized by the COVID-19 Threat Response Task Force as part of its COVID-19 threat level monitoring toolkit.

The Task Force also benefited from special and routine risk assessments from CRMD which were instrumental in helping to preserve the safety and well-being of staff, as well as ensuring continuity of business activities

COMMUNICATIONS & CORPORATE SOCIAL RESPONSIBILITY

Virtual Quarterly Monetary Policy Report Press Conference.

COMMUNICATIONS AND CORPORATE SOCIAL RESPONSIBILITY

Bank of Jamaica views efficient communication on monetary and financial stability issues as central to the achievement of its mandate. In this regard, communication remained an essential part of the Bank's proactive policy and moral suasion initiatives to encourage low and stable inflation and foster financial system stability, although face–to–face interactions remained limited given the ongoing COVID–19 pandemic. Key communication initiatives accomplished during the year included, the launch of a newly redesigned website which was aimed at improving the Bank's visibility, credibility and access. In addition, the Bank continued its usual public engagement activities including several outreach programmes that support education and the arts. This was consistent with the Bank's long–held view that service to the community is important.

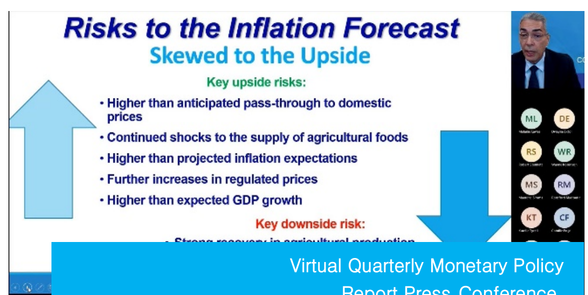
Increased communication and engagement

- **Quarterly Monetary Policy Report Press Conference**

In the context of the ongoing pandemic, the Bank's scheduled quarterly press conferences as well as other special press briefings were all executed through virtual platforms. The recordings of the quarterly press conferences were made available to the news media and the general public via the Bank's YouTube channel. In addition to explaining the monetary policy decision, the press conferences were aimed at presenting a brief analysis of recent economic developments and providing updates of the Bank's near– and medium–term forecasts of macroeconomic variables in the international and domestic economy.

Virtual Quarterly Monetary Policy Report Press Conference.

The Bank's Quarterly Monetary Policy Report (QMPR) was made available on press conference dates on the Bank's website (see Quarterly Monetary Policy Reports and Quarterly Press Conference Presentations).. The QMPR discusses, in a non–technical manner, economic developments for the review quarter and provides forecasts of key macroeconomic variables, including inflation.



Virtual Quarterly Monetary Policy Report Press Conference.

- **Schedule for Policy Rate Announcements**

The Bank published its schedule of eight announcements of monetary policy decisions for 2021. The announcements, took the form of a press release, which indicated the decision on the policy rate and a summary of decisions which explained the rationale for monetary policy actions as well as highlighted the risks to the inflation forecast (see Calendar of Announcements, Press Statements and Summary of Decisions).

- **Financial Stability Reports**

Financial system stability issues 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 Reports and Financial Stability Reports.

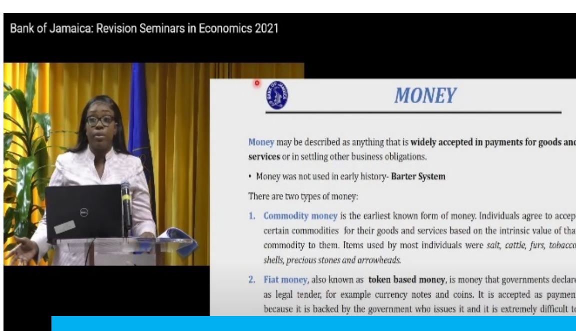
Continued support for education and the visual and performing arts

Bank of Jamaica continued its corporate social responsibility by providing support to enhancing the well-being of the elderly and most vulnerable, primarily in the Downtown, Kingston area, to alleviate the impact of the COVID -19 pandemic. In December 2021, 300 Christmas care packages were distributed to Downtown communities, the Jamaica Society for the Blind and to some of the elderly who normally attend our Lunch Hour Concerts.

Continued support for education and the visual and performing arts in 2021 included:

- **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. In light of the COVID-19 pandemic, the Museum remained closed to the public in 2021. Prior to its closure, the Bank would facilitate visits from a wide cross-section of visitors which included groups of seniors, students and visitors to the island.



Senior Economist Sophia Johnson presenting at the Bank's 2021 Revision Seminars in Economics.

- **Schools' Education Programme**

In the context of the ongoing challenges of the COVID-19 pandemic, which prevented the Bank from hosting its usual face-to-face School Education Programme, successful virtual sessions were held during the year. The programme featured lectures on a number of central bank related topics and was attended by a wide cross-section of students across the island.

Economist Cardel Wright presenting at the Bank's 2021 Revision Seminars in Economics.

- **Seminar in Economics**

The annual Revision Seminars in Economics for students sitting the Caribbean Advanced Proficiency Examination in Economics was once again held virtually on 12 and 14 May 2021 via the Bank's YouTube channel. This allowed students from various schools to engage Bank of Jamaica's economists on syllabus related topics as they revised for external examinations. The Bank was ably represented by senior economists within the Research and Economic Programming division, namely Mrs Karen Anderson-Reid, Ms Sophia Johnson, Mr Alex Robinson, Mr Lance Rochester and Mr Cardel Wright who made audio-visual presentations to the students.

- **G. Arthur Brown Scholarship**

The 2021 G. Arthur Brown Memorial Scholarship was awarded to Ms Natalia Wilson to pursue a Master of Science degree in Economics at the University of the West Indies (UWI), Mona Campus. The scholarship will have a maximum tenure of two academic years with coverage that commenced September 2021. The value of the scholarship is $900,000.00 per academic year.

- **BOJ's 60th Anniversary Educational Grant**

In May 2021, Bank of Jamaica launched its $20.0 million initiative to award bursaries to 60 students from selected primary, secondary and tertiary schools. The aim of the initiative was to help worthy families across Jamaica with back-to-school expenses for the academic year 2021-2022. The Ministry of Education, Information and Youth provided its technical expertise in the development of the evaluation criteria for the bursary. The awardees were announced in a virtual ceremony in December 2021. This initiative reflected Bank of Jamaica's continued commitment to nation-building and was a major part of Bank's 60th anniversary celebrations. In keeping with the Bank's core value of teamwork, the project was the result of a successful collaboration among the Bank's Finance Division, Financial Inclusion Technical Secretariat, Financial Institutions Supervisory Division, Human Resources Department and the Public Relations Department.

- **St. Michael's Primary School**

Bank of Jamaica continued to provide support to St Michael's Primary School, situated on Tower Street in Kingston. Given the continued closure of schools due to the impact of the COVID-19 pandemic, the Bank assisted the school through the provision of mobile data and devices to students to facilitate online learning. The Bank also assisted with the photocopying of additional educational material which was distributed to students who were not able to access the online learning facilities.

- **Art Collection and Exhibitions**

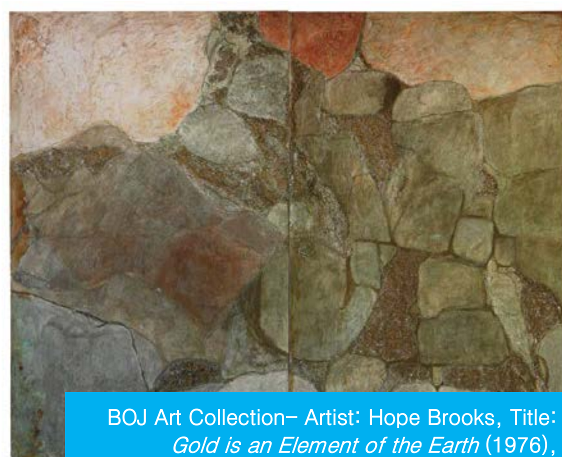
The Bank's Art Collection was highlighted in June when the Curator took part in a panel discussion on collecting via Zoom® during the inaugural Atlantic World Art Fair (AWAF) on Artsy.net. A work by renowned Jamaican painter Karl Parboosingh was added to the collection during the year.

- **An Evening with the University Singers**

The annual concert, "An Evening with the University Singers", which has traditionally been sponsored by the Bank during the Christmas season, took on a different form to ensure adherence with the Government's protocols for COVID-19. For 2021, Bank of Jamaica in collaboration with Television Jamaica (TVJ), presented a pre-recorded version of this year's performance. The programme was aired on 25 December and made available on the Bank's YouTube channel.

- **Bank of Jamaica Concerts**

Lunch Hour concerts were not staged in 2021 given the ongoing COVID-19 pandemic. However, the Bank presented a virtual concert 'Nostalgia at Nethersole' on its YouTube channel. A combination of talented staff and local artistes gave brilliant performances to an appreciative online audience.



BOJ Art Collection– Artist: Hope Brooks, Title: *Gold is an Element of the Earth* (1976), Medium: Mixed Media on Board, Size: 241 x 150 cm

Achievements in 2021

Bank of Jamaica Launches redesigned website

On 31 May 2021, Bank of Jamaica made public its freshly redesigned website. The redesign was aimed at enhancing the Bank's image in the virtual space, enabling easier navigation and accessibility as it seeks to become the 'World's Leading Central Bank'.

The website had approximately 330 000 page-views over the period 01 October to 31 December 2021, with approximately 62 000 unique users. The top viewed pages and the most searched terms on Google were the home page, pages relating to Foreign Exchange rates and the Careers page. Other pages frequently visited included the Currency, Financial System Regulation, Statistics, Legislation and the Contact pages.

The website is a critical interface for the Bank as it helps to enhance the Bank's credibility and provides unlimited access to a wide cross-section of individuals. The website remains a work in progress as the Bank continues to develop and integrate new features and functionality, so as to keep it updated, modern and user-friendly.

Media Milestones

Bank of Jamaica's social media presence continued to grow in 2021. The Bank's YouTube channel surpassed 1 200 unique subscribers, its Facebook page gained over 1 400 followers and its Twitter account, which remained its most utilized communication tool, eclipsed 12 500 followers. Of note, the Bank's Twitter account maintained its verified status and continued to maintain its strong cyber-security management amidst a wave of social media attacks which saw a number of local high-level officials, companies and brands being compromised.

Centrally Speaking, the Bank's flagship television series, concluded its third season on TVJ. Segments of the programme served as a source for major media houses (print, traditional and digital) and social media commentators who utilized interview clips and comments from various guests to create news stories.

Deputy Governor Haynes speaking on CBDC on 'Centrally Speaking' season 3 (ep. 1).

Financial Controller Ian Williams speaking on FX reserve management on 'Centrally Speaking' season 3 (ep. 11).

Inflation Watch, the Bank's in-house monthly YouTube series which reports on the monthly inflation outturn using data provided by the Statistical Institute of Jamaica (STATIN), was revamped to a more concise format while maintaining the same quality of information. Snippets from the programme were featured in TVJ's business news segment of Prime Time News.


INFLATION:
THE NO GOOD
THE NOT SO BAD
AND THE UGLY
STARRING
CROC. O. DOYLE AS THE
NEW SHERIFF IN TOWN
BANK OF JAMAICA

FINANCIAL STATEMENTS

BANK OF JAMAICA

FINANCIAL STATEMENTS

DECEMBER 31, 2021

KPMG
Chartered Accountants
P.O. Box 436
6 Duke Street
Kingston
Jamaica, W.I.
+1 (876) 922 6640
firmmail@kpmg.com.jm

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
BANK OF JAMAICA

Opinion

Pursuant to Section 43(2) of the Bank of Jamaica Act, we have audited the financial statements of Bank of Jamaica ("the Bank"), set out on pages 5 to 65, which comprise the statement of financial position as at December 31, 2021, 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, 2021, 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 International Code of Ethics for Professional Accountants including International Independence Standards (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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Board of Directors of
BANK OF JAMAICA

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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.

KPMG

Page 3

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Board of Directors of
BANK OF JAMAICA

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.

- 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.

KPMG

Page 4

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 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.

KPMG

Chartered Accountants
Kingston, Jamaica

February 28, 2022

BANK OF JAMAICA

Statement of Financial Position
December 31, 2021

	Notes	2021 J$'000	2020 J$'000
ASSETS			
Foreign assets:			
Notes and coins		148,359	49,012
Cash and cash equivalents	4	84,772,003	120,595,213
Securities held in funds managed by agents	5	109,996,803	101,556,969
Investment securities	6	441,050,336	326,329,428
Resale agreements	8	-	2,507,179
International Monetary Fund -			
Holding of Special Drawing Rights		105,095,017	26,374,832
Quota subscription	7	12,606,174	11,997,333
Total foreign assets		753,668,692	589,409,966
Local assets:			
Notes and coins		159,978	209,526
Resale agreements	8	9,099,825	8,642,405
Investment securities	9	272,127,813	277,194,121
Due from Government and Government agencies	10	3,523,862	-
Property, plant and equipment	11	8,713,878	8,794,252
Intangible asset	12	422,902	415,398
Employee benefits asset	13(a)	4,577,200	5,742,800
Other	14	7,966,491	4,747,437
Total local assets		306,591,949	305,745,939
Total assets		1,060,260,641	895,155,905

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

BANK OF JAMAICA

Statement of Financial Position (Continued)
December 31, 2021

	Notes	2021 J$'000	2020 J$'000
LIABILITIES, CAPITAL AND RESERVES			
Liabilities:			
Notes and coins in circulation	15	226,864,772	190,506,147
Deposits and other demand liabilities	16	464,748,541	388,186,824
Open market liabilities	17	173,212,603	177,207,273
International Monetary Fund - Allocation of Special Drawing Rights	18	135,522,804	53,681,504
Due to Government and Government agencies	10	-	27,733,269
Employee benefits obligation	13(b)	2,742,500	2,842,100
Lease liability	19	75,499	81,404
Bilateral accounts		16,596	11,007
Other	20	2,633,629	9,926,980
Total liabilities		1,005,816,944	850,176,508
Capital and reserves:			
Share capital	21	20,577,000	4,000
Capital contribution	22	-	20,529,049
General reserve fund	23	16,561,272	20,000
Special stabilisation account	24	1,887,230	1,731,487
Other reserves	25	15,418,195	22,694,861
Total capital and reserves		54,443,697	44,979,397
Total liabilities, capital and reserves		1,060,260,641	895,155,905

The financial statements on pages 5 to 65 were approved for issue by the Board of Directors on February 23, 2022 and signed on its behalf by:

Governor
Richard Byles

Deputy Governor
E. George Roper

Financial Controller
Ian Williams

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

BANK OF JAMAICA

Statement of Profit or Loss and Other Comprehensive Income
Year ended December 31, 2021

	Notes	2021 J$'000	2020 J$'000
Operating income:			
Interest, calculated using the effective interest method	26	19,992,976	20,265,759
Foreign exchange gain, net	27	16,298,748	4,289,199
Other		263,079	347,565
Total operating income		36,554,803	24,902,523
Operating expenses:			
Interest on deposits and open market liabilities	28	6,049,829	3,857,764
Interest on IMF deposits		1,551,456	1,930,660
Interest on lease liability	19	1,632	1,752
Staff costs	29	6,585,810	5,650,502
Currency expenses		1,391,619	1,401,227
Depreciation and amortisation		827,955	751,387
Other property expenses		789,040	713,899
Other operating expenses	30	1,911,483	1,276,584
Total operating expenses		19,108,824	15,583,775
Operating profit		17,445,979	9,318,748
Other income/(expenses):			
Pension, medical and life insurance	13(a)(iii);(b)(ii)	256,100	157,400
Change on remeasurement of staff loans		(24,507)	(67,105)
(Losses)/gains on securities measured as FVTPL		(893,418)	614,818
Gains on disposal of property, plant and equipment		10,684	9,920
Profit for the year before transfer to pension equalisation reserve		16,794,838	10,033,781
Transfer to pension equalisation reserve	25(c)	(93,400)	(87,500)
Profit for the year transferred to general reserve fund	10(b)	16,701,438	9,946,281
Other comprehensive (loss)/income:			
Item that will never be reclassified to profit or loss:			
Remeasurement of employee benefits asset and obligation, net	13(a)(iv);(b)(iii)	(1,012,900)	(1,010,300)
Gains on revaluation of property, plant and equipment		-	3,880,185
Item that is or will be reclassified to profit or loss:			
Change in fair value of securities at FVOCI		(6,513,166)	1,623,979
Other comprehensive income for the year		(7,526,066)	4,493,864
Total comprehensive (loss)/income for the year		9,175,372	14,440,145

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, 2021

	Share capital J$'000 (Note 21)	Capital contribution J$'000 (Note 22)	General reserve fund J$'000 (Note 23)	Special stabilisation account J$'000 (Note 24)	Other reserves J$'000 (Note 25)	Total J$'000
Balances at December 31, 2019	4,000	3,021,352	20,000	1,614,935	17,958,097	22,618,384
Total comprehensive income for the year 2020:						
Profit for the year	-	-	9,946,281	-	-	9,946,281
Other comprehensive income:						
Realised losses fair value of securities at FVOCI	-	-	-	-	16,963,886	16,963,886
Unrealised losses on fair value of securities at FVOCI	-	-	-	-	(15,339,907)	(15,339,907)
	-	-	-	-	1,623,979	1,623,979
Revaluation of property, plant & equipment	-	-	-	-	3,880,185	3,880,185
Remeasurement of pension asset and obligation, net	-	-	-	-	(1,010,300)	(1,010,300)
Other comprehensive income	-	-	-	-	4,493,864	4,493,864
Total other comprehensive income	-	-	9,946,281	-	4,493,864	14,440,145
Other changes in reserves:						
Capital contributions received	-	17,507,697	-	-	-	17,507,697
Due to consolidated fund [note 10(b)]	-	-	(9,946,281)	-	-	(9,946,281)
Transfer for coins in circulation	-	-	-	116,552	-	116,552
Transfer of surplus on defined benefit pension scheme	-	-	-	-	242,900	242,900
	-	17,507,697	(9,946,281)	116,552	242,900	7,920,868
Balances at December 31, 2020	4,000	20,529,049	20,000	1,731,487	22,694,861	44,979,397
Total comprehensive income for the year 2021:						
Profit for the year	-	-	16,701,438	-	-	16,701,438
Other comprehensive income:						
Realised gains in fair value of securities measured at FVOCI	-	-	-	-	(329,162)	(329,162)
Unrealised gains in fair value of securities measured at FVOCI	-	-	-	-	(6,184,004)	(6,184,004)
	-	-	-	-	(6,513,166)	(6,513,166)
Remeasurement of pension asset and obligation, net	-	-	-	-	(1,012,900)	(1,012,900)
Other comprehensive loss	-	-	-	-	(7,526,066)	(7,526,066)
Total comprehensive income	-	-	16,701,438	-	(7,526,066)	9,175,372
Other changes in reserves:						
Capital contributions receivable	-	43,951	-	-	-	43,951
Transfer from capital contribution	20,573,000	(20,573,000)	-	-	-	-
Due to consolidated fund [note 10(b)]	-	-	(160,166)	-	-	(160,166)
Transfer for coins in circulation	-	-	-	155,743	-	155,743
Transfer of surplus on defined benefits pension scheme	-	-	-	-	249,400	249,400
	20,573,000	(20,529,049)	(160,166)	155,743	249,400	288,928
Balances at December 31, 2021	20,577,000	-	16,561,272	1,887,230	15,418,195	54,443,697

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

BANK OF JAMAICA

Statement of Cash Flows
Year ended December 31, 2021

	Notes	2021 J$'000	2020 J$'000
Cash flows from operating activities:			
Profit for the year		16,794,838	10,033,781
Adjustments for:			
Depreciation – property, plant and equipment	11	705,295	654,759
Amortisation – intangible asset	12	122,661	96,628
Gain on disposal of property, plant and equipment		(10,684)	(9,920)
Employee benefits, net		209,100	113,400
Unrealised exchange gain		(40,126,693)	(34,823,700)
Unrealised exchange gain on International Monetary Fund Quota Subscription	7	(608,841)	(1,280,756)
Unrealised exchange loss/(gain) on International Monetary Fund - Allocation of SDR's		1,318,124	5,730,684
International Monetary Fund - Holding of Special Drawing Rights		1,802,991	(988,211)
Impairment of financial assets	30	688,026	214,485
Interest income	26	(19,992,976)	(20,265,759)
Interest expense		7,602,916	5,790,176
Operating loss before changes in other assets and other liabilities		(31,495,243)	(34,734,433)
Other assets		(3,320,508)	(133,559)
Other liabilities		(7,411,397)	7,899,618
Due from Government and Government agencies		(31,305,948)	406,004
Resale agreements		2,052,179	5,247,821
Interest received		20,026,524	19,887,336
Interest paid		(7,483,241)	(5,461,194)
Net cash used by operating activities		(58,937,634)	(6,888,407)
Cash flows from investing activities:			
Securities held in funds managed by agents		(106,510)	(2,154,091)
Foreign currency denominated investments		(94,431,994)	3,979,451
Local currency denominated investments		(2,144,523)	(103,025,850)
Additions to property, plant and equipment	11	(659,218)	(486,438)
Additions to intangible asset	12	(130,165)	(179,304)
Proceeds from disposal of property, plant and equipment		44,981	58,580
Net cash used by investing activities		(97,427,429)	(101,807,652)
Cash flows from financing activities:			
Notes and coins in circulation		36,514,368	41,766,129
Deposits and other demand liabilities		82,534,697	53,558,658
Open market liabilities		(3,994,670)	69,399,733
Foreign liabilities		4,151	(37,206)
Payment of lease liability	19	(7,536)	(7,536)
Capital contribution		-	17,507,697
Net cash provided by financing activities		115,051,010	182,187,475
Net (decrease)/increase in cash and cash equivalents		(41,314,053)	73,491,416
Cash and cash equivalents at beginning of year		120,853,751	44,021,413
Effect of exchange rate fluctuation on cash held		5,540,642	3,340,922
Cash and cash equivalents at end of year		85,080,340	120,853,751
Comprising:			
Foreign cash and cash equivalents	4	84,772,003	120,595,213
Foreign notes and coins		148,359	49,012
Local notes and coins		159,978	209,526
		85,080,340	120,853,751

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

1. Identification

Bank of Jamaica (hereafter "the Bank") was established by the Bank of Jamaica Act (hereafter "the Act"), which was most recently amended in December 2020 by the Bank of Jamaica (Amendment) Act, 2020 ("the Amendment Act"). The Amendment Act was passed by Parliament in December 2020 and assented to by the Governor General on December 22, 2020. The Amendment Act became effective on April 16, 2021; being the appointed day provided by the Minister of Finance and the Public Service by notice published in the gazette. The Bank is domiciled in Jamaica and its principal office is located at Nethersole Place, Kingston, Jamaica.

The principal objectives of the Bank, as set out in the Act, are the maintenance of price stability and financial system stability with the primary objective being the maintenance of price stability. The functions of the Bank include to issue and redeem notes and coins; to keep and manage the external reserves of Jamaica; to foster the development of money and capital markets in Jamaica; to act as banker and financial agent of the Government of Jamaica and to act as banker to deposit taking institutions. As provided for in the Act, the functions of the Bank are required to be carried out with a view to achieving the principal objectives of the Bank and in a manner that recognise the growth and employment objectives of the Government.

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. Certain new and amended standards and interpretations became effective during the year none of which resulted in any changes to amounts recognised or disclosed in these financial statements.

(b) Functional and presentation currency

The financial statements are prepared and presented in thousands (J$'000) Jamaica Dollars (JMD), which is the Bank's functional currency, 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, measured at fair value;

(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; and

(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.

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.

(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.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2021

2. Basis of preparation (continued)

(d) Accounting estimates and judgements (continued)

(ii) Key assumptions and other sources of estimation uncertainty (continued)

(1) Pension and other post-retirement benefits (continued)

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 securities 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 6, 9 and 34).

(3) Fair value of land and building

The fair value of investment property is determined by property valuation experts using recognised valuation techniques and the principles of IFRS 13 *Fair Value Measurement*. The properties are valued using the market comparable approach. Under this approach, a property's fair value is estimated based on comparable transactions which is based upon the principle of substitution under which a potential buyer will not pay more for the property than it will cost to buy a comparable substitute property. The estimate of fair values is therefore dependent on the availability of reliable comparable sales data.

(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.

3. 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.

(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).

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2021

3. Significant accounting policies (continued)

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

(ii) Classification of financial instruments (continued)

Financial assets (continued)

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.

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.

3. Significant accounting policies (continued)

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

(ii) Classification of financial instruments (continued)

Financial assets (continued)

Solely payments of principal and interest (SPPI) assessment:

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.

(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.

3. Significant accounting policies (continued)

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

(iii) Derecognition (continued)

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.

(2) Repurchase and resale agreements

Resale agreements are accounted for as short-term collateralised lending and classified as loans and receivables. They are measured at fair value on initial recognition and subsequently, at amortised cost. The difference between the purchase cost and the resale consideration is recognised in the income statement as interest income using the effective interest method.

Repurchase agreements are accounted for as short-term collateralised borrowing and are classified as other liabilities. On initial recognition and subsequently, the securities given as collateral are retained in the statement of financial position and measured in accordance with their original measurement principles.

The proceeds of sale are reported as liabilities and are measured at amortised cost. The difference between the sale consideration and the repurchase price is recognised in the income statement over the life of each agreement as interest expense using the effective interest method.

(3) Other assets

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

3. Significant accounting policies (continued)

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

(v) Specific items (continued)

(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.

(7) International Monetary Fund – holding of special drawing rights is classified and measured at amortised cost less impairment losses.

(b) Impairment of financial assets

The Bank recognises 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'.

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.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2021

3. Significant accounting policies (continued)

(b) Impairment of financial assets (continued)

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets measured at amortised cost and debt financial assets measured 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.
- 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 securities revaluation 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.

3. Significant accounting policies (continued)

(c) Foreign currencies (continued)

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.

- 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

Subsequent to initial recognition, land and building are stated at fair value, which reflects market conditions at the reporting date. The 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.

3. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(ii) Depreciation (continued)

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.

(e) Leases

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.

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.

3. Significant accounting policies (continued)

(e) Leases (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 commencementdate;
- 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.

(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.

3. Significant accounting policies (continued)

(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 on long-term government securities with maturities approximating the terms of the Bank's obligation at the reporting date. The calculation is performed by a qualified actuary using the projected unit credit method.

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.

3. Significant accounting policies (continued)

(h) Employee benefits (continued)

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

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

As at the reporting date, Section 9 of the Bank of Jamaica (Amendment) Act 2020 ('the Amendment Act") requires each financial year's net income to be credited, or net loss to be charged, to the General Reserve Fund and for distributable earnings to be paid into the Consolidated Fund depending on the statutory capital to monetary liability ratio. Where losses are incurred, to the extent that the statutory capital is below 3% of monetary liabilities, the Amendment Act requires the Government to fund the shortfall from the Consolidated Fund.

"Distributable earnings" is defined to mean the profits of the Bank, excluding unrealized foreign exchange gains and other unrealised gains for the financial year, to which is added unrealised foreign exchange gains and other unrealised gains from prior financial years that are realised during the financial year; or have been realised in a prior financial year but have not previously been included in distributable earnings.

For, the year ended December 31, 2020, Section 9 of the Act required that each financial year net income be credited, or net loss 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.

(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 a financial instrument to the gross carrying amount of the financial asset or the amortised cost of the financial liability.

3. Significant accounting policies (continued)

(k) Interest income and interest expense (continued)

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. 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.

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 securities measured at amortised cost (see note 9); 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.

3. Significant accounting policies (continued)

(l) Investment securities (continued)

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.

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.

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 is recognised at the point in time when the related services are performed.

3. Significant accounting policies (continued)

(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:

  Annual Improvements to IFRS Standards 2018-2020 cycle contain amendments to IFRS 9 *Financial Instruments* and IFRS 16 *Leases* and are effective for annual periods beginning on or after January 1, 2022.

  (i) IFRS 9 *Financial Instruments* amendment clarifies that – for the purpose of performing the '10 per cent test' for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

  (ii) IFRS 16 *Leases* amendment removes the illustration of payments from the lessor relating to leasehold improvements.

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

- Amendments to IAS 1 *Presentation of Financial Statements*, will apply retrospectively for annual reporting periods beginning on or after January 1, 2023. The amendments promote consistency in application and clarify the requirements on determining if a liability is current or non-current.

  Under existing IAS 1 requirements, the Bank classifies a liability as current when it does not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, the requirement for a right to be unconditional has been removed and instead, a right to defer settlement must have substance and exist at the reporting date. The Bank classifies a liability as non-current if it has a right to defer settlement for at least twelve months after the reporting period. It has now been clarified that a right to defer exists only if the Bank complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date.

  With the amendments, convertible instruments may become current. In light of this, the amendments clarify how the Bank classifies a liability that includes a counterparty conversion option, which could be recognised as either equity or a liability separately from the liability component under IAS 32. Generally, if a liability has any conversion options that involve a transfer of the Bank's own equity instruments, these would affect its classification as current or non-current. It has now been clarified that the reporting entity can ignore only those conversion options that are recognised as equity when classifying liabilities as current or non-current.

  The Bank does not expect the amendment to have a significant impact on its financial statements.

3. Significant accounting policies (continued)

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

- Amendments to IFRS 16 *Leases* are effective for annual periods beginning on or after April 1, 2021, early adoption is permitted. The amendments extend the practical expedient by 12 months – i.e. allowing lessees to apply it to rent concessions for which any reduction in lease payments affects only payments originally due on or before June 30, 2022.

  The amendments are applied retrospectively with the cumulative effect of initially applying it being recognised in opening retained earnings. The disclosure requirements of paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* do not apply on initial application.

  The Bank does not expect the amendment to have a significant impact on its financial statements.

- Amendments to IAS 1 *Presentation of Financial Statements* are effective for annual periods beginning on or after January 1, 2023 and may be applied earlier. The amendments help entities provide useful accounting policy disclosures.

  The key amendments to IAS 1 include:

  (i) requiring entities to disclose their material accounting policies rather than their significant accounting policies;

  (ii) clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and

  (iii) clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to an entity's financial statements.

  The amendments are consistent with the refined definition of material:

  "Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements".

  The Bank is assessing the impact that the amendment will have on its financial statements.

- Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* are effective for periods beginning on or after January 1, 2023, with early adoption permitted. The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2021

3. Significant accounting policies (continued)

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

- Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors (continued)*

The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an entity develops an accounting estimate to achieve the objective set out by an accounting policy. Developing an accounting estimate includes both:

(i) selecting a measurement technique (estimation or valuation technique) – e.g. an estimation technique used to measure a loss allowance for expected credit losses when applying IFRS 9 *Financial Instruments*; and

(ii) choosing the inputs to be used when applying the chosen measurement technique – e.g. the expected cash outflows for determining a provision for warranty obligations when applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

The effects of changes in such inputs or measurement techniques are changes in accounting estimates.
The Bank is assessing the impact that the amendment will have on its financial statements.

4. Cash and cash equivalents

	2021 J$'000	2020 J$'000
Current accounts and money at call with foreign banks	83,748,449	119,703,969
Current accounts with local banks	1,023,554	891,244
	84,772,003	120,595,213

5. Securities held in funds managed by agents

This represents investments managed by Crown Agents Investment Management Limited ("CAIML"), 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 sovereign bonds, corporate bonds and pooled funds as follows:

	2021 J$'000	2020 J$'000
Units in pooled funds	3,324,545	2,881,238
Sovereign bonds	96,327,018	90,361,367
Corporate bonds	10,345,240	8,314,364
	109,996,803	101,556,969

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2021

6. Foreign currency denominated investments

	2021 J$'000	2020 J$'000
Securities measured at fair value through other comprehensive income (FVOCI):		
USD Bonds issued primarily by specialised financial corporations	52,829,880	49,253,888
Securities measured at amortised cost:		
Short-term deposits with foreign banks	388,278,704	277,141,512
Less allowance for ECL on investments at amortised cost	(58,248)	(65,972)
	388,220,456	277,075,540
	441,050,336	326,329,428

7. 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.

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	2021 J$'000	2020 J$'000
Amount subscribed by the Government of Jamaica (substituted by securities)	324,425	69,940,284	66,562,372
Amount subscribed by the Bank	58,475	12,606,174	11,997,333
Total quota	382,900	82,546,458	78,559,705

	SDR'000	2021 J$'000	2020 J$'000
Amount subscribed by the Bank:			
At beginning of year	58,475	11,997,333	10,716,577
Effect of exchange rate fluctuation *	-	608,841	1,280,756
At end of year	58,475	12,606,174	11,997,333

*The exchange rate at the reporting date is set out at note 16(d)(iv).

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2021

8. 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 counter-parties on specified dates and at specified prices. These are accounted for as short-term collateralised lending [note 3(a)(v)(2)]. Section 23(f) of the Amendment Act requires that the maximum loan or advance granted against securities shall be based on the Bank's determination of the risk of such security losing its fair value during the life of the loan. For 2020, Section 23(f) of the Act required 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, 2021, securities held as collateral had a fair value of $10,039,056,000 (2020: $14,141,155,000).

9. Local currency denominated investments

	2021 J$'000	2020 J$'000
Securities at FVOCI:		
Jamaica Government securities:		
Variable rate benchmark investments	74,709,211	70,156,062
Fixed rate benchmark investments	112,481,474	123,396,898
	187,190,685	193,552,960
Securities at amortised cost:		
Jamaica Government securities:		
Fixed rate accreting notes ("FRANs") [See note re National Debt Exchange ("NDX") below]	85,207,988	83,679,123
Less allowance for ECL on investments at amortised cost	(270,860)	(37,962)
	84,937,128	83,641,161
	272,127,813	277,194,121

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.

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

	2021			
		Movements during the year		
	At beginning of year	Advances/ (distributed profit)	Settlement	At end of year
	J$'000	J$'000	J$'000	J$'000
Withholding tax refund due [see notes (c) and (d) below]	2,400,406	447	(1,252,876)	1,147,977
Accrued interest on Government securities	4,606,322	4,673,720	(4,606,322)	4,673,720
Net loss/(profit) receivable from/(payable to) Consolidated Fund [see (b) and (d) below]	(34,739,997)	(160,166)	32,602,328	(2,297,835)
	(27,733,269)	4,514,001	26,743,130	3,523,862

	2020			
		Movements during the year		
	At beginning of year	Advances/ (distributed profit)	Settlement	At end of year
	J$'000	J$'000	J$'000	J$'000
Withholding tax refund due [see notes (c) and (d) below]	2,806,411	507,240	(913,245)	2,400,406
Accrued interest on Government securities	3,816,376	4,606,322	(3,816,376)	4,606,322
Net loss/(profit) receivable from/(payable to) Consolidated Fund [see (b) and (d) below]	(24,793,716)	(9,946,281)	-	(34,739,997)
	(18,170,929)	(4,832,719)	(4,729,621)	(27,733,269)

(a) In the current year under Section 36 of the Amendment Act 2020, the Bank may in any year in which an event that is declared by the Minister by Order, to be a national emergency occurs, make temporary advances to the Government which should:

(i) not cumulatively exceed five percent of the average of the recurrent revenue of Jamaica for the three fiscal years immediately preceding the year in which advances are made;

(ii) bear interest at a rate specified by the Bank, after giving consideration to prevailing market rates; and

(iii) be repaid not later than four months after the end of the fiscal year in which the advances are made.

In the prior year under Section 36 of the Act, the Bank was 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 were to be repaid within three months of the end of the financial year in which the advances were made. Where advances were not duly repaid, the Bank was prohibited from granting further advances in any subsequent financial year until the outstanding advances were repaid.

There were no advances given in 2021 and 2020.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2021

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

(b) In the prior year the Government was 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 provided 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. It is now provided by Section 9(2) of the Amendment Act 2020 that where at the end of any financial year the audited financial statements of the Bank disclose that the statutory capital of the Bank as defined falls below 3% of monetary liabilities, the Government is required to issue to the Bank marketable securities to make up this shortfall. The value of the marketable securities so issued shall be credited to the General Reserve Fund. See further details at Note 23(b).

(c) Income tax is normally 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. Additionally, in 2020 the Bank obtained an exemption from withholding tax and no further amounts were added to the outstanding recoverable balance during the year.

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

	2021 J$'000	2020 J$'000
6-12 months	477	-
1-5 years	1,147,500	2,400,406
	1,147,977	2,400,406

(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 February 28, 2014) for the settlement of accumulated losses and the recovery of withholding tax refunds due to the Bank. All outstanding amounts included in this agreement were settled by 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 $10.02 billion has been refunded to the Bank for the period January 1, 2013 to December 31, 2021.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2021

11. Property, plant and equipment

	Freehold land and buildings J$'000	Leasehold property J$'000	Furniture, plant and equipment J$'000	Motor vehicles J$'000	Work in progress J$'000	Total J$'000
Cost or valuation:						
December 31, 2019	4,407,232	180,879	2,966,403	508,758	-	8,063,272
Revaluation adjustment	3,318,127	-	-	-	-	3,318,127
Additions	128,267	19,484	234,263	104,424	-	486,438
Disposals/write-offs	-	-	-	(132,100)	-	(132,100)
December 31, 2020	7,853,626	200,363	3,200,666	481,082	-	11,735,737
Additions	166,046	19,946	212,691	122,287	138,248	659,218
Disposals/write-offs	-	-	-	(99,396)	-	(99,396)
December 31, 2021	8,019,672	220,309	3,413,357	503,973	138,248	12,295,559
Depreciation:						
December 31, 2019	729,464	69,786	1,934,074	198,899	-	2,932,223
Charge for the year	365,793	16,171	180,322	92,473	-	654,759
Revaluation adjustment	(562,058)	-	-	-	-	(562,058)
Eliminated on disposals	-	-	-	(83,439)	-	(83,439)
December 31, 2020	533,199	85,957	2,114,396	207,933	-	2,941,485
Charge for the year	372,649	17,680	215,091	99,875	-	705,295
Elimination on disposal	-	-	-	(65,099)	-	(65,099)
December 31, 2021	905,848	103,637	2,329,487	242,709	-	3,581,681
Net book values:						
December 31, 2021	7,113,824	116,672	1,083,870	261,264	138,248	8,713,878
December 31, 2020	7,320,427	114,406	1,086,270	273,149	-	8,794,252
December 31, 2019	3,677,768	111,093	1,032,329	309,859	-	5,131,049

The Bank obtains independent valuations of land and buildings 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 3(d)(i)].

A revaluation was performed in December 2020 by Benchmark Properties.

The surplus arising on revaluation, inclusive of depreciation no longer required, is included in property revaluation reserve [note 25(b)].

The valuations were done using the market value sale comparison approach, and management accepted these as reasonable estimates of fair value. The fair value of land and buildings is categorised as Level 2 in the fair value hierarchy.

The market value takes into consideration market research on the areas, examination of current market forces and conditions and comparable sales, with reference to expected procedures and protocols between willing buyer and willing seller.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2021

12. Intangible asset

	Computer software 2021 J$'000	Computer software 2020 J$'000
Cost:		
At the beginning of year	1,360,781	1,181,477
Additions	130,165	179,304
At end of year	1,490,946	1,360,781
Amortisation:		
At the beginning of year	945,383	848,755
Charge for the year	122,661	96,628
At end of year	1,068,044	945,383
Net book value	422,902	415,398

13. 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.

(a) Pension asset recognised:

	2021 J$'000	2020 J$'000
Present value of funded obligations	(17,598,400)	(15,993,400)
Fair value of plan assets	22,175,600	21,736,200
Recognised asset	4,577,200	5,742,800

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

	2021 J$'000	2020 J$'000
Balance at beginning of year	15,993,400	14,735,600
Benefits paid	(818,500)	(758,900)
Service cost	394,900	354,700
Interest cost	1,438,100	1,103,300
Remeasurement loss on obligation included in other comprehensive income (iv)	590,500	558,700
Balance at end of year	17,598,400	15,993,400

	2021 J$'000	2020 J$'000
Fair value of plan assets at beginning of year	21,736,200	20,908,200
Contributions paid	156,000	155,400
Interest income on plan assets	1,926,400	1,545,500
Benefits paid	(818,500)	(758,900)
Remeasurement loss on assets include in other comprehensive income (iv)	(824,500)	(114,000)
Fair value of plan assets at end of year	22,175,600	21,736,200

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2021

13. Employee benefits (continued)

(a) Pension asset recognised (continued):

(ii) Movements in plan assets

Plan assets consist of the following:		
Government of Jamaica securities	20,121,700	20,169,400
Bank of Jamaica certificates of deposit	1,238,000	1,217,000
Real estate	260,000	138,100
Other	555,900	211,700
	22,175,600	21,736,200

(iii) Credit recognised in profit or loss

	2021 J$'000	2020 J$'000
Current service cost	394,900	354,700
Interest on obligations	1,438,100	1,103,300
Interest income on assets	(1,926,400)	(1,545,500)
	(93,400)	(87,500)

(iv) Items recognised in other comprehensive income

	2021 J$'000	2020 J$'000
Remeasurement loss on obligation:		
Experience adjustment (i)	(590,500)	(558,700)
Remeasurement loss on assets (ii)	(824,500)	(114,000)
	(1,415,000)	(672,700)

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

	2021 %	2020 %
Discount rate	8.00	9.00
Future pension increases	2.50	3.00
Future salary increases	5.50	6.50

(vi) A half 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:

Actuarial assumption	0.5 percentage point increase J$'000	0.5 percentage point decrease J$'000
Discount rate	(1,213,500)	1,365,300
Assumed rate of salary escalation	349,000	(313,000)
Future rate of pension	1,020,400	(927,400)

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2021

13. Employee benefits (continued)

(a) Pension asset recognised (continued):

(i) Liability recognised in statement of financial position

	2021 J$'000	2020 J$'000
Balance at beginning of year	2,842,100	2,303,600
Current service cost	87,500	68,600
Interest cost	262,000	176,300
Benefits paid	(47,000)	(44,000)
Remeasurement (gain)/loss on obligation, included in other comprehensive income [see (iii)]	(402,100)	337,600
Balance at end of year	2,742,500	2,842,100

(ii) Expense recognised in profit or loss:

	2021 J$'000	2020 J$'000
Current service cost	87,500	68,600
Interest on obligation	262,000	176,300
	349,500	244,900

(iii) Items in other comprehensive income

	2021 J$'000	2020 J$'000
Change in financial assumptions	(3,100)	(246,600)
Experience adjustment	405,200	(91,000)
Remeasurement gain/(loss) on obligation	402,100	(337,600)

(b) 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:

	0.5 percentage point increase J$'000	0.5 percentage point decrease J$'000
Discount rate	(242,400)	280,200
Assumed medical cost trend rate and rate of salary escalation	278,500	(241,100)

13. Employee benefits (continued)

(c) The estimated pension contributions expected to be paid into the plan during the next financial year amounts to J$223,000,000 (2020: J$162,000,000). See note 13(a)(ii) for actual contributions paid during the current and previous years.

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

	2021 %	2020 %
Discount rate	8.00	9.00
Future salary increase	5.50	6.50
Medical claims growth	7.00	8.00

Assumptions regarding future mortality are based on the GAM 94 [2020: GAM 94] mortality table for pensioners (British mortality tables), but with each age rated down by five (2020: five) years.

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

	2021 %	2020 %
Discount rate	8.00	9.00
Future salary increase	5.50	6.50
Medical claims growth	7.00	8.00

Assumptions regarding future mortality are based on the GAM 94 [2020: GAM 94] mortality table for pensioners (British mortality tables), but with each age rated down by five (2020: five) years.

14. Other assets

	2021 J$'000	2020 J$'000
Inventory of unissued notes and coins	1,957,030	1,809,932
Staff loans, gross	2,353,216	2,229,496
Ex-staff loans, gross	83,579	30,714
Accrued interest receivable	196,089	297,035
SDR equalisation provision [note 16(d)(iv)]	2,828,028	-
Salaries and wages paid in advance	131,160	112,787
Stock of souvenir coins	76,915	77,827
Other	990,359	818,051
	8,616,376	5,375,842
Less:		
Remeasurement of staff loans	(624,783)	(603,807)
Allowance for ECL: ex-staff loans	(25,102)	(24,598)
	7,966,491	4,747,437

14. Other assets (continued)

Other assets, excluding interest receivable, are due from the reporting date as follows:

	2021 J$'000	2020 J$'000
No specific maturity	5,227,549	2,104,481
Within 1 year	205,584	118,903
Over 1 year	2,337,269	2,227,018
	7,770,402	4,450,402

15. Notes and coins in circulation

	2021 J$'000	2020 J$'000
Notes	221,197,082	185,311,687
Central Bank Digital Currency	6,000	-
Coins	5,661,690	5,194,460
	226,864,772	190,506,147

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, 2021, were 3.26 (2020: 3.02) 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 24).

16. Deposits and other demand liabilities

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

	2021 J$'000	2020 J$'000
Government and Government agencies	126,172,161	85,235,351
Commercial banks and specified financial institutions	196,060,559	166,920,904
International Monetary Fund [see (d) below]	131,236,539	128,426,765
Others	11,279,282	7,603,804
	464,748,541	388,186,824

	2021 J$'000	2020 J$'000
Jamaica dollar equivalent of foreign currency deposits	264,564,652	231,729,975
Jamaica dollar deposits	200,183,889	156,456,849
	464,748,541	388,186,824

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2021

16. Deposits and other demand liabilities (continued)

(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 $126,999,835 (2020: $113,371,155).

(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 IMF balance consists of the following loans:

	SDR'000		J$'000	
	2021	2020	2021	2020
2013 Extended Fund Facility	212,002	280,140	46,710,444	54,201,415
2020 Rapid Financing Instrument	382,900	382,900	84,364,435	74,083,390
Other IMF amounts	734	734	161,660	141,960
Total IMF liability	595,636	663,774	131,236,539	128,426,765

(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) In June 2020, the IMF approved a disbursement of SDR 382.9 million for Jamaica under the Rapid Financing Instrument. The amount will be repaid in eight equal installments of SDR 47.86 million, commencing August 18, 2023 and ending May 19, 2025.

(d) IMF related information

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

	2021 J$'000	2020 J$'000
At the December 31 SDR rate:		
Amount at which the loan is carried by the Bank	128,408,511	136,186,650
Effect of exchange rate appreciation/depreciation between April 30 and December 31	2,828,028	(7,759,885)
At the April 30 SDR rate:		
Amount at which the loan is carried by the IMF [per (a) above]	131,236,539	128,426,765

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

		2021 SDR	2020 SDR
April 30	J$1 =	0.0045380	0.0051685
December 31	J$1 =	0.0046386	0.0048740

As at February 23, 2022, the date of approval of these financial statements, the exchange rate was J$1 = SDR 0046063.

17. 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.

18. International Monetary Fund - Allocation of Special Drawing Rights

This represents the Bank's obligation for Special Drawing Rights (SDRs) allocated to it. In August 2021, the IMF approved a special allocation of SDR366.992mn representing an increase in the Government of Jamaica's holding of SDR's. This allocation does not change unless there are cancellations or further allocations.

	SDR 2021 '000	SDR 2020 '000	2021 J$'000	2020 J$'000
At beginning of year	261,644	261,644	53,681,504	47,950,820
Increase in allocation	366,992	-	80,523,176	-
Effect of exchange rate fluctuation	-	-	1,318,124	5,730,684
At end of year	628,636	261,644	135,522,804	53,681,504

19. 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:

	Leasehold property 2021 J$'000	Leasehold property 2020 J$'000
Balance at January 1	79,823	86,339
Depreciation charge for the year	(6,516)	(6,516)
	73,307	79,823

This is included in property plant and equipment at note 11.

(ii) Lease liability:

	2021 J$'000	2020 J$'000
Undiscounted cashflows of lease liability		
Less than one year	7,536	7,536
One to five years	37,680	37,680
More than five years	39,563	47,099
	84,779	92,315
Less future interest expense	(9,280)	(10,911)
Carrying amount of lease liability	75,499	81,404
Current	6,027	5,904
Non-current	69,472	75,500
	75,499	81,404

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2021

19. Leases (continued)

(iii) Amounts recognised in profit or loss:

	2021 J$'000	2020 J$'000
Interest on lease liability	1,632	1,752

(iv) Amounts recognised in statement of cashflows

	2021 J$'000	2020 J$'000
Total cash outflow for leases	7,536	7,536

20. Other liabilities

	2021 J$'000	2020 J$'000
Interest payable	1,381,375	1,263,331
Staff and staff-related expenses	941,558	678,516
SDR equalisation provision	-	7,759,885
Other	310,696	225,248
	2,633,629	9,926,980

21. Share capital

Pursuant to Section 8 of the Act, as amended by the Bank of Jamaica (Amendment) Act, 2020, the capital of the Bank is J$20,577,000,000 (2020: J$4,000,000). The Government of Jamaica has paid J$20,529,049,000 in marketable securities. Securities amounting to J$43,951,000 are outstanding.

22. Capital contribution

Capital contribution of $20,573,000,000 was transferred to share capital in April 2021 on the effective date of the increase in the Bank's share capital. In 2020, the Government of Jamaica made a capital contribution of $17,507,697,000 in the form of marketable securities, which were charges on the Consolidated Fund.

23. General reserve fund

(a) Section 9 of the Bank of Jamaica (Amendment) Act 2020 provides that the Bank shall establish and maintain a General Reserve Fund to which, at the end of each financial year:

(i) there shall be credited the net profit for that year and the value of any marketable securities that may be issued to the Bank pursuant to subsection 9(2) of the Act; and

(ii) there shall be charged any net losses of the Bank.

(b) Under subsection 9(2) of the (Amendment) Act 2020, where at the end of any financial year, the audited financial statements disclose that the statutory capital of the Bank, defined in the Act to be the paid-up capital of the Bank plus the sums standing to the credit of the General Reserve Fund, falls below 3% of the monetary liabilities of the Bank as defined, the Government is required to, within 6 months of the start of the fiscal year immediately following, issue marketable securities to the Bank in an amount at least equivalent to the amount of the short fall.

23. General reserve fund (continued)

(c) Where at the end of the financial year the audited financial statements of the Bank disclose that distributable earning of the Bank are greater than zero, these are paid into the Consolidated Fund as follows:

(i) where the statutory capital is above 8% of the monetary liabilities of the Bank, an amount equivalent to 100% of the distributable earnings for such financial year shall be paid by the Bank into the Consolidated Fund within four months of the commencement of the fiscal year immediately following;

(ii) where the statutory capital is equal to or above 5% of the monetary liabilities and less than or equal to 8% of such monetary liabilities, 25% distributable earnings for such financial year shall be paid by the Bank into the Consolidated Fund within four months of the commencement of the fiscal year immediately following;

(iii) no amount shall be paid by the Bank into the Consolidated Fund in the case where the statutory capital is below 5% of monetary liabilities.

(d) For the year ended December 31, 2020, Section 9 of the Act required that the Bank established and maintained a General Reserve Fund:

(i) to which, at the end of each financial year, the net income for that year shall be transferred or the net losses charged;

(ii) 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;

(iii) 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.

24. 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 15).

25. Other reserves

This represents the following:

	2021 J$'000	2020 J$'000
Securities revaluation reserve [see (a)]	3,688,874	10,202,040
Property revaluation reserve [see (b)]	7,572,721	7,572,721
Pension equalisation reserve [see (c)]	4,577,200	5,742,800
Employee benefit obligation reserve [see (c)]	(420,600)	(822,700)
	15,418,195	22,694,861

(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 11).

(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 plans are shown in the statement of comprehensive income, then transferred to this reserve.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2021

26. Interest income

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

	2021 J$'000	2020 J$'000
Assets at amortised cost:		
Cash and cash equivalents	42,971	170,578
Investment securities	10,560,360	11,869,363
Resale agreements	160,754	406,589
Other	95,397	207,060
Securities at FVOCI:		
Investment securities	8,546,241	6,694,084
Securities at FVTPL:		
Investment securities	587,253	918,085
	19,992,976	20,265,759

(b) Analysed as follows:

	2021 J$'000	2020 J$'000
Government of Jamaica [note 31(c)(ii)]	17,921,876	15,553,579
Other sources	1,131,669	2,101,136
Open market	160,754	406,589
International	778,677	2,204,455
	19,992,976	20,265,759

27. Foreign exchange (net)

	2021 J$'000	2020 J$'000
Net gains on translation and settlement of foreign currency assets and liabilities, other than on IMF deposit liabilities	22,943,370	12,044,816
Losses on translation and settlement of IMF deposit liabilities	(6,771,927)	(9,907,147)
Realised exchange gains on purchases and sales of foreign currencies	127,305	2,151,530
	16,298,748	4,289,199

28. Interest on deposits and open market liabilities

	2021 J$'000	2020 J$'000
Certificates of deposit - Open market liabilities	5,258,422	3,294,745
Deposits:		
- Government and Government agencies [note 31(c)(ii)]	180,605	309,261
- Commercial banks and specified financial institutions	572,001	243,798
- Other	38,801	9,960
	6,049,829	3,857,764

29. Staff numbers and costs

	2021	2020
Number of employees at the end of the year		
Full-time	461	440
Contract	177	206

The related costs for these employees were as follows:

	2021 J$'000	2020 J$'000
Salaries and wages	4,894,784	4,344,910
Statutory payroll contributions	267,051	229,496
Uniforms	35,233	45,145
Staff development	120,274	101,286
Subsidy on canteen operations	142,260	85,248
Staff welfare	457,434	371,950
Pension fund related costs	668,774	472,467
	6,585,810	5,650,502

30. Other operating expenses

	2021 J$'000	2020 J$'000
Communication	51,607	65,253
Travelling and motor vehicle expenses	33,379	48,229
Commission paid to commercial banks	378,734	328,234
Auditor's remuneration	19,016	13,156
General office expenses	241,618	149,256
Fees on investment managed portfolio	84,136	100,029
Expected credit loss	688,026	214,485
Other administrative expenses	414,967	357,943
	1,911,483	1,276,584

31. 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.

31. Related parties (continued)

(a) Definition of related party (continued)

(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) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank.

(6) The entity is controlled, or jointly controlled, by a person identified in (i).

(7) A person identified in (i)(1) has significant influence over the Bank or is a member of the key management personnel of the Bank.

(8) 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 10 and 16).

(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 notes 10 and 16 as follows:

	2021 J$'000	2020 J$'000
Loans:		
Executive management (included in staff loans, note 14)	99,396	93,794
Open market liabilities: Pension fund	1,238,009	1,216,974

The executive management team consists of twenty-two (22) [2020: twenty-four (24) 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.

31. Related parties (continued)

(c) Related party amounts (continued)

(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:

	2021 J$'000	2020 J$'000
Interest expense:		
Government and Government agencies (note 28)	180,605	309,261
Executive management and pension scheme (current accounts)	674	-
Interest income:		
Government of Jamaica [note 26(b)]	17,921,876	15,553,579
Executive management	2,817	3,101
Pension contribution and other benefits	206,113	201,963
Executive management compensation, included in staff costs (note 29)	488,293	431,928

32. Commitments

Capital commitments as follows:

	2021 J$'000	2020 J$'000
Authorised and contracted	251,970	290,086
Authorised but not contracted	534,919	262,699
	786,889	552,785

33. Contingent liabilities

As at December 31, 2021, there are lawsuits pending against the Bank. There are personal injury matters (covered by insurance limits), claims for damages for breach of contract, and an application for judicial review of the Bank's regulatory actions. The Bank has immunity from any punitive action in exercising its regulatory functions under Bank of Jamaica Act.

The Bank has mounted a defence in all these matters, as we deem them without merit and unlikely to succeed. In any event the Bank has made provision in the budget for the breach of contract claim, and were the matter to be ruled against the Bank, the Order for damages would not result in any material losses to the Bank.

34. 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.

34. Fair value of financial instruments (continued)

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.

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 cash and cash equivalents, resale agreements, notes and coins in circulation, deposits and other demand liabilities, open market liabilities, other liabilities and IMF Quota subscription were determined to approximate their carrying value and are not disclosed in the table below. They are included in the level 2 fair value hierarchy.

(a) Securities measured at fair value

	2021		
	Level 1 J$'000	Level 2 J$'000	Total J$'000
Securities at FVOCI:			
USD Bonds issued primarily by specialised financial corporations	52,829,880	-	52,829,880
Government of Jamaica securities	-	187,190,685	187,190,685
Securities at FVTPL:			
Securities included in funds managed by agents			
- Sovereign bonds	-	96,327,018	96,327,018
- Corporate bonds	-	10,345,240	10,345,240
- Units in pooled funds	-	3,324,545	3,324,545
	52,829,880	297,187,488	350,017,368

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2021

34. Fair value of financial instruments (continued)

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

(a) Securities measured at fair value

	2020		
	Level 1 J$'000	Level 2 J$'000	Total J$'000
Securities at FVOCI:			
USD Bonds issued primarily by specialised financial corporations	49,253,888	-	49,253,888
Government of Jamaica securities	-	193,552,960	193,552,960
Securities at FVTPL:			
Securities included in funds managed by agents			
- Sovereign bonds	-	90,361,367	90,361,367
- Corporate bonds	-	8,314,364	8,314,364
- Units in pooled funds	-	2,881,238	2,881,238
	49,253,888	295,109,929	344,363,817

(b) Financial assets not carried at fair value

	2021		2020	
	Carrying value J$'000	Fair value J$'000	Carrying value J$'000	Fair value J$'000
Securities at amortised cost:				
Government of Jamaica securities (FRANs)	84,937,128	122,595,440	83,641,161	129,818,821

(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 J$ securities	• Obtain bid yield from yield curve provided by a recognised pricing source (which uses Jamaica-market-supplied indicative bids) • Using the yield, determine price • Apply price to estimate fair value
Securities in funds managed by agent	• Obtain bid prices published by major overseas broker; • Apply price to estimate fair value.

35. 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 nature of the risks and manner in which they are measured and managed are as set out below.

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:

(i) 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;

(ii) Credit Committee, which is responsible for evaluating and approving applications for staff loans.

(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.

(iv) 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.

(v) 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.

(vi) Impact of Covid-19

The World Health Organisation declared the novel Coronavirus (COVID-19) outbreak a pandemic on March 11, 2020 and the Government of Jamaica declared the island a disaster area on March 13, 2020. The pandemic and the measures to control its human impact have resulted in disruptions to economic activity, business operations and asset prices worldwide. In response to the pandemic, Management has adopted several measures specifically around financial risk management. These measures include:

(i) Enhanced monitoring of market movements by the Risk unit and tracking of the impact on the investment portfolios and the resulting impact on capital and liquidity to support timely decision making.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2021

35. Financial risk management (continued)

(a) Introduction and overview (continued)

(vi) Impact of Covid-19 (continued)

These measures include (continued):

(ii) Enhanced monitoring of market movements by the Risk unit and tracking of the impact on the investment portfolios and the resulting impact on capital and liquidity to support timely decision making.

(iii) Updating of the Bank's Recovery Plan, the key aspects which include:

- Measures to secure sufficient funding and adequate availability.
- Contingency arrangements that enable continuation of operations as recovery measures are being implemented.
- A clear description of the escalation and decision-making process to ensure that the plan can be executed in a timely manner.
- Communication plan to ensure that stakeholders (internal and external) are given timely and appropriate information during the Bank's recovery process.

(vi) The implementation of measures to assist external clients during this crisis, such as: special arrangements with clients, amending their collateral/margin requirements based on their needs and subject to approval by the appropriate committee.

(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.

35. 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)

  The Bank uses the credit ratings ascribed by Moody's Investor Services, 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.

  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 and withholding taxes 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.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2021

35. Financial risk management (continued)

(b) Credit risk (continued)

(i) Management of credit risk on classes of financial assets exposed to that risk (continued):

- 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.

(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:

	2021 J$'000	2020 J$'000
Caribbean	287,456,397	293,701,373
North America	362,151,732	357,147,783
Europe	390,314,519	228,883,612
Other	218,235	212,150
Total financial assets	1,040,140,883	879,944,918

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.

35. Financial risk management (continued)

(b) Credit risk (continued)

(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.

	2021 J$'000 Stage 1	2020 J$'000 Stage 1
Foreign currency denominated securities at FVOCI		
Rated AAA	52,829,880	48,826,113
Rated AA- to AA	-	427,775
	52,829,880	49,253,888
Loss allowance	(11,869)	(9,895)

	2021 J$'000 Stage 1	2020 J$'000 Stage 1
Foreign currency denominated securities at amortised cost		
Rated AAA	383,657,781	219,460,452
Rated AA- to AA	4,620,923	57,681,060
	388,278,704	277,141,512
Loss allowance	(58,248)	(65,972)
Carrying amount	388,220,456	277,075,540

	2021 J$'000 Stage 1	2020 J$'000 Stage 1
Local currency denominated securities at FVOCI		
Rated BBB	187,190,685	193,552,960
Loss allowance	(549,625)	(86,832)

	2021 J$'000 Stage 1	2020 J$'000 Stage 1
Local currency denominated securities at amortised cost		
Rated BBB	85,207,988	83,679,123
Loss allowance	(270,860)	(37,962)
	84,937,128	83,641,161

35. Financial risk management (continued)

(b) Credit risk (continued)

(iii) Credit quality analysis (continued)

	2021		
	J$'000 Stage 1	J$'000 Stage 3	J$'000 Total
Other assets – staff loans receivable			
Low risk	2,353,216	-	2,353,216
Doubtful	-	83,579	83,579
	2,353,216	83,579	2,436,795
Loss allowance	(10)	(25,092)	(25,102)
	2,353,206	58,487	2,411,693

	2020		
	J$'000 Stage 1	J$'000 Stage 3	J$'000 Total
Other assets – staff loans receivable			
Low risk	2,229,496	-	2,229,496
Doubtful	-	30,714	30,714
	2,229,496	30,714	2,260,210
Loss allowance	(23)	(24,575)	(24,598)
	2,229,473	6,139	2,235,612

(iv) Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy at note 3(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 that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

35. Financial risk management (continued)

(b) Credit risk (continued)

(iv) Amounts arising from ECL (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Significant increase in credit risk (continued)

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 a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and by 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.

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.

35. Financial risk management (continued)

(b) Credit risk (continued)

(iv) Amounts arising from ECL (continued)

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.

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 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).

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2021

35. Financial risk management (continued)

(b) Credit risk (continued)

(iv) Amounts arising from ECL (continued)

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 Ban;
- 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.

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.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2021

35. Financial risk management (continued)

(b) Credit risk (continued)

(iv) Amounts arising from ECL (continued)

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, Loss to Value ratios (LTV) 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.

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

	2021 J$'000 Stage 1	2020 J$'000 Stage 1
Securities at FVOCI:		
Balance at the beginning of the year	96,727	464
Net remeasurement of loss allowance	452,096	96,263
Financial assets derecognised	(7,727)	-
New financial assets acquired	20,398	-
Balance at year end	561,494	96,727

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:

	2021			
	J$'000 Stage 1	J$'000 Stage 2	J$'000 Stage 3	J$'000 Total
Balance at January 1, 2021	106,552	-	24,575	131,127
Net re-measurement of loss allowance	230,432	-	518	230,950
Financial assets derecognised	(65,940)	-	-	(65,940)
New financial assets acquired	58,248	-	-	58,248
Balance at December 31, 2021	329,292	-	25,093	354,385

35. Financial risk management (continued)

(b) Credit risk (continued)

(v) Loss allowance (continued)

Financial assets at amortised cost (continued):

	2020			
	J$'000 Stage 1	J$'000 Stage 2	J$'000 Stage 3	J$'000 Total
Balance at January 1, 2020	2,206	528	10,171	12,905
Net remeasurement of loss allowance	104,346	(528)	14,404	118,222
Balance at December 31, 2020	106,552	-	24,575	131,127

(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.

The impact of COVID-19 has resulted in customers withdrawing funds at a higher rate. The Bank has implemented a liquidity risk response strategy, including stress testing for entities within the financial sector that have higher liquidity risk exposures.

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.

35. Financial risk management (continued)

(c) Liquidity risk (continued)

The following table presents the undiscounted contractual maturities of financial liabilities:

	2021					
	Within 1 Month J$'000	1 to 3 months J$'000	3 to 12 months J$'000	Over 1 year J$'000	Contractual cash flow J$'000	Carrying amount J$'000
Deposits and other demand liabilities	464,748,541	-	-	-	464,748,541	464,748,541
Open market liabilities	49,468,826	-	41,372,935	89,538,185	180,379,946	173,212,603
International Monetary Fund Drawing Rights	-	-	-	135,534,124	135,534,124	135,522,805
Lease liability	628	1,256	5,652	77,243	84,779	75,499
Other	2,633,629	-	-	-	2,633,629	2,633,629
Commitments	-	543,605	174,931	68,352	786,888	-
	516,851,624	544,861	41,553,518	225,217,904	784,167,907	776,193,077

	2020					
	Within 1 Month J$'000	1 to 3 months J$'000	3 to 12 months J$'000	Over 1 year J$'000	Contractual cash flow J$'000	Carrying amount J$'000
Deposits and other demand liabilities	388,187,081	-	-	-	388,187,081	388,186,824
Open market liabilities	60,428,862	-	34,883,900	90,279,213	185,591,975	177,207,273
International Monetary Fund Drawing Rights	-	-	-	53,689,789	53,689,789	53,681,504
Lease liability	628	1,256	5,652	84,779	92,315	81,404
Other	9,926,980	-	-	-	9,926,980	9,926,980
Due to Government and Government agencies	-	-	27,733,269	-	27,733,269	27,733,269
Commitments	-	126,574	213,113	213,098	552,785	-
	458,543,551	127,830	62,835,934	144,266,879	665,774,194	656,817,254

(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.

The COVID-19 pandemic has caused significant market volatility worldwide, which has increased the Bank's market risk. The downgrading of credit ratings and/or the outlook for investment securities have resulted in increased trading and liquidity risk.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2021

35. Financial risk management (continued)

(d) Market risk (continued)

(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:

			2021		
	USD J$'000	EUR J$'000	GBP J$'000	Other J$'000	Total J$'000
Foreign currency assets:					
Notes and coins - for local sale	52,885	3,373	10,946	5,775	72,979
- for repatriation	83,395	2,888	16,668	45,408	148,359
Cash and cash equivalents	79,932,849	1,525,660	1,738,238	1,575,256	84,772,003
Interest in funds managed by agents	106,672,259	-	-	3,324,544	109,996,803
Interest receivable on BHAs	178,040	-	-	9,616	187,656
Resale agreements		-	-	-	-
Investment securities	441,050,336	-	-	-	441,050,336
IMF- Holding of special drawing rights	-	-	-	105,095,017	105,095,017
IMF - Quota subscription	-	-	-	12,606,174	12,606,174
	627,969,764	1,531,921	1,765,852	122,661,790	753,929,327
Foreign currency liabilities:					
Open market liabilities	106,508,906	-	-	-	106,508,906
Deposits - current accounts	124,777,558	56,003	6,454,563	2,039,989	133,328,113
Deposits - IMF	-	-	-	131,236,539	131,236,539
IMF - Allocation of special drawing rights	-	-	-	135,522,804	135,522,804
Bilateral accounts	-	-	-	16,596	16,596
Interest payable	953,158	-	298	242,814	1,196,270
	232,239,622	56,003	6,454,861	269,058,742	507,809,228
Net foreign currency assets/ (liabilities)	395,730,142	1,475,918	(4,689,009)	(146,396,952)	246,120,099

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2021

35. Financial risk management (continued)

(d) Market risk (continued)

(i) Currency risk (continued)

	2020				
	USD J$'000	EUR J$'000	GBP J$'000	Other J$'000	Total J$'000
Foreign currency assets:					
Notes and coins - for local sale	54,919	3,724	10,312	6,003	74,958
- for repatriation	24,064	1,626	5,848	17,474	49,012
Cash and cash equivalents	112,763,622	3,211,825	3,239,392	1,380,374	120,595,213
Securities in funds managed by agents	98,675,731	-	-	2,881,238	101,556,969
Interest receivable on BHAs	276,254	-	-	4,576	280,830
Resale agreements	2,507,179	-	-	-	2,507,179
Investment securities	326,329,428	-	-	-	326,329,428
IMF- Holding of special drawing rights	-	-	-	26,374,832	26,374,832
IMF - Quota subscription	-	-	-	11,997,333	11,997,333
	540,631,197	3,217,175	3,255,552	42,661,830	589,765,754
Foreign currency liabilities:					
Open market liabilities	142,751,163	-	-	-	142,751,163
Deposits - current accounts	95,672,767	76,394	5,719,803	1,834,246	103,303,210
Deposits - IMF	-	-	-	128,426,765	128,426,765
IMF - Allocation of special drawing rights	-	-	-	53,681,504	53,681,504
Bilateral accounts	-	-	-	11,007	11,007
Interest payable	964,032	-	279	289,741	1,254,052
	239,387,962	76,394	5,720,082	184,243,263	429,427,701
Net foreign currency assets/ (liabilities)	301,243,235	3,140,781	(2,464,530)	(141,581,433)	160,338,053

Exchange rates at December 31:

	2021	2020
USD1 to JMD	154.03	142.45
GBP1 to JMD	208.63	194.73
CDN1 to JMD	121.94	111.82
EUR1 to JMD	175.16	174.30

At February 23, 2022, the date of approval of these financial statements, the exchange rates were US1 to J$156.08405, UK1 to J$211.63436, CDN1 to J$122.67383 and EUR1 to J$176.75738.

The exchange rate for SDR to J$ is shown in note 16(d)(iv).

Sensitivity to exchange rate movements

A 8 percent (2020: 6 percent) devaluation of the Jamaica Dollar against currencies which expose the Bank to exchange risk at December 31 would have increased profits by $19,688,000 (2020: $9,622,000) while a 2 percent (2020: 2 percent) revaluation would have decreased profits by $4,922,000 (2020: $3,207,000). The analysis assumes that all other variables, in particular, interest rates, remain constant, and has been performed on the same basis as for 2020.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2021

35. Financial risk management (continued)

(d) Market risk (continued)

(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.

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.

	2021						
	Within 3 months J$'000	3 to 12 months J$'000	Over 12 months J$'000	Payable after notice J$'000	Non-rate sensitive J$'000	Total J$'000	Weighted average interest %
Assets							
Notes and coins	-	-	-	-	308,337	308,337	-
Cash and cash equivalents	-	-	-	-	84,772,003	84,772,003	-
Securities held in funds managed by agents	-	-	-	106,672,258	3,324,545	109,996,803	2.60
Foreign currency denominated investments	358,021,416	51,273,878	31,755,042	-	-	441,050,336	2.50
International Monetary Fund -							
Holding of Special Drawing Rights	-	-	-	-	105,095,017	105,095,017	-
Quota Subscription	-	-	-	-	12,606,174	12,606,174	-
Resale agreements	9,099,825	-	-	-	-	9,099,825	4.44
Local currency denominated investments	-	-	272,127,813	-	-	272,127,813	6.41
Due from Government and Government agencies	-	-	-	-	3,523,862	3,523,862	-
Other assets	-	-	-	-	7,966,491	7,966,491	-
Total financial assets	367,121,241	51,273,878	303,882,855	106,672,258	217,596,429	1,046,546,661	-
Liabilities							
Notes and coins in circulation	-	-	-	-	226,864,772	226,864,772	-
Deposits and other demand liabilities:							
Jamaica dollar equivalent of foreign currency deposits	182,747,837	-	-	81,816,815	-	264,564,652	-
Jamaica dollar deposits	154,113,688	-	-	46,070,201	-	200,183,889	-
Open market liabilities	48,749,303	40,239,971	84,223,329	-	-	173,212,603	3.35
International Monetary Fund – Allocation of Special Drawing Rights	-	-	-	-	135,522,804	135,522,804	-
Lease liability	1,495	4,532	69,472	-	-	75,499	-
Bilateral accounts	-	-	-	-	16,596	16,596	-
Other liabilities	-	-	-	-	2,633,629	2,633,629	-
Total financial liabilities	385,612,323	40,244,503	84,292,801	127,887,016	365,037,801	1,003,074,444	
Total interest rate sensitivity gap	(18,491,082)	11,029,375	219,590,054	(21,214,758)	(147,441,372)	43,472,217	
Cumulative gap	(18,491,082)	(7,461,707)	212,128,347	190,913,589	43,472,217	-	

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2021

35. Financial risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued):

	2020						
	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$'000	Total J$'000	Weighted average interest %
Assets							
Notes and coins	-	-	-	-	258,538	258,538	-
Cash and cash equivalents	-	-	-	-	120,595,213	120,595,213	-
Securities in funds managed by agents	-	-	-	98,675,731	2,881,238	101,556,969	2.70
Resale agreement	2,507,179	-	-	-	-	2,507,179	-
Foreign currency denominated investments	265,969,101	34,521,499	25,838,828	-	-	326,329,428	2.50
International Monetary Fund							
Holding of Special Drawing Rights	-	-	-	-	26,374,832	26,374,832	-
Quota Subscription	-	-	-	-	11,997,333	11,997,333	-
Resale agreements	8,642,405	-	-	-	-	8,642,405	2.62
Local currency denominated investments	-	5,256,709	271,937,412	-	-	277,194,121	6.23
Other assets	-	-	-	-	4,747,437	4,747,437	-
Total financial assets	277,118,685	39,778,208	297,776,240	98,675,731	166,685,591	880,203,455	
Liabilities							
Notes and coins in circulation	-	-	-	-	190,506,147	190,506,147	-
Deposits and other demand liabilities:							
Jamaica dollar equivalent of foreign currency deposits	162,267,007	-	-	69,462,968	-	231,729,975	-
Jamaica dollar deposits	109,967,943	-	-	46,488,906	-	156,456,849	-
Open market liabilities	59,733,032	33,216,190	84,258,051	-	-	177,207,273	-
International Monetary Fund – Allocation of Special Drawing Rights	-	-	-	-	53,681,504	53,681,504	2.38
Due to Government and Government agencies	-	-	-	-	27,733,269	27,733,269	-
Lease liability	1,466	4,439	75,499	-	-	81,404	-
Bilateral accounts	-	-	-	-	11,007	11,007	-
Other liabilities	-	-	-	-	9,926,980	9,926,980	-
Total financial liabilities	331,969,448	33,220,629	84,333,550	115,951,874	281,858,907	847,334,408	
Total interest rate sensitivity gap	(54,860,763)	6,557,579	213,442,690	(17,276,143)	(115,004,316)	32,869,047	
Cumulative gap	(54,850,763)	(48,293,184)	165,149,506	147,873,363	32,869,047	-	

35. Financial risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued):

Sensitivity to interest rate movement

An increase of 300 (2020: 50-100) basis points and a decrease of 50 (2020: 50-100) basis points in interest rates for Jamaica dollar financial instruments and an increase of 100 (2020: 10), and a decrease of 10 (2020: 10) 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 2020.

	Increase		Decrease	
	Effect on profit/loss J$'000	Effect on reserves J$'000	Effect on profit/loss J$'000	Effect on reserves J$'000
	2021			
Fixed rate financial instruments	-	(25,645,421)	-	5,359,284
Variable rate financial instruments	(2,240,889)	(372,722)	373,482	63,380
	(2,240,889)	(26,018,143)	373,482	5,422,664
	2020			
Fixed rate financial instruments	-	(10,660,780)	-	12,314,182
Variable rate financial instruments	(350,577)	(58,306)	350,577	58,364
	(350,577)	(10,719,086)	350,577	12,372,546

(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 from time to time by a resolution passed by the House of Representatives. (2020: 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 certain specified capital to monetary liability ratio is met distributable profits are paid to the Consolidated Fund. In 2020, 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.

60th ANNIVERSARY 1960-2020

BANK OF JAMAICA

A Call to Serve • 60 Years and Beyond

Bank of Jamaica
P.O. Box 621
Nethersole Place
Kingston