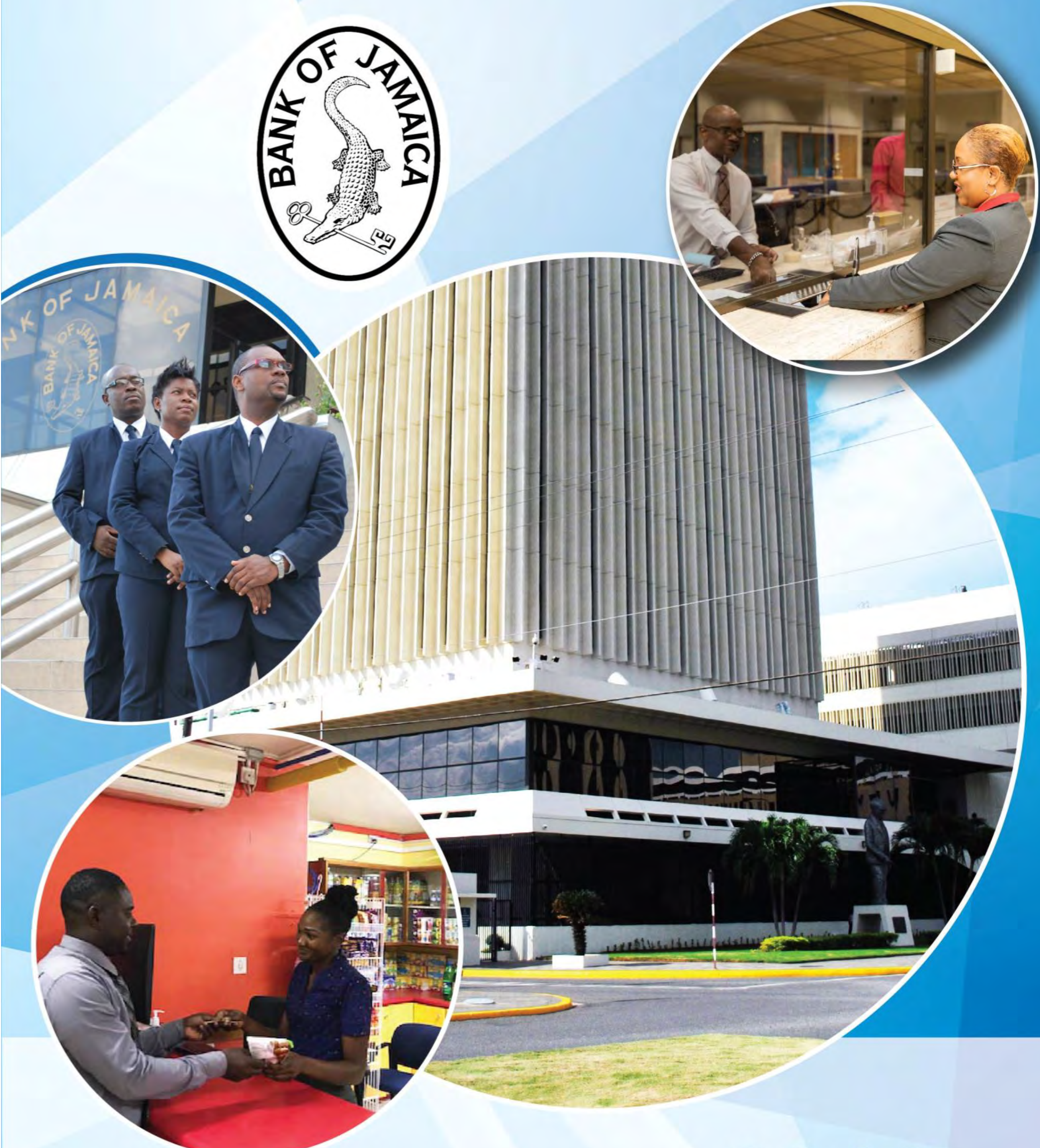
BANK OF JAMAICA



ANNUAL REPORT 2018

ANNUAL REPORT
2018

Report and Statement of Accounts for the
Year Ended 31 December 2018

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Bank of Jamaica Annual Report and Financial Statements
for the year ended 31 December 2018,
prepared pursuant to subsection 44(1) of the Bank of Jamaica Act.

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Printed in Jamaica

PREFACE

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

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

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

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

OUR MISSION

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

OUR VISION

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

GOVERNOR

BANK OF JAMAICA
NETHERSOLE PLACE
P.O. BOX 621
KINGSTON, JAMAICA, W.I.

01 March 2019

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

Dear Minister Clarke,

In accordance with subsection 44(1) of the Bank of Jamaica Act, I have the honour of transmitting herewith the Bank's report for the year 2018 and a copy of the statement of the Bank's accounts as at 31 December 2018 duly certified by the auditors.

Yours sincerely,

Brian Wynter, CD

Email: boj.gov@boj.org.jm Web: www.boj.org.jm Tel: 876 922 0858

Board of Directors

as at 31 December 2018

Brian Wynter, CD
Governor & Chairman

Christine Clarke

Andrea Coy

Gary "Butch" Hendrickson, CD

Wayne Henry

Darlene Morrison
Financial Secretary

John Robinson, CD
Deputy Chairman

EXECUTIVE AND SENIOR MANAGEMENT

as at 31 December 2018

(Left to Right) Wayne Robinson, Deputy Governor; Karen Chin Quee Akin, Deputy Governor & General Counsel; Livingstone Morrison, Deputy Governor; Brian Wynter, Governor & Supervisor; Maurene Simms, Deputy Governor & Deputy Supervisor; and John Robinson, Senior Deputy Governor.

Calvin Brown,
Division Chief
Human Resources
Divisionn

Natalie Haynes,
Division Chief
Banking & Market
Operations Division

Robert Stennett,
Division Chief
Research & Economic
Programming Division

Jide Lewis,
Division Chief
Financial Institutions
Supervisory Division

Victory Henry,
Division Chief
Facilities Management and
Protective Services Division

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

Novelette Panton,
Division Chief
Payment System & Risk
Management Division

Angela Foote,
Chief Audit Executive
Internal Audit Division

Ian Williams,
Financial Controller
Finance Division

BANK OF JAMAICA
PRINCIPAL OFFICERS
As at 31 December 2018

GOVERNOR & SUPERVISOR
Brian Wynter, CD

SENIOR DEPUTY GOVERNOR
John Robinson, CD

DEPUTY GOVERNOR & DEPUTY SUPERVISOR

Maurene Simms	–	Financial Institutions Supervisory

DEPUTY GOVERNOR & GENERAL COUNSEL

Karen Chin Quee Akin	–	Corporate Secretary's Division

DEPUTY GOVERNORS

Livingstone Morrison, CD	–	Administration & Technical Services, Finance & Technology and Payment Systems & Risk Management
Wayne Robinson	–	Research & Economic Programming & Financial Stability

DIVISION CHIEFS

Calvin Brown	–	Human Resources Division
Jide Lewis	–	Financial Institutions Supervisory Division
Natalie Haynes	–	Banking & Market Operations Division
Robert Stennett	–	Research & Economic Programming Division
Novelette Panton	–	Payment System & Risk Management Division
Victor Henry	–	Facilities Management and Protective Services Division
Artwell Bernard	–	Information Technology & Records Management Division

DIVISION CHIEF & FINANCIAL CONTROLLER

Ian Williams	–	Finance Division

DIVISION CHIEF & AUDIT EXECUTIVE

Angela Foote	–	Internal Audit Division

2018 at

POLICY RATE

1.75%

The key policy rate was gradually reduced from 3.25% to 1.75%

INFLATION

2.4%

Inflation fell below the lower end of the target at various times in 2018, reflecting relatively lower prices for oil and agricultural produce.

GROSS RESERVES

US$3.5 billion

The country maintained a strong reserve position, equivalent to 110.5% of the IMF's ARA metric, at end-2018.

UNEMPLOYMENT RATE

8.7%

As at October 2018.

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

41.1%

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

NO. OF EMPLOYEES

596

At end-2018, the Bank's staff comprised of 444 permanent staff and 152 staff on fixed-term contracts.

CURRENCY IN CIRCULATION

$135 billion

At end-2018, this represented an increase in the value of banknotes in circulation by 20.2% when compared to end-2017.

CONTENTS

ABBREVIATIONS

ABM	Automated Banking Machine
ACH	Automated Clearing House
ACL	Average Circulation Lives
AML/CFT	Anti-Money Laundering and Countering Financing of Terrorism
BCP	Business Continuity Plan
B-FXITT	BOJ Foreign Exchange Trading Tool
BIS	Bank for International Settlement
BMI	Benchmark Investment
Bn	Billion
BOJ	Bank of Jamaica
bps	Basis points
BSJ	Bureau of Standards Jamaica
CAR	Capital Adequacy Ratio
CARICOM	Caribbean Community
CD	Certificate of Deposit
CEO	Chief Executive Officer
CIP	Credit Information Provider
CPI	Consumer Price Index
CSD	Central Securities Depository
DTIs	Deposit-taking Institutions
ERPS	Electronic Retail Payment Services
FATF	Financial Action Task Force
FRC	Financial Regulatory Committee
FSSC	Financial System Stability Committee
FX	Foreign Exchange
FY	Fiscal Year
GDP	Gross Domestic Product
GFA	Gross Foreign Assets
GOJ	Government of Jamaica
HRD	Human Resource Development
HQLA	High Quality Liquid Assets
HWEG	Housing, Water, Electricity, Gas and Other Fuels
IMF	International Monetary Fund
JDIC	Jamaica Deposit Insurance Corporation
JMD	Jamaica Dollar
JMMB	Jamaica Money Market Brokers

LCR	Liquidity Cash Ratio
MaFI	Macro-Financial Index
Mn	Million
MiPI	Micro-prudential Index
MPCC	Monetary Policy Consultation Clause
NIDS	National Identification System
NIR	Net International Reserves
NPL	Non-Performing Loans
NRA	National Risk Assessment
OMO	Open Market Operations
PD	Primary Dealers
POS	Point of Sale
PSE	Public Sector Entity
QIS	Quantitative Impact Study
RMB	China renminbi
RTGS	Real Time Gross Settlement
S&P	Standard and Poor's
SBA	Stand-by Arrangement
SC	Supervisory Committee
SDR	Special Drawing Rights
SGSC	Supervisory Guidance Steering Committee
SLF	Standing Liquidity Facility
US	United States
USA	United States of America
USD	United States dollar
UWI	University of the West Indies
VR	Variable Rate
WASR	Weighted Average Selling Rate
WATBY	Weighted Average Treasury Bill Yield
WGPSLAC	Working Group on Payment Systems for Latin America and the Caribbean
WTI	West Texas Intermediate (crude oil)
Y-O-Y	Year-over-Year

FOREWORD BY THE GOVERNOR

Strategic Plan

Bank of Jamaica's focus for 2018 was to implement significant strategic and targeted steps to modernise the central bank to serve a new and increasingly competitive and dynamic Jamaican economy. These steps were guided by the Bank's strategic plan for the period 2018-2020, which was launched in January under the theme "Mission Excellence". The Bank's mission goals fall under the four pillars of (i) operational excellence, (ii) a great place to work, (iii) governance excellence and (iv) financial system excellence.

Some notable initiatives included changes to the Bank's governance structures, procedures, systems and processes to support delivery of higher standards of accountability, transparency, equity and fairness. Of note, a governance index was adopted to measure the effectiveness of the current governance practices and track improvements over time. Operational changes were made to improve the timeliness, accuracy, reliability and cost-effectiveness of services delivered by the Bank in order to meet performance benchmarks. A number of projects targeted improved operational excellence including an upgrade to the human resources system and the introduction of JamFIRMS Phase 2 (a web-based system used to collect data from deposit-taking institutions). Our aim is to improve the overall functioning of the financial system while making Bank of Jamaica an appealing and rewarding work environment.

Bank of Jamaica Modernisation

The strategic plan is consistent with the Government of Jamaica's objective of making the central bank a more modern and accountable institution. In October 2018, the Government tabled in Parliament a Bill to amend the Bank of Jamaica Act and related legislation to modernise the Bank. At the end of the year, the Bill was before a Joint Select Committee of Parliament for review. An important aspect of the proposed changes is to clarify the Bank's mandate by identifying the maintenance of price stability and financial system stability as the Bank's principal objectives with price stability as the primary objective. The Bill also includes proposals to upgrade the Bank's governance arrangements and enhance its accountability and transparency.

Proposed measures to enhance transparency include requirements for the publication of inflation targets and the communication of monetary policy decisions, including communication requirements for the Bank in the event that the inflation target is missed.

Inflation Targeting

The Bank is charged with meeting an inflation target of 4.0 per cent to 6.0 per cent. This objective was set as a continuous medium-term target by the Minister of Finance and the Public Service in September 2017. The move to adopt a medium-term target in place of intermittently set annual targets allows for greater accountability of the central bank in assessments of its performance.

The medium-term inflation target was selected on the basis of Jamaica's prevailing and prospective economic circumstances at the time. Following a protracted recession, Jamaica successfully implemented an economic reform programme beginning in 2013 with the support of the International Monetary Fund and other development partners. The economic reform programme was aimed at placing the country on a higher long-term growth path through significantly reducing fiscal debt and boosting competitiveness. This process allowed for a successful reduction in the country's inflation to relatively low levels. The inflation target was chosen to balance the objectives of maximising the benefits of low, stable and predictable inflation while minimising the risk of precipitating a return to recessionary conditions.

While Bank of Jamaica has been operating an inflation targeting monetary policy framework since the early 2000s, it recognised the need to enhance the Bank's technical capacity and communications functions to support a transition to full-fledged inflation targeting. During 2018, the Bank made significant investments to improve its modelling, forecasting and policy analysis toolkit. The Bank's communications function was similarly enhanced to bring its practices more in line with that of leading central banks.

Communications

Revamping and enhancing the Bank's communications was identified as a priority reform in the strategic plan to improve the operational excellence of the Bank. This priority reflected Bank of Jamaica's recognition that the communication of monetary policy is as important as the design and implementation of monetary policy. In support of the anticipated transition to a full-fledged inflation targeting monetary policy regime, Bank of Jamaica published a communications strategy for monetary policy and financial stability in November 2018.

The communications strategy aims to raise the awareness of internal and external stakeholders while encouraging greater confidence in the Bank's policy initiatives and objectives. Successful implementation of the strategy will therefore play a critical role in maintaining low, stable and predictable inflation and stability in the financial system.

The communications strategy includes a commitment to publishing a calendar of set dates for the announcement of monetary policy decisions, the first of which was published in February 2018. In addition, specific communication strategies for achieving the inflation objective in the context of full-fledged inflation targeting were rolled out. These included adding social media to the Bank's suite of communication tools in October 2018.

Monetary Policy Operations

In the context of generally weak domestic demand conditions resulting in low increases in the aggregate price level, the Bank maintained an accommodative monetary policy stance in 2018. Bank of Jamaica reduced the policy interest rate by a total of 150 basis points to end the year at an historic low of 1.75 per cent. These actions aimed to stimulate a faster pace of credit expansion in support of higher levels of GDP growth and job creation which would be consistent with achievement of the inflation target.

Despite the policy adjustments, inflation fell below the lower end of the target of 4.0 per cent to 6.0 per cent in the June and December quarters of 2018. The Bank's assessments indicate that the missed targets during the year primarily reflected the impact of stronger-than-anticipated declines in prices of agricultural produce as well as lower-than-forecasted oil prices. Furthermore, despite evidence of increased employment and greater there was limited pass-through of improved domestic demand conditions to prices due to continued fiscal consolidation.

In keeping with the communication requirements, the Bank provided the Minister with an explanation of why the inflation target was missed and the corrective policy actions that would be taken. As part of the transparency thrust, the Minister made these communications public. The remedial actions proposed by the central bank centred on the continuation of the accommodative monetary policy stance and the introduction of measures to improve the efficiency of the functioning of the financial market, which should improve the effectiveness of the monetary policy transmission process.

Financial System Stability Oversight

Within the context of a relatively stable macroeconomic environment, risks to financial stability remained tempered. Deposit-taking institutions (DTIs) continued to demonstrate resilience to macroprudential stress-tests for the first three quarters of 2018 due to strong capital positions. Specifically, the results of the stress-tests showed that the average post-shock capital adequacy ratios for the DTI sector remained above the 10.0 per cent minimum benchmark in response to hypothetical but plausible credit, liquidity and market-related shocks. Additionally, signals from the Bank's macrofinancial and microprudential indices, which measure the general health of the financial system, remained well below crisis thresholds.

Payment, Clearing and Settlement System Oversight

The Bank in 2018 continued to ensure a safe, efficient and effective National Payment System. This was evidenced by the stable operations of the JamClear systems, JamClear®-RTGS and JamClear®-CSD. Oversight of the operations of the Automated Clearing House (ACH) and MultiLink was also judiciously undertaken. In addition, work continued apace towards achieving the payment system policy and development objectives, creating an enabling environment for innovation and the drafting of guidelines to facilitate financial technology.

In closing, I wish to thank the members of the Board and my colleagues in the Bank for their diligence and commitment to excellence as the Bank transforms itself to become the world's leading central bank.

Brian Wynter, CD


BANK OF JAMAICA

ROLE AND FUNCTIONS

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

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

Our Mission Statement

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

1. Monetary Policy

Bank of Jamaica conducts monetary policy with the long-term aim of achieving inflation in line with that of our major trading partners. While the Bank does not yet operate a full-fledged inflation targeting regime, the Minister of Finance and the Public Service set for the Bank, in September 2017, an inflation target of 4.0 per cent to 6.0 per cent for the medium-term. In formulating monetary policy to achieve this target, the Bank takes into consideration all prevailing and prospective developments in the macroeconomy, fiscal operations, external sector as well as relevant market information. A decision to change the stance of monetary policy is reflected in changes in the rates paid on the Bank's overnight certificate of deposit.

2. Financial System Stability

BOJ has supervisory and regulatory oversight of commercial banks and other licensed deposit-taking institutions. As such, it routinely monitors their 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 also undertakes its expanded role of supervisory and financial system stability oversight in collaboration with the Financial Services Commission (FSC) and the Jamaica Deposit Insurance Corporation (JDIC) in the context of two statutory committees – the Financial System Stability Committee (FSSC) and the Financial Regulatory Committee.

Other Responsibilities

In addition to the Bank's two primary roles of Monetary Policy and Financial System Stability, we are 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 2018

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

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

At end-2018, the Bill was being reviewed by a Joint Select Committee of Parliament.

Brief History of the BOJ Father of the Bank

GOVERNANCE

GOVERNANCE

The Bank of Jamaica Act stipulates that the Governor is the Chief Executive Officer of the Bank as well as Chairman of the Board of Directors. The other Directors of the Board are: the Senior Deputy Governor, the Financial Secretary and six independent directors appointed by the Minister of Finance for a three-year renewable term. Of note, the Governor, the Senior Deputy Governor and the Financial Secretary are ex-officio members of the Board.

Board of Directors

- Membership

At 31 December 2018, the members of the Board of Directors were Governor Brian Wynter (Chairman), Senior Deputy Governor John Robinson, Financial Secretary Darlene Morrison, Dr Christine Clarke, Mrs Andrea Coy, Mr Gary Hendrickson and Dr Wayne Henry. There were two vacancies on the Board at end-2018.

- Board of Director's Meetings

The Board held twelve meetings in 2018. The legal stipulation is to meet at least ten times annually (See **Table 1**).

- Committee Meetings of the Board

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

The Audit and Risk Management Committee is chaired by Dr Christine Clarke. In 2018, this committee held three meetings. The Budget Committee is chaired by Mr Gary Hendrickson. This committee met twice in 2018, satisfying the minimum requirement. The HRD Committee which is chaired by Mrs Andrea Coy, meets as is necessary. Two meetings were held during the year 2018 (See **Table 1**).

Statutory Committees

The promulgation of the Banking Services Act (BSA) and amendments to the Bank of Jamaica Act in 2014 laid the foundation for the improvement in Bank of Jamaica's governance framework. These amendments afforded the Bank the opportunity to more effectively and efficiently deliver its expanded mandate. In this regard, statutory committees were established pursuant to the provisions of the BSA and the Bank of Jamaica Act to support the Bank in the administration of its supervision and financial system stability functions. Statutory Committee meetings are chaired by the Governor (See **Table 2**).

- Supervisory Committee

The Supervisory Committee (SC) is responsible for functions set out in the Banking Services Act, which include making determinations on the granting, refusal and revocation of licences, among other matters. The SC consists of five members: three ex-officio members and two members appointed by the Governor General on the advice of the Minister, after consultation with the Supervisor of banks (the Governor). Ex-officio members are the Supervisor of banks, financial holding companies and other specified financial institutions ("the Supervisor"), the Deputy Supervisor, as well as the senior executive of the Bank's staff who has responsibility for the Bank's financial system stability mandate. As at 31 December 2018, the members of the SC were Governor Brian Wynter as the Supervisor, Deputy Supervisor Maurene Simms, Senior Deputy Governor John Robinson, Ms Shirley-Ann Eaton and Professor David Tennant. The SC had seven meetings during 2018.

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

- Financial System Stability Committee

The Financial System Stability Committee (FSSC) 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 undertaking assessments in relation to financial system stability and making recommendations to the Bank on the discharge of its financial system stability mandate. In addition, the FSSC contributes to the development of prescriptive rules, standards and codes for financial institutions which specifically address gaps and imbalances that could threaten the stability of the financial system.

The FSSC is comprised of eight members: six ex-officio members and two members appointed by the Minister on the recommendation of the Governor. The ex-officio members of the Committee are the Governor (the senior officer of the Bank with assigned responsibility for the Bank's financial system stability mandate), the Financial Secretary, the Deputy Supervisor, the Executive Director of the Financial Services Commission (FSC) and the Chief Executive Officer (CEO) of the Jamaica Deposit Insurance Corporation (JDIC). As at 31 December 2018, the members were Governor Brian Wynter, Senior Deputy Governor John Robinson, Deputy Supervisor Maurene Simms, Financial Secretary Darlene Morrison, Mr Everton McFarlane (Executive Director of the FSC), Miss Antoinette McKain (CEO of JDIC), Mr Richard Powell and Mr Karl Wright. Five meetings of the FSSC were convened during 2018.

- Financial Regulatory Committee

The Financial Regulatory Committee was established pursuant to the 2014 amendment of the Bank of Jamaica Act but is not a committee of the Bank. This committee was established to facilitate information sharing, coordination and cooperation among regulatory authorities. In this regard, the committee focusses on those policies and procedures appropriate to the strengthening and regulation of the financial system. The FRC is comprised of four ex-officio members. As at 31 December 2018, they 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 2018, eight meetings were convened.

Table 1: Board of Directors' Meetings for 2018

Committee	Chair	Mandate	No. of meetings
Board of Directors	Governor Brian Wynter	The Board has general responsibility for the conduct of the affairs of the Bank. All matters of importance outside of the daily management of the Bank are submitted to the Board. [1]	12
Audit and Risk Management Committee	Christine Clarke	The Committee assists the Board in executing its mandate to provide independent effective oversight of the financial reporting process and internal controls, internal audit, external audit and enterprise risk management.	3
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.	2

Table 2: Statutory Committees Meetings for 2018

Committee	Mandate	No. of meetings
Supervisory Committee	To provide prudential regulation and supervision of deposit-taking institutions and their financial groups.	7
Financial System Stability Committee	To identify, mitigate and control systemic threats to the financial system.	5
Financial Regulatory Committee	To facilitate information sharing, coordination and cooperation among regulatory authorities.	8

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

Executive Compensation

The Bank's Executive Management comprises the Governor, Senior Deputy Governor, and four 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 2018 is described below:

a. Salary Range of Executive Management $10,026,260.11 to $22,306,841.91

b. Allowances – Deputy Governors $1,100,844.00 to $1,194,624.00

Members of the Executive Management team are eligible for benefits available to other members of staff, inclusive of health insurance, life insurance and staff loans. At the end of 2018, two of the Deputy Governors were members of the non-contributory pension scheme sponsored by the Bank. The Governor, Senior Deputy Governor and two Deputy Governors are paid a gratuity in lieu of pension benefits.

The Governor is provided with a residence which is maintained by the Bank. He is also eligible for reimbursement of prescribed overseas medical insurance premium and expenses for his children's education. The Governor and the Deputy Governors are provided with motor vehicles or compensation in lieu of a motor vehicle.

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

ADMINISTRATION

Natalie Haynes (Division Chief, Banking and Market Operations) and Hillary Robertson (Technical Advisor to the Minister of Finance) accept awards at the Bank's Annual Employee Awards Ceremony

ADMINISTRATION

For 2018, the Bank continued its focus on filling vacant positions across the organization and reviewing human resource business processes. In addition, the Bank implemented targeted learning and development programmes with special focus on divisions critical to the Bank's mandate. The Bank continued to be challenged by the loss of critical skills against the background of the institution's uncompetitiveness in the labour market. Consequently, several strategies were utilized in recruitment, selection and retention of staff. These strategies were in order ensure adequate staffing levels aimed at reducing the risks to the delivery of the Bank's mandate.

Organizational reviews continued

Several modernization initiatives, such as the alignment of processes, technology and the organizational structure, were continued as well as initiated during the review year. Emphasis was placed on conducting reviews of planned organizational development of portfolios directly supporting the Bank's strategic objectives and mandate. Reviews were also undertaken of the role and functions assigned to selected portfolios to ensure appropriate job design to in order to promote efficiency and effectiveness in work processes as well as the delivery optimum output.

Learning and development initiatives supported major strategic imperatives

The new strategic focus necessitated a heightened thrust towards ensuring alignment of learning and development solutions to support the major imperatives. In an effort to improve the overall knowledge skills and abilities of the Bank's employees, given expanded and new mandates, much emphasis was placed on programmes that not only targeted technical but also behavioural competencies to allow for holistic development of employees. The learning and development solutions fell within three (3) major categories: technical or mandate training, leadership development and professional development.

Donna Hamilton-Smith (Director, Currency Department) receives certificate in completion of the De La Rue Excellence in Currency Training Course, with Senior Deputy Governor John Robinson (left) and facilitators from De La Rue (right).

Shanae Flannigan receives a token from Lakeisha Palmer, (Head, Learning and Development) at the closing of the Successful New Manager Workshop Series.

The Bank's staff complement increased

At 31 December 2018, the Bank's staff complement was 596, comprising 444 permanent staff and 152 staff on fixed-term contracts. During the year, 55 persons were recruited and 44 staff members exited the institution through retirement and resignation.

Employee relations climate remained relatively stable during the year

The negotiations for improved salaries and benefits for all categories of staff which commenced in 2017 were completed during the review year. A number of engagement activities were implemented consistent with the Bank's Strategic Plan. Of significance was the number of staff members who participated in the development and roll out of the strategic plan, to include the implementation of the relevant initiatives. The high level of participation was intended to engender ownership of the plan and greater commitment to the Bank's mission, vision and core values. Other engagement activities which emphasized one of the strategic themes, "Great Place to Work" were undertaken through the Communication Unit, the Bank's Training Institute and the Sports and Social Club.

A total of 26 persons attained pensionable status during 2018

The membership in the Bank's pension scheme as at 31 December 2018 was 1 054 comprising 440 active members, 393 pensioners, 185 deferred pensioners and 36 beneficiaries including spouses and dependent children. Of the 440 active members, 269 or 61 per cent were vested. During the year, 26 persons attained pensionable status, six were staff members and 22 deferred pensioners. Of the total, two staff members proceeded on early retirement and one deferred pensioner was granted early retirement.

Calvin Brown (Division Chief, HR Division) greets BOJ pensioners at the Annual Pensioners' Health Seminar & Luncheon.

Tashna Bulli (Senior Graphic Designer) receives award from Governor Wynter at the Annual Employee Awards Ceremony

Edmarine Marsh (Facilities Coordinator) receives award from Governor Wynter at the Annual Employee Awards Ceremony

BOJ Governor Brian Wynter *(right)*

Congratulates

Jamaica's 2019 Rhodes Scholar

CHEVANO BAKER.

Jamaica's 2019 Rhodes Scholar, Chevano Baker, is a financial economist in the Financial Stability Department at the Bank of Jamaica. Former BOJ Governor Roderick Rainford was a Rhodes Scholar as well as central bank founder Noel Nethersole. A maquette of Nethersole stands on the table in the background.

STRATEGIC PLAN

STRATEGIC PLAN

In January 2018, Bank of Jamaica launched its 2018–2020 Strategic Plan branded 'Mission Excellence' to reflect the Bank's continuous pursuit of excellence in all areas of its mandate. The strategic plan is designed to guide the transformation of the Bank in preparation for operations in an enhanced governance framework, which will be supported by legislations. The Plan evolved from a series of workshops involving over 200 members of staff and was approved by the Board in December 2017.

Strategic planning process governed by clearly defined governance framework

The strategic planning process was governed by a clearly defined governance framework in order to ensure its successful implementation. The Board was responsible for approval of the Plan based on the recommendation of the Management Committee. Other key contributors in the process were the Strategic Management Team, Communications Team, Cascading Team, Theme Teams and the Objective Ownership Teams.

Objectives and Initiatives defined

During the planning process 14 strategic objectives were defined. These objectives represent the activities that are to be undertaken on a continuous basis in order to effectively achieve the mission of the Bank. The strategic objectives were broken down into 22 strategic initiatives. These initiatives were designed to close gaps in performance and support the attainment of the agreed strategic targets.

Performance Measures developed

A total of 31 performance measures were developed to track the progress being made in achieving the strategic objectives and initiatives. Included in the set of performance measures is the attainment of the Inflation Target which will indicate how the Bank is performing relative tits price stability mandate.

BOJ Strategic Plan formally launched

The Bank's strategic plan (2018–2020) under the theme 'Mission Excellence' was formally launched in January 2018. Common areas, elevators, executive meeting rooms and staff identification cards were branded with the vision, mission, core values, and the Mission Excellence logo. The focus of the strategic launch was to energize, engage and inform staff members about the institution's strategic plan for the next three years and to ensure that

Elevator doors on the first floor were branded with the Bank's vision and mission statements, core values and strategic themes.

every member of staff understands his/her role in delivering Mission Excellence.

The strategic map, shown on the next page, is a visual representation of Mission Excellence 2018–2020.

"The focus of the strategic launch was to energize, engage and inform staff members."

Achievements in 2018

Defined performance measures and targets that will drive corporate efficiency and effectiveness

Performance measures are valid, verifiable baselines against which the progress made on the strategic plan can be evaluated on a continuous basis.

At end-2018 the key outcomes of the strategic planning process were:

1. implementation of a formal strategic planning programme complete with a standard governance framework;
2. development of a vision statement and revision of the mission statement and core values;
3. development of the four key strategic themes or pillars of excellence: Great Place To Work, Operational Excellence, Governance Excellence and Financial System Excellence;
4. development of strategic objectives, strategy maps and initiatives;
5. development of strategic performance measures and targets;
6. approval of Plan by Board;
7. launch of the Plan; and
8. approval of the strategic budget by the Board.

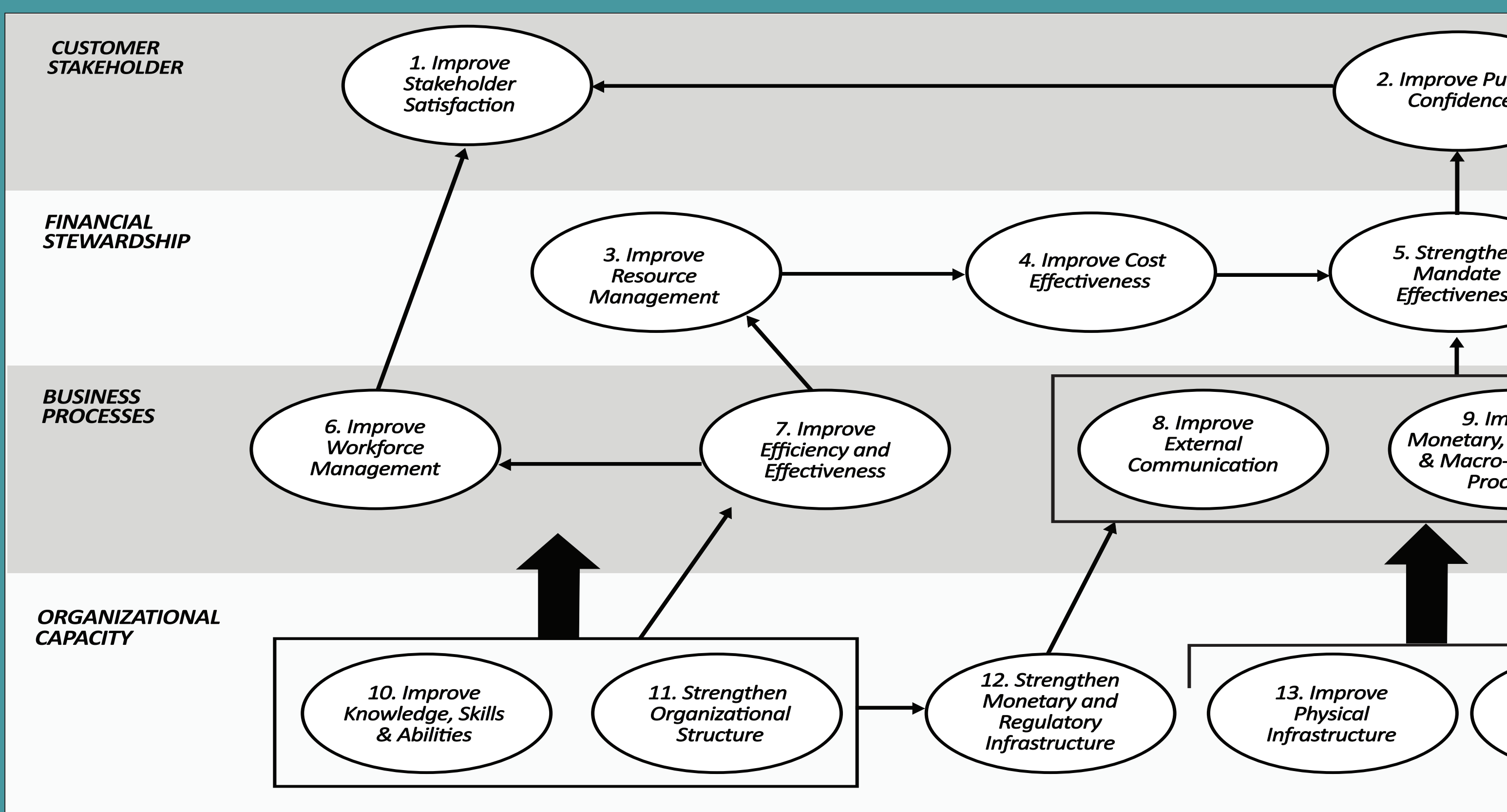
Governor Wynter and staff place their individual pieces into the 'puzzle wall' at the launch of the new Strategic Plan held at the Bank.

CORPORATE S

Mission Excellence - Bank of J

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

STRATEGIC OBJECTIVES



Core Values : Fairness Equity Transparency Excellence

STRATEGY MAP

Jamaica Strategic Plan 2018 – 2020

confidence and contributing to the sustainable development of Jamaica

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

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

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Regulatory
-prudential
cesses

14. Improve IT Infrastructure

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

Confidentiality Honesty Integrity Respect Team Work

MONETARY POLICY

"Trust" is an environmental work of art located inside the Bank of Jamaica. The art work was produced by Barrington Watson and Cecil Baugh. The suspended discs create an effect of coins falling into the open palm of the hand.

MONETARY POLICY

Bank of Jamaica's monetary policy objective is to achieve and maintain inflation within the target of 4.0 per cent to 6.0 per cent. Inflation at this level will facilitate sustained growth and development in the economy. The inflation target was set by the Minister of Finance and the Public Service. The main tool to achieve inflation within the target is through our policy interest rate. The policy rate is the interest rate offered to commercial banks on overnight placements with the Bank. Changes in the policy rate signals the Bank's policy stance towards achieving its inflation objective. These changes are transmitted to prices through the financial markets and then through spending and investment decisions.

Bank of Jamaica cut policy interest rate five times in 2018

During 2018, Bank of Jamaica continued to ease monetary policy. Specifically, the policy interest rate was reduced on five occasions by a total of 150 basis points (bps) to 1.75 per cent at end-2018. The further loosening of the monetary policy stance was aimed at fostering greater credit expansion, stronger growth in Gross Domestic Product (GDP) and increased job creation that will support inflation returning within the target of 4.0 per cent to 6.0 per cent.

Chart 1: Policy interest rates
(percentage rate)

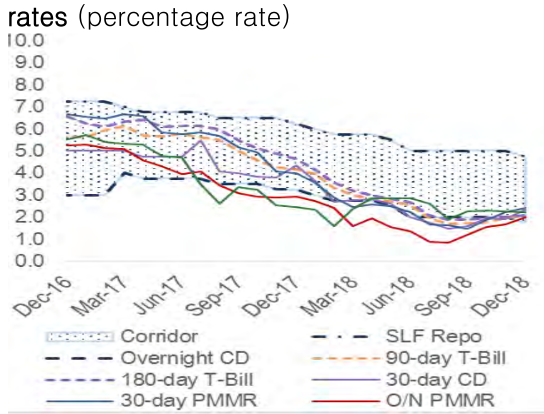
Source: BOJ

Consistent with the reduction in the policy rate, the rate on the Bank's Standing Liquidity Facility was lowered by 150 bps to 4.75 per cent, thereby maintaining the width of the interest rate corridor at 3.0 percentage points.

Market rates converged to the policy rate

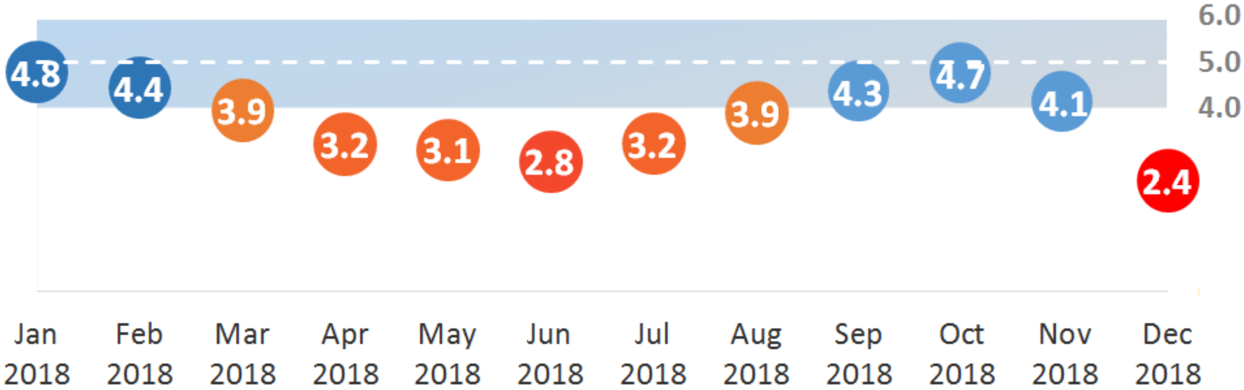
Market interest rates continued to trend downwards, consistent with improved liquidity conditions and in response to the Banks' monetary policy signals. For example, the weighted average yields on GOJ 180-day Treasury Bills (T-Bills) declined to 2.07 per cent at end-2018 from 4.63 per cent at end-2017. Similarly, there were declines in the monthly averages of private money market rates for the year. In addition, the weighted average lending rate on bank loans to the private sector in November 2018 was 13.56 per cent, representing a decline of 141 bps relative to November 2017.

Chart 2: Interest rate corridor and market rates (percentage rate)



Source: BOJ

Chart 3: Inflation fell below target at various times in 2018
(annual percentage rate)



Source: STATIN, BOJ

Inflationary pressures were suppressed

At various times in 2018, annual headline inflation was below the Bank's inflation target of 4.0 per cent to 6.0 per cent. The lower–than–target inflation primarily reflected the impact of stronger–than–anticipated declines in the prices of agricultural produce as well as lower–than–forecasted oil prices. In addition, despite evidence of increased employment and greater economic activity in the domestic economy, there was limited pass–through of the improved domestic demand conditions to prices. This was largely due to continued fiscal consolidation.

In the context of continued fiscal consolidation, underlying (or core) inflation (which removes from headline inflation the impact of changes in volatile food and fuel prices) remained low at around 2.5 per cent. Inflation expectations, however, remained broadly anchored around the midpoint of the Bank's inflation target.

"Inflation expectations remained broadly anchored around the midpoint of the Bank's inflation target."

Chart 4: Actual inflation was below expected inflation throughout most of 2018
(annual point–to–point change)

Source: BOJ

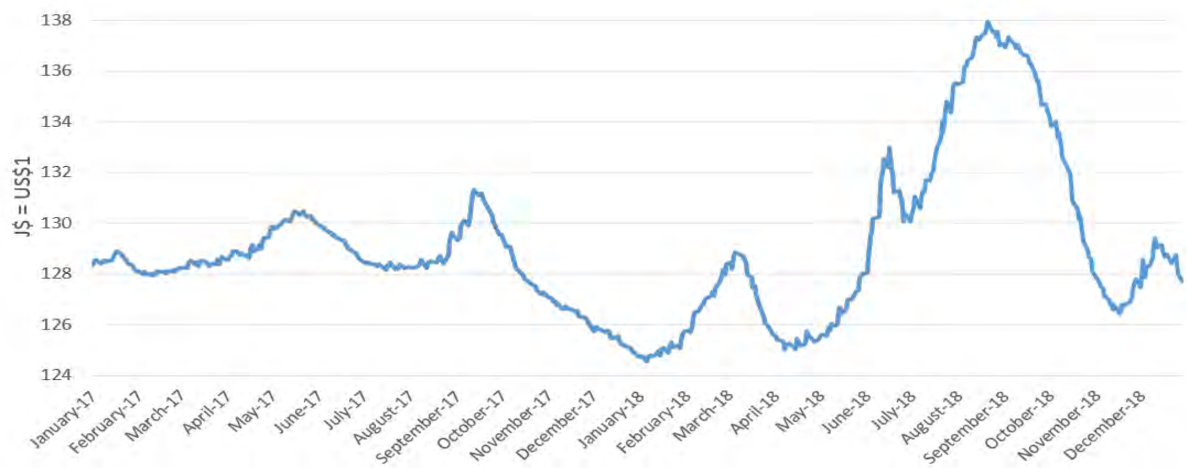
Flexible, two-way movements in the foreign exchange rate

Throughout 2018, the exchange rate was characterized by cycles of appreciation and depreciation. In particular, the Jamaica Dollar experienced at least four cycles of upswings (appreciation) followed by downswings (depreciation). At end–2018, the Jamaica

Dollar depreciated on a year-over-year basis by 2.2 per cent against the US dollar. This compared with a point-to-point appreciation of 2.7 per cent at end-2017 (see **Chart 5**).

The depreciation of the local currency in 2018 was due mainly to buoyant JMD liquidity as well as periodic episodes of increased end-user demand for both portfolio and real sector purposes. With regard to real sector activities, there was heightened demand for foreign currency from the construction and manufacturing sectors. This increased demand was consistent with the growth in those sectors for the review year.

Chart 5: Continued flexible cycles in the USD/JMD exchange rate
(annual point-to-point)



Source: BOJ

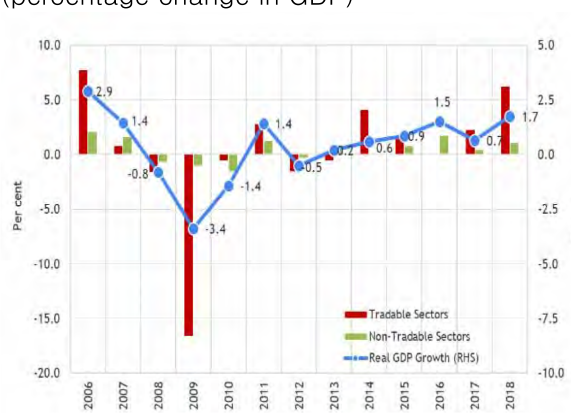
Quarterly Monetary Policy Report Press Conference.
(L-R) Andre Murray (Senior Financial Analyst, Governor's Office), General Counsel Karen Chin Quee Akin, Senior Deputy Governor John Robinson, Governor Brian Wynter and Deputy Governor Wayne Robinson

Economic Achievements in 2018

The pace of real economic activity picked up but remained modest

Real economic growth continued to reflect improvement. Nonetheless, the economy operated below its potential with muted inflationary pressures. The economy grew by an estimated 1.7 per cent in 2018, the strongest expansion for a calendar year since 2011. This growth was relative to the increase of 0.7 per cent in 2017. The estimated expansion for 2018 largely reflected a faster pace of growth in mining and tourism. There was also significant growth in Construction due to various road rehabilitation projects. In addition, there was a rebound in domestic agriculture production from the effect of adverse weather conditions in May/June 2017 and November 2017. Given these positive developments, domestic demand conditions improved in a context of increased employment, heightened business confidence and a stable macroeconomic environment.

Chart 6: The Jamaican economy grew
(percentage change in GDP)



Source: STATIN, BOJ

"Stronger labour market conditions manifested in a decline in the unemployment rate"

Improved labour market conditions was manifested in a decline in the unemployment rate to 8.7 per cent as at October 2018. This translated to an average of 9.2 per cent in 2018, relative to 11.7 per cent in the previous year. This was the lowest average unemployment rate for a calendar year since 2007. The decline in the unemployment rate reflected growth of 1.2 per cent in employment and a decline of 1.5 per cent in the labour force.

Chart 7: Unemployment fell to an all–time low – Annual Averages
(percentage)

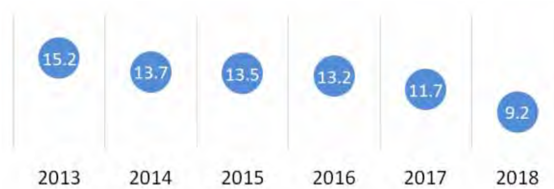


Table 1

SELECTED LABOUR FORCE INDICATORS	2017	2018	% Change
Total Labour Force ('000)	1,360.3	1,340.6	–1.5
Employed Labour Force ('000)	1,201.8	1,216.8	1.2
Unemployment Rate (%)	11.7	9.2	–2.4
Job Seeking Rate (%)	7.3	5.5	–1.8

Source: STATIN

Jamaica's exchange rate regime reclassified

Resulting from the modernization of Jamaica's foreign exchange market and increased two-way movement of the currency, in June 2018, Jamaica's exchange rate arrangement was reclassified by the International Monetary Fund (IMF) to 'floating', retroactively from September 2017, from a 'stabilized arrangement'. The floating exchange rate regime corresponds to a lower minimum reserve adequacy requirement based on the IMF's ARA metric.[1] This development resulted in a significant improvement in the country's reserve adequacy.

Jamaica continued to meet its economic programme targets

- Monetary Target & Performance

The attainment of the monetary targets under the IMF 36-month precautionary Stand-By Arrangement (SBA) programme continued to be a critical component of the work of the Bank during 2018. Jamaica's progress under the SBA continued to be exemplary in the context of the Government of Jamaica (GOJ) strong commitment to the programme. In November 2018, the Executive Board of the IMF completed the fourth review under the SBA and reported that as at end-June 2018 the country had successfully met all quantitative performance criteria while supply-side measures were broadly on track (see Table 2 for monetary targets). The monetary policy consultation clause (MPCC), however, was triggered in June 2018 as the inflation outturn was below the targeted band. Accordingly, to account for recent inflation developments, the MPCC has been amended for the December 2018 quarter.[2] Notwithstanding, Bank of Jamaica is confident that the deviation from target was temporary. Accordingly, the Bank will continue to maintain an accommodative monetary policy stance supported by a flexible market-determined exchange rate. A notable achievement under the SBA was the tabling of amendments to the Bank of Jamaica Act in Parliament in October 2018. The amendments served as a first step towards the Bank's formal adoption of a full-fledged inflation targeting regime. The country's continued stellar performance under the SBA has entrenched macroeconomic stability in the Jamaican economy.

Table 2

QUANTITATIVE PERFORMANCE CRITERIA Monetary Targets	June 2018		Dec 2018	
Reserves	Target	Outturn	Target	Outturn
Non-borrowed reserves - US$mn	2,073.5	2,483.8	2,199.7	2,497.7
Monetary Policy Consultation Clause	Target	Outturn	Target	Outturn
• CPI Inflation (%)				
Outer band (upper)	6.5		6.5	
Inflation target (centre)	5.0	2.8	5.0	3.9
Inner band (lower)	3.5		3.5	
Outer band (lower)			2.0	

Source: BOJ, IMF

- Fiscal Management

The Government of Jamaica, throughout 2018, was resolute in its effort to maintain fiscal prudence and firm fiscal management as

1 The IMF's Assessing Reserve Adequacy (ARA) metric comprises four components which seek to measure the adequacy of a country's level of reserves. These components include: *Exports of goods and Services* to reflect the potential impact from a drop in external demand or a Terms of Trade (TOT) shock; *Broad Money* to capture residents' potential capital flight through the conversion of their domestic assets; *Short-term External Debt* to reflect rollover risks and *Other Portfolio Liabilities* to reflect other portfolio outflows. The risk weights which are applied depend on the classification of the country's exchange rate regime.

2 The MPCC amendments are: (i) reduction of the lower band for Board consultation (ii) introduction of a staff consultation clause.

outlined in its fiscal responsibility law. To that end, the Government started the process for the creation of a fiscal council that seeks to ensure continued fiscal discipline in the absence of an IMF programme. In addition, progress on improving Jamaica's fiscal resilience to adverse shocks was achieved with the adoption of a policy on National Disaster Risk Financing in November 2018.[3] Information as at end-2018 indicated that the Government was on track to achieve its targets under the SBA. In particular, the primary balance target for the Central Government and the overall balance of the public sector were attained at end-2018. Central Government operations for April-December 2018 resulted in a fiscal surplus of 0.8 per cent of GDP, which was above the budgeted deficit (supplementary) of 0.2 per cent. This resulted from Revenue & Grants being above budget as well as while Expenditure being below budget.

Jamaica's sovereign ratings improved

On 20 July 2018, Moody's affirmed Government of Jamaica's B3 long-term issuer credit ratings and changed the outlook to positive from stable. Jamaica's senior unsecured rating was also affirmed at B3, and its senior unsecured shelf rating was affirmed at (P) B3. The affirmation of the B3 rating captured Jamaica's commitment to continued fiscal consolidation and the government's continuous meeting of its quantitative performance criteria set in the IMF's Stand-By Arrangement.

S&P Global Ratings also revised its outlook on Jamaica to positive from stable on 25 September 2018. In addition, the rating agency affirmed its 'B' long- and short-term foreign and local currency sovereign credit ratings, and its 'B+' transfer and convertibility assessment on the country. The rating agency noted that the positive outlook reflected the at least one-in-three likelihood of an upgrade if, in the next 12 months, Jamaica further strengthens its external liquidity position while maintaining tight fiscal policy and high primary surpluses.

Outlook

Inflation forecasted to rise slowly to the mid-point of the target over the medium-term

Bank of Jamaica's assessment in December 2018 was that there is some risk that headline inflation would fall below its target at various times during 2019 and 2020. This assessment was informed by trends in international commodity prices, particularly oil, and seasonal improvements in domestic agricultural food production. In the context of the above analysis, the Bank will maintain a monetary policy stance aimed at fostering conditions that will accelerate the level of growth in the Jamaican economy that will return inflation within the target of 4.0 per cent to 6.0 per cent in the medium-term.

3 This new framework was operationalized with the signing of a US$285.0 million contingency credit facility with the Inter-American Development Bank. The loan facility will be available to the Government in the event the country is impacted by any disaster

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

Growth in aggregate spending over the near-term is expected to be chiefly driven by an increase in net external demand and consumption. Investment growth is anticipated to be subdued given the non-recurrence of significant investment in 2017. This forecast assumes expansions primarily in Mining & Quarrying, Agriculture, Forestry & Fishing, Hotels & Restaurants and Manufacturing. In the context of this outlook, Bank of Jamaica projects that GDP growth will fall in the range of 1.5 per cent to 2.5 per cent over the medium-term.

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Links to more information

Releases

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

Additional Resources

- Objective of Monetary Policy
  http://www.boj.org.jm/monetary_policy/monetary_objective.php
- The Inflation Target
  http://www.boj.org.jm/monetary_policy/setting_inflation_target.php
- Decision Process
  http://www.boj.org.jm/monetary_policy/monetary_policy_decision_making.php
- Official Correspondences on Missed Inflation Target
  http://www.boj.org.jm/monetary_policy/missed_inflation_target.php
- Press release from Fitch Ratings Agency
  https://www.fitchratings.com/site/pr/10060975
- Press Release from MOF re: Fitch Ratings Upgrades Jamaica to 'B+'
  https://www.fitchratings.com/site/pr/10060975
- Jamaica and the IMF
  https://www.imf.org/en/Countries/JAM

FINANCIAL SYSTEM

New Kingston, Jamaica

FINANCIAL SYSTEM

Supported by improving economic conditions, the 2018 results for deposit-taking institutions (DTIs) remained sound. The sector remained well capitalized and profitable, asset quality improved, management remained strong and liquidity grew. In the context of the strong capital positions, the sector continued to demonstrate resilience to macro-prudential stress tests.

DTI's balance sheet continued to expand

During 2018, total assets for the 11-member DTI sector increased at a faster pace of 10.0 per cent relative to the growth in 2017. A pick-up in the rate of growth in loans & advances was the dominant driver of the expansion in assets. This outturn also reflected to a lesser extent a build-up in investments while there was a reversal in the net build up in cash and bank balances observed in 2017.

In a context of improved confidence in the Jamaica Dollar occasioned by the favourable macroeconomic environment, growth in total assets was solely reflected in domestic currency assets. Specifically, there was growth of 15.7 per cent in domestic currency loans, which was influenced by sustained appetite for debt by households and corporates.

With regard to funding, DTIs' asset growth was largely financed by net inflows of customer deposits, which grew by 9.0 per cent, largely denominated in domestic currency. Supplemental funding was obtained by way of increased shareholders' equity and wholesale funding.

In terms of the structure of the DTI sector, the total number and distribution of licensees operating in Jamaica was unchanged at eleven (11) at end-2018 (see **Tables 5** and **6**).

Table 5

MARKET COMPOSITION Number of Licensed Deposit-taking Institutions*				
Supervised Entities	2015	2016	2017	2018
Commercial Banks	6	6	8	8
Merchants Banks	2	2	1	1
Building Societies	3	3	2	2
Total	**11**	**11**	**11**	**11**

Source: BOJ

** The proposal by the Minister of Finance and the Public Services for assumption by the Bank of Jamaica of full supervisory responsibility for credit unions, which numbered 26 as at 31 December 2018, will result in significant expansion of the supervised deposit-taking population.*

Table 6

LICENSED DEPOSIT-TAKING INSTITUTIONS As at 31 December 2018	
Commercial Banks	
	• Bank of Nova Scotia Jamaica Limited • Citibank N.A. • First Caribbean International Bank • First Global Bank Limited • JMMB Bank Limited • JN Bank Limited • National Commercial Bank Jamaica Limited • Sagicor Bank (Jamaica) Limited
Merchant Bank	
	• MF & G Trust and Finance Company
Building Societies	
	• Victoria Mutual Building Society • Scotia Jamaica Building Society

Source: BOJ

In terms of market share, the top 5 entities remained the same, accounting for 83.7 per cent of total system assets vis-à-vis 83.3 per cent in 2017 (see **Charts 9** and **10**).

Chart 8: Market Share of Licensees in the DTI sector 31 December 2017

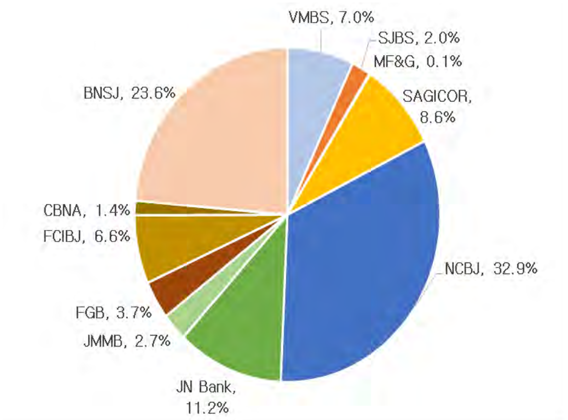


Chart 9: Market Share of Licensees in the DTI sector 31 December 2018

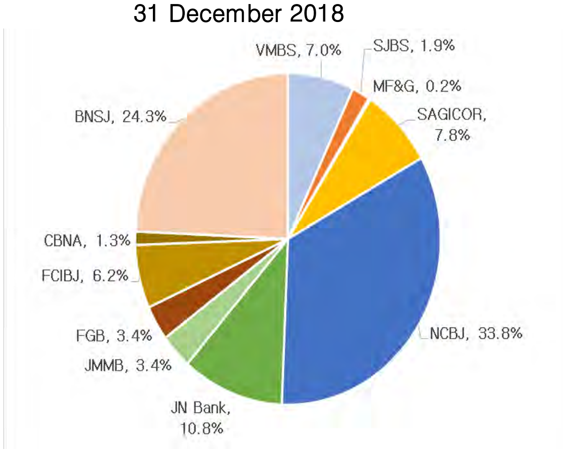
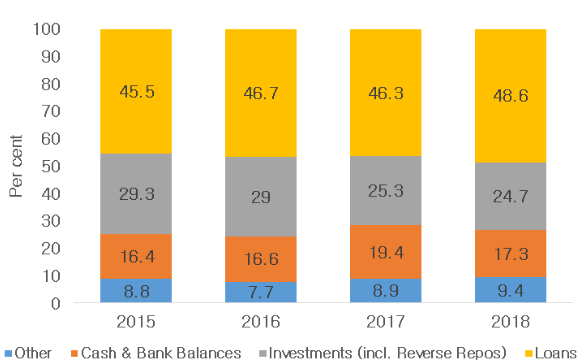


Chart 10: Profile of System Assets 31 December 2015 – 2018



Loan books expanded driven by faster rate of growth in domestic currency loans

Net credit disbursements grew at a faster rate of 15.4 per cent or $106.2 billion – in light of favourable credit conditions and sustained demand for debt by households and corporates.[1,2] Following the 2017 slowdown in net credit growth and consistent with BOJ's easing in monetary policy stance, DTIs bolstered their loan portfolios in 2018 by easing credit conditions. This easing in credit conditions was evidenced in more customer–friendly terms and lower interest rates.[3] In this context, credit to corporates increased by 15.3 per cent from 11.1 per cent in 2017. While growth in credit to households remained strong at 12.0 per cent, this was however, a deceleration relative to the expansion of16.7 per cent in 2017.

Domestic currency loans continued to account for the lion-share of the total loan portfolio with growth of 15.7 per cent or $84.3 billion. There was also an increase of 14.5 per cent or $21.9 billion in foreign currency loans, a reversal from the net repayment reported in 2017. At end-2018, gross loans accounted for a higher share of total assets than at end-2017 (see Chart 10).

1 During 2017 the growth was 7.2 per cent or $46.1 billion.
2 At end-2018, as a per cent of GDP, loans to households and corporates accounted for 24.9 per cent and 14.8 per cent, respectively, compared with 23.9 per cent and 13.8 per cent in 2017.
3 This slowdown was primarily due to significant net repayments by entities within the non-DTI financial, manufacturing and telecommunications sectors, and increased corporate financing activities in the equities and exempt distributions markets.

Table 7

LICENSED DEPOSIT-TAKING INSTITUTIONS Balance Sheet Profile (% of GDP)				
	2015	2016	2017	2018
Loans	36.4	40.2	41.1	44.1
Investments	21.8	23.5	21.6	21.7
Customer Deposits	50.5	54.0	57.4	58.3
Borrowings	10.2	12.7	10.6	11.0

Source: BOJ

Further expansion in securities portfolio but the ratio of investments to total assets fell

During 2018, there was a net expansion of 7.3 per cent or $27.4 billion in DTIs' investment holdings– as DTIs sought to maintain net interest income in spite of the GOJ's reduced appetite for domestic debt.[4] This resurgence in investments was largely reflected in foreign currency securities ($27.2 billion or US$176.6 million). Investment holdings in domestic currency securities increased marginally by $0.2 billion. The slower growth in domestic currency securities was the result of the early redemption of some BOJ instruments and the Government of Jamaica's (GOJ's) decision not to roll some maturing domestic currency debt securities. In response, DTIs opted to deploy part proceeds from the BOJ and GOJ maturities into foreign government securities, overseas corporate bonds and, to a lesser extent, foreign currency denominated GOJ securities. Arising from these developments, the ratio of total investments to total assets fell to 24.7 per cent at end-2018, the lowest level in the last 10 years.

4 This was in contrast to the net decline of 5.6 per cent or $22.3 billion reported for 2017.

Cash & Bank Balances fell as loan growth accelerated

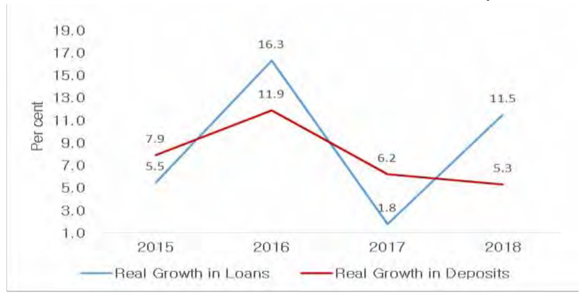
Cash and bank balances declined by 2.4 per cent or $7.0 billion to $282.4 billion as at end-2018. This reduction in cash holdings occurred in a context of favourable credit conditions which incentivized DTIs to focus even more on loan portfolio growth strategies. Additionally, with more than a full year having elapsed since the foreign currency cash reserves requirement was increased, there was some normalization in DTIs' cash management procedures. This was evidenced in the stock of cash and bank balances to total assets declining to 17.3 per cent as at end-2018 from 19.4 per cent as at end-2017.

Growth in liabilities declined while shareholders' equity increased at a faster pace

Although customer deposits remained the key funding source for the DTI sector during 2018, there was a deceleration in the growth in net inflows to 9.0 per cent. The slowdown in growth in customer deposits was primarily evidenced in domestic currency deposits. Notwithstanding, the overall growth in DTIs' deposit base was mainly reflected in domestic currency net inflows of 13.7 per cent or $77.4 billion. This performance was in keeping with the improved confidence in the domestic currency, underpinned by the stable macro-economic conditions. Foreign currency deposits increased at a significantly slower pace of US$18.9 million relative to growth of US$179.8 million recorded during 2017. This outturn occurred against the background of the new foreign exchange market regime with increased two-way movements becoming more entrenched.

In light of greater levels of competition for funding from the capital and equities markets, DTIs were constrained in raising adequate customer deposits to sustain their asset growth strategies. This was evidenced in the negative gap of 6.2 percentage points between the real growth in deposits (5.3 per cent) and the real growth in loans (11.5 per cent) (see **Chart 11**).[5]

Chart 11: Real Growth in Loans and Deposits



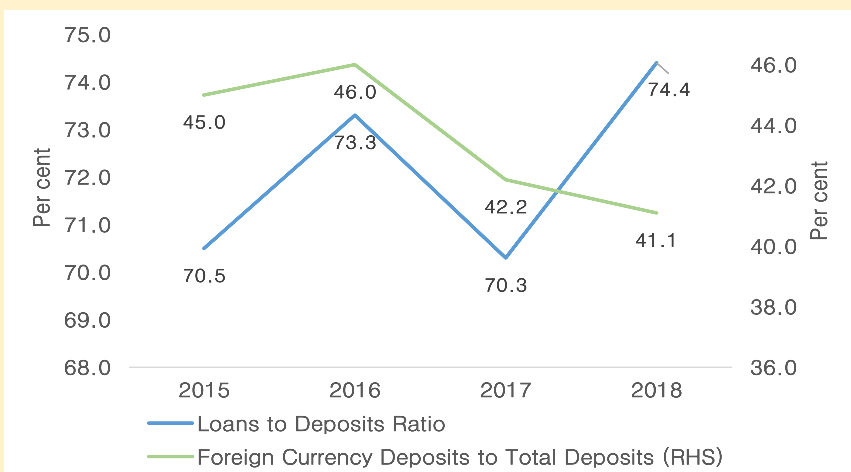
Source: BOJ

Dollarisation

Against the background of improved confidence in the Jamaica Dollar, underpinned by stable macro-economic conditions, there has been a steady decline in the deposit dollarisation ratio over the past two years. Notably, the ratio fell to 41.1 per cent as at end-2018 vis-a-vis 46.0 per cent as at end-2016. Critical to this normalization in the dollarisation ratio was the incremental increase in the foreign currency cash reserves requirement, and the simultaneous cessation of the remuneration of foreign currency reserves as an earning asset for DTIs. These two monetary actions along with the increased two-way movements in the exchange rate engendered a slowdown in the build-up of foreign currency deposits by DTIs' customers, as the perception of the need to maintain a foreign currency asset portfolio as a hedge waned significantly.

As the new foreign exchange market regime becomes more entrenched, the expectation is that the dollarisation ratio should settle at a level commensurate with the appetite and demand for foreign currency bank debt by customers of DTIs (i.e. households and corporates) that are primarily earners of foreign currency.

Chart A: Select Dollarisation and Funding Ratios 31 December 2015 – 2018



Source: BOJ

5 This compares with a positive gap of 4.4 percentage points recorded in 2017.

For 2018, there was increased reliance by DTIs on borrowed funding (including securities sold under repurchase agreements) to cover the funding gap. In this regard, borrowings grew by 11.9 per cent or $23.1 billion (compared with net repayments of 12.4 per cent or $27.4 billion during 2017).[6] In support of the accelerated growth in total assets, shareholders' equity increased by 15.8 per cent or $33.5 billion. This performance was largely reflected in transfers from unappropriated profits to retained earnings reserve funds and the issuance of shares by some licensees to shore up funding via non-traditional sources.

Balance Sheet reflected increased holdings of foreign currency assets

In a context of ongoing foreign exchange market reforms (which resulted in increased two-way movements in the exchange rate) and the implementation of a net open foreign currency position to capital limit, foreign currency denominated assets for the system grew by 1.9 per cent in contrast to a decline of 1.3 per cent in 2017. The increased foreign currency holdings were largely reflected in investment securities and loans & advances, which were partly funded by reduced cash & bank balances.

The other source of funding for the expansion in foreign currency assets was an increase in foreign currency liabilities of 3.4 per cent.[7] On the basis that growth in foreign currency liabilities was more than adequate to fund the growth in foreign currency assets, the foreign currency component of shareholders' equity contracted by US$39.7 million. Further, as the increase in foreign currency liabilities outpaced that of foreign currency assets, the sector's net foreign currency short position widened to US$32.9 million at end-2018 from US$2.9 million at end-2017.

The system remained liquid

DTIs' holdings of liquid assets fell during 2018, largely due to the deployment of surplus funds into domestic currency loans and foreign currency denominated investments. Notwithstanding, the system remained liquid as evidenced in a domestic currency average liquid assets to domestic currency average prescribed liabilities ratio of 28.0 per cent at end-2018 vis-à-vis 31.5 per cent at end-2017.[8]

With the improved confidence in the local currency and attendant moderation in inherent foreign exchange risk exposure for the DTI sector, licensees opted to hold lower US dollar liquid assets relative to US dollar prescribed liabilities. Specifically, the ratio of US dollar average liquid assets to US dollar average prescribed liabilities fell to 39.0 per cent from 43.7 per cent the previous year.[9]

DTIs were more profitable

For the 12-months ended December 2018, pre-tax profits totalled $50.4 billion or $13.0 billion higher than the performance in 2017. This outturn was largely attributable to moderate growth in net interest income ($3.6 billion), higher non-interest income ($23.1 billion) and stable non-interest expenses ($12.8 billion). Notably, the growth in net interest income was below the increase recorded for 2017 largely due to DTIs not being able to re-invest proceeds from maturing GOJ securities at comparable rates

6 This was largely attributable to one large DTI which recorded an increase of $22.6 billion in repurchase agreements, while reducing its reliance on funding from overseas institutions.
7 This was largely attributable to wholesale funding of US$95.7 million and net inflows of US$18.9 million from foreign currency deposits.

8 This was above the 26 per cent benchmark.
9 This was well above the 29 per cent benchmark.

Liquidity Management by DTIs

Consistent with Bank of Jamaica's objective to support the safety and stability of the banking system, significant elements of both the Basel II and III capital frameworks will be implemented over the next two to three years. Of note, one aspect of the Basel III liquidity management framework – the Liquidity Coverage Ratio (LCR) – will be expedited for full implementation during 2019.

The LCR measures a deposit-taking institution's ability to withstand a liquidity stress lasting 30 days by the amount of unencumbered high-quality liquid assets (HQLA) that it holds to meet these short-term obligations. These HQLAs, which include cash, government securities, central bank deposits and qualifying corporate debt, should be greater than or equal to the net cash outflows over the 30 day stress period.

The Bank will issue principles-based guidelines which will set out these best practice standards for liquidity management by DTIs. In turn, DTIs will be required to refine, implement and maintain their internal systems and processes and governance arrangements to facilitate ease of compliance with these principles of sound liquidity management underpinning the LCR. Further, in order to inform the calibration of the methodology for computing the LCR, a quantitative impact study will be conducted in the first quarter of 2019 to assess, inter alia, the adequacy of DTIs' HQLA to cover 30-day foreign currency net cash outflows obligations as per the Basel standards.

arising from the low interest rate environment. Consequently, the net interest margin was 6.2 per cent at end-2018 compared to 6.3 per cent recorded for 2017.

Table 8

COMPOSITION OF ANNUAL OPERATING INCOME
31 December 2015-2018

% of Total Income	2015	2016	2017	2018
Interest Income	67.2	61.8	61.4	54.2
Interest Income from Loans	51.3	47.9	48.2	44.0
Interest Income from Securities & Placements	15.9	13.8	13.2	10.2
Non-Interest Income	32.8	38.2	38.6	45.8
Fee Income from Loans	3.4	3.6	11.5	10.9
Other Fee Income	17.4	16.9	12.1	9.2
Foreign Exchange Gains	5.1	6.1	5.7	8.0
Dividend Income	3.8	8.0	5.0	5.7
Securities Trading Gains	1.2	2.0	2.1	7.7
Other Income	1.9	1.6	2.2	4.3

Source: BOJ

For the review year, the fall-off in net interest income was cushioned by non-interest income which grew noticeably stronger than in 2017. This improved performance in non-interest income was largely reflected in higher gains from securities and foreign exchange trading activities. Fee income from loans and other fee income (e.g. transaction fees, commissions and service charges) continued to account for approximately 20.0 per cent of total operating income. [10]

Chart 12: Composition of Annual Operating Income 31 Dec 2016 – 2018

Source: BOJ

10 Associated with the increment in loans and advances.

Meanwhile, non-interest expenses for 2018 was marginally below that for 2017. This outturn was on account of DTIs' continued efforts to improve operational efficiencies by way of technologically-based channels (e.g. internet banking) and agent banking.

Commensurate with DTIs' sustained profitability, pre-tax profit margin increased to 31.4 per cent (28.0 per cent for 2017). For 2018, shareholders realized higher returns on their investments as evidenced in an increase in Return on Equity (ROE) to 21.9 per cent relative to 18.2 per cent for 2017.

Asset quality improved

DTIs' asset quality, as measured by the ratio of non-performing loans to total loans, improved in a context where the increase in the stock of performing loans outpaced the growth in non-performing loans (NPLs).[11] Against this background, the NPLs to Total Loans ratio fell marginally to 2.5 per cent from 2.6 per cent at end-2017 (see **Chart 13**). This performance was particularly noteworthy given the pick-up in loan growth during the year.

Chart 13: Stock of NPLs (3 Months & Over) with Ratio of NPLs to Gross Loans

Source: BOJ

Loan loss provisions continued to provide adequate coverage of NPLs as evidenced in a ratio of 112.5 per cent of NPLs (compared with 121.3 per cent the previous year). The NPLs coverage for 2018 was consequent on a marginal increase of $0.6 billion (2.8 per cent) in provisions.

Further consolidation in credit union sector

In 2018, the number of entities in the sector declined to 26 from 28, reflecting the impact of two mergers. There are strong indications that the trend of consolidation in the sector will continue. Notwithstanding the reduction in the number of credit unions, branches, sub-branches and agencies increased to 91 at the end of the year from 90 at the start of 2018.

Assets held by credit unions reflected an increase of 9.7 per cent in 2018, slower than the 10.3 per cent for 2017.[12] The build-up in assets reflected increases in loans and investments. Loans (mainly consumer loans) grew by $7.0 billion (9.7 per cent). Investments grew by $6.0 billion (35.8 per cent), due largely to a reclassification from placements to investments. Concurrently, there was a decrease of $4.8 billion (47.8 per cent) in Cash and Placements to $5.3 billion at the end of the review year. The growth in assets was mainly funded by an increase of $7.3 billion (9.0 per cent) in Savings Fund which brought the stock to $88.1 billion at end-2018.

The capital base for the sector also improved over the year with growth of $1.5 billion (11.6 per cent), mainly driven by an increase of $0.5 billion (51.5 per cent) in deferred shares. In line with the growth in capital, the ratio of

11 Abstracting from an extraordinary classification, total NPLs increased marginally by 4.7 per cent or $0.8 billion. This brought the stock of NPLs to $19.9 billion as at end-2018.

12 2017 data may have revisions arising from resubmission of prudential information.

capital to total assets increased to 12.5 per cent at the end of 2018 compared to 12.3 per cent a year earlier.

The annual surplus for the sector, based on unaudited prudential returns submitted to the Bank of Jamaica at end-2018, showed growth of $0.2 billion or 11.8 per cent to $2.1 billion, relative to the surplus earned in 2017. This rate of profit growth, however, represented a marked deceleration from the 48.2 per cent achieved in 2017 and occurred despite an increase in earnings (mainly interest on loans) of $0.5 billion or 3.6 per cent to $13.5 billion.

Profit growth was negatively impacted by an increase in expenses of $0.3 billion or 2.4 per cent to $11.4 billion. The higher expenses which reflected an increase in overhead costs of $0.5 billion or 5.9 per cent to $9.2 billion (mainly staff costs) partly offset by a decrease in interest expense of $0.2 billion or 10.0 per cent to $2.2 billion (mainly due to the reduction in interest paid on deposits).

This surplus for the year resulted in an improvement in profitability indicators, including net profit margin, return on assets and return on equity. Accordingly, net profit margin increased to 15.40 per cent from 14.27 per cent. Return on assets increased to 1.90 per cent from 1.86 per cent. Similarly, return on equity increased to 10.28 per cent from 10.0 per cent. In contrast, the net interest income decreased to 9.28 per cent from 9.49 per cent. The increase in earning assets outweighed the growth in net interest income, given the low interest rate environment.

Credit reporting market expanded

During 2018, the Bank continued to discharge its oversight of the credit reporting framework in Jamaica pursuant to its designation as Supervising Authority under the Credit Reporting Act. The three licensed credit bureaus, experienced growth as the credit reporting market expanded (see **Table 9**). This was evident by an increase in the number of credit information providers (CIPs) exchanging their customers' credit information with the credit bureaus as well as an increase in the number of credit reports issued.

Table 9

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

During the year, the credit bureaus' databases deepened as stakeholders' participation increased. This was evidenced by the growth in the use of consumers' credit data in lenders' loan adjudication processes, as reported by the credit bureaus. In this regard, 10 additional CIPs (24.0 per cent increase) commenced the submission of their customers' credit information to credit bureaus. Accordingly, the combined total of CIPs submitting data in the system increased to 51 at the end of 2018. For 2018, eight new CIPs joined the system, while the number of credit reports issued by credit bureaus grew by 5.0 per cent to 466 531 from 442 712 in 2017.

Credit bureaus' databases further diversified during the year with the commencement of the submission of a large utility provider's credit data. This served to support the vision of a more inclusive financial system and the potential for increased access to credit for a wider cross-section of households and businesses within the Jamaican economy. Connected with the growth in data providers submitting data during the year, was the increase of 75.0 per cent to 818 172 in the number of data subjects in credit bureaus' databases, which recorded an increase at the end of 2018. The growth in data subjects influenced increased population coverage to 43.0 per cent at end-2018, compared to 25.0 per cent at end-2017.

The continued market expansion in 2018 was also evident in improvements in public awareness and market sentiments. This was reflected in the increase of 8.0 per cent to 7 316 in the number of consumers' full disclosure (free) report provided by credit bureaus during the year t from 6 758 in 2017.

Supervision of Cambios and Remittance Service Providers – regulatory framework expanded

During 2018, Bank of Jamaica continued to enact measures aimed at ensuring that cambios and remittance service providers implement effective compliance regimes to mitigate Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) risks. A major focus was the expansion of the regulatory framework to include a risk-based approach to supervision. In this regard, each licensee is required to implement a risk-based approach to AML/CFT due diligence, in keeping with Financial Action Task Force Recommendation 1.

The total number of cambio outlets at end-December 2018 was 135, compared to 138 at end-December 2017 (see Table 10). During the year, one cambio licence was issued to operate at a new location while four locations were closed. The closures resulted from the voluntary surrender of three licences and the revocation of one by Bank of Jamaica. In addition, one company ceased offering cambio services which resulted in a reduction in the number of cambio entities to 54 at end-December 2018.

Table 10

Status of Cambio Licences as at 31 Dec-18

	2017	2018
New locations licensed	2	1
Locations closed	8	4
No. of Locations	138	135
No. of Companies	55	54

The number of Remittance Service Providers (Primary Agents) declined to six in 2018 relative to eight in 2017, resulting from the exit of Tropical Money Systems Limited and Jamaica Co-operative Credit Union League Limited. Jamaica remains a net receiver of remittances with inflows mainly from the USA, UK, Canada and the Cayman Islands.

Table 11

Status of Remittance Licences as at 31 Dec-18

	2017	2018
New locations licensed	16	50
Locations closed	13	22
No. of Locations	425	453
New Licences Issued	38	70
Licences Relinquished/Revoked	51	92
No. of Licences	666	644
No. of Primary Agents	8	6

For 2018, 70 new remittance licences were issued to operate at 50 outlets. Concurrently, 92 licences representing 22 outlets were relinquished. As a result, the number of licensed outlets increased to 453 at end-2018 from 425 at end- 2017.

Financial Legislation

During 2018, there was no new legislation governing institutions supervised or regulated by the Bank of Jamaica.

Pending amendments to legislation include, but not limited to:

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

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

▶ Additional Resources

Supervision of Cambios
http://www.boj.org.jm/financial_sys/cambios.php

Supervision of Remittance Companies
http://www.boj.org.jm/financial_sys/remittance.php

Credit Reporting Oversight
http://www.boj.org.jm/financial_sys/supervised_cb_overview.php

Supervisory Framework
http://www.boj.org.jm/financial_sys/supervised_framework.php

Financial Data
http://www.boj.org.jm/financial_sys/financial_data.php

Supervised Deposit -Taking Institutions
http://www.boj.org.jm/financial_sys/supervised_deposit.php

Financial System Legislation
http://boj.org.jm/financial_sys/supervised_legislation.php

Achievements in 2018

Risks to financial stability remained tempered

Within the context of a relatively stable macroeconomic environment, risks to financial stability remained tempered. DTIs continued to demonstrate resilience to macro-prudential stress tests for the first three quarters of 2018 due to strong capital positions.[13,14] Specifically, the results of the stress tests showed that the average post-shock capital adequacy ratios (CARs) for the DTI sector remained above the 10.0 per cent minimum benchmark in response to hypothetical but plausible credit, liquidity and market-related shocks. Additionally, signals from the Bank's macro-financial and micro-prudential indices, which measure the general health of the financial system, remained well below crisis thresholds.

In relation to credit risk, the ratio of DTIs' non-performing loans (NPLs) to total loans continued to improve in 2018. This improvement was also reflected in credit risk stress test results which showed that the DTI sector was robust to the hypothetical shocks to NPLs. In particular, the CARs of all DTIs remained above the 10.0 per cent prudential benchmark subsequent to hypothetical shocks of increases in NPLs ranging from 10.0 per cent to 50.0 per cent.

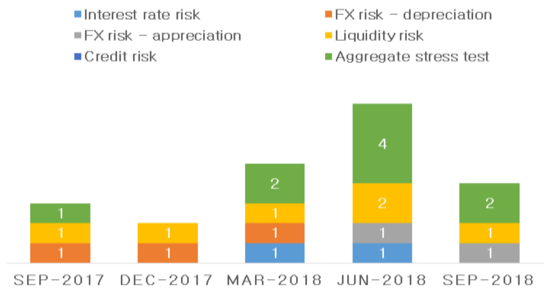
Liquidity conditions throughout 2018 remained relatively buoyant. Against this background, the results of the stress test showed that it would take a reduction of 61.0 per cent in deposits for the CAR of the overall DTI sector to breach the statutory benchmark of 10.0 per

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

14 The objective of stress testing by the 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.

cent. However, one institution was vulnerable to a 50.0 per cent reduction in deposits (see Chart 14).

Chart 14: Stress Test Results Showing No. of Institutions Breaching Prudential Minimum[1/]



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

The banking system showed increased resilience to foreign exchange risk during 2018 relative to 2017. In response to hypothetical depreciation and appreciation shocks ranging from 10.0 to 50.0 per cent, the sector's CAR remained robust. Notwithstanding, at end-September 2018, of the eleven (11) DTIs, only one institution was impacted as a result of a 50.0 per cent appreciation in the exchange. The negative impact on the institution's CAR was due to the magnitude of its foreign currency long position. Similarly, the DTI sector continued to exhibit resilience to the applied interest rate stress tests conducted during 2018 as the sector's buffer capital was sufficient to absorb the impact of contemplated shocks. Specifically, following hypothetical increases of 1 100 bps/100 bps and 275 bps/15 bps in interest rates on domestic/foreign-rate sensitive assets and liabilities, respectively, the for DTIs sector's CAR was unchanged at 14.9 per cent at end-September 2018.[15,16]

Additionally, as a result of the abovementioned shock, all DTIs would have recorded post-shock CARs above the prudential 10.0 per cent prudential minimum.

In response to the simultaneous impact of 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 during 2018. Nevertheless, subsequent to the aggregated hypothetical shocks, the CAR of two entities became impaired at end-September 2018, primarily due to fair value losses.

As it relates to the financial system stability indices, the Bank's macro-financial index (MaFI) and micro-prudential index (MiPI) for DTIs remained well below the 1996-1998 financial crisis threshold values of 44.0 points and 50.0 points, respectively, as at end-September 2018.[17]

▶ Related Reports

Financial System Stability Annual Report
http://www.boj.org.jm/publications/publications_show.php?publication_id=11

Highlights of Macro-prudential Report
http://www.boj.org.jm/publications/publications_show.php?publication_id=9

15 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.

16 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.

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

Outlook

Positive performance expected to continue

It is anticipated that continued favourable credit conditions and a stable macro-economy should support ongoing positive performances within the DTI sector over the short to medium-term. This view is on the basis of sustained demand for credit by households and corporates, complemented by the ongoing efforts of businesses to provide value-added activities within the real sector. However, DTIs will have to navigate the GOJ's reduced appetite for domestic debt and attendant influx of liquidity into the market by consistently investing in viable alternatives to sustain profitability. To this end, the increased utilization of credit bureau data by CIPs along with ongoing regulatory reforms to support better price discovery within the local capital markets should provide DTIs with a wider range of earning assets in which to invest. These developments should also enable DTIs to better manage their risks, including credit and liquidity risks inherent in the banking business model. Critical to these developments is the Bank's role in ensuring the preservation of safety and soundness within the DI sector by way of promoting and enforcing sound credit risk and liquidity risk management practices. These objectives are currently being pursued by way of targeted reforms to the problem assets management (i.e. IFRS9 implementation) and liquidity risk management (i.e. LCR implementation) frameworks. Additionally, the build-out of the risk-based consolidated supervision framework will be a critical success factor in ensuring continued positive performances and the long-term sustainability of the DTI sector.

PAYMENT SYSTEM


10

PAYMENT SYSTEM

The Bank in 2018 continued to ensure a safe, efficient and effective National Payment System. This was evidenced by the stable operations of the JamClear systems, (JamClear®–RTGS) and (JamClear®–CSD). The oversight of the operations of the Automated Clearing House (ACH) and MultiLink was also judiciously undertaken. In addition, work continued apace towards achieving the payment system policy and development objectives, creating an enabling environment for innovation as well as the drafting of guidelines to facilitate financial technology.

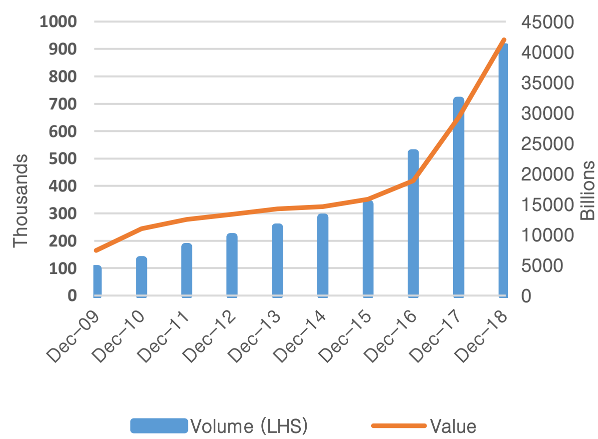
JamClear®–RTGS transactions in 2018 - the highest number in a single year

In 2018, JamClear®–RTGS recorded the highest volume of transactions in a single year with the processing of 910 509 transactions. The upward movement reflected increases in JMD volume by 26.6 per cent (194 321) to 906 903 (see **Chart 15**). The growth in the JMD volume was largely attributed to an increase in participant payments on behalf of household and corporate clients.

Similarly, transaction values grew by 43.6 per cent ($12.8 trillion). This growth reflected increases in payment values between securities settlement transactions initiated from JamClear®–CSD (J$12.22 trillion) and payments on behalf of households and corporate clients (J$1.2 trillion).

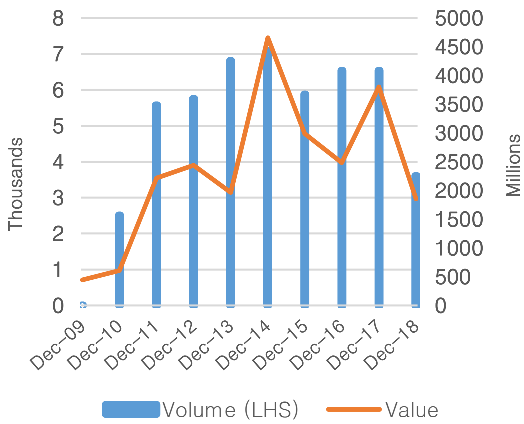
For 2018, total volume of USD transactions processed in JamClear®–RTGS declined by 44.8 per cent (2,932) to 3 606 transactions. Similarly, transaction values declined by 51.2 per cent ($1.9 billion) to US$1.85 billion (see **Chart 16**). This was largely due to declines in securities settlement transaction initiated through the JamClear®–CSD and participant payments.

Chart 15: JamClear–RTGS Transaction Activities (JMD)



> *Increase in RTGS volume of transactions largely attributed to growth of 209,369 transactions in participant payments on behalf of household and corporate clients.*

Chart 16: JamClear-RTGS Transaction Activities (USD)



Overall increase in the usage of the retail payment systems

Utilization of the retail payment systems increased in 2018. Total volume of retail payment transactions processed for 2018 was 166.3 million valued at $3 895 billion, reflecting increases of 13.1 per cent and 13.0 per cent in volume and value respectively, relative to of 2017.

In 2018, the total number of debit cards in circulation increased by 5.0 per cent to 3.0 million. DTIs settled 95.6 million debit card transactions on their proprietary systems valued at $1 198 billion for the review period J. Debit card transactions processed on the proprietary systems of the DTIs reflected increases of 12.2 per cent and 22.5 per cent in volume and value, respectively, relative to 2017.

For 2018, the total installed automated banking machines (ABMs), as reported by DTIs, increased by 3.2 per cent (22 terminals) to 712. Approximately 15 million transactions valued at $119.75 billion were processed at ABMs through the Multilink network. The volume and value of transactions processed reflected increases of 17.9 per cent and 24.6 per cent, respectively, relative to 2017.

The total number of credit cards in circulation was 298 257 for 2018. This represented an increase of 3.1 per cent when compared to the previous year. Further, the total number of credit card transactions processed on the proprietary systems of deposit-taking institutions was 20.2 million valued at $469 billion. These results represented increases in volume and value of 15.6 per cent and 36.9 per cent, respectively, relative to 2017.

For the review period, Point of Sale (POS) terminals increased by 16.5 per cent to 34 098. Total transactions processed on POS terminals grew in volume and value by 25.4 per cent and 28.9 per cent, respectively, to approximately 17.6 million transactions valued at J$101.32 billion relative to 2017.

Decline in volume of cheques processed

The total number of cheques processed through the ACH over the reporting period was 6.1 million, valued at $816 billion. These outturns reflected a decline of 2.2 per cent in volume and a marginal increase of 1.8 per cent in value when compared to 2017. The average value of each cheque processed in the ACH increased by 4.1 per cent to $134 303.08 in 2018.

Foreign currency cheques cleared manually through the BOJ Clearing House reflected an increase in value of 3.4 per cent in 2018 when compared to 2017. Cheques denominated in USD amounted to USD 2,230.2 million and accounted for99.0 per cent of the total foreign currency cheques cleared.

Bill payment activities increased

Total bill payments reported as at December 2018 was 20.6 million transactions valued at $334.42 billion, reflecting increases of 8.9 per cent and 27.1 per cent in volume and value, respectively, relative to 2017. The dominant payment method for bill payments was cash, which accounted for 49.2 per cent of total bill payments processed. Debit cards accounted for 56.7 per cent of the total value of bill payments.

Achievements in 2018

Updated Guidelines for Electronic Retail Payment

The Bank published the updated Guidelines for Electronic Retail Payment Services (ERPS 2) on 1 November 2018 with an effective date on 1 February 2019. ERPS 2 forms part of an initiative to continuously support innovation and financial inclusion by deepening the payment infrastructure through the use of electronic retail payment products and services (see Notification and ERPS 2 document)

.

Upgraded JamClear®-CSD

In October 2018, the Bank implemented the upgraded JamClear®–CSD (Phase–1) to take advantage of new technological developments and to address stakeholder requests for new functionalities. In this phase of the upgrade, the primary focus was on the dematerialization of Government of Jamaica Treasury Bills, a critical IMF Structural Benchmark that was scheduled for implementation during the September quarter 2018. Consequently, as at 19 October 2018 Treasury Bills have become a registered instrument in the Depository where investors' holdings will be held in electronic form. However, the outstanding stock of J$8.9 billion as at 14 September 2018 will be retained as paper certificates until maturity.

Success in meeting specific financial inclusion objectives

During 2018, the Retail Payments and Financial Infrastructure Working Group under the Financial Inclusion Steering Committee, achieved targeted success in financial Inclusion objectives specific to the access and usage pillar. The achievements of the RPFI working group included:

1. Operationalizing the Agent Banking regulations by authorizing the first commercial bank to engage in agent banking in August 2018;
2. Furthering the education of the public on products and services in the retail payments market through the hosting of a conference in partnership with the Development Bank of Jamaica held 27^{th} & 28^{th} of June 2018;
3. Drafting concept papers to include:
    - the feasibility of a mechanism to promote interoperability;
    - the use of new and innovative products to support products linked to remittances; and
    - the use of commitment savings product.

Developments in financial technology continued to impact payment systems

During the review period, the Bank engaged in various developmental activities which will have an impact on the payment system. These included the publication of a public awareness statement on Virtual Currencies. Additionally, the drafting of Fintech Regulatory Sandbox Guidelines was at an advanced stage by end-2018. These Guidelines are aimed at furthering the facilitation of FinTech related innovations and providing a platform to encourage innovations in financial services as well as to promote competition and financial inclusion. In addition, the Bank chaired a Caribbean Community (CARICOM) Financial Technology Work Group which functions as an advisory group to Central Bank Governors on Fintech related matters.

BOJ supports National Identification System

The National Identification System (NIDS) project was supported by a Bank of Jamaica led NIDS Supervisory Guidance Steering Committee (SGSC). The Committee was established to review guidance issued by competent authorities to financial institutions under the relevant legislation. The SGSC consists of members from the Bank of Jamaica and representatives from different government ministries.

National Time-Stamping project initiated

The Bureau of Standards Jamaica (BSJ) initiated a National Time-Stamping project to generate a national time for Jamaica and improve the reliability of time-related services to different sectors of the economy. Bank of Jamaica is a member of the National Time-Stamping Strategic and Operational project team.

Additional Resources

Payment Systems Background
http://boj.org.jm/financial_sys/payments_systems.php

Payment Systems Policy
http://boj.org.jm/financial_sys/payments_systems_policy.php

Payment Systems Statistics
http://boj.org.jm/financial_sys/payments_systems_statistics.php

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

Guidelines for Electronic Retail Payment Services
http://www.boj.org.jm/uploads/news/2019_erps_guidelines_for_electronic_retail_payment_services_(erps_2).pdf

CURRENCY


9

CURRENCY

The Bank in 2018 continued to supply secure high quality banknotes to Jamaicans. The value of currency in circulation increased while the value of currency issue declined. The decline in currency issue was associated with a significant increase in coin redemptions.

Bank of Jamaica partnered with a coin agent to collect both legal tender coins in circulation which persons wished to exchange, as well as coins which were demonetised.

Currency in circulation increased

The value of banknotes in circulation stood at $135 billion at end–2018. This represented an increase of 20.2 per cent when compared to the corresponding figure at end–2017.

Fall in value of currency issued

The total value of banknotes issued for 2018 amounted to $342.8 billion, which was 10.5 per cent below the previous year's value. Concurrently, the total value of coins issued in 2018 fell by 13.4 per cent to $0.43 billion.

Significant increase in coins redeemed

Banknotes redeemed during 2018 were valued at $320.5 billion, 13.6 per cent below the figure for 2017. The total value of coins redeemed was 0.31 billion or 70.0 per cent above the corresponding figure for 2017. This significant increase in coin redemptions partly reflected the impact of the demonetisation of the one, 10 and 25 cents coins effective 15 February 2018. Also contributing markedly to the sharp increase in redemptions was Bank of Jamaica's partnership with a coin agent, effective July 2018, to collect both legal tender coins in circulation, which persons wished to exchange, as well as the demonetised coins.

This demonetisation was in a context of low demand for these coins. The withdrawal of these lower coin denominations will only impact cash transactions and hence, Bank of Jamaica provided guidance to merchants through the issuance of rounding rules. Notably, although the recently demonetised coins are no longer legal tender, they will be indefinitely redeemed at the Bank at full face value (See *Coin Demonetisation Rounding Guidelines* on next page).

The Bank continued to supply high quality banknotes

During 2018, 453.0 million notes valued at $340.4 billion were processed by the Bank. This performance compared with 425.9 million notes valued at $343.8 billion for the previous year.

Counterfeit detection remained a priority

The total number of counterfeit notes detected during 2018 was 2 546 representing a value of $2.8 million compared to 4 014 pieces valued at $4.7 million in 2017. The figure for 2018 was equivalent to 14.7 counterfeit notes per one million genuine notes in active circulation, relative to 26.0 pieces per million in 2017.

Achievements in 2018

Durability of banknotes improved

For 2018, the Average Circulation Lives (ACL) of the $5000, $1000, $100 and $50 notes were 22.2 months, 27.1 months, 17.6 months and 27.2 months, respectively. These outturns reflected improvements relative to the figures of 14.9 months, 15.8 months 10.8 months and 20.4 months for the respective notes, in 2017. However, the ACL for the $500 held firm at 10.9 months when compared to 2017.

boj.org.jm

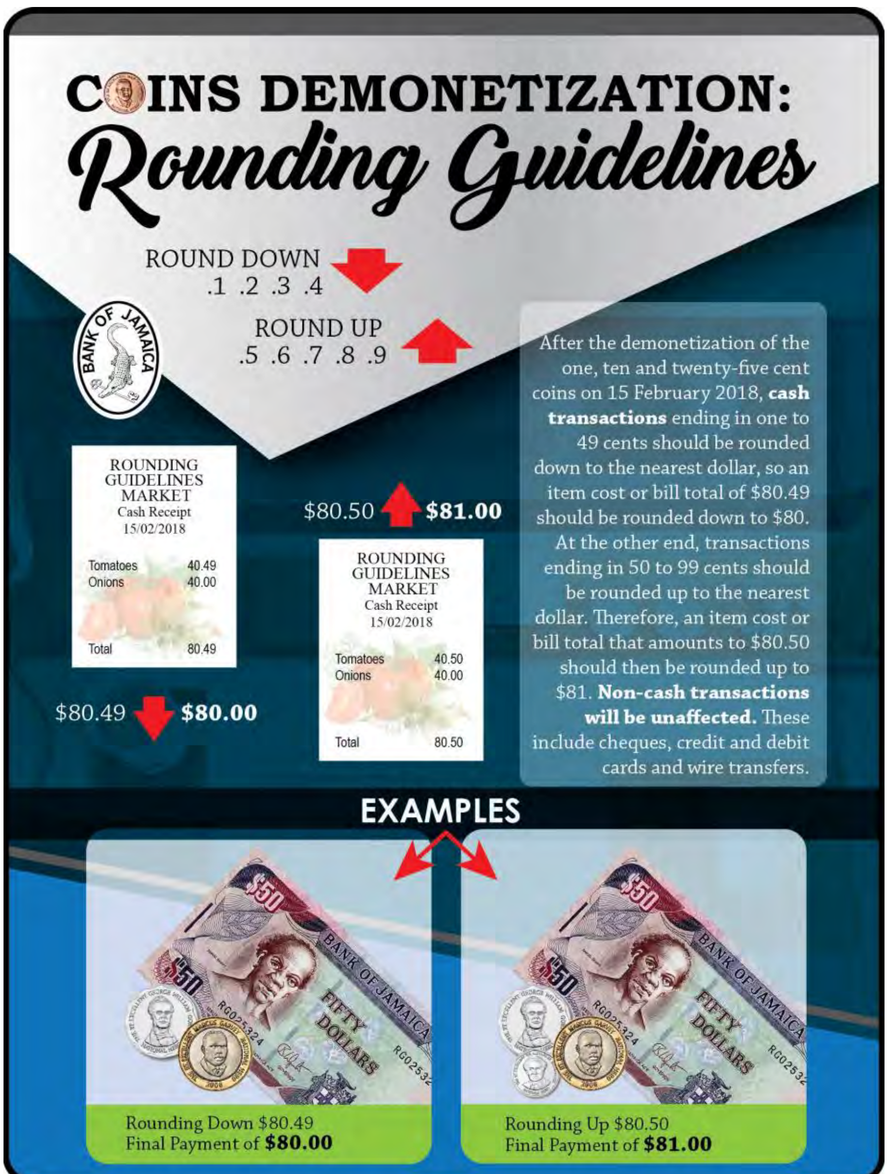
Related Reports

Frequently Asked Questions on Currency
http://boj.org.jm/bank/bank_faqs.php?show=currency

History of our Currency
http://boj.org.jm/currency/currency_history.php

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

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



FINANCIAL MARKET OPERATIONS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14:12 Moody's Assigns
Quick Reads. In-depth
Bloomberg

FINANCIAL MARKET OPERATIONS

Bank of Jamaica continued to provide ongoing liquidity assurance through its overnight Standing Liquidity Facility and the offer of its 14-day repurchase agreement on a competitive-auction basis.

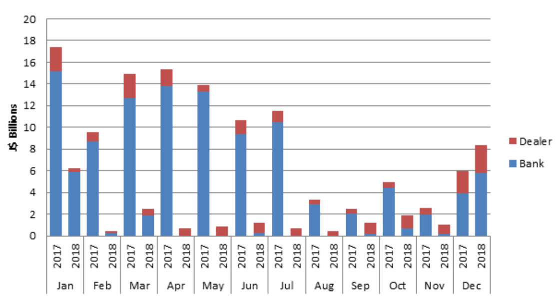
Additionally, the Bank continued its weekly competitive auctions of 30-day Certificates of Deposit (CDs) in fixed volumes to the market.

Domestic Market

Reduced use of auto repo facility given improvement in liquidity conditions

The Bank continued to provide intraday liquidity to participants through the Auto Repo Facility during 2018. The facility was accessed by nine participants 749 times during the review year, reflecting a decrease of 74.8 per cent in usage relative to 2017. Similarly, the average value of intraday liquidity decreased over the period, with the lowest utilization occurring in August 2018 (see Chart 20).

Chart 20: Comparison of Daily Average Liquidity Utilized – 2017 & 2018



Source: BOJ

The Bank expanded the options of liquid instruments available in the market

During the third quarter of 2018, the Bank purchased J$12 330 million of Government of Jamaica (GOJ) Variabe Rate (VR) Benchmark Investment (BMI) Notes, at par, directly from commercial banks and primary dealers in exchange for 9-month Variable Rate BOJ JMD CDs. This operation provided participants with much needed liquid instruments while allowing the Bank to replace its stock of GOJ VR BMI Note which matured in July 2018.

Primary Dealers' placement in BOJ OMO instruments increased

Primary Dealers (PDs) participation in Open Market Operation (OMO) issues averaged J$17 755.77 million for 2018, relative to $13 114.93 million for 2017. This improved performance was largely influenced by the revised methodology used to assess Primary Dealer Performance, which was implemented in September 2018. The changes to the assessment mechanism included a shift in focus to PD performance in OMO issues instead of the institutions' holdings of BOJ's CDs.

At the end of the review year, the number of PDs was eight, unchanged relative to 2017. A total of 20 persons were assessed under the Bank's 'Enhanced Fit & Proper' Criteria. These assessments were conducted in accordance with the policy for designating entities as well as in relation to the requirements for the annual renewal of the PD designation.

Foreign Reserve Management

The country maintained a strong reserve position

The Net International Reserve (NIR) of Bank of Jamaica remained above the US$3.0 billion mark for most of 2018, although ending the year below the end-2017 level. In addition, the country met all Non-Borrowed Reserve (NBR) targets stipulated under the Stand-by Arrangement (SBA) with the International Monetary Fund.

At end-2018, gross reserves amounted to US$3,532.0 million and represented 110.5 per cent of the IMF's Assessing Reserve Adequacy (ARA) metric. Gross reserves represented approximately 24.0 weeks of projected goods and services imports at end-2018 relative to 25.0 weeks at end-2017.

Bank of Jamaica also continued to strengthen the sustainability of its external-liquidity position through continued reduction in its stock of foreign-currency Certificates of Deposit during the year. In this regard, the Bank maintained its strategic focus on increasing its non-borrowed reserve (NBR) as a percentage of the NIR.

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

During 2018, the Bank maintained a strategy of net-redemption of its US dollar CDs. This strategy was geared towards supporting the objective of reducing the stock of borrowed reserves. In this regard, no new foreign-currency CDs were issued during the year, while total maturities amounted to US$165.8 million.

As part of its strategy to reduce the stock of borrowed reserves, the Bank offered JMD variable-rate certificates of deposit (VRCDs) and fixed rate USD Indexed Notes with an average tenor of 9 months in exchange for existing BOJ USD CDs held by financial institutions. Through this means, the Bank achieved the dual objective of managing its profile of foreign-currency liabilities while providing liquid Jamaica Dollar assets to financial institutions in the market. These transactions were essentially swap operations on shorter-tenored USD CDs which had been issued with early-redemption options. The swaps facilitated the extension of the average term-to-maturity of BOJ's stock of USD liabilities, thereby improving the overall sustainability of the Bank's external-liquidity position. Through these swap operations, the Bank was able to reduce its stock of USD CD obligations by US$35 million. In addition, for the review year, total repayments excluding those made under the swap-arrangements amounted to US$160.8 million, compared to repayments totalling US$477.9 million in 2017.

In the context of these developments, the outstanding stock of foreign-currency CDs declined to USD$483.3 million at end-2018 from US$679.1 million at end-2017.

> *"The country met all Non-Borrowed Reserve targets stipulated under the SBA with the IMF."*

The Gross Foreign Assets reflected a year-over-year decline

The Gross Foreign Assets (GFA) of Bank of Jamaica declined in 2018 relative to 2017 by US$249.2 million to US$3 532.0 million in a context where foreign currency outflows during the year exceeded inflows.

The year–over–year decline in the foreign assets primarily reflected the impact of Government debt and miscellaneous payments as well as sales to public sector bodies via the Centralised Facility for Foreign Exchange for Public Sector Entities. The impact of these outflows from the GFA were partly offset by BOJ surrender purchases, Government inflows from multilateral loan disbursements and funds from the PetroCaribe Development Fund.

There was a decline of US$46.3 million to US$526.6 million in the foreign liabilities in 2018, which partly offset the impact of the fall in foreign assets on the GFA. The combination of these factors resulted in the Net International Reserve (NIR) falling by US$202.9 million to US$3 005.4 million at end– 2018.

There were no IMF disbursements to BOJ in 2018

There were no IMF disbursements to BOJ in 2018, as Jamaica continued to treat the funds available under the current 36–month Stand–By Arrangement as precautionary funding. The repayment of funds borrowed under the Extended Fund Facility, which ended in November 2016, continued in 2018 with total repurchases ofUS$52.2 million (SDR 37.1 million). Of this total, US$33.3 million (SDR 23.6 million) was owed by the BOJ and US$18.9 million (SDR 13.5 million) by the GOJ.

Table 10

SDR Disbursements and Repurchase/Repayments Calendar Year 2018

	Disbursements		Repurchases	
Date	SDR	USD 1/ Equiv.	SDR	USD 1/ Equiv.
March Qtr.	0.0	0.0	1.7	2.4
June Qtr.	0.0	0.0	13.1	18.7
September Qtr.	0.0	0.0	3.8	5.4
December Qtr.	0.0	0.0	18.6	25.7
Total	0.0	0.0	37.2	52.2

1/ Based on the prevailing SDR=US$ exchange rate

Source: BOJ

Achievements in 2018

Investment Strategy aimed to keep the portfolio balanced

The objective of maintaining a balanced portfolio was achieved in 2018. This was attained by ensuring as much as was possible, that the investment tranche sizes were kept within specified ranges.

As a consequence, close attention was given to the balances in each investment tranche. This action served to achieve the strategic asset allocation which would consistently place the portfolio on the efficient frontier under various market scenarios.

Portfolio of assets further diversified

No new class of assets was added to the portfolio in 2018. However, the assets managed by Crown Agents Investment Management were increased by US$100 million in March 2018 to US$245 million.

To further diversify the portfolio, the following initiatives were taken:

1. The Bank for International Settlement was engaged to provide external fund management services and an allocation of US$200 million was approved by BOJ's Management Committee (MC).

2. Consistent with the investment strategy of most central banks, the MC also approved the inclusion of the Chinese renminbi (RMB) to the currency composition of the reserves. The investment of RMB will commence with US$18 million allocated to the BIS Investment Pool.

> *"Assets managed by Crown Agents Investment Management were increased by US$100 million in March 2018 to US$245 million."*

Table 11 details the composition of the portfolio as at 31 December 2018 relative to end-2017.

Table 11

Distribution of Foreign Assets
For Years Ended 31 December 2017 and 2018

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

Source: BOJ

Average return on portfolio increased

Average income earning assets for the year was US$3 382 million. This was US$64.0 million or 1.8 per cent below budget but 4.8 per cent higher than in 2017 (see **Table 12**).

Total cash income of US$61.2 million at the end of the year was US$32.1 million or 111 per cent higher than in 2017. The average return on the portfolio was 1.81 per cent per annum in 2018, 91 basis points more than in 2017. This higher average return was a direct result of the four increases in the target federal funds rate that occurred during 2018. The Federal Reserve Bank started the year with its target rate of 1.25 per cent to 1.5 per cent and ended the year at 2.25 per cent to 2.5 per cent.

The performance of the foreign investment portfolio, in terms of interest income, for the years ended December 2017 and 2018 is highlighted in **Table 12**.

Table 12

Foreign Investment Income
For Years Ended 31 December 2017 and 2018

Assets	2017		2018	
	Earnings US$MN	% of Earnings	Earnings US$MN	% of Earnings
Working Capital Tranche	9.1	31.3	9.2	15.0
Liquidity Tranche	12.8	44.2	38.5	62.9
Investment Tranche				
Capital Market Investments	2.3	7.9	4.6	7.5
External Funds	3.8	13.1	6.9	11.3
SDR Holdings	1.0	3.5	2.0	3.3
Total	29.0	100	61.2	100
Average Income Earning Assets	3 228		3 382	
Rate of Return (%)	0.90		1.81	

Source: BOJ

Links to more information

▶ Additional Resources

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

FINANCIAL INCLUSION

FINANCIAL INCLUSION

During 2018, Bank of Jamaica continued to coordinate the implementation of the National Financial Inclusion Strategy (NFIS) through the Technical Secretariat. On 27 July 2018, the National Financial Inclusion Council approved the NFIS Annual Report for 2017, which measured progress on the project activities, the NFIS action items, the impact indicators and intermediate indicators. Bank of Jamaica also launched the NFIS Communication Strategy.

Achievements in 2018

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

In June 2018, Bank of Jamaica and the Development Bank of Jamaica hosted the BOJ DBJ Conference on "A Call to Action: Driving Financial Inclusion with Digital Payments".

Participants in the BOJ/DBJ Conference, "A Call to Action: Driving Financial Inclusion with Digital Payments" held in June 2018.

In July 2018, Bank of Jamaica in partnership with Consultative Group to Assist the Poor (CGAP) hosted a seminar on "Regulatory Enablers for Digital Finance", which included representatives from four regional central banks, who were members of the Fintech Working Group established by Caribbean Central Bank Governors. The workshop examined the benefits of leveraging FinTech solutions to advance financial inclusion.

Participants in the BOJ/CGAP Workshop "Regulatory Enablers for Digital Finance" held in July 2018

In November 2018, following extensive consultation with the industry and public sector stakeholders, Bank of Jamaica published the revised Electronic Retail Payment Services Guidance Notes (ERPS 2). ERPS 2 takes effect on 01 February 2019 and implements a number of changes designed to enhance a risk-based approach to anti-money laundering and countering the financing of terrorism in relation to authorized electronic retail payment services.

Responsible Finance – Consumer Protection and Financial Capability

In March 2018, with the help of the Office of Technical Assistance of the United States Treasury Department, work continued on the policy proposals for the development of a consumer protection regime for deposit-taking institutions (DTIs). The policy proposals were completed in October 2018.

Assistance was received from the Inter-American Development Bank in May 2018 to develop a National Financial Literacy Action Plan with a specific emphasis on the youth. Additionally, in September 2018, the Financial Inclusion Technical Secretariat, the Ministry of Education, Youth and Information and IFC Consulting Ltd. presented on the development of Jamaica's National Financial Literacy Action Plan (Jamaica Financial Empowerment Programme) at the Global Economic Youth Opportunities Forum.

Work began on the legislative review of the Credit Reporting Act in November 2018. This act seeks to improve the regulatory framework for credit bureaus and encourage greater participation of credit information providers.

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

The Access to Finance Project which is being financed with a World Bank loan was approved in January 2018. The project is focused on enhancing the Partial Credit Guarantee programme and on establishing factoring and leasing for greater access to credit for micro, small and medium-sized enterprises. With regard to Housing Finance, the National Housing Trust continued to partner with credit unions in the delivery of micro-finance housing solutions for low-income borrowers.

Building NFIS Awareness

Bank of Jamaica launched its NFIS communication outreach at the National Financial Inclusion meeting held in July 2018. This outreach aims at promoting greater understanding of the National Financial Inclusion Strategy.

In December 2018, the Financial Inclusion Technical Secretariat presented Jamaica's experience in developing and implementing the National Financial Inclusion Strategy at the World Bank conference on "NFIS Toolkits: Developing & Operationalizing National Financial Inclusion Strategies for the Digital Economy".

Melanie Williams (Special Project Coordinator) presenting at the World Bank conference on the NFIS Toolkit held in December 2018.

boj.org.jm

Additional Resources:

- Financial Inclusion Strategy
  http://www.boj.org.jm/financial_sys/national_financial_inclusion_strategy.php#

COMMUNICATIONS & OUTREACH

Quarterly Monetary Policy Report Press Conference.
Governor Brian Wynter

COMMUNICATIONS AND OUTREACH

Bank of Jamaica is of the view that efficient communication on monetary and financial stability issues is central to the achievement of its mandate. In this context on 05 November 2018, the Bank published its Monetary Policy and Financial Stability Communication Strategy on its website (Monetary Policy & Financial Stability Communication Strategy).

In order to expand the platforms through which the Bank interfaces with the public and to reach a wider cross-section, the Bank joined the social media network through the Twitter platform on 29 October 2018.

During 2018, Bank of Jamaica continued to engage in several public outreach programmes that support education and the arts. This was consistent with the Central Bank's long-held view that service to the community as important.

Increased communication and engagement

- Quarterly Monetary Policy Report Press Conference

For 2018, as customary, the Bank held four press conferences. These quarterly press conferences are held following four of the eight occasions when the Bank publishes its monetary policy decisions via press releases. At these press conferences, the Bank, in addition to explaining its most recent monetary policy decision, reports on its updated macroeconomic forecast covering the international and the domestic economy. The press conferences also launch the publication of the Bank's quarterly monetary policy report (QMPR).

The QMPR publication discusses, in a non-technical manner, economic developments for the review quarter and provides forecasts of key macroeconomic variables, including inflation. This report is also made available on the Bank's website. See Quarterly Monetary Policy Report and Quarterly Press Conference Presentation.

- Schedule for Policy Rate Announcements

In line with its commitment for increased communication for transparency and credibility, the Bank of Jamaica published a calendar of its scheduled announcement dates for policy interest rate decisions in the review year. This calendar was reviewed every 6 months. The announcements, at minimum, took the form of a press release, which indicated the decision on the policy rate and explained the rationale for monetary policy actions as well as highlighted the risks to the inflation forecast (see Calendar of Announcements).

- Financial Stability Reports

Financial system stability issues for 2018 were communicated through highlights in the annual Financial Stability Report and the Quarterly Macro-Prudential Report. These reports can be viewed on the Bank's website at Macro-Prudential Report and Financial Stability Report.

- Stakeholder Reception

The Bank recognises the importance of building relationships with its stakeholders and in this regard, hosted in March 2018 "The Bank of Jamaica Reception– An evening for Stakeholders". Stakeholders from various sectors were introduced to the Bank's Board of Directors and Statutory and Management committee members. In addition, the reception facilitated an evening of sharing and networking.

Continued support for education and the visual and performing arts

- Money Museum

Bank of Jamaica Money Museum is the repository for the Central Bank's collection of ancient and modern currency and other items of Jamaican and international material culture. Patrons of all ages are welcome to tour the Bank's museum free of cost. In 2018, the Museum registered 7049 visitors, with more than 95 per cent of this number coming from schools across Jamaica, attesting to the important role the museum plays as an educational resource.

- Schools' Education Programme

The School's Education Programme continued to support the school curriculum in the areas of central banking and currency. A total of 21 groups of secondary school students, mostly from business departments, benefited from lectures on the operations of the Bank throughout 2018. Students interacted with Bank staff and visited the museum and banking hall.

- Seminars in Economics

The annual *Revision Seminars in Economics* for students sitting the CAPE economics examination were offered from 21–22 March 2018, with 666 students registering to attend over the two-day period. Economists from the Bank's Research and Economic Programming Division and the local IMF representative in Jamaica, Mr. Constant Lonkeng Ngouana, made audio-visual presentations to the students.

- G. Arthur Brown Scholarship

The 2018 G. Arthur Brown Scholarship was awarded to Ms. Katherine Thomson to pursue the Master of Science degree in Economics at the University of the West Indies. The scholarship is for two years and coverage began in September 2018.

- St. Michael's Primary School

For over 20 years, Bank of Jamaica has supported St Michael's Primary School, situated on Tower Street in Kingston. In July 2018, the Bank subsidised the school's three-week summer programme. In addition, the Bank sponsored the annual Boys' Day and Girls' Day and assisted with the photocopying of educational material on an ongoing basis.

- Exhibitions

As a part of its continuing outreach, the Bank's Museum staff mounted a one-day exhibition at the annual Seville Heritage Expo on 10 October 2018. The organisers of the culture fair considered it the largest in terms of numbers of attendees. It is estimated that more than 1000 persons viewed the Bank's booth.

On 31 October 2018, the BOJ Library mounted an exhibition with a guided tour to commemorate Library and Information week, in celebration of 55 years of service to the Bank and the general public. Specially invited guests included members of the Library & Information Association of Jamaica (LIAJA) and the Government Libraries Information Network (GLIN).

- **Art Collection**

During his first tenure, it was the vision of Governor G. Arthur Brown to support Jamaican artists by purchasing their work to decorate the walls of the then-new bank building which opened at Nethersole Place in 1976. This tradition has been maintained by succeeding governors and the art collection is recognised as an important corporate collection of Jamaican art. During 2018, four paintings were added to the collection and a painting (commissioned in 1976) for the banking hall was restored.

- **Lunch Hour Concerts**

The monthly lunch hour concert programme continued during the year and was well attended by the public. The 2018 calendar covered all areas of the performing arts and showcased both well-known and upcoming entertainers. Approximately 3 000 patrons attended the 12 concerts which were hosted.

- **An Evening with the University Singers**

The annual concert, "An Evening with the University Singers" which is sponsored by the Bank during the Christmas season was held at the University Chapel, UWI, to a capacity crowd. The brilliance of the choir, conductor and musicians, combined with the beautiful décor left the audience certain that the 2018 show was truly a spectacular experience.

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

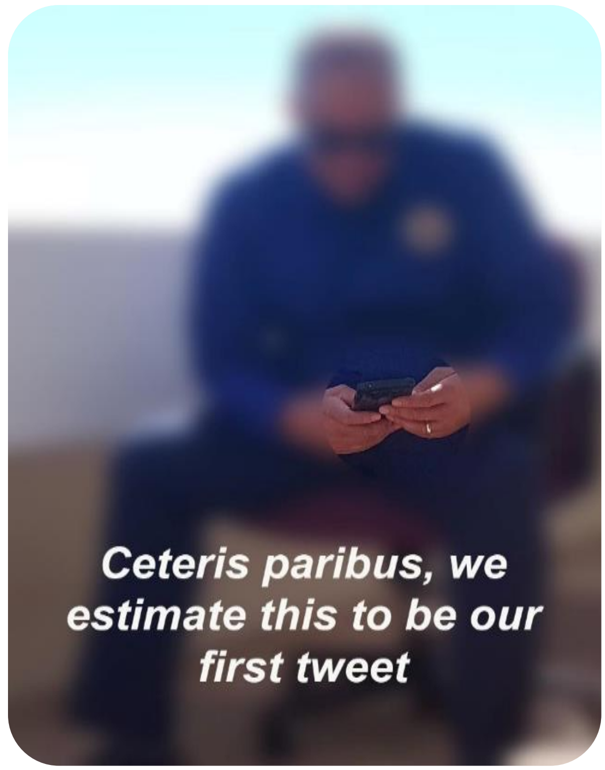
Achievements in 2018

Bank of Jamaica joined the social media network through the Twitter platform

In order to expand the platforms through which the Bank interfaces with the public and to reach a wider cross–section, Bank of Jamaica joined the social media network through the Twitter platform on 29 October 2018. This interface has proved to be an effective tool for reaching through to a wide cross–section of the public some of whom digest their news primarily through social media. This platform has been used to promote and educate the public on our operations particularly the Bank's thrust to full–fledged inflation targeting. There are plans to expand the Bank's communication reach through other social media platforms in 2019.

Monetary Policy and Financial Stability Communication Strategy published

On 05 November 2018, the Bank published its Monetary Policy and Financial Stability Communication Strategy on its website. The document prescribes the manner in which the Bank communicates various policies, actions and events to stakeholders. The document also describes the Bank's commitment to provide the public with clear, accurate and timely information, communicated in a professional manner and in accordance with the laws regarding public information and data practices.



FINANCIAL STATEMENTS

BANK OF JAMAICA

FINANCIAL STATEMENTS

DECEMBER 31, 2018

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INDEPENDENT AUDITORS' REPORT

TO BANK OF JAMAICA

Pursuant to Section 43(1) of the Bank of Jamaica Act, we have audited the financial statements of Bank of Jamaica ("the Bank"), set out on pages 4 to 70, which comprise the statement of financial position as at December 31, 2018, 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 of 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, 2018, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

KPMG

INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO BANK OF JAMAICA

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

Page 3

INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO BANK OF JAMAICA

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

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

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

KPMG

Chartered Accountants
Kingston, Jamaica

February 28, 2019

BANK OF JAMAICA

Statement of Financial Position
December 31, 2018

	Notes	2018 J$'000	2017 J$'000
ASSETS			
Foreign assets:			
Notes and coins		153,732	220,672
Cash and cash equivalents	5	43,741,603	85,695,234
Interest in funds managed by agents	6	60,011,668	43,515,254
Investment securities	7	312,015,085	304,556,020
International Monetary Fund -			
Holding of Special Drawing Rights		26,532,744	29,020,355
Quota subscription	8	10,360,927	10,374,162
Total foreign assets		452,815,759	473,381,697
Local assets:			
Notes and coins		109,340	104,861
Resale agreements	9	9,200,000	350,000
Investment securities	10	154,762,684	128,267,902
Due from Government and Government Agencies	11	11,012,752	41,620,292
Property, plant and equipment	12	4,907,842	4,561,339
Intangible assets	13	219,108	233,638
Employee benefits asset	14(a)	6,771,900	4,736,600
Other	15	5,434,617	3,413,376
Total local assets		192,418,243	183,288,008
Total assets		645,234,002	656,669,705

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

BANK OF JAMAICA

Statement of Financial Position (continued)
December 31, 2018

	Notes	2018 J$'000	2017 J$'000
LIABILITIES, CAPITAL AND RESERVES			
Liabilities:			
Notes and coins in circulation	16	133,518,443	110,910,693
Deposits and other demand liabilities	17	300,274,770	306,619,783
Open market liabilities	18	144,119,384	177,136,165
International Monetary Fund - Allocation of Special Drawing Rights	19	46,359,483	46,418,701
Foreign liabilities		3,790	2,206
Employee benefits obligation	14(b)	1,920,800	2,327,800
Bilateral accounts		39,539	43,867
Other	20	1,708,507	2,388,568
Total liabilities		627,944,716	645,847,783
Capital and reserves:			
Share capital	21	4,000	4,000
General reserve fund	22	20,000	20,000
Special stabilisation account	23	1,482,511	1,377,337
Other reserves	24	15,782,775	9,420,585
Total capital and reserves		17,289,286	10,821,922
Total liabilities, capital and reserves		645,234,002	656,669,705

The financial statements on pages 4 to 70 were approved for issue by the Board of Directors on February 28, 2019 and signed on its behalf by:

_______________ Governor
Brian Wynter

_______________ 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, 2018

	Notes	2018 J$'000	2017 J$'000
Operating income:			
Interest, calculated using the effective interest method	25	20,657,512	17,144,579
Foreign exchange gain, net	26	6,285,525	-
Other		522,623	430,360
Total operating income		27,465,660	17,574,939
Operating expenses:			
Interest on deposits and open market liabilities	27	8,077,290	9,667,785
Interest on IMF loan		2,225,038	1,615,882
Foreign exchange loss	26	-	7,746,911
Staff costs	28	4,440,106	2,930,343
Currency expenses		1,236,192	1,260,296
Depreciation and amortisation		460,606	428,323
Other property expenses		626,033	558,333
Other operating expenses	29	887,949	995,846
Total operating expenses		17,953,214	25,203,719
Operating profit/(loss)		9,512,446	(7,628,780)
Other income/(expenses):			
Pension, medical and life insurance	14	(138,100)	(77,700)
Gain on remeasurement of staff loans		(11,521)	25,058
Loss on disposal of securities designated as available-for-sale		-	(162,210)
Gains on securities measured as FVTPL		185,696	-
Net loss on sale of securities measured at FVOCI		(322,487)	-
Gain on disposal of property, plant and equipment		4,876	4,242
Profit/(loss) for the year before transfer to pension equalisation reserve		9,230,910	(7,839,390)
Transfer to pension equalisation reserve	24(c)	(129,700)	(174,500)
Profit/(loss) for the year transferred to general reserve fund	11(b)	9,101,210	(8,013,890)
Other comprehensive income:			
Items that will never be reclassified to profit or loss:			
Remeasurement of employee benefits asset and obligation, net	14	2,399,400	(760,800)
Items that is or will be reclassified to profit or loss:			
Change in fair value of securities at FVOCI		3,566,378	-
Change in fair value of available-for-sale securities		-	1,994,666
Total other comprehensive income for the year		5,965,778	1,233,866
Total comprehensive income/(loss) for the year		15,066,988	(6,780,024)

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, 2018

	Share capital J$'000 (Note 21)	General reserve fund J$'000 (Note 22)	Special stabilisation account J$'000 (Note 23)	Other reserves J$'000 (Note 24)	Total J$'000
Balances at December 31, 2016	4,000	20,000	1,278,391	7,921,419	9,223,810
Total comprehensive loss for the year:					
Loss for the year	-	(8,013,890)	-	-	(8,013,890)
Other comprehensive income:					
Realised change in fair value of available For sale securities	-	-	-	811,996	811,996
Unrealised change in fair value of available-for-sale securities	-	-	-	1,182,670	1,182,670
	-	-	-	1,994,666	1,994,666
Remeasurement of pension asset and obligation, net	-	-	-	(760,800)	(760,800)
Total other comprehensive income	-	-	-	1,233,866	1,233,866
Total comprehensive loss	-	(8,013,890)	-	1,233,866	(6,780,024)
Other changes in reserves:					
Due from consolidated fund for loss (note 11)	-	8,013,890	-	-	8,013,890
Transfer from coins in circulation	-	-	98,946	-	98,946
Transfer of surplus on defined benefits pension scheme	-	-	-	265,300	265,300
	-	8,013,890	98,946	265,300	8,378,136
Balances at December 31, 2017	4,000	20,000	1,377,337	9,420,585	10,821,922
Adjustment on initial application of IFRS 9 [note 3(i)]	-	(120,118)	-	124,512	4,394
Due from consolidated fund arising from initial application of IFRS 9 [note 3(i)/(note 11)]	-	120,118	-	-	120,118
Adjusted balance as at January 1, 2018	4,000	20,000	1,377,337	9,545,097	10,946,434
Total comprehensive income for the year:					
Profit for the year	-	9,101,210	-	-	9,101,210
Other comprehensive loss:					
Realised change in fair value of securities at FVOCI	-	-	-	(89,269)	(89,269)
Unrealised change in fair value of securities at FVOCI	-	-	-	3,655,647	3,655,647
	-	-	-	3,566,378	3,566,378
Remeasurement of pension asset and obligation, net	-	-	-	2,399,400	2,399,400
Total other comprehensive income	-	-	-	5,965,778	5,965,778
Total comprehensive income	-	9,101,210	-	5,965,778	15,066,988
Other changes in reserves:					
Profit due to consolidated fund (note 11)	-	(9,101,210)	-	-	(9,101,210)
Transfer from coins in circulation	-	-	105,174	-	105,174
Transfer of surplus on defined benefit pension scheme	-	-	-	271,900	271,900
	-	(9,101,210)	105,174	271,900	(8,724,136)
Balances at December 31, 2018	4,000	20,000	1,482,511	15,782,775	17,289,286

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

BANK OF JAMAICA

Statement of Cash Flows
Year ended December 31, 2018

	Notes	2018 J$'000	2017 J$'000
Cash flows from operating activities:			
Profit/(loss) for the year		9,230,910	(7,839,390)
Adjustments for:			
Depreciation – property, plant and equipment	12	373,837	344,319
Amortisation – intangible asset	13	86,768	84,004
Gain on disposal of property, plant and equipment		(4,876)	(4,242)
Employee benefits, net		229,487	220,100
Unrealised exchange (gain)/loss		(5,499,438)	6,227,742
Unrealised exchange gain on International Monetary Fund Quota Subscription	8	13,235	(313,428)
Unrealised exchange loss on International Monetary Fund - Allocation of SDR's		(59,218)	1,402,489
Interest income	25	(20,657,512)	(17,144,579)
Interest expense		10,302,328	11,283,667
Operating loss before changes in other assets and other liabilities		(5,984,479)	(5,739,318)
Other assets		(1,768,981)	878,082
Other liabilities		(318,089)	517,182
Due from Government and Government Agencies		21,675,229	2,983,706
Interest received		20,106,655	16,635,037
Interest paid		(10,668,628)	(11,619,393)
Net cash provided by operating activities		23,041,707	3,655,296
Cash flows from investing activities:			
International Monetary Fund - Holding of Special Drawing Rights		2,487,611	909,495
Interest in funds managed by agents		(15,385,500)	(1,762,319)
Foreign currency denominated investments		(4,493,214)	(233,173,749)
Local currency denominated investments		(23,041,879)	(1,316,842)
Resale agreements		(8,850,000)	16,200,000
Additions to property, plant and equipment	12	(750,534)	(458,602)
Additions to intangible asset	13	(72,238)	(28,217)
Proceeds from disposal of property, plant and equipment		35,070	39,303
Net cash used by investing activities		(50,070,684)	(219,590,931)
Cash flows from financing activities:			
Notes and coins in circulation		22,712,925	12,806,155
Deposits and other demand liabilities		(5,336,158)	41,378,429
Open market liabilities		(33,016,781)	(15,718,476)
Foreign liabilities		35	3,183
Net cash (used)/provided by financing activities		(15,639,979)	38,469,291
Net decrease in cash and cash equivalents		(42,668,956)	(177,466,344)
Cash and cash equivalents at beginning of year		86,020,767	265,706,555
Effect of exchange rate fluctuation on cash held		652,864	(2,219,444)
Cash and cash equivalents at end of year		44,004,675	86,020,767
Comprising:			
Foreign cash and cash equivalents	5	43,741,603	85,695,234
Foreign notes and coins		153,732	220,672
Local notes and coins		109,340	104,861
		44,004,675	86,020,767

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

BANK OF JAMAICA

Notes to the Financial Statements
Year ended December 31, 2018

1. Identification

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

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

2. Basis of preparation

(a) Statement of compliance

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

The Bank has adopted IFRS 9 *Financial Instruments* and IFRS 15 *Revenues from Contract with Customers* with a date of initial application of January 1, 2018. Changes to significant accounting policies are described in note 3.

(b) Functional and presentation currency

The financial statements are presented in Jamaica Dollars (J$), which is the Bank's functional currency.

(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 (applicable from January 1, 2018).

(ii) available-for-sale securities measured at fair value (applicable before January 1, 2018).

(iii) Securities held in interest in managed funds measured at fair value (applicable for 2017 and 2018).

(iv) IMF Quota subscription designated as at FVOCI measured at fair value.

(v) certain classes of property, plant and equipment are measured at fair value; and

(vi) the defined benefit asset is 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.

2. Basis of preparation (continued)

(d) Estimation uncertainty and judgements

The preparation of financial statements in conformity with IFRSs requires the use of accounting estimates, based on assumptions. It also frequently requires management to exercise its judgement in the process of applying IFRSs 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.

(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.

The determination of whether a security may be classified as 'fair value through other comprehensive income' (notes 7 and 10) or 'amortised cost' (note 10) and fair value through profit or loss (notes 6) or whether a security's fair value may be classified as 'Level 1' in the fair value hierarchy (note 33) requires judgement as to whether or not a market is active.

Applicable to 2018 only:

(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.

2. Basis of preparation (continued)

(d) Estimation uncertainty and judgements (continued)

(ii) Key sources of estimation uncertainty

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

(1) Pension and other post-retirement benefits

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

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

(2) Fair values of financial instruments

There are no quoted market prices for a significant portion of the Bank's financial instruments. Accordingly, fair values of such financial assets are estimated using prices obtained from a yield curve. That yield curve is, in turn, obtained from a pricing source which estimates the yield curve on the basis of indicative prices submitted by licensed banks and other financial institutions in Jamaica. There is significant uncertainty inherent in this approach which is categorised as a level 2 fair value; consequently, the estimates arrived at may be different from the actual price of the instrument in an actual arm's length transaction (see notes 7, 10 and 33).

(3) Fair value of property, plant and equipment

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

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

2. Basis of preparation (continued)

(d) Estimation uncertainty and judgements (continued)

(ii) Key sources of estimation uncertainty (continued)

Applicable to 2018 only:

(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. Changes in accounting policies

The Bank has adopted IFRS 9 with a date of initial application of January 1, 2018. As permitted under IFRS 9, The Bank has elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition were recognized in opening general reserves and accumulated other comprehensive income on January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9.

The adoption of IFRS 15 did not impact the timing or amount of fee income from contracts with customers and related assets and liabilities recognised by the Bank.

A number of other new standards are also effective from January 1, 2018 but they do not have a material effect on the Bank's financial statements.

The effect of initially applying these standards is mainly attributed to the following:

- reclassification of certain financial assets
- An increase in impairment losses recognised on financial assets; and
- Additional disclosures related to IFRS 9 (see notes 4 and 34)

Except for the changes below, the Bank has consistently applied the accounting policies as set out in note 4 to all periods presented in these financial statements.

IFRS 9 *Financial Instruments*

IFRS 9 replaces IAS 39, *Financial Instruments: Recognition and Measurement* and sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

As a result of the adoption of IFRS 9, the Bank has adopted consequential amendments to IAS 1, *Presentation of Financial Statements*, which require separate presentation in the statement of profit or loss and other comprehensive income of interest revenue calculated using the effective interest method.

3. Changes in accounting policies (continued)

IFRS 9 *Financial Instruments* (continued)

Additionally, the Bank has adopted consequential amendments to IFRS 7, *Financial Instruments: Disclosures,* which are applied to disclosures about 2018 but have not been applied to comparative information.

The key changes to the Bank's accounting policies and the full impact resulting from its adoption of IFRS 9 are summarized below.

The impact of the transition to IFRS 9 on the opening general reserves and fair value reserve is as follows:

General reserve	J$'000
Recognition of expected credit losses under IFRS 9	
Investments securities	(2,198)
Staff loans receivable	5,848
Securities at FVTPL previously classified as FVOCI	(123,768)
	(120,118)

Fair value reserve	J$'000
Recognition of expected credit losses under IFRS 9 for debts securities at FVOCI	744
Securities at FVTPL previously classified as available-for-sale	123,768
	124,512

(i) Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Bank's accounting policies related to financial liabilities.

For an explanation on how the Bank classifies and measures financial instruments under IFRS 9, see note 4(a).

The following table and the accompanying notes explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Bank's financial assets and financial liabilities as at January 1, 2018.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

3. Changes in accounting policies (continued)

IFRS 9 *Financial Instruments* (continued)

(i) Classification and measurement of financial assets and financial liabilities (continued)

The effect of adopting IFRS 9 on the carrying amounts of financial assets at January 1, 2018 relates to the new impairment requirements as well as the reclassification of securities held in interest in managed funds from available-for-sale to fair value through profit or loss.

	Note	Original classification under IAS 39	New classification under IFRS 9	IAS 39 carrying amount at December 31, 2017 J$'000	Remeasurement J$'000	IFRS 9 carrying amount at January 1, 2018 J$'000
Financial foreign assets						
Notes and coins		Loans and receivables	Amortised cost	220,672	-	220,672
Cash and cash equivalents		Loans and receivables	Amortised cost	85,695,234	-	85,695,234
Interest in funds managed by agents	(a)	Available-for-sale	FVTPL	43,515,254	-	43,515,254
Investment securities - Bonds		Available-for-sale	FVOCI	38,144,960	-	38,144,960
Investment securities - short-term deposits		Loans and receivables	Amortised cost	266,411,060	(1,454)	266,409,606
International Monetary Fund – Holding of Special Drawing Rights		Loans and receivables	Amortised cost	29,020,355	-	29,020,355
International Monetary Fund – Quota subscription		Loans and receivables	FVOCI	10,374,162	-	10,374,162
Financial local assets						
Notes and coins		Loans and receivables	Amortised cost	104,861	-	104,861
Resale agreements		Loans and receivables	Amortised cost	350,000	-	350,000
Investment securities- Jamaica Government fixed and variable rate benchmark instruments		Available-for-sale	FVOCI	48,897,447	-	48,897,447
Investment securities- Jamaica Government fixed rate accreting note (FRAN)	(b)	Held-to-maturity	Amortised cost	79,370,455	-	79,370,455
Due from Government and Government Agencies	(c)	Loans and receivables	Amortised cost	41,620,292	120,118	41,740,410
Other asset		Loans and receivables	Amortised cost	3,413,376	5,756	3,419,132
				647,138,128	124,420	647,262,548
Financial liabilities						
Notes and coins in circulation		Amortised cost	Amortised cost	110,910,693	-	110,910,693
Deposits and other demand liabilities		Amortised cost	Amortised cost	306,619,783	-	306,619,783
Open market liabilities		Amortised cost	Amortised cost	177,136,165	-	177,136,165
International Monetary Fund – Allocation of Special Drawing Rights		Amortised cost	Amortised cost	46,418,701	-	46,418,701
Foreign liabilities		Amortised cost	Amortised cost	2,206	-	2,206
Other liabilities		Amortised cost	Amortised cost	2,388,568	-	2,388,568
				643,476,116	-	643,476,116

3. Changes in accounting policies (continued)

(i) Classification and measurement of financial assets and financial liabilities (continued)

(a) Securities held in interest in managed funds classified under IAS 39 as available-for-sale has been reclassified to fair value through profit or loss based on the Bank's assessment of its business model for these assets.

(b) Securities with fixed or determinable payments and fixed maturities that the Bank had the positive intent and ability to hold to maturity were classified as held-to-maturity under IAS 39. As permitted by IFRS 9, the Bank has designated these investments at the date of initial application as measured at amortised cost. The Bank intends to hold these assets to maturity to collect contractual cash flows, which consist solely of payments of principal and interest on the principal amounts outstanding.

(c) International Monetary Fund – Quota subscription previously classified as loans and receivable has been reclassified to fair value through other comprehensive income as it is being held for strategic purposes.

(d) Amounts recognised in general reserve arising from the initial application of IFRS 9 has been adjusted in the consolidated fund and transferred to due from Government.

(ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost or FVOCI. Under IFRS 9, credit loss allowances are recognized earlier than under IAS 39.

(iii) Transition

The Bank has determined that application of IFRS 9's impairment requirements at January 1, 2018 results in an allowance for impairment as follows:

	J$'000
Loss allowance at December 31, 2017 under IAS 39	11,605
Impairment recognised at January 1, 2018 on:	
Investment securities - FVOCI	744
- Amortised cost	1,454
Other assets	(5,756)
Loss allowance at January 1, 2018 under IFRS 9	8,047

4. Significant accounting policies

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

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

- Financial assets have been determined to comprise cash and cash-equivalents, interest 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.

4. Significant accounting policies (continued)

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

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 (continued):

- 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.

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

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

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

(ii) Classification of financial instruments

Financial assets – Policy applicable from January 1, 2018

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).

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

4. Significant accounting policies (continued)

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

(ii) Classification of financial instruments (continued)

Financial assets – Policy applicable from January 1, 2018 (continued)

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

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

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

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

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

Debt investment securities measured at FVTPL or designated as at FVTPL are 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

4. Significant accounting policies (continued)

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

(ii) Classification of financial instruments (continued)

Financial assets – Policy applicable from January 1, 2018 (continued)

Business model assessment (continued):

- 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.

Assessment of whether contractual cash flows are solely payments of principal and interest:

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.

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).

4. Significant accounting policies (continued)

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

(ii) Classification of financial assets (continued)

Assessment whether contractual cash flows are solely payments of principal and interest (continued):

A prepayment feature is consistent with the solely 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.

Policy applicable before January 1, 2018

The Bank classified non-derivative financial assets into the following categories:

Loans and receivables: Securities acquired and loans granted with fixed or determinable payments and which are not quoted in an active market, are classified as loans and receivables. The Bank's financial instruments included in this classification are resale agreements, local and foreign currency denominated securities which do not have a quoted market price in an active market and whose fair values cannot be reliably determined, and interest-bearing deposits.

Held-to-maturity: Securities with fixed or determinable payments and fixed maturities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity. The Bank's financial instruments included in this classification are the Government of Jamaica-issued fixed rate accreting notes.

4. Significant accounting policies (continued)

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

(ii) Classification of financial assets (continued)

Policy applicable before January 1, 2018 (continued)

The Bank classified non-derivative financial assets into the following categories (continued):

Available-for-sale: Investments are classified as available-for-sale, because they are designated as such or are not classified in any of the other categories. The Bank's financial instruments included in this classification are securities with quoted prices in an active market or for which the fair values are otherwise determinable, including interest in funds managed by agents.

Management determines the appropriate classification of investments at the time of purchase, taking account of the purpose for which the investments were purchased.

The Bank classifies non-derivative financial liabilities into the other financial liabilities category.

(iii) Measurement and gains and losses

Policy applicable from January 1, 2018 [see note 4(k)].

Policy applicable before January 1, 2018

Loans and receivables: On initial recognition these are measured at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest method, less impairment losses. Premiums and discounts are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Where securities classified as loans and receivables become quoted in an active market, such securities will not be reclassified as available-for-sale securities. An active market is one where quoted prices are readily and regularly available from an exchange dealer, broker or other agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Held-to-maturity instruments: On initial recognition these are measured at fair value, plus any directly attributable transaction costs. Premiums and discounts are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest method, less impairment losses.

4. Significant accounting policies (continued)

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

(iii) Measurement and gains and losses (continued)

Policy applicable before January 1, 2018 (continued)

Held-to-maturity instruments (continued):

Any sale or reclassification of a significant amount of held-to-maturity investments that is not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the financial year in which sale or reclassification occurs and the following two financial years.

Available-for-sale instruments: On initial recognition, these are measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value, with unrealised gains and losses arising from changes in fair value treated as follows:

- Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income.
- When securities classified as available-for-sale are sold or impaired, and therefore derecognised, the accumulated fair value adjustments accumulated in other comprehensive income are reclassified to profit or loss.

(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.

4. Significant accounting policies (continued)

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

(v) Specific items (continued)

(2) Resale agreements

Resale agreements are accounted for as short-term collateralised lending. They are classified and measured at amortised cost (2017: classified as loans and receivables and measured at amortised cost).

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

(3) Other assets

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

(4) Other liabilities

Other liabilities are measured at amortised cost.

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

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

(b) Impairment of financial assets

Policy applicable from January 1, 2018

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

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

The Bank considers a debt investment 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.

4. Significant accounting policies (continued)

(b) Impairment of financial assets (continued)

Policy applicable from January 1, 2018 (continued)

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

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

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised costs and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- 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.

4. Significant accounting policies (continued)

(b) Impairment of financial assets (continued)

Policy applicable from January 1, 2018 (continued)

Credit-impaired financial assets (continued)

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 fair value reserve.

Policy applicable before January 1, 2018

The carrying amounts of the Bank's financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that has been recognised in other comprehensive income is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

4. Significant accounting policies (continued)

(b) Impairment of financial assets (continued)

Policy applicable before January 1, 2018 (continued)

(i) Calculation of recoverable amount

The recoverable amounts of the Bank's investment classified as loans and receivables and other assets are calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in each asset. Receivables with a short-term duration are not discounted.

(ii) Reversals of impairment

An impairment loss in respect of loans and receivables measured at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. For all other assets, an impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal 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 if no impairment loss had been recognised.

(c) Foreign currencies

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 derived from the US dollar rate, thus determined, using rates published by The World Markets Company Plc (WM Reuters).

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.

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

4. Significant accounting policies (continued)

(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

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

(ii) Depreciation

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

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

4. 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

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

(e) 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 is stated 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.

(f) Taxation

The Bank is still 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.

(g) 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.

4. Significant accounting policies (continued)

(g) Employee benefits (continued)

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

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

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

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

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

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

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

4. Significant accounting policies (continued)

(g) Employee benefits (continued)

(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.

(h) Statutory transfer of profits and losses

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

(i) 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 at an annual rate estimated to write down the asset to its residual value over its estimated useful life of 5 years.

(j) Interest income and interest expense

Policy applicable from January 1, 2018

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 through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

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

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

4. Significant accounting policies (continued)

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

Policy applicable from January 1, 2018 (continued)

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 (or impairment allowance before January 1, 2018).

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

Calculation of interest income and expense

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

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

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

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.

Policy applicable before January 1, 2018

Interest income is recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset. The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently.

4. Significant accounting policies (continued)

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

Policy applicable before January 1, 2018 (continued)

Interest income includes coupons earned on fixed income investments, accretion of discounts on treasury bills and other discounted instruments, net of amortisation of premiums on instruments bought at a premium.

(k) Investment securities

Policy applicable from January 1, 2018

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

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

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

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

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

Policy applicable before 1 January 2018

Investment securities were initially measured at fair value and subsequently accounted for depending on their classification as either held-to-maturity, FVTPL or available-for-sale.

(l) Impairment of non-financial assets

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

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

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

4. Significant accounting policies (continued)

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

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.

(m) Fee and commission income

Fee and commission income which are included in other revenue comprise cambio fees, CSD and RTGS fees, custodial and other central bank service fees. They are recognized as the related services are performed.

(n) Standards issued that are not yet effective

At the date of authorisation of these financial statements, certain new and amended standards 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:

IFRS 16, *Leases*, which is effective for annual reporting periods beginning on or after January 1, 2019, eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessees will be required to bring all major leases on-balance sheet, recognising new assets and liabilities. The on-balance sheet liability will attract interest; the total lease expense will be higher in the early years of a lease even if a lease has fixed regular cash rentals. Optional lessee exemption will apply to short-term leases and for low-value items with value of US$5,000 or less.

Lessor accounting remains similar to current practice as the lessor will continue to classify leases as finance and operating leases.

The Bank is assessing the impact that the standard will have on its 2019 financial statements.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

5. Cash and cash equivalents

	2018 J$'000	2017 J$'000
Current accounts and money at call with foreign banks	42,455,291	84,639,298
Current accounts with local banks	1,286,312	1,055,936
	43,741,603	85,695,234

6. Interest 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) [2017:available-for-sale]. The portfolio consists of investments in government bonds, treasury bills and corporate bonds.

	2018 J$'000	2017 J$'000
Units in pooled fund	2,314,404	-
Sovereign bonds	53,166,246	41,207,912
Corporate bonds	4,531,018	2,307,342
	60,011,668	43,515,254

7. Foreign currency denominated investments

	2018 J$'000	2017 J$'000
Securities measured at fair value through other comprehensive income (FVOCI):		
USD Bonds issued primarily by specialised financial corporations	41,579,076	-
Securities measured at amortised cost:		
Short-term deposits with foreign banks	270,437,709	-
Securities classified as available-for sale:		
USD Bonds issued primarily by specialised financial corporations	-	38,144,960
Securities classified as loans and receivable	-	266,411,060
	312,016,785	304,556,020
Less allowance for ECL on investments at amortised cost	(1,700)	-
	312,015,085	304,556,020

8. International Monetary Fund – Quota Subscription

This represents the portion of Jamaica's fee for membership of the International Monetary Fund (IMF), based on its quota, which was paid by the Bank (the other portion having been subscribed by the Government of Jamaica). The Bank holds, on behalf of the IMF, promissory notes issued by the Government reflecting the Jamaica dollar value of the unpaid subscription quota allocated to Jamaica. The Jamaica dollar value of the promissory notes issued are determined by the Special Drawing Rights (SDR) to Jamaica dollar (J$) at April 30 of each year. The Jamaica dollar amounts in the table below are computed using the SDR: J$ 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	2018 J$'000	2017 J$'000
Amount subscribed by the Government of Jamaica (substituted by securities)	324,425	57,483,433	57,556,861
Amount subscribed by the Bank	58,475	10,360,927	10,374,162
Total quota	382,900	67,844,360	67,931,023

	SDR'000	2018 J$'000	2017 J$'000
Amount subscribed by the Bank:			
At beginning of year	58,475	10,374,162	10,060,734
Effect of exchange rate fluctuation *	-	(13,235)	313,428
At end of year	58,475	10,360,927	10,374,162

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

9. Resale agreements

The Bank, as one of its options in pursuing its monetary policy objectives, enters into various resale agreements with financial institutions. Under these agreements, the Bank purchases Government of Jamaica ("GOJ") securities and agrees to resell them to the respective counter-parties on specified dates and at specified prices. These are accounted for as short-term collateralised lending [note 4(a)(vi)(2)]. Section 23(1) of the Act requires the Bank to obtain collateral with a market value that is 1⅓ times the amount of the credit granted to each financial institution. At December 31, 2018, securities held had a fair value of $12,212,990,921 (2017: $467,000,000).

10. Local currency denominated investments

	2018 J$'000	2017 J$'000
Securities at FVOCI (2017: Available-for-sale securities):		
Jamaica Government securities:		
Variable rate benchmark investments	41,733,979	34,721,929
Fixed rate benchmark investments	32,288,531	14,175,518
	74,022,510	48,897,447

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

10. Local currency denominated investments (continued)

	2018 J$'000	2017 J$'000
Securities at amortised cost (2017: Held-to-maturity):		
Jamaica Government securities:		
Fixed rate accreting notes ("FRANs") [See note re National Debt Exchange ("NDX") below]	80,740,174	79,370,455
	154,762,684	128,267,902

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.

In summary, under the terms of the FRANs:

(i) A holder of Old Notes was issued J$80 of initial principal value of FRANs for every J$100 of principal value of Old Notes;

(ii) Interest is payable semi-annually on February 15 and August 15 at a fixed rate of 10% p.a. on the accreted principal value with the first payment made on August 15, 2013;

(iii) Accretion for the additional J$20 of principal value commenced in August 2015 as follows:

- 0.5% of $100 every six months from August 15, 2015 until August 15, 2020;
- Thereafter, 1.0% of $100 every six months until August 15, 2026; and
- Thereafter, 1.5% of $100 every six months until August 15, 2027.

(iv) The FRANs may be redeemed by GOJ on any interest payment date after August 15, 2020. The value at which the FRAN could be redeemed was not specified in the offer document.

11. Due from Government and Government Agencies

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

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

11. Due from Government and Government Agencies (continued)

	2017			
		Movements during the year		
	At beginning of year J$'000	Advances/ losses J$'000	(Settlement)/ profit J$'000	At end of year J$'000
Withholding tax refund due [see notes (c) and (d) below]	8,116,569	1,225,485	(4,386,074)	4,955,980
Accrued interest on Government securities	3,454,446	3,439,330	(3,454,446)	3,439,330
Net loss receivable from Consolidated Fund [see (b) and (d) below]	25,211,092	8,013,890	-	33,224,982
	36,782,107	12,678,705	(7,840,520)	41,620,292

(a) By virtue of Section 36 of the Act, the Bank is empowered to make advances to the Government of up to thirty percent of the estimated revenue of Jamaica for the financial year of the Government. Such advances are to be repaid within three months of the end of the financial year in which the advances were made. Where advances are not duly repaid, the Bank is prohibited from granting further advances in any subsequent financial year until the outstanding advances are repaid. There was no advance given in 2017 and 2018.

(b) The Government is required by the Act to pay to the Bank, out of the Consolidated Fund, amounts to cover losses incurred by the Bank. Section 9(3) of the Act provides that if, in the opinion of the Minister of Finance, payment to clear the losses cannot be made from the Consolidated Fund, such losses may be cleared by the issue of securities to the Bank chargeable to the Consolidated Fund.

(c) Income tax is withheld on income earned by the Bank on its holding of securities (in practice, this is GOJ securities) in accordance with Section 31A of the Income Tax Act as an advance on payment of income tax which may be due. However, as the Bank is exempt from income tax, the entire amount of tax withheld is recoverable from Tax Administration Jamaica.

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

	2018 J$'000	2017 J$'000
1-6 months	740,803	-
6-12 months	474,601	-
1-5 years	1,423,844	3,640,602
Over 5 years	2,146,231	1,315,378
	4,785,479	4,955,980

11. Due from Government and Government Agencies (continued)

(d) The Bank and the Government of Jamaica (GOJ) entered into a memorandum of understanding dated December 21, 2013 (amended by supplemental memorandum of understanding dated 28 February 2014) for the settlement of accumulated losses and the recovery of withholding tax refunds due to the Bank.

(i) Under the terms of the agreement, GOJ agreed to settle the accumulated losses due to the Bank as at December 31, 2012 by cash payments of specified amounts commencing in financial year 2014/2015 and ending in financial year 2017/2018. The first payment of $74.37 million was received in December 2014. The remaining three payments, totaling $9.637 billion was settled by payment of Government issued Benchmark investments (BMI) during the financial year.

The Bank and the Ministry of Finance further undertook to agree on settlement dates for subsequent amounts that may be due to the Bank under Section 9(3) of the Bank of Jamaica Act. Accumulated losses for the periods 2013-2016 amounted to $15.559 billion. An agreement was made to settle this amount by payment of Government issued Benchmark instruments (BMI) during the financial year. Of this amount, $12.032 billion was settled as at December 2018. The remaining balance of $3.33 billion was settled on January 25, 2019.

(ii) In respect of $3.2 billion withholding taxes refund due as at December 31, 2012, it was agreed that these would be settled in five equal instalments commencing in the financial year 2014/2015. The Government has been honoring this commitment and has made four instalments amounting to $2.6 billion, of which $655 million was made during the financial year ended December 31, 2018. The remaining balance of $655.34 million is proposed to be settled in March 2019.

The agreement also stipulates that all refunds in relation to subsequent withholding taxes will be made on submission of the returns and verification by the Commissioner General, Tax Administration Jamaica. Subsequent to the submission of the required returns a total of $4.3 billion has been refunded to the Bank for the period January 1, 2013 to December 31, 2018.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

12. Property, plant and equipment

	Freehold land and buildings J$'000	Leasehold property J$'000	Furniture, plant and equipment J$'000	Motor vehicles J$'000	Total J$'000
Cost or valuation:					
December 31, 2016	3,922,959	80,687	2,081,064	348,719	6,433,429
Additions	100,396	2,558	177,144	178,504	458,602
Disposals/write-offs	-	-	-	(99,914)	(99,914)
December 31, 2017	4,023,355	83,245	2,258,208	427,309	6,792,117
Additions	199,105	872	428,177	122,380	750,534
Disposals/write-offs	-	-	-	(93,498)	(93,498)
December 31, 2018	4,222,460	84,117	2,686,385	456,191	7,449,153
Depreciation:					
December 31, 2016	204,457	40,724	1,569,151	136,980	1,951,312
Charge for the year	165,300	7,389	97,756	73,874	344,319
Eliminated on disposals	-	-	-	(64,853)	(64,853)
December 31, 2017	369,757	48,113	1,666,907	146,001	2,230,778
Charge for the year	175,342	7,426	115,596	75,473	373,837
Eliminated on disposals	-	-	-	(63,304)	(63,304)
December 31, 2018	545,099	55,539	1,782,503	158,170	2,541,311
Net book values:					
December 31, 2018	3,677,361	28,578	903,882	298,021	4,907,842
December 31, 2017	3,653,598	35,132	591,301	281,308	4,561,339
December 31, 2016	3,718,502	39,963	511,913	211,739	4,482,117

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

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

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

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

12. Property, plant and equipment (continued)

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

Valuation techniques	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Depreciated replacement cost. This model takes into account: Building: (i) An estimate of the full replacement cost at the reporting date (ii) An estimate of depreciation based on the age and condition of the building (iii) Deducting the estimated depreciation from the current replacement cost Land (i) An estimate of the site improvements made (ii) An estimate of the market value of the land with the site improvements	• Estimates of material, labour, professional fees and other costs of planning, design and construction, expressed as cost per square foot • Judgements about the physical condition of the building • Judgements about the environment in which the building is located	The estimated fair value would increase (decrease) if: • the cost per square foot were higher (lower) • judgement about the condition of the building had determined the condition to be better or worse.

13. Intangible assets

	Computer software 2018 J$'000	Computer software 2017 J$'000
Cost:		
At the beginning of year	905,858	877,641
Additions	72,238	28,217
At end of year	978,096	905,858
Amortisation:		
At the beginning of year	672,220	588,216
Charge for the year	86,768	84,004
At end of year	758,988	672,220
Net book value	219,108	233,638

14. Employee benefits

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

(a) Pension asset recognised:

	2018 J$'000	2017 J$'000
Present value of funded obligations	(12,963,500)	(11,072,700)
Fair value of plan assets	19,735,400	15,809,300
Recognised asset	6,771,900	4,736,600

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

	2018 J$'000	2017 J$'000
Balance at beginning of year	11,072,700	10,435,400
Benefits paid	(507,800)	(566,200)
Service and interest costs	1,120,400	1,177,400
Remeasurement loss on obligation included in other comprehensive income (iv)	1,278,200	26,100
Balance at end of year	12,963,500	11,072,700

(ii) Movements in plan assets

	2018 J$'000	2017 J$'000
Fair value of plan assets at beginning of year	15,809,300	15,258,600
Contributions paid	142,200	90,800
Interest income on plan assets	1,250,100	1,351,900
Benefits paid	(507,800)	(566,200)
Remeasurement gain/(loss) on assets include in other comprehensive income (iv)	3,041,600	(325,800)
Fair value of plan assets at end of year	19,735,400	15,809,300
Plan assets consist of the following:		
Government of Jamaica securities	17,952,700	13,260,100
Bank of Jamaica certificates of deposit	1,408,000	1,116,900
Real estate	138,100	130,800
Other	236,600	1,301,500
	19,735,400	15,809,300

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

14. Employee benefits (continued)

(a) Pension asset recognised (continued):

(iii) Credit recognised in profit or loss

	2018 J$'000	2017 J$'000
Current service costs	236,000	241,900
Interest on obligations	884,400	935,500
Interest income on assets	(1,250,100)	(1,351,900)
	(129,700)	(174,500)

(iv) Items recognised in other comprehensive income

	2018 J$'000	2017 J$'000
Remeasurement loss on obligation:		
Experience adjustment	(1,278,200)	(26,100)
Remeasurement gain/(loss) on assets	3,041,600	(325,800)
	1,763,400	(351,900)

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

	2018 %	2017 %
Discount rate	7.00	8.00
Future pension increases	1.50	2.50
Future salary increases	3.50	5.50

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

Actuarial assumption	One percentage point increase J$'000	One percentage point decrease J$'000
Discount rate	(903,600)	1,015,200
Assumed rate of salary escalation	265,700	(249,800)
Future rate of pension	749,900	(682,100)

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

14. Employee benefits (continued)

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

(i) Liability recognised in statement of financial position

	2018 J$'000	2017 J$'000
Balance at beginning of year	2,327,800	1,698,800
Interest cost	190,800	156,700
Current service cost	77,000	58,600
Benefits paid	(38,800)	(32,100)
Past service cost	-	36,900
Remeasurement loss on obligation, included in other comprehensive income [see (iii)]	(636,000)	408,900
Balance at end of year	1,920,800	2,327,800

(ii) Expense recognised in profit or loss:

	2018 J$'000	2017 J$'000
Current service costs	77,000	58,600
Interest on obligations	190,800	156,700
Past service cost	-	36,900
	267,800	252,200

(iii) Items in other comprehensive income

	2018 J$'000	2017 J$'000
Change in financial assumptions	387,600	(800)
Experience adjustment	248,400	(408,100)
Remeasurement gain/(loss) on obligation	636,000	(408,900)

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

	2018 %	2017 %
Discount rate	7.00	8.00
Future salary increase	3.50	5.50
Medical claims growth	5.00	7.00

Assumptions regarding future mortality are based on the GAM 94 [2017: GAM (94)] mortality table for pensioners (British mortality tables), but with each age rated down by five (2017: five) years.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

14. Employee benefits (continued)

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

	One percentage point increase J$'000	One percentage point decrease J$'000
Assumed medical cost trend rate and rate of salary escalation	181,500	(160,100)
Discount rate	(161,700)	183,400

(d) The estimated pension contributions expected to be paid into the plan during the next financial year amounts to J$180,130,000 (2017: J$110,200,000). See note 14(a)(ii) for actual contributions paid during the current and previous years.

15. Other assets

	2018 J$'000	2017 J$'000
Inventory of unissued notes and coins	2,151,981	1,062,148
Staff loans	1,926,264	1,821,357
Ex-staff loans	106,787	78,913
Accrued interest receivable other than on GOJ securities	882,346	630,087
SDR equalisation provision [note 17(d)(iii)]	674,262	-
Salaries and wages paid in advance	6,548	5,522
Stock of souvenir coins	83,139	83,750
Payment on capital accounts	114,981	268,086
Other	85,083	52,033
	6,031,391	4,001,896
Less:		
Remeasurement of staff loans	(583,988)	(576,915)
Allowance for ECL: ex-staff loans	(12,786)	(11,605)
	5,434,617	3,413,376

16. Notes and coins in circulation

	2018 J$'000	2017 J$'000
Notes	129,070,910	106,778,683
Coins	4,447,533	4,132,010
	133,518,443	110,910,693

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

16. Notes and coins in circulation (continued)

Section 21 of the Act requires the Bank to hold specified assets of an amount in value sufficient to cover the value of the total amount of notes and coins in circulation as defined in that section. The assets held shall include, *inter alia*, (a) gold; (b) "hard currency" cash, bank balances or securities issued by a foreign government or international financial institution of which Jamaica is a member; or (c) Special Drawing Rights. Specified assets held by the Bank, as at December 31, 2018, were 3.31 (2017: 4.17) 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 23).

17. Deposits and other demand liabilities

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

	2018 J$'000	2017 J$'000
Government and Government agencies	92,007,508	104,597,978
Commercial banks and specified financial institutions	133,697,930	126,061,563
International Monetary Fund [see (d) below]	68,003,296	71,079,062
Others	6,566,036	4,881,180
	300,274,770	306,619,783
Jamaica dollar equivalent of foreign currency deposits	199,831,786	223,453,562
Jamaica dollar deposits	100,442,984	83,166,221
	300,274,770	306,619,783

(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 $131,762,706,000 (2017: $125,255,305,000).

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

(d) IMF related information

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

	2018 SDR'000	2017 SDR'000	2018 J$'000	2017 J$'000
2013 Extended fund facility	378,657	402,268	67,871,782	70,949,653
Other IMF amounts	734	734	131,514	129,409
Total IMF liability	379,391	403,002	68,003,296	71,079,062

17. Deposits and other demand liabilities (continued)

(d) IMF related information (continued)

(ii) In November 2016, the Government of Jamaica discontinued the 2013 extended fund facility that would have expired in March 2017; and replaced it with a three-year precautionary standby agreement. There was no drawdown under this facility as at December 31, 2018.

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

	2018 J$'000	2017 J$'000
At the December 31 SDR rate:		
Amount at which the loan is carried by the Bank	67,222,508	71,497,219
Effect of exchange rate depreciation between April 30 and December 31 (notes15, 20)	674,262	(418,157)
At the April 30 SDR rate:		
Amount at which the loan is carried by the IMF [per (a) above]	67,896,770	71,079,062

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

		2018 SDR	2017 SDR
April 30	J$1 =	0.0055790	0.0056698
December 31	J$1 =	0.0056438	0.0056366

As at February 28, 2019, the date of approval of these financial statements, the exchange rate was J$1 = SDR 0.0055.

(v) There was no disbursement to Government for fiscal support during 2018.

18. Open market liabilities

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

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

19. International Monetary Fund - Allocation of Special Drawing Rights

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

	SDR '000	2018 J$'000	2017 J$'000
At beginning of year	261,644	46,418,701	45,016,212
Effect of exchange rate fluctuation	-	(59,218)	1,402,489
At end of year	261,644	46,359,483	46,418,701

20. Other liabilities

	2018 J$'000	2017 J$'000
Interest payable	1,245,357	1,611,657
SDR equalisation provision [note 17(d)(iii)]	-	418,157
Staff and staff-related expenses	385,728	252,723
Other	77,422	106,031
	1,708,507	2,388,568

21. Share capital

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

22. General reserve fund

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

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

(b) from which shall be paid to the Consolidated Fund the amount by which, at the end of the financial year, the balance thereon exceeds five times the Bank's authorised share capital;

(c) into which should be paid from the Consolidated Fund at the end of the financial year, the amount by which the Bank's net loss exceeds the balance in the General Reserve Fund.

23. Special stabilisation account

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

24. Other reserves

This represents the following:

	2018 J$'000	2017 J$'000
Securities revaluation reserve [see (a)]	5,569,639	1,878,749
Property revaluation reserve [see (b)]	3,692,536	3,692,536
Pension equalisation reserve [see (c)]	6,771,900	4,736,600
Employee benefit obligation reserve [see (c)]	(251,300)	(887,300)
	15,782,775	9,420,585

(a) This represents the net unrealised gains and losses on the revaluation of available-for-sale investments securities, net of impairment allowance.

(b) The property revaluation reserve represents the surplus arising on the revaluation of certain freehold properties (see note 12).

(c) The pension equalisation and employee benefit obligation reserves represent the pension surplus and employee benefit obligation arising on the actuarial valuation, under IAS 19, of the Bank's pension scheme and medical benefits. Annual changes in the value of the plan are shown in the statement of comprehensive income, then transferred to this reserve.

25. Interest income

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

	2018 J$'000	2017 J$'000
Assets at amortised cost (2017: loans and receivables):		
Cash and cash equivalents	1,193,509	1,186,576
Investment securities	5,632,962	2,407,277
Resale agreements	51,296	374,448
Other	355,267	229,759
Securities at FVOCI (2017: available-for-sale):		
Investment securities	4,171,402	3,843,064
Securities at amortised cost (2017: held-to-maturity):		
Investment securities	9,253,076	9,103,455
	20,657,512	17,144,579

(b) Analysed as follows:

	2018 J$'000	2017 J$'000
Government of Jamaica (note 30)	12,077,440	12,430,367
Other sources	2,895,814	1,932,487
Open market	51,296	374,448
International	5,632,962	2,407,277
	20,657,512	17,144,579

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

26. Foreign exchange gain/(loss), net

	2018 J$'000	2017 J$'000
Net gains/(losses) on translation and settlement of foreign currency assets and liabilities, other than on IMF deposit liabilities	6,198,470	(5,871,817)
Losses on translation and settlement of IMF deposit liabilities	(96,183)	(2,478,672)
Realised exchange gains on purchases and sales of foreign currencies	183,238	603,578
	6,285,525	(7,746,911)

27. Interest on deposits and open market liabilities

	2018 J$'000	2017 J$'000
Certificates of deposit - Open market liabilities	5,398,792	7,321,015
Deposits:		
- Government and Government agencies (note 30)	1,371,268	1,300,015
- Commercial banks and specified financial institutions	1,260,796	958,276
- Other	46,434	88,479
	8,077,290	9,667,785

28. Staff numbers and costs

	2018	2017
Number of employees at the end of the year		
Full-time	444	445
Contract	152	140

The related costs for these employees were as follows:

	2018 J$'000	2017 J$'000
Salaries and wages	3,447,872	2,186,938
Statutory payroll contributions	207,427	142,136
Uniforms	52,236	23,028
Staff development	102,728	73,851
Subsidy on canteen operations	93,794	84,926
Staff welfare	390,352	318,364
Pension fund related costs	145,697	101,100
	4,440,106	2,930,343

29. Other operating expenses

	2018 J$'000	2017 J$'000
Communication	45,635	41,359
Travelling and motor vehicle expenses	84,285	85,023
Commission paid to commercial banks	267,305	449,128
Auditor's remuneration	11,933	14,038
General office expenses	135,927	86,222
Fees on investment managed portfolio	51,921	51,591
Other administrative expenses	290,943	268,485
	887,949	995,846

30. Related parties

(a) Definition of related party

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

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

(1) has control or joint control over the Bank;

(2) has significant influence over the Bank; or

(3) is a member of the key management personnel of the Bank

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

(1) The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

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

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

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

(5) The entity, or any member of a group of which it is a part, provides key management personnel services to the Bank.

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

(b) Identity of related parties

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

30. Related parties (continued)

(c) Related party amounts

(i) The statement of financial position includes balances, arising in the ordinary course of business, with related parties, other than those disclosed at note 10 and 16 as follows:

	2018 J$'000	2017 J$'000
Loans:		
Executive management (included in staff loans, note 15)	80,618	41,257
Open market liabilities: Pension fund	1,407,912	1,116,899

The executive management team consists of fifteen (15) [2017: twelve (12) persons].

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

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

	2018 J$'000	2017 J$'000
Interest expense:		
Government and Government agencies (note 27)	1,371,268	1,300,015
Pension scheme	30,049	80,825
Executive management and pension scheme (current accounts)	5,332	4,719
Interest income:		
Government of Jamaica [note 25(b)]	12,077,440	12,430,367
Executive management	2,240	1,493
Pension contribution and other benefits	149,031	134,405
Executive management compensation, included in staff costs (note 28)	307,635	170,823

31. Commitments

(a) Capital commitments as follows:

	2018 J$'000	2017 J$'000
Authorised and contracted	164,072	145,356
Authorised but not contracted	6,923	10,427
	170,995	155,783

(b) Operating lease commitments, payable as follows:

	2018 J$'000	2017 J$'000
Within one year	11,655	11,655
Within 1-5 years	35,117	43,897
Over 5 years	-	43,897
	46,772	99,449

32. Contingent liabilities

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

33. Fair value of financial instruments

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

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

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

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

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

33. Fair value of financial instruments (continued)

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

(a) Securities measured at fair value

	2018		
	Level 1 J$'000	Level 2 J$'000	Total J$'000
Securities at FVOCI:			
USD Bonds issued primarily by specialised financial corporations	41,579,076	-	41,579,076
Government of Jamaica securities	-	74,022,510	74,022,510
Securities at FVTPL:			
Securities included in funds managed by agents			
- Sovereign bonds	-	53,166,246	53,166,246
- Corporate bonds	-	4,531,018	4,531,018
- Units in pooled funds	-	2,314,404	2,314,404
	41,579,076	134,034,178	175,613,254

	2017		
	Level 1 J$'000	Level 2 J$'000	Total J$'000
Available-for-sale financial assets:			
USD Bonds issued primarily by specialised financial corporations	38,144,960	-	38,144,960
Government of Jamaica securities	-	48,897,447	48,897,447
Securities included in funds managed by agents			
- Sovereign bonds	-	41,207,912	41,207,912
- Corporate bonds	-	2,307,342	2,307,342
	38,144,960	92,412,701	130,557,661

33. Fair value of financial instruments (continued)

(b) Securities not carried at fair value

	Carrying value 2018	Fair value 2018 Level 2
	J$'000	J$'000
Securities at amortised cost:		
Government of Jamaica securities (FRANs)	80,740,174	127,169,974

	Carrying value 2017	Fair value 2017 Level 2
	J$'000	J$'000
Held-to-maturity financial assets:		
Government of Jamaica securities (FRANs)	79,370,455	108,109,588

(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
Interest in funds managed by agent	• Estimated using bid prices published by major overseas broker.

34. 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

34. Financial risk management (continued)

(a) Introduction and overview (continued)

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.

The above-listed three committees report to the Committee of Administration, which, in turn, reports to the Management Committee on a weekly basis. The Management Committee reports on a monthly basis to the Board of Directors;

(iv) Audit and Risk Committee – which is responsible for monitoring compliance with the Bank's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit and Risk Committee is assisted in these functions by the Internal Audit Division. This division undertakes both regular and *ad hoc* reviews of risk management controls and procedures, the results of which are reported to the Board of Directors and the Audit and Risk Committee.

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

(b) Credit risk

Credit risk is the risk of loss arising from a counter-party to a financial contract failing to discharge its obligations. This risk arises primarily from the Bank's foreign and local currency investment securities, resale agreements, cash and cash equivalents, interest in funds managed by agents, due from Government and Government Agencies and other assets.

34. Financial risk management (continued)

(b) Credit risk (continued)

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

- Foreign currency investments including interest in funds managed by agents

  Credit risk on the foreign currency investment portfolio is managed by restricting the holdings of investments substantially to USD Bonds issued primarily by specialised financial corporations, other highly rated sovereign securities, Jamaica Government USD securities and placements in highly rated supranational institutions. The Bank uses the credit ratings ascribed by Moody's Investor Services and Standard & Poors Financial Services LLC and Fitch as its main criteria for assessing the creditworthiness of financial institutions and sovereigns. The Bank's foreign investments are restricted to money market placements with financial institutions with minimum short-term credit ratings of A-2/P-2/F2 and with minimum long-term ratings of A+/A1/A+ of any two of the three rating institutions. 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.

34. Financial risk management (continued)

(b) Credit risk (continued)

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

- Due from Government and Government Agencies.

  These amounts are in respect of accrued interest, withholding taxes and losses recoverable from the Government of Jamaica. Management does not expect this counterparty to fail to meet its obligations. Credit risk is considered low with no significant expected credit losses.

- Other assets

  Other credit exposures consist mainly of staff loans for housing and motor vehicles. There is a documented credit policy in place which guides the Bank's credit process for staff loans. The policy includes established procedures for the authorisation of credit. Staff loans are limited to a percentage of the value of the assets being purchased. Mortgages and liens are obtained for staff housing and motor vehicle loans, respectively, which must also be insured.

(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 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:

	2018 J$'000	2017 J$'000
Caribbean	187,893,100	172,672,523
North America	233,078,191	471,243,065
Europe	219,061,957	1,309,914
Other	178,690	173,108
Total financial assets	640,211,938	645,398,610

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.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

34. 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 amortized cost, FVOCI debt securities (2018) and available-for-sale debt securities (2017). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. The analysis has been based on Moody's ratings.

	2018 J$'000	2017 J$'000
	Stage 1	
Foreign currency denominated securities at FVOCI (2017: available-for-sale)		
Rated AAA	39,937,471	35,421,277
Rated AA- to AA	1,641,605	2,723,683
	41,579,076	38,144,960
Loss allowance	311	456

	2018 J$'000	2017 J$'000
	Stage 1	
Foreign currency denominated securities at amortised cost (2017: loans and receivable)		
Rated AAA	215,368,820	208,322,500
Rated AA- to AA	55,068,889	58,088,560
	270,437,709	266,411,060
Loss allowance	(1,700)	(1,454)
Carrying amount	270,436,009	266,409,606

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

34. Financial risk management (continued)

(b) Credit risk (continued)

(iii) Credit quality analysis (continued)

The following table sets out information about the credit quality of financial assets measured at amortized cost, FVOCI debt securities (2018) and available-for-sale debt securities (2017). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. The analysis has been based on Moody's ratings (continued).

	2018 J$'000 Stage 1	2017 J$'000
Local currency denominated securities at FVOCI (2017: available-for-sale)		
Rated BBB	74,340,158	48,897,447
Loss allowance	176	288

	2018 J$'000 Stage 1	2017 J$'000
Local currency denominated securities at amortised cost (2017: held-to-maturity)		
Rated BBB	80,740,174	79,370,455

	2018 J$'000 Stage 1	2018 J$'000 Stage 3	2018 J$'000 Total	2017 J$'000
Other assets – staff loans receivable				
Low risk	1,964,427	-	1,964,427	1,879,161
Doubtful	-	68,624	68,624	21,109
	1,964,427	68,624	2,033,051	1,900,270
Loss allowance	(32)	(12,754)	(12,786)	(5,756)
	1,964,395	55,870	2,020,265	1,894,514

34. Financial risk management (continued)

(b) Credit risk (continued)

(iv) Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy at note 4(b).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and third party policies including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 90 days past due.

Credit risk grades:

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

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:

34. 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)

Credit risk grades (continued):

- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes.
- Data from credit reference agencies, press articles, changes in external credit ratings.
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.
- External data from credit reference agencies, including industry-standard credit scores.
- Payment record – this includes overdue status as well as a range of variables about payment ratios.
- Existing and forecast changes in business, financial and economic conditions.

Determining whether credit risk has been increased significantly:

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower.

Credit risk is deemed to increase significantly where the credit rating of a security has shifted downwards by two grades based on rating of two of the top three rating agencies and the risk grade of staff loans has moved from low risk to sub-standard.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 90 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

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.

34. 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)

Determining whether credit risk has been increased significantly (continued):

Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Bank determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 90 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Definition of default:

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Bank.
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

34. 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)

Determining whether credit risk has been increased significantly (continued):

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

For 2018, forward-looking information was incorporated in the ECL computation by use of a management overlay which is not considered material to the ECL recognised. The Bank will continue to refine the ECL for forward-looking economic scenarios.

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.

34. Financial risk management (continued)

(b) Credit risk (continued)

(iv) Amounts arising from ECL (continued)

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

Measurement of ECL (continued)

The key inputs into the measurement of ECL are the term structure of the following

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

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*

The loss allowance recognised is analysed as follow:

	2018 J$'000 **Stage 1**
Securities at FVOCI:	
Balance at January 1, 2018 (IAS 39)	-
Remeasurement on January 1, 2018 (IFRS 9)	744
Net re-measurement of loss allowance	(257)
Balance at December 31, 2018	487

34. Financial risk management (continued)

(b) Credit risk (continued)

(v) *Loss allowance (continued)*

The loss allowance recognised is analysed as follow (continued):

The above loss allowance is not recognised in the statement of financial position as the carrying amount of debt securities at FVOCI (2017: available-for-sale) is their fair value.

	2018		
	J$'000 Stage 1	J$'000 Stage 3	J$'000 Total
Financial assets at amortised cost:			
Balance at January 1, 2018 (IAS 39)	-	11,605	11,605
Remeasurement on January 1, 2018 (IFRS 9)	1,486	(5,880)	(4,394)
Net re-measurement of loss allowance	247	7,029	7,276
Balance at December 31, 2018	1,733	12,754	14,487

(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.

34. Financial risk management (continued)

(c) Liquidity risk (continued)

The Bank, like all central banks, has no real liquidity risk in relation to its domestic financial obligations. The Bank is not subject to any imposed liquidity limit.

There were no changes to the nature of the Bank's exposure to liquidity risk or the manner in which it measures and manages it.

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

	2018					
	Within 1 Month	1 to 3 months	3 to 12 months	1 to 5 years	Contractual cash flow	Carrying amount
	J$'000	J$'000	J$'000	J$'000	J$'000	J$'000
Deposits and other demand liabilities	301,210,474	-	-	-	301,210,474	300,274,770
Open market liabilities	53,437,466	-	33,153,760	67,134,821	153,726,047	144,119,384
Foreign liabilities	3,790	-	-	-	3,790	3,790
International Monetary Fund - Allocation of Special Drawing Rights	-	-	-	46,420,526	46,420,526	46,359,483
Other	1,708,507	-	-	-	1,708,507	1,708,507
Commitments	971	70,093	111,586	35,117	217,767	-
	356,361,208	70,093	33,265,346	113,590,464	503,287,111	492,465,934

	2017					
	Within 1 Month	1 to 3 months	3 to 12 months	1 to 5 years	Contractual cash flow	Carrying amount
	J$'000	J$'000	J$'000	J$'000	J$'000	J$'000
Deposits and other demand liabilities	306,621,254	-	-	-	306,621,254	306,619,783
Open market liabilities	67,829,562	6,647,500	42,991,105	73,270,435	190,738,602	177,136,165
Foreign liabilities	2,206	-	-	-	2,206	2,206
International Monetary Fund - Allocation of Special Drawing Rights	-	-	-	46,459,074	46,459,074	46,418,701
Other	2,388,568	-	-	-	2,388,568	2,388,568
Commitments	9,052	35,017	95,810	71,456	211,335	-
	376,850,642	6,682,517	43,086,915	119,800,965	546,421,039	532,565,423

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on financial assets. Market risk exposures are measured using sensitivity analysis.

There was no change during the year in the Bank's exposure to market risk or the manner in which it measures and manages the risk.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

34. 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:

	2018				
	USD $'000	EUR $'000	GBP $'000	Other $'000	Total $'000
Foreign currency assets:					
Notes and coins - for local sale	20,689	1,503	4,713	3,628	30,533
- for repatriation	93,990	2,146	8,089	49,507	153,732
Cash and cash equivalents	41,945,434	423,900	339,912	1,032,357	43,741,603
Interest in funds managed by agents	57,697,264	-	-	2,314,404	60,011,668
Interest receivable on BIIAs	811,724	-	-	134,038	945,762
Investment securities	312,015,085	-	-	-	312,015,085
IMF- Holding of special drawing rights	-	-	-	26,532,744	26,532,744
IMF - Quota subscription	-	-	-	10,360,927	10,360,927
	412,584,186	427,549	352,714	40,427,605	453,792,054
Foreign currency liabilities:					
Open market liabilities	78,504,132	-	-	-	78,504,132
Deposits - current accounts	124,944,661	59,047	5,304,340	1,520,442	131,828,490
Deposits - IMF	-	-	-	68,003,296	68,003,296
IMF - Allocation of special drawing rights	-	-	-	46,359,483	46,359,483
Foreign liabilities	3,790	-	-	-	3,790
Bilateral accounts	-	-	-	39,539	39,539
Interest payable	904,344	232	-	293,630	1,198,206
	204,356,927	59,279	5,304,340	116,216,390	325,936,936
Net foreign currency assets/ (liabilities)	208,227,259	368,270	(4,951,626)	(75,788,785)	127,855,118

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

34. Financial risk management (continued)

(d) Market risk (continued)

(i) Currency risk (continued)

	2017 USD $'000	EUR $'000	GBP $'000	Other $'000	Total $'000
Foreign currency assets:					
Notes and coins - for local sale	10,075	1,647	3,207	549	15,478
- for repatriation	65,898	8,637	12,883	133,254	220,672
Cash and cash equivalents	84,345,983	537,691	321,770	489,790	85,695,234
Interest in funds managed by agents	43,515,254	-	-	-	43,515,254
Interest receivable on BHAs	542,565	-	-	78,312	620,877
Investment securities	304,556,020	-	-	-	304,556,020
IMF- Holding of special drawing rights	-	-	-	29,020,355	29,020,355
IMF - Quota subscription	-	-	-	10,374,162	10,374,162
	433,035,795	547,975	337,860	40,096,422	474,018,052
Foreign currency liabilities:					
Open market liabilities	88,924,414	-	-	-	88,924,414
Deposits - current accounts	145,262,827	82,736	5,515,868	1,513,069	152,374,500
Deposits - IMF	-	-	-	71,079,062	71,079,062
IMF - Allocation of special drawing rights	-	-	-	46,418,701	46,418,701
Foreign liabilities	2,206	-	-	-	2,206
Bilateral accounts	-	-	-	43,867	43,867
Interest payable	1,125,862	241	-	244,912	1,371,015
	235,315,309	82,977	5,515,868	119,299,611	360,213,765
Net foreign currency assets/ (liabilities)	197,720,486	464,998	(5,178,008)	(79,203,189)	113,804,287

Exchange rates at December 31:

	2018	2017
USD1 to JMD	127.40	124.58
GBP1 to JMD	162.26	168.52
CDN1 to JMD	93.28	99.43
EUR1 to JMD	145.64	149.59

At February 28, 2019, the date of approval of these financial statements, the exchange rates were US1 to J$129.1951, UK1 to J$171.8425, CDN1 to J$98.0981 and EUR1 to J$147.1145.

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

Sensitivity to exchange rate movements

A 4 percent (2017: 4 percent) devaluation of the Jamaica Dollar against currencies which expose the Bank to risk at December 31 would have increased profits by $5,114,032,000 (2017: decreased loss by $4,569,770,000) while a 2 percent (2017: 2 percent) revaluation would have decreased profit by $2,557,016,000 (2017: increased loss by $2,284,885,000). The analysis assumes that all other variables, in particular, interest rates, remain constant, and has been performed on the same basis as for 2017.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

34. 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.

	2018						
	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	-	-	-	-	263,072	263,072	
Cash and cash equivalents	-	-	-	-	43,741,603	43,741,603	
Interest in funds managed by agents	-	-	-	60,011,668	-	60,011,668	1.81
Foreign currency denominated investments	273,917,630	12,086,487	26,010,968	-	-	312,015,085	1.81
International Monetary Fund Holding of Special Drawing Rights	-	-	-	-	26,532,744	26,532,744	
Resale agreements	9,200,000	-	-	-	-	9,200,000	3.94
Local currency denominated investments	-	-	154,762,684	-	-	154,762,684	8.29
International Monetary Fund – Quota Subscription	-	-	-	-	10,360,927	10,360,927	
Due from Government and Government Agencies	-	-	-	-	11,012,752	11,012,752	
Other assets	-	-	-	-	5,434,617	5,434,617	
Total financial assets	283,117,630	12,086,487	180,773,652	60,011,668	97,345,715	633,335,152	
Liabilities							
Notes and coins in circulation	-	-	-	-	133,518,443	133,518,443	
Deposits and other demand liabilities:							
Jamaica dollar equivalent of foreign currency deposits	136,274,333	-	-	63,557,453	-	199,831,786	1.65
Jamaica dollar deposits	31,726,354	-	-	68,716,630	-	100,442,984	1.64
Open market liabilities	52,343,365	31,258,123	60,517,896	-	-	144,119,384	3.02
International Monetary Fund – Allocation of Special Drawing Rights	-	-	-	-	46,359,483	46,359,483	
Foreign liabilities	-	-	-	-	3,790	3,790	
Bilateral accounts	-	-	-	-	39,539	39,539	
Other liabilities	-	-	-	-	1,708,507	1,708,507	
Total financial liabilities	220,344,052	31,258,123	60,517,896	132,274,083	181,629,762	626,023,916	
Total interest rate sensitivity gap	62,773,578	(19,171,636)	120,255,756	(72,262,415)	(84,284,047)	7,311,236	
Cumulative gap	62,773,578	43,601,942	163,857,698	91,595,283	7,311,236		

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

34. Financial risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued);

	2017						
	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	-	-	-	-	325,533	325,533	-
Cash and cash equivalents	-	-	-	-	85,695,234	85,695,234	-
Interest in funds managed by agents	-	-	-	43,515,254	-	43,515,254	1.07
Foreign currency denominated investments	266,411,061	-	38,144,959	-	-	304,556,020	1.36
International Monetary Fund Holding of Special Drawing Rights	-	-	-	-	29,020,355	29,020,355	-
Resale agreements	350,000	-	-	-	-	350,000	4.61
Local currency denominated investments	-	-	128,267,902	-	-	128,267,902	8.66
International Monetary Fund – Quota Subscription	-	-	-	-	10,374,162	10,374,162	-
Due from Government and Government Agencies	-	-	-	-	41,620,292	41,620,292	-
Other assets	-	-	-	-	1,999,392	1,999,392	-
Total financial assets	266,761,061	-	166,412,861	43,515,254	169,034,968	645,724,144	
Liabilities							
Notes and coins in circulation	-	-	-	-	110,910,693	110,910,693	-
Deposits and other demand liabilities:							
Jamaica dollar equivalent of foreign currency deposits	159,506,140	-	-	63,947,422	-	223,453,562	0.15
Jamaica dollar deposits	20,804,646	-	-	62,361,575	-	83,166,221	0.74
Open market liabilities	73,181,199	39,466,540	64,488,426	-	-	177,136,165	6.30
International Monetary Fund – Allocation of Special Drawing Rights	-	-	-	-	46,418,701	46,418,701	-
Foreign liabilities	-	-	-	-	2,206	2,206	-
Bilateral accounts	-	-	-	-	43,867	43,867	-
Other liabilities	-	-	-	-	2,388,568	2,388,568	-
Total financial liabilities	253,491,985	39,466,540	64,488,426	126,308,997	159,764,035	643,519,983	
Total interest rate sensitivity gap	13,269,076	(39,466,540)	101,924,435	(82,793,743)	9,270,933	2,204,161	
Cumulative gap	13,269,076	(26,197,464)	75,726,971	(7,066,772)	2,204,161	-	

34. Financial risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued):

Sensitivity to interest rate movement

An increase of 100 (2017: 100) basis points and a decrease of 100 (2017:100) basis points in interest rates for Jamaica dollar financial instruments and an increase of 100 (2017: 50), and a decrease of 100 (2017: 50) 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 2017.

	Increase		Decrease	
	Effect on profit/loss J$'000	Effect on reserves J$'000	Effect on profit/loss J$'000	Effect on reserves J$'000
	2018			
Fixed rate financial instruments	-	(3,362,757)	-	3,329,426
Variable rate financial instruments	(417,156)	(54,356)	417,156	54,729
	(417,156)	(3,417,113)	417,156	3,384,155
	2017			
Fixed rate financial instruments	-	(1,374,416)	-	1,532,296
Variable rate financial instruments	347,164	(31,392)	(347,164)	31,009
	347,164	(1,405,808)	(347,164)	1,563,305

(e) Capital management

The Bank's capital consists of share capital, general reserve fund, special stabilisation account, securities revaluation reserve, property revaluation reserve and pension equalisation reserve. The share capital of the Bank may be increased by resolution of the Board of Directors; however, such a resolution would have to be approved by the House of Representatives of Jamaica. The Bank's annual profit is transferred to the general reserve fund. Whenever the credit in the reserve fund exceeds five times the authorised share capital such excess profit is paid to the Consolidated Fund. The Bank has been complying with this requirement. There were no changes in the Bank's approach to capital management during the year.


BANK OF JAMAICA
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