

ANNUAL REPORT 2020



ANNUAL REPORT

2020

Report and Statement of Accounts for the
Year Ended 31 December 2020

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Bank of Jamaica Annual Report and Financial Statements
for the year ended 31 December 2020,
prepared pursuant to subsection 44(1) of the Bank of Jamaica Act.

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Printed in Jamaica

PREFACE

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

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

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



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



OUR MISSION

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

OUR VISION

The world's leading central bank contributing to the development of Jamaica.





The Governor

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

9 March 2021

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

Dear Minister Clarke,

In accordance with section 44(1) of the Bank of Jamaica Act, 1960, I have the honour of transmitting herewith the Bank's report for the year 2020 and a copy of the statement of the Bank's accounts as at 31 December 2020 duly certified by the auditors.

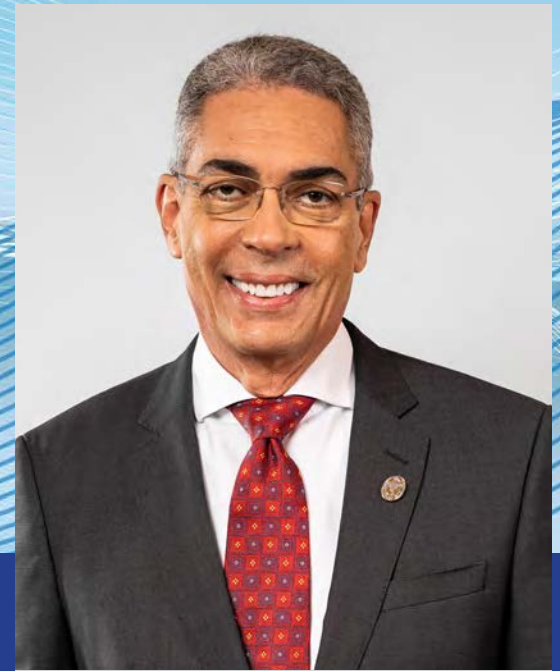
Yours sincerely,

A handwritten signature in blue ink, appearing to read "Richard Byles".

Richard Byles



BOARD OF DIRECTORS



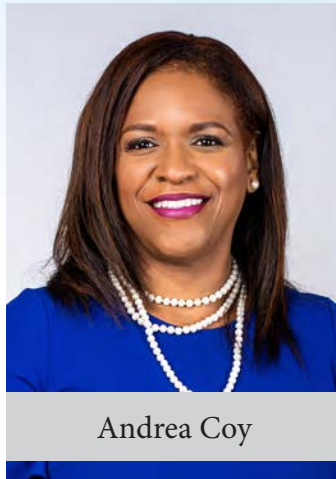
Richard Byles
Governor & Chairman



Wayne Robinson
Deputy Chairman



Christine Clarke



Andrea Coy



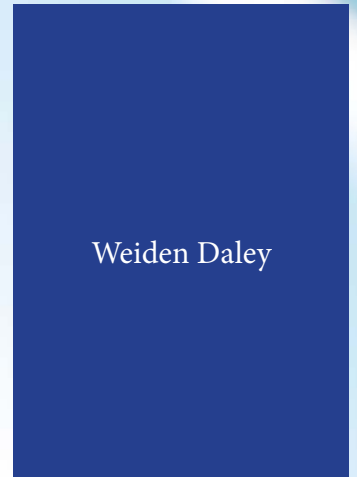
Gary Hendrickson, C.D.



Wayne Henry



Darlene Morrison



Weiden Daley

MANAGEMENT COMMITTEE

as at 31 December 2020



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



COMMITTEE OF ADMINISTRATION



E. George Roper
Deputy Governor/Chairman



Mark Anderson
*Executive Director,
Financial Markets*



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



Calvin Brown
*Division Chief
Human Resources*



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



Leo-Rey Gordon
Head, Financial Stability



Noel Greenland
*Executive Director,
Communications*



Victor Henry
*Division Chief,
Facilities Management & Protective Services*

COMMITTEE OF ADMINISTRATION

Cont'd



Avlana Johnson
*Deputy General Counsel,
Legal*



Jide Lewis
*Chief Prudential Officer,
Financial Institutions Supervisory*



Chevanese Morais
*Division Chief,
Banking & Currency Operations*



Novelette Panton
*Division Chief,
Financial Markets Infrastructure*



Carey-Anne Williams
*Division Chief,
Research & Economic Programming*



Ian Williams
*Financial Controller/Division Chief,
Finance*



OTHER SENIOR MANAGEMENT



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



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



Angela Foote
*Chief Audit Executive
Internal Audit Division*



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



Odean White
Chief Risk Officer, Corporate Risk Management





BANK OF JAMAICA
PRINCIPAL OFFICERS
As at 31 December 2020

GOVERNOR & SUPERVISOR

Richard Byles

SENIOR DEPUTY GOVERNOR

Wayne Robinson

DEPUTY GOVERNORS

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

DIVISION CHIEFS

Jide Lewis (Chief Prudential Officer)	– Financial Institutions Supervisory Division
Calvin Brown	– Human Resources Division
Wainet Fearon	– Financial Institutions Supervisory Division
Chevanese Morais	– Banking & Currency Operations Division
Carey-Anne Williams	– Research & Economic Programming Division
Novelette Panton	– Financial Markets Infrastructure Division
Victor Henry	– Facilities Management and Protective Services Division
Artwell Bernard	– Information Technology & Records Management Division
Ian Williams (Financial Controller)	– Finance Division
Angela Foote (Chief Audit Executive)	– Internal Audit Division

Providing technical support in the process that led to the **passage of the Bank of Jamaica (Amendment) Act in December 2020**. The Act strengthens the governance of the Bank, facilitates its independence in carrying out its mandate and bolsters its balance sheet.

Implementing the first phase of a Foreign Exchange Trading Platform. Deposit-taking institutions and cambios now place orders to buy and sell US dollars on the platform and have the trades executed there. This has improved transparency in the market.



2020 Strategic Highlights

Publishing Service Level Standards to the financial industry for the first time as well as establishing mechanisms to track performance against these standards. This sets the stage for improving service delivery to our stakeholders.

Reviewing the high-level organizational structure of the Bank as well as determining the future operating model and defining the capabilities required to support the new model.

646 STAFF MEMBERS



52 persons
Recruited



1066 members
BOJ Pension Fund



29 persons
Exited

STAFF STATISTICS



96%
Retention rate



7%
Promotion Rate

2%
Staff Earning
Higher Education



8%
External Hire Rate*



122 Courses
Targeted Training Courses
Executed (61% Online)



4.4%
Turnover Rate

QUALIFICATION



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

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



2020 at



POLICY RATE

0.50%

The key policy rate was held at 0.50 per cent per annum throughout the course of the year



INFLATION

5.2%

Inflation remained within the target for 11 months, breaching the upper limit once due to a temporary shock in agricultural food prices associated with drought conditions.



GROSS RESERVES

US\$4.1 billion

The country maintained a strong reserve position, equivalent to 122.3% of the ARA metric at end-2020.



UNEMPLOYMENT RATE

10.7%

As at October 2020.

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.



PRIVATE SECTOR CREDIT TO GDP RATIO

43.7%

At end-2020, private sector credit as a percentage of GDP increased to 43.7% from 39.5% at end-2019.



GOJ 180-DAY TREASURY BILL

0.86%

At end-2020, the weighted average yields on GOJ 180-day Treasury Bills declined to 0.86% from 1.60% at end-2019.



CURRENCY IN CIRCULATION

\$190.5 billion

At end-2020, this represented an increase in the value of currency in circulation by 28.0% when compared to end-2019.



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ABBREVIATIONS

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

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

OVERVIEW BY THE GOVERNOR

Bank of Jamaica's operations were significantly impacted by the spread of the novel Coronavirus (COVID-19) during 2020, with the first confirmed domestic case of the virus reported in mid-March 2020. In response to the pandemic, the government mandated several measures to slow the spread of the virus. These measures included curfews, social distancing protocols, work-from-home orders and the temporary shutting of international borders. Against this background, Bank of Jamaica had to make strategic adjustments to its operations and policy framework during the year. A considerable slowdown in economic activity in the country also contributed to policy changes by the Bank.



The policy adjustments included the implementation of a number of proactive initiatives aimed at assuring the financial system of access to adequate Jamaica dollar and foreign currency liquidity while maintaining an adequate level of international reserves. At the same time, the Bank maintained its focus on ensuring that inflation remained within the target of 4.0 per cent to 6.0 per cent. The Bank also made significant modifications to its operations to ensure that staff remained capable and equipped to carry out their duties safely and in an optimal manner.

Strategic Plan

In the context of the COVID-19 pandemic, Bank of Jamaica implemented adjustments to the final year of its 2018–2020 'Mission Excellence' strategic plan to ensure the continued smooth functioning of day-to-day operations while maintaining focus on priority strategic initiatives. The Bank also formulated its strategic plan for the period 2021 – 2023, which continued to be centred on its mandate of price stability and financial system stability.

Notable achievements under the strategic plan during 2020 included the technical support provided by the Bank which assisted in the passage of the Bank of Jamaica (Amendment) Act in December 2020. The amendments to the Act will serve to strengthen the governance arrangement of the Bank and facilitate independence in carrying out its mandate while bolstering the Bank's balance sheet. The Bank also successfully implemented the first phase of the foreign currency trading platform, which allows deposit-taking institutions (DTIs) and cambios to buy and sell foreign currency virtually in a transparent manner. In an effort to improve service delivery and accountability to our stakeholders, the Bank developed and published Service Level Standards and established mechanisms to track its performance against these standards. This is expected to encourage a more results-based management. During the year, the Bank also implemented a system to enhance the manner in which Jamaica's foreign reserves are managed. Additionally, several Initiatives aimed at educating the public about the Bank's mandate to maintain price stability were instituted.

Monetary Policy and Economic Developments

The COVID-19 pandemic had a severe impact on Jamaica's macroeconomic environment. In particular, the global spread of the virus, combined with the effect of government mandated measures aimed at mitigating virus spread domestically, contributed to lower value added in several domestic industries and an overall contraction in economic activity. In this context, Bank of Jamaica maintained an accommodative monetary policy stance aimed

at supporting a stable economy while encouraging a swift and sustained economic recovery once the pandemic passes. Ensuring that inflation remained low, stable and predictable within the target of 4.0 per cent to 6.0 per cent continued to be a priority.

The Bank also instituted several pre-emptive measures to assure financial institutions and the public of adequate access to both Jamaica Dollar and foreign currency liquidity in the context of the pandemic. These measures included reductions in the cash reserve requirement for both Jamaica Dollar and foreign currency liabilities, extending the Bank's foreign currency swap arrangement, offering repurchase instruments, direct sales via the Bank's Foreign Exchange Intervention Trading Tool (B-FXITT), direct sales to major FX buyers in the energy sector and a bond-buying programme.

For the year, annual headline inflation was 5.2 per cent, within the target of 4.0 per cent to 6.0 per cent. Notably, annual inflation was within the target for 11 out of the 12 months, with the outturn in June 2020 breaching the upper limit due to a temporary shock to agricultural food prices as a result of drought conditions. The inflation outturn mainly reflected the impact of an increase in prices for goods and services within the Health and Personal Care divisions, largely due to a shift in consumption patterns, in the context of the COVID-19 pandemic. The impact of these factors was partly offset by a deceleration in food price inflation as well as generally lower crude oil prices, which contributed to a reduction in transport-related costs. Underlying or core inflation, which removes the impact of changes in agricultural food and fuel prices, remained generally subdued below 4.0 per cent during the year, despite increasing slightly relative to 2019.

The Jamaican economy is estimated to have contracted sharply by 10.2 per cent in 2020 in the context of the ongoing COVID-19 pandemic. The contraction reflected significant reductions in value added in the services industries, in particular, Hotels & Restaurants, Other Services and Transport, Storage and Communication. A marked reduction in travel and reduced activity at the ports were the primary contributors to the declines in these industries. There were also notable declines in Manufacturing, Electricity & Water and Wholesale & Retail Trade due to impact of lower domestic demand as well as reduced business activity. Agriculture, Manufacturing, Construction and Mining also recorded declines during the year. Producers of Government Services was the only industry that recorded growth, largely due to increased employment of workers for the implementation of programmes aimed at reducing the domestic spread of the COVID-19 virus.

Bank of Jamaica's near-term outlook is for domestic inflation to largely trend within the Bank's target of 4.0 per cent to 6.0 per cent over the next two years. The domestic economy is also expected to gradually recover over the next two years with economic activity returning to pre-COVID-19 levels by FY2022/23. Consequently, the Bank will maintain an accommodative monetary policy posture geared towards encouraging a speedy and sustainable economic recovery while maintaining inflation within target.

Financial System Performance

While the COVID-19 pandemic contributed to a softening in financial asset and credit market performance, the financial system remained sound, profitable, adequately funded and capitalised. The financial system continued to demonstrate resilience to macro-prudential stress tests conducted during the year, with DTIs generally maintaining capital adequacy ratios above the industry benchmark in response to hypothetical market, credit and liquidity shocks. There was a slower growth in loans and a slight deterioration in loan quality among the DTIs, as a wide cross-section of borrowers experienced difficulties associated with the COVID-19 pandemic. In response to the difficulties being experienced by clients, DTIs introduced moratorium facilities which were aimed at cushioning the impact of the pandemic. For the year, DTIs generally recorded lower profits, largely reflecting reduced interest income associated with the slowdown in loan growth and increased use of moratorium facilities.

Payment, Clearing and Settlement System Oversight

During the year, Bank of Jamaica's oversight of the National Payment System remained focused on mitigating systemic risk and improving the safety and efficacy of the payment, clearing and settlement framework for domestic payments. The Bank also continued policy formulation initiatives aimed at promoting innovations in financial technology. These initiatives included the implementation of the first phase of the foreign exchange trading platform, the launch of the Bank of Jamaica Fintech Regulatory Sandbox as well as the initiation of a project for the establishment of a Central Bank Digital Currency. The Bank also revised and circulated its National Retail Payment Strategy to its stakeholders for feedback. This strategy aims to promote safe, efficient and modern electronic retail payment services.

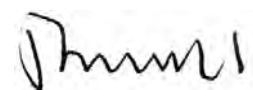
Financial Inclusion and Deepening

Bank of Jamaica continued to coordinate the implementation of the National Financial Inclusion Strategy through the Financial Inclusion Technical Secretariat. Notable progress was made on its action items, particularly as it related to promoting the use of electronic retail payment services, improving access to financing for micro, small and medium-sized enterprises and increasing public awareness of the national financial inclusion strategy. The Bank also continued to lead the implementation of Jamaica's financial deepening agenda supported by the Financial Services Commission, the Jamaica Stock Exchange and the Development Bank of Jamaica. Key initiatives under this programme include the implementation of a reverse factoring electronic platform, standardizing asset quality by incentivizing the use of independent credit ratings as well as the establishment of a trading platform for fixed income securities.

Communication

Despite the onset of the COVID-19 pandemic, effective and clear communication on price stability and financial system stability issues continued to be an important aspect of the Bank's work in 2020, given its mandate. Accordingly, Bank of Jamaica continued its communication and engagement activities aimed at concretising an environment of low, stable and predictable inflation as well as promoting financial system stability. There was a scale-down in public face-to-face outreach programmes. However, the Bank increased its communication via virtual methods, which included the introduction of an "Inflation Watch" programme. Other special reports on the monthly inflation numbers were published on the Bank's social media platforms and in the formal media. These communication initiatives were aimed at encouraging greater confidence in the Bank's policy initiatives and objectives, particularly in the context of the Bank's transition towards a full-fledged inflation targeting policy framework.

Although 2020 was a challenging year for Jamaica and the rest of the world, Bank of Jamaica remained committed to its mandate. This commitment will continue to guide our work going forward. I wish to thank the members of the Board, management and staff for their diligence and extraordinary commitment to excellence as the Bank seeks to become the world's leading central bank.



Richard Byles



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

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


ROLE AND FUNCTIONS

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

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

Our Mission Statement



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

1. Monetary Policy

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

2. Financial System Stability

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

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

Other Responsibilities

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

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

Developments in 2020

During 2020, the Bank of Jamaica (Amendment) Act, 2020 was passed by the Houses of Parliament and effected amendments to the Bank of Jamaica Act and related legislation. The amendments include revisions to the Bank's mandate to make the maintenance of price stability and financial system stability as the Bank's principal objectives, with price stability as the primary objective.

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

The Governor General's assent of the Act was obtained on 22 December 2020 and the Act will come into operation on a date to be appointed by the Minister of Finance and the Public Service.



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



GOVERNANCE

GOVERNANCE

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

Minister of Finance and the Public Service, each 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 2020, the ex-officio members of the Board of Directors were Governor Richard Byles (Chairman), Senior Deputy Governor Dr Wayne Robinson (who succeeded Mr. John Robinson in this position effective 01 October 2020), and Financial Secretary, Ms. Darlene Morrison. The appointed members of the Board were Dr Christine Clarke, Mrs. Andrea Coy, Mr. Gary Hendrickson and Dr Wayne Henry who were each reappointed for a three-year period with effect from 09 November 2020. Mr. Weiden Daley, the newest member, was appointed to the board for a three-year period effective 09 November 2020. There was one vacancy on the Board at end-2020.

- **Board of Directors' Meetings**

The Board held 11 meetings in 2020. The legal stipulation is for the Board to meet at least ten times annually (see **Table 1**).

- **Committee Meetings of the Board**

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

The Audit and Risk Committee is chaired by Dr Christine Clarke. In 2020, this committee held five meetings. The Budget Committee is chaired by Mr. Gary Hendrickson. This committee met twice in 2020, satisfying the minimum requirement. The HRD Committee which is chaired by Mrs. Andrea Coy, meets as is necessary. Five meetings were held during 2020 (see **Table 1**).

Table 1: Board of Directors' Meetings for 2020

Committee	Chair	Mandate	No. of meetings
Board of Directors	Governor Richard Byles	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.	11
Audit and Risk Committee	Christine Clarke	This 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.	5
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	This Committee has the responsibility for reviewing, monitoring and making recommendations to the Board on human resources strategy and policies.	5

Statutory Committees

The Banking Services Act (BSA) of 2014 and amendments to the Bank of Jamaica Act in 2014 and 2015 resulted in the establishment of statutory committees to allow the Bank the opportunity to more effectively and efficiently deliver on its supervision and financial system stability functions. These committees are: Supervisory Committee (SC), Financial System Stability Committee (FSSC) and Financial Regulatory Committee (FRC). Meetings of the statutory committees are chaired by the Governor (see **Table 2**).

● Supervisory Committee

The Supervisory Committee is responsible for functions set out in the BSA, which include making determinations on the granting, refusal and revocation of licences, among other matters. The SC is comprised of five members, three of whom are ex-officio and two who are appointed by the Governor General on the advice of the Minister of Finance and the Public Service, after consultation with the Supervisor of banks, financial holding companies and other specified financial institutions ("the Supervisor"). The Governor is the Supervisor as provided by the Bank of Jamaica Act. Ex-officio

members of the SC are the Supervisor, the Deputy Supervisor and a member of the senior executive staff of the Bank who has responsibility for the Bank's financial stability oversight. At 31 December 2020, the members of the SC were Governor Richard Byles as the Supervisor, Deputy Supervisor Maurene Simms, Senior Deputy Governor Dr Wayne Robinson, Ms. Shirley–Ann Eaton and Professor David Tennant. The SC had nine meetings during 2020.



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



● Financial Regulatory Committee

The Financial Regulatory Committee (FRC) was established pursuant to the 2014 amendment of the Bank of Jamaica Act. 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 2020, the members were; the Governor, the Financial Secretary, the Executive Director of the Financial Services Commission (FSC) and the CEO of the Jamaica Deposit Insurance Corporation (JDIC). The FRC is statutorily required to meet at least seven times each year. During 2020, seven meetings were held.

● 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.

There are eight members of the FSSC: six ex–officio members and two members appointed by the Minister of Finance and the Public Service on the recommendation of the Governor. The ex–officio members of the Committee are the Governor, the senior officer of the Bank with assigned responsibility for the Bank's financial system stability mandate, the Financial Secretary, the Deputy Supervisor, the Executive Director of the FSC and the Chief Executive Officer of the JDIC. At 31 December 2020, the members were Governor Richard Byles, Senior Deputy Governor Dr Wayne Robinson, Deputy Supervisor Maurene Simms, Financial Secretary Darlene Morrison, Mr Everton McFarlane (Executive Director of the FSC) and Miss Antoinette McKain (Chief Executive Officer of JDIC). Mr David Marston and Professor Claremont Kirton were each appointed for a three–year term effective 02 January 2020. Seven meetings of the FSSC were held during 2020.

Table 2: Statutory Committees Meetings for 2020

Committee	Mandate	No. of meetings
Supervisory Committee	To provide prudential regulation and supervision of deposit-taking institutions and their financial groups.	9
Financial System Stability Committee	To identify, mitigate and control systemic threats to the financial system.	7
Financial Regulatory Committee	To facilitate information sharing, coordination and cooperation among regulatory authorities.	7

Bank of Jamaica (Amendment) Act, 2020

In December 2020 the Bank of Jamaica (Amendment) Act, 2020, which incorporates proposed amendments to the Bank of Jamaica Act and related legislation, was passed by the House of Representatives and the Senate. The Governor General's assent of the Act was obtained on 22 December 2020 and the Act will come into operation on a date to be appointed by the Minister of Finance and the Public Service. These provisions will include amendments to the governance framework of the Bank including the governance of the Board and statutory committees.

Accordingly, the Act now reflects:

- the mandate of the Bank is the maintenance of price stability and financial system stability with the primary objective being the maintenance of price stability;
- revised appointment mechanisms, composition requirements and tenure for the Board;

- statutory fit and proper requirements for Board and statutory committee appointments; and
- provisions designed to improve the financial independence of the central bank from central government. This means:
 - a) reflecting the statutory minimum capital requirement as a percentage of monetary liabilities; restricting the ability to make temporary advances to the Government; and prohibiting the central bank from acquiring on a primary issue securities offered or guaranteed by the Government; and
 - b) exempting the central bank from the requirements of the Public Bodies Management and Accountability Act (PBMA). In this regard, Regulations that will substantially incorporate the governance principles for public bodies under the PBMA are also proposed under the BOJ Act.

Executive Compensation

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

the Public Service, as provided for under the Bank of Jamaica Act.

The salary and allowances of Executive Management for the year ended 31 December 2020 are described below:

- a. Salary Range of Executive Management
\$10 843 400.00 to \$25 956 000.00
- b. Allowances – Deputy Governors
\$1 407 216.00 to \$4 886 100.00

Members of the Executive Management team are eligible for benefits available to other members of staff, inclusive of health insurance, life insurance and staff loans. At end-2020, the Senior Deputy Governor and two of the Deputy Governors were members of the non-contributory pension scheme sponsored by the Bank. The Governor and three Deputy Governors were paid a gratuity in lieu of pension benefits.

The Governor is entitled to be provided with an official residence maintained by the Bank or an allowance and reimbursements in lieu thereof. He is

also eligible for reimbursement of prescribed overseas medical insurance premium.

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

Non-Executive Directors of the Board who are also non-ex-officio members are paid an annual retainer and per meeting fees as approved by the Minister of Finance and the Public Service. These Directors are not eligible for staff related benefits.

Non-executive members of the statutory committees who are also non-ex-officio members are also paid an annual retainer and per meeting fees as approved by the Minister of Finance and the Public Service. This applies to the Supervisory Committee and the Financial System Stability Committee. The non-ex-officio members of Statutory Committees are not eligible for staff related benefits.



ADMINISTRATION

Annual Employee Awards Ceremony



(L – R) Radcliffe Campbell (Security Operations Manager), Melanie Williams (Financial Inclusion Programme Coordinator) Sheena Woodburn Francis (Head, Staffing and Performance Management) and Mark Hitchner (Banking Officer) at the Bank's 2020 Employee Awards Ceremony.

ADMINISTRATION

In the context of the need for increased flexibility in working arrangements, along with the Bank's talent attraction and retention thrust, a Work from Home Policy was developed and approved in 2020. Additionally, during the period, significant progress was made in the delivery of a number of strategic initiatives to include the relaunch of the Succession Management Programme, the introduction

of the Bank's Learning Management System and increased staff engagement initiatives. The Bank also took significant steps to ensure that it was properly structured and resourced in the context of new and expanding mandates. The delivery of the HR programme was significantly impacted by the COVID-19 pandemic, however, adjustments were made to ensure the successful completion of the programme

The Bank continues Organizational Reviews

During 2020, the Bank continued the thrust towards strengthening its organizational structure to improve efficiency and effectiveness. In this regard, it undertook a review of the high-level organizational structure as well as completed the review of 18 work units which were approved for implementation. Interim reviews were also undertaken for specific roles and functions within select portfolios to ensure appropriate job design, pending full reviews of the divisions/departments. Additionally, a number of HR policies and procedures were reviewed to ensure relevance and consistency.



Team members at the Bank's 2020 Strategic Kick-off meeting.

Learning and development goes virtual

The focus for 2020 was on improving the leadership and managerial competencies within the Bank as well as the general development of staff through targeted interventions. In keeping with global trends, the Bank shifted from the traditional face-to-face instructor-led training to learning within the virtual space through the introduction of a new Remote Learning Strategy. During the year, 122 targeted training courses were executed, of which 75 or 61.0 per cent were online.



Team members with special guests Ity and Fancy Cat at the Bank's Staff Comedy hour.



BOJ increases staff complement in 2020

At 31 December 2020, the Bank's staff complement was 646, comprising 440 permanent staff and 206 staff on fixed-term contracts. During the year, 52 persons were recruited while 29 staff members exited the organisation, either through retirement, resignation or the conclusion of their contract.

Employee relations stable notwithstanding COVID-19 pandemic

The employee relations climate remained stable during the year. Although planned engagement initiatives were negatively affected by the onset of the COVID-19 pandemic and the restrictions that ensued, alternative initiatives were implemented via the utilization of virtual platforms. During 2020, the Bank relaunched the House System. This System is intended to foster greater bank-wide engagement through social and recreational activities, sporting and non-sporting in nature. Of significance, the Bank celebrated its Annual Employee Recognition Week during the period 15 – 20 November 2020. Key events included a

Thanksgiving Service, the Employee Recognition and Awards Ceremony, the Bank's "Click and Win" quiz and Bank of Jamaica's "Gratitude is a Must" talk show. A number of general staff meetings and divisional meetings were also held during the year.

The industrial relations (IR) climate significantly improved during the year. There were no unresolved IR issues at end- December. Wages and fringe benefits negotiations for unionised staff commenced and were concluded during the year.

31 persons attained pensionable status

The membership in the BOJ Pension Fund was 1 066 at 31 December 2020. This comprised of 437 active members, 436 pensioners, 151 deferred pensioners and 42 beneficiaries (37 spouses and five dependent children). Of the 437 active members, 281 or 64.0 per cent were vested. During the year, 31 persons attained pensionable status, 11 were staff members and 20 were deferred pensioners



Camaraderie on display at the Bank's Strategic Kick-off meeting in January 2020.



STRATEGIC PLAN

STRATEGIC PLAN

The final year of Bank of Jamaica's 2018–2020 Strategic Plan was unprecedented. The arrival of COVID-19 to Jamaica's shores meant that adjustments had to be made to work activities to ensure continued smooth daily operations of the

Bank whilst maintaining focus on strategic initiatives. Notably, because the relevant adjustments were made early, the Bank was able to make considerable progress on its strategy during the year.

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

In addition to adjusting the day-to-day operations and re-prioritizing strategic activities, the Bank formulated its strategic plan for the period 2021 – 2023. In charting the direction for the future, the Bank remained keenly focused on its mandate of price and financial system stability. The vision of being the world's leading Central Bank also remained a focus, leading to the prioritization of some ground-breaking projects. All the lessons, international and domestic, from the turmoil caused by the COVID-19 pandemic were taken into consideration in the planning exercise.

“All the lessons from the turmoil caused by the COVID-19 pandemic were taken into consideration in the planning exercise”



Governor Richard Byles

Achievements in 2020

The Bank performed reasonably well on its strategy in 2020

Notable activities and successes for the year included:

1. Providing technical support in the process that led to the passage of the Bank of

Jamaica (Amendment) Act in December 2020. The Act strengthens the governance of the Bank, facilitates its independence in carrying out its mandate and bolsters its balance sheet;

2. Implementing the first phase of a Foreign Exchange Trading Platform. Deposit-taking institutions and cambios can now place

orders to buy and sell US dollars on the platform and have the trades executed there. This has improved transparency in the market;

3. Implementing a system– Bloomberg Aim, that will enhance the manner in which the country’s foreign reserves are managed;
4. Publishing Service Level Standards to the financial industry for the first time as well as establishing mechanisms to track performance against these standards. This sets the stage for improving service delivery to our stakeholders;
5. Executing a suite of initiatives to educate the public about the Bank’s mandate to maintain price stability;
6. Reviewing the high-level organizational structure of the Bank as well as determining the future operating model and defining the capabilities required to support the new mode; and
7. Executing a range of activities to keep the team engaged in the context of the COVID-19 pandemic.

BOJ finalizes strategic plan for 2021-2023

Formulation of the 2021 – 2023 strategic plan commenced at the beginning of the year using a participatory approach. The process involved a series of strategic planning sessions with participation by senior management and 110 other officers of the Bank at various stages. A revised Strategy Map came out of this work, along with an accompanying revised Balanced Scorecard. These revised documents outline the objectives of the Bank for the new strategic horizon, how performance on the objectives will be measured and the strategic projects that will be undertaken to meet the objectives. Of note, the revised Strategy Map and Balanced Scorecard are more concise and should help the Bank to be even more focused in the execution of its strategy.



Members of BOJ's Senior Executive Management at a virtual Quarterly Press Briefing.



MONETARY POLICY



Senior Deputy Governor Wayne Robinson and Deputy Governor Robert Stennett responding to questions from the press at a Quarterly Press Briefing.

MONETARY POLICY

Jamaica's macroeconomic environment was adversely impacted by the COVID-19 pandemic in 2020. In response, Bank of Jamaica kept its focus on achieving and maintaining inflation within the target of 4.0 per cent to 6.0 per cent. In addition, the Bank implemented several initiatives aimed at improving liquidity in the financial system and fostering orderly adjustments in the exchange rate. During the year, the Bank maintained an accommodative monetary policy stance aimed at supporting a stable macroeconomy throughout the period of the pandemic as well as to engender a

speedy and sustained economic recovery once the challenge passes. The Bank remained focused on ensuring that inflation remains low, stable and predictable within the target range and stood ready to deploy additional measures, as appropriate, to support a sustainable economic recovery. Subject to inflation remaining well behaved, the Bank intends to maintain this accommodative monetary policy posture until there are clear signs that economic activity in Jamaica is returning to pre-COVID-19 levels.

Bank of Jamaica held policy interest rate at 0.50 per cent throughout 2020

During 2020, Bank of Jamaica maintained an accommodative monetary policy stance. Specifically, the policy interest rate was held at 0.50 per cent per annum throughout the course of the year (see **Chart 1**). The Bank kept the policy rate at this historic low based on its assessment that inflation will generally remain within the target of 4.0 per cent to 6.0 per cent over the next two years. This very low interest rate also served to encourage recovery in economic activity amidst the ongoing COVID-19 pandemic. BOJ also proactively implemented a number of initiatives aimed at preserving financial system stability and ensuring the continued smooth functioning of the foreign exchange market (see **Box: Impact of COVID-19 on Bank of Jamaica's Operations in 2020**).

Consistent with the unchanged policy rate, the rate on the Bank's Standing Liquidity Facility (SLF) remained at 2.50 per cent¹. This translated to an interest rate corridor width of 2.0 percentage points, in line with that of the previous year. This action continued to support the signaling effect of the Bank's monetary policy actions.

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

Other policy measures taken during the year are discussed in **Box: Impact of COVID-19 on Bank of Jamaica's Operations in 2020**.

Chart 1: Policy interest rates
(percentage rate)



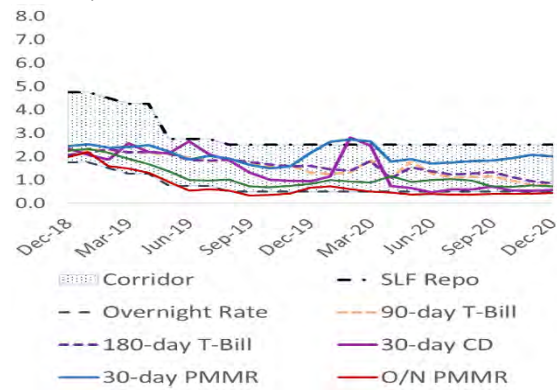
Source: BOJ

Market rates converged to the policy rate

In the context of the unchanged low policy rate, market interest rates continued their downward trend in 2020. Improved liquidity conditions and the Bank's monetary policy signals were also major contributory influences in the continued downward trend in market interest rates (see **Chart 2**). In this regard, the weighted average yields on GOJ 180-day Treasury Bills (T-Bills) declined to 0.86 per cent at end-2020 from 1.60 per cent at end-2019. Similarly, there were declines in the daily averages of private money market rates during the year. In

addition, the weighted average lending rate on bank loans to the private sector as at December 2020 was 12.07 per cent, a decline of 0.69 percentage point relative to December 2019.

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



Source: BOJ

BOJ successful in keeping inflation within target despite COVID-19 pandemic

Notwithstanding the impact of the COVID-19 pandemic, Bank of Jamaica was successful in keeping inflation within its target of 4.0 per cent to

6.0 per cent for 2020.² Inflation remained within the target for 11 months, with the outturn in June

2020 breaching the upper limit due to a temporary shock in agricultural food prices associated with drought conditions (see **Chart 3**). During the year, inflation generally moderated relative to 2019 in a context where there was a deceleration in food prices, in particular, those for vegetables and starches. Additionally, inflation was relatively contained in the context of lower crude oil prices as well as a reduction in transport-related costs, related to a fall in demand for transport services. In contrast, prices for goods and services within the Health and Personal Care divisions increased during the year, influenced by a shift in consumption patterns partly due to the COVID-19 pandemic.

Underlying (or core) inflation (which removes from headline inflation the impact of changes in volatile food and fuel prices) was 3.6 per cent at December 2020, an uptick from the 2.9 per cent in the previous year. Inflation expectations also increased to 7.2 per cent at December 2020, above the upper-end of the Bank’s inflation target.

Chart 3: Inflation rose above target once in 2020 (annual per cent)



Source: STATIN, BOJ

² The April 2020 Consumer Price Index bulletin introduced a new CPI series. The goods and services included in the new CPI

basket and the weights associated with each item are based on the 2017 Household Expenditure Survey.

Economic Developments in 2020

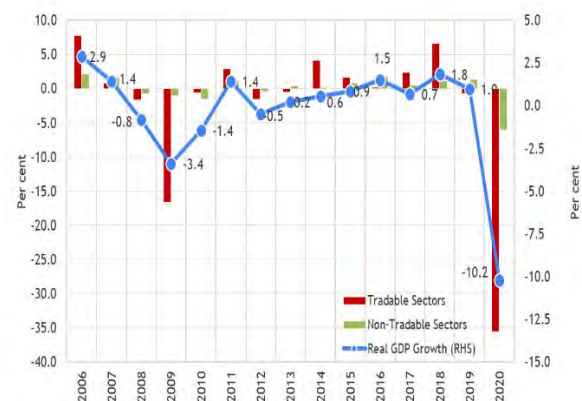
Jamaican economy contracts due to COVID-19 pandemic

Real economic activity contracted sharply in 2020 relative to the previous year. The economy declined by an estimated 10.2 per cent in 2020, relative to the growth of 1.0 per cent in 2019 (see **Chart 4**). The estimated contraction for 2020 largely reflected the adverse impact of COVID-19 on travel, production, distribution and entertainment activities. In this regard, there were significant reductions in value added in the services industries, in particular, Hotels & Restaurants, Other Services and Transport, Storage & Communication. These industries were adversely affected by the reduction in travel as well as lower activity at the ports during 2020.

Output in other industries such as, Manufacturing, Electricity & Water and Wholesale & Retail Trade were estimated to have declined, reflecting the impact of lower demand. The decline in Wholesale & Retail Trade largely reflected the negative impact of reduced output levels in the Agriculture, Manufacturing and Construction industries as well

as a decrease in the importation of goods. With regard to Electricity & Water, electricity consumption was lower given reduced business activity, particularly in the tourism and education sectors. Construction was adversely affected by the delays in rehabilitation works and declines in building construction and installation.

Chart 4: The Jamaican economy contracted (percentage change in GDP)



Source: STATIN, BOJ



Members of BOJ’s Senior Executive Management and Communications Director Tony Morrison (L – back row) at a virtual press briefing.

“ The increase in the unemployment rate reflected declines of 5.1% in employment and a decline of 2.6% in the labour force ”

For Agriculture, Forestry & Fishing, the decline largely reflected lower crop production due to the impact of the October 2020 flood rains. The contraction in Mining largely reflected lower capacity utilization at the alumina and bauxite plants due to reduced demand arising from the global pandemic as well as the closure of a large alumina plant. For Transport, the industry was affected by a reduction in the demand for public passenger transport due to the implementation of work-from-home policies and the closure of schools.

Producers of Government Services was the only industry that recorded growth during the year. This growth was due to increased employment of workers for the implementation of programmes aimed at curtailing the spread of the COVID-19 virus within the island.

Labour market conditions weakened in 2020. This was manifested in an increase in the unemployment rate by 2.5 percentage points to an average of 10.2 per cent in 2020, relative to the previous year (see **Chart 5**). The increase in the unemployment rate reflected declines of 5.1 per cent in employment and a decline of 2.6 per cent in the labour force (see **Table 3**).

Despite the adverse impact of the COVID-19 virus on the Jamaican economy, the Government remained resolute in its effort to maintain fiscal prudence and management as outlined in its fiscal responsibility law. In this regard, the Government of Jamaica in April 2020 tabled an early supplementary

Chart 5: Unemployment fell to an all-time low – Annual Averages
(percentage)

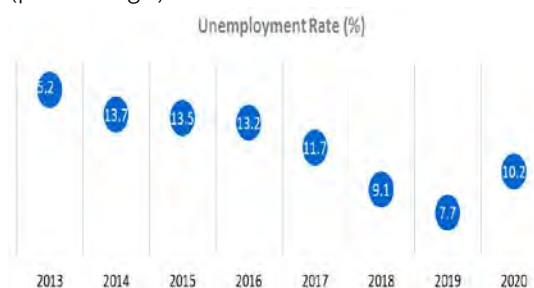


Table 3

SELECTED LABOUR FORCE INDICATORS			
	2019	2020	% Change
Total Labour Force ('000)	1,349.0	1,314.2	-2.6
Employed Labour Force ('000)	1244.9	1,181.1	-5.1
Unemployment Rate (%)	7.7	10.2	2.5
Job Seeking Rate (%)	4.9	5	11.9

budget for FY2020/21 which included initiatives to combat the impact of COVID-19 on the economy. The first supplementary budget included an increase in expenditure of approximately \$16.0 billion, which largely facilitated a fiscal stimulus package, in particular, the COVID-19 Allocation of Resources for Employees Programme (CARE).³

The reduction in real economic activity influenced declines in several tax types, particularly those in the international trade and the production & consumption categories. The fall-out in international trade taxes was mainly attributable to lower imports and visitor arrivals due to the impact of travel restrictions imposed in the Island as well as by source countries. Lower production & consumption tax inflows were due primarily to reduced economic activity resulting from the lock down of the country in the March and June 2020 quarters as well as various restrictions employed to limit the spread of the virus. Consequently, the

³ The CARE Programme package involved the temporary transfer of cash to individuals and businesses to cushion the impact of the pandemic on the economy.

Government under the Financial Audit and Administration Act (FAA Act) postponed the debt target of 60.0 per cent of GDP to March 2028 from March 2026.⁴ Additionally, in keeping with its commitment to building domestic policy institutions, the Government tabled legislation to establish an independent Fiscal Commission. The Fiscal Commission would be the custodian of Jamaica's fiscal rules and monitor compliance with these rules, report on fiscal outcomes and keep the public informed by providing independent analysis on fiscal developments.

Central Government operations for April–December 2020 resulted in a fiscal deficit of 3.4 per cent of GDP, in comparison to the budgeted deficit (second supplementary) of 3.6 per cent of GDP.⁵ The outturn reflected lower-than-budgeted expenditure as well as marginally higher-than-budgeted Revenue & Grants.

Jamaica had contrasting sovereign ratings in 2020

There were contrasting sovereign credit ratings from major credit rating agencies in 2020. In particular, on 10 April 2020, Fitch Global Ratings reaffirmed Jamaica's long-term foreign and local currency issuer default ratings at 'B+' and revised its outlook

on Jamaica from "positive" to "stable". The agency's revised outlook for Jamaica stemmed from the adverse impact of the COVID-19 pandemic on the country's main sources of revenue: tourism and alumina exports. Notwithstanding, the agency outlined that Jamaica's macroeconomic stability would bolster its economy against the shock of the pandemic. The agency noted that Jamaica's "balanced budget in FY2019/20, liquid local sources of financing, reasonable foreign reserve position, strong relationship with international financial institutions and benign debt amortization profile" have all positioned it to resiliently withstand the shock of the pandemic.

On 08 December 2020, Standard & Poor's Rating Agency (S&P) affirmed Jamaica's long-term foreign and local currency ratings of 'B+' and maintained its "Negative" outlook on Jamaica. The agency's rating was unchanged despite the disruption to the productive sectors, particularly to the tourism industry due to the impact of COVID-19. Further, S&P noted that with the Government's commitment to fiscal prudence, Jamaica should begin to rebound from the COVID-19 shock in 2021, and fully recover in FY2022/23.

Outlook

Inflation forecasted to trend within target over the medium-term

Bank of Jamaica's most recent assessment indicates that annual headline inflation will trend around the midpoint of the 4.0 per cent to 6.0 per cent target over the medium-term. International commodity prices (crude oil and grains) are expected to trend upwards over the medium term as the global economy recovers

from the pandemic. However, the recovery in the prices of these commodities is not expected to pose a significant risk to domestic inflation. Additionally, domestic agricultural food production is expected to continue recovering from the adverse weather conditions in 2020. Consequently, Bank of Jamaica's policy posture is expected to remain accommodative, geared towards maintaining

⁴ Embedded in this responsibility framework is the target of obtaining a debt/GDP ratio of 60.0 per cent. This target was originally set for FY2025/26 but has been postponed to FY2027/28. Under the framework, circumstances beyond the governments control can trigger the escape clause to the postponement of targets. These include: natural disaster, severe

economic downturn, health and other disasters as well as public emergencies.

⁵ For comparison, the GDP used was that in the second supplementary budget, that is, \$2,070.0 billion.

inflation within the target while fostering an environment conducive to recovery in economic growth.

Near-term outlook for growth is expected to be positive

Growth in aggregate spending over the near-term is expected to be driven by increases in all components, particularly net external demand and investment. This growth is predicated on improvement in external and domestic demand conditions as the impact of the COVID-19 pandemic lessens, given increased vaccination in various countries. This forecast assumes expansions primarily in Hotels & Restaurants and its related industries as well as Agriculture, Forestry & Fishing,

Construction and Manufacturing. In the context of this outlook, Bank of Jamaica projects that real GDP growth will stabilize in the range of 2.0 per cent to 3.0 per cent over the medium-term.



Governor Richard Byles and Senior Deputy Governor Wayne Robinson



BOJ QUARTERLY MONETARY POLICY PRESS CONFERENCE NOVEMBER 2020

HIGHLIGHTS FROM GOVERNOR BYLES' ADDRESS

Inflation Performance:

"...During the past 36 months leading up to October 2020, inflation has surpassed the upper limit of the target on only two occasions. This reflects a success rate of 94 per cent in keeping inflation below 6.0 per cent. As we have explained in the past, the reason for inflation going above target on those two occasions was largely related to temporary increases in agricultural prices because of droughts or floods and these prices retreated after those events, pulling inflation down with it..."



Links to more information

▶ Releases

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

▶ Additional Resources

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



FINANCIAL SYSTEM



The outbreak of Covid-19 will cause significant contraction in the global economy and may likely dampen domestic financial conditions.

DEBT REPAYMENT

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FINANCIAL SYSTEM

During the review year, the adverse effects from the COVID-19 pandemic on the international and domestic economies were observed in both the growth and quality of loans among DTI's. Nonetheless, bolstered by mitigating measures instituted by the Bank

to alleviate the impact of the pandemic, the sector continued to be well capitalized and profitable. In addition, the system remained sound and liquid. The sector also remained broadly robust to macro-prudential stress tests, maintaining capital adequacy ratios above the statutory minimum.

DTIs' balance sheets continued to expand despite the unfavourable impact of the COVID-19 pandemic

Notwithstanding the negative impact of the COVID-19 pandemic on the overall performance of the local economy, the total assets of DTIs grew by 11.8 per cent (\$214.0 billion), relative to the expansion of 10.6 per cent (\$173.0 billion) in 2019. This outturn primarily reflected expansions in cash, bank balances and, to a lesser extent, investments, as loan demand slowed in the context of the economic pressures associated with the spread of the pandemic.

The growth in total assets continued to be predominantly concentrated in domestic currency assets, which expanded by 11.2 per cent (\$131.7 billion) compared to growth of 12.4 per cent (\$130.1 billion) in 2019. At the same time, foreign currency assets increased at a faster pace of 13.0 per cent (\$82.3 billion) compared to 7.3 per cent (\$42.8 billion) in the previous year. The growth in foreign currency assets was largely influenced by the depreciation in the Jamaica Dollar relative to the US dollar, as foreign currency inflows were constrained by various restrictions on movement imposed to combat the pandemic.¹

DTIs' asset growth was predominantly funded by an increase of 16.8 per cent in customer deposits, which was largely denominated in domestic currency, as clients of DTIs engaged in precautionary savings in the context of the

heightened uncertainty. Supplemental financing for the expansion in the DTIs' asset base was obtained from wholesale funding sources and shareholders' equity.

The number and composition of supervised institutions operating in Jamaica at end-2020 remained at 11, of which eight were commercial banks, two building societies and one merchant bank (see **Tables 4 and 5**).

Table 4

MARKET COMPOSITION				
Number of Licensed Deposit-taking Institutions*				
Supervised Entities	2017	2018	2019	2020
Commercial Banks	8	8	8	8
Merchants Banks	1	1	1	1
Building Societies	2	2	2	2
Total	11	11	11	11

Source: BOJ

* The proposal by the Minister of Finance and the Public Service for assumption by Bank of Jamaica of full supervisory responsibility for credit unions, which numbered 25 as at 31 December 2020, will result in significant expansion of the supervised deposit-taking population.

¹ During 2020, depreciation in the Jamaica Dollar added \$50.9 billion to total asset growth, compared with \$23.4 billion in 2019.

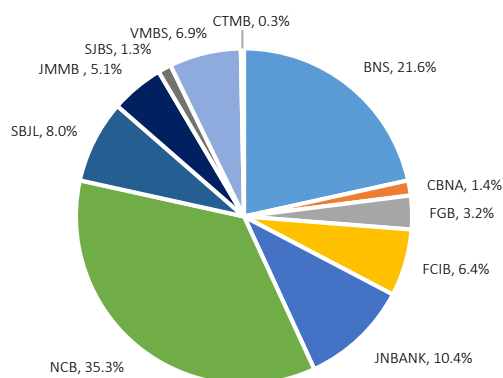
Table 5

LICENSED DEPOSIT-TAKING INSTITUTIONS	
As at 31 December 2020	
Commercial Banks	<ul style="list-style-type: none"> • Bank of Nova Scotia Jamaica Limited • Citibank N.A. • First Caribbean International Bank Jamaica Limited • First Global Bank Limited • JMMB Bank Limited • JN Bank Limited • National Commercial Bank Jamaica Limited • Sagicor Bank (Jamaica) Limited
Merchant Bank	<ul style="list-style-type: none"> • Cornerstone Trust and Merchant Bank Limited
Building Societies	<ul style="list-style-type: none"> • Victoria Mutual Building Society • Scotia Jamaica Building Society

Source: BOJ

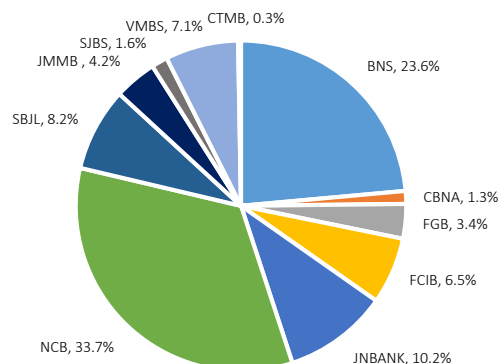
In terms of market share, the top five entities were unchanged for the fifth consecutive year, although there was a marginal reduction in the proportion of total system assets to 82.2 per cent in 2020 from 82.8 per cent in 2019 (see **Charts 6, 7 and 8**).

Chart 6: Market Share of Licensees in the DTI sector 31 December 2020



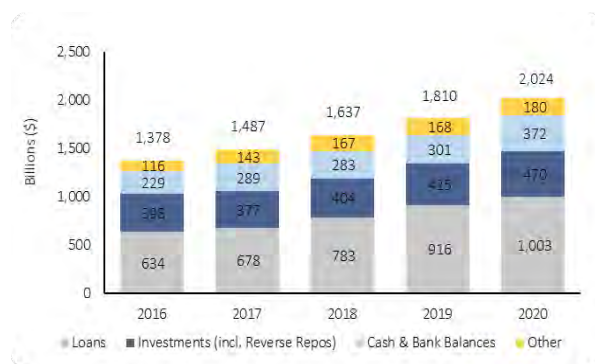
Source: BOJ

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



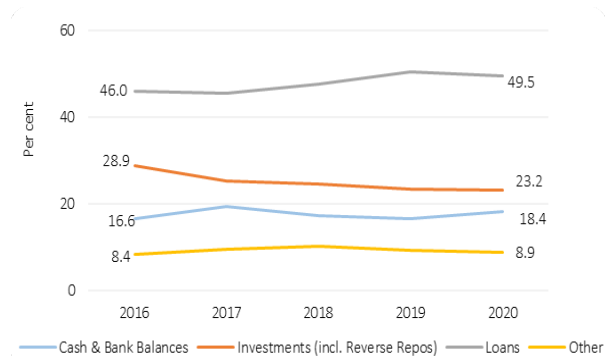
Source: BOJ

Chart 8a: Dollar Value Contribution of Assets 31 December 2016 – 2020



Source: BOJ

Chart 8b: Percentage Share of System Assets 31 December 2016 – 2020



Source: BOJ

Cash, bank balances and investments featured as 'safe haven' assets for DTIs

During 2020, cash and bank balances increased substantially by 23.4 per cent (\$70.6 billion) compared with growth of 6.5 per cent (\$18.3 billion) in 2019. The growth in 2020 reflected increased placements with overseas banks (\$33.7 billion) and domestic currency current account holdings at BOJ (\$25.4 billion) as DTIs stored excess liquidity from net customer deposit inflows. Consequently, cash and bank balances as a share of total assets grew to 18.4 per cent at end-2020 from 16.7 per cent at end-2019.

Similarly, the securities holdings of DTIs expanded by a higher rate of 10.5 per cent (\$44.6 billion) at end-2020 relative to 5.1 per cent (\$20.6 billion) at end-2019. This faster pace of growth in investments reflected increased holdings in foreign currency GOJ debt (\$34.0 billion) and domestic currency BOJ securities (\$28.3 billion) as DTIs channeled liquidity into low-risk securities. There was, however, a partly offsetting impact from contractions in overseas government and corporate debt (\$14.1 billion), as licensees reduced their exposure to jurisdictions and business sectors heavily affected by the pandemic. DTIs also reduced their holdings in domestic currency GOJ investments (\$6.6 billion) following their participation in the BOJ asset buyback programme which was implemented to stymie the adverse liquidity effects of the pandemic on the financial system.

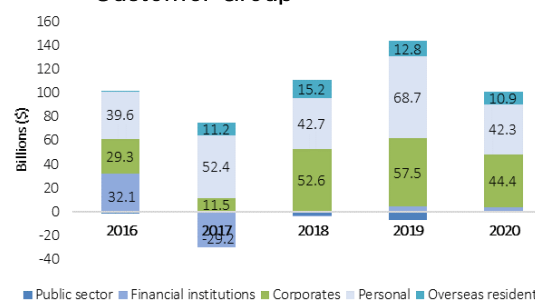
Deceleration in loan growth was primarily reflected in lower demand for personal credit

Net loans & allowances increased by 9.5 per cent (\$87.1 billion) during 2020, the lowest annual growth in credit observed since end-2017.² The deceleration in loan growth was consistent with creditors' expectation for a decline in credit demand. Notably, growth in personal loans decelerated to 8.7 per cent (\$42.3 billion) from

² During 2019, the growth in net loans & allowances was 17.0 per cent (\$133.0 billion).

16.5 per cent (\$68.7 billion) in 2019. Corporate loans also reflected a slowdown in growth to 12.7 per cent (\$44.4 billion) from 19.6 per cent (\$57.5 billion) in 2019, although increased disbursements were reported in some economic sectors as businesses obtained credit for working capital needs and funding arrangements made prior to the pandemic.³ The slower growth in loan demand was attributed to worsening labour market conditions and a general reduction in the loan servicing capacity of businesses due to the general fallout in income on account of the pandemic.^{4 5}

Chart 9: Dollar Value Change in Loans by Customer Group



Source: BOJ

Domestic currency loans were the primary drivers of total loans with growth of 11.4 per cent (\$83.4 billion), albeit, slower than the previous year's increase of 17.2 per cent (\$107.0 billion). Foreign currency loans expanded by 8.7 per cent (\$17.7 billion) during 2020, reflective of the impact of revaluation gains on the reduced stock of foreign currency facilities, which contracted by US\$16.2 million.

³ During 2020, notable growth was reported in the Tourism sector, which increased by 35.2 per cent compared with contraction of 5.3 per cent in 2019. The Entertainment industry grew by 17.8 per cent in 2020 relative to a decline of 10.1 per cent in 2019. On the other hand, slower growth and contractions were recorded in the Distribution, Communication and Utilities sectors.

⁴ According to STATIN, the unemployment rate in Jamaica was 10.7 per cent at October 2020, compared with 7.2 per cent at October 2019.

⁵ According to the latest Jamaica Chamber of Commerce Business and Consumer Confidence Survey (July – September 2020), 62.0 per cent of businesses in Jamaica reported a loss in revenue since the onset of the COVID-19 pandemic.

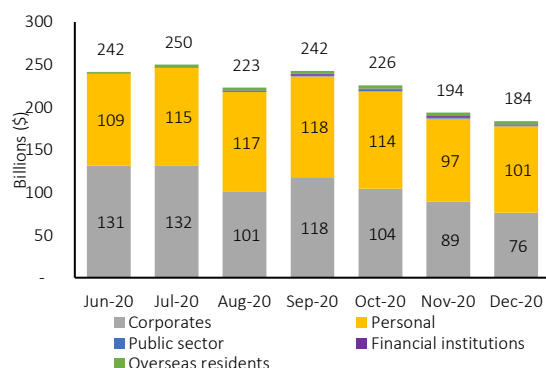
Consequent on these developments in customer loans, at end-2020, gross loans accounted for a lower share of total assets (51.0 per cent) relative to the previous year (51.5 per cent).

DTIs offered payment holidays to cushion the impact of the pandemic on asset quality

In an effort to ease the financial burden of customers following the onset of the COVID-19 pandemic, DTIs extended loan moratoriums with payment holidays ranging from 3 months to 6 months. As at 31 December 2020, the stock of loans granted moratorium stood at \$183.6 billion and represented less than one fifth of the stock of total loans. Most deferral arrangements were granted to domestic currency facilities, accounting for 81.9 per cent of all moratoriums. By customer group, corporate clients and individuals were the main beneficiaries of payment holidays (see **Chart 10**).

Compared with inaugural data at end-June 2020, the stock of loans under deferral arrangements at December 2020 reflected a decline of 24.0 per cent (\$58.0 billion), as payment holidays expired for the majority of DTIs. The decline was especially observed for sectors that were earliest and most severely impacted by the pandemic.

Chart 10: Dollar Value Composition of Loans Under Moratorium by Customer Group

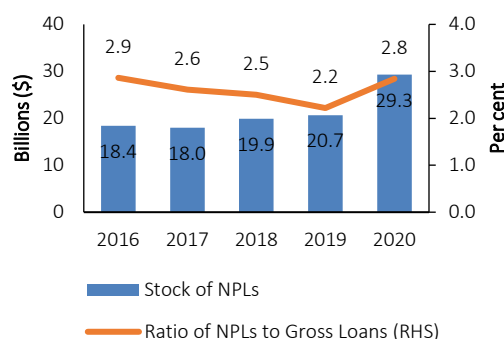


Source: BOJ

Asset quality deteriorated as the debt servicing ability of borrowers declined

During 2020, the stock of non-performing loans (past due 3 months and over) (NPLs) grew by 41.9 per cent (\$8.7 billion) compared with 4.0 per cent (\$0.8 billion) in 2019. The increase in delinquencies was primarily reported in loans to individuals (\$5.4 billion), followed by corporates (\$2.7 billion) and overseas residents (\$0.6 billion), as the debt servicing capacity of borrowers was impaired by the economic fallout from the pandemic. As a result, asset quality, measured by the ratio of total NPLs-to-total loans, deteriorated to 2.8 per cent, the highest share of non-performing facilities reported since end-2016 (see **Chart 11**).

Chart 11: Stock of NPLs with Ratio of NPLs to Gross Loans



Source: BOJ

On the other hand, past due loans (PDLs) declined by 16.0 per cent (\$5.9 billion) from 18.6 per cent (\$5.8 billion) in the previous year, as delinquent facilities at some institutions transitioned to non-performing status, and other DTIs implemented credit quality strategies to mitigate against the increased credit risk. As a result, the leading indicator of asset quality, measured by the ratio of total PDLs-to-total loans, improved to 3.0 per cent at end-2020 compared with 4.0 per cent at end-2019.

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

As the quality of the lending environment deteriorated, DTIs increased loan loss provisions by 35.2 per cent (\$9.0 billion) during the year, relative to growth of 14.1 per cent (\$3.2 billion) for the 2019. However, the faster rate of growth of NPLs resulted in a decline in DTIs' coverage of NPLs via provisions to 118.2 per cent of NPLs in 2020 from 124.1 per cent in 2019. Notwithstanding this decline, provisions were sufficient to meet any future decline in loan quality.

As at end-2020, both the Primary Ratio and Capital Adequacy Ratio (CAR) were comfortably above their respective statutory minima of 6.0 per cent and 10.0 per cent with outturns of 10.9 per cent and 14.3 per cent, respectively.

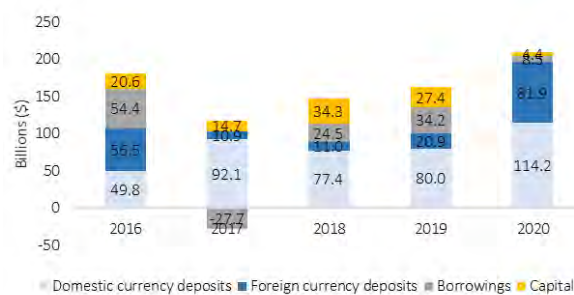
Liability funding remained resilient

Customer deposits recorded net growth of 16.8 per cent (\$196.1 billion) in 2020 compared with the increase of 9.4 per cent (\$100.9 billion) in 2019. The outturn for 2020 reflected an increase of 18.4 per cent (\$81.9 billion) in the Jamaica Dollar equivalent of foreign currency deposits and growth of 15.8 per cent (\$114.2 billion) in domestic currency accounts (see **Chart 12a**). The substantial growth in deposits primarily mirrored the increased inflows into accounts held by local individuals, non-deposit taking financial institutions and overseas residents.

In the context of a slowdown in credit demand and an expansion in customer deposits, DTIs reduced their reliance on borrowings (including securities sold under repurchase agreements) to satisfy funding needs. Consequently, borrowings grew by 3.4 per cent (\$8.5 billion) compared to growth of 15.7 per cent (\$34.2 billion) in 2019, primarily due to new repurchase agreements and net funding from overseas banks. During the year, shareholders' equity, a non-traditional source of funding, recorded growth of 1.6 per cent (\$4.4 billion) relative to expansion of 11.6 per cent

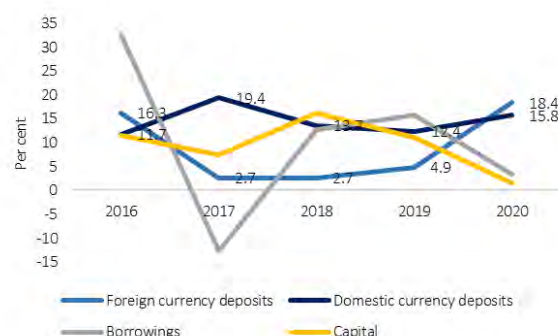
(\$27.4 billion) in 2019, in light of contractions in other non-distributable reserves related to actuarial losses on pension fund reserves as well as reduced fair value gains on investments and a general decline in profitability.

Chart 12a: Dollar Value Change in Funding Sources



Source: BOJ

Chart 12b: Rate of Growth in Funding Sources



Source: BOJ

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

Despite the increase in foreign exchange risk that emanated from foreign currency supply disruptions caused by the COVID-19 pandemic, DTIs maintained their risk exposure within prescribed limits. The average net open position (NOP) in foreign currency for the system, which is the primary measure of foreign exchange risk, reflected a net short position of 1.5 per cent of regulatory capital. This was well within the required limit of 15.0 per cent for long positions and 25.0 per cent for short positions.

Liquidity coverage was sufficient to meet short-term obligations

Following the full implementation of the liquidity coverage ratio (LCR), DTIs generally maintained compliance with the required minimum ratio of high-quality liquid assets (HQLAs) to net cash outflows (NCOFs).⁶ At end-November 2020, all licensees reported LCRs above the minimum requirement for the aggregated Jamaica Dollar equivalent of NCOFs in all currencies, ranging from a low of 138.3 per cent to a high of 715.6 per cent. All institutions were also compliant with the minimum requirement for Jamaica Dollar only components. However, one DTI registered insufficient coverage for NCOFs in one of its significant currencies. The Bank continues to monitor and dialogue with this entity.

During the year, DTIs were challenged in their coverage of short-term liquidity obligations as the impact of the economic downturn occasioned unexpected deposit withdrawals by customers and increased utilization of short-term wholesale funding by DTIs to meet liquidity needs. Notwithstanding, liquidity in the system remained buoyant following several policy measures implemented by BOJ to temper the impact of the pandemic on the availability of liquidity.⁷

DTIs remained Profitable in spite of significant headwinds brought on by the pandemic

For the year end-2020, pre-tax profits were adversely affected by the economic impact of the pandemic. Pre-tax profits amounted to \$25.0

⁶ Under the Basel III Framework, the LCR measures a DTI's capacity to fund its short-term obligations with HQLAs over a 30-day stress period. The minimum requirement for the LCR was set at 75 per cent from 30 November 2019, with the full requirement of 100 per cent effected on 30 November 2020. Licensees are expected to meet the LCR minimum requirement for the aggregated Jamaica Dollar equivalent of all currencies, and for each significant currency, where a significant currency is defined as one that comprises at least 5.0 per cent of a DTI's total liabilities.

⁷ As a part of efforts to stymie the liquidity impact of the COVID-19 pandemic, BOJ lowered the cash reserve requirement for all currencies, conducted an asset buyback programme (primarily GOJ securities) and provided access to a 6-month lending facility via BOJ's Occasional Term Repurchase Operations.

billion, substantively below the 2019 outturn of \$51.9 billion at end-2019. Consequently, the pre-tax profit margin for the system decelerated to 13.3 per cent from 26.6 per cent in 2019. Similarly, shareholders realized slightly lower returns on their investments as the return on equity (ROE) for the sector contracted to 9.0 per cent from 19.9 per cent for 2019 (see **Table 6**).

Table 6: Select Profitability Indicators

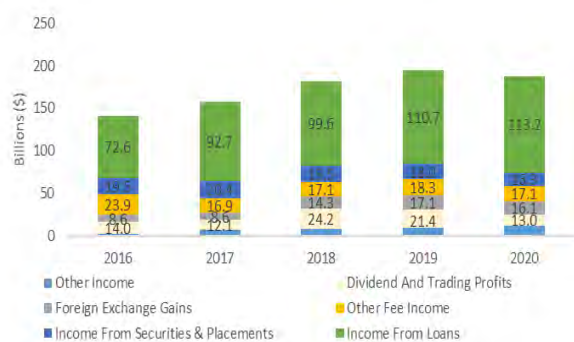
SELECT PROFITABILITY INDICATORS				
%				
31 December 2017-2020				
	2017	2018	2019	2020
Return on Equity	18.4	22.6	19.9	9.0
Return on Assets	2.6	3.3	3.0	1.3
Profit Margin	24.0	28.6	26.6	13.3
Net Interest Margin	6.3	6.3	6.3	5.7

Source: BOJ

Profit performance was largely reflected in non-interest income, which contracted by 11.6 per cent (\$10.3 billion) in contrast to growth of 15.3 per cent (\$4.5 billion) in the previous year. There was also a decline in non-interest income such as, dividends and trading gains as well as income from fees and other service charges, as customer activity transitioned to the lower earning electronic and online banking platforms amidst restrictions on movement imposed to counter the pandemic.

Growth in loan income slowed to 2.3 per cent (\$2.6 billion) relative to the increase of 11.2 per cent (\$11.1 billion) in 2019. This slowdown was due to the impact of suspended earnings from loans under moratorium arrangements as well as the general decline in credit demand (see **Chart 13a**). Coupled with the contraction of 9.3 per cent (\$1.7 billion) in interest income from securities and placements, the Net Interest Margin (NIM) for the sector narrowed to 5.7 per cent relative to 6.3 per cent in 2019.

Chart 13a: Composition of Annual Operating Income



Source: BOJ

Table 7

COMPOSITION OF ANNUAL TOTAL INCOME				
% of Total Income				
31 December 2017–2020*				
	2017	2018	2019	2020
Income from Loans**	58.8	54.7	56.7	60.3
<i>Of which,</i>				
<i>Interest Income from Loans</i>	47.5	43.8	45.6	49.8
<i>Fee Income from Loans</i>	11.3	10.9	11.2	10.6
Income from Securities & Placements	13.0	10.2	9.2	8.7
Other Fee Income	10.7	9.4	9.4	9.1
Foreign Exchange Gains	5.5	7.9	8.8	8.6
Dividend Income	4.9	5.7	8.7	4.0
Securities Trading Gains	2.7	7.9	2.3	2.9
Other Income	4.2	4.6	4.9	6.3
Total Interest Income	60.5	54.0	54.8	58.5
Total Non-Interest Income	39.5	46.0	45.2	41.5

Source: BOJ

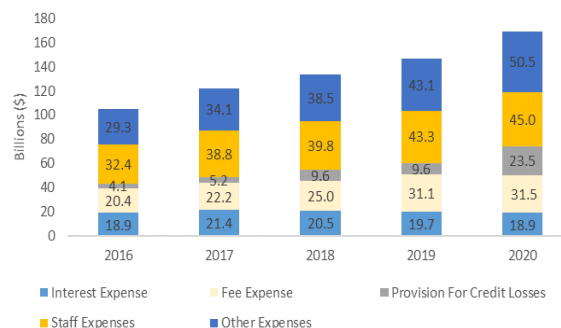
*Prior period data may have revisions arising from amendments to prudential returns.

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

Revenues were channeled into higher non-interest expenses of \$23.4 billion (growth of 18.4 per cent), as DTIs expensed an additional \$13.9 billion in provisions for future credit losses and incurred higher sundry costs of \$4.4 billion (see **Chart 13b**).

Accordingly, operational efficiency deteriorated to 75.3 per cent from 67.0 per cent in 2019.⁸

Chart 13b: Composition of Annual Operating Expenses



Source: BOJ

Stabilization in number of Credit Unions in 2020

Unlike in previous years, there was stabilization in the trend of mergers during 2020, with the number of credit unions remaining at 25 at end-2020. Likewise, the number of branches and sub-branches through which credit unions deployed their services was unchanged at 108.⁹

Work to facilitate BOJ's assumption of supervisory oversight of the sector continued in 2020. The next step will be the tabling in Parliament of two companion pieces of legislation: the Credit Unions (Special Provisions) and the Cooperative Societies (Amendment) Bills. Enactment of these two pieces of legislation will create a regime for the licensing of credit unions by the Minister of Finance and the Public Service.

Notwithstanding the difficult economic conditions during 2020, the credit union sector continued to grow, as total assets expanded by \$12.8 billion (10.3 per cent) to \$137.7 billion when compared to \$124.6 billion in 2019.¹⁰ In contrast to previous

⁸ Operating efficiency is measured by the ratio of non-interest expenses to gross income. The lower the ratio, the more efficiently gross income is used to cover operational costs.

⁹ Based on unaudited submissions to Bank of Jamaica, branches and sub-branches in 2019 were amended to 108.

¹⁰ The 2019 data may have revisions arising from resubmission of prudential information by credit unions.

years, asset growth was mainly reflected in investments of \$5.9 billion (25.3 per cent), as excess liquidity was redeployed to short-term investments given the reduced loan demand due to uncertainties associated with the COVID-19 pandemic. Recovery in loan disbursement commenced in the second half of 2020, pushing the growth in gross loans by \$3.2 billion (3.5 per cent) to \$94.2 billion for the full year. However, this represented a significant deceleration when compared with the growth in loans of \$10.6 billion (13.4 per cent) in 2019. Notwithstanding, loans remained the dominant asset category, accounting for 66.8 per cent of total assets (70.8 per cent at end-2019). In spite of the slower growth in loans, there was a significant increase of \$1.0 billion (33.5 per cent) in NPLs to \$4.0 billion, reflecting the effects of the downturn caused by the pandemic on credit unions whose membership bases are concentrated in vulnerable industries.¹¹ Consequently, credit quality, as measured by the ratio of NPLs to total loans, deteriorated to 4.2 per cent from 3.3 per cent at end-2019.

Similar to previous periods, asset growth was mainly funded by savings fund, which increased by \$10.2 billion (10.7 per cent) to \$105.7 billion at end-2020 from \$95.5 billion at end-2019. The capital base of the sector also increased by \$1.5 billion (9.9 per cent) to \$16.9 billion for the year, due mainly to an uptick in earnings retention. However, the primary ratio declined marginally to 12.3 per cent from 12.4 per cent in 2019, given the proportionately higher growth in assets.

Notwithstanding the difficulties brought on by the pandemic, credit unions recorded a surplus of \$2.1 billion, similar to that earned in 2019. This occurred despite a decline of \$0.2 billion (1.0 per cent) in revenues to \$15.2 billion (mainly due to reductions in interest and fees earned on loans given the fall-off in loan demand) from the \$15.3 billion earned in 2019. The sector's surplus was, however, positively impacted by cost containment measures which held expenditure on par with the \$13.4 billion recorded in 2019, coupled with

¹¹ This increase in NPLs in 2020 compared to growth of \$0.5 billion or 19.7 per cent in NPLs during 2019.

expense writeback (mainly provisions associated with past due loans that were repaid) of \$0.1 billion.

Given the growth in assets and equity, combined with the stability in the sector's surplus, the return on assets and return on equity ratios declined to 1.6 per cent and 8.5 per cent, respectively, at end-2020.¹² Similarly, the sector's net interest margin fell to 8.5 per cent at end-2020 from 9.6 per cent at end-2019, given the reduction in interest income during the pandemic. On the contrary, the net profit margin closed 2020 marginally higher at 13.9 per cent relative to 13.5 per cent a year earlier.

Continued Improvements in the resolution rate of complaints

During 2020, the Bank continued to discharge its responsibilities by facilitating the resolution of reported complaints within the ambit of The Banking Services (Deposit Taking Institutions)(Customer Related Matters) Code of Conduct, 2016 ("the Code") and in keeping with Bank of Jamaica's Regulatory Service Level Standards (SLS) published in April 2020.¹³ During the year, 132 complaints were reported to the Bank, representing an increase of 61.0 per cent over 2019 and a 200.0 per cent increase since 2016 (see **Chart 14**). Of the total reported complaints for the year, eight were referred to the Supervisor in relation to the Code.

As at 31 December 2020, the majority of complaints were classified in the account related category (see **Chart 15**). These complaints were largely in relation to issues experienced with the use of electronic banking channels consistent with the thrust for greater technological usage by DTIs consequent on measures imposed by the Government in response to the COVID-19 pandemic. Against this background, BOJ

¹² At December 2019, the return on assets and return on equity ratios were 1.7 per cent and 9.3 per cent, respectively.

¹³ The SLS establishes and defines the level of expected service which stakeholders can expect from the Bank and outlines the metrics by which our service is measured within a prescribed timeframe.

continued to facilitate resolution of complaints submitted and recorded an improved resolution rate of 78.8 per cent at end-2020, relative to 60.0 per cent recorded at end-2019.¹⁴

Chart 14: Trends in Complaints Data

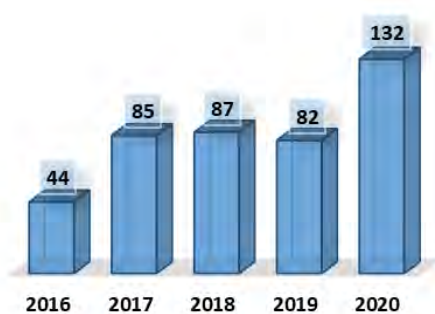
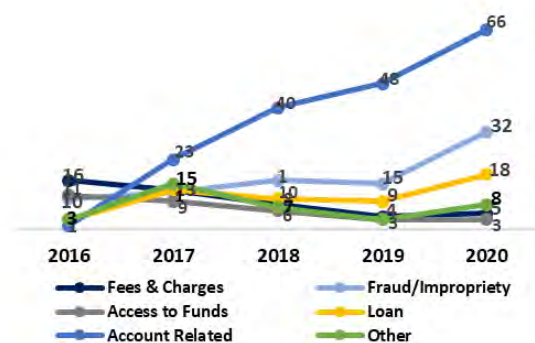


Chart 15: Complaints by Category



In continuance of efforts to promote transparency and access to comparative information regarding data on fees and charges, Bank of Jamaica continued to publish on its website the annual suite of information on fees and charges for products and services offered by DTIs.¹⁵

¹⁴ Resolution rate means the DTI has responded and concluded the matter with the customer. At the time of submission of data for publication of this report, the resolution rate for 2019 stood at 60%. However, based on the timeframe for resolving complaints pursuant to The Code, the resolution rate for 2019, resultantly increased thereafter and was recorded subsequently at 95.1%.

¹⁵ http://www.boj.org.jm/financial_sys/rates_charges.php

Credit Reporting requests declined due to COVID-19 pandemic

Bank of Jamaica is responsible for the oversight of the credit reporting framework in Jamaica pursuant to its designation as the Supervising Authority under the Credit Reporting Act (CRA). During 2020, the Bank continued its execution of this mandate, notwithstanding the measures put in place by the Government to mitigate the spread of the COVID-19 pandemic on the island. In the context of the adverse impact of the pandemic on loans extended during the year, the three licensed credit bureaus, as per **Table 8** below, reflected a reduction in the number of credit reports being requested by credit information providers (CIPs).

Table 8

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

Market Activity

The decline in the use of credit reports by lenders in the financial system during the year occurred as a result of borrowers' loss of income due to the impact of the COVID-19 pandemic as well as a reduction in the number of consumers seeking loans. The reported number of credit reports issued up to 30 September 2020 totaled over 267 000, a decline of 42.0 per cent or approximately 192 000 from the 459 000 reports provided to CIPs in the previous year.

Despite the impact of COVID-19, at end-September 2020, 12 new CIPs entered the system (a 12 per cent increase) to exchange their customers' credit information with credit bureaus. This increased the number of signed CIP contracts with credit bureaus to 114 at end-September 2020 from 103 at end-2019. However, the number of CIPs submitting their customers' data to credit bureaus was unchanged at 55 at end-September 2020 (see **Table 9 & Chart 16**).

With the credit contraction in the market, there was a reduction in the number of consumers seeking loans from CIPs. Consequently, the number of consumers' full disclosure (free) reports provided by credit bureaus fell to 7 574 in 2020 relative to 8 636 for 2019.

The number of data subjects in credit bureaus' databases grew by 3.4 per cent to 925 114 at end- 2020 (see **Chart 17**). This increase in data subjects influenced an increased population coverage to 48.0 per cent at end-2020 compared to 46.7 per cent at the end of 2019. Key Performance Indicators in the market are reflected in **Table 9**.

Table 9

CREDIT REPORTING STATISTICS 2016 – 2020					
Activity Indicators	2016	2017	2018	2019	2020
No. of CIPS signed with credit bureaus	84	87	95	103	115
No. of CIPs submitting data to credit bureaus	36	41	51	55	55
No. of reports issued during the year (inclusive of free reports)	250 122	442 712	466 531	582 822	363 020
No. of consumers free reports issued per section 15(3) of CRA	5 765	6 758	7 316	8 636	7 574
No. of data subjects in data base of the credit bureau with the largest number at year end	408 570	467 432	818 172	895 116	925 114
Population coverage at year end (per cent)	22.6	25.0	43.0	46.7	48.0

Chart 16: CIP Status 2013 – 2020

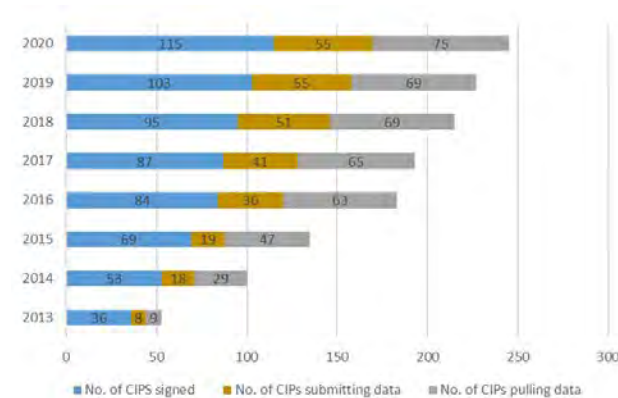
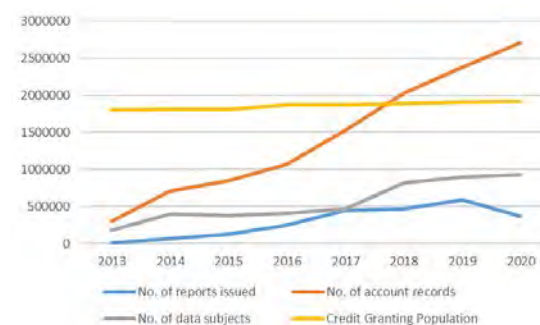


Chart 17: Credit Reporting Activities 2013 – 2020



• **Consumer Complaints**

Pursuant to Section 16(1) of the CRA, a consumer, who disputes the accuracy or completeness of any information disclosed by a credit bureau in relation to that consumer, may make a complaint in person or in writing to the credit bureau. The credit bureau shall as soon as it is reasonably practicable, and in any event no later than 14 days after the complaint is made, take steps to correct or complete the information as the case may require, in order to ensure the accuracy and completeness thereof [Section 16(2)(a)-CRA]. Where a consumer is dissatisfied with any step taken by the credit bureau, the consumer may complain in writing to the Supervising Authority within 30 days after receiving the report of his complaint from the credit bureau [Section 16(3)(a)-CRA]. During 2020, one complaint was escalated to the Supervising Authority and was satisfactorily resolved. For 2020, the credit bureaus reported a total of 3 063 consumer complaints, a fall over the previous year, which represented a decline of 0.8 per cent (0.6 in 2019) of total credit reports issued during the year.

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

Bank of Jamaica continued to review and enhance its regulatory regime for money service businesses in 2020 by implementing necessary legislative measures to strengthen the regulatory framework and address recommendations of the Financial Action Task Force (FATF). Significant focus was

therefore placed on reviewing the legislative provisions in the Banking Services Act (BSA) and the Bank of Jamaica Act (BOJA) to ensure the Bank is adequately empowered to discharge its delegated authority to regulate cambios and remittance service providers. The enhancements also demonstrate the Bank's commitment to facilitating robust regulatory oversight of this market segment to ensure measures are in place to combat Money Laundering and Financing of Terrorism (ML/FT). Major developments, in this regard, included:

- the designation of cambios as financial institutions under the BSA; and
- proposed amendments to BOJA to address recommendations from the Caribbean Financial Action Task Force (CFATF) Mutual Evaluation Report (MER), 2017. At end-2020, feedback from the stakeholders' consultation on these proposals was being reviewed prior to finalization.

The Bank also continued to pursue the strategic objective of developing a risk-based tool for supervision of money service businesses.

The number of cambio locations increased to 138 at end-2020 from 136 at end-2019 (see **Table 10**). This resulted from the granting of approvals to operate at eight new locations, while six locations closed operations. One new entity entered the cambio market during 2020, while four entities exited. The exits from the market resulted from the revocation of the licence for one entity, the rescinding of the licence issued to one entity (due to the death of the owner) and the voluntary surrender of licences by two entities. As a result, the number of cambio entities declined to 51 at end-2020 from 54 at end-2019.

The number of Remittance Service Providers (Primary Agents) remained at six in 2020 (see **Table 11**). During the year, 80 new remittance licences were issued, while 60 licences were relinquished, bringing the total number of licences issued to 699 at end-2020 relative to 679 at end-2019. Operations commenced at 42 new locations/service points, while 27 locations/service points were closed. This resulted in an increase in

the number of locations to 497 at end-2020 relative to 482 at end-2019.

Table 10

Status of Cambio Licences as at 31 December 2020		
	2019	2020
New locations licensed	3	8
Locations closed	2	6
No. of Locations	136	138
No. of Companies	54	51

Table 11

Status of Remittance Licences as at 31 December 2020		
	2019	2020
New locations licensed	59	42
Locations closed	30	27
No. of Locations	482	497
New Licences Issued	77	80
Licences Relinquished/Revoked	42	60
No. of Licences	679	699
No. of Primary Agents	6	6

Notwithstanding the worldwide negative impact of the COVID-19 pandemic, Jamaica remained a net receiver of remittances for 2020. The USA, UK, Canada and the Cayman Islands remained the primary source countries with shares of 68.6 per cent, 11.0 per cent, 10.5 per cent and 5.9 per cent, respectively.

Financial Legislation

During 2020, the Houses Parliament passed The Bank of Jamaica (Amendment) Act, 2020. Amendments to the Act clarifies the mandate of the central bank and strengthens the central bank's

governance framework to ensure it supports the Bank's mandate. Among the changes is the establishment of two new statutory committees, a Monetary Policy Committee and Financial Policy Committee.

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

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

[Current Priorities in Supervision](#)

<http://boj.org.jm/pdf/Current-Priorities-in-Supervision-2020.pdf>

Developments in 2020

Risks to financial stability were tempered in 2020 due to regulatory interventions

The Bank's composite indicator of macro-financial conditions showed a worsening environment as at September 2020, relative to the outturn at end-2019. The COVID-19 pandemic contributed to lower asset and credit market performance, increased price volatilities and an estimated contraction in real GDP.¹⁶ The Bank's Early Warning System framework for the soundness of licensees, showed that despite these worsening conditions, licensees maintained relatively sound balance sheet positions.

Sensitivity analysis conducted by Bank of Jamaica for the first three quarters of 2020 showed that the

¹⁶ BOJ's MaFi and MIPI monitors macro- and micro- economic indicators of the banking sector via a non-parametric approach to signal banking sector vulnerability. The signal is based on the value of various indicators, which are computed based on the number of standard deviations of each indicator from its 'tranquil period' mean value. The tranquil period refers to an eight quarter period of relative stability that precedes the beginning of a signaling window. The scores range from 0 to 5 with a score of 5 representing the most severe signal. Banking sector vulnerability at a point in time is determined by the trend in the aggregate score (or index) over the previous eight quarters (signaling window).

DTI sector remained broadly robust to contemplated stress tests. In particular, the results from the stress tests revealed that the capital adequacy ratios (CARs) for the DTI sector would remain above the 10.0 per cent minimum benchmark in response to hypothetical market, credit and liquidity shocks.^{17,18} Notably, the DTIs' performed creditably in response to the hypothetical shocks examined, despite domestic and international economic slowdown, weaker earnings performance as well as increased provisioning for expected loan losses primarily due to the impact of the COVID-19 pandemic. However, it must be highlighted that much of the risk to financial stability during the year was mitigated by actions undertaken by the Government of Jamaica and supervisory authorities which included the enhanced supervision of licensees and an agreement for the preservation of capital by the DTIs.

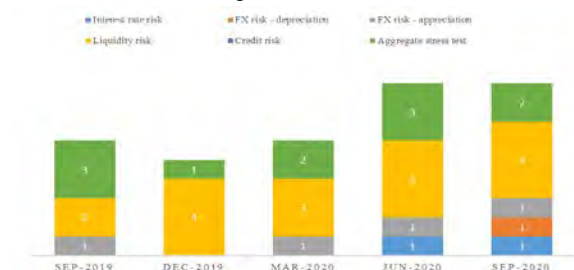
¹⁷ The assessment includes the first three quarters of the calendar year, rather than the full calendar year, and was written based on available data.

¹⁸ The objective of stress testing by BOJ is to determine the impact of extreme but plausible shocks to various risk factors such as credit quality, foreign exchange rates, domestic interest rates and liquidity on the capital adequacy ratios of the DTIs.

As it relates to credit risk, the ratio of DTIs' non-performing loans (NPLs) to total loans deteriorated to 2.8 per cent at end-2020 from 2.2 per cent at end-2019. Despite this deterioration, credit risk stress test results as at end-September 2020 showed that the DTI sector continued to be robust to the hypothetical shocks applied to NPLs. In particular, the CARs of all DTIs remained above the 10.0 per cent prudential benchmark subsequent to hypothetical shocks of increases in NPLs ranging from 10.0 per cent to 50.0 per cent.

The results of the liquidity stress tests indicated that it would require a reduction of 75.0 per cent in deposits for the CAR of the overall DTI sector to breach the statutory benchmark of 10.0 per cent. Notably, four institutions were vulnerable to a reduction of 50.0 per cent in deposits (see **Chart 18**).

Chart 18: Stress Test Results Showing No. of Institutions Breaching Prudential Minimum^{19/}



Source: BOJ

At end-September 2020, the banking system showed broad resilience to foreign exchange risk relative to the corresponding period of 2019. The sector's CAR remained robust in response to hypothetical depreciation and appreciation shocks ranging from 10.0 to 50.0 per cent.

Stress tests also revealed that the post-shock CAR of the DTI sector would remain above the 10.0 per cent minimum benchmark as a result of the interest rate hypothetical shocks applied during the review period. Specifically, in response to respective hypothetical increases of 1 100 bps/100 bps and 275 bps/15 bps in interest rates on

¹⁹ 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.

domestic/foreign rate sensitive assets and liabilities, the sector's CAR would decline marginally by 0.9 percentage point to 13.4 per cent at end-September 2020.^{20,21} However, this result represented a marginal deterioration relative to the corresponding period of the previous year where the post-shock CAR of the DTI sector was unchanged. The slight worsening in the CAR was largely attributed to a sharp decline in the sector's buffer capital which was insufficient to absorb the total impact of these contemplated shocks.

The simultaneous impact of hypothetical increases in interest rates, currency depreciation, credit quality deterioration and deposit outflow demonstrated that the post-shock CAR of the DTI sector remained above the prudential minimum for the period ended September 2020. Notwithstanding the overall sector's result, only two institutions would become impaired at end-September 2020. The impairment in the CARs for these entities was primarily due to deterioration in credit quality and fair value losses.²²



▶ Related Reports

[Financial System Stability Annual Report](http://www.boj.org.jm/publications/publications_show.php?publication_id=11)
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)
http://www.boj.org.jm/publications/publications_show.php?publication_id=9

²⁰ 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.

²¹ 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.

²² The aggregate stress test assumptions include: increases of 1 100 bps and 100 bps in interest rates on domestic currency investment assets & liabilities and other assets & liabilities, respectively; increases of 100 bps and 10 bps in interest rates on foreign currency investment assets & liabilities and other assets & liabilities, respectively; 10.0 per cent depreciation in the JMD/USD exchange rate; 100.0 per cent of past due performing loans (1 month to under 3 months) becoming non-performing and 10.0 per cent reduction in deposits.

Outlook

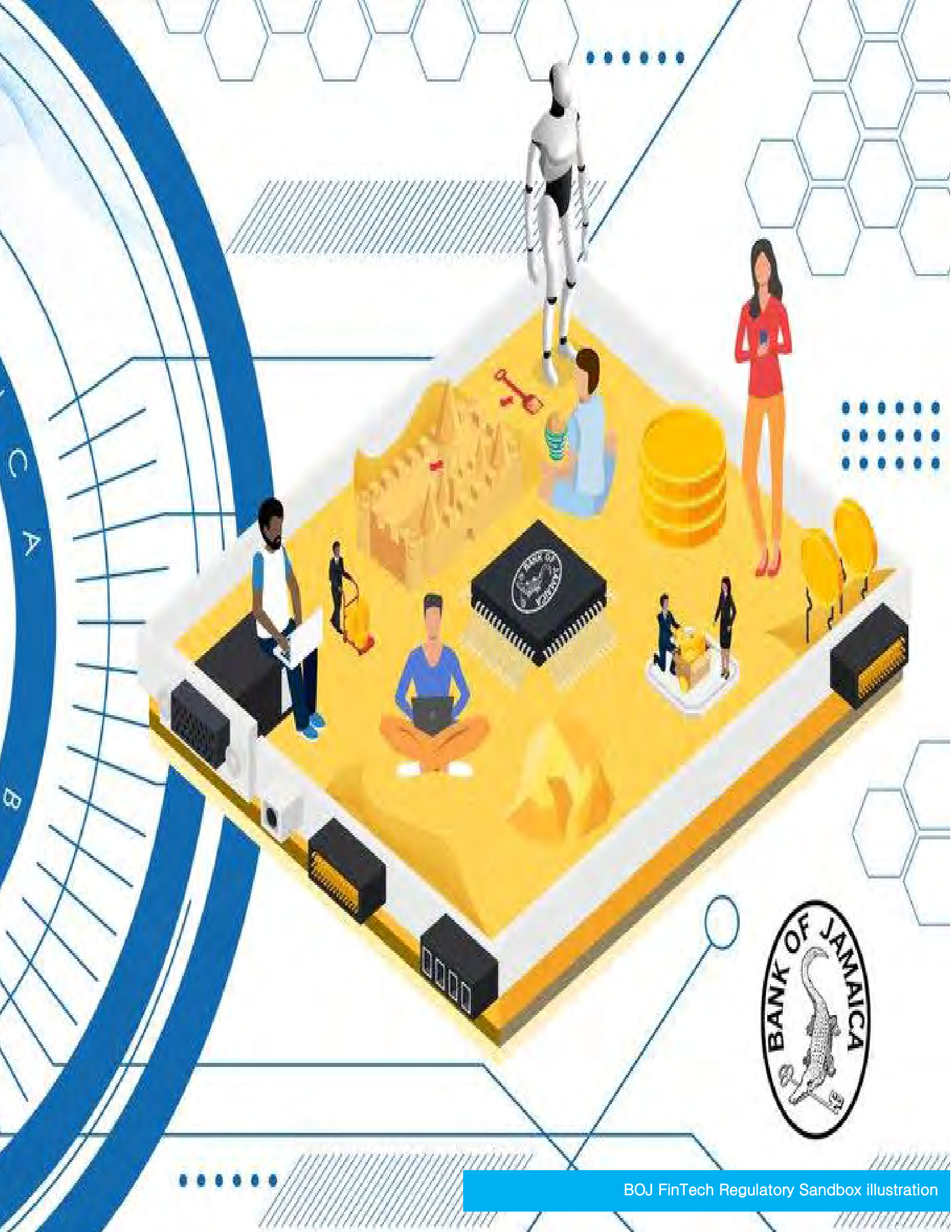
Continued financial sector stability hinged on the DTIs ability to maintain sound and proven best practices in innovation and risk management

The DTI sector demonstrated resilience throughout calendar year 2020. This resilience was demonstrated in the maintenance of strong solvency levels and asset quality prior to the onset of the pandemic as well as robust levels of liquidity relative to international benchmarks. The prospects for 2021 suggest a continuation of the uncertainties associated with the ongoing pandemic. This uncertain outlook signals the need for banks to cautiously manoeuvre the changing financial landscape with keen attention placed on the proactive management of credit risk exposures, particularly in relation to their legacy loan book. Special focus also needs to be placed on business sectors that experienced significant and prolonged disruptions stemming from the impact of the pandemic.

Considering the lessons learned from the Global Financial Crisis (GFC), the successful implementation of structural reforms over the last decade prior to the pandemic which saw sustained levels of financial stability, BOJ will continue its thrust towards the implementation of key reforms arising from the latest Financial Sector Assessment Programme (FSAP). To the extent that strides are made to (i) facilitate the roll out of the Basel III Capital Adequacy Framework, (ii) operationalise risk-based supervision on a solo and consolidated basis and (iii) complete the preparatory work for the introduction of a Special Resolution Regime (SRR) for Financial Institutions while addressing national priorities in relation to the National Risk Assessment programme (NRA), the financial sector will be stronger, more resilient and more agile as it emerges out of the current crisis. In turn, DTIs will have to continue to develop and hone the required capabilities that will be critical in facing the challenges to risk-management and product deployment in the increasingly digital environment.



PAYMENT SYSTEM



PAYMENT SYSTEM

Despite the challenges associated with COVID-19, the financial market infrastructures (FMIs) remained safe and reliable, and performed efficiently and effectively during 2020. With the full adoption of the Principles for Financial Market Infrastructures (PFMIs) effective 2 January 2020, the Bank

enhanced its management of risks associated with the payment, clearing and settlement infrastructure for domestic payments. Additionally, the Bank continued policy formulation initiatives aimed at promoting innovations in financial technology.

JamClear®-RTGS utilization increased in 2020

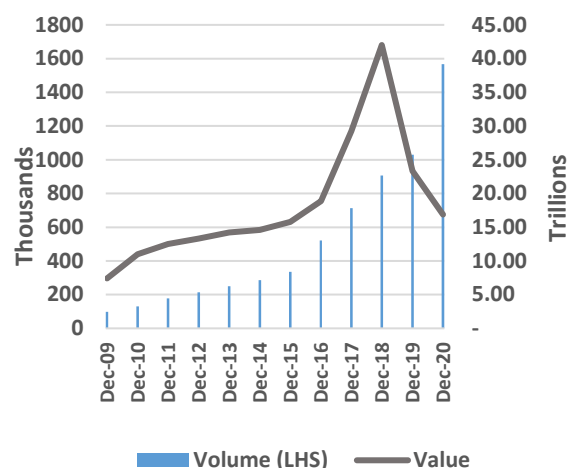
For the review year, JamClear®-RTGS processed 1 570 166 transactions (USD and JMD) (see **Chart 19**). System utilisation reflected an increase in JMD volume by 52.1 per cent (536 673 transactions) to 1 567 482 transactions.¹ Growth in the JMD volume was largely attributed to an 80.0 per cent increase in participant payments on behalf of household and corporate clients.

Conversely, JMD transaction values declined by 27.7 per cent (\$6.4 trillion) to \$16.8 trillion. The decline largely reflected a reduction of 53.8 per cent (\$6.9 trillion) in securities settlement transactions initiated from JamClear®-CSD.² The decrease in securities settlement transactions was largely attributed to the reduction in the purchase of securities and payment of entitlement proceeds.

At end-2020, the total volume of USD transactions processed in JamClear®-RTGS amounted to 2 684, a decline of 13.8 per cent (428 transactions). The reduction in volume largely stemmed from an 18.0 per cent decline in securities settlement transactions. Total USD transaction values increased by 28.1 per cent (US\$416.7 million) to US\$1.9 billion (see **Chart 20**). This outturn reflected increases in participant payments (54.6 per cent)

and securities settlement transactions (4.3 per cent).

Chart 19: JamClear-RTGS Transaction Activities (JMD)

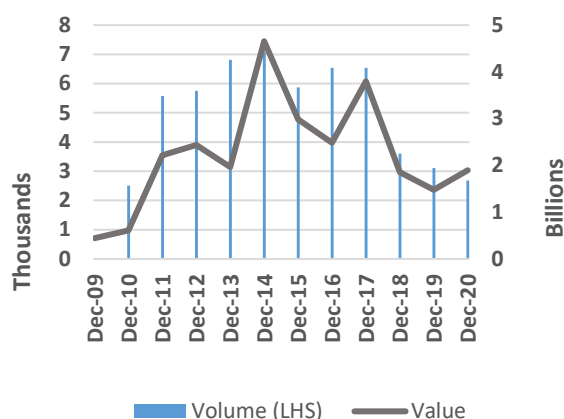


System utilisation reflected an increase in JMD volume by 52.1 per cent (536 673 transactions) to 1 567 482 transactions.

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

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

Chart 20: JamClear–RTGS Transaction Activities (USD)



Decrease in utilisation of electronic retail payment systems – as at November 2020

Utilisation of the electronic retail payment systems declined in 2020. The fall-off in utilisation mainly reflected reductions in credit card transaction volumes and ACH cheque values, by 15.0 per cent (3.2 million) and 29.7 per cent (\$239.3 billion), respectively. Total volume of retail payment transactions processed during 2020 was 109 million, valued at \$3.4 trillion. This reflected decreases of 18.9 per cent (25.4 million) and 15.9 per cent (\$642.3 billion) in the volume and value of transactions, respectively, relative to 2019.

The number of debit cards in circulation increased by 13.4 per cent to 3.8 million. DTIs settled 48.4 million debit card transactions, valued at \$1.2 trillion, on their proprietary systems. Debit card transactions processed on the proprietary systems of the DTIs reflected declines of 21.3 per cent (13.1 million) and 4.5 per cent (\$54.7 billion) in volume and value, respectively, relative to 2019.

Credit cards in circulation for the year amounted to 335 096, an increase of 2.0 per cent when compared to 2019. The number of credit card transactions processed on the proprietary systems of DTIs in 2020 was 18.3 million valued at \$489.2 billion. These results represented declines of 15.0 per cent (3.2 million) and 9.3 per cent (\$50.0

billion) in volume and value of transactions, respectively, relative to 2019.

The number of installed automated banking machines (ABMs), as reported by DTIs, increased by 5.0 per cent (38 terminals) to 793. Approximately 12.4 million transactions valued at \$114.6 billion were processed at ABMs through the MultiLink network during the year. The volume and value of transactions processed reflected decreases of 18.5 per cent (2.8 million) and 9.1 per cent (\$11.4 billion), respectively, relative to 2019.

For the review year, the number of Point of Sale (POS) terminals increased by 11.5 per cent to 44 639. However, total transactions processed on POS terminals declined in volume by 15.9 per cent (2.9 million) to approximately 15.3 million, relative to the previous year. The value of POS transactions also fell by 7.4 per cent (\$8.0 billion) to \$99.9 billion, relative to 2019.

An overall decline in cheques processed

The total number of cheques processed through the Automated Clearing House (ACH) over the reporting period was 4.2 million, valued at \$565.7 billion. These outturns reflected declines of 27.8 per cent (1.6 million) in volume and 29.7 per cent (\$239.3 billion) in the value of transactions, when compared to 2019. The lower volume and value of cheques processed may be attributed to the success of the ACH value threshold of \$1.0 million. The average value of each cheque processed in the ACH decreased by 2.6 per cent to \$135 536.4 in 2020.

Foreign currency cheques cleared manually through the BOJ Clearing House reflected a decline of 47.8 per cent in value when compared to 2019. Cheques denominated in US dollars amounted to US\$ 1.1 billion and accounted for 99.3 per cent of the total foreign currency cheques cleared.

Bill payment transactions decreased

Total bill payments reported, in 2020, was 19.9 million transactions valued at \$347.9 billion. This reflected declines of 4.7 per cent (991 548) in the volume and 10.7 per cent (\$41.8 billion) in the value of transactions, relative to 2019. The

dominant method for bill payment was cash, which accounted for 45.7 per cent of the total volume in the review year. Debit cards accounted for 62.5 per cent of the total value of bill payments in 2020.

Achievements in 2020

Upgraded JamClear®-Systems

During 2020, activities for the implementation of the JamClear® CSD Phase-2 upgrades were adversely impacted by the COVID-19 pandemic which constrained both the overseas developer and the local stakeholder community. Concurrently, bouts of significant technical glitches were encountered during the system testing. In that regard, the planned implementation of the key deliverables during the March 2020 quarter was not attained. These key deliverables which include, inter-alia, the automation of Bank of Jamaica Foreign Exchange Intervention and Trading Tool (B-FXITT), liquidity providing auctions and access to the overnight Standing Liquidity Facility for DTIs as well as the introduction of a Yield Curve module, were delayed to the June 2021 quarter.

Similarly, Phase-1 of the Bank's Foreign Exchange Trading Platform (JamClear® FXTF) that was initially scheduled for implementation by the March 2020 quarter was deferred to 01 June 2020 when a pilot phase of the Order Market (OM) was introduced to the market. Initially, only DTIs were allowed to trade in this module. However, during the September 2020 quarter, the ability to trade in the system was extended to the Cambios, while selected large corporate entities were given view-only access. Notably, the pilot phase was introduced in a context where further modifications were required by stakeholders to mitigate risks highlighted related to automatic anonymous order matching between FX market intermediaries. In this regard, the modifications to the OM, to introduce a counter-party limit feature, was implemented on 23 November 2020.

The two remaining modules for Phase-2 of the project, that is, the Negotiated Market (NM) and the External (Reporting) Market (EM), along with features to automate specific BOJ strategic and regulatory FX market requirements, were deployed to the FXTF test environment in the December 2020 quarter. Given these developments, the project completion date was postponed to the June 2021 quarter.

Adoption of the Principles of Financial Market Infrastructures (PFMIs)

Effective 02 January 2020, the Bank fully adopted the PFMIs when carrying out its oversight of FMIs. It enhanced its management of risks associated with the payment, clearing and settlement infrastructure for domestic payments.³ In this regard, the following activities were conducted during 2020:

1. Commencement of a full assessment of JamClear®-CSD and JamClear®-RTGS against the PFMIs;
2. Approval of revised JamClear® fee structure;
3. Development of a JamClear® Communication Framework to enhance communication with external participants in the JamClear® systems;
4. Amendments to the participant rules for the JamClear® systems and the

³ The payment, clearing and settlement infrastructures are JamClear®-RTGS, JamClear®-CSD, Automated Clearing House and MultiLink.

Automated Clearing House, which are scheduled for implementation in 2021; and

5. Commencement of the development of a business continuity framework for financial market infrastructures (FMIs) and successful conduct of a functional test of the JamClear® participants' ability to failover from the production environment to the disaster recovery environment.

Development of an Enabling Regulatory Framework for Payment Service Providers

During the year, the Bank accelerated the development of an enabling regulatory framework for Payment Service Providers (PSPs) that are not deposit-taking institutions. This regulatory framework is aimed at enhancing the Bank's supervisory powers over PSPs. In this regard, the Bank in December 2020 issued a consultation paper to industry stakeholders that provided policy proposals for the legal and regulatory framework for the supervision of PSPs.

Effective 2 March 2020, the Bank withdrew the Guidelines for Electronic Retail Payment Services (ERPS 2); previously issued to guide the operations of PSPs to further ensure the closure of gaps in the legislative framework. The Fintech Regulatory Sandbox Guidelines replaced ERPS 2 as the guiding document for entities wishing to offer electronic retail payment services.

BOJ Fintech Regulatory Sandbox

On 16 March 2020, the Bank of Jamaica FinTech Regulatory Sandbox (Sandbox) was launched to encourage innovations in financial services, promote competition and financial inclusion. The Sandbox is a controlled environment for the deployment of financial technology that allows for the adaptation of regulatory requirements or procedures that may unintentionally inhibit innovation or render the products, services or business models non-viable. At end-2020, the Bank had received ten applications of which, three

applicants were granted approval to test in the Sandbox. By end-year, the three entities were at various stages of testing of their respective product/service in the Sandbox.

Central Bank Digital Currency (CBDC)

The Bank, in support of its objective to promote price and financial system stability, launched the Central Bank Digital Currency (CBDC) initiative in July 2020. CBDC is a digital form of central bank-issued currency that is legal tender (fiat currency). Relevant stakeholders were sensitized to this innovative step and the Bank published a CBDC Expression of Interest (EOI) invitation for entities to submit proposals to test CBDC solutions in the Sandbox. The Bank received 43 submissions from entities across the globe. By end-year, the Bank was far advanced with the shortlisting of entities, along with further engagement of the procurement process to facilitate the commencement of testing in the Sandbox in 2021.

National Retail Payment Strategy

During 2020, the Bank revised and circulated the National Retail Payment Strategy to stakeholders for comments and feedback. The objective of the strategy is to promote safe, efficient and modern electronic retail payment services. The Bank received responses from industry stakeholders, which will be presented to the National Payments Council (NPC) for consideration.



Additional Resources

[Payment Systems Policy](http://boj.org.jm/financial_sys/payments_systems_policy.php)

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

[Payment Systems Statistics](http://boj.org.jm/financial_sys/payments_systems_statistics.php)

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

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

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

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

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



CURRENCY



**Coins
in Circulation**

SEPARATE COINS
TO THEIR DENOMINATION

TWO TYPES OF \$10 COINS.

Old \$10 coin



New \$10 coin

Place old \$10 coins in one of the bags
Place new \$10 coins in a separate bag.
You may place up to 1,000 pieces of \$10
coins in each bag.



Former Senior Deputy Governor John Robinson conducting a banking transaction.

CURRENCY

Bank of Jamaica continued to meet its mandate of ensuring the availability of secure, high quality banknotes to the public in 2020. While both currency issue and redemption declined, currency in circulation increased for the year. The increase in currency in circulation could have been related to a desire by businesses and households to hold larger

precautionary cash balances in light of the pandemic as well as stronger remittance flows.

In 2020, the Bank commenced the process of renewing its partnership with the coin agent, GraceKennedy Payment Services Limited, to continue the programme that facilitates the redemption of coins.

Currency in circulation increased at a faster pace

The value of currency in circulation recorded an increase for 2020. The increase reflected a faster pace of decline in currency redemption relative to the reduction in currency issue. This resulted in a net increase in currency issue in 2020 relative to 2019.

As at end-2020, the value of currency in circulation stood at \$190.5 billion, reflecting a sharper increase of 28.0 per cent in comparison with the growth of 11.5 per cent recorded for 2019.

Decline in value of currency issued

The total value of banknotes issued for 2020 amounted to \$309.1 billion, which was 6.2 per cent below the previous year's value. Concurrently, the total value of coins issued in 2020 fell by 8.3 per cent to \$1.1 billion.

Significant decline in the value of banknote redemptions

Banknotes redeemed during 2020 were valued at \$267.8 billion, a decline of 14.8 per cent relative to 2019. Coins redeemed in 2020 were valued at \$0.61 billion, a decrease of 5.4 per cent relative to 2019.

The Bank continued to supply high quality banknotes

During 2020, 240.1 million pieces of banknotes valued at \$238.0 billion were processed by the Bank. The outturn was lower than the 395.5 million notes valued at \$324.2 billion processed in the previous year.

Counterfeit detection remained a priority

The total number of counterfeit notes detected during 2020 was 1 547 valued at \$1.8 million compared to 2 173 pieces valued at \$2.3 million in 2019. The figure for 2020 was equivalent to 7.2 counterfeit notes per one million genuine notes in active circulation, a significant improvement relative to 11.9 counterfeit notes per one million genuine notes detected in 2019.

Durability of banknotes improved

For 2020, the Average Circulation Lives (ACL) of the \$1000, \$500, \$100 and \$50 notes were 23.6 months, 15.8 months, 27.2 months and 40.8 months, respectively. These outturns reflected improvements relative to the figures of 20.4 months, 12.2 months, 15.6 months and 24.2 months for the respective notes, in 2019. However, the ACL for the \$5000 note deteriorated to 21.0 months when compared to 27.4 months in 2019.

Achievements in 2020

During the review year, the Bank granted approval for the issue of cash directly to licensed Remittance Primary Agents brokered through the Jamaica Money Remitters Association (JMRA). This was aimed at facilitating direct access by JMRA to a consistent supply of Jamaica Dollar in adequate quantities to fund cash disbursements. In this regard, BOJ now directly supplies cash to commercial banks, building societies, Cambio Association of Jamaica (CAJ) and JMRA.



▶ Related Reports

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

[History of our Currency](http://boj.org.jm/currency/currency_history.php)
http://boj.org.jm/currency/currency_history.php

[Banknotes](http://boj.org.jm/currency/currency_banknotes.php)
http://boj.org.jm/currency/currency_banknotes.php

[Money Museum](http://boj.org.jm/currency/currency_museum.php)
http://boj.org.jm/currency/currency_museum.php



FINANCIAL MARKET OPERATIONS

14:16:37 Launchpad - MARKET UPDATE

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Rates Trader

Repo Rate **2.535**

Hide Charts

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

9) Spline Spread Cubic Chart

X-axis Maturity Y-axis Spread

WATCH

11/30/23 Govt GOVY Related Functions Menu

NIM ALERT : THSCPA 7.9 03/07/21

United States of America Export to

Bonds

Summary All Actives Bnch 0-1yr

Spread Spline Cubic Range 3M View

Bond Pricing Information

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

Spread 8) Spline Spread Cubic Chart

X-axis Maturity Y-axis Spread

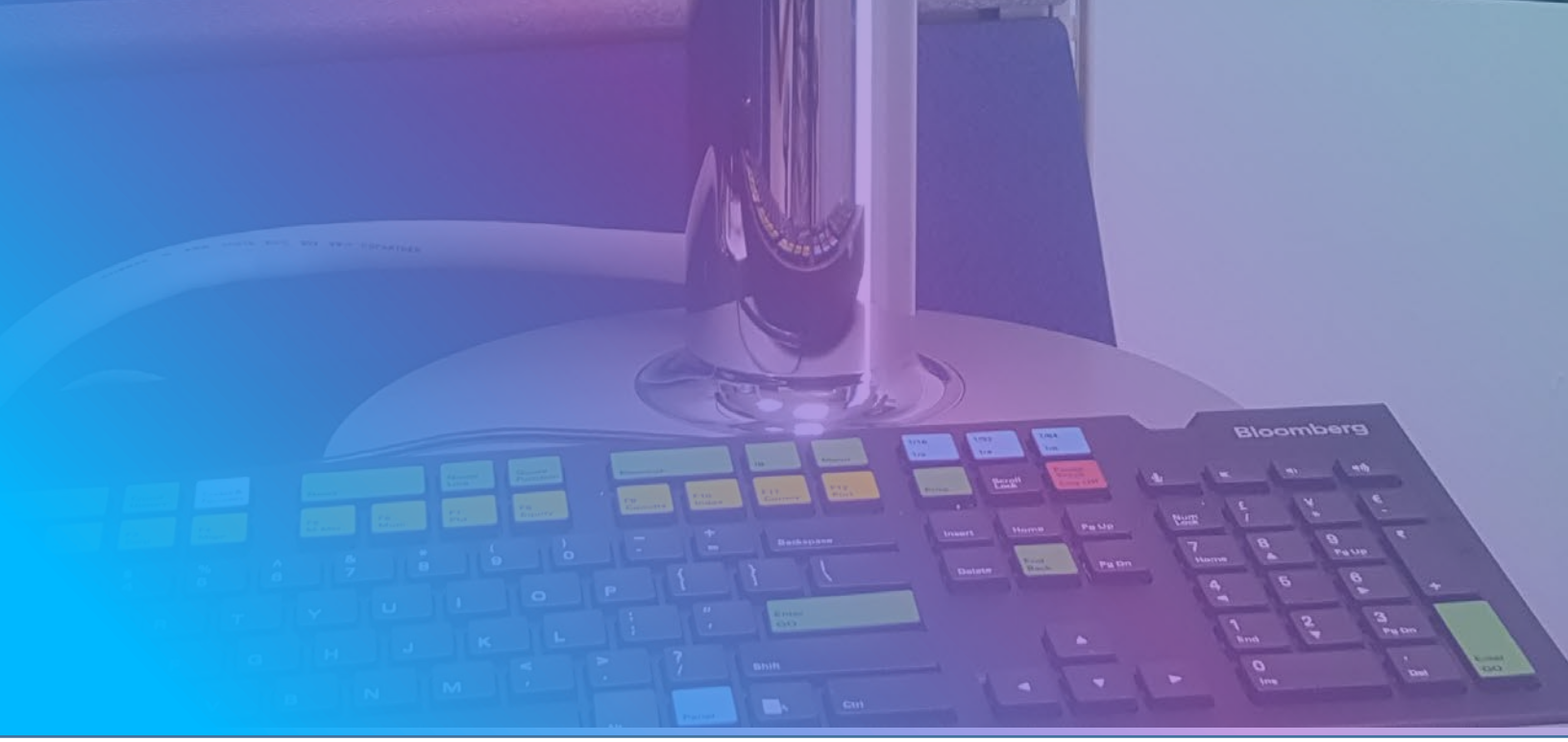
562 NS7 14:15 Cuba News Agency: Re

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560 BMP 14:12 Moody's Assigns Defi

Primers: Quick Reads. In-depth A

Bloomberg



FINANCIAL MARKET OPERATIONS

In the context of the COVID-19 pandemic, Bank of Jamaica implemented several mitigating measures to assure the financial system and the public of adequate access to liquidity in both the domestic and the foreign exchange markets. The Bank also continued to provide ongoing liquidity assurance through its overnight Standing Liquidity

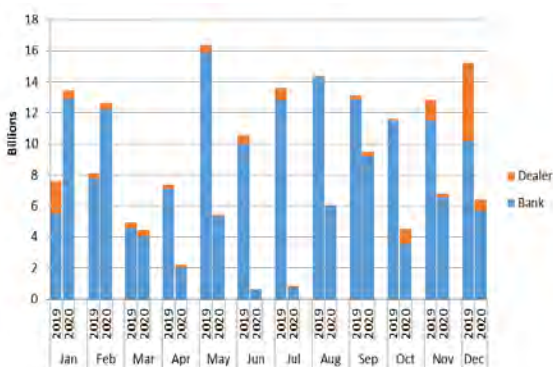
Facility and the offer of its 14-day repurchase agreement on a competitive-auction basis during 2020. Despite the adverse impact of the pandemic, the Bank continued to hold strong foreign currency reserves while maintaining its strategy of reducing the stock of borrowed reserves.

Domestic Market

Decreased usage of auto repo facility

Bank of Jamaica continued to provide intraday liquidity to participants through the Auto Repo Facility during 2020. The facility was accessed by ten participants on 1 052 occasions during the review year, reflecting a decline of 33.4 per cent in usage relative to 2019. Similarly, the average value of intraday liquidity declined over the review year, with the lowest utilization occurring in the June quarter (see **Chart 21**). The reduced usage of the facility was primarily evident during the periods in which the Bank provided liquidity support to the market in the context of the COVID-19 pandemic (see **Box: Impact of COVID-19 on Bank of Jamaica’s Operations in 2020**).

Chart 21: Auto Repo Facility: Daily Average Liquidity Utilized – 2019 & 2020



Source: BOJ

The Bank expanded its liquidity management toolkit in the context of the COVID-19 pandemic

During the period March to December 2020, several measures were utilized by Bank of Jamaica to maintain orderly conditions in the foreign exchange and money markets in response to the COVID-19 pandemic (see **Box: Impact of COVID-19 on Bank of Jamaica’s Operations in 2020**). In addition to these measures, the Bank continued to provide ongoing liquidity assurance to DTIs through its overnight repurchase facility and the once weekly offer of its 14-day repurchase operations, on an auction basis.

The Bank also continued to offer its 30-day certificates of deposit (CDs) once weekly via auctions. Notably, during 2020, \$349 462.95 million was successfully allocated via 30-day auction compared with the maturing amount of \$351 200.00 million for 2019.

Primary Dealers’ participation in BOJ OMO instruments increased

Participation in open market operation (OMO) issues by Primary Dealers (PDs) reflected a 34.0 per cent increase and averaged \$37 297.7 million, relative to the average of \$27 800.13 million in 2019. The

strong demand for OMO instruments in 2020 occurred in the context of the limited BOJ and GOJ offers during the review period as well as the continued need for PDs to meet the periodic minimum performance assessment score.

At end-2020, the number of PDs remained at seven. A total of five candidates were assessed under the Bank’s ‘Enhanced Fit and Proper Criteria’. These assessments were conducted in accordance with the policy for designating entities as well as the requirements for the annual renewal of the PD designation.



B-FXITT
FOREIGN EXCHANGE
INTERVENTION & TRADING TOOL

Box 1: The COVID-19 Pandemic & the Performance of the Foreign Exchange Market in 2020

Introduction

During 2020, the Jamaican economy and financial markets were affected by significant uncertainties emanating from the impact of the COVID-19 pandemic. Against this background, the Jamaica Dollar depreciated for the year by J\$10.08 (or 7.1 per cent) vis-à-vis the US dollar. This compares to a depreciation of J\$4.85 (3.7 per cent) in 2019. This note reviews the performance of the foreign exchange (FX) market in light of the unprecedented fallout in foreign currency earnings from the tourism sector and the concomitant uncertainty about the economy's capacity to meet its foreign currency needs.

In summary, notwithstanding the impact of the pandemic on the export sectors of the economy:

- Foreign currency flows in the FX market reflected some resilience, which was beyond expectations. Inflows improved in the second half of the year which supported an increase in the NIR.
- While there were bouts of depreciation, there was no disruption to the normal functioning of the foreign exchange market.
- An adjustment in the nominal exchange rate was warranted given the shock to the economy but BOJ managed the adjustment in the exchange rate while maintaining generally orderly conditions relative to what would be expected given the circumstances.
- The real exchange rate depreciated, maintaining competitiveness.
- The orderly adjustment was achieved partly in the context of a number of policy initiatives implemented by the BOJ to provide liquidity-assurance to the markets and maintain confidence, despite the challenges occasioned by the pandemic. This served to temper any potential adverse impact on domestic inflation and investor confidence.
- The Bank successfully navigated this challenging period with no significant loss in reserves. In fact, the reserves remained healthy, with a moderate decline of US\$36.4 million during 2020, considerably less than the fall of US\$104.8 million which occurred in 2008 in the context of the Global Financial Crisis.

Economic Outlook at the Onset of the COVID-19 Crisis

At the onset of the pandemic, the Bank's economic outlook reflected significant uncertainty relating to the spread of the virus and the consequent depth and duration of the economic impact. In this context the Bank anticipated that:

- The economy would contract in the range of 3%–7% for FY2020/21 due to a temporary shut-down of the tourism industry, the spill-over effects of this on other sectors of the economy and the general impact on the economy of containment measures. This outlook was subsequently revised to 10%–12%.
- The current account deficit of the Balance of Payments would widen to 5%–10% of GDP. This was subsequently revised to 2%–3% of GDP.

- Net foreign exchange inflows into the FX market would fall by between US\$700 million and US\$1.4 billion, relative to the previous year, reflecting projected reductions of 25% and 89% in remittance and tourism earnings, respectively.¹
- The NIR would fall by approximately US\$1.1 billion.

BOJ's Policy Objective and Actions

BOJ's response to the COVID-19 pandemic was generally guided by its overarching policy objectives of maintaining price and financial system stability. This was important to underwrite market confidence and support the economic recovery. Reserve-adequacy remained a key consideration and, as such, the Bank remained judicious in its efforts to balance the dual priorities of reserve-management and market stability. In this context, the Bank's posture with regard to the FX market was to:

- (i) Allow orderly adjustments in the exchange rate in response to the shock; and
- (ii) Prevent a depletion of reserves below the US\$2.0 billion mark.

In this context, the Bank intervened in the foreign exchange market in a targeted manner, selling a total of US\$292.3 million during the year through its B-FXITT Sale auctions.² These interventions were strategically geared towards easing market concerns regarding US-dollar liquidity, thereby catalyzing an increased willingness by foreign-currency holders to sell funds to the market.

One of the strategies deployed by the Bank in order to achieve the objectives noted above was a refinement to the BFXITT auction with the introduction of a reserve-price mechanism. The aim of this refinement was to dampen the impact of outlier bids on the market. The BOJ also began publishing information on the volume allotted and the weighted average price by institution in order to facilitate increased transparency about the auction and the impact of the Bank's interventions on the availability of US-dollar liquidity within the system.

In addition to its B-FXITT operations, the Bank implemented a number of other initiatives to provide USD liquidity-assurance to the market. Additionally, four US dollar-indexed bonds totaling US\$715.1 million were offered to investors seeking a hedge against exchange rate movements.

The Bank in May 2020 secured a five-year, US\$520-million Rapid Financing Instrument (RFI) loan facility from the International Monetary Fund, which played a major role in underpinning market confidence in Jamaica's capacity to successfully weather any near-term external shocks.

The Bank also maintained an active engagement with market participants and utilized moral suasion. Securities dealers were discouraged from issuing US dollar capital market bonds while DTIs agreed to a temporary suspension of dividend payments.

Finally, the Bank in June 2020 introduced the pilot of its Foreign Exchange Trading Platform (FXTF) in a bid to introduce greater transparency and price discovery in the foreign exchange market. Following market feedback on the pilot, further enhancements of the FXTF were introduced in November 2020, which improved the efficiency and transparency with which trades are conducted.

¹ A significant fallout was expected in other sources such as BPO and merchandise exports, partially mitigated by lower oil prices and lower imports due to the contraction in economic activity.

² Of note, B-FXITT sales during 2020 were US\$155.4 million lower than that of 2019. This was a considerable reduction in intervention sales, particularly in the context of the global pandemic and the associated uncertainty about its impact on foreign exchange earnings.

Performance of the FX Markets in 2020 – A Closer Look

During 2020, the Jamaica Dollar depreciated against the US dollar by 7.1 per cent, compared to a more moderate adjustment of 3.7 per cent in the previous year. Concurrently movements in the real exchange rate reflected a gain of 1.6 per cent in competitiveness, on average, for the year.

Volatility in the exchange rate, measured by Bank of Jamaica Foreign Exchange Volatility Index (FXVIX), averaged 6.3 per cent in 2020, compared to 4.9 per cent in 2019.³ The increased volatility was most evident in the September and December quarters where the FXVIX averaged 6.4 per cent and 7.6 per cent, respectively, compared to 5.5 per cent and 5.7 per cent in the March and June quarters.

Flows in the foreign exchange market were not significantly affected by the Covid-19 crisis. Total US dollars purchased by the Authorized Dealers and Cambios from FX earners in 2020 amounted to US\$7,841.3 million, representing a moderate decline of 6.3 per cent relative to 2019. A sharp fall-out in FX inflows had been anticipated at the onset of the crisis. The decline in inflows was most evident from Individuals, Hotel Accommodation & Tourism Activities and the Distributive sector (Wholesale and Retail), partly offset by higher inflows from Remittances and Financial Services.⁴

FX inflows improved over the second half of 2020. Inflows for the last six months of the year were only 2.8 per cent lower, relative to 2019, which was in contrast a more-pronounced year-on-year decline of 9.9 per cent for the first six months. This moderation over the latter part of 2020 occurred in the context of increased inflows from Remittance Services and, to a lesser extent, the Distributive Trade and the BPO sectors. The increase in remittance flows mainly reflected a greater use of electronic channels by the diaspora to send money to Jamaica, as opposed to in-person gifts, given the impact of travel restrictions on non-resident's ability to travel to Jamaica.⁵

In terms of FX demand, sales to end users amounted to US\$7,323.0 million in 2020, relatively stable when compared to sales of US\$7,277.6 million in 2019. Sales to end-users (supported by the resources provided by BOJ through its BFXITT operations) increased over the second half of the year, evidenced by daily average sales of US\$30.2 million and US\$30.6 million in the September and December quarters, respectively, compared to US\$27.9 million and US\$27.2 million in the March and June quarters. These higher volumes mainly reflected sales to the Distributive, Manufacturing, Energy and Financial sectors.⁶

With regard to the NIR, although there was a decline in foreign exchange inflows into Bank of Jamaica, relative to 2019, this was largely offset by a decline in outflows. Lower inflows reflected declines in receipts from the Authorised Dealers' (ADs) surrender arrangements and Government inflows. Cambio surrenders, however, increased in 2020 relative to 2019.

Consistent with developments in the broader market, the most significant decline in ADs' surrenders occurred in the June 2020 quarter. However, in the second half of the year, the magnitude of decline was more moderate.

With respect to foreign currency outflows, sales to Public Sector Entities (PSEs) declined by US\$452.2 million when compared to 2019.

³ The FXVIX is computed as the 10-day moving standard deviation of daily percentage changes in the weighted average selling rate. The volatility measure is annualized by multiplying the daily volatility by the number of business days in the year.

⁴ Inflows from Individuals declined to a daily average of US\$7.8 million over the period February to December 2020, compared to a daily average of US\$11.1 million for the corresponding period in 2019. On the other hand, inflows from the Hotel sector declined to a daily average of US\$1.0 million over the period February to December 2020, compared to US\$2.4 million for the comparable period in 2019.

⁵ The shift from 'in-branch' to online methods may also have resulted in reduced transaction fees for some senders, thereby facilitating an increase in the overall amounts sent, net of transaction fees.

⁶ Sales to the Distributive sector averaged US\$8.2 million daily over the February-to-December period in 2020, compared to an average of US\$7.6 million over the corresponding period in 2019. Sales to the Energy sector grew to a daily average of US\$2.4 million over the February-to-December period of 2020. This represented a significant increase relative to the comparable period in the previous year.

Notwithstanding the uncertainties surrounding the impact of the pandemic, B-FXITT sales declined by US\$155.4 million in 2020 relative to 2019. In the context of the flows and BOJ's policy actions in the foreign exchange market, the reserves declined by only US\$36.4 million during 2020,

How Bad was it? – A comparative Assessment

The performance of the Jamaican financial markets in 2020 can be assessed relative to the experience of the Global Financial Crisis of 2008. In that year, the Jamaica Dollar reflected a sharp depreciation of 12.2 per cent. This was in a context of significant concerns about the potential impact of the credit crisis on the global economy and, by extension, the Jamaican economy and financial markets. The relatively modest depreciation of 7.1 per cent in the WASR in 2020 can be considered a favourable outcome relative to the more precipitous adjustment which occurred in 2008.

In a similar vein, while the NIR declined by US\$36.4 million in 2020 due to the impact of the pandemic, this was modest compared with a fall of US\$104.8 million in 2008.

Conclusion and Lessons Learned

The COVID-19 pandemic had a significant impact on the economic outlook for Jamaica, creating considerable uncertainty in the foreign exchange market and the financial markets in general during the year. Notwithstanding this uncertainty, the flows into the FX market were generally resilient due to the buoyancy of remittances and the BOJ's multifaceted policy response to the pandemic. The Bank's various liquidity facilities, supported by the RFI Facility, provided a level of assurance to institutions and investors about the sustainability of Jamaica's external position. This tempered speculative activity and potential disorderly movements in the exchange rate.

The outlook is still characterized by uncertainties regarding the duration and depth of the crisis and its implications for the financial markets, albeit less so than at the start of the crisis. In this regard, Bank of Jamaica's foreign exchange market strategy will continue to focus on:

- Ensuring liquidity in the market, while allowing the exchange rate to adjust according to economic fundamentals;
- Ensuring adequate reserves; and
- Driving market transparency through expanded use of the FX trading platform.

Box 2: Impact of COVID-19 on Bank of Jamaica's Operations in 2020

Overview

The Jamaican economy, similar to other economies across the globe, was significantly impacted by the spread of the novel Coronavirus (COVID-19). Since the first confirmed domestic case recorded on the island on 10 March 2020, Jamaica recorded one of the highest incidences of virus-spread among Caribbean countries, placing considerable pressure on the health system and economy. According to the Ministry of Health and Wellness, as at 31 December 2020, there were 12 915 recorded positive cases in Jamaica, with 10 532 persons recovered and, unfortunately, 303 deaths.

The COVID-19 pandemic came at a time when Jamaica had made significant steps in correcting fiscal imbalances, lowering public debt and undertaking structural reforms to engender a faster pace of economic growth while securing price and financial system stability. Jamaica's ability to navigate the difficulties brought on by the pandemic was undergirded by the build-up of significant fiscal buffers, a strong foreign reserve position and a sound financial system. While there remains much uncertainty about the full impact of the economic and financial fallout from the COVID-19 shock on the Jamaican economy, it is clear that, the effect will be prolonged and significant. For 2020, the Bank of Jamaica therefore focused on ensuring that there was adequate liquidity in the system, while maintaining a strong foreign reserve position. The Bank also maintained its focus on keeping inflation within the target range of 4.0 to 6.0 per cent. Operationally, the Bank implemented several measures to ensure that staff members were able to continue with their duties safely and optimally.

Economic Impact of COVID-19 Pandemic

The impact of COVID-19 on Jamaica in 2020 was significant and has continued to have a negative effect. Prior to the onset of the pandemic, real GDP was forecasted to grow by 1.1 per cent for FY2020/21. However, the COVID-19 pandemic resulted in a reduction in real output in all industries, except Producers of Government Services. This assessed outturn in the economy largely reflects the impact of the government-mandated containment measures (including curfews, social distancing, stay-at-home orders, shutting of international borders) to slow the spread of the virus. These measures contributed to lower value added in several industries, particularly tourism, entertainment, education, transportation and personal services. Labour market conditions were also adversely impacted by the pandemic, as the unemployment rate spiked to 12.6 per cent at July 2020, improving somewhat to 10.7 per cent at October 2020, but remained well above the 7.2 per cent recorded at October 2019. The decline in employment reflected job losses, reduction in the number of hours worked and the furloughing of some workers largely due to a fall-off in domestic demand.

With Jamaica's trading partners being also negatively affected by the COVID-19 pandemic, the country has lost important foreign exchange inflows, mainly associated with the fallout from the tourism sector. However, Jamaica's current account deficit of the balance of payments remained at sustainable levels, supported by stronger than expected remittance inflows and a fall in imports. Jamaica's international reserves also remained healthy at approximately US\$3.1 billion at end-2020. The exchange rate, however, depreciated during the year, but not out of norm with what was observed in other tourism dependent economies.

The impact of the pandemic on domestic inflation was relatively moderate over the review year, driven by lower energy & transport prices, associated with generally lower commodity prices. Inflation generally trended within the Bank's target of 4.0 to 6.0 per cent during 2020. However, there was one occasion, in June 2020, when inflation exceeded the upper limit of the target (6.3 per cent), due to adverse weather conditions, which influenced a rise in agricultural food prices. In this context, the Bank maintained an accommodative monetary

policy posture throughout the year, aimed at supporting a swift recovery in economic activity once the crisis has passed.

Policy Initiatives by BOJ to Address Jamaica Dollar and US Dollar Imbalances

In the context of the COVID-19 pandemic, the Bank took a number of pre-emptive measures to assure financial institutions and the public of adequate access to both Jamaica Dollar and foreign currency liquidity. The initiatives to bolster supplies of US dollar liquidity within the system included:

1. A reduction in the foreign currency cash reserve requirement for deposit-taking institutions (DTIs) to 13.0 per cent from 15.0 per cent, effective 15 May 2020. This policy adjustment injected approximately US\$70 million into the financial system;
2. The provision of US\$167.00 million via the Bank's Foreign Exchange Swap arrangement which was introduced in January 2020. Notably, this amount was repaid in full by the end of the year;
3. US dollar repurchase operations to financial institutions totaling US\$136.60 million which was effected in May 2020. At 31 December 2020, US\$119.00 million of this amount was repaid;
4. The direct sale of US\$344.22 million to public sector entities (PSEs) and other approved entities; and
5. Sales of US\$292.30 million to authorized dealers and cambios via flash auctions through the Bank of Jamaica's Foreign Exchange Intervention Trading Tool (B-FXITT). Re-sale of these funds were limited to end-users at a maximum specified spread.

The Bank also temporarily increased the limit on the foreign currency net open positions (FXNOP) of authorised dealers by 5.0 percentage points. This effectively raised the limit on the positions of these institutions (either long or short) to 25.0 per cent of regulatory capital, thereby enabling authorised dealers to provide more foreign currency to their clients. Total US dollar liquidity support to the market from these initiatives was in excess of US\$1.0 billion or over 7.0 per cent of GDP.

To assure the public of access to adequate Jamaica Dollar liquidity, the Bank instituted the following measures:

1. The removal of the limit on the amounts that DTIs can borrow overnight via the overnight repurchase facility, without being charged a penal rate;
2. A reduction in the domestic cash reserve requirement to 5 per cent from 7 per cent effective 15 May 2020. This action injected approximately \$14.0 billion into the financial system;
3. A bond repurchase facility to purchase Government of Jamaica (GOJ) fixed and variable rate instruments and early redeem BOJ instruments. This operation injected \$51.1 billion into the system;
4. The establishment of an intermediation facility at the request of financial industry groups;⁷

⁷ Under this arrangement, the Bank acted as an intermediary between eligible financial institutions to facilitate borrowing and lending between the parties while simultaneously allowing them to avoid exposure to counterparty risk that is inherent in peer to peer lending.

5. The provision of liquidity support for the credit unions on designated dates during the period July 2020 to December 2020.⁸ One credit union accessed \$45.0 million via this facility; and
6. An Occasional Term Repurchase Operation (OTRO) through which credit was made available to DTIs for six-months and where the pool of securities which could be utilized as collateral was widened. All of the \$11.0 billion issued via this facility was early repaid.

Total JMD liquidity support to the market from these initiatives was approximately \$76.0 billion, about 4.0 per cent of GDP.

In addition to these measures, the approval of US\$520.5 million (equivalent of SDR 382.9 million) through the Rapid Financing Instrument (RFI) Facility from the International Monetary Fund (IMF), in May 2020, provided market assurance of Jamaica's capacity to withstand potential near-term shocks to its balance of payments.

Impact of COVID-19 Pandemic on the Financial Sector

During the review year, adverse effects from the impact of the COVID-19 pandemic were observed in both the growth and quality of loans among DTI's. Gross lending among DTI's decelerated during the year, mainly associated with a decline in demand for both personal and corporate credit amidst the slowdown in global and domestic economic activity as well as reduced employment levels. Loan quality also deteriorated in the context of constraints faced by borrowers in servicing loans. This deterioration in asset quality occurred even as a wide cross-section of borrowers were able to benefit from moratorium facilities aimed at cushioning the impact of the pandemic on the quality of lending portfolios among DTIs.

In addition, the pandemic contributed to a decline in profitability among DTI's. Pre-tax profit margins declined over the year, largely reflecting reduced interest income following the slowdown in lending and the increased use of moratorium facilities. Also, in light of the uncertainties brought on by the pandemic, a greater share of profits was provisioned for future credit losses. Notwithstanding these developments, the financial system continued to reflect adequate levels of capital and remained sound.

As it relates to financial system stability, while the COVID-19 pandemic contributed to lower asset and credit market performance, increased price volatilities and contraction in real GDP, the Bank's Early Warning System framework for the soundness of licensees, showed that these institutions maintained relatively sound balance sheet positions. Furthermore, the DTI sector remained broadly robust to contemplated stress tests, maintaining capital adequacy ratios (CARs) above the 10.0 per cent minimum benchmark in response to hypothetical market, credit and liquidity shocks.

Impact of COVID-19 on the Bank's Operations

Supervision of DTIs

Operationally, the outbreak of the COVID-19 pandemic curtailed several public education initiatives as well as on-site examinations of DTIs which were slated for the year. In light of this and in furtherance of the Bank's mandate, a number of public education initiatives were refocused. Brochures and frequently asked questions on The Banking Services (Deposit Taking Institutions)(Customer Related Matters) Code of Conduct, 2016 ("the Code") continued to be published on the Bank's website and/or on social media platforms. In keeping with the overarching thrust for financial inclusion, the Bank provided technical support to the Financial Inclusion Secretariat to facilitate the execution of a radio feature on the Code.

⁸ In order to facilitate this request, the Bank designated credit unions as financial institutions for financial stability purposes under Part VB, Section 34L of the Bank of Jamaica Act and established a repurchase facility through which a total of \$4 000.00 million was made available to the credit union sector.

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

A critical component of the regulatory regime for money services business is the on-site supervision of the operations of licensees. Typically, this process entails visits to the licensed locations in order to examine the operations of the entity as well as assess consistency with the licensees' Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) policies and procedures, the Bank's operating directions, and the AML/CFT regulations. In light of the pandemic, the Bank introduced 'virtual' inspections that entailed the licensees providing online access to relevant records for examination. The Bank also interfaced with operators using virtual meeting platforms.

Payment System

In 2020, the Bank was proactive in promoting the adoption of electronic means of payments in response to the potential negative impact of the COVID-19 pandemic. Effective 19 March 2020, the Bank waived transaction fees associated with all beneficiary payment transactions processed through JamClear®-RTGS. The Bank also delayed implementation of the revised JamClear® fee structure.

Consequent on the pandemic, there was increased interest in electronic retail payment services during the year. In response, the Bank deepened its efforts to facilitate the development of innovations in financial technology (fintech), through the implementation of the Bank of Jamaica Fintech Regulatory Sandbox. In addition, by end-2020, efforts were underway to facilitate the commencement of a pilot for Central Bank Digital Currency (CBDC).

Currency Operations

Notwithstanding the impact of the pandemic, the Bank was able to continue to meet its mandate of ensuring the availability of secure, high-quality banknotes to the public throughout the year. With the activation of the Bank's Business Continuity Arrangements, the Bank was able to quickly resolve episodic disruptions to currency operations that occurred in March and August 2020.

Administration

With the onset of the COVID-19 pandemic in March, the Bank initiated temporary work-from-home arrangements for staff. During 2020, emphasis was placed on providing support for employees in adjusting to the impact of the pandemic with the implementation of a number of initiatives. These initiatives included, but were not limited to:

- a) Development of Special COVID-19 Protocols and the issuing of periodic Bulletins to keep staff abreast of new developments;
- b) Introduction of a special Managers' Toolkit on Managing Teams Remotely;
- c) Expansion of the Employee Assistance Programme to include virtual counseling sessions on coping with stress – led by Clinical Psychologists;
- d) Roll out of a Remote Learning Strategy for the Bank to ensure continued participation in training;
- e) Guidelines to employees working from home; and
- f) Regular "check-in" telephone calls for staff working from home.

The Bank also acquired and distributed additional portable and mobile devices as well as technology to facilitate the ability of staff to operate remotely in an optimal manner.

Governance

Sittings of the Board of Directors, Board Committees and Statutory Committee were held virtually during the year. This was to ensure that the precautionary measures and protocols announced by Government to ameliorate the impact of the pandemic were observed.

Strategic Plan

The COVID-19 pandemic led to adjustments in the work programme to ensure that the strategic projects of the Bank were undertaken. Specifically, at end-March 2020, the portfolio of a strategic projects for the year was re-assessed to determine the best way to proceed in light of the changing environment. This assessment led to the portfolio being re-prioritized, with 13 of the top 20 projects (or 65.0 per cent of the portfolio) being re-scoped. Nonetheless, by end-2020, 18 of the 20 projects were on track based on their original or adjusted timelines.

BOJ's Communication Strategy

While the COVID-19 pandemic significantly affected the operations of the Bank's communications initiatives, the Bank still managed to execute most of its usual external and internal communication initiatives, and even successfully introduced new ones, including the **Inflation Watch** video programme. The Bank also continued to successfully manage its website and social media channels while growing its repertoire of Twitter threads. However, a major setback during the year was the postponement of the Bank's initiative to extend the communication campaign on inflation to include 'on the road' face-to-face communication. Going forward, the Bank will devise counterbalancing strategies to improve its public messaging efforts in spite of COVID-19.

Community Outreach

Bank of Jamaica remained committed to being a good corporate citizen despite the advent of the COVID-19 pandemic. As the Bank was unable to host its usual monthly Lunch Hour Concerts, which are typically well attended by the public, a decision was made to utilize some of the funds allocated to these concerts to provide care packages for persons in need. Over 300 care packages were distributed to the elderly and most vulnerable in the Downtown communities, including the Salvation Army, the Jamaica Society for the Blind and a number of disadvantaged regular attendees of the Lunch Hour Concerts.

Conclusion

The COVID-19 pandemic has adversely impacted the performance and outlook for the Jamaican economy. However, the macroeconomic environment remains generally stable and the financial system sound, due in part to proactive measures undertaken by the Bank. The Bank is of the view that the policies being initiated by the Government should help to improve the state of the economy in spite of the continued impact of the Covid-19 pandemic. Additionally, the imminent deployment of COVID-19 vaccination programmes, worldwide and locally, has enhanced the outlook for the external and domestic economies to steadily recover over the medium-term. Bank of Jamaica's policy posture will therefore remain accommodative until there are clear signs that economic activity in Jamaica is returning to pre-COVID levels and the outlook for inflation remains consistent with the Bank's target. The Bank will also continue to take steps to ensure the safety of its staff while optimally carrying out its operations in the context of the continuing impact of the pandemic.

International Reserves

Jamaica maintained a strong foreign reserve position

Bank of Jamaica maintained a strong net international reserves (NIR) position for 2020, despite the adverse impact of the COVID-19 pandemic. While there were declines in the June and September quarters, the NIR reflected steady improvement in the December quarter to end the year at US\$3 130.8 million.^{9 10} This outturn represented a marginal decline of US\$31.7 million relative to end-2019. At end-2020, the gross reserves amounted to US\$4 085.7 million, which represented 122.3 per cent of the IMF's Assessing Reserve Adequacy (ARA) metric. Gross reserves at end-2020 also represented approximately 38.9 weeks of projected goods and services imports relative to 22.9 weeks at end-2019.

At end-2020, the non-borrowed reserves (NBR) accounted for 90.8 per cent of the NIR, relative to 89.0 per cent at end-2019. The improvement was in keeping with the Bank's strategic focus of continuing to strengthen the sustainability of its external liquidity position through continued reduction in its stock of borrowed reserves, specifically foreign currency CDs.

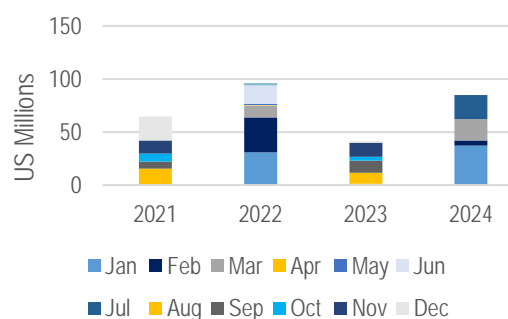
BOJ continued to reduce its stock of Foreign Currency Certificates of Deposit

The Bank maintained a strategy of net-redemption of its US dollar CDs in 2020. This strategy was geared towards supporting the Bank's objective of reducing its stock of borrowed reserves. Against this background, the outstanding stock of foreign currency CDs at end-2020 was US\$286.5 million, relative to US\$342.1 million at end-2019 (see **Chart 22**). The reduction occurred in the context of no

new issuance of foreign currency CDs during the year as well as maturities amounting to US\$55.6 million, in comparison to US\$111.2 million in 2019. The majority of maturities occurred in the March 2020 quarter, totaling approximately US\$41.8 million or 75.2 per cent of total maturities for the year (see **Chart 23**).

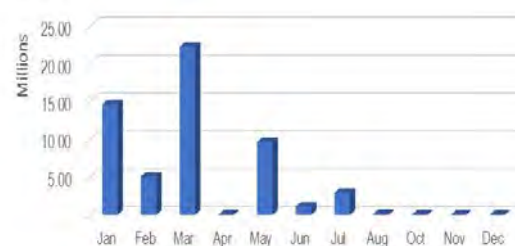
For those investors seeking instruments to hedge against foreign currency exposure, that demand was satisfied through the Bank's issuance of US-dollar Indexed Bonds, with net-issuance of those instruments totaling the equivalent of US\$623.1 million during 2020.

Chart 22: Stock of USD CDs Outstanding by Maturity Year – as at 31st Dec 2020



Source: BOJ

Chart 23: Profile of Maturities in 2020 – BOJ USD CDs



Source: BOJ

⁹ The NIR fell below the US\$3.0 billion mark during the last three quarters of 2020 but rallied to end the year above the US\$3.0 billion mark.

¹⁰ The NIR reflected an average monthly increase of US\$127.8 million during the December quarter. The December quarter was the only quarter during 2020 in which the NIR reflected three consecutive months of improvement. The overall increase in the December quarter was US\$383.3 million, in contrast to an average decline of US\$245.0 million in the June and September quarters and an increase of US\$106.9 million in the March quarter.

The Gross Foreign Assets grew year-over-year

The gross foreign assets (GFA) of Bank of Jamaica increased by US\$454.7 million to US\$4 085.7 million in 2020, relative to 2019. The growth in the GFA primarily reflected the impact of receipts from the IMF Rapid Financing Instrument (RFI), surrenders, foreign currency inflows to the Government from multilaterals, inflows related to the PetroCaribe Development Fund and foreign currency flows from Government entities. The impact of these inflows on the GFA was partly offset by Government payments as well as BOJ's foreign currency sales to the market (which included sales via B-FXITT auction as well as sales to the energy sector and to Public Sector Entities). In addition to its foreign currency sales, BOJ implemented a number of other policy initiatives geared towards managing conditions in the foreign exchange market during the year. These initiatives included foreign currency swaps as well as a US dollar repurchase facility. However, the net impact of these facilities on the GFA was minimal in a context where the bulk of these facilities matured within the calendar year. In particular, the net impact of the swap facility on the GFA was almost nil, while the US dollar repurchase facility resulted in a small net-outflow of US\$16.1 million from the GFA.

Total foreign liabilities grew by US\$486.4 million to US\$955.0 million at end-2020, largely reflecting the proceeds from the IMF RFI. It was against that background that the NIR declined to US\$3 130.8 million at end-2020.

Rapid Financing Instrument (RFI) Disbursement to Jamaica

Jamaica accessed US\$520.5 million (SDR382.9 million) from the IMF under the RFI in May 2020. This represented a pre-emptive strategy by the Bank which was aimed at buffering Jamaica's external sector from any potential adverse impact on the country's balance of payments as a consequence of the COVID-19 pandemic. The receipt of the proceeds from the RFI resulted in a corresponding increase in foreign liabilities, the impact of which was partially offset by IMF loan repayments during the year.

During the year, the repayment of funds borrowed under the Extended Fund Facility Arrangement, which concluded in 2016, continued and totaled US\$116.9 million or SDR 83.7 million. Of the total amount repaid during the year, US\$82.1 million (SDR 58.7 million) was owed by BOJ while US\$34.8 million (SDR 25.0 million) was owed by the GOJ.

Table 12

SDR DISBURSEMENTS AND REPURCHASES/REPAYMENTS				
CALENDAR YEAR 2020				
MN				
Date	DISBURSEMENTS		REPURCHASES	
	SDR	USD ^{1/} Equiv.	SDR	USD ^{1/} Equiv.
March Qtr	0.0	0.0	12.4	16.8
June Qtr	382.9	520.5	27.1	37.2
September Qtr	0.0	0.0	12.4	17.4
December Qtr	0.0	0.0	31.8	45.5
TOTAL	382.9	520.5	83.7	116.9

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

Source: BOJ

Achievements in 2020

Governance framework for foreign reserve management further enhanced

The governance framework of the Foreign Reserves Management function was further enhanced with the Board approval of the revised Investment Policy Statement (IPS) which, along with the Investment Guidelines (IG), were modified in alignment with the mandate for annual reviews. Operational initiatives to support execution of the revised investment approach included implementation of an enhanced portfolio management system – the “Bloomberg AIM for Emerging Markets” platform. This was in keeping with the Bank’s approved strategic objective of “Foreign Reserves Enhancement” for 2020.

“The assets under management increased during the year, mainly due to the receipt of US\$520.5 million from the RFI from the IMF in May 2020.”

Investment Strategy adjusted in response to COVID-19 pandemic

The investment strategy was adjusted in March 2020 in response to the geopolitical impact of COVID-19 on the global economy. This adjustment included enhancement of liquidity by additional funding being transferred to the Working Capital Tranche. As a result, the size of the Working Capital Tranche was expanded beyond the pre-COVID target range, which was a prudent move that was consistent with the World Bank recommended best practices. Additionally, assets in the Liquidity and Investment Tranche sub-portfolios were allocated tactically to ensure capital preservation while providing competitive risk-adjusted returns.

Assets under management increased

No new class of assets was added to the portfolio in 2020. However, the assets under management increased during the year, mainly due to the receipt of US\$520.5 million from the RFI from the IMF in May 2020. These proceeds primarily served to expand the Working Capital Tranche as the holdings in the Liquidity and Investment Tranches were relatively unchanged. **Table 13** details the composition of the portfolio as at 31 December 2020 relative to end-2019.

Table 13

DISTRIBUTION OF FOREIGN ASSETS For Years Ended 31 December 2019 and 2020				
Assets	2019		2020	
	US\$MN	% of Holdings	US\$MN	% of Holdings
Working Capital Tranche	315.3	8.7	844.4	20.7
Liquidity Tranche	2 028.0	55.9	1 915.5	46.9
Investment Tranche				
Capital Market Investments	319.6	8.8	344.8	8.4
External Funds	695.8	19.2	716.6	17.5
Total Funds Invested	3 358.7	92.5	3 821.2	93.5
Allocation of Special Drawing Rights	272.4	7.5	264.6	6.5
Total	3 631.1	100.0	4 085.8	100.0

Source: BOJ

Average return on portfolio fell

The average income earning assets for the year amounted to US\$3 608 million, an increase of US\$303 million or 9.1 per cent compared to 2019. Total income of US\$34.3 million at end-2020 was US\$48.9 million or 58.8 per cent lower than in 2019. This reduced income occurred in the context of the average return on the portfolio falling to 0.95 per cent per annum in 2020, 156 basis points less than the figure for 2019 (see **Table 14**). The lower level of return was largely influenced by the Federal Reserve’s reduction of its overnight benchmark rates to between 0 per cent and 0.25 per cent in March 2020, from 1.25 per cent at the beginning of the year and 2.25 per cent in the previous year. The benchmark rate reduction – a response to the negative impact of COVID-19 on the

US economy – resulted in a lower rate of return on all asset classes.

Table 14

Foreign Investment Income For Years Ended 31 December 2019 and 2020				
Assets	2019		2020	
	Earnings US\$MN	% of Earnings	Earnings US\$MN	% of Earnings
Working Capital Tranche	8.3	10.0	1.2	3.5
Liquidity Tranche	46.9	56.3	12.2	35.6
Investment Tranche				
Capital Market Investments	8.2	9.8	7.8	22.8
External Funds	17.9	21.5	12.1	35.2
SDR Holdings	2.0	2.4	1.0	2.9
Total	83.2	100	34.3	100
Average Income Earning Assets	3 305		3 608	
Rate of Return (%)	2.51		0.95	

Source: BOJ



Links to more information

▶ Additional Resources

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



FINANCIAL INCLUSION

FINANCIAL INCLUSION

During 2020, Bank of Jamaica continued its implementation of its financial inclusion objectives through its Financial Inclusion Technical Secretariat. Specifically, emphasis was placed on achieving the objectives for financial access and usage. This involved close collaboration between several departments within the Bank to develop the policy proposals to inform legislative amendments that would enhance the regulation of payment service

providers and achieve expansion of digital retail payments through increased access to the existing financial infrastructure and central bank digital currency (CBDC). In addition, there was ongoing work on promoting greater consumer awareness of Bank of Jamaica's role as a regulator and the laws which govern the Bank's regulated entities. Work also advanced on the implementation of the Bank's financial literacy communication strategy.

Achievements in 2020

Financing for Growth – Promoting MSME Finance

Throughout 2020, the Bank continued to collaborate with the New Economy Taskforce, an initiative led by the Government of Jamaica to promote the digitization of MSMEs through equipping firms with access to technology, innovative payment and e-commerce solutions. The Bank also supported the Development Bank of Jamaica's (DBJ) work on the Access to Finance project.

In September 2020, a critical activity under the Access to Finance project was concluded with DBJ completing its selection process for its Reverse Factoring Platform. User Acceptance Testing of the platform was completed and there were discussions with potential buyers. These discussions are ongoing. The management information software system for the Credit Enhancement Fund (CEF) was also upgraded, resulting in the automation of assessment processes for the risk rating of DBJ's approved financial institutions.

DBJ reported that, at November 2020, 318 guarantees had been approved by the CEF for MSMEs totaling \$1.83 billion, supporting existing loan funds of \$4.0 billion. Of the approved guarantees, 44.0 per cent supported loans to women-owned MSMEs while 3.0 per cent were

loans to MSMEs for energy-related projects. Additionally, of the total approved guarantees, 124 (39.0 per cent) were for micro enterprises, 111 (35.0 per cent) for small enterprises and 80 (25.0 per cent) for medium-sized enterprises. With respect to the sectoral distribution of guarantees since the project began in 2018, 42.0 per cent supported businesses which were in the services sector, 24.0 per cent were in distribution and 16.0 per cent in agriculture. A marketing firm was hired to increase public awareness of the CEF, especially among MSMEs.

In December 2020, the Bank, in collaboration with the European Investment Bank, the Frankfurt School of Management and the Ministry of Investment, Industry and Commerce (MIIC), staged an online webinar for MSMEs. This webinar provided MSMEs with practical skills on how to retool and rework their business strategies in the context of COVID-19.

Building National Financial Inclusion Strategy (NFIS) Awareness

In 2020, the Bank continued its partnership with key financial inclusion partners, the Jamaica Deposit Insurance Corporation (JDIC), the Jamaica Stock Exchange (JSE), the Private Sector Organization of Jamaica (PSOJ) Access to Finance Facilitation Panel and the MIIC, to promote the public's

understanding of the NFIS. During the review year, the Bank and its financial inclusion partners embraced social media, television and radio as the preferred channels for the delivery of financial inclusion and financial literacy content. Specifically, these media were used to undertake virtual workshops, conferences and public service announcements. This resulted in 36 financial inclusion engagements with the public on matters such as:

- simplified customer due diligence (CDD) requirements;
- consumer protection (legal protections for financial service consumers);
- the Banking Services (Consumer Related Matters) Code of Conduct;
- business competitive strategies for MSMEs; and
- digital retail payments, fintech, credit reporting, cambios and remittances.

Starting in February 2020, the Bank partnered with the radio programme “Under the Law”, to expand its reach to its target audience by airing its financial inclusion content on four radio stations. The financial inclusion content was developed through the collaborative work of several departments in the Bank. A total of 28 episodes on the topics above were aired in 2020.

The Bank partnered with PSOJ Access to Finance Facilitation Panel in August 2020 in its CovidCast series to discuss expectations relating to the implementation of simplified CDD requirements as part of the risk-based approach to AML/CFT. In this series of discussions, the Bank articulated to its regulated entities, the pillars of the Bank’s updated industry guidance on the application of simplified CDD requirements as part of the financial inclusion plans to increase access to financial services while preserving the integrity of the financial system.

In September 2020, the Bank presented on consumer protection mechanisms in the JDIC’s webinar. The primary objective of the webinar was for JDIC to inform its stakeholders of the upgrade to the limits for deposit insurance coverage. The Bank also participated in the JSE’s National Investor Education Week by sharing information, with the youth and the public at large, on financial tools and concepts that can assist consumers in making smart financial decisions.

Promoting Greater Financial Literacy and Financial Capability

During September 2020, the Bank began the procurement process for a market research firm to conduct a financial literacy survey among the youth population. This survey is an important step in the implementation of the National Financial Literacy Action Plan. Further, in December 2020, the Bank launched its Financial Literacy Programme, BOJ RealTalk. The programme will utilize traditional and social media for the dissemination of financial literacy tips on savings, budgeting, building a great credit profile, managing one’s financial health and consumer protection mechanisms. This will be done via animated videos, jingles and cartoons targeted to specific socio-economic groups.



► Additional Resources:

- [Financial Inclusion Strategy](http://www.boj.org.jm/financial_sys/national_financial_inclusion_strategy.php#)
- <https://www.youtube.com/watch?v=6BAx6SCpGUo>
- <https://www.youtube.com/watch?v=T6R57Qzlx8E>
- <https://www.youtube.com/channel/UCZkm1rSxVMhynjN8gdwWqYw>



FINANCIAL DEEPENING

FINANCIAL DEEPENING

Bank of Jamaica continued to lead the implementation of Jamaica's financial deepening agenda with the support of the other members of the multi-agency implementation group (FSC, JSE and DBJ). In this second year of implementation, the focus remained on efforts to accelerate access to financial services and to facilitate increased

transparency and price discovery in markets. In addition, reforms to facilitate the expansion of debt and equity issues qualifying as high-quality liquid assets were pursued as BOJ collaborated to identify and implement initiatives for improving the ecosystem for the issuing, listing, trading and rating of Jamaican corporate securities.

Achievements in 2020

Accelerating Access to Finance – reverse factoring electronic platform now available

Work advanced on the DBJ-led initiative to implement an electronic platform to scale the use of reverse factoring in Jamaica. In March 2020, the electronic platform provider's application for a Public Procurement Commission registration was approved and BOJ subsequently provided non-objection to the product being offered to deposit-taking institutions. The DBJ signed the contract with the platform provider in April 2020 and commenced the integration process. The electronic platform became available for use in July 2020 following the completion of the testing phase.

During the year, the DBJ strengthened its engagement with DTIs and anchor firms in an effort to confirm participation on the platform. The agency also drafted a comprehensive risk management framework document which will guide the implementation of the product once launched.

Preliminary discussions were held with the FSC to explore the use of technology to engender efficient service delivery and lowering of cost, particularly with micro insurance services. The FSC will consider how a strategy on technology will align with the amendments to the Insurance Act and Regulations which are scheduled for tabling by end-FY 2020/21.

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

The FSC and BOJ strengthened collaboration with respect to specific current and near-term reforms which were important for bolstering the ecosystem for incentivizing the use of credit ratings. BOJ commenced the full implementation of the Liquidity Coverage Ratio (LCR) during 2020 as well as initiated work to reform the capital adequacy framework for DTIs. The introduction of the LCR for DTIs provided an opportunity to deepen capital markets in Jamaica. The LCR requires corporate debt securities qualifying as high-quality liquid assets (HQLA) to be highly rated and traded, among other things. The impact of the revised capital adequacy regime is to incentivize issuers and investors to seek credit ratings.

In July 2020, the FSC benefited from an International Monetary Fund (IMF) technical assistance (TA) which, among other things: (i) conducted an impact study of the implementation of an LCR for the securities dealers and (ii) provided guidance on a more risk-based capital framework. A reform agenda in response to the TA is being developed.

The FSC and BOJ collaborated to assess Jamaica's credit ratings infrastructure. Work on the

establishment of a national ratings scale infrastructure to support the evolving regulatory framework and to promote the bringing to market of high-quality assets accelerated. The FSC prepared a note in December 2020 which highlighted the current scenarios that incentivize the use of credit ratings and noted gaps in the infrastructure. The document included proposals to address those gaps, particularly for unsophisticated retail investors. In addition, Caribbean information and Credit Ratings Services Ltd (CariCRIS) decided in 2020 to establish an office in Jamaica by end-March 2021, which augurs well for the ecosystem.

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

During 2020, there was continued focus on enhancing the ecosystem to facilitate increased trading of securities and included the finalization of the Amendments to the Securities Regulations which will allow for a more competitive fee structure for the trading of debt. Specific initiatives pursued during the year to increase transparency and price discovery in markets included:

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

Work to facilitate the listing and trading of GOJ securities on the JSE National Association of Securities Dealers Automated Quotations (NASDAQ) trading platform continued during the year. The initiative will promote a more liquid market, facilitate greater market information whilst enhancing efficiency and transparency. A stakeholder group, which included representatives from BOJ, JSE, FSC, Ministry of Finance and the Public Service and the Jamaica Securities Dealers Association (JSDA), was established to drive this project. The first

meeting was held on 06 March 2020.¹ Following extensive discussions, particularly at the sub-committee level, a business requirement document was drafted and submitted to JSE in December 2020. Once finalized, the document will facilitate the preparation of a separate note for submission to NASDAQ to guide platform modification;

b. Development of a private market

In January 2020, BOJ, FSC, JSE and the JSDA discussed a proposal regarding the establishment of a private market for the trading of equities and debt on the JSE NASDAQ platform. Utilizing the trading platform would engender greater efficiency, liquidity and transparency relative to the over-the-counter operation which currently exists.

A working group was established and a wider industry consultation conducted which led to a refinement of the product proposal. In July 2020, the business requirements specifications were completed and submitted to NASDAQ which conducted the necessary limited configurations to the JSE platform. The FSC approved the rules governing the private market in December 2020 and the initiative launched on 11 January 2021;

c. Facilitating greater Market Making

During January 2020, BOJ and the FSC hosted meetings with members of the JSDA to discuss market making impediments with the aim of finding solutions. A series of subsequent meetings were held between BOJ and the FSC to explore solutions within their individual and collective remits. In that regard, the FSC benefitted from an IMF TA in July 2020 and decisions were taken regarding a path towards revision to foreign currency investment limits for non-banks; and

¹ Four smaller working groups were established to have detailed discussion on matters related to trading, settlement, risk and market information.

d. Virtual Seminar on Market Deepening initiatives

A virtual market sensitization seminar was held on 15 December 2020 to provide an update on the various reforms and initiatives aimed at deepening Jamaica's capital market. These reforms and initiatives represented the collective effort of BOJ, FSC and the JSE under the Financial Deepening programme. The presentations at the seminar covered the following areas: Introduction of High-Quality Liquid Assets; Developing a Ratings Culture; Exempt Distribution in the Private Market; and the Development of a Private Market.

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

The DBJ, in its capacity as the implementing agency for the GOJ's Public Private Partnership (PPP) and Privatization programme, continued to prepare transactions that when completed would allow for a monetization of non-core government assets and direct equity participation in the economy. This augured well for continued capital market development as investors sought additional

investible assets. The COVID-19 pandemic had a negative impact on the process for transactions through the re-direction of some resources. However, the Government continued to engage potential investors, mindful of possible changes in risk appetite, as well as conducted market assessments and relevant due diligence. During the year, Cabinet approval was received for the final terms of the School Solar and Energy Efficiency PPP which is expected to reach commercial close in FY2020/21. DBJ also continued to work closely with the relevant agencies to advance the packaging of transactions. In particular, the privatisation of the Jamaica Mortgage Bank and the sale of GOJ's shareholding in the Jamaica Public Service Company Limited via the Jamaica Stock Exchange. It is expected that these transactions will be completed in FY2021/22.



CORPORATE RISK MANAGEMENT

CORPORATE RISK MANAGEMENT

During 2020, work continued to strengthen the Bank's risk governance framework, despite the impact of the COVID-19 pandemic. Notably, the pandemic significantly impacted timelines for the implementation of the Enterprise Risk Appetite Framework (ERAF). Nonetheless, work on this project continued through the work-from-home

arrangements established by the Bank. Furthermore, in response to the adverse impact of the pandemic, a COVID-19 Threat Response Taskforce (CTRT) was established to formulate and provide relevant mitigation strategies for consideration by the Bank's management team.

Achievements in 2020

The Bank's risk governance framework was strengthened in several areas, including:

I. Review, Development and Implementation of Key Policy Tools

a. Enterprise Risk Management Framework (ERMF)

This framework, approved by the Board in October 2020, outlines the philosophy and approach for the effective management of risk at the Bank – in accordance with international best practices. It also aligns expectations and functions of key stakeholders in the risk management process – to include the Board, senior management, risk owners and all other staff. In addition to enabling the embedding of a strong risk culture throughout the organization, the ERMF outlines the tenets for building an effective enterprise-wide risk management framework that is essential to the long-term sustainability of the Bank's operations;

b. Business Continuity Management Framework (BCMF)

This framework provides an approach to identify, manage and respond to the Bank's key business continuity risks and ensure continuity of operations in the event of disruptions. Though approved by the Board in October 2019, some key enhancements were implemented in 2020. These included, inter alia, more dynamic Business Continuity Plan (BCP)

reviews and a recommendation to management for the formal designation of a responsible officer for the Business Continuity Centre (BCC);

c. Risk Control Self Assessments Templates (RCSAs)

In order to enable ongoing identification and management of key risks by risk owners, Bank-wide (i.e. divisional heads and heads of departments), RCSA templates were designed and deployed to each division/department. The head of each divisional / department was tasked with documenting the key risks that pertain to his/her division's/department's operations in these RCSAs. Presentations of the completed RCSAs were done at the enterprise risk management workshops held in November 2019 and January 2020. At these workshops, risk owners, risk champions and members of executive management examined the veracity of the key risks identified and, in some instances, made suggestions for additional risks and more appropriate risk ratings.

Notably, the RCSA represents a key component of the ERMF and is intended to enable the Bank's risk-based decision-making processes at the operational management and senior management levels of the Bank;

d. Enterprise Risk Register

Arising from the deliberations on the RCSAs presented by risk owners at the enterprise risk

management workshops, a six-step process to compile an enterprise risk register for the Bank was undertaken. The process entailed discussions with and incorporating feedback from risk owners, the Risk Management Committee, the Chief Audit Executive, the Committee of Administration, the Management Committee and the Audit & Risk Committee of the Board. Upon completion of this engagement process, the Bank's inaugural enterprise risk register was approved by the Board in October 2020.

e. Implementation of an Enterprise Risk Management IT Solution

In a bid to streamline and improve efficiencies in its existing risk monitoring and reporting mechanisms, the Bank is in the process of implementing an Enterprise Risk Management IT solution procured from a third party. This process was at an advanced stage at the end of the review year.

II. Financial Risk Management

- a. The Bank continued to provide technical support to its risk owners in the management of market and credit risks inherent in the Bank's balance sheet. In this regard, work was undertaken in administering and monitoring IFRS 9-related expected credit loss estimates for the Bank's loan and investment portfolios, strategic asset allocation parameters for the foreign reserves portfolio and risk-based performance metrics for the Bank's investment activities; and¹

- b. During the review year, there was continued monitoring for compliance with prescribed limits and thresholds outlined in the Bank's Investment Policy Statement and Investment Guidelines.

III. Non-Financial Risk Management

a. Monitoring of RCSAs

Consequent on the approval of the ERMF by the Board, quarterly reviews of RCSAs submitted by risk owners were conducted within the Bank. These quarterly reviews will help to foster proactive and effective management of key risks on an ongoing basis and inform deliberations at the next enterprise risk workshop.

b. Implementation of Business Continuity and Contingency Plans

In August 2020, the Bank relocated mission critical staff from Nethersole Place to the BCC due to a confirmed case of COVID-19 amongst staff. This was in a context where the CTRT had recommended to Management that the BCC be kept sterile in the event of a suspected or confirmed case of COVID-19 amongst staff members at Nethersole Place.² The Bank continues to monitor developments relating to the spread and threat of the virus locally and internationally. This information will guide discussions at the fortnightly meetings of the CTRT.

¹ IFRS 9 is an International Financial Reporting Standard (IFRS) published by the International Accounting Standards Board (IASB). It establishes principles for the financial reporting of financial assets and financial liabilities.

² The CTRT is chaired by the Deputy Governor for Finance, Technology & Administration, and comprises Division Chiefs of the

Human Resource Division, Finance, Information Technology & Records Management Division, Banking & Currency Operations Division, Financial Institutions Supervisory Division, Research & Economic Programming Division as well as the Heads of Public Relations Department and Corporate Risk Management Department and two staff representatives.



COMMUNICATIONS & CORPORATE SOCIAL RESPONSIBILITY



ROBINSON

RICHARD BYLES

SYNE ROBINSON

COMMUNICATIONS AND CORPORATE SOCIAL RESPONSIBILITY

Bank of Jamaica views efficient communication on monetary and financial stability issues as central to the achievement of its mandate. Despite the onset of the COVID-19 pandemic, communication remained an essential part of the Bank's proactive policy and moral suasion initiatives to ensure continued stable inflation and foster financial system stability. Initiatives across several

communication channels were executed successfully to enhance policy effectiveness. Despite a scale-down in public activities in 2020 due to the pandemic, the Bank continued to engage in several outreach programmes that support education and the arts. This was consistent with the Central Bank's long-held view that service to the community is important.

Increased communication and engagement

- **Quarterly Monetary Policy Report Press Conference**

In spite of the pandemic, the Bank was able to execute all scheduled quarterly press conferences in addition to a few special press briefings. These were facilitated by switching to virtual mode without visible differences in the level or quality of press coverage or public response. In 2020, three of the Bank's four monetary policy press conferences were virtual. The press conferences were aimed at explaining the most recent monetary policy decision, presenting a brief analysis of recent economic developments and providing updates of the Bank's near- and medium-term forecasts of macroeconomic variables in the international and domestic economies. The Bank's Quarterly Monetary Policy Report (QMPR) was launched at each press conference. This publication discusses, in a non-technical manner, economic developments for the review quarter and provides forecasts of key macroeconomic variables, including inflation. This report is also made available on the Bank's website. See [Quarterly Monetary Policy Report](#) and [Quarterly Press Conference Presentation](#).

- **Schedule for Policy Rate Announcements**

The Bank published its schedule of eight announcements of monetary policy decisions for 2020. 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 2020 were communicated through highlights in the annual Financial Stability Report and the Quarterly Macro-Prudential Report. These reports can be viewed on the Bank's website at [Macro-Prudential Report](#) and [Financial Stability Report](#).

Continued support for education and the visual and performing arts

● Money Museum

Bank of Jamaica's Money Museum is the repository for the Bank's collection of ancient and modern currency and other items of Jamaican and international culture. In light of the COVID-19 pandemic, the Museum was closed to the public in March 2020. Prior to its closure, approximately 700 visitors, which included groups of seniors and visitors to the island, had the opportunity to view the displays.

● Schools' Education Programme

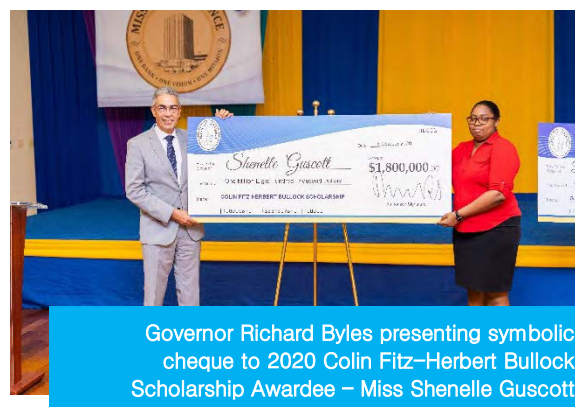
The COVID-19 pandemic also significantly affected the Bank's School Education Programme in 2020. In January to March 2020, three groups of secondary school students visited Nethersole Place for lectures on the role and functions of Bank of Jamaica. For 2020, there was an 83.0 per cent decline in the groups of students who visited the Bank relative to 2019.



Governor Richard Byles presenting symbolic cheque to 2020 G. Arthur Brown Memorial Scholarship Awardee – Miss Brooke-Anne Bowen

● G. Arthur Brown Scholarship

The 2020 G. Arthur Brown Memorial Scholarship was awarded to Miss Brooke-Anne Bowen to pursue a Master of Science degree in Economics at the University of the West Indies (UWI), Mona Campus. The scholarship has a maximum tenure of two academic years with coverage that commenced September 2020. The value of the scholarship is \$900,000.00 per academic year.



Governor Richard Byles presenting symbolic cheque to 2020 Colin Fitz-Herbert Bullock Scholarship Awardee – Miss Shenelle Guscott

● Colin Fitz-Herbert Bullock Scholarship

During the year, the Bank launched the Colin Fitz-Herbert Bullock Scholarship which will be extended on a triennial basis. This scholarship, established in honour of the late Colin Bullock – a former Deputy Governor of the Bank – will be extended to a Jamaican national pursuing a Doctor of Philosophy (Ph.D.) in Economics at UWI. The scholarship has a maximum tenure of four academic years and is valued at \$1.8 million per year. Ms. Shenelle Guscott is the inaugural awardee of this scholarship.

● St. Michael's Primary School

For over 20 years, Bank of Jamaica has extended support to St Michael's Primary School situated on Tower Street in Kingston. Given the closure of schools due to the impact of the COVID-19 pandemic, the Bank assisted the school through the provision of mobile data to students to facilitate the online learning education programme.

● Art Collection and Exhibitions

Bank of Jamaica has continued to encourage the work of local artists through our substantial collection of Jamaican art, beginning with the first acquisitions in 1976. During 2020, the Bank added to its art collection which now has over 1000 pieces.



A lunch hour concert in early 2020.

● **An Evening with the University Singers**

The annual concert, “An Evening with the University Singers”, which has traditionally been sponsored by the Bank during the Christmas season, took on a different form to ensure adherence with the Government’s protocols for COVID-19. For 2020, the Bank in collaboration with Television Jamaica (TVJ), presented a compilation of performances of the University Singers at the various BOJ concerts over the years. The programme was aired on Boxing Day and was viewed by a much wider audience, both locally and internationally, as it was

simultaneously streamed on BOJ’s YouTube channel. The concert was just one of the ways in which the Bank sought to bring some extra Christmas cheer at the end of a rough year. While staying on message with inflation, Croc O. Doyle did his part with a version of **The 12 Days of Christmas**, with the help of the talented daughter of a BOJ Pensioner.¹



A lunch hour concert in early 2020.

Achievements in 2020

Bank of Jamaica awarded ‘Best Communication Initiative’ by Central Bank Publications

The highlight of the year was that the Bank’s ongoing communication campaign on inflation targeting – a first of its kind among central banks – won a global award for central banks. This award, the inaugural **Best Communication Initiative**, was presented by Central Bank Publications, a British-based company that monitors central banks and provides training for central bankers world-wide.² BOJ’s successful communication programme as well as its management of the Twitter account has received accolades from local and international followers, with the Bank earning unofficial titles of ‘world’s coolest central bank’ and ‘best central bank twitter account.’ Additionally, the Bank’s latest

‘inflation dub plate’, featuring popular reggae artist Denyque, went viral in the review year, achieving the staggering feat of over 500, 000 views on Twitter.³



¹ Please see video of Croc O Doyle’s **12 Days of Christmas** at the link <https://bit.ly/36UR9sE>

² See link to the award announcement at <https://bit.ly/2tBQAnI>

³ Watch the full-length video of the BOJ’s ‘inflation dub plate’ at <https://bit.ly/3oYRqB3>

Bank launches Inflation Watch programme

Another achievement was the expansion of communication outlets by the creation of the in-house produced 'Inflation Watch,' a monthly TV programme on YouTube, which is the video version of the regular special report on the monthly inflation numbers published on Twitter. Segments of this programme were premiered in the business news segment of TVJ's Prime Time News.⁴ In addition, the Bank's **Centrally Speaking** programme concluded its first season run on television and radio and transitioned to a made-for-print version that now runs in the weekly Financial Gleaner. The Bank also utilized the virtual space to handle other critical communication imperatives, such as, the launch of BOJ's FINTECH Regulatory Sandbox.



Bank continued use of various media forms in its communication strategy

The onset of the pandemic slowed the pace of the Bank's inflation communication programme in the first half of 2020. However, the mass-media advertising element of our programme was rejuvenated in second half of the year and went full steam ahead, in print, on radio, on TV, on billboards, other digital signage and on select Internet outlets. This thrust aimed to garner the attention of as many Jamaicans as possible, to lay the groundwork for our more explanatory messages going forward. Prior to the start of the pandemic, in January, the Bank continued to be a global trendsetter by having its inflation advertisements

⁴ Episodes of Inflation Watch can be viewed at <https://bit.ly/2Nke7m2>

appear at **Rebel Salute**, a major music festival, a feat still unprecedented among central banks across the world.



BOJ introduced Agent Croc O. Doyle – Spokesperson on inflation

The Bank strategically 'positioned' the Croc O. Doyle character in the media to grow his fan base, with some success. The strategy also involved enabling him to be an effective BOJ spokesperson so that he will have a bigger and more attentive audience whenever he speaks about inflation. In addition to highlighting real crocodiles as an endangered species, Croc O. Doyle collaborated with the Ministry of Health and Wellness to put out a series of COVID-19 safety awareness advisories, to do his part in fighting the pandemic.



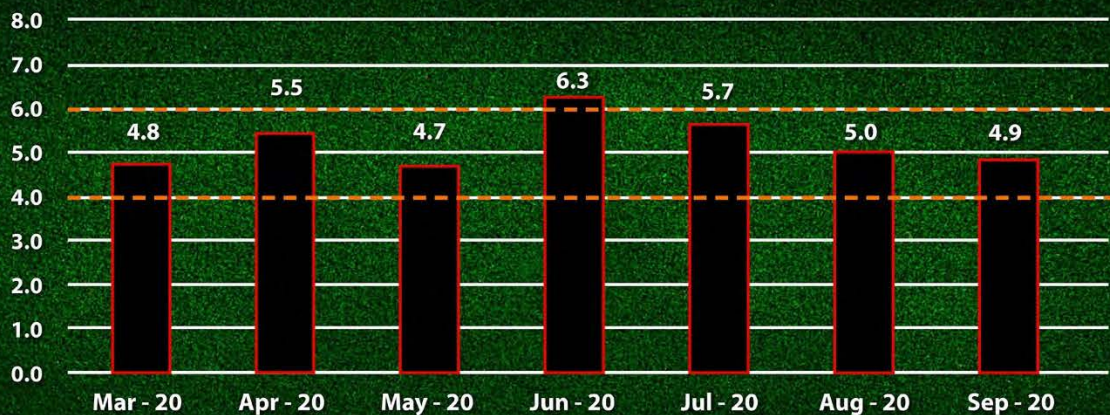
INFLATION: THE NO GOOD THE NOT SO BAD AND THE UGLY



STARRING
CROC. O. DOYLE AS THE
NEW SHERIFF IN TOWN



INFLATION PERFORMANCE IN 2020



--- Inflation target of 4 to 6%
█ Actual Result %

Central banks are not all-powerful, so we can't prevent movements of international markets or forces of nature creating unexpected shocks that impact inflation. What we CAN do, however, is ensure that the effect of those shocks is temporary, and that if inflation spikes, it retreats and returns to normal quickly thereafter.

If COVID-19 plus the impact of current flood rains makes you unduly pessimistic, we can understand, but if you're ignoring how well we have already done during a pandemic and you think that these conditions will not only create spikes but have a lasting impact on inflation, then you're betting against the ability of the central bank to bring inflation back under control quickly.



We'll take that bet.



FINANCIAL STATEMENTS

BANK OF JAMAICA
FINANCIAL STATEMENTS
DECEMBER 31, 2020



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
BANK OF JAMAICA

Pursuant to Section 43(1) of the Bank of Jamaica Act, we have audited the financial statements of Bank of Jamaica ("the Bank"), set out on pages 5 to 64, which comprise the statement of financial position as at December 31, 2020, the statements of profit or loss and other comprehensive income, changes in capital and reserves and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at December 31, 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

KPMG, a Jamaican partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.

R. Tarun Handa
Cynthia L. Lawrence
Rajan Tripathy
Norman O. Rainford
Migel R. Chambers
Nyssa A. Johnson
W. Gihan C. de Mel
Wilbert A. Spence
Rochelle N. Stephenson
Sandra A. Edwards



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Board of Directors of
BANK OF JAMAICA

Other Information

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

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

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

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

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

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

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

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



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Board of Directors of
BANK OF JAMAICA

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Board of Directors of
BANK OF JAMAICA

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Chartered Accountants
Kingston, Jamaica

March 4, 2021

BANK OF JAMAICAStatement of Financial Position
December 31, 2020

	<u>Notes</u>	<u>2020</u> J\$'000	<u>2019</u> J\$'000
<u>ASSETS</u>			
Foreign assets:			
Notes and coins		49,012	179,417
Cash and cash equivalents	4	120,595,213	43,678,754
Securities held in funds managed by agents	5	101,556,969	92,320,100
Investment securities	6	326,329,428	311,141,746
Resale agreements	8	2,507,179	-
International Monetary Fund -			
Holding of Special Drawing Rights		26,374,832	25,386,620
Quota subscription	7	<u>11,997,333</u>	<u>10,716,577</u>
Total foreign assets		<u>589,409,966</u>	<u>483,423,214</u>
Local assets:			
Notes and coins		209,526	163,241
Resale agreements	8	8,642,405	16,400,000
Investment securities	9	277,194,121	172,678,294
Property, plant and equipment	11	8,794,252	5,131,049
Intangible asset	12	415,398	332,722
Employee benefits asset	13(a)	5,742,800	6,172,600
Other	14	<u>4,747,437</u>	<u>5,038,846</u>
Total local assets		<u>305,745,939</u>	<u>205,916,752</u>
Total assets		<u>895,155,905</u>	<u>689,339,966</u>

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

BANK OF JAMAICAStatement of Financial Position (continued)
December 31, 2020

	<u>Notes</u>	<u>2020</u> J\$'000	<u>2019</u> J\$'000
<u>LIABILITIES, CAPITAL AND RESERVES</u>			
Liabilities:			
Notes and coins in circulation	15	190,506,147	148,856,570
Deposits and other demand liabilities	16	388,186,824	339,800,202
Open market liabilities	17	177,207,273	107,807,539
International Monetary Fund -			
Allocation of Special Drawing Rights	18	53,681,504	47,950,820
Foreign liabilities		-	3,678
Due to Government and Government agencies	10	27,733,269	18,170,929
Employee benefits obligation	13(b)	2,842,100	2,303,600
Lease liability	19	81,404	87,188
Bilateral accounts		11,007	40,900
Other	20	<u>9,926,980</u>	<u>1,700,156</u>
Total liabilities		<u>850,176,508</u>	<u>666,721,582</u>
Capital and reserves:			
Share capital	21	4,000	4,000
Capital contribution	22	20,529,049	3,021,352
General reserve fund	23	20,000	20,000
Special stabilisation account	24	1,731,487	1,614,935
Other reserves	25	<u>22,694,861</u>	<u>17,958,097</u>
Total capital and reserves		<u>44,979,397</u>	<u>22,618,384</u>
Total liabilities, capital and reserves		<u>895,155,905</u>	<u>689,339,966</u>

The financial statements on pages 5 to 64 were approved for issue by the Board of Directors on March 1, 2021 and signed on its behalf by:



Richard Byles Governor



E. George Roper Deputy Governor



Ian Williams Financial Controller

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

BANK OF JAMAICAStatement of Profit or Loss and Other Comprehensive Income
Year ended December 31, 2020

	<u>Notes</u>	<u>2020</u> J\$'000	<u>2019</u> J\$'000
Operating income:			
Interest, calculated using the effective interest method	26	20,265,759	23,813,003
Foreign exchange gain, net	27	4,289,199	7,314,230
Other		<u>347,565</u>	<u>447,587</u>
Total operating income		<u>24,902,523</u>	<u>31,574,820</u>
Operating expenses:			
Interest on deposits and open market liabilities	28	3,857,764	5,906,495
Interest on IMF deposits		1,930,660	1,750,844
Interest on lease liability	19	1,752	1,869
Staff costs	29	5,650,502	4,879,598
Currency expenses		1,401,227	1,383,413
Depreciation and amortisation		751,387	539,768
Other property expenses		713,899	633,505
Other operating expenses	30	<u>1,276,584</u>	<u>1,129,668</u>
Total operating expenses		<u>15,583,775</u>	<u>16,225,160</u>
Operating profit		9,318,748	15,349,660
Other income/(expenses):			
Pension, medical and life insurance	13(a)(iii),(b)(ii)	157,400	59,400
(Charge)/credit on remeasurement of staff loans		(67,105)	46,332
Gains on securities measured as FVTPL		614,818	525,541
Losses on disposal of FVOCI securities		-	(43,065)
Gains on disposal of property, plant and equipment		<u>9,920</u>	<u>6,959</u>
Profit for the year before transfer to pension equalisation reserve		10,033,781	15,944,827
Transfer to pension equalisation reserve	25(c)	(87,500)	(132,200)
Profit for the year transferred to general reserve fund	10(b)	<u>9,946,281</u>	<u>15,812,627</u>
Other comprehensive income:			
Item that will never be reclassified to profit or loss:			
Remeasurement of employee benefits asset and obligation, net	13(a)(iv);(b)(iii)	(1,010,300)	(1,104,800)
Gains on revaluation of property, plant and Equipment		3,880,185	-
Item that is or will be reclassified to profit or loss:			
Change in fair value of securities at FVOCI		<u>1,623,979</u>	<u>3,008,422</u>
Other comprehensive income for the year		<u>4,493,864</u>	<u>1,903,622</u>
Total comprehensive income for the year		<u>14,440,145</u>	<u>17,716,249</u>

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

BANK OF JAMAICA**Statement of Changes in Capital and Reserves**
Year ended December 31, 2020

	Share capital J\$'000 (Note 21)	General reserve fund J\$'000 (Note 23)	Capital contribution J\$'000 (Note 22)	Special stabilisation account J\$'000 (Note 24)	Other reserves J\$'000 (Note 25)	Total J\$'000
Balances at December 31, 2018	4,000	20,000	-	1,482,511	15,782,775	17,289,286
Total comprehensive profit for the year 2019:						
Profit for the year	-	15,812,627	-	-	-	15,812,627
Other comprehensive income:						
Realised gains in fair value of securities measured at FVOCI	-	-	-	-	(242,016)	(242,016)
Unrealised gains in fair value of securities measured at FVOCI	-	-	-	-	3,250,438	3,250,438
Remeasurement of pension asset and obligation, net	-	-	-	-	3,008,422	3,008,422
Other comprehensive income	-	-	-	-	(1,104,800)	(1,104,800)
Total comprehensive income	-	15,812,627	-	-	1,903,622	17,716,249
Other changes in reserves:						
Capital contribution	-	-	3,021,352	-	-	3,021,352
Due to consolidated fund [note 10(b)]	-	(15,812,627)	-	-	-	(15,812,627)
Transfer for coins in circulation	-	-	-	132,424	-	132,424
Transfer of surplus on defined benefits pension scheme	-	-	-	-	271,700	271,700
	-	(15,812,627)	3,021,352	132,424	271,700	(12,387,151)
Balances at December 31, 2019	4,000	20,000	3,021,352	1,614,935	17,958,097	22,618,384
Total comprehensive income for the year 2020:						
Profit for the year	-	9,946,281	-	-	-	9,946,281
Other comprehensive income:						
Realised losses fair value of securities at FVOCI	-	-	-	-	16,963,886	16,963,886
Unrealised losses on fair value of securities at FVOCI	-	-	-	-	(15,339,907)	(15,339,907)
Revaluation of property, plant & equipment	-	-	-	-	1,623,979	1,623,979
Remeasurement of pension asset and obligation, net	-	-	-	-	3,880,185	3,880,185
Other comprehensive income	-	-	-	-	(1,010,300)	(1,010,300)
Total other comprehensive income	-	9,946,281	-	-	4,493,864	14,440,145
Other changes in reserves:						
Capital contributions received	-	-	17,507,697	-	-	17,507,697
Due to consolidated fund [note 10(b)]	-	(9,946,281)	-	-	-	(9,946,281)
Transfer for coins in circulation	-	-	-	116,552	-	116,552
Transfer of surplus on defined benefit pension scheme	-	-	-	-	242,900	242,900
	-	(9,946,281)	17,507,697	116,552	242,900	7,920,868
Balances at December 31, 2020	4,000	20,000	20,529,049	1,731,487	22,691,861	44,979,397

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

BANK OF JAMAICA**Statement of Cash Flows**
Year ended December 31, 2020

	Notes	2020 J\$'000	2019 J\$'000
Cash flows from operating activities:			
Profit for the year		10,033,781	15,944,827
Adjustments for:			
Depreciation - property, plant and equipment	11	654,759	450,001
Amortisation - intangible asset	12	96,628	89,767
Gain on disposal of property, plant and equipment		(9,920)	(6,959)
Employee benefits, net		113,400	16,800
Unrealised exchange gain		(34,823,700)	(19,403,835)
Unrealised exchange gain on International Monetary Fund Quota Subscription	7	(1,280,756)	(355,650)
Unrealised exchange loss on International Monetary Fund - Allocation of SDR's		(988,211)	1,146,123
Impairment of financial assets		214,485	-
Interest income	26	(20,265,759)	(23,813,003)
Interest expense		<u>5,790,176</u>	<u>7,659,208</u>
Operating loss before changes in other assets and other liabilities		(40,465,117)	(18,272,721)
Other assets		(133,559)	130,627
Other liabilities		7,899,618	300,905
Due from Government and Government Agencies		406,004	13,534,049
Interest received		19,887,336	23,915,151
Interest paid		(5,461,194)	(7,966,595)
Net cash (used)/provided by operating activities		<u>(17,866,912)</u>	<u>11,641,416</u>
Cash flows from investing activities:			
International Monetary Fund - Holding of Special Drawing Rights		5,730,684	1,591,337
Securities held in funds managed by agents		(2,154,091)	(29,925,113)
Foreign currency denominated investments		3,979,451	13,418,072
Local currency denominated investments		(103,025,850)	(14,907,188)
Resale agreements		5,247,821	(7,200,000)
Additions to property, plant and equipment	11	(486,438)	(614,583)
Additions to intangible asset	12	(179,304)	(203,381)
Proceeds from disposal of property, plant and equipment		<u>58,580</u>	<u>41,188</u>
Net cash used by investing activities		<u>(90,829,147)</u>	<u>(37,799,668)</u>
Cash flows from financing activities:			
Notes and coins in circulation		41,766,129	15,470,550
Deposits and other demand liabilities		53,558,658	42,437,629
Open market liabilities		69,399,733	(36,311,844)
Foreign liabilities		(37,206)	(654)
Payment of lease liability		(7,536)	(7,536)
Capital contribution		<u>17,507,697</u>	<u>3,021,352</u>
Net cash provided by financing activities		<u>182,187,475</u>	<u>24,609,497</u>
Net increase/(decrease) in cash and cash equivalents		73,491,416	(1,548,755)
Cash and cash equivalents at beginning of year		44,021,413	44,004,675
Effect of exchange rate fluctuation on cash held		<u>3,340,922</u>	<u>1,565,492</u>
Cash and cash equivalents at end of year		<u>120,853,751</u>	<u>44,021,412</u>
Comprising:			
Foreign cash and cash equivalents	4	120,595,213	43,678,754
Foreign notes and coins		49,012	179,417
Local notes and coins		<u>209,526</u>	<u>163,241</u>
		<u>120,853,751</u>	<u>44,021,412</u>

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

BANK OF JAMAICA**Notes to the Financial Statements**
Year ended December 31, 2020**1. Identification**

Bank of Jamaica (hereafter “the Bank”) was established by the Bank of Jamaica Act (hereafter “the Act”), which was most recently amended in December 2020 by the Bank of Jamaica (Amendment) Act, 2020 (“the Amendment Act”). Although passed by Parliament in December 2020 and assented to by the Governor General on 20 December 2020, as at 31 December 2020 the Amendment Act was not yet effective and will come into operation on a day to be appointed by the Minister of Finance and the Public Service by notice published in the Gazette. The Bank is domiciled in Jamaica and its principal office is located at Nethersole Place, Kingston, Jamaica.

The principal 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.

(b) Functional and presentation currency

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

(c) Basis of measurement

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

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

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

2. Basis of preparation (continued)**(d) Accounting estimates and judgements**

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

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

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

(i) Judgements

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

(1) Classification of financial assets:

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

(2) Impairment of financial assets:

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

(ii) Key assumptions and other sources of estimation uncertainty

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

(1) Pension and other post-retirement benefits

The amounts recognised in the statements of financial position and profit or loss and other comprehensive income for pension and other post-retirement benefits are determined actuarially using several assumptions.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

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

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 (continued):

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

The primary assumptions used in determining the amounts recognised include the discount rate used to determine the present value of estimated future cash flows required to settle the pension and other post-retirement obligations, and the expected rate of increase in medical costs for post-retirement medical benefits.

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

(2) Fair values of financial instruments

There are no quoted market prices for a significant portion of the Bank's financial instruments. Accordingly, fair values of such financial assets are estimated using prices obtained from a yield curve. That yield curve is, in turn, obtained from a pricing source which estimates the yield curve on the basis of indicative prices submitted by licensed banks and other financial institutions in Jamaica. There is significant uncertainty inherent in this approach which is categorised as a level 2 fair value; consequently, the estimates arrived at may be different from the actual price of the instrument in an actual arm's length transaction (see notes 6, 9 and 34).

(3) Fair value of land and building

The fair values of land and building is determined by property valuers, using recognised techniques and the principles of IFRS 13 *Fair Value Measurement*. Land and building are measured based on estimates prepared by independent real estate valuation specialist.

(4) Allowance for impairment losses

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

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

3. Significant accounting policies

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

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

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

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

(i) Recognition and initial measurement

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

(ii) Classification of financial instruments

Financial assets

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

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

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

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

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

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

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
 Year ended December 31, 2020

3. Significant accounting policies (continued)

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

(ii) Classification of financial instruments (continued)

Financial assets (continued)

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

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

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

Business model assessment:

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

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

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

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

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
 Year ended December 31, 2020

3. Significant accounting policies (continued)

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

(ii) Classification of financial instruments (continued)

Financial assets (continued)

Solely payments of principal and interest (SPPI) assessment:

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

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

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

Reclassifications:

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

Financial liabilities

The Bank classifies financial liabilities as measured at amortised cost.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

3. Significant accounting policies (continued)**(a) Financial instruments - Classification, recognition and derecognition, and measurement (continued):****(iii) Derecognition**

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

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

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

(iv) Offsetting

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

(v) Specific items**(1) Cash and cash equivalents**

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

(2) Repurchase and resale agreements

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

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

3. Significant accounting policies (continued)

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

(v) Specific items (continued)

(2) Repurchase and resale agreements (continued)

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

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

(3) Other assets

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

(4) Other liabilities

Other liabilities are measured at amortised cost.

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

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

(b) Impairment of financial assets

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

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

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

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

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

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

3. Significant accounting policies (continued)

(b) Impairment of financial assets (continued)

Measurement of ECL

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

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

Credit-impaired financial assets

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

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

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

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

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

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

3. Significant accounting policies (continued)

(b) Impairment of financial assets (continued)

Presentation of allowance for ECL in the statement of financial position

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

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

(c) Foreign currencies

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

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

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

(d) Property, plant and equipment

(i) Owned assets

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

- 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.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

3. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(i) Owned assets (continued)

• Fair value

Subsequent to initial recognition, land and building are stated at fair value, which reflects market conditions at the reporting date. The fair value is determined by an external, independent valuer, with appropriate recognised professional qualification and recent experience in the location and category of land and buildings being valued. The Bank's policy is to obtain an independent professional valuation of all its land and buildings every five years. Management's assessment of significant movement in fair value is done for the intervening years and adjustment made to valuation, as necessary.

(ii) Depreciation

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

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

The estimated useful lives are as follows:

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

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

(e) Leases

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

As a lessee

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

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

3. Significant accounting policies (continued)

(e) Leases (continued)

As a lessee (continued)

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

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

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

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

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

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

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

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

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

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

3. Significant accounting policies (continued)

(e) Leases (continued)

Short-term leases and leases of low-value assets

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

(f) Notes and coins in circulation

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

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

(g) Taxation

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

(h) Employee benefits

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

(i) General benefits

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

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

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

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
 Year ended December 31, 2020

3. Significant accounting policies (continued)

(h) Employee benefits (continued)

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

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

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

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

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

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

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

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

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

3. Significant accounting policies (continued)

(i) Statutory transfer of profits and losses

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

(j) Intangible asset

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

(k) Interest income and interest expense

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

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

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

Amortised cost and gross carrying amount:

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

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

Calculation of interest income and expense:

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

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

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

3. Significant accounting policies (continued)

(k) Interest income and interest expense (continued)

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

Presentation

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

(l) Investment securities

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

- debt securities measured at amortised cost (see note 9); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt securities measured at FVOCI; and
- investment securities measured at FVTPL.

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

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

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

(m) Impairment of non-financial assets

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

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

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

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

3. Significant accounting policies (continued)

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

Impairment losses are recognised in profit or loss.

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

(n) Fee and commission income

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

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

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

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

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

- ★ Amendments to IFRS 16 *Leases* is effective for annual periods beginning on or after June 1, 2020, with early application permitted. It provides guidance for COVID-19 related rent concessions.

The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession.

The practical expedient will only apply if:

- the revised consideration is substantially the same or less than the original consideration;
- the reduction in lease payments relates to payments due on or before 30 June 2021; and
- no other substantive changes have been made to the terms of the lease.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

3. Significant accounting policies (continued)

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

- Amendments to IFRS 16 *Leases* (continued)

Lessees applying the practical expedient are required to disclose:

- that fact, if they have applied the practical expedient to all eligible rent concessions and, if not, the nature of the contracts to which they have applied the practical expedient; and
- the amount recognised in profit or loss for the reporting period arising from application of the practical expedient.

No practical expedient is provided for lessors. Lessors are required to continue to assess if the rent concessions are lease modifications and account for them accordingly.

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

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

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

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

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

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

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

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
 Year ended December 31, 2020

3. Significant accounting policies (continued)

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

- Amendments to IAS 1 *Presentation of Financial Statements* (continued)

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

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

4. Cash and cash equivalents

	<u>2020</u> J\$'000	<u>2019</u> J\$'000
Current accounts and money at call with foreign banks	119,703,969	42,825,220
Current accounts with local banks	<u>891,244</u>	<u>853,534</u>
	<u>120,595,213</u>	<u>43,678,754</u>

5. Securities held in funds managed by agents

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

	<u>2020</u> J\$'000	<u>2019</u> J\$'000
Units in pooled fund	2,881,238	2,457,595
Sovereign bonds	90,361,367	82,122,664
Corporate bonds	<u>8,314,364</u>	<u>7,739,841</u>
	<u>101,556,969</u>	<u>92,320,100</u>

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

6. Foreign currency denominated investments

	<u>2020</u> J\$'000	<u>2019</u> J\$'000
Securities measured at fair value through other comprehensive income (FVOCI):		
USD Bonds issued primarily by specialised financial corporations	<u>49,253,888</u>	<u>42,369,287</u>
Securities measured at amortised cost:		
Short-term deposits with foreign banks	277,141,512	268,773,987
Less allowance for ECL on investments at amortised cost	<u>(65,972)</u>	<u>(1,528)</u>
	<u>277,075,540</u>	<u>268,772,459</u>
	<u>326,329,428</u>	<u>311,141,746</u>

7. International Monetary Fund – Quota Subscription

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

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

	SDR'000	<u>2020</u> J\$'000	<u>2019</u> J\$'000
Amount subscribed by the Government of Jamaica (substituted by securities)	324,425	66,562,372	59,456,611
Amount subscribed by the Bank	<u>58,475</u>	<u>11,997,333</u>	<u>10,716,577</u>
Total quota	<u>382,900</u>	<u>78,559,705</u>	<u>70,173,188</u>
	SDR'000	<u>2020</u> J\$'000	<u>2019</u> J\$'000
Amount subscribed by the Bank:			
At beginning of year	58,475	10,716,577	10,360,927
Effect of exchange rate fluctuation *	<u>-</u>	<u>1,280,756</u>	<u>355,650</u>
At end of year	<u>58,475</u>	<u>11,997,333</u>	<u>10,716,577</u>

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

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

8. Resale agreements

The Bank, as one of its options in pursuing its monetary policy objectives, enters into various resale agreements with financial institutions. Under these agreements, the Bank purchases Government of Jamaica ("GOJ") securities and agrees to resell them to the respective counterparties on specified dates and at specified prices. These are accounted for as short-term collateralised lending [note 3(a)(v)(2)]. Section 23(f) of the Act requires the Bank to obtain security for loans and advances provided that a loan granted on such security shall not exceed seventy five percent of the current market value of that security. At December 31, 2020, securities held as collateral had a fair value of \$14,141,155,000 (2019: \$21,860,330,000).

9. Local currency denominated investments

	<u>2020</u> J\$'000	<u>2019</u> J\$'000
Securities at FVOCI:		
Jamaica Government securities:		
Variable rate benchmark investments	70,156,062	41,110,201
Fixed rate benchmark investments	<u>123,396,898</u>	<u>49,397,025</u>
	<u>193,552,960</u>	<u>90,507,226</u>
Securities at amortised cost:		
Jamaica Government securities:		
Fixed rate accreting notes ("FRANs") [See note re National Debt Exchange ("NDX") below]	83,679,123	82,171,291
Less allowance for ECL on investments at amortised cost	<u>(37,962)</u>	<u>(223)</u>
	<u>83,641,161</u>	<u>82,171,068</u>
	<u>277,194,121</u>	<u>172,678,294</u>

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

In summary, under the terms of the FRANs:

- (i) A holder of Old Notes was issued J\$80 of initial principal value of FRANs for every J\$100 of principal value of Old Notes;
- (ii) Interest is payable semi-annually on February 15 and August 15 at a fixed rate of 10% p.a. on the accreted principal value with the first payment made on August 15, 2013;
- (iii) Accretion for the additional J\$20 of principal value commenced in August 2015 as follows:
 - 0.5% of \$100 every six months from August 15, 2015 until August 15, 2020;
 - Thereafter, 1.0% of \$100 every six months until August 15, 2026; and
 - Thereafter, 1.5% of \$100 every six months until August 15, 2027.

BANK OF JAMAICA**Notes to the Financial Statements (Continued)**
Year ended December 31, 2020**9. Local currency denominated investments (continued)**

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

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

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

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

- (a) Under 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 2020 and 2019.
- (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 normally withheld on income earned by the Bank on its holding of securities (in practice, this is GOJ securities) in accordance with Section 31A of the Income Tax Act as an advance on payment of income tax which may be due. However, as the Bank is exempt from income tax, the entire amount of tax withheld is recoverable from Tax Administration Jamaica. Additionally, in 2020 the Bank obtained an exemption from withholding tax and no further amounts were added to the outstanding recoverable balance during the year.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

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

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

	<u>2020</u> J\$'000	<u>2019</u> J\$'000
1-6 months	-	8,539
6-12 months	-	1,909,531
1-5 years	<u>2,400,406</u>	<u>888,341</u>
	<u>2,400,406</u>	<u>2,806,411</u>

- (d) The Bank and the Government of Jamaica (GOJ) entered into a memorandum of understanding dated December 21, 2013 (amended by supplemental memorandum of understanding dated February 28, 2014) for the settlement of accumulated losses and the recovery of withholding tax refunds due to the Bank. All outstanding amounts included in this agreement were settled by March 2019.

The agreement also stipulates that all refunds in relation to subsequent withholding taxes will be made on submission of the returns and verification by the Commissioner General, Tax Administration Jamaica. Subsequent to the submission of the required returns a total of \$9.13 billion has been refunded to the Bank for the period January 1, 2013 to December 31, 2020.

11. Property, plant and equipment

	<u>Freehold land and buildings</u> J\$'000	<u>Leasehold property</u> J\$'000	<u>Furniture, plant and equipment</u> J\$'000	<u>Motor vehicles</u> J\$'000	<u>Total</u> J\$'000
Cost or valuation:					
Balances at January 1, 2019	4,222,460	176,972	2,686,385	456,191	7,542,008
Additions	184,772	3,907	283,595	142,309	614,583
Disposals/write-offs	-	-	(3,577)	(89,742)	(93,319)
December 31, 2019	4,407,232	180,879	2,966,403	508,758	8,063,272
Revaluation adjustment	3,318,127	-	-	-	3,318,127
Additions	128,267	19,484	234,263	104,424	486,438
Disposals/write-offs	-	-	-	(132,100)	(132,100)
December 31, 2020	<u>7,853,626</u>	<u>200,363</u>	<u>3,200,666</u>	<u>481,082</u>	<u>11,735,737</u>
Depreciation:					
December 31, 2018	545,099	55,539	1,782,503	158,170	2,541,311
Charge for the year	184,365	14,247	151,946	99,443	450,001
Eliminated on disposals	-	-	(375)	(58,714)	(59,089)
December 31, 2019	729,464	69,786	1,934,074	198,899	2,932,223
Charge for the year	365,793	16,171	180,322	92,473	654,759
Revaluation adjustment	(562,058)	-	-	-	(562,058)
Eliminated on disposals	-	-	-	(83,439)	(83,439)
December 31, 2020	<u>533,199</u>	<u>85,957</u>	<u>2,114,396</u>	<u>207,933</u>	<u>2,941,485</u>
Net book values:					
December 31, 2020	<u>7,320,427</u>	<u>114,406</u>	<u>1,086,270</u>	<u>273,149</u>	<u>8,794,252</u>
December 31, 2019	<u>3,677,768</u>	<u>111,093</u>	<u>1,032,329</u>	<u>309,859</u>	<u>5,131,049</u>
December 31, 2018	<u>3,677,361</u>	<u>28,578</u>	<u>903,882</u>	<u>298,021</u>	<u>4,907,842</u>

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

11. Property, plant and equipment (continued)

The Bank, obtains independent valuations of land and buildings every five years (or more frequently if the Bank has compelling reasons to believe the fair value has changed materially in the intervening years) [note 4(d)(i)].

A revaluation was performed in December 2020 by Benchmark Properties.

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

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

12. Intangible asset

	<u>Computer software</u>	
	<u>2020</u>	<u>2019</u>
	J\$'000	J\$'000
Cost:		
At the beginning of year	1,181,477	978,096
Addition	<u>179,304</u>	<u>203,381</u>
At end of year	<u>1,360,781</u>	<u>1,181,477</u>
Amortisation:		
At the beginning of year	848,755	758,988
Charge for the year	<u>96,628</u>	<u>89,767</u>
At end of year	<u>945,383</u>	<u>848,755</u>
Net book value	<u>415,398</u>	<u>332,722</u>

13. Employee benefits

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

(a) Pension asset recognised:

	<u>2020</u>	<u>2019</u>
	J\$'000	J\$'000
Present value of funded obligations	(15,993,400)	(14,735,600)
Fair value of plan assets	<u>21,736,200</u>	<u>20,908,200</u>
Recognised asset	<u>5,742,800</u>	<u>6,172,600</u>

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

13. Employee benefits (continued)

(a) Pension asset recognised:

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

	<u>2020</u> J\$'000	<u>2019</u> J\$'000
Balance at beginning of year	14,735,600	12,963,500
Benefits paid	(758,900)	(707,000)
Service cost	354,700	324,000
Interest cost	1,103,300	905,400
Remeasurement loss on obligation included in other comprehensive income (iv)	<u>558,700</u>	<u>1,249,700</u>
Balance at end of year	<u>15,993,400</u>	<u>14,735,600</u>

(ii) Movements in plan assets

	<u>2020</u> J\$'000	<u>2019</u> J\$'000
Fair value of plan assets at beginning of year	20,908,200	19,735,400
Contributions paid	155,400	139,500
Interest income on plan assets	1,545,500	1,361,600
Benefits paid	(758,900)	(707,000)
Remeasurement (loss)/gain on assets include in other comprehensive income (iv)	<u>(114,000)</u>	<u>378,700</u>
Fair value of plan assets at end of year	<u>21,736,200</u>	<u>20,908,200</u>

Plan assets consist of the following:

Government of Jamaica securities	20,169,400	19,048,900
Bank of Jamaica certificates of deposit	1,217,000	1,549,900
Real estate	138,100	138,100
Other	<u>211,700</u>	<u>171,300</u>
	<u>21,736,200</u>	<u>20,908,200</u>

(iii) Credit recognised in profit or loss

	<u>2020</u> J\$'000	<u>2019</u> J\$'000
Current service cost	354,700	324,000
Interest on obligations	1,103,300	905,400
Interest income on assets	<u>(1,545,500)</u>	<u>(1,361,600)</u>
	<u>(87,500)</u>	<u>(132,200)</u>

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

13. Employee benefits (continued)

(a) Pension asset recognised (continued):

(iv) Items recognised in other comprehensive income

	<u>2020</u> J\$'000	<u>2019</u> J\$'000
Remeasurement loss on obligation:		
Experience adjustment	(558,700)	(1,249,700)
Remeasurement (loss)/gain on assets	<u>(114,000)</u>	<u>378,700</u>
	<u>(672,700)</u>	<u>(871,000)</u>

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

	<u>2020</u> %	<u>2019</u> %
Discount rate	9	7.5
Future pension increases	3	2.0
Future salary increases	<u>6.5</u>	<u>4.5</u>

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

<u>Actuarial assumption</u>	<u>0.5 percentage point increase</u> J\$'000	<u>0.5 percentage point decrease</u> J\$'000
Discount rate	(1,076,900)	1,207,900
Assumed rate of salary escalation	306,400	(287,800)
Future rate of pension	<u>892,300</u>	<u>(813,200)</u>

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

(i) Liability recognised in statement of financial position

	<u>2020</u> J\$'000	<u>2019</u> J\$'000
Balance at beginning of year	2,303,600	1,920,800
Current service cost	68,600	54,800
Interest cost	176,300	136,800
Benefits paid	(44,000)	(42,600)
Remeasurement loss on obligation, included in other comprehensive income [see (iii)]	<u>337,600</u>	<u>233,800</u>
Balance at end of year	<u>2,842,100</u>	<u>2,303,600</u>

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

13. Employee benefits (continued)

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

(ii) Expense recognised in profit or loss:

	<u>2020</u> J\$'000	<u>2019</u> J\$'000
Current service cost	68,600	54,800
Interest on obligation	<u>176,300</u>	<u>136,800</u>
	<u>244,900</u>	<u>191,600</u>

(iii) Items in other comprehensive income

	<u>2020</u> J\$'000	<u>2019</u> J\$'000
Change in financial assumptions	(246,600)	(197,300)
Experience adjustment	<u>(91,000)</u>	<u>(36,500)</u>
Remeasurement loss on obligation	<u>(337,600)</u>	<u>(233,800)</u>

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

	<u>2020</u> %	<u>2019</u> %
Discount rate	9.00	7.50
Future salary increase	6.50	4.50
Medical claims growth	<u>8.00</u>	<u>6.00</u>

Assumptions regarding future mortality are based on the GAM 94 [2019: GAM 94] mortality table for pensioners (British mortality tables), but with each age rated down by five (2019: five) years.

(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:

	0.5 percentage <u>point increase</u> J\$'000	0.5 percentage <u>point decrease</u> J\$'000
Discount rate	(248,600)	297,500
Assumed medical cost trend rate and rate of salary escalation	<u>295,800</u>	<u>(247,200)</u>

(d) The estimated pension contributions expected to be paid into the plan during the next financial year amounts to J\$162,000,000 (2019: J\$190,154,000). See note 13(a)(ii) for actual contributions paid during the current and previous years.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

14. Other assets

	<u>2020</u> J\$'000	<u>2019</u> J\$'000
Inventory of unissued notes and coins	1,809,932	1,917,780
Staff loans, gross	2,229,496	2,061,873
Ex-staff loans, gross	30,714	64,390
Accrued interest receivable	297,035	699,366
SDR equalisation provision [note 16(d)(iii)]	-	592,654
Salaries and wages paid in advance	112,787	108,596
Stock of souvenir coins	77,827	82,715
Other	<u>818,051</u>	<u>59,921</u>
	5,375,842	5,587,295
Less:		
Remeasurement of staff loans	(603,807)	(537,295)
Allowance for ECL: ex-staff loans	<u>(24,598)</u>	<u>(11,154)</u>
	<u>4,747,437</u>	<u>5,038,846</u>

15. Notes and coins in circulation

	<u>2020</u> J\$'000	<u>2019</u> J\$'000
Notes	185,311,687	144,011,765
Coins	<u>5,194,460</u>	<u>4,844,805</u>
	<u>190,506,147</u>	<u>148,856,570</u>

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, 2020, were 3.02 (2019: 3.17) 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 24).

16. Deposits and other demand liabilities

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

	<u>2020</u> J\$'000	<u>2019</u> J\$'000
Government and Government agencies	85,235,351	132,562,982
Commercial banks and specified financial institutions	166,920,904	140,603,397
International Monetary Fund [see (d) below]	128,426,765	62,825,776
Others	<u>7,603,804</u>	<u>3,808,047</u>
	<u>388,186,824</u>	<u>339,800,202</u>
Jamaica dollar equivalent of foreign currency deposits	231,729,975	226,229,420
Jamaica dollar deposits	<u>156,456,849</u>	<u>113,570,782</u>
	<u>388,186,824</u>	<u>339,800,202</u>

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
 Year ended December 31, 2020

16. Deposits and other demand liabilities (continued)

- (b) Deposit and other demand liabilities include the reserve deposits prescribed by Section 28 of the Bank of Jamaica Act. Reserve deposits at the reporting date were \$113,371,155 (2019: \$114,427,142,000).
- (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:

	SDR'000		J\$'000	
	2020	2019	2020	2019
2013 Extended fund facility	280,140	338,838	54,201,415	62,690,027
2020 Rapid Financing Instrument	382,900	-	74,083,390	-
Other IMF amounts	734	734	141,960	135,749
Total IMF liability	663,774	339,572	128,426,765	62,825,776

- (ii) In November 2016, the Government of Jamaica discontinued the 2013 extended fund facility that would have expired in March 2017, and replaced it with a three-year precautionary standby agreement. The precautionary standby agreement expired in November 2019.
- (iii) During the year IMF approved a disbursement of SDR 382.9 million for Jamaica under the Rapid Financing Instrument. The amount will be repaid in eight equal installments of SDR 47.86 million, commencing August 18, 2023 and ending May 19, 2025. The management concurs with the statement.
- (iv) The following reconciliation shows the total IMF liability converted at the SDR to J\$ exchange rates prevailing at April 30 and December 31.

	2020 J\$'000	2019 J\$'000
At the December 31 SDR rate:		
Amount at which the loan is carried by the Bank	136,186,650	62,232,578
Effect of exchange rate depreciation between April 30 and December 31	(7,759,885)	593,198
At the April 30 SDR rate:		
Amount at which the loan is carried by the IMF [per (a) above]	128,426,765	62,825,776

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

	2020 SDR	2019 SDR
April 30	J\$1 = 0.0051685	0.0054049800
December 31	J\$1 = 0.004874	0.0054565

As at March 1, 2021, the date of approval of these financial statements, the exchange rate was J\$1 = SDR 0046063.

BANK OF JAMAICANotes to the Financial Statements (Continued)
Year ended December 31, 202017. Open market liabilities

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

18. International Monetary Fund - Allocation of Special Drawing Rights

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

	<u>SDR</u> <u>'000</u>	<u>2020</u> <u>J\$'000</u>	<u>2019</u> <u>J\$'000</u>
At beginning of year	261,644	47,950,820	46,359,483
Effect of exchange rate fluctuation	<u>-</u>	<u>5,730,684</u>	<u>1,591,337</u>
At end of year	<u>261,644</u>	<u>53,681,504</u>	<u>47,950,820</u>

19. Leases

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

(i) Right of use asset:

	<u>Leasehold property</u>	
	<u>2020</u> <u>J\$'000</u>	<u>2019</u> <u>J\$'000</u>
Balance at January 1	86,339	92,855
Depreciation charge for the year	<u>(6,516)</u>	<u>(6,516)</u>
	<u>79,823</u>	<u>86,339</u>

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

(ii) Lease liability:

	<u>2020</u> <u>J\$'000</u>	<u>2019</u> <u>J\$'000</u>
Undiscounted cashflows of lease liability		
Less than one year	7,536	7,536
One to five years	37,680	37,680
More than five years	<u>47,099</u>	<u>54,635</u>
	92,315	99,851
Less future interest expense	<u>(10,911)</u>	<u>(12,663)</u>
Carrying amount of lease liability	<u>81,404</u>	<u>87,188</u>
Current	5,904	5,784
Non-current	<u>75,500</u>	<u>81,404</u>
	<u>81,404</u>	<u>87,188</u>

BANK OF JAMAICA**Notes to the Financial Statements (Continued)**
Year ended December 31, 2020**19. Leases (continued)**

(i) Amounts recognised in profit or loss:		
	<u>2020</u>	<u>2019</u>
	J\$'000	J\$'000
Interest on lease liability	<u>1,752</u>	<u>1,869</u>
(ii) Amounts recognised in statement of cashflows		
	<u>2020</u>	<u>2019</u>
	J\$'000	J\$'000
Total cash outflow for leases	<u>1,752</u>	<u>1,869</u>

20. Other liabilities

	<u>2020</u>	<u>2019</u>
	J\$'000	J\$'000
Interest payable	1,263,331	936,101
Staff and staff-related expenses	678,516	583,149
SDR equalisation provision	7,759,885	-
Other	<u>225,248</u>	<u>180,906</u>
	<u>9,926,980</u>	<u>1,700,156</u>

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. Capital contribution

During the year, the Government of Jamaica made a capital contribution of \$17,507,697,000 (2019:\$3,021,352,000) in the form of marketable securities which are a charge on the Consolidated Fund. It will be used to increase the Bank's share capital, subject to the required approvals.

23. General reserve fund

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

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

BANK OF JAMAICANotes to the Financial Statements (Continued)
Year ended December 31, 2020**24. Special stabilisation account**

The special stabilisation account is maintained at 25% of the gross amount of coins in circulation as a reserve against coins that are unlikely to be redeemed (note 15).

25. Other reserves

This represents the following:

	<u>2020</u> J\$'000	<u>2019</u> J\$'000
Securities revaluation reserve [see (a)]	10,202,040	8,578,061
Property revaluation reserve [see (b)]	7,572,721	3,692,536
Pension equalisation reserve [see (c)]	5,742,800	6,172,600
Employee benefit obligation reserve [see (c)]	(822,700)	(485,100)
	<u>22,694,861</u>	<u>17,958,097</u>

- (a) This represents the net unrealised gains and losses on the revaluation of FVOCI investments securities, net of impairment allowance.
- (b) The property revaluation reserve represents the surplus arising on the revaluation of certain freehold properties (see note 11).
- (c) The pension equalisation and employee benefit obligation reserves represent the pension surplus and employee benefit obligation arising on the actuarial valuation, under IAS 19, of the Bank's pension scheme and medical benefits. Annual changes in the value of the plan are shown in the statement of comprehensive income, then transferred to this reserve.

26. Interest income

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

	<u>2020</u> J\$'000	<u>2019</u> J\$'000
Assets at amortised cost:		
Cash and cash equivalents	170,578	1,128,256
Investment securities	11,869,363	15,816,745
Resale agreements	406,589	292,230
Other	207,060	353,972
Securities at FVOCI:		
Investment securities	6,694,084	4,722,530
Securities at FVTPL:		
Investment securities	918,085	1,499,270
	<u>20,265,759</u>	<u>23,813,003</u>
(b) Analysed as follows:		
Government of Jamaica (note 31)	15,553,579	13,175,002
Other sources	2,101,136	3,938,335
Open market	406,589	292,230
International	2,204,455	6,407,436
	<u>20,265,759</u>	<u>23,813,003</u>

BANK OF JAMAICA**Notes to the Financial Statements (Continued)**
Year ended December 31, 2020**27. Foreign exchange (net)**

	<u>2020</u> J\$'000	<u>2019</u> J\$'000
Net gains on translation and settlement of foreign currency assets and liabilities, other than on IMF deposit liabilities	12,044,816	6,886,258
Losses on translation and settlement of IMF deposit liabilities	(9,907,147)	(2,220,018)
Realised exchange gains on purchases and sales of foreign currencies	<u>2,151,530</u>	<u>2,647,990</u>
	<u>4,289,199</u>	<u>7,314,230</u>

28. Interest on deposits and open market liabilities

	<u>2020</u> J\$'000	<u>2019</u> J\$'000
Certificates of deposit - Open market liabilities	3,294,745	3,810,290
Deposits:		
- Government and Government agencies (note 31)	309,261	1,674,609
- Commercial banks and specified financial institutions	243,798	401,934
- Other	<u>9,960</u>	<u>19,662</u>
	<u>3,857,764</u>	<u>5,906,495</u>

29. Staff numbers and costs

	<u>2020</u>	<u>2019</u>
Number of employees at the end of the year		
Full-time	440	452
Contract	<u>206</u>	<u>166</u>

The related costs for these employees were as follows:

	<u>2020</u> J\$'000	<u>2019</u> J\$'000
Salaries and wages	4,344,910	3,721,177
Statutory payroll contributions	229,496	216,159
Uniforms	45,145	51,017
Staff development	101,286	133,820
Subsidy on canteen operations	85,248	93,859
Staff welfare	371,950	399,252
Pension fund related costs	<u>472,467</u>	<u>264,314</u>
	<u>5,650,502</u>	<u>4,879,598</u>

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

30. Other operating expenses

	<u>2020</u> J\$'000	<u>2019</u> J\$'000
Communication	65,253	62,562
Travelling and motor vehicle expenses	48,229	90,253
Commission paid to commercial banks	328,234	324,524
Auditor's remuneration	13,156	12,529
General office expenses	149,256	151,050
Fees on investment managed portfolio	100,029	79,049
Other administrative expenses	<u>572,427</u>	<u>409,701</u>
	<u>1,276,584</u>	<u>1,129,668</u>

31. Related parties(a) Definition of related party

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

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

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

(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 10 and 16).

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

31. 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:

	<u>2020</u> J\$'000	<u>2019</u> J\$'000
Loans:		
Executive management (included in staff loans, note 14)	93,794	94,889
Open market liabilities: Pension fund	<u>1,216,974</u>	<u>1,549,930</u>

The executive management team consists of Twenty four (24) [2019: twenty-three (23) persons].

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

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

	<u>2020</u> J\$'000	<u>2019</u> J\$'000
Interest expense:		
Government and Government agencies (note 28)	309,261	1,674,609
Pension scheme	-	2,800
Executive management and pension scheme (current accounts)	-	724
Interest income:		
Government of Jamaica [note 26(b)]	15,553,579	13,175,002
Executive management	3,101	3,123
Pension contribution and other benefits	<u>201,963</u>	<u>152,675</u>
Executive management compensation, included in staff costs (note 29)	<u>431,928</u>	<u>417,711</u>

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

32. Commitments

Capital commitments as follows:

	<u>2020</u> J\$'000	<u>2019</u> J\$'000
Authorised and contracted	290,086	336,582
Authorised but not contracted	<u>262,699</u>	<u>318,774</u>
	<u>552,785</u>	<u>655,356</u>

33. Contingent liabilities

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

34. Fair value of financial instruments

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

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

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

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

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

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

BANK OF JAMAICA**Notes to the Financial Statements (Continued)**
Year ended December 31, 2020**34. Fair value of financial instruments (continued)**

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

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

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

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

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

(a) Securities measured at fair value

	2020		
	Level 1 J\$'000	Level 2 J\$'000	Total J\$'000
Securities at FVOCI:			
USD Bonds issued primarily by specialised financial corporations	49,253,888	-	49,253,888
Government of Jamaica securities	-	193,552,960	193,552,960
Securities at FVTPL:			
Securities included in funds managed by agents			
- Sovereign bonds	-	90,361,367	90,361,367
- Corporate bonds	-	8,314,364	8,314,364
- Units in pooled funds	-	2,881,238	2,881,238
	<u>49,253,888</u>	<u>295,109,929</u>	<u>344,363,817</u>
	2019		
	Level 1 J\$'000	Level 2 J\$'000	Total J\$'000
Securities at FVOCI:			
USD Bonds issued primarily by specialised financial corporations	42,369,287	-	42,369,287
Government of Jamaica securities	-	90,507,226	90,507,226
Securities at FVTPL:			
Securities included in funds managed by agents			
- Sovereign bonds	-	82,122,664	82,122,664
- Corporate bonds	-	7,739,841	7,739,841
- Units in pooled funds	-	2,457,595	2,457,595
	<u>42,369,287</u>	<u>182,827,326</u>	<u>225,196,613</u>

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

34. Fair value of financial instruments (continued)**(b) Financial assets not carried at fair value**

	2020		2019	
	Carrying value	Fair value	Carrying value	Fair value
Securities at amortised cost:				
Government of Jamaica securities (FRANs)	83,679,123	129,818,821	82,171,068	129,308,181

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

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

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

35. Financial risk management**(a) Introduction and overview**

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

- credit risk
- liquidity risk
- market risk

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

- Investment Committee, which is responsible for providing oversight on the conversion of investment strategy into performance, portfolio construction and risk modelling for the Bank's Foreign Reserves;
- Credit Committee, which is responsible for evaluating and approving applications for staff loans.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
 Year ended December 31, 2020

35. Financial risk management (continued)**(a) Introduction and overview (continued)**

- (iii) Risk Management Committee (RMC), which is responsible for assisting the Management Committee in its oversight and management of key risks, including strategic, reputational, financial and operational risks, in relation to the Bank's operations. The RMC oversees the establishment of guidelines, policies and processes for monitoring and mitigating risks, while promoting the development and administration of the corporate risk management framework.

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

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

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

(v) Impact of Covid-19

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

- (i) Enhanced monitoring of market movements by the Risk unit and tracking of the impact on the investment portfolios and the resulting impact on capital and liquidity to support timely decision making.
- (ii) Updating of the Bank's Recovery Plan, the key aspects which include:
- Measures to secure sufficient funding and adequate availability.
 - Contingency arrangements that enable continuation of operations as recovery measures are being implemented.
 - A clear description of the escalation and decision-making process to ensure that the plan can be executed in a timely manner.
 - Communication plan to ensure that stakeholders (internal and external) are given timely and appropriate information during the Bank's recovery process.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

35. Financial risk management (continued)**(a) Introduction and overview (continued)****(v) Impact of Covid-19 (continued)**

(iii) The implementation of measures to assist external clients during this crisis, such as:

- Special arrangements with clients, such as amending their collateral/margin requirements based on their needs and subject to approval by the appropriate committee.

(b) Credit risk

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

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

- Foreign currency investments including interest in funds managed by agents

Credit risk on the foreign currency investment portfolio is managed by restricting the holdings of investments substantially to USD Bonds issued primarily by specialised financial corporations, other highly rated sovereign securities, Jamaica Government USD securities and placements in highly rated supranational institutions. 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.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

35. Financial risk management (continued)

(b) Credit risk (continued)

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

- Resale agreements

Credit risk is managed by requiring institutions to deposit with the Bank or its agents, designated securities sufficient to collateralise the amounts advanced under the resale agreements. The minimum collateral value of securities accepted is set at defined percentage of market value. The Bank considered that resale agreements have low risk and the 12-month expected credit loss is not considered significant.

- Cash and cash equivalents

Cash and cash equivalents are held in financial institutions which management regards as strong. The strength of these financial institutions is continually reviewed by the Investment Committee. In addition, there are procedures in place to manage potential concentration. Credit risk is considered low with no material expected credit losses.

- Due from Government and Government Agencies.

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

- Other assets

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

(ii) Exposure to credit risk

Current credit exposure is the amount of loss that the Bank would suffer if all counterparties to which the Bank was exposed were to default all at once; this is represented substantially by the carrying amount of financial assets shown on the statement of financial position.

Exposures to credit risk attached to financial assets are monitored through credit rating and lending limits, which are regularly reviewed. In addition, securities issued or guaranteed by the Government of Jamaica are required to collateralise advances to financial institutions.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

35. Financial risk management (continued)

(b) Credit risk (continued)

(ii) Exposure to credit risk

There has been no change to the nature of the Bank's exposure to credit risk or the manner in which it measures and manages the risk.

The Bank's significant concentrations of credit exposure by geographical region (based on the region of ownership of the entity that issued the security or holds the cash or cash equivalents) are as follows:

	<u>2020</u> J\$'000	<u>2019</u> J\$'000
Caribbean	293,701,373	194,278,311
North America	357,147,783	274,573,885
Europe	228,883,612	208,317,351
Other	<u>212,150</u>	<u>191,390</u>
Total financial assets	<u>879,944,918</u>	<u>677,360,937</u>

Total credit exposure is the total of receivables and investment securities recognised in the statement of financial position, as there are no other credit exposures.

(iii) Credit quality analysis

The following table sets out information about the credit quality of certain financial assets measured at amortised cost and FVOCI debt securities. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. The analysis has been based on Moody's ratings.

	<u>2020</u> J\$'000 <u>Stage 1</u>	<u>2019</u> J\$'000 <u>Stage 1</u>
Foreign currency denominated securities at FVOCI		
Rated AAA	48,826,113	41,521,291
Rated AA- to AA	<u>427,775</u>	<u>847,996</u>
	<u>49,253,888</u>	<u>42,369,287</u>
Loss allowance	<u>(9,895)</u>	<u>(247)</u>

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

35. **Financial risk management (continued)**(b) **Credit risk (continued)**(iii) **Credit quality analysis (continued)**

	2019			
	JS'000	JS'000	JS'000	JS'000
	Stage 1	Stage 2	Stage 3	Total
Other assets – staff loans receivable				
Low risk	2,084,728	-	-	2,084,728
Doubtful	-	2,448	39,087	41,535
	2,084,728	2,448	39,087	2,126,263
Loss allowance	(19)	(1,079)	(10,056)	(11,154)
	<u>2,084,709</u>	<u>1,369</u>	<u>29,031</u>	<u>2,115,109</u>

(iv) **Amounts arising from ECL**

Inputs, assumptions and techniques used for estimating impairment

See accounting policy at note 3(b).

Significant increase in credit risk

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

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

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

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

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

Credit risk grades:

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

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

35. Financial risk management (continued)

(b) Credit risk (continued)

(iv) Amounts arising from ECL (continued)

Credit risk grades for investments are determined and calibrated based on third party rating agencies credit transition matrices.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data:

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

Determining whether credit risk has been increased significantly:

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

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

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

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

35. Financial risk management (continued)

(b) Credit risk (continued)

(iv) Amounts arising from ECL (continued)

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

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

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

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

Definition of default

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

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

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
 Year ended December 31, 2020

35. Financial risk management (continued)

(b) Credit risk (continued)

(iv) Amounts arising from ECL (continued)

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

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

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

Incorporation of forward-looking information

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

Measurement of ECL

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

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

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.

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

35. **Financial risk management (continued)**

(b) Credit risk (continued)

(iv) Amounts arising from ECL (continued)

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

(v) *Loss allowance*

	<u>2020</u>	<u>2019</u>
	JS'000	JS'000
	<u>Stage 1</u>	<u>Stage 1</u>
Securities at FVOCI:		
Balance at the beginning of the year	464	487
Net re-measurement of loss allowance	<u>96,263</u>	<u>(23)</u>
Balance at year end	<u>96,727</u>	<u>464</u>

The above loss allowance is not recognised in the statement of financial position as the carrying amount of debt securities at FVOCI is their fair value.

Financial assets at amortised cost:

	<u>2020</u>			
	JS'000	JS'000	JS'000	JS'000
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Balance at January 1, 2020	2,206	528	10,171	12,905
Net re-measurement of loss allowance	<u>104,346</u>	<u>(528)</u>	<u>14,404</u>	<u>118,222</u>
Balance at December 31, 2020	<u>106,552</u>	<u>-</u>	<u>24,575</u>	<u>131,127</u>

	<u>2019</u>			
	JS'000	JS'000	JS'000	JS'000
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Balance at January 1, 2019	1,733	-	12,754	14,487
Net re-measurement of loss allowance	<u>473</u>	<u>528</u>	<u>(2,583)</u>	<u>(1,582)</u>
Balance at December 31, 2019	<u>2,206</u>	<u>528</u>	<u>10,171</u>	<u>12,905</u>

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
 Year ended December 31, 2020

35. Financial risk management (continued)**(c) Liquidity risk**

Liquidity risk is the risk that the Bank will not be able to meet its financial liabilities as they fall due. Prudent liquidity management requires maintaining sufficient cash and marketable securities, and ensuring the availability of funding through an adequate amount of committed standby credit facilities to meet commitments.

The Bank's exposure to liquidity risk to meet foreign liabilities, as an institution, is limited due to the minimal amount owed to overseas creditors/lenders. Management of liquidity risk relates primarily to the availability of liquid foreign resources to sell to the Government of Jamaica and its agencies to repay their suppliers and lenders. The Bank manages this risk through a combination of:

- Budgetary procedures to identify the timing of foreign payments by Government of Jamaica.
- Scheduling the maturity of foreign deposits to coincide with the demands of Government and its Agencies.
- Maintaining a portion of its foreign assets in cash or near cash as precautionary funds to meet unforeseen demands.

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

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

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

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

	2020				Contractual cash flow J\$'000	Carrying amount J\$'000
	Within 1 Month J\$'000	1 to 3 months J\$'000	3 to 12 months J\$'000	1 to 5 years J\$'000		
Deposits and other demand liabilities	388,187,081	-	-	-	388,187,081	388,186,824
Open market liabilities	60,428,862	-	34,883,900	90,279,213	185,591,975	177,207,273
International Monetary Fund Drawing Rights	-	-	-	53,689,789	53,689,789	53,681,504
Other	9,926,980	-	-	-	9,926,980	9,926,980
Due to Government and Government agencies	-	-	27,733,269	-	27,733,269	27,733,269
Commitments	-	126,574	213,113	213,098	552,785	-
	<u>488,542,923</u>	<u>126,574</u>	<u>62,830,282</u>	<u>144,182,100</u>	<u>665,681,879</u>	<u>656,735,850</u>

BANK OF JAMAICA**Notes to the Financial Statements (Continued)**
Year ended December 31, 2020**35. Financial risk management (continued)****(c) Liquidity risk (continued)**

	2019					Contractual cash flow J\$'000	Carrying amount J\$'000
	Within 1 Month J\$'000	1 to 3 months J\$'000	3 to 12 months J\$'000	1 to 5 years J\$'000			
Deposits and other demand liabilities	339,800,435	-	-	-	339,800,435	339,800,202	
Open market liabilities	48,186,114	-	23,946,451	41,779,642	113,912,207	107,806,539	
International Monetary Fund - Allocation of Special Drawing Rights	-	-	-	47,998,241	47,998,241	47,950,820	
Foreign liabilities	3,678	-	-	-	3,678	3,678	
Other	1,700,156	-	-	-	1,700,156	1,700,156	
Due to Government and Government agencies	-	-	18,170,929	-	18,170,929	18,170,929	
Commitments	971	86,607	361,999	252,552	702,129	-	
	<u>389,691,354</u>	<u>86,607</u>	<u>42,479,379</u>	<u>90,030,435</u>	<u>522,287,775</u>	<u>515,433,324</u>	

(d) Market risk

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

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

(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:

	2020				
	USD J\$'000	EUR J\$'000	GBP J\$'000	Other J\$'000	Total J\$'000
Foreign currency assets:					
Notes and coins - for local sale	54,919	3,724	10,312	6,003	74,958
- for repatriation	24,064	1,626	5,848	17,474	49,012
Cash and cash equivalents	112,763,622	3,211,825	3,239,392	1,380,374	120,595,213
Securities in funds managed by agents	98,675,731	-	-	2,881,238	101,556,969
Interest receivable on BHAs	276,254	-	-	4,576	280,830
Resale agreements	2,507,179	-	-	-	2,507,179
Investment securities	326,329,428	-	-	-	326,329,428
IMF - Holding of special drawing rights	-	-	-	26,374,832	26,374,832
IMF - Quota subscription	-	-	-	11,997,333	11,997,333
	<u>540,631,197</u>	<u>3,217,175</u>	<u>3,255,552</u>	<u>42,661,830</u>	<u>589,765,754</u>

BANK OF JAMAICA**Notes to the Financial Statements (Continued)**
Year ended December 31, 2020**35. Financial risk management (continued)****(d) Market risk (continued)****(i) Currency risk (continued)**

	2020				Total J\$'000
	USD J\$'000	EUR J\$'000	GBP J\$'000	Other J\$'000	
Foreign currency liabilities:					
Open market liabilities	142,751,163	-	-	-	142,751,163
Deposits - current accounts	95,672,767	76,394	5,719,803	1,834,246	103,303,210
Deposits - IMF	-	-	-	128,426,765	128,426,765
IMF - Allocation of special drawing rights	-	-	-	53,681,504	53,681,504
Bilateral accounts	-	-	-	11,007	11,007
Interest payable	964,032	-	279	289,741	1,254,052
	<u>239,387,962</u>	<u>76,394</u>	<u>5,720,082</u>	<u>184,243,263</u>	<u>429,427,701</u>
Net foreign currency assets/ (liabilities)	<u>301,243,235</u>	<u>3,140,781</u>	<u>(2,464,530)</u>	<u>(141,581,433)</u>	<u>160,338,053</u>
	2019				Total J\$'000
	USD J\$'000	EUR J\$'000	GBP J\$'000	Other J\$'000	
Foreign currency assets:					
Notes and coins - for local sale	23,520	3,213	7,333	3,826	37,892
- for repatriation	100,839	1,965	10,590	66,023	179,417
Cash and cash equivalents	41,531,044	514,624	868,040	765,046	43,678,754
Securities in funds managed by agents	89,862,505	-	-	2,457,595	92,320,100
Interest receivable on BHAs	659,304	-	-	33,049	692,353
Investment securities	311,141,746	-	-	-	311,141,746
IMF - Holding of special drawing rights	-	-	-	25,386,620	25,386,620
IMF - Quota subscription	-	-	-	10,716,577	10,716,577
	<u>443,318,958</u>	<u>519,802</u>	<u>885,963</u>	<u>39,428,736</u>	<u>484,153,459</u>
Foreign currency liabilities:					
Open market liabilities	58,980,201	-	-	-	58,980,201
Deposits - current accounts	155,758,021	61,673	5,929,860	1,654,090	163,403,644
Deposits - IMF	-	-	-	62,825,776	62,825,776
IMF - Allocation of special drawing rights	-	-	-	47,950,820	47,950,820
Foreign liabilities	3,678	-	-	-	3,678
Bilateral accounts	-	-	-	40,900	40,900
Interest payable	677,101	251	-	236,270	913,622
	<u>215,419,001</u>	<u>61,924</u>	<u>5,929,860</u>	<u>112,707,856</u>	<u>334,118,641</u>
Net foreign currency assets/ (liabilities)	<u>227,899,957</u>	<u>457,878</u>	<u>(5,043,897)</u>	<u>(73,279,120)</u>	<u>150,034,818</u>

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

35. Financial risk management (continued)

(d) Market risk (continued)

(i) Currency risk (continued)

Exchange rates at December 31:

	<u>2020</u>	<u>2019</u>
USD1 to JMD	142.45	132.53
GBP1 to JMD	194.73	175.57
CDN1 to JMD	111.82	102.20
EUR1 to JMD	<u>174.30</u>	<u>148.77</u>

At March 1, 2021, the date of approval of these financial statements, the exchange rates were US1 to J\$150.83820, UK1 to J\$210.88689, CDN1 to J\$119.14550 and EUR1 to J\$183.08741.

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

Sensitivity to exchange rate movements

A 6 percent (2019: 6 percent) devaluation of the Jamaica Dollar against currencies which expose the Bank to exchange risk at December 31 would have increased profits by \$9,622,000 (2019: \$8,999,000) while a 2 percent (2019: 4 percent) revaluation would have decreased profits by \$3,207,000 (2019: \$5,999,000). The analysis assumes that all other variables, in particular, interest rates, remain constant, and has been performed on the same basis as for 2019.

(ii) Interest rate risk:

Interest rate risk is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. It arises when there is a mismatch between interest-earning assets and interest-bearing liabilities which are subject to interest rate adjustments within a specified period. It can be reflected as a loss of future net interest income and/or a loss of current market values. The Bank manages this risk by monitoring interest rates daily and ensuring that, even though there is no formally predetermined gap limits, to the extent practicable, the maturity profile of its financial assets is, at least, matched by that of its financial liabilities.

BANK OF JAMAICA**Notes to the Financial Statements (Continued)**
Year ended December 31, 2020**35. Financial risk management (continued)****(d) Market risk (continued)****(ii) Interest rate risk:**

The following table summarises the carrying amounts of financial assets and liabilities to arrive at the Bank's interest rate gap based on the earlier of contractual re-pricing and maturity dates.

	2020						Weighted average interest %
	Within 3 months J\$'000	Three to 12 months J\$'000	Over 12 months J\$'000	Payable after notice J\$'000	Non-rate sensitive J\$'000	Total J\$'000	
Assets							
Notes and coins	-	-	-	-	258,538	258,538	-
Cash and cash equivalents	-	-	-	-	120,595,213	120,595,213	-
Securities in funds managed by agents	-	-	-	101,556,969	-	101,556,969	2.70
Resale agreement	2,507,179	-	-	-	-	2,507,179	-
Foreign currency denominated investments	265,969,101	34,521,499	25,838,828	-	-	326,329,428	2.50
International Monetary Fund Holding of Special Drawing Rights	-	-	-	-	26,374,832	26,374,832	-
Resale agreements	8,642,405	-	-	-	-	8,642,405	2.62
Local currency denominated investments	-	5,256,709	271,937,412	-	-	277,194,121	6.23
International Monetary Fund – Quota Subscription	-	-	-	-	11,997,333	11,997,333	-
Other assets	-	-	-	-	4,747,437	4,747,437	-
Total financial assets	277,118,685	39,778,208	297,776,240	101,556,969	163,973,353	880,203,455	
Liabilities							
Notes and coins in circulation	-	-	-	-	190,506,147	190,506,147	-
Deposits and other demand liabilities:							
Jamaica dollar equivalent of foreign currency deposits	162,267,007	-	-	69,462,968	-	231,729,975	-
Jamaica dollar deposits	109,967,943	-	-	46,488,906	-	156,456,849	-
Open market liabilities	59,733,032	33,216,190	84,258,051	-	-	177,207,273	-
International Monetary Fund – Allocation of Special Drawing Rights	-	-	-	-	53,681,504	53,681,504	2.38
Due to Government and Government agencies	-	-	-	-	27,733,269	27,733,269	-
Lease liability	1,466	4,439	75,499	-	-	81,404	-
Bilateral accounts	-	-	-	-	11,007	11,007	-
Other liabilities	-	-	-	-	9,926,980	9,926,980	-
Total financial liabilities	331,969,448	33,220,629	84,333,550	115,951,874	281,858,907	847,334,408	
Total interest rate sensitivity gap	(54,860,763)	6,557,579	213,442,690	(14,394,905)	(117,885,554)	32,869,047	
Cumulative gap	(54,850,763)	(48,293,184)	165,149,506	150,754,601	32,869,047	-	

BANK OF JAMAICA**Notes to the Financial Statements (Continued)**
Year ended December 31, 2020**35. Financial risk management (continued)****(d) Market risk (continued)****(ii) Interest rate risk (continued):**

	2019					Weighted average interest %	
	Within 3 months J\$'000	Three to 12 months J\$'000	Over 12 months J\$'000	Payable after notice J\$'000	Non-rate sensitive J\$'000		Total J\$'000
Assets							
Notes and coins	-	-	-	-	342,658	342,658	-
Cash and cash equivalents	-	-	-	-	43,678,754	43,678,754	-
Securities in funds managed by agents	-	-	-	92,320,100	-	92,320,100	2.03
Foreign currency denominated investments	272,726,516	11,694,900	26,720,330	-	-	311,141,746	2.03
International Monetary Fund Holding of Special Drawing Rights	-	-	-	-	25,386,620	25,386,620	-
Resale agreements	16,400,000	-	-	-	-	16,400,000	1.28
Local currency denominated investments	-	9,163,625	163,514,669	-	-	172,678,294	7.54
International Monetary Fund – Quota Subscription	-	-	-	-	10,716,577	10,716,577	-
Other assets	-	-	-	-	5,038,846	5,038,846	-
Total financial assets	289,126,516	20,858,525	190,234,999	92,320,100	85,163,455	677,703,595	
Liabilities							
Notes and coins in circulation	-	-	-	-	148,856,570	148,856,570	-
Deposits and other demand liabilities:							
Jamaica dollar equivalent of foreign currency deposits	158,430,848	-	-	67,798,572	-	226,229,420	2.09
Jamaica dollar deposits	65,779,120	-	-	47,791,662	-	113,570,782	0.24
Open market liabilities	47,364,389	22,468,067	37,975,083	-	-	107,807,539	3.10
International Monetary Fund – Allocation of Special Drawing Rights	-	-	-	-	47,950,820	47,950,820	-
Foreign liabilities	-	-	-	-	3,678	3,678	-
Due to Government and Government agencies	-	-	-	-	18,170,929	18,170,929	-
Bilateral accounts	-	-	-	-	40,900	40,900	-
Lease liability	1,435	4,349	81,404	-	-	87,188	-
Other liabilities	-	-	-	-	1,700,156	1,700,156	-
Total financial liabilities	271,575,792	22,472,416	38,056,487	115,590,234	216,723,051	664,417,982	
Total interest rate sensitivity gap	17,550,724	(1,613,891)	152,178,512	(23,270,134)	(131,559,598)	13,285,613	
Cumulative gap	17,550,724	15,936,833	168,115,345	144,845,211	13,285,613	-	

BANK OF JAMAICA

Notes to the Financial Statements (Continued)
Year ended December 31, 2020

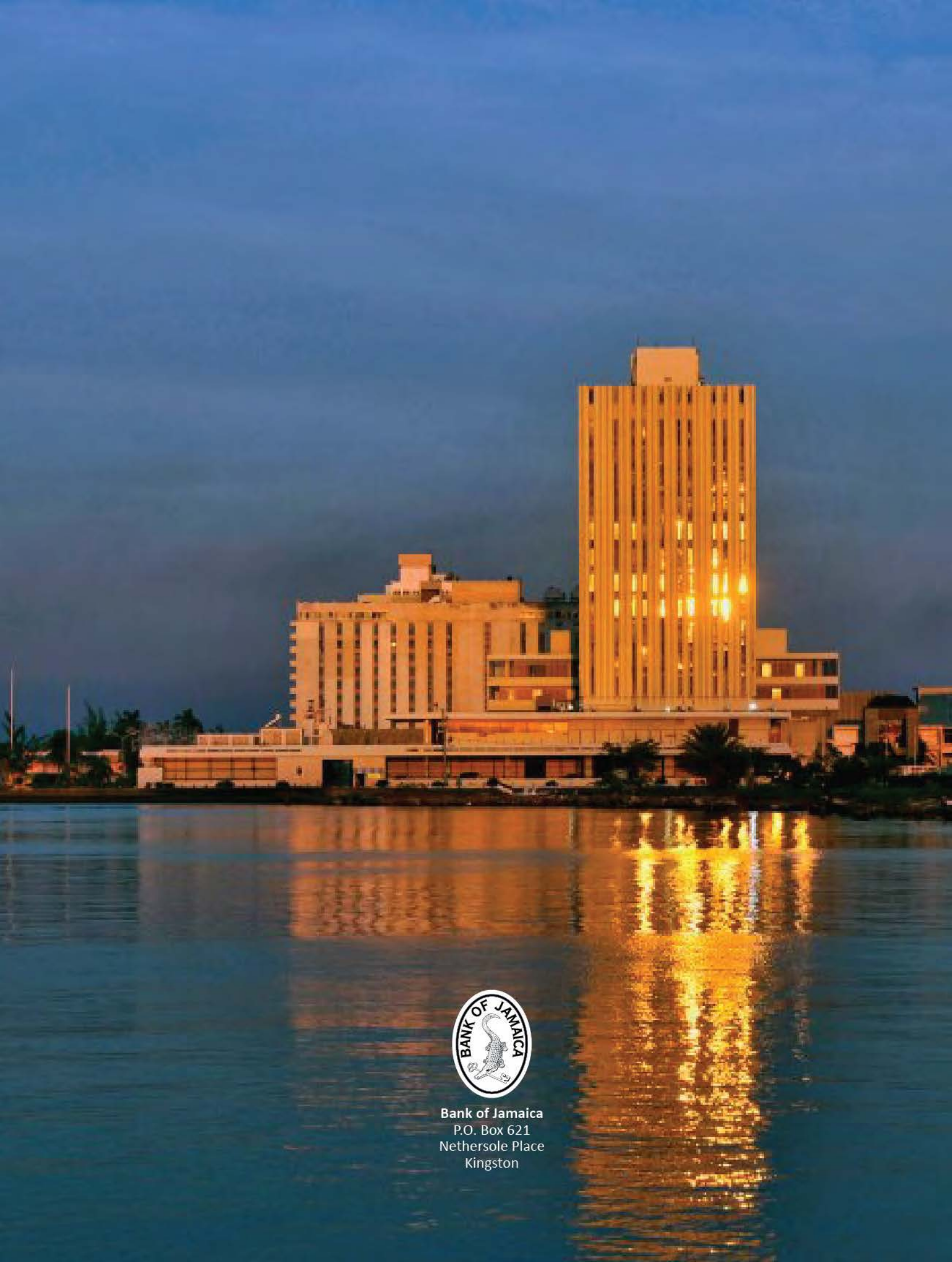
36. Financial risk management (continued)**(d) Market risk (continued)****(ii) Interest rate risk (continued):****Sensitivity to interest rate movement**

An increase of 50-100 (2019: 100) basis points and a decrease of 50-100 (2019:100) basis points in interest rates for Jamaica dollar financial instruments and an increase of 10 (2019: 100), and a decrease of 10 (2019: 100) basis points for United States dollar financial instruments would have increased or decreased profit and reserve by the amounts shown below. The analysis assumes that all other variables, in particular, foreign currency rates, remain constant. The analysis has been performed on the same basis as for 2019.

	Increase		Decrease	
	Effect on profit/loss J\$'000	Effect on reserves J\$'000	Effect on profit/loss J\$'000	Effect on reserves J\$'000
	2020			
Fixed rate financial instruments	-	(10,660,780)	-	12,314,182
Variable rate financial instruments	(350,577)	(58,306)	350,577	58,364
	<u>(350,577)</u>	<u>(10,719,086)</u>	<u>350,577</u>	<u>12,372,546</u>
	2019			
Fixed rate financial instruments	-	(4,458,255)	-	5,076,425
Variable rate financial instruments	(411,002)	(53,526)	411,002	53,470
	<u>(411,002)</u>	<u>(4,511,781)</u>	<u>411,002</u>	<u>5,129,895</u>

(e) Capital management

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



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