

AUDITOR GENERAL'S CERTIFICATION  
OF PUBLIC BODIES  
AS NOT BEING PART OF THE  
SPECIFIED PUBLIC SECTOR

JAMAICA MORTGAGE BANK LIMITED  
&  
THE BANK OF JAMAICA

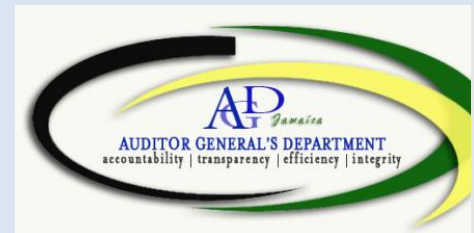
INDEPENDENT AUDITOR'S REPORT  
AUDITOR GENERAL'S DEPARTMENT OF JAMAICA  
FY2022/2023



The Auditor General is appointed by the Governor General and is required by the Constitution, Financial Administration and Audit Act, other sundry acts and letters of engagement, to conduct audits at least once per year of the accounts, financial transactions, operations and financial statements of central government ministries and departments, local government agencies, statutory bodies and government companies.

The Department is headed by the Auditor General, Pamela Monroe Ellis, who submits her reports to the Speaker of the House of Representatives in accordance with Section 122 of the Constitution of Jamaica and Section 29 of the Financial Administration and Audit Act.

This report has been prepared by the Auditor General's Department of Jamaica for presentation to the House of Representatives.



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## Auditor General's Overview

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1. On August 22, 2022, the Minister responsible for Finance requested that I assess the operations of Jamaica Mortgage Bank and the Bank of Jamaica to determine whether these entities carry out functions primarily of commercial nature and hence meet the criteria for certification as not being part of the specified public sector.
2. The criteria for certification of public bodies as not being part of the Specified Public Sector are contained in the schedule to Regulations 14 (1) and consist of four standards<sup>1</sup>: -
  - i. Fiscal Independence,
  - ii. Independence of Human Resource Decision-making,
  - iii. Financial Standards, and
  - iv. Transparency and Governance.
3. I conducted my assessment in accordance with the Financial Administration and Audit (Fiscal Responsibility Framework) Regulations. I adhered to the standards issued by the International Association of Supreme Audit Institutions and International Standard on Assurance Engagement (ISAE) 3000 – Assurance Engagements Other than Audits or Reviews of Historical Information issued by the International Auditing and Assurance Standards Board. To conduct my assessment, I utilised the annual reports and audited financial statements provided by the Minister of Finance and where necessary, consulted other pertinent published documentations.

### Minister of Finance's Responsibility

4. Regulations 14(2) of the Financial Administration and Audit (Fiscal Responsibility Framework) Regulations states "The Minister shall, no later than August 31 in the year 2016, and no later than August 31 in every third year thereafter, provide the Auditor General with a list of public bodies that the Minister wishes the Auditor General to consider for certification ... together with the audited financial statements and annual reports of those public bodies for the three financial years preceding the year in which the list provided."
5. Further, Regulations 14 states that the Minister may request the Auditor General to make a determination and take the action required following such determination, if at any time between recalibrations the Minister considers that: –
  - (a) a public body that is not part of the specified public sector does not meet the criteria set out in the Schedule; or
  - (b) a public body that is within the specified public sector meets the criteria set out in the Schedule.

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<sup>1</sup> The four standards are outlined in the Appendices.

## **Auditor General's Responsibility**

6. Regulations 14 (1), states that "For the purposes of Part VII of the Act, the Auditor General shall, in accordance with this Regulation, certify that a public body carries out functions that are of a commercial nature if the Auditor General is satisfied that the public body meets the criteria that are set out in the Schedule." Paragraph 3 states that, "upon receiving a list and the financial statements and annual reports under paragraph (2), the Auditor General shall –
  - a) no later than September 30 in the year in which the list is received, make a decision on whether or not to certify any of the listed public bodies under paragraph 1 [of Regulations 14]; and
  - b) notify the Minister of that decision."
7. Certification of a public body as not being part of the specified public sector shall take effect on April 1 of the date following the year of the Auditor General's decision under paragraph (3) to certify to public body.

### ***Responsibility for Recalibration***

8. Based on the FAA (FRF) Act, recalibration is 'the process of periodically resetting the fiscal balance required to meet the debt sustainability target of sixty per cent of Gross Domestic Product by the end of the financial year ending March 31, 2028 and continuing thereafter'. According to the Regulation 14 (5), "At the time of a recalibration under section 48C(A)(2) to (4) of the Act, or upon receiving a request from the Minister under paragraph (6), the Auditor General shall, in accordance with paragraph (1), determine:
  - a) whether a public body that is not part of the specified public sector continues to meet the criteria set out in Schedule, and if the Auditor General is satisfied that it does not do so, the Auditor General shall withdraw the certification of the public body; and
  - b) whether a public body that is within the specified public sector meets the criteria set out in the Schedule, and, if the Auditor General is satisfied that the public body meets the criteria, the Auditor General shall certify that the specified public body primarily carries out functions that are of a commercial nature."
9. The Minister of Finance was notified on September 29, 2022, of my decision arising from my assessment of the Jamaica Mortgage Bank and the Bank of Jamaica as carrying out functions primarily of a commercial nature. My assessment is contained in Paragraphs 10 to 15 of this Report.

## Assessment: Jamaica Mortgage Bank Limited

10. The Jamaica Mortgage Bank (JMB) was established in 1971, as a private limited company and was later converted in 1973 to a statutory corporation. The JMB Act 1973 Section 4(1) states that it shall be the duty of the Bank-
- (a) to foster the development of housing
  - (b) directly or indirectly to assist societies registered under the Co-operative Societies Act to develop co-operative housing; and
  - (c) to develop an active mortgage market.
11. To determine whether JMB primarily carries out functions primarily of a commercial nature and hence met the criteria as not being part of the specified public sector, I used the four standards contained in the schedule for Regulations 14 of the FAA Regulations 2015. My assessment is contained in **Tables 1 to 3**.

**Table 1: Criteria for Public Bodies not being Part of the Specified Public Sector – Jamaica Mortgage Bank Limited**

Criteria for Public Entities not forming part of the specified public sector	Met/Not Met	Remarks
<b>Financial Independence</b>		
The standard of fiscal independence comprises elements listed below:		
3.1 The price that a public body and each of its subsidiaries if any, charges for its products or output is:		
<b>a.</b> consistent with full cost recovery for public bodies that operate in a regulated industry, based on the average price over the three financial years preceding a decision or determination by the Auditor General under Regulation 14, or	Met	JMB demonstration of self-sufficiency was reflected in Expense coverage ratio and net profit margin along the other ratios in <b>Table 2</b> .
<b>b.</b> determined independently without requiring Government approval, in the case of public bodies that do not operate in a regulated industry.	N/A	
3.2 The public body has not in the three preceding years received any government subsidy or financial support from the Government or preferential tax treatment.	Met	Income tax was paid at standard rate.
3.3 The Government has no outstanding financial guarantees in respect of the public Body.	Met	An assessment was made with reference to section 9-10 of the JMB Act. See <b>Appendix 2</b> for JMB Act excerpt.
<b>Independence of Human Resource Decision-Making</b>		

<b>Criteria for Public Entities not forming part of the specified public sector</b>	<b>Met/Not Met</b>	<b>Remarks</b>
The Standard of independence of Human Resources decision-making comprises		
4.1 Staff positions of the public body are not included in the Civil Service Establishment.	Met	
4.2 The public body exercises legal autonomy with regard to its employment decisions (such as hiring and termination).	Met	Authorized under JMB Act (1973), Section 16 See <b>Appendix 2</b> for JMB Act excerpt.
<b>Financial Standards</b>		
5.1 The auditor of the public body has expressed an unqualified opinion on the financial statements of the public body, including an opinion that the accounts comply with the International Financial Reporting Standards (IFRS).	Met	JMB received unqualified audit opinion on its financial statements for all three preceding years.
5.2 Annual reports, including audited financial statements of the public body have been submitted in accordance with section 3(2) of the Public Bodies Management and Accountability Act.	Met	Annual Reports have been submitted for all three preceding years.
5.3 The public body has on average over the three preceding financial years, recorded a positive net profit after tax, on a stand-alone basis or, if applicable, on a consolidated basis.	Met	See <b>Table 2</b>
5.4 At least one of the following provisions apply in respect of a public body:		
<b>a.</b> The average long-term debt to equity ratio of the public body (on a stand-alone basis, or, if applicable, on a consolidated basis) over the three preceding financial years is no more than 2.5, where long term debt means debt that is due over a period that is longer than one year,	Met	See <b>Table 2</b>
<b>b.</b> The positive working capital and current ratio of the public body (on a stand-alone basis, or if applicable, on a consolidated basis) is at least 1.2, where current ratio means current assets divided by current liabilities.	Met	See <b>Table 2</b>
<b>Transparency and Governance</b>		
The standard for transparency and governance comprises elements listed below:		
6.1 The public body has a functioning Audit Committee in accordance with the Public Bodies Management and Accountability Act.	Met	See <b>Table 3</b>
6.2 The Annual Report of the public body including audited financial statements complies with section 22 of the Public Bodies Management and Accountability Act.	Met	See <b>Table 3</b>
6.3 The annual report discloses information required by the Public Bodies Management and Accountability Act and related regulations.	Met	



**Table 2: Jamaica Mortgage Bank Financials Ratios**

Jamaica Mortgage Bank (JMB)	2021	2020	2019	Average	Regulation
Expense Coverage Ratio	1.66	1.52	2.48	1.89	
Net Profit Margin	0.40	0.34	0.60	0.45	
Long-term Debt to Equity Ratio	0.77	0.38	0.16	0.44	≤ 2.5
Working Capital (J\$ million)	3,438.25	1,469.88	1,027.3	1,978.45	positive
Current Ratio	4.93	3.39	3.54	3.95	≥ 1.2
Net Profit (J\$ million)	202.42	108.61	305.43	205.49	positive

**Table 3: Jamaica Mortgage Bank Compliance with Public Bodies Management and Accountability Act**

6.1 Functioning Audit Committee	Met/ Not Met	Remarks
<b>PBMA Act Section 8 - Audit Committee Compliance Requirement</b>		
8 - (1) Subject to subsections (2) and (3), every public body that has four or more directors shall establish an audit committee consisting of not less than three directors.	Met	For each year of the assessment, JMB had seven board of directors. Audit Committee = 3
(2) The board of a public body with three or less than three directors shall constitute the audit committee of that body.	N/A	
(3) The majority of members of an audit committee shall Not be officers or employees of the public body	Met	For each year, the membership of the Audit Committees were not employees of JMB.
(7) At least one member of the audit committee shall be a qualified accountant, registered under the Public Accountancy Act, or possess expertise in the area of finance.	Met	As at end FY2021/22, the composition complied with the required qualification for membership on the Audit Committee.
<b>6.2 Annual Report Compliance</b>		
<b>PBMA Act Section 22 (refers to Part 1 of the Second Schedule)</b>		
1. Audited financial statements, including -		
a. Explanatory notes; and		
b. Notes to the financial statements, including accounting policies.	Met	
2. A statement of the emoluments of every chairman, director, chief executive officer and senior official, for that year.	Met	Emoluments for each officer itemized.
3. A report of the board of directors which shall include		
(a) a review of all operations.	Met	
(b) a statement on any proposed change in the nature and scope of the activities of the body;	Met	For all three years, Reports indicated expectation to list on the JSE
(c) any modification or proposed modifications to the corporate plan;	Met	None noted

(d) a summary of the achievement of the body measured against appropriate performance targets;	Met	Achievement reported against strategic objective and key operational indicators for all three years.
(e) forecasts and projections of key financial and operating measures for the next twelve months;	Met	
(f) where applicable, notification of payment of dividends	N/A	



## Assessment: Bank of Jamaica

12. The Bank of Jamaica (Amendment) Act (2020), which came into effect 2021 April 16, established full-fledged inflation targeting as the monetary policy strategy of the Bank. Under the law, the inflation target is set by the Minister after consultation with the Governor and the Monetary Policy Committee of the Bank. The law specifies that the functions of the Bank include, (a) to formulate and implement monetary policy; (b) the implementation of prudential and macro-prudential policies; (c) to issue and redeem notes and coins; (d) to hold and manage the external reserves of Jamaica; (e) to foster the development of money and capital markets in Jamaica; (f) to act as banker and financial agent of the Government; and (g) to act as banker to deposit taking institutions. The functions of the BOJ are similar to those of other central banks worldwide but differs from other financial institutions and indeed other public bodies.
13. In accordance with Regulations 14 and as per the Minister’s request, I assessed BOJ for certification as not being part of the specified public sector. However, the Bank of Jamaica (Amendment) Act (2020) stipulates that the Public Bodies Management and Accountability (PBMA) Act shall not be applicable to BOJ. Accordingly, element 5.2 of the Financial Standards and Standard 6 (Transparency and Governance) of Regulation 14 were not relevant to the certification process. Further, given the peculiar nature of the central bank’s operations, assessment of the financial ratios was based on International Monetary Fund’s definitions and concepts applicable to central banks. According to the IMF Guideline for IFRS (2021)<sup>2</sup>, “considering the characteristics of a monetary authority, which include controlling the liquidity of the financial system, the Bank is not subject to the limitations resulting from a mismatch between assets and liabilities in local currency.” This control is reflected in the flow of the monetary base<sup>3</sup>. Accordingly, I did not calculate a current ratio for the BOJ as there would be little analytical benefit. My assessment of BOJ is contained in **Tables 4 to 5**.

**Table 4: Criteria for Public Bodies not being Part of the Specified Public Sector – Bank of Jamaica**

Criteria for Public Entities not forming part of the specified public sector	Met/Not Met	Remarks
<b>Financial Independence</b>		
The standard of fiscal independence comprises elements listed below:		
3.1 The price that a public body and each of its subsidiaries if any, charges for its products or output is:		
<b>a.</b> consistent with full cost recovery for public bodies that operate in a regulated industry, based on the average price over the three financial years preceding a decision or	N/A	

<sup>2</sup> A Central Bank's Guide to International Financial Reporting Standards (April 2021).

<sup>3</sup>The Monetary Base includes the total currency circulating in the public, plus the currency that is physically held in the vaults of commercial banks, plus the commercial banks' reserves held in the central bank.

<b>Criteria for Public Entities not forming part of the specified public sector</b>	<b>Met/Not Met</b>	<b>Remarks</b>
determination by the Auditor General under Regulation 14, or		
<b>b.</b> determined independently without requiring Government approval, in the case of public bodies that do not operate in a regulated industry.	Met	The policy rate (price) is independently determined by the BOJ as per the BOJ Act
3.2 The public body has not in the three preceding years received any government subsidy or financial support from the Government or preferential tax treatment.	Met	Exemption from income tax (Income Tax Act Section 12(b)) and stamp duty on notes issued. (BOJ Act, Part IV, Section 13)
3.3 The Government has no outstanding financial guarantees in respect of the public Body.	Met	
<b>Independence of Human Resource Decision-Making</b>		
The Standard of independence of Human Resources decision-making comprises		
4.1 Staff positions of the public body are not included in the Civil Service Establishment.	Met	Bank of Jamaica Act (Amendment 2020), Section 7
4.2 The public body exercises legal autonomy with regard to its employment decisions (such as hiring and termination).	Met	
<b>Financial Standards</b>		
5.1 The auditor of the public body has expressed an unqualified opinion on the financial statements of the public body, including an opinion that the accounts comply with the International Financial Reporting Standards (IFRS).	Met	The BOJ received unqualified audit opinions on its financial statements for all three preceding years.
5.2 Annual reports, including audited financial statements of the public body have been submitted in accordance with section 3(2) of the Public Bodies Management and Accountability Act.		N/A as per Section 2B of the BOJ (Amendment 2020) Act
5.3 The public body has on average over the three preceding financial years, recorded a positive net profit after tax, on a stand-alone basis or, if applicable, on a consolidated basis.	Met	See <b>Table 5</b>
5.4 At least one of the following provisions apply in respect of a public body:		
<b>b.</b> The average long-term debt to equity ratio of the public body (on a stand-alone basis, or, if	Met	See <b>Table 5</b>

Criteria for Public Entities not forming part of the specified public sector	Met/Not Met	Remarks
applicable, on a consolidated basis) over the three preceding financial years is no more than 2.5, where long term debt means debt that is due over a period that is longer than one year,		
c. The positive working capital and current ratio of the public body (on a stand-alone basis, or if applicable, on a consolidated basis) is at least 1.2, where current ratio means current assets divided by current liabilities.		Positive working capital noted. Though current ratio is less than 1.2, the nature of a central bank's operations implies low liquidity risk. See <b>Table 5</b>
<b>Transparency and Governance</b>		
The standard for transparency and governance comprises elements listed below:		
6.1 The public body has a functioning Audit Committee in accordance with the Public Bodies Management and Accountability Act.		BOJ has a functioning Audit Committee and submits annual reports to the Minister.
6.2 The Annual Report of the public body including audited financial statements complies with section 22 of the Public Bodies Management and Accountability Act.	N/A	Nonetheless, the PBMA Act does not apply to BOJ as per Section 2B of the Bank of Jamaica (Amendment 2020) Act.
6.3 The annual report discloses information required by the Public Bodies Management and Accountability Act and related regulations.		

**Table 5: Bank of Jamaica Financial Performance**

Bank of Jamaica (BOJ)	CY2021	CY2020	CY2019	Average	Regulation Requirements
Long-term Debt to Equity Ratio	2.49	1.81	2.93	2.41	≤ 2.5
Working Capital (J\$ million)	165,054.30	106,899.69	72,190.90	114,714.96	positive
Current Ratio*	N/A	N/A	N/A	N/A	≥ 1.2
Profit for the year transferred to general reserve fund (J\$ million)	16,701.44	9,946.28	15,812.63	14,153.45	positive

\* Not Applicable - given that the monetary base, that is, money created by central banks, is essentially a central bank's liquidity.

## Certification

14. With reference to my assessment set out on pages 7 to 13 and, in accordance with Regulations 14 of the FAA (FRF) Regulations, I hereby certify that Jamaica Mortgage Bank (JMB) Limited and the Bank of Jamaica (BOJ) primarily carry out functions of a commercial nature and as such meet the criteria of not being part of the specified public sector.

## Emphasis of Matter

15. In accordance with Regulation 14 (5), at the time of a recalibration under section 48C(A)(2) to (4) of the Act, or upon receiving a request from the Minister, I will be required to review the functions of the JMB and BOJ to determine whether certification still hold. Further, based on Regulations 14(2) of the FAA (FRF) Regulations I may be required in every third year thereafter, to review these entities along with the list of public bodies provided by the Minister for certification. However, if the Jamaica Mortgage Bank is privatised within the three-year period, there circumstance for such review would not arise.



Pamela Monroe Ellis, FCCA, FCA  
Auditor General

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## Appendices

### Appendix 1: Reference taken from relevant Acts, Regulations, Manuals

#### *Jamaica Mortgage Bank Act Sections 9 and 10*

##### Section (9)

(1) Subject to the provisions of this Act, the Bank may borrow sums required by it for meeting any of its obligations or discharging any of its functions.

(2) The aggregate of the liabilities of the Bank outstanding at any one time, including direct liabilities such as bonds and debentures issued by the Bank and the contingent liabilities of the Bank in the form of guarantees given, shall not at any time without the prior approval of the Minister exceed seven times the aggregate amount of the paid-up capital and the reserve fund for which provision is made in section 13.

##### Section (10)

(1) With the approval of the House of Representatives the Minister may guarantee, in such manner and on of borrow such conditions as he thinks fit, the repayment of the principal and the payment of interest on any authorized borrowings of the Bank.

(2) Where the Minister is satisfied that there has been default in the repayment of any principal moneys or the payment of interest guaranteed under the provisions of this section he shall direct the payment out of the Consolidated Fund of the amount in respect of which there has been such default and such payment shall be a charge on the Consolidated Fund.

(3) Where any loan is guaranteed under the provisions of this section the Minister may, by order published in the Gazette, provide that any tax, duty or fee payable under the Income Tax Act, or the Stamp Duty Act or the Registration of Titles Act or any other enactment shall be remitted where such remission is, in the opinion of the Minister, necessary to give effect to any term upon which, or any condition subject to which, such loan was so guaranteed.

#### *Jamaica Mortgage Bank Act Sections 16*

##### Section 16

(1) The Bank may appoint and employ at such remuneration and on such terms and conditions as it thinks fit a general manager, a secretary and such officers, agents and servants as it deems necessary for the proper carrying out of its functions under this Act: Provided that- (a) no salary exceeding eight thousand dollars per annum shall be assigned to any post without the prior approval of the Minister; (b) subject to any regulation made pursuant to section 21, no provision shall be made for the payment of any pension, gratuity or other retiring benefit to any employee of the Bank without the prior approval of the Minister. (2) The Governor-General may, subject to



such conditions as he may impose, approve of the appointment of any public officer in the service of the Government to any office with the Bank and any public officer so appointed shall, in relation to pension, gratuity or other allowance, and in relation to other rights as a public officer, be treated as continuing in the service of the Government.

***BOJ Act 2012 Part IV Section 13***

Notes issued by the Bank of Jamaica shall be exempt from the payment of stamp duties

Bank of Jamaica Act (Amendment 2020), Section 7

Section 7

(1) the Bank may appoint and employ at such remuneration and on such terms and conditions as it thinks fit, such officers, agents and employees as the Board considers necessary for the due performance of the functions of the Bank.

(1A) Subsection (1) shall not apply to the Governor who is appointed under section 6A and the Senior Deputy Governor or Deputy Governors who are appointed in accordance with section 6D.

(3) The Governor-General may, subject to such conditions as he may impose, approve of the appointment of any public officer in the service of Jamaica to any office with the Bank and any public officer so appointed shall, in relation to pension, gratuity or other allowance, and to other rights as a public officer, be treated as continuing in the service of the Government.

(5) The Bank may, with the approval of the Minister, make regulations establishing schemes for pensions, gratuities and other retiring benefits in respect of the officers and servants of the Bank and such regulations may include provisions for the grant of benefits to the dependants or the legal personal representatives of such officers and servants.

(6) The Bank may provide for training of such employees of the Bank or other persons as appear to the Board to be suitable for training in the subjects of money and banking, statistics, finance and such other subjects as the Board considers necessary.

**Bank of Jamaica Act (Amendment) 2020, Section 2B**

Section 2B

The provisions of the Public Bodies Management and Accountability Act shall not apply to the Bank of Jamaica.

## **Income Tax Act, 2003**

### **Section 12(b)**

There shall be exempt from tax- the income of any Parish Council, of the Kingston and St. Andrew Corporation, of any Municipality and of any public body or department of Government other than the following-

- I. The Airport Authority;
- II. The Betting, Gaming and Lotteries Commission;
- III. The H.E.A.R.T Trust;
- IV. the Jamaica Development Bank;
- V. the Jamaica Mortgage Bank;
- VI. the Jamaica Racing Commission;
- VII. the National Housing Trust;
- VIII. the National Insurance Fund;
- IX. the National Water Commission;
- X. the Petroleum Corporation of Jamaica;
- XI. the Urban Development Corporation;

## Appendix 2: Definitions of Selected Ratios and Formulas

**Net Profit Margin** – refers to the ratio of an entity’s net income to sales and measures how much of each dollar of sales is left over after all expenses.

$$\text{Formula} = \frac{\text{Net Income}}{\text{Sales}}$$

**Expense Coverage Ratio** - refers to the ratio of total expenses to total revenue and measures the company’s ability to pay its financial obligations.

$$\text{Formula} = \frac{\text{Total Expenses}}{\text{Total Revenue}}$$

**Current Ratio:** refers to the ratio of current assets to current liabilities and indicates an entity’s ability to meet current liabilities with its current assets.

$$\text{Formula} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

**Working Capital:** The capital of a business which is used in its day-to-day operations, calculated as the current assets minus the current liabilities.

$$\text{Formula} = \text{Current Assests} - \text{Current Liability}$$

**Long Term Debt to Equity Ratio:** refers to the ratio of an entity’s long-term debt to equity. It is used to gauge the risk of the entity becoming bankrupt.

$$\text{Formula} = \frac{\text{Long term Debt}}{\text{Equity}}$$