

THE JAMAICA DEBT EXCHANGE & YOU

FREQUENTLY ASKED QUESTIONS

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Sustained Growth**

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JAMAICA DEBT EXCHANGE (JDX)

THE CONTEXT

Over the past year there have been many discussions around the need to close the fiscal gap, exploring ways to reduce Government expenditure as well as increase revenues.

In December 2009, the Government took measures to increase revenues by introducing a tax package as a first critical step in that direction. This measure is painful for many Jamaicans and has far-reaching implications. At that time, our Group CEO Keith Duncan publicly stated “Our country and our people continue to be faced with serious challenges and hardships. However, in these tough times lies the opportunity for all Jamaicans and companies operating in Jamaica to take right action and make difficult choices to secure the future we desire.” He went on to give the commitment that, “JMMB stands ready to share the burden in closing the fiscal gap by supporting creative solutions that would lead to the reduction of Government interest expense in the short term and improve Jamaica’s fiscal profile over the long-term.”

Coming out of the January 2010 Cabinet Retreat and recent meetings with leaders in the financial sector, the Government signaled its intent to implement a new Debt Management Initiative, the Jamaica Debt Exchange (JDX). This initiative is slated to save the country \$40 billion in interest payment on domestic debt over the next financial year, leading to the reduction of Government interest expense in the short term and improve Jamaica’s fiscal profile over the medium to long-term.

JMMB supports this initiative and stands ready to work through the process with the Government and its clients to gain the best possible results for all stakeholders and the future of the Country. This will have an impact on direct holders of the domestic debt, including institutions like ourselves, but will also facilitate a more equitable sharing of the burden to secure the possibility of Jamaica’s long-term sustainable growth.

JMMB uses this opportunity to provide you with information to better understand the stated facts and will continue to provide updates as the situation progresses.

Frequently Asked Questions (FAQs)

GENERAL INFO ON JDX

1. What is the Jamaica Debt Exchange (JDX)?

The JDX is an initiative of the Government of Jamaica, with an objective of exchanging debt in the form of J\$ and US\$ bonds - Old Notes - which carry high interest rates, for New Notes with lower interest rates and extended maturity.

2. Why is the Government pursuing this initiative now?

Over the years Jamaica has consistently failed to balance its books, generating a fiscal surplus in only 9 of the last 30 years and presently has little room on the revenue side. It is therefore imperative that as a nation we find creative, effective and equitable ways to reduce the existing Government expenses. The domestic debt exchange, while having a short-term impact on the direct holders of the debt, will facilitate more equitable sharing of the burden.

3. How will the JDX impact client investments in Government Paper?

- The majority of Jamaicans who invest in GOJ paper do so through ‘repurchase agreements’ (repos) provided by Securities Dealers such as JMMB. These clients are not a part of this exchange. They will only be impacted at maturity of their investment, where the rates on their repos will be reduced.

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- Only institutions and individuals who are direct holders of domestic debt (Old Notes) through BOJ purchases are invited to participate in the exchange of securities.

4. What is the JDX impact on financial institutions?

- In the designing this initiative, the Government took into consideration the impact on each individual financial institution and is sufficiently prepared.
- Specifically, for JMMB, our Financial Analysis and Risk teams have modeled several scenarios informing our strategies to address the potential impact. We stand ready to execute as necessary.
- Based on a detailed preliminary analysis, the likely impact on JMMB capital is manageable with capital adequacy still surpassing FSC requirements by 143%. The analysis also indicates that the likely impact on profitability for this financial year (April 1, 2009 to March 31, 2010) is minimal.
- Our deliberate and focused approach on efficiency (cost-management) as well as targeted strong growth revenue areas have contributed to our positive financial results to-date. Going forward, as possibility thinkers and we will unleash our creative juices in continuing to provide innovative financial solutions to our clients, growing our profits and maximizing shareholder value.

5. Will the JDX, albeit voluntary, result in a further downgrade by rating agencies and if so, what are the implications for the Jamaican economy?

- It is possible that one or more of the international rating agencies could take this action. If that occurs, we could see a temporary minimal fall in bond prices, though we believe this potential action has already been largely reflected in the current prices.
- The level of external financing provided to the local financial sector could also be constrained. Notwithstanding, the domestic financial sector remains adequately capitalized and highly regulated, ensuring the entire sector is prudently managed.
- In addition, the pending IMF facility will boost confidence in BOJ's ability to improve macroeconomic indicators, leading to improved bond prices, facilitate Government's access to loan flows from multilateral institutions including the IDB, World Bank etc., resulting in reduced borrowing in the local market and further reduction in interest rates.
- As in the cases of Turkey, Uruguay and Argentina, we expect not only recovery but also surpassing our best previous ratings in the medium-term.

6. How can we be sure that the Government will stay on track with the programme and not keep spending?

The Government's Economic Programme has specific fiscal and structural reforms that will institutionalize tangible constraints on public spending and a specific timeline for their implementation. For example, a Fiscal responsibility Law which will entrench fiscal austerity and a Central treasury Account which will greatly improve public sector cash management is to be enacted. The Debt Exchange will significantly reduce the volatility of the interest cost of the domestic debt. In addition, the programme will be continuously monitored by the IMF. (source – GOJ – Jamaica Debt Exchange FAQ).

7. How does the JDX Initiative impact Old Notes in Pension Portfolios?

We will be circulating a FAQ specific to Pension Portfolios on Wednesday, January 20, 2010.

JDX TRANSACTION DETAILS

8. What is the overall process and timeline for the JDX ?

January 18 – 22:

1. Call or visit the JMMB branch in closest proximity



2. JMMB Client Rep explains details of Offer

- The transaction timeline
- Supporting documents required
- List of New instruments (New Notes) under the JDX
- Recommendation of most attractive New Notes for exchange with Old Notes



3. You make one of 3 decisions:

- Accept Offer & give JMMB the Old Note to exchange
- Take Old Notes directly to the Ministry of Finance
- Or opt to decline the Offer and hold your Old Notes and face the likely risk of the instrument being discounted at a later date to less than the value of the New Notes



4. JMMB Rep provides you with the necessary documentation to be completed for authorization of transfer.



5. You collect a “receipt” in exchange for the Old Note from your JMMB Client Rep.

January 25, 2010:

4:30 p.m. JMMB Deadline for Acceptance of Offer and indication of Old Notes to be exchanged, to enable efficient submission to the Ministry of Finance by January 26, 2010.

January 26, 2010:

10:00 a.m. Deadline to revoke interest in Offer
1:00 p.m. Deadline to submit all Offers

TRANSACTION CLOSES

February 16, 2010:

Final Settlement Date

- Beginning of delivery period of New Note Certificates
- Pro Rated coupon payments for eligible investors who accept the Offer, will be made on or after February 16, 2010 on interest accrued up to February 15, 2010.

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9. What are Old Notes?

Old Notes are Local Fixed Rate (FR), Variable Rate (VR) and USD Bonds (USD) issued locally on or prior to December 31st, 2009.

- Total value of Old Notes to be exchanged is approximately J\$700 Billion.
- If Clients have not received their physical certificate of their Old Notes at this point, it will be issued by January 21st, 2010.

10. What are New Notes?

New Notes are those notes that will be issued to replace the Old Notes. These include the 23 New Benchmark Bonds:

- 9 Fixed Rate; 9 Variable Rate; 3 USD Bonds; 2 CPI linked Bonds.

11. What is the difference in pricing of New Notes compared to Old Notes?

	OLD NOTES	NEW NOTES
J\$	Average rate approx. 19%	11.75% - 12.875%
US\$	Average rate over 9%	6.75% - 7.25%

12. What are the main elements of the JDX process?

- Holders of the Old Notes will be required to submit an Offer Submission Form to the Ministry of Finance (MoF)
- The principal amount of transactions of the Old Notes will be fully honoured. There will be NO reduction of your principal.
 - Eligible investors (those who agree to exchange their notes) will exchange J\$100 (principal) of Old Note for J\$100 (principal) of the New Note
 - Accrued and unpaid interest will be paid over to the eligible investor in cash on or after the Settlement date of Feb 16th, 2010 on Old Notes

13. Who does the JDX impact?

This initiative impacts direct holders of domestic J\$ and US\$ notes to be called Eligible Investors. These include individuals and institutions who own Bonds directly. The JDX does not apply to Jamaica's external debt, i.e. GOJ Global Bonds.

14. Is this Offer for exchange of Old Notes for New Notes Mandatory or Voluntary?

This offer is Voluntary. However, given the national imperative and this initiative being a critical plank in the medium-term economic framework designed to steer the economy out of the recession and into an era of opportunity for sustained growth, we believe it is in the best interest of the country at this time, to encourage clients to participate in this offer based on the objectives of the initiative.

15. What are the options?

The client has two options:

- 1) Accept – submit Offer Forms and complete process as indicated.
- 2) Decline – here client will hold their Old Note, and face the risk of their instrument being discounted at a later date if the Government calls the Bond.



16. What if I don't accept the transaction?

Failure to achieve substantially 100% participation in the JDX would undermine Jamaica's Economic Programme and prevent the GOJ from securing up to US\$2.4Billion in low cost financing from the IMF and other Multilateral Institutions. Without this support, the real economy and financial system would be at considerable risk. If the exchange offer is successful and you don't participate, your old notes will be illiquid, they could be called (pre-paid) and you may not be able to re-invest at rates offered in the exchange. The GOJ may also pursue fiscal or other measures including taxation as a matter of basic fairness in order to prevent 'free-riders' and level the playing field with those investors who participated in the exchange.

(source – GOJ -Jamaica Debt Exchange FAQ)

17. What are the New Notes available?

The New Notes available are listed in Appendix 1.

18. Will I be able to choose which New Note I subscribe to?

Yes, you will be able to choose from several New Notes up to your desired allocation. However if the New Note selected is oversubscribed, then the Government will reallocate. The alternatives will have a combination of similar maturity dates and equivalent coupon rates.

19. What are my options for exchanging my existing bond to one of the new bonds?

- JA\$ Fixed to JA\$ fixed rate only.
- US\$ to US\$ only.
- Variable rate bonds can go to variable fixed or CPI index.

20. When does the Offer for Exchange of Old Notes for New Notes open and close?

The opening date of the Offer is Monday, January 18th, 2010. The Offer closes at 1:00pm on Tuesday, January 26th, 2010.

21. When will JMMB start accepting Old Notes?

JMMB will start accepting Offer Submission forms and Old Notes on January 18th and will cease accepting on January 25th end of day (4:30pm). This is to ensure that JMMB meets the deadline of 1:00 pm on January 26th, as stipulated by the Ministry of Finance.

22. Where can I access the Offer Submission Form?

Offer submission forms are available:

- At any JMMB branch
- JMMB website, www.jmmb.com
- Ministry of Finance website www.mof.gov.jm

23. How do I submit the Offer Submission Form?

- Offer Submission Forms and Transfer Forms giving us authorization to make the exchange, completed and received by JMMB will be submitted on behalf of clients by JMMB to the Ministry of Finance.
- Ideally Offer Submission Forms must be accompanied by Old Note(s). Otherwise it must be indicated where the Note is and reason for delay in submission
- Other options for submission include:
 - Direct submission to Bank of Jamaica, Nethersole Place, Kingston
 - Electronic Submission via Ministry of Finance website www.mof.gov.jm. For persons with more than ten

certificates, certificates must be submitted physically on the demand of the MOF (MOF reserves the right to modify the process and therefore this may change over the course of the offer).

24. What if I have lost my Old Note?

A *Duly Signed Indemnity form which will be provided must be submitted along with the Offer Submission Form.
**signed by a Justice of the Peace*

25. Can I sell my existing securities (Old Notes) now?

As the Debt Exchange begins Monday, January 18, 2010, transaction prices may be impacted. It would be best to contact your Broker for trading opportunities when your new securities (New Notes) are issued.

26. What will I get from JMMB upon submission of my Old Note and completion of my Transfer Form?

The Offer Submission Form will be photocopied, stamped and signed by the JMMB Officer. This will operate as proof of receipt of the Old Note and the relevant Offer Form.

27. What will I get as proof of submission once JMMB submits my Offer Forms and Old Notes on my behalf to the Government of Jamaica?

The Government of Jamaica will send by registered post a 'System Receipt' indicating receipt of the Old Notes and Offer Form for the client. This will operate as an acknowledgement and undertaking by the Government of Jamaica.

28. What if I change my mind about my decision on the Offer?

The client has the opportunity to change their decision re the Offer no later than 10:00am January 26th, 2010.

29. What happens to coupon payments if I accept the Offer?

The accrued interest will be paid in cash up to the date of the Old Note surrendered and future coupon payments on Old Notes will cease thereafter. The New Note will determine the coupon payment dates as well as maturity and interest rate.

30. When is the final settlement date for the New Note?

Final Settlement date is February 16th, 2010. Delivery of New Notes will begin at that time to be completed within 90 days.

If you have any further questions, please contact us at
998-JMMB or by email at info@jmmb.com
or visit your nearest branch. We look forward to partnering with you through this process.

Your JMMB Team!

See Appendix overleaf for GOJ New Benchmark Bonds – New Notes



APPENDIX 1: GOJ NEW BENCHMARK BONDS – NEW NOTES

FIXED RATE	VARIABLE RATE	USD FIXED RATE	CPI-LINKED FIXED RATE
Short Term Package	Medium Term Package		
3 Month Non-Call Life	1-Month Reset/Pay	3-Year Non-Call Life	12-Year Non-Call Life
6 Month Non-Call Life	1.5-Year Callable*	4-Year Non-Call Life	20-Year Non-Call Life
1-Year Non-Call Life	2.5-Year Callable*	6-Year Non-Call Life	
2-Year Non-Call Life	3.5-Year Callable*		
3-Year Non-Call Life			
4-Year Non-Call Life	3-Month Reset/Pay		
6-Year Non-Call Life	5-Year Callable after 3.5Y**		
9-Year Non-Call Life	7-Year Callable after 5Y**		
14-Year Non-Call Life	8-Year Callable after 7Y**		
	10-Year Callable after 8Y***		
	17-Year Callable after 10Y***		
	22-Year Callable after 17Y***		

*Initial fixed term of 3 months

** Initial fixed term of 6 months

*** Initial fixed term of 12 months

