JMB
Facilitating Home Ownership
40th Anniversary
1971 – 2011

JAMAICA MORTGAGE BANK

Facilitating Home Ownership,
the Cornerstone of Nation Building

2012
ANNUAL REPORT

Table of Contents

Letter of Transmittal	1
Vision & Mission Statements	2
JMB's Operations	3
Chairman's Message	4
Corporate Information	6
Core Values	7
General Manager's 40th Anniversary Overview	8
Profile of Board of Directors	11
Management Team	13
Departments	14
Department Teams	15
Pictorial: SMM Launch	17
40th Anniversary Awards Dinner	18
Directors & Senior Executive Compensation	22
Financial Statements	25
Photos of Projects financed over 40 years	98

Letter of Transmittal

July 31, 2012

Hon. Dr. Morais Guy
Minister without Portfolio
with responsibility for Housing
Ministry of Transport, Works & Housing
25 Dominica Drive
Kingston 5

Dear Sir:
In accordance with Section 15 (1) of the Jamaica Mortgage Bank Act No. 16 of 1973, I have the honour of transmitting herewith the Bank's Report for the year ended March 31, 2012 and a copy of the Statement of the Bank's Account at March 31, 2012, duly certified by the Auditors.

Yours respectfully,

Howard Mollison
Chairman

Vision

To finance safe and affordable housing so that all Jamaicans will have access to home ownership.

Mission

To be a profitable organization mobilizing financial resources for on-lending to public and private sector developers and financial institutions, developing an active secondary mortgage market and providing mortgage indemnity insurance in support of the national settlement goal.

JMB's Operations

The Jamaica Mortgage Bank (JMB) was established in 1971 as a limited liability company and was converted to a Statutory Corporation by an Act of Parliament in 1973.

The main objective of the Bank is to foster the development of housing islandwide through:

a. The mobilization of loan funds for on-lending to developers and other lending in stitutions.

b. The operation of a secondary mortgage market facility.

c. The provision of mortgage insurance services as set out in the Mortgage Insurance Law of 1960.

Based on the Jamaica Mortgage Bank Act, and in order to increase its scope of activities, the Jamaica Mortgage Bank may carry out the following activities:

- Guarantee loans made from private invest ment sources for building developments;
- Sell investments of whatever kind when appropriate;
- Lend money on security to be used for the construction of premises for private residen-tial purposes or of a commercial or industrial nature;
- Lend money on mortgages and carry out any other transaction involving mortgages;
- Furnish financial advice and provide or assist in obtaining managerial, technical and administrative services for persons engaged in building development in Jamaica.

The Bank's Current Operations fall into three categories:

Primary Market-	The granting of short-term financing for construction and infrastructure development.
Secondary Market-	The buying of mortgages and securitizing into Mortgage Backed Securities (MBS) for sale on the capital markets.
Mortgage Indemnity Insurance-	The insuring of residential mortgage loans.

Message from the CHAIRMAN Howard Mollison

A new board of directors was appointed to the Jamaica Mortgage Bank (JMB or the Bank) in March 2012, almost at the end of the Bank's financial year, and urgently undertook the task of addressing the issues that threaten to erode the gains made by the JMB during a most difficult year. The prolonged downturn in the housing sector has had a dampening effect on the earnings of the Bank for the year 2011-2012 resulting in revenues being 16% lower than the previous year.

Despite the downturn in the construction industry and the many other challenges faced over the past year, the JMB grew its loan portfolio by 79% over the previous year and Net Profit grew by 64%, from $102.9M to $168.7M, during the period under review.

The JMB adopted a very conservative approach to the issue of loan performance by making provisions and ceasing accruals on loans once they appeared doubtful. The Bank through the proactive management of its loan portfolio was able to restore some of these doubtful loans to acceptable standards. As a result of continued monitoring and review of the bad and doubtful debt portfolio the JMB was able to reduce the provision on these loans by 20%.

The Bank implemented a very successful cost containment strategy which resulted in a 3% decline in staff costs and an 19% decline in administrative and general expenses. The Bank also experienced a 7% decline in interest paid to its bondholders for the year, due mainly to the declining interest rate in the market and tax free status of the JMB Shelter bonds.

During the previous financial year the JMB reactivated the Secondary Mortgage Market (SMM) as another step in fulfilling the Bank's mandate of "providing safe and affordable housing." During the year under review the SMM portfolio grew exponentially from $20M in the previous year to $300M for the current year.

The Mortgage Indemnity Insurance (MII) Scheme administered by the Bank on behalf of the Government of Jamaica since 1973, continues to positively impact the lives of ordinary Jamaicans assisting year-to-date, more than 23,000 families to own homes. Despite the perceived challenges in the economy the Mortgage Insurance Fund (MIF) continues to perform well showing a 10% increase in fund value over the previous year.

In the financial year 2012-2013, the board will be working diligently to guide and assist the management of the JMB in resolving difficult issues to ensure that the turnaround achieved at the end of the last financial year will be sustained to strengthen the Bank's financial position and maintain its viability. The Board will actively help to seek funding to alleviate JMB's pressing problem of undercapitalization and will also assist with the challenging task of disposing of assets held by the Bank as security for loans that have gone bad.

On behalf of the Board of Directors, I would like to thank the Honourable Minister of Housing for his on-going support of the efforts of the Jamaica Mortgage Bank. I would also like to thank the management and staff of the JMB for their hard work, dedication and commitment to the Bank. I know that there are significant challenges ahead for the year 2012/2013 but as a team we will work assiduously toward achieving the JMB vision "to finance safe and affordable housing so that all Jamaicans will have access to home ownership."

Howard Mollison
Chairman

Corporate Information

REGISTERED OFFICE
33 Tobago Avenue, Kingston 5

AUDITORS

Deloitte & Touche
7 West Avenue, Kingston 4

Strachan LaFayette & Associates
28 Beechwood Avenue
Kingston 5

BANKERS

RBC Royal Bank (Jamaica) Ltd.
17 Dominica Drive, Kingston 5

National Commercial Bank
1 Knutsford Boulevard
Kingston 5

ATTORNEYS-AT-LAW

Livingston Alexander & Levy
72 Harbour Street, Kingston

Dunn Cox
48 Duke Street
Kingston

ATTORNEYS-AT-LAW

Myers Fletcher & Gordon
21 East Street
Kingston

Hart Muirhead Fatta
53 Knutsford Boulevard,
(2nd Floor),
Kingston 5

Core Values

Respect

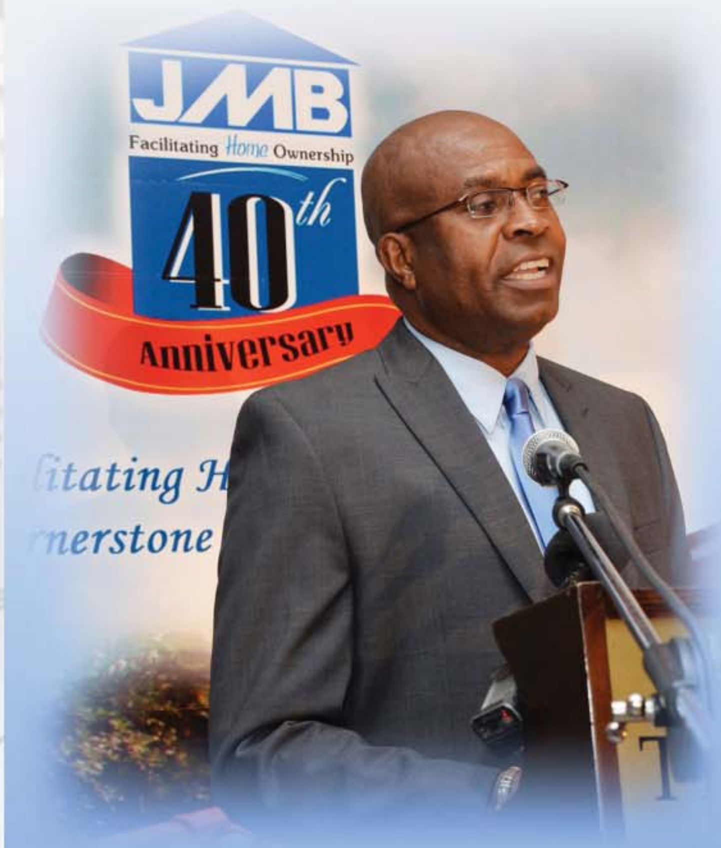
Accountability

Integrity

Service-oriented

Excellence

General Manager's 40th Anniversary Overview



I feel honoured to lead the Jamaica Mortgage Bank (JMB or the Bank) in its 40th year of existence and proudly present this overview of the organization's outstanding achievements over the last four decades.

The theme for our anniversary celebration which started in June 2011, "Facilitating Homeownership, the cornerstone for Nation Building," describes what the Jamaica Mortgage Bank has been doing for the last 40 years, mainly through the provision of construction financing. Through this facility, and a number of innovative projects and programmes, the JMB has facilitated, across the island, over 50,000 housing solutions which have served to enhance the well-being of thousands of Jamaicans.

During its formative years in the 1970s, the Jamaica Mortgage Bank played a major role in the provision of interim and long term financing for the construction of houses throughout Jamaica. Some of the earliest beneficiaries of the Bank's construction financing and long term mortgage financing are Cooreville Gardens in St. Andrew, Garveymeade and Westport in St. Catherine.

The JMB was also actively engaged in the Secondary Mortgage Market (SMM) operations from 1972 to 1977 with the transactions relating to such purchases being undertaken on the basis of an auction system.

In 1973 the JMB assumed administrative responsibilities for the Mortgage Indemnity Insurance (MII) Scheme on behalf of the Government of Jamaica. Under the provision of the Mortgage Insurance Act, the Bank was able to insure loans made by approved financial institutions to the purchasers of residential dwellings and lots, commercial buildings and agricultural properties.

During its second decade the JMB changed its focus and concentrated on the promotion and funding of three special programmes:

The first was Squatter Settlements Upgrading, involving the provision of roads, water, electricity and sewer facilities. The aim was to provide the residents with reasonable modern amenities and legal ownership of land.

All the lots, both government owned and privately owned, were sold on credit to the occupants and monthly payments were made to the then Ministry of Construction.

The second area of focus was the Core or Start-a-Home Programme. Under this, one and two bedroom houses were built by the then Ministry of Construction (Housing) and sold to individuals. In the majority of cases the Ministry sold the houses to the National Housing Trust for re-sale to its contributors.

Thirdly were the Rural Home Improvement and Mortgage Loan Programmes. During the period 1980 - 1987 the JMB made loans to the Jamaica Co-operative Credit Union members island-wide for improvements to existing homes and as mortgage loan assistance to purchase houses. These programmes were financed by loans from U.S. investors and were guaranteed by the United States Agency for International Development (USAID) and the Government of Jamaica.

At the beginning of the 1990's the JMB undertook a comprehensive financial restructuring and as a result, the Bank began to place more emphasis on the granting of interim construction loans. Throughout this period the JMB remained firmly committed to assisting with the provision of affordable housing for the Jamaican people and deepened its involvement in the funding of housing infrastructure and housing development projects.

The Secondary Mortgage Market (SMM) operations were reactivated in the early part of 1996 and enabled the JMB to enhance and stimulate significant activity in Jamaica's Real Estate Market.

At the turn of the century the JMB continued operating with construction financing as its core business and in April 2011 re-launched the SMM facility providing low cost funds to mortgage granting institutions to help in reducing interest rate to homeowners. The Bank has entered into agreements with GSB, Churches and COK Co-operative Credit Unions where borrowers can now access mortgage loans at interest rate as low as 9.5%.

JMB's aim over the next decade is to introduce more mortgage granting institutions to the SMM and provide more low cost funds to this market to further compress the interest rate and increase access to homeownership.

Over the 40 years the Bank has faced more than its fair share of challenges and in recent years struggled with a huge bad debt portfolio. It is therefore with pride that I mention that the JMB started the financial year on April 1, 2011 in a profitable position for the first time in 3 years and maintained this status for the period ended March 31, 2012.

This was achieved through streamlining of our operations; focusing on operating efficiencies and cost containment, employment of stronger due diligence in processing loan applications; closer monitoring of projects; and prudent management of our investment funds.

In the first quarter of the financial year (in May 2011) the JMB made a highly successful private placement of $500M worth of bonds through First Global Financial Services. The offer was over-subscribed which was a strong indication of the demand. This represented the start of the Bank's capital market programme to fund our investment programmes for the year.

I must commend the staff of the Jamaica Mortgage Bank for their resilience and continuing contribution to the Bank. The organization is small with a staff complement of twenty-five (25) but the spirit, drive and determination of these ladies and gentlemen raise the JMB above the challenges to register significant achievements.

I also thank the former board of directors for their guidance and welcome the new board with enthusiasm as we look forward to continuing the work toward greater success for the JMB. Thanks also to the Minister of Housing for supporting the Bank over the years.

Lastly, but by no means least, I thank our clients, business associates, financial partners and industry players for your contribution to our achievements over the last 40 years through your support and the confidence placed in the Jamaica Mortgage Bank. It is our hope that the relationships we have built will strengthen as we continue working together for the next 40 years and beyond.

Patrick Thelwell
General Manager

JMB
Facilitating Home Ownership
40th Anniversary
1971 – 2011

The Team

2012
ANNUAL REPORT

BOARD OF DIRECTORS

Howard P. Mollison
B.A., B.Sc., MBA, PMP
- Chairman, holds a B.A. and a B.Sc. degree from the University of the West Indies, specializing in Economics and Management and an MBA from the University of New Orleans. He is a certified Project Management Professional and a member of the Project Management Institute (PMI).

He has been employed to LIME (formerly Cable & Wireless) since 1999 and currently holds the position of Vice President – Service Support & Delivery.

Mr. Mollison brings to the leadership of the Jamaica Mortgage Bank his diverse competencies which include Strategic Planning, Project Management, Business Development and Crisis Management.

Lorna O. Phillips,
Solicitor/Attorney-at-Law, LL.B., LL.M
– Deputy Chairman is an attorney-at-law with over 20 years experience. She is the Managing/Commercial Partner and co-founder of Nicholson Phillips, Attorneys-at-Law.

She holds a Bachelor of Laws from the University of Birmingham, England, a Master of Laws from the University of Warwick, England and was admitted as a Solicitor of England and Wales in 1993. She is also called to the Jamaican Bar.

Ms. Phillips' areas of expertise are far ranging and include commercial and residential real estate development, commercial law, corporate ventures and mediation.

Paul A. Williams, MBA (Hons.), B.Sc. (Hons.), Dip., P.E. – Director, attained a Diploma in Chemical Technology at the College of Arts, Science and Technology (now University of Technology), a B.Sc. in Civil Engineering at the Howard University in Washington, D.C. and an MBA from the University of New Orleans.

Mr. Williams is a Professional Engineer registered in Jamaica and has over fifteen years experience in Project Management. His competencies include planning, scheduling, budgeting and coordinating all resources required for successful project delivery.

He has worked in both the public and private sectors in the field of development and is currently the Managing Director of Complete Development Solutions Limited, a construction and development consulting company of which he is a founding director.

Carlene A. O'Connor,
B.Sc., ACCA – Director, is a member of the Institute of Chartered Accountants of Jamaica and the Association of Certified Chartered Accountants (ACCA). She also holds a B.Sc. degree in Management Studies from the University of the West Indies.

She has been employed to the Ministry of Finance and Planning since 1994 and currently holds the position of Unit Director in the Public Enterprises Division where she makes valuable contribution to policy development in respect of the financial management of public bodies.

Miss O'Connor is also an experienced Financial Analyst.

Ryan R. Reid,
B.Sc., MBA – Director, Ryan Reid is the Senior Manager – Investor Relations at Proven Wealth Limited. His areas of focus include Portfolio Management, Investment Advisory and Client Services.

He holds a Bachelors Degree in Banking & Finance (Hons.) from the University of the West Indies and a Masters in Business Administration from the University of Wales.

He is currently a level 1 candidate for the Chartered Alternative Investments Analyst (CAIA) certification.

Doreen M. Prendergast,
B.A, B.Sc., M.P, Dip.–Director, holds a Postgraduate Diploma in Public Sector Senior Management Development from the Management Institute for National Development (MIND); Master of Planning from the University of Auckland, New Zealand; B.A. in Geography and Social Sciences from the University of the West Indies and a B.Sc. (Hons.) in Physical Planning and Environmental Resource Development from the University of Technology (UTech), Jamaica.

Mrs. Prendergast has been with the Ministry of Housing for over seventeen years, where she has held various positions and since 1999 has held the position of Senior Director, Housing Solutions at the Ministry and is responsible for the day-to-day operations of the Housing Solutions Division.

Patrick Gayle,
B.Sc., MBA – Director
Patrick Gayle has been employed to Red Stripe Limited for the past twenty-nine years and has served in various capacities within the organization, including Sales, Marketing, and Export. He is currently the Logistics and Distribution Manager.

Mr. Gayle holds an MBA from Nova Southeastern University and a B.Sc. in Economics from the University of the West Indies (UWI).

He has been a director of the Jamaica Exporter's Association since 2009 and serves as a Trustee of the Desnoes and Geddes Pension Scheme.

MANAGEMENT TEAM

L-R: Donna Samuels Stone, Legal Officer/Corporate Secretary; Marion Ebanks, Director of Finance; Patrick Thelwell, General Manager; Patrick Peart, Director, Primary Market Financing; Hope Barnett, Director, Human Resource, Administration & Corporate Services

Departments

FINANCE & ACCOUNTS

Financial and Management Accounting

Treasury and Cash Management

Budgeting and Control

PRIMARY MARKET FINANCING

Project Financing

Project Appraisal and Monitoring

Project Risk Analysis

SECONDARY MORTGAGE MARKET & MORTGAGE INDEMNITY INSURANCE

Evaluating proposals for insurance coverage for housing schemes

Claims processing

Issuing of Undertaking-to-Insure

Preparation of mortgage insurance policies

Promotion of mortgage insurance facilities

Development and Promotion of the Secondary Mortgage Market

Mortgage-backed Securities

HUMAN RESOURCE, ADMINISTRATION & CORPORATE SERVICES

Human Resource Management

Policy Development and Administration

Management Information Systems

General Administration

Public Relations

CORPORATE SECRETARIAL/ LEGAL

Legal Conveyancing including title registration

Corporate Secretarial activities including Corporate Governance and Board of Directors issues

General Legal Services

Finance & Accounts

L-R: Clifton Bennett, Doreen Shaw, Gregory Charvis, Karen Alexander Lindsay, Seated: Marion Ebanks

Primary Market Financing

L-R: Raymond Johnson, Marlene Lawrence, Patrick Myrie
Seated: Patrick Peart

General Manager's Office & Legal Department

Donna Samuels Stone,
Antionette Symister,
Vivienne Brown,
Patrick Thelwell

Human Resource, Administration & Corporate Services

Front Row, L-R: Patricia Carter, Hope Barnett, Jennifer Peters Doyley
Back Row, L-R: Mavis Spence, Jefton Samma, Corretta Haughton, Earlrel Anderson, Marcia Morrison, Daniel Scott, Danovan Blackburn, Rema Solomon, Kerryan Saulas

General Manager, Patrick Thelwell presents the SMM model

Former JMB Board Chairman, George Thomas (left) and JMB's General Manager, Patrick Thelwell (right) welcome former Minister of Water & Housing, Dr. Horace Chang.

General Manager of GSB Cooperative Credit Union, Courtney Lodge, endorses the SMM

Launch of the Secondary Mortgage Market (SMM) facility on April 13, 2011

Section of the audience listens keenly

Audience awaiting next presentation

Questions from the audience

Awards Presentation Dinner

Left: 30-year awardee, Mavis Spence receiving award from former board member Osmond Clarke

Middle Left: 35-year awardee, Rema Solomon receiving award from former board member Osmond Clarke

ALL AWARDEES

L – R:

Pat Carter (10-yr), Patrick Peart (10-yr), Mavis Spence (30-yr), Marcia Morrison (10-yr), Danovan Blackburn (15-yr), Rema Solomon (35-yr), Earl Anderson (30-yr)

Left: 30-year awardee, Earlrel Anderson receiving award from former board member Osmond Clarke

Right: Neville Blythe (second right) has the rapt attention of from left: Natalie Farrell Ross, Charles Ross, Christopher Blythe and Patrick Peart

Above:
Patrick Peart (left) shares a light moment with Sylvester Tulloch

Below: Osmond Clarke with awardees from left: Rema Solomon, Mavis Spence and Pat Carter

Ossie D & Stevie G in a scintillating performance.

MC Fae Ellington the centre of attraction on dance floor.

Dr. The Hon. Morais Guy and Mrs. Guy getting in the groove

The sensational Judy Emanuel

Directors Compensation

April 1, 2011 – March 31, 2012

Position of Director	Fees ($)	Motor Vehicle Upkeep/Travelling or Value of Assignment of Motor Vehicle ($)	Honoraria ($)	All Other Compensation including Non-Cash Benefits as applicable ($)	Total ($)
Board Chairman/Sub-Committee Chairman	**96,000**	**121,936**	**-**	**-**	**217,936**
Director/ Sub-committee Chairman	**47,500**	**100,450**	**-**	**-**	**147,950**
Director	**63,000**	**12,880**	**-**	**-**	**75,880**
Director	**52,000**	**-**	**-**	**-**	**52,000**
Director	**48,000**	**-**	**-**	**-**	**48,000**
Director	**52,000**	**-**	**-**	**-**	**52,000**
Director	**48,500**	**-**	**-**	**-**	**48,500**

Senior Executive Compensation

April 1, 2011 – March 31, 2012

Position of Senior Executive	Year	Salary ($)	Gratuity or Performance Incentive ($)	Travelling Allowance or Value of Assignment of Motor Vehicle ($)	Pension or Other Retirement Benefits ($)	Other Allowances ($)	Non-Cash Benefits ($)	Total ($)
General Manager	April 2011 to March 2012	6,125,000	1,531,250	514,625	Nil	353,365	Nil	8,474,240
Director, Primary Market Financing	April 2011 to March 2012	5,244,790	Nil	796,500	292,530	259,642	Nil	6,593,462
Corporate Secretary/Legal Officer	April 2011 to March 2012	4,815,808	Nil	796,500	304,967	356,002	Nil	6,273,277
Director, Human Resource, Administration & Corporate Services	April 2011 to March 2012	4,815,808	Nil	796,500	304,967	356,002	Nil	6,273,277
Director of Finance	April 2011 to March 2012	4,050,445	Nil	796,500	259,364	230,205	Nil	5,336,515

AUDITED FINANCIAL STATEMENTS

As at March 31, 2012

2012
ANNUAL REPORT

Deloitte & Touche
Chartered Accountants
7 West Avenue
Kingston Gardens
P.O. Box 13, Kingston 4
Jamaica, W.I.

Tel: (876) 922 6825-7
Fax: (876) 922 7673
http://www.deloitte.com/jm

42B & 42C Union Street
Montego Bay
Jamaica, W.I.

Tel: (876) 952 4713-4
Fax: (876) 979 0246

INDEPENDENT AUDITORS' REPORT

To the Directors of

JAMAICA MORTGAGE BANK

Report on the financial statements

We have audited the financial statements of Jamaica Mortgage Bank and its subsidiary (the "Group") and the financial statements of Jamaica Mortgage Bank (the "Bank"), set out on pages 27 to 79, which comprise the Group's and Bank's statements of financial position as at March 31, 2012, and the Group's and Bank's statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Jamaica Mortgage Bank Act 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether or not the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audley L. Gordon, Anura Jayatillake, Winston G. Robinson, Fagan E. Calvert, Gihan C. deMel

Deloitte.

Report on the financial statements (Cont'd)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Bank as at March 31, 2012, and of the Group's and the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on additional requirements of the Jamaica Mortgage Bank Act

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for our audit.

In our opinion, proper accounting records have been maintained and the financial statements are in agreement therewith and give the information required in the manner so required.

Deloitte & Touche

Chartered Accountants

Kingston, Jamaica
May 30, 2012

JAMAICA MORTGAGE BANK
AND ITS SUBSIDARY

Consolidated Statement of Financial Position

As at March 31, 2012

	Notes	2012 $'000	2011 $'000
ASSETS			
Cash and cash equivalents:			
Short-term deposits		48,609	57,061
Resale agreements	4	57,111	102,230
Receivables and prepayments	5	22,775	16,862
Investment securities	6	6,132	89,445
Income tax recoverable		201,818	195,015
Loans receivable	8	1,794,272	1,002,080
Land held for development and sale	9	957,751	993,751
Post-retirement benefits	10(b)	36,756	35,945
Property, plant and equipment	11	57,604	50,910
Total assets		3,182,828	2,543,299
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Payable and accruals	12	26,761	53,799
Bonds payable	13	1,499,617	1,004,718
Deferred tax liabilities	22	2,978	-
		1,529,356	1,058,517
SHAREHOLDERS' EQUITY			
Share capital	14	500,000	500,000
Reserve fund	15	500,000	500,000
Special reserve fund	16	340,083	340,083
Retained earnings		313,389	144,699
		1,653,472	1,484,782
Total liabilities and shareholders' equity		3,182,828	2,543,299

The Notes on Pages 35 to 79 form an integral part of the Financial Statements.

The financial statements on Pages 27 to 79 were approved for issue by the Board of Directors on May 30, 2012 and are signed on its behalf by:

Director   Director

JAMAICA MORTGAGE BANK AND ITS SUBSIDARY

Consolidated Statement of Comprehensive Income

Year Ended March 31, 2012

	Notes	2012 $'000	2011 $'000
REVENUE			
Interest from loans		126,240	145,852
Interest from deposits		28,308	48,179
Interest from other investments		8,345	147
Total interest income		162,893	194,178
Other income	17	42,861	286,004
		205,754	480,182
EXPENSES			
Staff costs	18	(70,196)	(72,124)
Reversal of (Allowance for) impairment losses on loans	19	168,755	(153,671)
Other administrative and general expenses		(43,263)	(53,143)
Finance costs:			
Interest on bonds		(89,382)	(96,220)
Interest on loans		-	(2,085)
		(34,086)	(377,243)
PROFIT BEFORE TAXATION	21	171,668	102,939
Taxation	22	(2,978)	-
NET PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		168,690	102,939

The Notes on Pages 35 to 79 form an integral part of the Financial Statements.

JAMAICA MORTGAGE BANK AND ITS SUBSIDARY

Consolidated Statement of Changes in Equity

Year Ended March 31, 2012

	Share Capital (Note 14) $'000	Reserve Fund (Note 15) $'000	Special Reserve Fund (Note 16) $'000	Retained Earnings $'000	Total $'000
Balance at April 1, 2010	500,000	500,000	340,083	41,760	1,381,843
Net profit and total comprehensive income for the year	-	-	-	102,939	102,939
Balance at March 31, 2011	500,000	500,000	340,083	144,699	1,484,782
Net profit and total comprehensive income for the year	-	-	-	168,690	168,690
Balance at March 31, 2012	500,000	500,000	340,083	313,389	1,653,472

The Notes on Pages 35 to 79 form an integral part of the Financial Statements.

JAMAICA MORTGAGE BANK AND ITS SUBSIDARY

Consolidated Statement of Cash Flows

Year Ended March 31, 2012

	Notes	2012 $'000	2011 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		168,690	102,939
Adjustments to reconcile profit for the year to net cash provided by operating activities:			
Depreciation of property, plant and equipment	11	4,093	4,650
(Reversal of) Provision for impairment losses on loans and other receivables	19	(168,755)	153,671
Loss (Gain) on sale of land held for development		4,754	(7,707)
Distribution received		-	(270,000)
Port-retirement benefits expense (income)		1,915	(1,711)
Taxation		2,978	-
Interest income		(162,893)	(194,178)
Interest expense		89,382	98,305
		(59,836)	(114,031)
(Increase)/Decrease in operating assets:			
Receivables and prepayments		(5,913)	6,852
Loans receivable		(622,159)	(62,887)
Decrease in operating liabilities:			
Payables and accrued charges		(27,038)	(110,179)
Contributions paid post-retirement employee benefits		(2,726)	(3,427)
Loan payable to Ministry of Finance and the Public Service		-	(4,525)
		(717,672)	(288,197)
Interest received		162,922	135,319
Income tax paid		(6,803)	(12,045)
Net cash used in operating activities		(561,553)	(164,923)
CASH FLOWS FROM INVESTING ACTIVITIES			
Resale agreements		44,855	611,672
Investment securities		82,270	209,506
Proceeds on disposal of land held for development and sale		31,246	47,842
Proceeds on disposal of property, plant and equipment		1,452	-
Additions to land held for development and sale		-	(54,996)
Additions to property, plant and equipment	11	(12,239)	(2,101)
Net cash provided by investing activities		147,584	811,923
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(84,952)	(123,231)
Issue of bearer bonds (net)		490,469	-
Redemption of bearer bonds		-	(500,000)
Net cash provided by (used in) financing activities		405,517	(623,231)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(8,452)	23,769
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		57,061	33,292
CASH AND CASH EQUIVALENTS AT END OF YEAR		48,609	57,061

The Notes on Pages 35 to 79 form an integral part of the Financial Statements.

JAMAICA MORTGAGE BANK

Statement of Financial Position

As at March 31, 2012

	Notes	2012 $'000	2011 $'000
ASSETS			
Cash and cash equivalents:			
Short-term deposits		48,609	57,061
Resale agreements	4	57,111	102,230
Receivables and prepayments	5	22,775	16,722
Investment securities	6	6,132	89,445
Income tax recoverable		201,818	195,015
Interest in subsidiary	7	136,222	136,222
Loans receivable	8	1,794,272	1,002,080
Land held for development and sale	9	957,750	993,750
Post-retirement benefits	10(b)	36,756	35,945
Property, plant and equipment	11	57,604	50,910
Total assets		3,319,049	2,679,380
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Payables and accruals	12	26,651	53,589
Bonds payable	13	1,499,617	1,004,718
Deferred tax liabilities	22	2,978	-
		1,529,246	1,058,307
SHAREHOLDERS' EQUITY			
Share capital	14	500,000	500,000
Reserve fund	15	500,000	500,000
Special reserve fund	16	340,083	340,083
Retained earnings		449,720	280,990
		1,789,803	1,621,073
Total liabilities and shareholders' equity		3,319,049	2,679,380

The Notes on Pages 35 to 79 form an integral part of the Financial Statements.

The financial statements on Pages 27 to 79 were approved for issue by the Board of Directors on May 30, 2012 and are signed on its behalf by:

Director

Director

JAMAICA MORTGAGE BANK

Statement of Comprehensive Income

Year Ended March 31, 2012

	Notes	2012 $'000	2011 $'000
REVENUE			
Interest from loans		126,240	145,852
Interest from deposits		28,308	48,179
Interest from other investments		8,345	147
Total interest income		162,893	194,178
Other income	17	42,861	286,004
		205,754	480,182
EXPENSES			
Staff costs	18	(70,196)	(72,124)
Allowance for impairment losses on loans	19	168,755	(153,671)
Other administrative and general expenses		(43,223)	(52,956)
Finance costs:			
Interest on bonds		(89,382)	(96,220)
Interest on loans		-	(2,085)
		(34,046)	(377,056)
PROFIT BEFORE TAXATION	21	171,708	103,126
Taxation	22	(2,978)	-
NET PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		168,730	103,126

The Notes on Pages 35 to 79 form an integral part of the Financial Statements.

JAMAICA MORTGAGE BANK

Statement of Changes in Equity

Year Ended March 31, 2012

	Share Capital (Note 14) $'000	Reserve Fund (Note 15) $'000	Special Reserve Fund (Note 16) $'000	Retained Earnings $'000	Total $'000
Balance at April 1, 2010	500,000	500,000	340,083	177,864	1,517,947
Net profit and total comprehensive income for the year	-	-	-	103,126	103,126
Balance at March 31, 2011	500,000	500,000	340,083	280,990	1,621,073
Net profit and total comprehensive income for the year	-	-	-	168,730	168,730
Balance at March 31, 2012	500,000	500,000	340,083	449,720	1,789,803

The Notes on Pages 35 to 79 form an integral part of the Financial Statements.

JAMAICA MORTGAGE BANK

Statement of Cash Flows

Year Ended March 31, 2012

	Notes	2012 $'000	2011 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		168,730	103,126
Adjustments to reconcile profit for the year to net cash provided by operating activities:			
Depreciation	11	4,093	4,650
(Reversal of) Provision for impairment losses on loans and other receivables	19	(168,755)	153,671
Loss (Gain) on sale of land held for development		4,754	(7,707)
Interest income on loan to subsidiary		-	(270,000)
Post-retirement benefits expense (income)		1,915	(1,711)
Taxation		2,978	-
Interest income		(162,893)	(194,178)
Interest expense		89,382	98,305
		(59,796)	(113,844)
(Increase)/Decrease in operating assets:			
Receivables and prepayments		(6,053)	6,852
Loans receivable		(622,159)	(62,887)
Decrease in operating liabilities:			
Payables and accruals		(26,938)	(110,179)
Contributions paid post retirement employee benefits		(2,726)	(3,427)
Loan payable to Ministry of Finance and the Public Service		-	(4,525)
		(717,672)	(288,010)
Interest received		162,922	135,319
Income tax paid		(6,803)	(12,045)
Net cash used in operating activities		(561,553)	(164,736)
CASH FLOWS FROM INVESTING ACTIVITIES			
Resale agreements		44,855	611,672
Investment securities		82,270	209,506
Interest in subsidiary		-	(187)
Proceeds on disposal of land for development and sale		31,246	47,842
Proceeds on disposal of motor vehicle		1,452	-
Additions to land held for development and sale		-	(54,996)
Additions to property, plant and equipment	11	(12,239)	(2,101)
Net cash provided by investing activities		147,584	811,736
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(84,952)	(123,231)
Issue of bearer bonds (net)		490,469	-
Redemption of bearer bonds		-	(500,000)
Net cash provided by (used in) financing activities		405,517	(623,231)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(8,452)	23,769
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		57,061	33,292
CASH AND CASH EQUIVALENTS AT END OF YEAR		48,609	57,061

The Notes on Pages 35 to 79 form an integral part of the Financial Statements.

1 **IDENTIFICATION**

(a) The Jamaica Mortgage Bank was established in 1971 as a private limited company under the Companies Act of 1965, with an authorized share capital of J$5,000,000. On June 5, 1973, the Bank was converted to a statutory corporation by the enactment of the Jamaica Mortgage Bank Act. The Jamaica Mortgage Bank ("the Bank") is subject to the provisions of Section 28 of the Interpretation Act 1968, and is wholly-owned by the Government of Jamaica. The Bank is domiciled in Jamaica and its registered office is located at 33 Tobago Avenue, Kingston 5, Jamaica, which is its principal place of business.

(b) The Bank has a wholly-owned subsidiary, JMB Developments Limited, whose stated principal activity is carrying on the business of residential, commercial and industrial real estate development. However, this company is currently inactive.

(c) By virtue of the Jamaica Mortgage Bank Act 1973, the Bank may:

(i) lend money on mortgage and carry out any other transaction involving mortgages;
(ii) lend money on security to be used for the construction of premises for private residential purposes or of a commercial or industrial nature;
(iii) guarantee loans from private investment sources for building development;
(iv) furnish financial advice and provide or assist in obtaining managerial, technical and administrative services for persons engaged in building and development in Jamaica; and
(v) sell investments of whatever kind belonging to the Bank, as and when appropriate.

The present activities of the Bank are the:

- mobilization and disbursement, on a wholesale basis, of loan funds to finance housing development in Jamaica;
- administration of, including investment management for the Government of Jamaica (GOJ) mortgage insurance fund; and
- operation of a secondary mortgage market facility.

2 **STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION**

(a) Statement of compliance

The Group's financial statements have been prepared in accordance and comply with International Financial Reporting Standards (IFRS) and the relevant requirements of the Jamaica Mortgage Bank Act,1973.

(b) Adoption of New and Revised International Financial Reporting Standards

New and revised IFRS affecting amounts reported in the current period (and/or prior periods)

There were no Standards and Interpretations that were adopted in the year that affected the presentation and disclosures or the reporting results in these financial statements.

2 **STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (Cont'd)**

(b) Adoption of New and Revised International Financial Reporting Standards (Cont'd)

New and revised IFRS applied with no material effect on the financial statements

Amendments to IAS 1 *Presentation of Financial Statements* (as part of Improvements to IFRS issued in 2010)	The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. The adoption of the amendment had no impact on the Group's financial statements.
Amendments to IAS 24 (revised in 2009) *Related Party Disclosures*	The amendments to the standard clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The adoption of the amendment had no impact on the Group's financial statements.
Amendments to IAS 34 *Interim Financial Reporting* (as part of Improvements to IFRS issued in 2010)	The amendment places greater emphasis on the disclosure principles to include additional examples relating to more recent disclosure requirements, i.e., fair value measurements and changes in the classification of financial assets. The application of the amendments had no effect on the Group's financial statements.
Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*	The amendments exempt first-time adopters of IFRS from providing the additional disclosures introduced in March 2009 by Improving Disclosures about Financial Instruments (Amendments to IFRS 7). The amendment gives first-time adopters the same transition provisions that Amendments to IFRS 7 provides to current IFRS preparers. The adoption of this amendment had no impact on the financial statements as the Group is not a first-time adopter of IFRS.
Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* (as part of Improvements to IFRS issued in 2010)	The amendments were in respect to accounting policy changes in the year of adoption, revaluation basis as deemed cost, and use of deemed cost for operations subject to rate regulation. The adoption of this amendment had no impact on the financial statements as the Group is not a first-time adopter of IFRS.
Amendments to IFRS 3 *Business Combinations* (as part of Improvements to IFRS issued in 2010)	The amendments of IFRS 3 clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards. In addition, IFRS 3 was amended to provide more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with IFRS 2 Share-based Payment at the acquisition date ('market-based measure'). The adoption of these amendments had no impact on the financial statements of the Group.

2 **STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (Cont'd)**

(b) Adoption of New and Revised International Financial Reporting Standards (Cont'd)

New and revised IFRS applied with no material effect on the financial statements (Cont'd)

Amendments to IFRS 7 *Financial Instruments: Disclosures* (as part of annual improvements to IFRS issued in 2010)	The amendment encourages qualitative disclosures in the context of the quantitative disclosure required to help users to form an overall picture of the nature and extent of risks arising from financial instruments. It also clarifies the required level of disclosure around credit risk and collateral held and provides relief from disclosure of renegotiated loans. The application of the amendments has not had any effect on the Group's financial statements.
Amendments to IFRIC 13 *Customer loyalty programme* (as part of Improvements to IFRS issued in 2010)	The Interpretation addresses accounting for award credits granted to customers. Specifically, under IFRIC 13, an entity shall account for award credits as a separately identifiable component of the sales transactions in which they are granted (the 'initial sale'). The consideration allocated to the award credits shall be measured by reference to their fair value (i.e. the amount for which the award credits could be sold separately). The application of the amendments has not had any effect on the Group's financial statements.
Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement	IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions. The application of the amendments has not had any effect on the Group 's financial statements.
Amendments to IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*	The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognised in profit or loss. The application of IFRIC 19 has had no effect on the amounts reported in the current and prior years because the Group has not entered into any transactions of this nature.

New and revised IFRS in issue but not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective for the financial period being reported on:

		Effective for annual periods beginning on or after
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income	July 1, 2012
IAS 12 (Revised)	Income taxes – Limited scope amendment (recovery of underlying assets)	January 1, 2012

2 **STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (Cont'd)**

(b) Adoption of New and Revised International Financial Reporting Standards (Cont'd)

New and revised IFRSs in issue but not yet effective (Cont'd)

		Effective for annual periods beginning on or after
IAS 19 (as revised in 2011)	Employee Benefits - Amended Standard resulting from the Post-Employment Benefits and Termination Benefits projects	January 1, 2013
IAS 27 (as revised in 2011)	Consolidated and Separate Financial Statements - Reissued as IAS 27 *Separate Financial Statements*	January 1, 2013
IAS 28 (as revised in 2011)	Investments in Associates - Reissued as IAS 28 *Investments in Associates and Joint Ventures*	January 1, 2013
IAS 32 (as revised in 2011)	Financial Instruments: Presentation	January 1, 2014
IFRS 1 (Revised)	First-time Adoption of International Financial Reporting Standards: - Replacement of "fixed dates" for certain exceptions with the "date of transition to IFRS"	July 1, 2011
	- Additional exception for entities ceasing to suffer from severe hyperinflation	July 1, 2011
IFRS 7 (Revised)	Financial Instruments: Disclosures - Amendments enhancing disclosures about transfers of financial assets	July 1, 2011
	- Amendments enhancing disclosures about offsetting of financial assets and liabilities	January 1, 2013
	- Amendments requiring disclosures about the initial application of IFRS 9	January 1, 2015
IFRS 9	Financial Instruments – Classification and Measurement	January 1, 2015
IFRS 10	Consolidated Financial Statements	January 1, 2013
IFRS 11	Joint Arrangements	January 1, 2013
IFRS 12	Disclosures of Interests in Other Entities	January 1, 2013
IFRS 13	Fair Value Measurement	January 1, 2013
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	January 1, 2013

New and Revised Standards and Interpretations in issue not yet effective that are relevant

The Board of Directors and management have assessed the impact of all the new and revised Standards and Interpretations in issue not yet effective and have concluded that the following are relevant to the operations of the Group:

- The amendments to IAS 1, Presentation of Financial Statements requires additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. These amendments are likely to result in a change in the presentation of other comprehensive income in the Group's financial statements.

2 **STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (Cont'd)**

(b) Adoption of New and Revised International Financial Reporting Standards (Cont'd)

<u>New and Revised Standards and Interpretations in issue not yet effective that are relevant</u> (Cont'd)

- The amendments to IAS 12 provide an exception to the general principles in IAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 Investment Property are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances. The amendments are not expected to have any effect on the Group's financial statements.

- The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

  The amendments to IAS 19 are effective for annual periods beginning on or after January 1, 2013 and require retrospective application with certain exceptions. The directors anticipate that the amendments to IAS 19 will be adopted in the Group's financial statements for the annual period beginning April 1, 2013 and that the application of the amendments to IAS 19 may have an impact on amounts reported in respect of the Groups' defined benefit pension plan. However, the directors have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the impact.

- The amendments to *IFRS 7 – Disclosures – Transfers of Financial Assets* increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. The amendments are not expected to have any effect on the disclosures in the Group's financial statements.

- *Amendment to IFRS 7 – Enhanced Derecognition Disclosure Requirements* – The IASB introduced enhanced disclosure requirements to IFRS 7 as part of its comprehensive review of off-balance sheet activities. The amendments are designed to ensure that users of financial statements are able to more readily understand transaction involving the transfer of financial assets (for example, securitisations), including the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. Disclosures are not required for comparative periods before the date of initial application of the amendments. The application of the amendment will result in enhanced disclosures in the Group's financial statements to the extent applicable.

2 **STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (Cont'd)**

(b) Adoption of New and Revised International Financial Reporting Standards (Cont'd)

New and Revised Standards and Interpretations in issue not yet effective that are relevant (Cont'd)

- *IFRS 9 Financial Instruments* – The Standard introduces new requirements for the classification and measurement of financial assets and liabilities and for derecognition. IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. A debt instrument (e.g. loan receivable) that (1) is held within a business model whose objective is to collect the contractual cash flows and (2) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding generally must be measured at amortised cost. All other debt instruments must be measured at fair value through profit or loss (FVTPL). The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

  The directors have not yet assessed the impact of the application of this standard on the Group's financial statements.

- IFRS 10 *Consolidated Financial Statements* – IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities has been withdrawn upon the issuance of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. The directors have not yet assessed the impact of the application of this standard on the Group's financial statements.

- *IFRS 12 Disclosures of Interests in Other Entities* - is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate (1) the nature of, and risks associated with, its interests in other entities, and (2) the effects of those interests on its financial position, financial performance and cash flows. The directors have not yet assessed the impact of the application of this standard on the Group's financial statements.

- IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

  The directors anticipate that IFRS 13 will be adopted in the Group's financial statements for the annual period beginning April 1, 2013 and that the application of the new Standard may affect the amounts reported in the Group's financial statements and result in more extensive disclosures in the Group's financial statements.

2 **STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (Cont'd)**

(c) Basis of measurement

These financial statements are prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

(d) Functional and presentation currency

The financial statements are presented in Jamaica dollars, which is the functional currency of the Group, and rounded to the nearest thousand, unless otherwise stated.

(e) Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. These judgements, estimates and assumptions affect the reported amounts of, and disclosures relating to, assets, liabilities, income, expenses, contingent assets and contingent liabilities. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

(i) Critical judgements in applying the Group's accounting policies

Management believes that there are no critical judgements used in applying the Group's accounting policies that have a significant risk of material adjustment in the next financial year.

(ii) Key sources of estimation uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

- Pension and other post-employment benefits:

  The amounts recognised in the statements of financial position for pension and other post-employment benefits of an asset of $36.8 million (2011: $35.9 million) (Note 10) are determined actuarially using several assumptions. The primary assumptions used in determining the amounts recognised include expected long-term return on plan assets, and the discount rate used to determine the present value of estimated future cash flows required to settle the pension obligations.

  The expected return on plan assets considers the long-term historical returns, asset allocation and future estimates of long-term investment returns. The discount rate is 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-tenor security on the market. Any changes in these assumptions will impact the amounts recorded in the financial statements for these obligations. Note 10(f) details experience adjustments to plan assets and liabilities over the past five years.

2 STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (Cont'd)

(e) Critical accounting judgements and key sources of estimation uncertainty (Cont'd)

(ii) Key sources of estimation uncertainty (Cont'd)

- Allowance for loan losses

In determining amounts recorded for impairment of loans in the financial statements, management makes judgements regarding indicators of impairment, that is, whether there are indicators that suggest there may be a measurable decrease in the estimated future cash flows from loans, for example, repayment default and adverse economic conditions. Management also makes estimates of the likely estimated future cash flows from impaired loans as well as the timing of such cash flows. These are done for individually significant loans. In a portfolio of loans that are not individually significant, indicators of impairment may not be observable on individual loans. In such a case the amount, if any, to be recorded for impairment is determined by applying factors, such as historical loss experience, to the portfolio, provided the loans in the portfolio have similar characteristics such as credit risks.

To the extent that the net present value of estimated cash flows changed adversely by 2 percent, the provision as estimated would be increased from $841.58 million to $847.51 million (2011: $1,010.3 million to $1,025.6 million).

It is reasonably possible that outcomes within the next financial year that are different from the assumptions used could require a material adjustment to the carrying amounts reflected in the financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and the entity controlled by the Bank (its subsidiary). Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of the subsidiary is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

<u>Changes in the Group's ownership interests in existing subsidiaries</u>

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

3 **SIGNIFICANT ACCOUNTING POLICIES**

(a) Basis of consolidation (Cont'd)

Changes in the Group's ownership interests in existing subsidiaries (Cont'd)

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

(b) Financial assets and liabilities

The Group classifies its financial assets as loans and receivables. Management determines the classification of its investments based on its nature and purpose at initial recognition. Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs. Financial liabilities are classified as other financial liabilities. Other financial liabilities (including borrowings and trade and other payables) are initially measured at fair value, net of transaction costs (where applicable). Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset/liability and of allocating interest income/expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts/payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument or financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

(i) Recognition

Financial assets and liabilities are recognised on the trade date - the date on which the Group becomes a party to the contractual provisions of the instrument.

(ii) Derecognition

The Group derecognises a financial asset when its contractual rights to the cash flows from the assets expire, or when the Group transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(b) Financial assets and liabilities (Cont'd)

(iii) Derecognition (Cont'd)

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(ii) Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(iv) Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments, fair value is determined using valuation techniques. The Group generally uses net present value techniques or the discounted cash flow method.

(c) Cash and cash equivalents

Cash comprises cash on hand and in banks. Cash equivalents are 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 cash commitments rather than for investment or other purposes.

(d) Resale agreements

Securities purchased under agreements to resell them on a specified future date and at a specified price ("resale agreements") are accounted for as short-term collateralised lending, classified as loans and receivables [see Note 3(f)], and the underlying asset is not recognised in the Group's financial statements. The difference between the purchase price and the amount receivable on resale is recognised as interest income over the term of the agreement using the effective interest method. It is the policy of the Group to obtain possession of collateral, with a market value equal to, or in excess of, the principal amount loaned and interest to be earned.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(e) Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs (except for those classified as fair value through profit or loss where the transaction cost is expensed) and subsequently accounted for on the basis of their classification as loans and receivables, held-to-maturity, fair value through profit or loss, or available-for-sale securities.

All of the Group's investment securities are designated as loans and receivables (see Note 3(f)).

(f) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

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

(g) Impairment of financial assets

At each reporting date the Group assesses whether there is objective evidence that financial assets are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an adverse impact on the future cash flows of the asset that can be estimated reliably.

The Group considers evidence of impairment at both the specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in payment status of borrowers or issuers in the Group, or economic conditions that correlate with defaults in the Group.

In assessing collective impairment, the Group uses historical experience relating to defaults, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that actual losses are likely to be greater or less than suggested by historical experience.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(g) Impairment of financial assets (Cont'd)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(h) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax
Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year
Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3 **SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

(i) Investment in subsidiary

The Bank's investment in its subsidiary is stated at cost.

(j) Land held for development and sale

Land held for development and sale is shown at the lower of cost and net realisable value.

(k) Employee benefits

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

(i) 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 expected cost of vacation leave that accumulates is recognised when the employee becomes entitled to the leave. Post-employment benefits are accounted for as described below.

(ii) The effect on the financial statements of the undertaking to provide post-employment benefits, comprising pensions, are actuarially determined 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 Group's and Bank's post-employment benefit asset and obligation as computed by the actuary. In carrying out their audit, the auditors rely on the actuary's report.

The Group operates a defined-benefit pension plan which is required to be funded (Note 10), The Group's net obligation in respect of the plan is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; that value is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is determined by reference to the yield at each reporting date on long-term government bonds of maturities approximating the terms of the Group's obligation. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of the plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the Group statement of comprehensive income on the straight-line basis over the average period until the benefits become vested. To the extent that the benefits are vested immediately, the expense is recognised immediately in profit or loss.

To the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in profit or loss over a period representing the average remaining working lives of staff members in the plan.

Where the calculation results in a pension surplus to the Group, the recognised asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan, less any unrecognised actuarial losses and past service costs.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(l) Property, plant and equipment and depreciation

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at cost less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Freehold land is not depreciated.

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

(m) Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3 **SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

(n) Revenue recognition

(i) Interest income

Interest income is recognised in profit or loss for all interest earning instruments on the accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset. The effective interest rate is established on initial recognition of the financial asset or liability and is not revised subsequently. Interest income includes coupons earned on fixed income investments, accretion of discount on instruments purchased at a discount, and amortisation of premium on instruments purchased at a premium.

When interest-earning financial assets are impaired, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

(ii) Other income

Other income includes commitment fees, which are recognised in profit or loss when the applicant for credit accepts the terms of the credit in writing. Other amounts included in other income are generally recognised on the accrual basis.

(o) Interest expense

Interest expense is recognised in profit or loss on the accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability to the carrying amount of the financial liability. The effective interest rate is established on initial recognition of the financial liability and is not revised subsequently. Interest expense includes coupons paid on fixed rate instruments and accretion of discount or amortisation of premium on instruments issued at other than par.

(p) Foreign currencies

In preparing the financial statements of the Group, transactions in currencies other than the Group's functional currency, are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences are recognised in profit or loss in the period in which they arise.

4 **RESALE AGREEMENTS**

	Group and Bank	
	2012	2011
	$'000	$'000
Government of Jamaica – Local Registered Stock	56,996	101,851
Interest receivable	115	379
	57,111	102,230

These securities mature within one month (2011: one to twelve months) after year end with interest rates ranging between 6.05% to 6.2% (2011: 6.5% and 6.95%) per annum. Securities with a carrying value of $48 million included in a debt service reserve account have been pledged as part of the security for borrowings of the Group totalling $500 million. (See Note 13(c)).

5 RECEIVABLES AND PREPAYMENTS

	The Group		The Bank	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Other receivables and prepaid expenses	26,121	20,208	26,121	20,068
Provision for impairment	(3,346)	(3,346)	(3,346)	(3,346)
	22,775	16,862	22,775	16,722

6 INVESTMENT SECURITIES

	Group and Bank	
	2012	2011
	$'000	$'000
GK Corporate Bond (See (a) below)	6,000	6,000
Government of Jamaica securities:		
GOJ Fixed rate Investment notes (See (b) below)	-	5,270
AIC Barbados Bonds (See (c) below)	-	77,000
	6,000	88,270
Interest receivable	132	1,175
	6,132	89,445

(a) This security matures within three months (2011: three months) after year end with a fixed interest rate of 8.7% (2011: 9.35%) per annum. As at March 31, 2012, the interest receivable included above in respect of this security amounted to approximately $132,000 (2011: $141,000).

(b) The GOJ Fixed rate investment notes matured during the year on February 24, 2012.

(c) The AIC Barbados Bonds matured during the year on December 2, 2011.

JAMAICA MORTGAGE BANK AND ITS SUBSIDARY

Notes to the Financial Statements

Year Ended March 31, 2012

7 INTEREST IN SUBSIDIARY

	The Bank	
	2012	2011
	$'000	$'000
Ordinary shares *		
Long-term loan	136,222	136,222
	136,222	136,222

* - Because of rounding to the nearest thousand, the carrying value of ordinary shares in the amount of $2 is not reflected.

On January 5, 1999, the Bank formed a wholly-owned subsidiary, JMB Developments Limited, ("JMBD") to carry on the business of residential, commercial and industrial real estate development. On July 5, 1999, the subsidiary commenced operations; however, it is currently inactive.

The long-term loan, which represents draw-downs under a $250,000,000 facility, should have been repaid over the 5 years ended March 31, 2006, after a moratorium of 24 months on principal. The balance is supported by a promissory note and is secured on land owned by the subsidiary. In the previous year the subsidiary transferred land distributed to it to the bank in lieu of accumulated interest of $270 million on the outstanding loan.

8 LOANS RECEIVABLE

	Group and Bank	
	2012	2011
	$'000	$'000
Construction loans - non-governmental borrowers (see (a) below)	1,737,384	1,382,595
Accrued interest capitalized	371,947	370,669
	2,109,331	1,753,264
Less: Allowance for impairment losses (see (b) below)	(841,580)	(1,010,335)
	1,267,751	742,929
Secondary Mortgage market (See (c) below)	300,000	20,000
Mortgages (see (d) below) - Staff	10,556	10,080
- Other	215,965	229,071
	1,794,272	1,002,080

(a) Construction loans are secured and carry varying interest rates. The loans are repayable over periods of 12 to 24 months. The loans are generally secured on the properties being developed.

8 **LOANS RECEIVABLE (Cont'd)**

(b) Movement on allowance for impairment losses on loans:

	Group and Bank	
	2012	2011
	$'000	$'000
At beginning of year	1,010,335	1,146,764
Charged against revenue during the year (Note 20)	7,120	256,142
Bad debt recovery (Note 20)	(175,875)	(152,962)
	841,580	1,249,944
Bad debts written off	-	(239,609)
At end of year	841,580	1,010,335
Comprising:		
Specific provisions	834,460	1,010,335
General provisions	7,120	-
	841,580	1,010,335

(c) These are loans granted to credit unions for the writing of mortgages. These loans are granted for an initial period of 18 months and will be repaid by way of the Bank taking an interest in the mortgages written by the institution(s) to the value of the loan.

(d) The mortgage loans are repayable over periods of 15 to 25 years and at varying interest rates.

9 **LAND HELD FOR DEVELOPMENT AND SALE**

The amounts represent the cost of several properties acquired by the Group which are being held for sale - in some cases, possibly, after development.

(i) The property held by the subsidiary was acquired from the Ministry of Environment and Housing for $1,000 on condition that the Ministry would be beneficially entitled to twenty percent (20%), or otherwise to be agreed, of the residential serviced lots or houses thereafter developed on each of the properties comprising the said lands, such lots to be identified and agreed from time to time by the Ministry and the subsidiary. The subsidiary would be beneficially entitled to the remaining eighty percent (80%) of such residential serviced lots.

The condition to the agreement, as outlined above, was not fulfilled and subsequent to this an agreement was arrived at to transfer to the Bank other lands to cover the terms of the agreement. In the previous financial year the Ministry of Water and Housing (MOWH) transferred to the Bank the Whitehall property in part settlement of the obligation of the subsidiary. The MOWH is to transfer to the Bank one additional parcel of land to fully cover the obligation of the subsidiary.

(ii) The following properties are held by the Group:

	2012	2011
	$'000	$'000
Spanish Village	562,250	562,250
Whitehall	270,000	270,000
Phoenix Park	60,500	96,500
Mount Gotham	65,000	65,000
	957,750	993,750

9 **LAND HELD FOR DEVELOPMENT AND SALE (Cont'd)**

		2012	2011
		$'000	$'000
(iii)	Bank	957,750	993,750
	Subsidiary	1	1
	Group	957,751	993,751

Assets pledged as security

Land held by the Bank, specifically Phoenix Park and Mount Gotham with a carrying value of $125.5 million, and land held by the subsidiary with a carrying value of $1,000, have been pledged to secure borrowings of the Group totaling $500 million (see Note 13 (c)).

10 **POST-RETIREMENT BENEFITS**

(a) Retirement pensions are the only post-employment benefits provided by the Group. For this purpose, the Group operates a contributory, defined-benefit pension plan, the assets of which are held separately from those of the Group, under the control of trustees. The plan is administered, since August 1993, by a life assurance company.

The plan requires the establishment of a fund which is subject to triennial actuarial valuations, carried out by an independent firm of actuaries. The latest actuarial valuation for funding purposes, undertaken as at July 31, 2010, indicated a past service surplus of $45.5 million. The actuaries have recommended that, based on the value of the fund, contributions of 5.2% of pensionable salaries should be made by the Bank. Contributions during the valuation period were at a rate of 8.75% of pensionable salaries. The next valuation is due on July 31, 2013.

The employees of the Bank pay a basic contribution of 5% of annual earnings with the option to contribute an additional 5% of earnings. The pensionable earnings is the average annual earnings over the three years prior to retirement and contributions are vested after five years of pensionable service.

The vesting period was changed from ten to five years by an amendment to the trust deed by the trustees effective March 1, 2007, the amendment was approved by the Board in August 2007.

(b) The amounts recognised in the financial statements in respect of the plan are as follows:

(i) Plan asset recognised in the statement of financial position

	Group and Bank	
	2012	2011
	$'000	$'000
Present value of funded obligations	(73,117)	(62,001)
Fair value of plan assets	143,970	130,799
	70,853	68,798
Unrecognised actuarial losses	(32,044)	(32,853)
Unrecognised asset due to Section 58	(2,053)	-
Recognised asset	36,756	35,945

(ii) Movements in net asset recognised in the statement of financial position:

	Group and Bank	
	2012	2011
	$'000	$'000
Net asset at beginning of year	35,945	30,807
Contributions paid	2,726	3,427
(Expense) Income recognised in the statements of comprehensive income	(1,915)	1,711
Net asset at end of year	36,756	35,945

10 **POST-RETIREMENT BENEFITS (Cont'd)**

(b) (Cont'd)

(iii) Income/(expense) recognised in the statements of comprehensive income:

	Group and Bank	
	2012	2011
	$'000	$'000
Current service cost	5,409	4,069
Interest on obligation	5,559	4,505
Actuarial loss recognised	(1,041)	(824)
Expected return on plan assets	(10,065)	(9,461)
Charge in unrecognised asset	2,053	-
Expense (Income) recognised in the statement of comprehensive income (Note 19)	1,915	(1,711)
Actual return on plan assets	6.5%	7.5%

(c) Movement in present value of obligations

	2012	2011
	$'000	$'000
Present value at beginning	62,001	47,433
Service cost	5,409	4,069
Interest cost	5,559	4,505
Member contributions	3,038	3,064
Benefits paid	(545)	(4,886)
Value of Annuities purchased	-	4,293
Actuarial loss (gain)	(2,345)	3,523
Present value at end	73,117	62,001

(d) Movements in fair value of plan assets:

	Group and Bank	
	2012	2011
	$'000	$'000
Fair value of plan assets at beginning of year	130,799	104,332
Value of annuities purchased	-	4,293
Contributions paid - employer	2,726	3,427
- employee	3,038	3,064
Expected return on plan assets	10,065	9,461
Benefits paid	(545)	(4,886)
Actuarial gain	(2,113)	11,108
Fair value of plan assets at end of year	143,970	130,799
Actual return on plan assets	10,223	22,925
Plan assets consist of the following:		
Equities	10,106	8,376
Fixed income securities	120,062	109,053
Real estate	9,054	8,563
Annuity purchased	4,320	4,293
Other	428	514
	143,970	130,799

10 POST-RETIREMENT BENEFITS (Cont'd)

(e) Principal actuarial assumptions at the end of the reporting period (expressed as weighted averages based on the plan assets of the plan).

	Group and Bank	
	2012	2011
	%	%
Discount rate at March 31	10.00	10.50
Expected return on plan assets at March 31	6.50	7.50
Future salary increases	5.00	7.50
Future pension increases	0.50	1.50

(f) Historical information

	2012	2011	2010	2009	2008
	$'000	$'000	$'000	$'000	$'000
Present value of the defined obligation	73,117	62,001	47,433	34,474	60,234
Fair value of plan assets	(143,970)	(130,799)	(104,332)	(76,425)	(76,720)
Surplus in plan	(70,853)	(68,798)	(56,899)	(41,951)	(16,486)
Experience adjustments arising on plan liabilities	(2,345)	3,523	6,029	(31,053)	2,070
Experience adjustments arising on plan assets	2,113	11,108	13,381	7,401	2,708

(g) The estimated contributions expected to be paid into the pension fund during the next financial year amount to $5,455,000 (2011: $6,571,000).

JAMAICA MORTGAGE BANK AND ITS SUBSIDARY

Notes to the Financial Statements

Year Ended March 31, 2012

11 **PROPERTY, PLANT AND EQUIPMENT**

	Freehold Land $'000	Freehold Buildings $'000	Furniture, Fixtures and Equipment $'000	Plant and Machinery $'000	Motor Vehicles $'000	Total $'000
Group						
At Cost:						
April 1, 2010	3,000	60,782	25,895	110	5,450	95,237
Additions	-	-	2,101	-	-	2,101
Disposals	-	-	(570)	-	-	(570)
March 31, 2011	3,000	60,782	27,426	110	5,450	96,768
Additions	-	11,328	911	-	-	12,239
Disposals	-	-	-	-	(5,450)	(5,450)
March 31, 2012	3,000	72,110	28,337	110	-	103,557
Depreciation:						
April1, 2010	-	18,405	20,820	110	2,443	41,778
Charge for the year	-	1,610	1,950	-	1,090	4,650
Eliminated on disposals	-	-	(570)	-	-	(570)
March 31, 2011	-	20,015	22,200	110	3,533	45,858
Charge for the year	-	1,796	1,843	-	454	4,093
Reclassification	-	172	(183)	-	11	-
Eliminated on disposals	-	-	-	-	(3,998)	(3,998)
March 31, 2012	-	21,983	23,860	110	-	45,953
Net book values:						
March 31, 2012	3,000	50,127	4,477	-	-	57,604
March 31, 2011	3,000	40,767	5,226	-	1,917	50,910

JAMAICA MORTGAGE BANK AND ITS SUBSIDARY

Notes to the Financial Statements

Year Ended March 31, 2012

11 PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Bank	Freehold Land $'000	Freehold Buildings $'000	Furniture, Fixtures and Equipment $'000	Motor Vehicles $'000	Total $'000
At Cost:					
April 1, 2010	3,000	60,782	25,895	5,450	95,127
Additions	-	-	2,101	-	2,101
Disposals	-	-	(570)	-	(570)
March 31, 2011	3,000	60,782	27,426	5,450	96,658
Additions	-	11,328	911	-	12,239
Disposals	-	-	-	(5,450)	(5,450)
March 31, 2012	3,000	72,110	28,337	-	103,447
Depreciation					
April 1, 2010	-	18,405	20,820	2,443	41,668
Charge for the year	-	1,610	1,950	1,090	4,650
Disposals	-	-	(570)	-	(570)
March 31, 2011	-	20,015	22,200	3,533	45,748
Charge for the year	-	1,796	1,843	454	4,093
Reclassification	-	172	(183)	11	-
Disposals	-	-	-	(3,998)	(3,998)
March 31, 2012	-	21,983	23,860	-	45,843
Net book values:					
March 31, 2012	3,000	50,127	4,477	-	57,604
March 31, 2011	3,000	40,767	5,226	1,917	50,910

The Bank carries freehold buildings at cost. The fair market value of the buildings as expressed by independent valuations carried out on October 4, 2011 by Allison Pitter & Co. Limited – Real Estate Agents, Appraisers and Valuers not connected with the Bank was $150 million. The valuations were arrived at by reference to market evidence of transaction prices for similar properties.

12 PAYABLES AND ACCRUALS

	Group		Bank	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Other	26,761	53,799	26,651	53,589

13 BONDS PAYABLE

	Group and Bank	
	2012	2011
	$'000	$'000
Shelter Bond X (see (a) and (d) below)	500,000	500,000
Shelter Bond XI (see (b) and (d) below)	500,000	500,000
Shelter Bond XIII (see (c) below)	500,000	-
	1,500,000	1,000,000
Unamortised bond issuance costs	(9,531)	-
	1,490,469	1,000,000

	Group and Bank	
	2012	2011
	$'000	$'000
Principal		
Due within 12 months of the statement of financial position date	100,000	-
Due thereafter (within two to five years)	1,390,469	1,000,000
	1,490,469	1,000,000
Accrued interest on bonds	9,148	4,718
	1,499,617	1,004,718

(a) In March 2009, the Bank issued Shelter Bond X at 1.124% above the weighted average Treasury bill rate. These bonds are repayable in full on February 28, 2014.

(b) In March 2009, the Bank issued Shelter Bond XI at 1.5% above the weighted average Treasury bill rate. These bonds are repayable in full on February 28, 2016.

(c) In May 2011, the Bank issued Shelter Bond XIII at 7.85% fixed for two years, and variable at 1% above the weighted average Treasury bill rate for the remainder of the life of the bond. The Bond is repayable in full on May 19, 2016. The bond is secured by land owned by the Bank with a carrying value of $125.5 million, and land owned by the subsidiary with a carrying value of $1,000 (See Note 9). The Bond is also secured by a charge over a debt service reserve account and investments therefrom. The Bank is required to maintain the debt service account at the equivalent of four quarter's interest and all proceeds of sale of the respective lands. The account is managed internally by the Bank and comprises designated investments that it holds in particular financial institutions. (See Note 4).

(d) The Bank is required to maintain a segregated sinking fund for the redemption of the Bonds, such that 20% of the outstanding principal sum will be accumulated in each year of the term of the Bonds. As at March 31, 2012 the Bank did not maintain the sinking fund at the required amount.

The weighted average Treasury bill yield used is from the most recent auction of six month treasury bills prior to the commencement of the particular interest period. At the end of the period the Treasury bill yield was 6.57% (2011: 6.63%).

Amortised bond issuance costs related to the bonds is $2.382 million (2011: Nil).

14 SHARE CAPITAL

	Group and Bank	
	2012	2011
	$'000	$'000
Authorised, issued and fully paid:		
500,000,000 ordinary shares of no par value at the beginning and end of the year	500,000	500,000

15 RESERVE FUND

The reserve fund was created in accordance with the provisions of Section 13 of the Jamaica Mortgage Bank Act 1973, which requires that a minimum of 25% of the Bank's profit after taxation (if any) be set aside in each calendar year towards a reserve fund to meet contingencies, until the total amount standing to the credit of the reserve fund equals the paid up capital of the Bank. As the reserve fund is now equal to the paid up capital (Note 14), no further transfers are required (see also Note 16).

16 SPECIAL RESERVE FUND

By resolution of the Board, a special reserve fund was created to deal with any unforeseen contingencies that might occur above the amount of the existing reserve fund (Note 15).

17 OTHER INCOME

	Group		Bank	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Interest on loan to subsidiary	-	-	-	270,000
Distribution in respect of joint venture (land transfer)	-	270,000	-	-
Other income	42,861	16,004	42,861	16,004
	42,861	286,004	42,861	286,004

18 STAFF COSTS

The aggregate cost of employees was as follows:

	Group and Bank	
	2012	2011
	$'000	$'000
Salaries and wage-related expenses	62,156	67,752
Statutory payroll contributions	5,552	5,561
Employee benefit expense (credit) (Note 10(b)(iii))	1,915	(1,711)
Staff welfare	573	522
	70,196	72,124

19 ALLOWANCE FOR IMPAIRMENT LOSSES (NET OF RECOVERIES)

	2012 $'000	2011 $'000
Charged against revenue during the year (Note 8)	7,120	256,142
Recoveries during the year (Note 8)	(175,875)	(152,962)
Bad debt written off	-	1,676
Receivable from Ministry of Construction – written off	-	29,573
Receivable from Ministry of Finance and the Public Service – written off	-	37,465
Payable to Ministry of Finance and the Public Service – written back	-	(18,223)
	(168,755)	153,671

20 INVESTMENT REVENUE

Revenue from Financial Assets

	The Bank	
	2012 $'000	2011 $'000
Interest revenue:		
Financial assets at amortised cost		
Construction loans	83,632	94,659
Deposits (including cash and cash equivalents)	28,308	48,179
Mortgage and other long term loans	50,953	51,340
	162,893	194,178
Other revenue:		
Interest income on loan to subsidiary	-	270,000
Commitment fees	13,458	7,407
	13,458	277,407

21 PROFIT BEFORE TAXATION

The following are among the items charged in arriving at profit before income tax:

		Group		Bank	
		2012 $'000	2011 $'000	2012 $'000	2011 $'000
Depreciation		4,093	4,650	4,093	4,650
Directors' emoluments	- fees (Note 23)	407	496	407	496
Auditors' remuneration	- current year	2,150	2,000	2,100	1,800
	- prior year	-	1,485	-	1,485

22 TAXATION

(a) Income tax

The effective tax rate was 1.73% (2011: Nil%) for the Group and 1.73% (2011: Nil%) for the Bank, compared to a statutory rate of 33⅓% (2011: 33⅓%). The actual tax charge differed from the expected tax charge for the year as follows:

	Group		Bank	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Profit before taxation	171,668	102,939	171,708	103,126
Computed "expected" tax expense	57,223	34,313	57,236	34,375
Tax effect of treating the following items differently for financial statement purposes than for tax reporting purposes:				
Taxation losses	(54,962)	(34,513)	(54,975)	(34,575)
Other	717	200	717	200
Actual tax charge recognised in the statements of comprehensive income	2,978	-	2,978	-

(b) Deferred taxation

(i) Deferred taxes are calculated on all temporary differences using the current tax rate of 33⅓%.

Analysis for financial reporting purposes:

	Group and Bank	
	2012	2011
	$'000	$'000
Deferred tax assets	133,338	136,068
Deferred tax liabilities	(136,316)	(136,068)
Net liabilities	(2,978)	-

(ii) The movement for the year and prior reporting period in the net deferred tax position is as follows:

	Group and Bank	
	2012	2011
	$'000	$'000
Net liabilities at the beginning of period	-	-
Charged to income for the year	(2,978)	-
Net liabilities at the end of the period	(2,978)	-

22 **TAXATION (Cont'd)**

(b) Deferred taxation (Cont'd)

(iii) The following are the main deferred tax assets and liabilities recognised by the Group and the movements thereon, during the current and prior reporting periods:

(a) Deferred tax assets

	Group and Bank					
	Accrued Vacation	Tax Loss	Interest Payable	Capital Allowance In Excess of Depreciation Charges	Other	Total
	$'000	$'000	$'000	$'000	$'000	$'000
At April 1, 2010	1,567	178,976	9,881	1,922	-	192,346
Credited (Charged) to income for the year	(260)	(47,542)	(8,308)	(168)	-	(56,278)
At March 31, 2011	1,307	131,434	1,573	1,754	-	136,068
Credited (Charged) to income for the year	59	(7,546)	1,476	908	2,373	(2,730)
At March 31, 2012	1,366	123,888	3,049	2,662	2,373	133,338

(b) Deferred tax liabilities

	Group and Bank		
	Pension Plan Asset	Interest Receivable	Total
	$'000	$'000	$'000
At April 1, 2010	(10,269)	(182,077)	(192,346)
Credited (Charged) to income for the year	(1,713)	57,991	56,278
At March 31, 2011	(11,982)	(124,086)	(136,068)
Credited (Charged) to income for the year	(270)	22	(248)
At March 31, 2012	(12,252)	(124,064)	(136,316)

At the end of the reporting period, the Group had unused tax losses of approximately $371.66 million (2011: $559.2 million) available for offset against future profits. A deferred tax asset has been recognised in respect of these tax losses.

23 **RELATED PARTY BALANCES AND TRANSACTIONS**

A party is related to the Bank if:

(a) directly, or indirectly through one or more intermediaries, the party:
 (i) controls, is controlled by, or is under common control with, the Bank;
 (ii) has an interest in the Bank that gives it significant influence over the Bank; or
 (iii) has joint control over the Bank;
(b) the party is an associate (as defined in IAS *28, Investments in Associates)* of the Bank;
(c) the party is a joint venture in which the Bank is a venturer (see IAS 31, *Interests in Joint Ventures);*
(d) the party is a member of the key management personnel of the Bank;
(e) the party is a close member of the family of any individual referred to in (a) or (d);
(f) the party is a Bank that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such Bank resides with, directly or indirectly, any individual referred to in (d) or (e); or
(g) the party is a post-employment benefit plan for the benefit of employees of the Bank, or of any Bank that is a related party of the Bank.

23 RELATED PARTY BALANCES AND TRANSACTIONS (Cont'd)

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

Balances outstanding at the end of the reporting period:

	Group and Bank	
	2012	2011
	$'000	$'000
Due from the Mortgage Insurance Fund	1,546	2,150

Balances receivable from key management personnel are as follows:

	Group and Bank	
	2012	2011
	$'000	$'000
Staff loans	10,556	10,080

Key management compensation is as follows:

	Group and Bank	
	2012	2011
	$'000	$'000
Directors' fees (Note 21)	407	496
Short-term employee benefits	39,950	29,704
Post-employment benefits	648	(658)
	41,005	29,542

	The Bank	
	2012	2011
	$'000	$'000
Interest received from subsidiary	-	270,000

24 FINANCIAL RISK MANAGEMENT

Introduction and overview

The Group's activities are principally related to the use of financial instruments. The Group, therefore, has exposure to the following risks from the use of financial instruments in the ordinary course of business:

- credit risk
- market risk
- liquidity risk
- operational risk

Detailed below is information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

24 FINANCIAL RISK MANAGEMENT (Cont'd)

Risk management framework

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established Finance and Audit and Loans and Projects Committees, which are responsible for developing and monitoring risk management policies in their specified areas.

The risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, and products and services offered. The

Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit Committee is responsible for monitoring the Group's compliance with risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group.

Exposure to risks on financial instruments and operational risk arises in the ordinary course of the Group's operations.

(a) Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from credit given to customers from investing activities, lending and deposits with other institutions. Balances arising from these activities include loans and other receivables, debt securities, resale agreements, cash and cash equivalents and accounts receivable.

The Group has credit policies aimed at minimising exposure to credit risk, which policies include, *inter cilia,* obtaining collateral in respect of loans made, and performing credit evaluations on all applicants for credit. In respect of investments and related interest receivable, these are Corporate Bonds and Government of Jamaica securities or contracts secured on Government of Jamaica securities. Short-term deposits and sinking fund investments are held with financial institutions that management believes do not present any significant credit risk.

(i) Exposure to credit risk

The maximum credit exposure, the amount of loss that the Group would suffer if every counterparty to the financial assets held were to default at once, is represented by the carrying amount of financial assets shown on the statements of financial position, as follows:

	Group		Bank	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Cash and cash equivalents	48,609	57,061	48,609	57,061
Loans receivable	1,794,272	1,002,280	1,794,272	1,002,080
Resale agreements	57,111	102,230	57,111	102,230
Investment securities	6,132	89,445	6,132	89,445
Receivables	22,775	16,862	22,775	16,722
Due from subsidiary	-	-	136,222	136,222

24 **FINANCIAL RISK MANAGEMENT (Cont'd)**

Risk management framework (Cont'd)

(a) Credit risk (Cont'd)

(ii) Management of credit risk

(1) Loans receivable

The management of credit risk in respect of loans receivable is delegated to the Bank's Loans and Projects Committee. The Committee is responsible for oversight of the credit risk, including formulating credit policies, establishing the authorisation structure for the approval of credit facilities, reviewing and assessing credit risk, and limiting concentration of exposure to counterparties.

(2) Cash and cash equivalents

These are held with reputable financial institutions and collateral is not required for such accounts as management regards the institutions as strong.

(3) Investment securities

With regard to investments, there is a significant concentration in securities issued or guaranteed by Government of Jamaica. The Group manages the level of risk it undertakes by investing substantially in short-term investments which are Government of Jamaica securities.

No investment securities were considered impaired at the reporting date.

(4) Resale agreements and certificates of deposit

Collateral is held for all resale agreements.

(5) Receivables

Exposure to credit risk is managed through regular analysis of the ability of the borrowers and potential borrowers to meet repayment obligations and by changing these lending limits where appropriate.

The impairment provision shown in the statement of financial position at year end is specifically applied to the portion of loans and interest receivable deemed uncollectible by the Group.

There was no change to the Group's approach to managing credit risk during the year.

24 **FINANCIAL RISK MANAGEMENT (Cont'd)**

Risk management framework (Cont'd)

(a) Credit risk (Cont'd)

(iii) Credit quality of loans

The credit quality of the Group's and Bank's loans receivable is summarised as follows:

	2012		2011	
	Gross	Impairment	Gross	Impairment
	$'000	$'000	$'000	$'000
Not past due and not impaired	1,058,343	-	197,542	-
Past due but not impaired				
Under 12 months	-	-	90,287	-
Over 12 months	740,364	-	41,277	-
Past due and impaired				
Over 12 months	837,145	834,460	1,683,309	1,010,335
	2,635,852	834,460	2,012,415	1,010,335

The management of the Bank believes that no impairment allowance is necessary in respect of other financial assets.

The movement on the allowance for impairment is presented in Note 8(b).

(1) Impaired loans

Impaired loans are loans for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan

(2) Past due but not impaired loans:

These are loans where contractual interest or principal payments are past due but the Group believes there is no impairment on the basis of the level of security available and/or the stage of collection of amounts owed to the Group.

24 **FINANCIAL RISK MANAGEMENT (Cont'd)**

Risk management framework (Cont'd)

(a) Credit risk (Cont'd)

(iii) Credit quality of loans (Cont'd)

(3) Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured, it remains in this category independent of satisfactory performance after restructuring.

(4) Allowances for impairment

The Group has established an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. This allowance covers the loss that relates to individual loans assessed as being impaired as well as loans which are assessed not to be impaired individually, and assessed for impairment on a collective basis.

(5) Write-off policy

The Group writes off loans (and any related allowances for impairment losses) when the Group determines that the loans are uncollectible. This determination is usually made after considering information such as changes in the borrower's financial position, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

(iv) Concentration of loans

There are significant concentrations of credit risk in that there are significant investments in various forms of Corporate Bonds, Government of Jamaica securities, and loans are substantially to borrowers in the construction sector.

The following table shows concentration of gross loans by summarising the credit exposure to borrowers, by category:

	2012		
	Construction Loans	Mortgage Loans	Total
	$'000	$'000	$'000
Secondary mortgage market	-	300,000	300,000
Developers	2,109,331	-	2,109,331
Staff	-	10,556	10,556
Other	-	215,965	215,965
	2,109,331	526,521	2,635,852

24 **FINANCIAL RISK MANAGEMENT (Cont'd)**

Risk management framework (Cont'd)

(a) Credit risk (Cont'd)

(iv) Concentration of loans (Cont'd)

	2011		
	Construction Loans	Mortgage Loans	Total
	$'000	$'000	$'000
Secondary mortgage market	-	20,000	20,000
Developers	1,753,264	-	1,753,264
Staff	-	10,080	10,080
Other	-	229,071	229,071
	1,753,264	259,151	2,012,415

Substantially all the Group's lending is to parties in Jamaica.

(v) Collateral

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

Collateral is not generally held against deposits and investment securities, and no such collateral was held at March 31, 2012 or 2011.

(b) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to the obligor's/issuer's credit standing) will affect the Group'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 returns.

The Group manages interest rate risk by monitoring interest rates daily, and ensuring that the maturity profile of its financial assets is matched by that of its financial liabilities to the extent practicable, given the nature of the business. The directors and management believe that the Group has limited exposure to foreign currency risk as it has no foreign currency liabilities and no foreign currency assets, and that it has no significant exposure to equity price risk as it has no financial assets which are to be realised by trading in the securities market.

(i) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes 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 adjustment within a specified period. It can be reflected as a loss of future net interest income and/or a loss of current market values.

24 **FINANCIAL RISK MANAGEMENT (Cont'd)**

(b) Market risk (Cont'd)

(i) Interest rate risk (Cont'd)

The following table summarises the carrying amounts of balance sheet assets, liabilities and equity to arrive at the Group's and the Bank's interest rate gap based on the earlier of contractual repricing and maturity dates.

Group	2012					
	Immediately Rate sensitive	Within 3 months	Three to 12 months	Over 12 months	Non-rate Sensitive	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	-	-	-	-	48,609	48,609
Resale agreements	57,111	-	-	-	-	57,111
Receivables	-	-	-	-	22,775	22,775
Investment securities	-	6,132	-	-	-	6,132
Loans receivable	-	-	103,712	1,690,560	-	1,794,272
Total financial assets	57,111	6,132	103,712	1,690,560	71,384	1,928,899
Payables	-	-			26,761	26,761
Bonds payable	-	-	1,009,148	490,469	-	1,499,617
Total financial liabilities	-	-	1,009,148	490,469	26,761	1,526,378
Interest rate sensitivity gap*	57,111	6,132	(905,436)	1,200,091	44,623	402,521
Cumulative gap	57,111	63,243	(842,193)	357,898	402,521	

24 **FINANCIAL RISK MANAGEMENT (Cont'd)**

(b) Market risk (Cont'd)

(i) Interest rate risk (Cont'd)

Group	2011					
	Immediately Rate sensitive	Within 3 months	Three to 12 months	Over 12 months	Non-rate sensitive	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	-	-	-	-	57,061	57,061
Resale agreements	29,500	-	72,730	-	-	102,230
Receivables	-	-	-	-	16,862	16,862
Investment securities	-	6,140	83,305	-	-	89,445
Loans receivable	-	19,745	592,313	390,022	-	1,002,080
Total financial assets	29,500	25,885	748,348	390,022	73,923	1,267,678
Payables	-	-	-	-	53,799	53,799
Bonds payable	-	-	-	1,004,718	-	1,004,718
Total financial liabilities	-	-	-	1,004,718	53,799	1,058,517
Interest rate sensitivity gap*	29,500	25,885	748,348	(614,696)	20,124	209,161
Cumulative gap	29,500	55,385	803,733	189,037	209,161	

24 FINANCIAL RISK MANAGEMENT (Cont'd)

(b) Market risk (Cont'd)

(i) Interest rate risk (Cont'd)

Bank	2012					
	Immediately Rate sensitive	Within 3 months	Three to 12 months	Over 12 months	Non-rate sensitive	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	-	-	-	-	48,609	48,609
Resale agreements	57,111	-	-	-	-	57,111
Receivables	-	-	-	-	22,775	22,775
Investment securities	-	6,132	-	-	-	6,132
Loans receivable	-	-	103,712	1,690,560	-	1,794,272
Total financial assets	57,111	6,132	103,712	1,690,560	71,384	1,928,899
Payables	-	-	-	-	26,651	26,651
Bonds payable	-	-	1,009,148	490,469	-	1,499,617
Total financial liabilities	-	-	1,009,148	490,469	26,651	1,526,268
Interest rate sensitivity gap*	57,111	6,132	(905,436)	1,200,091	44,733	402,631
Cumulative gap	57,111	63,243	(842,193)	357,898	402,631	

24 **FINANCIAL RISK MANAGEMENT (Cont'd)**

(b) Market risk (Cont'd)

(i) Interest rate risk (Cont'd)

Bank	2011					
	Immediately Rate sensitive	Within 3 months	Three to 12 months	Over 12 months	Non-rate sensitive	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	-	-	-	-	57,061	57,061
Resale agreements	29,500	-	72,730	-	-	102,230
Receivables	-	-	-	-	16,722	16,722
Investment securities	-	6,140	83,305	-	-	89,445
Loans receivable	-	19,745	592,313	390,022	-	1,002,080
Total financial assets	29,500	25,885	748,348	390,022	73,783	1,267,538
Payables	-	-	-	-	53,589	53,589
Bonds payable	-	-	1,004,718	-	-	1,004,718
Total financial liabilities	-	-	1,004,718	-	53,589	1,058,307
Interest rate sensitivity gap*	29,500	25,885	(256,370)	390,022	20,194	209,231
Cumulative gap	29,500	55,385	(200,985)	189,037	209,231	

* The gap relates to statement of financial position items; there are no off-statement of financial position financial instruments.

24 **FINANCIAL RISK MANAGEMENT (Cont'd)**

(b) Market risk (Cont'd)

(i) Interest rate risk (Cont'd)

With respect to interest-earning assets and interest-bearing liabilities, the average effective yields by the earlier of contractual repricing and maturity dates are as follows:

Group and Bank

	2012				
	Immediately Rate sensitivity	Within 3 months	Three to 12 months	Over 12 months	Total
	%	%	%	%	%
Resale agreements and investment securities	6.15	8.7	-	-	6.39
Loans receivable	-	-	12.95	12.95	12.95
Bonds payable	-	-	5.48	7.85	6.27

Group and Bank

	2011				
	Immediately Rate sensitivity	Within 3 months	Three to 12 months	Over 12 months	Total
	%	%	%	%	%
Resale agreements and investment securities	5.4	-	3	-	8.64
Loans receivable		20.76	20.76	20.76	20.76
Bonds payable	-	-	5.55	5.55	5.55

Sensitivity analysis

An increase of 100 basis points (1%) in interest rates would have increased profits for the year by $14,431,000 (2011: $9,547,000). A decrease would have an equal but opposite effect on the profits for the year. The higher interest rate sensitivity in profit compared to 2011 is attributable to the increase in loans receivable.

The analysis assumes that all other variables, in particular, foreign currency rates, remain constant. The analysis is performed on the same basis for 2011.

24 FINANCIAL RISK MANAGEMENT (Cont'd)

(b) Market risk (Cont'd)

(ii) Foreign currency risk

Foreign 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 Group has no exposure to foreign currency risk on transactions that are denominated in foreign currencies.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financials instruments. Liquidity risk may result from an inability to sell a financial asset quickly at, or close to, its fair value. Prudent liquidity risk management requires the Group to maintain sufficient cash and marketable securities, monitoring future cash flows and liquidity on a daily basis and have funding available through an adequate amount of committed facilities.

Due to the dynamic nature of the underlying businesses, the management of the Group ensures that sufficient funds are held in short-term marketable instruments to meet its liabilities and disbursement commitments when due, without incurring unacceptable losses or risk damage to the Group's reputation.

The daily liquidity position is monitored by reports covering the position of the Group. The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to cash available for disbursements. For this purpose, net liquid assets are considered as including cash and cash equivalents and investment in debt securities for which there is an active and liquid market, less loan commitments to borrowers within the coming year.

The following table presents the contractual maturities of financial liabilities, on the basis of their earliest possible contractual maturity.

Group	2012					
	Within One month $'000	One to 3 months $'000	Three to 12 months $'000	One to 5 years $'000	Over 5 years $'000	Carrying amount $'000
Cash and cash equivalents	-	48,609	-	-	-	48,609
Resale agreements	57,341	-	-	-	-	57,341
Receivables	-	-	22,775	-	-	22,775
Investment securities	-	6,218	-	-	-	6,218
Loans receivable	92,581	544,652	446,600	558,598	433,438	2,075,869
Total financial assets	149,922	599,479	469,375	558,598	433,438	2,210,812
Payables	299	2,008	24,454	-	-	26,761
Bonds payable	-	23,359	70,334	1,725,158	-	1,818,851
Total financial liabilities	299	25,367	94,788	1,725,158	-	1,845,612

24 **FINANCIAL RISK MANAGEMENT (Cont'd)**

(c) Liquidity risk (Cont'd)

Group — 2011

	Within One month $'000	One to 3 months $'000	Three to 12 months $'000	One to 5 years $'000	Over 5 years $'000	Carrying amount $'000
Cash and cash equivalents	-	57,061	-	-	-	57,061
Resale agreements	29,937	-	75,809	-	-	105,746
Receivables	-	-	16,722	-	-	16,722
Investment securities	-	7,269	93,531	-	-	100,800
Loans receivable	15,280	370,994	235,740	194,506	530,531	1,347,051
Total financial assets	45,217	435,324	421,802	194,506	530,531	1,627,380
Payables	4,285	302	49,202	-	-	53,789
Bonds payable	-	-	-	588,754	638,750	1,227,504
Total financial liabilities	4,285	302	49,202	588,754	638,750	1,281,293

Bank — 2012

	Within One month $'000	One to 3 months $'000	Three to 12 months $'000	One to 5 years $'000	Over 5 years $'000	Carrying Amount $'000
Cash and cash equivalents	-	48,609	-	-	-	48,609
Resale agreements	57,341	-	-	-	-	57,341
Receivables	-	-	22,775	-	-	22,775
Investment securities	-	6,218	-	-	-	6,218
Loans receivable	92,581	544,652	446,600	558,598	433,438	2,075,869
Total financial assets	149,922	599,479	469,375	558,598	433,438	2,210,812
Payables	299	1,898	24,454	-	-	26,651
Bonds payable	-	23,359	70,344	1,725,158	-	1,818,851
Total financial liabilities	299	25,257	94,788	1,725,158	-	1,845,502

Bank — 2011

	Within One month $'000	One to 3 months $'000	Three to 12 months $'000	One to 5 years $'000	Over 5 years $'000	Carrying amount $'000
Cash and cash equivalents	-	57,061	-	-	-	57,061
Resale agreements	29,937	-	75,809	-	-	105,746
Receivables	-	-	16,862	-	-	16,862
Investment securities	-	7,269	93,531	-	-	100,800
Loans receivable	15,280	370,994	235,740	194,506	530,531	1,347,051
Total financial assets	45,217	435,324	421,942	194,506	530,531	1,627,520
Payables	4,285	302	49,002	-	-	53,589
Bonds payable	-	-	-	588,754	638,750	1,227,504
Total financial liabilities	4,285	302	49,002	588,754	638,750	1,281,093

There has been no change in the Group's exposure to liquidity risk or its approach to managing liquidity risk.

24 **FINANCIAL RISK MANAGEMENT (Cont'd)**

d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risk arises from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with Group standards is supported by a programme of periodic reviews undertaken by internal audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

(e) Capital management:

The Bank is a statutory body and is not a regulated entity. Accordingly, there are no rules relating to capital that are imposed by regulations. However, by virtue of the provisions of the Act (see Note 15) and stated Board policy (see Note 16), the Bank is required to set aside retained profits in special reserves.

The Bank's policy is to maintain a strong capital base to ensure credit and market confidence.

Capital allocation

The allocation of capital between specific operations and activities is driven by:

(a) Strategic Plan and Budget approved by the Board of Directors
(b) The desire to fulfil the Bank's mandate; and
(c) Support by the Bank for the government's mission to enhance growth and development.

The policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

25 FINANCIAL ASSETS AND LIABILITIES - ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

Group	2012			
	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
	$'000	$'000	$'000	$'000
ASSETS				
Cash and cash equivalents:				
Short-term deposits	48,609	-	48,609	48,609
Resale agreements	57,111	-	57,111	57,111
Receivables	22,775	-	22,775	22,775
Investment securities	6,132	-	6,132	6,132
Loans receivable	1,794,272	-	1,794,272	1,794,272
	1,928,899	-	1,928,899	1,928,899
LIABILITIES				
Payables and accruals	-	26,761	26,761	26,761
Bonds payable	-	1,499,617	1,499,617	1,499,617
	-	1,526,378	1,526,378	1,526,378

Group	2011			
	Loans and receivables	Other amortised Cost	Total carrying amount	Fair value
	$'000	$'000	$'000	$'000
ASSETS				
Cash and cash equivalents:				
Short-term deposits	57,061	-	57,061	57,061
Resale agreements	102,230	-	102,230	105,548
Receivables	16,862	-	16,862	16,862
Investment securities	89,445	-	89,445	89,445
Loans receivable	1,002,080	-	1,002,080	1,002,080
	1,267,678	-	1,267,678	1,270,996
LIABILITIES				
Payables and accruals	-	53,799	53,799	53,799
Bonds payable	-	1,004,718	1,004,718	1,004,718
	-	1,058,517	1,058,517	1,058,517

25 FINANCIAL ASSETS AND LIABILITIES - ACCOUNTING CLASSIFICATIONS AND FAIR VALUES (Cont'd)

Bank	2012			
	Loans and receivables	Other Amortised Cost	Total carrying amount	Fair Value
	$'000	$'000	$'000	$'000
ASSETS				
Cash and cash equivalents:				
Short-term deposits	48,609	-	48,609	48,609
Resale agreements	57,111	-	57,111	57,111
Receivables	22,775	-	22,775	22,775
Investment securities	6,132	-	6,132	6,132
Loans receivable	1,794,272	-	1,794,272	1,794,272
	1,928,899	-	1,928,899	1,928,899
LIABILITIES				
Payables and accruals	-	26,651	26,651	26,651
Bonds payable	-	1,499,617	1,499,617	1,499,617
	-	1,526,268	1,526,268	1,526,268

Bank	2011			
	Loans and receivables	Other amortised cost	Total carrying amount	Fair Value
	$'000	$'000	$'000	$'000
ASSETS				
Cash and cash equivalents:				
Short-term deposits	57,061	-	57,061	57,061
Resale agreements	102,230	-	102,230	105,548
Receivables	16,722	-	16,722	16,722
Investment securities	89,445	-	89,445	89,445
Loans receivable	1,002,080	-	1,002,080	1,002,080
	1,267,538	-	1,267,538	1,270,856
LIABILITIES				
Payables and accruals	-	53,589	53,589	53,589
Bonds payable	-	1,004,718	1,004,718	1,004,718
	-	1,058,307	1,058,307	1,058,307

Fair value measurements recognized in the Statement of Financial Position

There were no financial instruments that were measured at fair value subsequent to initial recognition.

26 COMMITMENTS

Loans approved but not disbursed by the Group and the Bank at March 31, 2012 amounted to $384,574,000 (2011: $721,774,000).

27 CONTINGENT LIABILITY

In an earlier period a claim for damages was filed against the Bank for approximately $26 million by the owner of a housing development against which the Bank had lodged a caveat. In that earlier suit, the Court ruled that the Bank had erred in lodging the caveat, ordered its removal and further ordered the Bank to pay damages to be assessed. These damages were assessed to be approximately $5.3 million which was paid for by the Bank. However, the claimant has appealed the judgement which is yet to be heard in Court.

28 COSTS OF AND FUNDING FOR ADMINISTRATION OF MORTGAGE INSURANCE FUND

Under Section 25 of the Jamaica Mortgage Bank Act 1973, the Jamaica Mortgage Bank is responsible to administer the Mortgage Insurance Fund.

The employees of the Bank manage the operations of the Mortgage Insurance Fund and the Mortgage (Government Guaranteed Loans) Insurance Reserve Fund. Section 14 of the Mortgage Insurance Act provides for the Bank to meet its costs of administering the Funds in the following way:

- *one-half of the return on the income and assets* of the Mortgage (Government Guaranteed Loans) Insurance Reserve Fund and *two-fifths (one-fifth up to July 23, 2008) of the insurance fees* received; and, if not adequate, then by;
- withdrawals from the Mortgage Insurance Fund of *up to one-half of* the return on investment and assets of the Fund for that year; and, if more is still required, then by
- advances from the Consolidated Fund.

28 COSTS OF AND FUNDING FOR ADMINISTRATION OF MORTGAGE INSURANCE FUND (Cont'd)

	2012 $'000	2011 $'000
Cost of Administration of Mortgage Insurance Fund		
Bank charges and interest	9	1
Salaries and related expenses	-	1,566
Pension scheme contributions	-	106
Professional and other	710	5,523
Audit fees	220	177
Total costs	939	7,373
Funded by:		
Contribution of:		
Two-fifths of Mortgage Insurance fees	1,100	944
Loan investigation fees	53	45
One-half of investment income of Mortgage (Government Guaranteed Loans) Insurance Reserve Fund	1	1
	1,154	990
(Recovered) Contributed by the Mortgage Insurance Fund	(215)	6,383
Total funding	939	7,373

JAMAICA MORTGAGE BANK

SUPPLEMENTARY INFORMATION TO THE

FINANCIAL STATEMENTS

Year Ended March 31, 2012

JAMAICA MORTGAGE BANK AND ITS SUBSIDARY

Other Administrative and General Expanses - Bank Only

Year Ended March 31, 2012

		2012 $'000	2011 $'000
Advertising		271	457
Auditors' remuneration	- current year	2,100	1,800
	- prior years	-	1,685
Bank charges and interest		348	225
Bond expenses		278	-
Computer expenses		793	377
Consulting and other professional fees		8,496	1,414
Depreciation		4,093	4,650
Directors' fees		407	496
Donations		500	331
Electricity		4,141	3,867
General insurance		460	368
General office expenses		5,027	5,262
Group health and group life insurance		3,758	4,254
Legal expenses		1,252	15,999
Local travelling and incidentals		1,153	1,364
Motor vehicle expenses		477	866
Printing and stationery		1,369	1,121
Property taxes		1,239	278
Public relations		3,080	3,686
Conference, seminar and retreat expenses		85	54
Repairs and maintenance		1,373	1,352
Subscriptions and publications		1,100	1,432
Telephone, cables and postage		1,423	1,618
		43,223	52,956

THE MORTGAGE INSURANCE FUND

MORTGAGE (GOVERNMENT GUARANTEED LOANS)

INSURANCE RESERVE FUND

FINANCIAL STATEMENTS

March 31, 2012

Deloitte.

Deloitte & Touche
Chartered Accountants
7 West Avenue
Kingston Gardens
P.O. Box 13, Kingston 4
Jamaica, W.I.

Tel: (876) 922 6825-7
Fax: (876) 922 7673
http://www.deloitte.com/jm

42B & 42C Union Street
Montego Bay
Jamaica, W.I.

Tel: (876) 952 4713-4
Fax: (876) 979 0246

INDEPENDENT AUDITORS' REPORT

To the Directors of

THE MORTGAGE INSURANCE FUND AND MORTGAGE (GOVERNMENT GUARANTEED LOANS) INSURANCE RESERVE FUND
(Established under the Mortgage Insurance Act
Administered by Jamaica Mortgage Bank)

Report on the financial statements

We have audited the financial statements of The Mortgage Insurance Fund and Mortgage (Government Guaranteed Loans) Insurance Reserve Fund ("the Funds"), set out on pages 85 to 96 which comprise the statements of financial position as at March 31, 2012, the statements of changes in fund balances for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards 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.

Auditors ' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether or not the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audley L. Gordon, Anura Jayatillake, Winston G. Robinson, Fagan E. Calvert, Gihan C. deMel

Deloitte.

Report on the financial statements (Cont'd)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the funds as at March 31, 2012, and of the changes in fund balances for the year then ended, in accordance with International Financial Reporting Standards.

Deloitte & Touche

Chartered Accountants

Kingston, Jamaica
May 30, 2012

THE MORTGAGE INSURANCE FUND

(Established under the Mortgage Insurance Act Administered by Jamaica Mortgage Bank)

Statement of Financial Position as at March 31, 2012

	Notes	2012 $'000	2011 $'000
ASSETS			
Cash and cash equivalents		5,378	6,140
Investments	4	1,037,941	951,681
Receivables	5	175,262	145,563
Property, plant and equipment	6	67	96
		1,218,648	1,103,480
LIABILITIES			
Payables		420	200
Due to Mortgage (Government Guaranteed Loans) Insurance Reserve Fund		74	73
Due to Jamaica Mortgage Bank		1,546	2,150
		2,040	2,423
Net assets		1,216,608	1,101,057
Financed by:			
ACCUMULATED SURPLUS		1,216,608	1,101,057

The financial statements on Pages 85 to 96 were approved for issue by the Board of Directors on May 30, 2012 and are signed on its behalf by:

The Notes on Pages 89 to 96 form an integral part of the financial statements.

Chairman

Director

THE MORTGAGE INSURANCE FUND

(Established under the Mortgage Insurance Act Administered by Jamaica Mortgage Bank)

Statement of Financial Changes in Fund Balance Year Ended March 31, 2012

	2012 $'000	2011 $'000
Increase in fund:		
Three-fifths of mortgage loan insurance fees	1,592	1,611
Investment income	115,294	110,431
	116,886	112,042
Decrease in fund:		
Recovered by (Transferred to) the Bank as contribution towards the cost administering the Mortgage Insurance Act	215	(6,383)
Administration charges paid to the Bank	(1,550)	(1,507)
	(1,335)	(7,890)
Net increase in fund balance for year	115,551	104,152
Fund balance at beginning of year	1,101,057	997,005
Fund balance at end of year	1,216,608	1,101,057

The Notes on Pages 89 to 96 form an integral part of the financial statements.

JMB
Facilitating Home Ownership
40th Anniversary

MORTGAGE (GOVERNMENT GUARANTEED LOANS) INSURANCE RESERVE FUND

(Established under the Mortgage Insurance Act Administered by Jamaica Mortgage Bank)

Statement of Financial Position as at March 31, 2012

	2012 $'000	2011 $'000
ASSETS		
Due from Mortgage Insurance Fund	74	73
Government of Jamaica investment debenture	15	15
	89	88
Financed by:		
ACCUMULATED SURPLUS	89	88

The financial statements on Pages 89 to 96 were approved for issue by the Board of Directors on May 30, 2012 and are signed on its behalf by:

The Notes on Pages 89 to 96 form an integral part of the financial statements.

Chairman

Director

MORTGAGE (GOVERNMENT GUARANTEED LOANS) INSURANCE RESERVE FUND

(Established under the Mortgage Insurance Act Administered by Jamaica Mortgage Bank)

Statement of Changes in Fund Balance Year Ended March 31, 2012

	2012 $'000	2011 $'000
One-half of investment income transferred to the Bank as contribution towards the cost of administering the Mortgage Insurance Act	1	-
Net increase in fund for year	1	-
Fund balance at beginning of year	88	88
Fund balance at end of year	89	88

The Notes on Pages 89 to 96 form an integral part of the financial statements.

THE MORTGAGE INSURANCE FUND AND MORTGAGE (GOVERNMENT GUARANTEED LOANS) INSURANCE RESERVE FUND

(Established under the Mortgage Insurance Act Administered by Jamaica Mortgage Bank)

Notes to the Financial Statements

Year Ended March 31, 2012

1 **IDENTIFICATION**

(a) The Mortgage Insurance Fund

(i) Establishment and functions

The Mortgage Insurance Fund ("the Fund") was established under section 9 of the Mortgage Insurance Act ("the Act"). Under Section 25 of the Jamaica Mortgage Bank Act 1973, the functions of the Jamaica Development Bank in relation to the Mortgage Insurance Act shall be carried out by the Jamaica Mortgage Bank and references in the Act to the Development Finance Corporation shall (notwithstanding Section 25 of the Jamaica Development Bank Act, 1969) be deemed to be references to the Jamaica Mortgage Bank. Accordingly, all assets and liabilities of the Mortgage Insurance Fund were taken over by the Jamaica Mortgage Bank at June 15, 1973 and administered from that date.

The Fund is domiciled in Jamaica and its principal place of business is located at 33 Tobago Avenue, Kingston 5, Jamaica.

(ii) Funding

The Act requires that *four-fifths of the insurance fees* received by the Bank be paid into the Fund. An amendment to the Act, stipulates that *three-fifths of the insurance fees* received by the Bank be paid into the Fund, effective July 24, 2008. The income of the Fund belongs to the Fund and not to the Bank except as set out in Note 1(c) below.

(b) The Mortgage (Government Guaranteed Loans) Insurance Reserve Fund

The Mortgage (Government Guaranteed Loans) Insurance Reserve Fund was established under section 11 of the Mortgage Insurance Act, using certain funds transferred by the Accountant General. The income of this Fund belongs to this Fund and not to the Bank except as set out in Note 1(c) below.

(c) Costs of and Funding for Administration of Mortgage Insurance Act

The employees of the Bank manage the operations of the Mortgage Insurance Fund and the Mortgage (Government Guaranteed Loans) Insurance Reserve Fund. Section 14 of the Mortgage Insurance Act provides for the Bank to meet its costs of administering the Act in the following way:

- *one-half of the return on the income and assets* of the Mortgage (Government Guaranteed Loans) Insurance Reserve Fund and *two-fifths (one-fifth up to July 23, 2008) of the insurance fees* received; and, if not adequate, then by-
- withdrawals from the Mortgage Insurance Fund of up to one-half of the return on investment and assets of the Fund for that year; and, if more is still required, then by-advances from the Government's Consolidated Fund.

(d) The principal purpose of the Fund is to provide mortgage indemnity insurance.

(e) The Fund is exempt from taxation.

2 STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements are prepared on the historical cost basis, and in accordance with International Financial Reporting Standards ("IFRS").

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of, and disclosures relating to, assets, liabilities, contingent assets and contingent liabilities at the end of the reporting period and the income and expenses for the year then ended. Actual amounts could differ from those estimates.

The financial statements are presented in Jamaica dollars, which is the functional currency of the Fund.

The directors and management believe that there are no significant assumptions and judgements applied in these financial statements giving rise to a risk of material adjustments in the next financial year.

New and revised IFRS and Interpretations that became effective during the year

During the year, certain new and revised IFRS and Interpretations became effective; however, their adoption had no effect on the Funds' accounting policies.

New and revised IFRS and Interpretations not yet effective

At the date of authorisation of the financial statements, there were certain standards and interpretations which were in issue but were not yet effective. The adoption of those standards and interpretations at their effective dates are not expected to have a material impact on the financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances including short-term deposits with maturities of between one and twelve months from the end of the reporting period.

(b) Investments

Investments in financial instruments are classified as loans and receivables. Management determines the appropriate classification of investments at the time of purchase.

Government of Jamaica or other securities and loans with fixed or determined payments, for which there is not an active market which are not intended for sale immediately or in the near term or are not designated upon initial recognition as at fair value through profit or loss or as available-for-sale, are classified as loans and receivables. These are initially measured at cost and subsequently at amortised cost, using the effective interest rate method, less impairment losses.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees or points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

3 **SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

(c) Receivables

Trade and other receivables are stated at cost, less impairment losses.

(d) Impairment

The carrying amounts of the Fund's assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amounts are estimated at the end of each reporting period. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of changes in Fund balance.

(i) Calculation of recoverable amount

The recoverable amount of the Fund's investments in loans and receivables and accounts receivable is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with short duration are not discounted.

(ii) Reversals of impairment

An impairment loss in respect of loans and receivables is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined; if no impairment loss had been recognised.

(e) Payables

Trade and other payables are stated at cost.

(f) Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at cost less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

THE MORTGAGE INSURANCE FUND AND MORTGAGE (GOVERNMENT GUARANTEED LOANS) INSURANCE RESERVE FUND

(Established under the Mortgage Insurance Act Administered by Jamaica Mortgage Bank)

Notes to the Financial Statements

Year Ended March 31, 2012

4 **INVESTMENTS - MORTGAGE INSURANCE FUND**

	2012 $'000	2011 $'000
Loans and receivables - carried at amortised cost		
GK Corporate bond	4,088	4,094
Government of Jamaica:		
Local registered stocks	157,231	99,592
Investment bonds	876,622	847,995
	1,037,941	951,681

5 **RECEIVABLES**

	2012 $'000	2011 $'000
Withholding tax recoverable	174,694	145,560
Other	568	3
	175,262	145,563

6 **PROPERTY, PLANT AND EQUIPMENT - COMPUTER**

	2012 $'000
Cost	
March 31, 2011 and March 31, 2012	115
Depreciation	
March 31, 2011	19
Charge for the year	29
March 31, 2012	48
Net book value	
March 31, 2012	67
March 31, 2011	96

7 **FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT**

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

For the purpose of the financial statements of the Mortgage Insurance Fund, financial assets have been determined to include cash and cash equivalents, investments and receivables. Financial liabilities have been determined to include payables and Due to Mortgage (Government Guaranteed Loans) Insurance Reserve Fund.

7 **FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)**

For the purpose of the financial statements of the Mortgage (Government Guaranteed Loans) Insurance Reserve Fund, financial assets have been determined to include Due from Mortgage Insurance Fund and Government of Jamaica Securities. There are no financial liabilities.

(a) Fair value

Fair value amounts represent estimates of the arm's length consideration that would be currently agreed between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists.

Determination of fair value:

The carrying values of the Fund's financial instruments, except for investments, are all considered to approximate their estimated fair values because of their short-term nature. At the end of the period, the fair value of the fund's investments was $1.196 million (2010: $1.089 million). The fair values are estimated on the basis of pricing models or other recognized valuation techniques.

(b) Financial risk management:

The Funds' activities are principally related to the use of financial instruments. The Funds therefore, have exposure to the following risks from the use of financial instruments in the ordinary course of business:

- credit risk
- market risk
- liquidity risk

Detailed below is information about the Fund's exposure to each of the above risks, and the Fund's objectives, policies and processes for measuring and managing risk.

Risk management framework

The Board of Directors of Jamaica Mortgage Bank has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Board has established Finance and Audit and Loans and Projects Committees for the Bank and, by extension, the Fund. These committees are responsible for developing and monitoring risk management policies in their specified areas - for the Bank and the Funds.

The risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, and products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations. The Funds are managed by the Bank and benefit from the Bank's risk management policies and processes.

The Audit Committee is responsible for monitoring the Fund's compliance with risk management policies and procedures, and for reviewing the adequacy of the risk management framework.

7 **FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)**

(b) Financial risk management (Cont'd)

(i) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The assets presented on the Statement of Financial Position comprise the Fund's exposure to credit risk. Except for significant investments in various forms of Government of Jamaica securities, there is no significant concentration of credit risk. The Fund's exposure to credit risk is limited to the carrying values of financial assets in the balance sheets.

There has not been any change in the Fund's management of credit risk during the year.

(ii) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to the obligor's/issuer's credit standing) will affect the Fund's income or the value of its holdings of financial instruments. Each of the components of market price risks is considered below. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising returns.

- Interest rate risk:

  Interest rate risk is the risk that that the value of a financial instrument will fluctuate due to changes 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 adjustment 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 Funds manage interest rate risk by monitoring interest rates daily, and ensuring that the maturity profile of its financial assets is matched by that of its financial liabilities to the extent practicable, given the nature of the business.

THE MORTGAGE INSURANCE FUND AND MORTGAGE (GOVERNMENT GUARANTEED LOANS) INSURANCE RESERVE FUND

(Established under the Mortgage Insurance Act Administered by Jamaica Mortgage Bank)

Notes to the Financial Statements

Year Ended March 31, 2012

7 **FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)**

(b) Financial risk management (Cont'd)

(ii) Market risk (Cont'd)

- Interest rate risk (Cont'd):

Set out below is an analysis of the Mortgage Insurance Fund's interest-rate sensitive financial instruments, based on the period in which the earlier of the maturity dates and the contractual re-pricing dates occur. The interest rate sensitive financial instruments of the Mortgage (Government Guaranteed Loans) Insurance Reserve Fund are not material.

	2012					
	Immediately Rate Sensitive	Within 3 months	Three to 12 months	Over 12 months	Total	Average Effective yield
	$'000	$'000	$'000	$'000	$'000	%
Investments	38,840	52,486	36,135	906,392	1,033,853	10.24
GK Corporate bond	-	4,088	-	-	4,088	8.7
Cash and cash equivalents	-	5,378	-	-	5,378	

	2011					
	Immediately Rate Sensitive	Within 3 months	Three to 12 months	Over 12 months	Total	Average Effective yield
	$'000	$'000	$'000	$'000	$'000	%
Investments	-	-	-	947,587	947,587	12.50
GK Corporate bond	-	4,094	-	-	4,094	9.35
Cash and cash equivalents	-	6,140	-	-	6,140	-

7 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

(b) Financial risk management (Cont'd)

(ii) Market risk (Cont'd)

- Foreign currency risk:

  Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

  The directors and management believe that the Funds have limited exposure to foreign currency risk as it has no foreign currency liabilities and limited foreign currency assets.

- Other market price risks

  The Funds have no significant exposure to equity price risk as they have no financial assets which are to be realised by trading in the securities market.

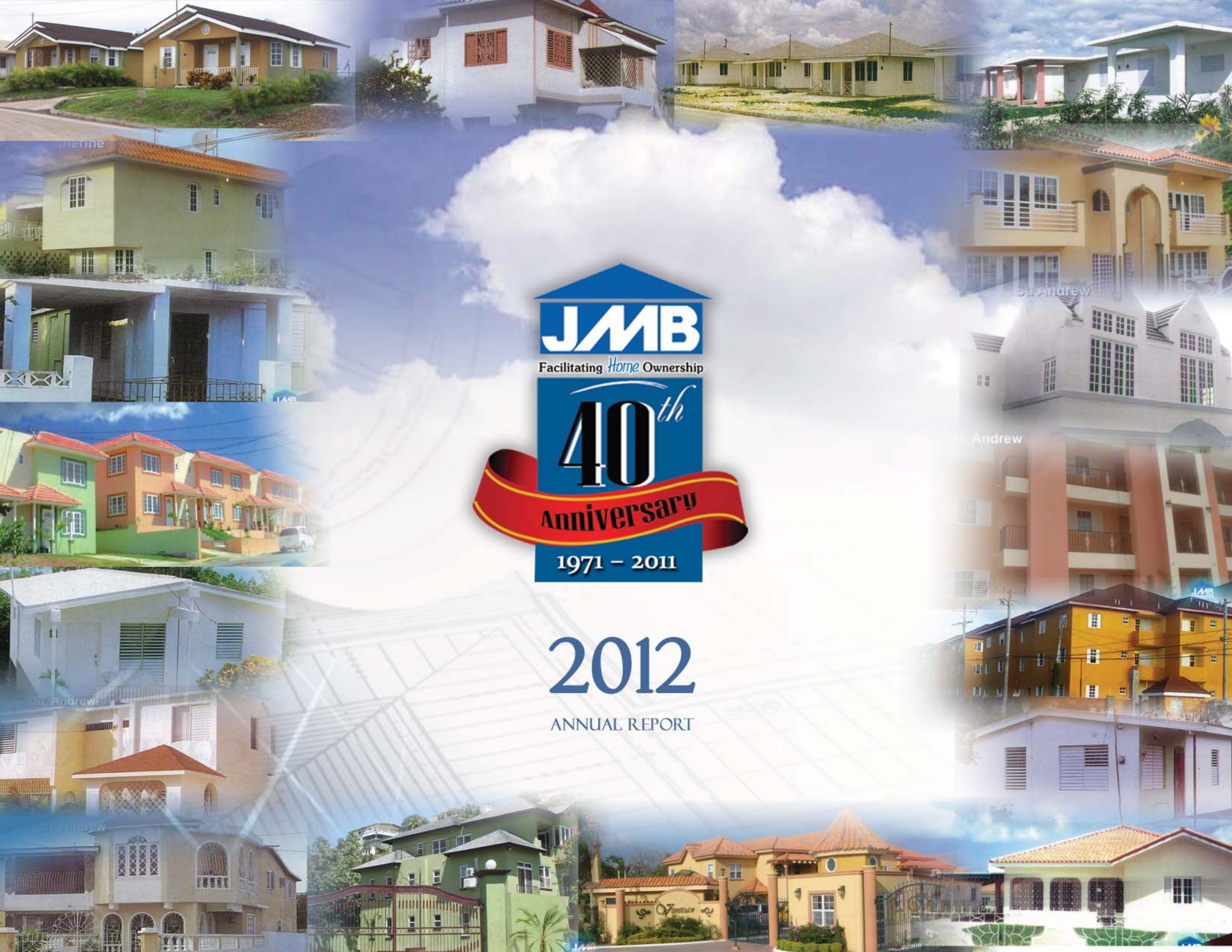
(iii) Liquidity risk

Liquidity risk also referred to as funding risk, is the risk that the Funds will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at, or close to, its fair value. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed facilities.

The Funds' exposure to liquidity risk is insignificant as their assets are readily realisable and claims against the Funds would be handled in a manner which provides for careful liquidation of assets.

8 FUND VALUATION

The Fund is subjected to triennial actuarial valuations carried out by an independent firm of actuaries. The latest actuarial valuation for funding purposes, undertaken at March 31, 2009, indicated the actuarial value of net assets of $1.188 billion exceeded the unearned premium liability, claim liability and contingency reserves total of $202 million by a surplus of $986 million. The next valuation is due on March 31, 2012.


JMB
Facilitating Home Ownership
40th
Anniversary
1971 – 2011
2012
ANNUAL REPORT
St. Andrew
St. Andrew
St. Andrew

JMB

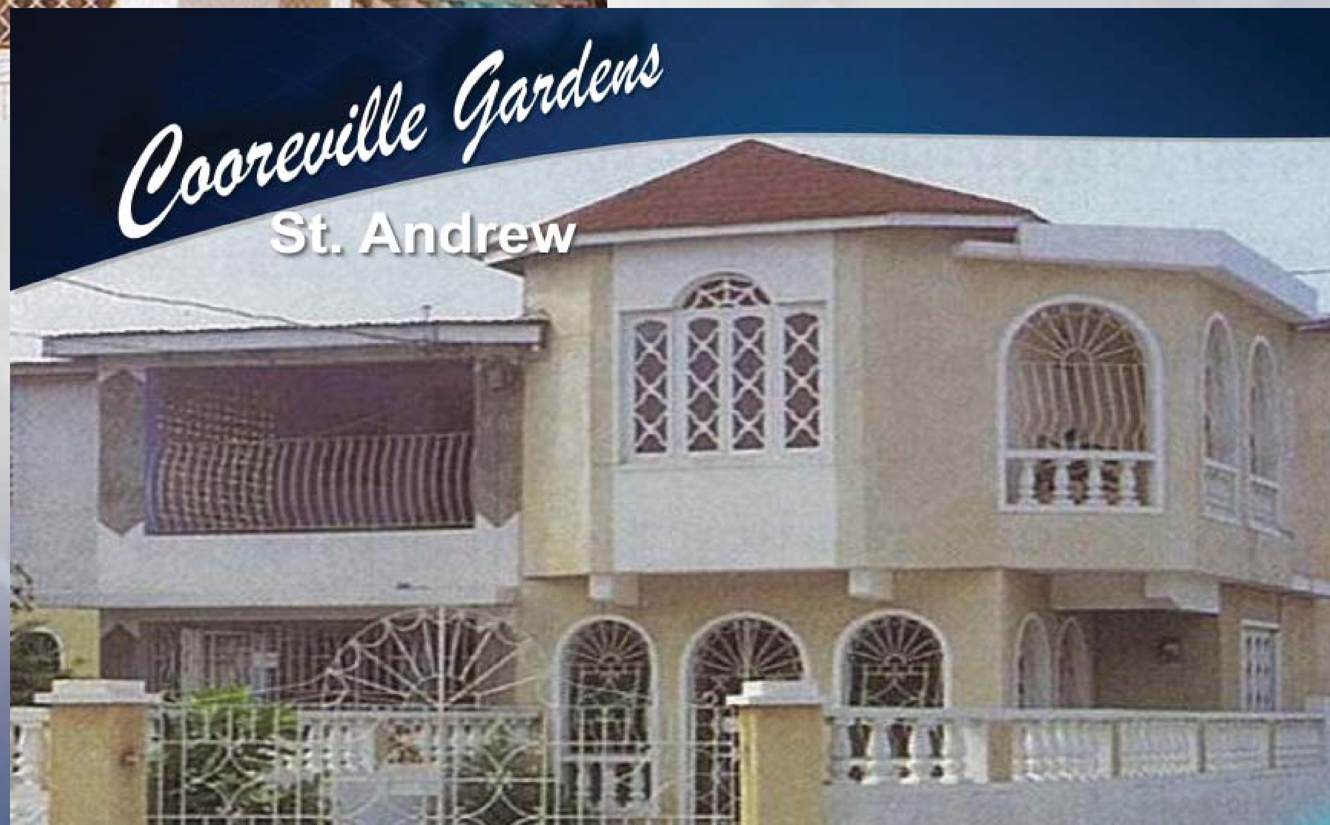
Facilitating Home Ownership

40th Anniversary

Facilitating Home Ownership,
the Cornerstone of Nation Building

JMB Facilitating Home Ownership in the 1970s


Blue Castle
St. Andrew


Cooreville Gardens
St. Andrew

Garveymead

St. Catherine

"Home is the womb that holds the soul"

Aisha Patterson

Braeton
St. Catherine

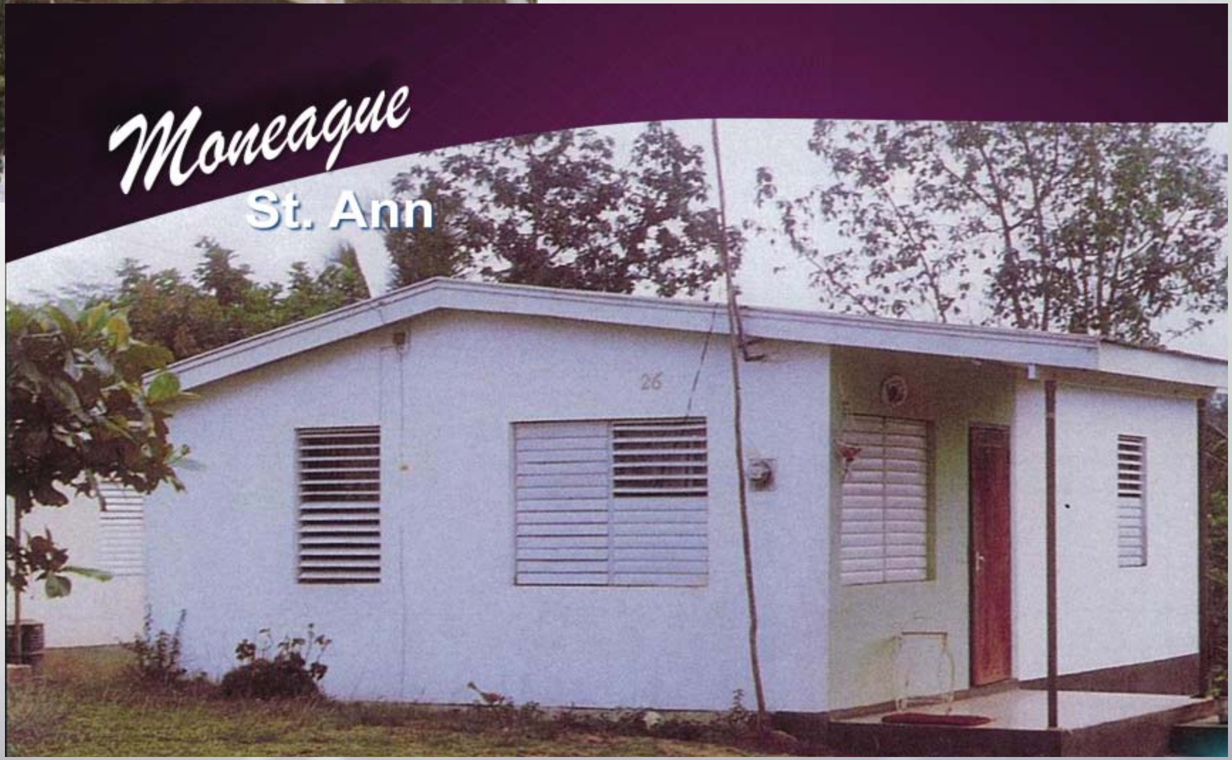
"No more from that cottage again will I roam;
Be it ever so humble, there's no place like home." - ***John Howard Payne***

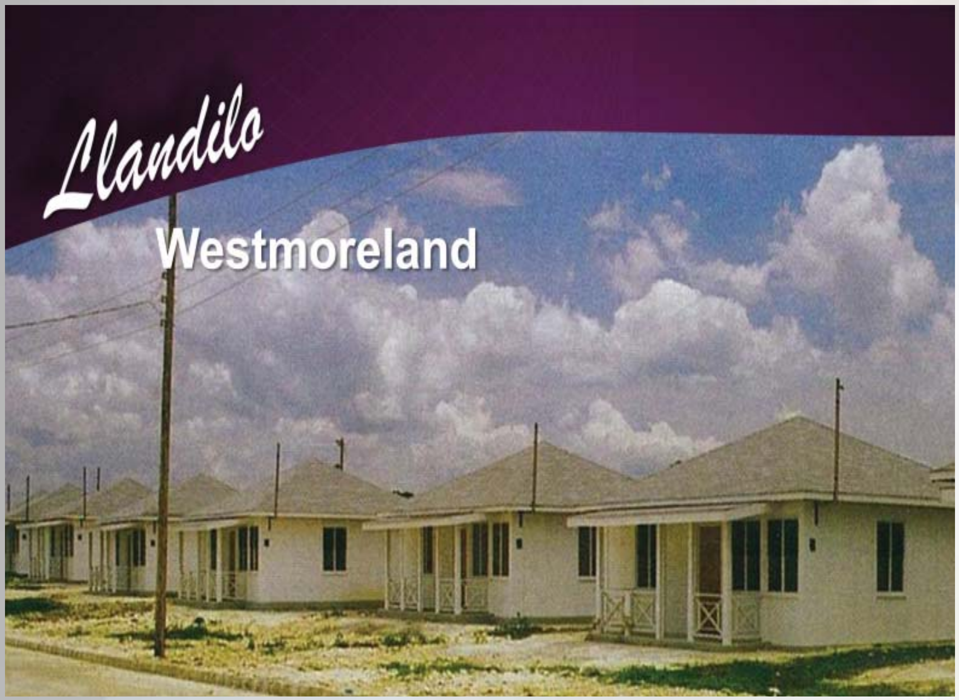

Passage Fort
St. Catherine


Marine Park
St. Catherine

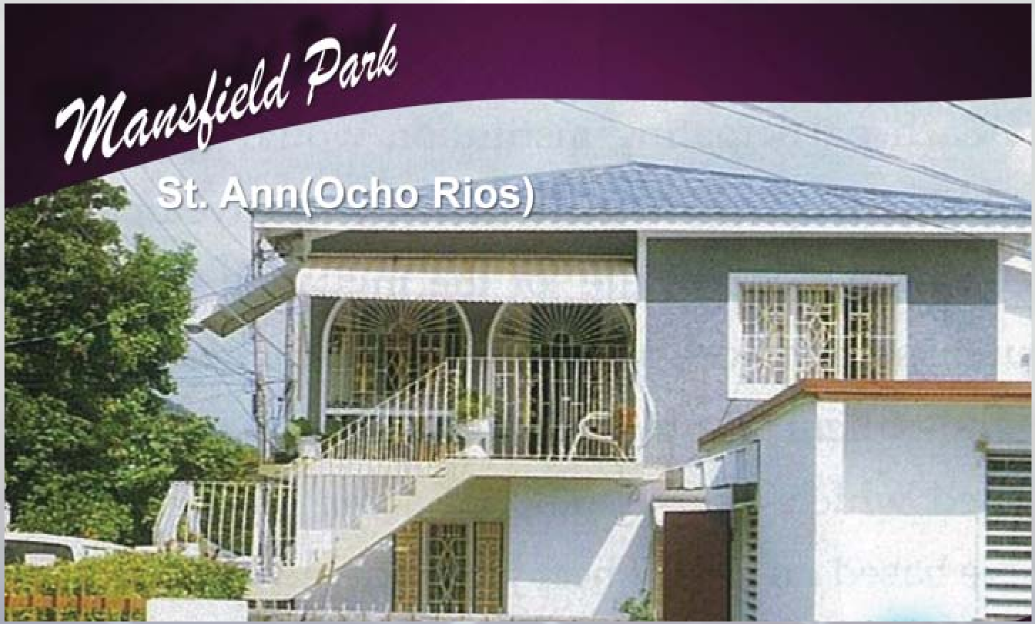
JMB Facilitating Home Ownership in the 1980s


Catherine Hall
St. James


Moneague
St. Ann

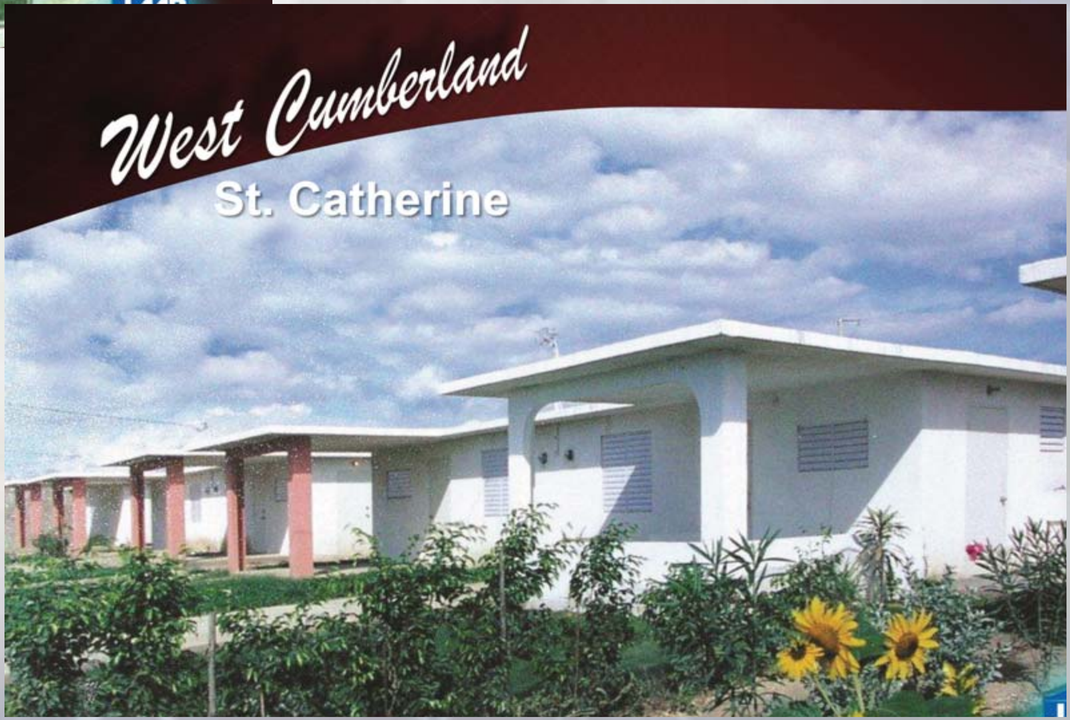

Llandilo
Westmoreland


Hague
Trelawny

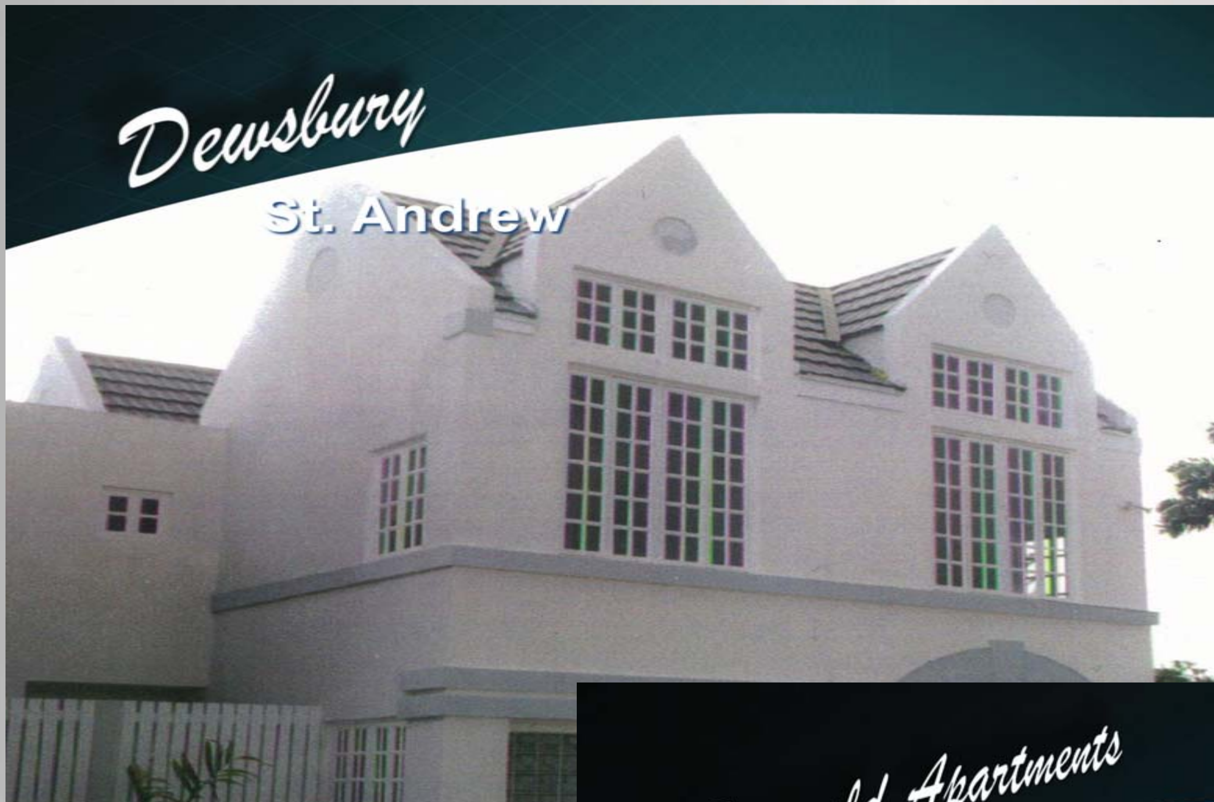

Mansfield Park
St. Ann(Ocho Rios)

JMB Facilitating Home Ownership in the 1990s

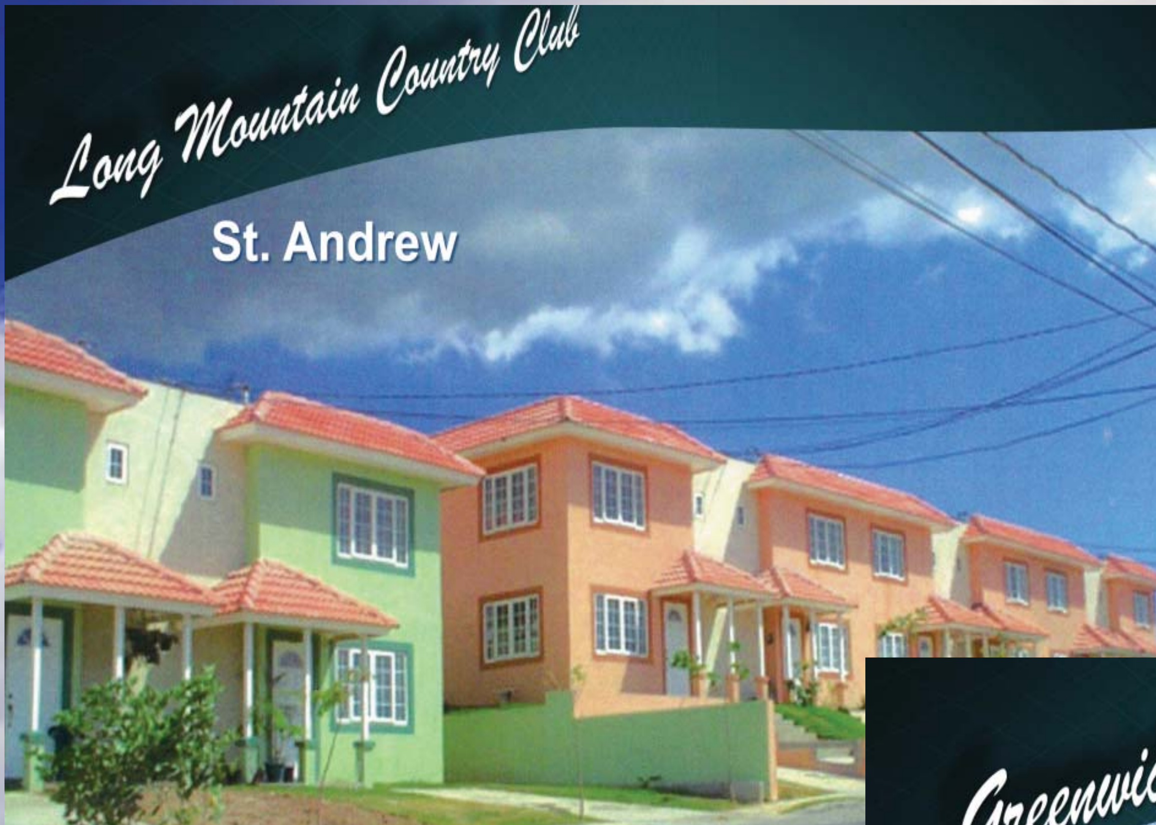

Rio Nuevo
St. Mary


West Cumberland
St. Catherine

JMB Facilitating Home Ownership in the 21st Century

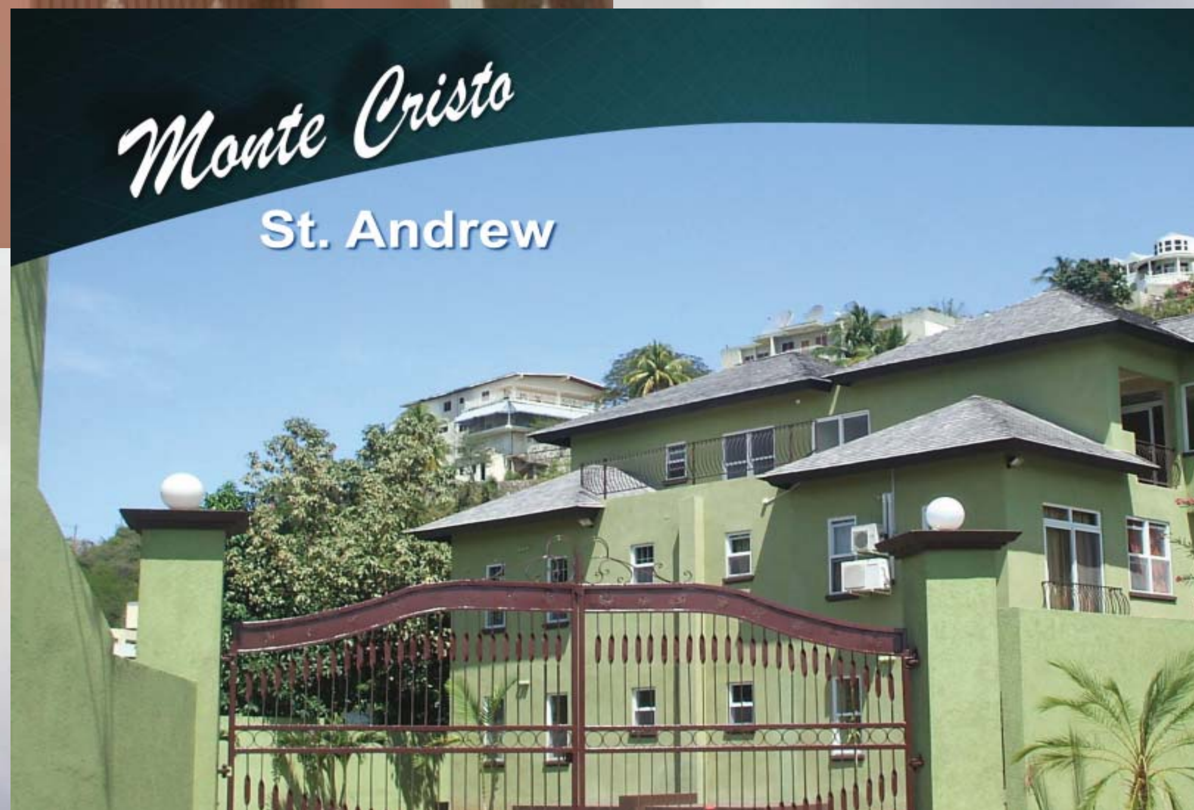

Dewsbury
St. Andrew


Emerald Apartments
St. Mary

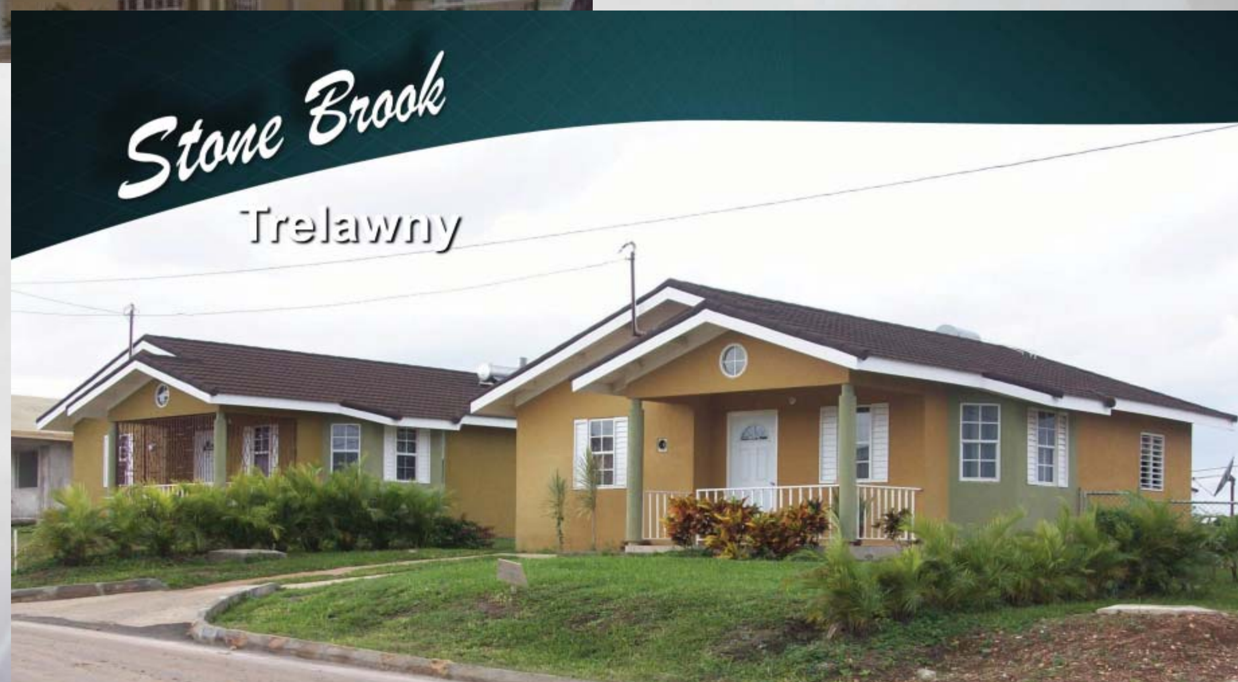

Long Mountain Country Club
St. Andrew


Greenwich Estate
St. Ann

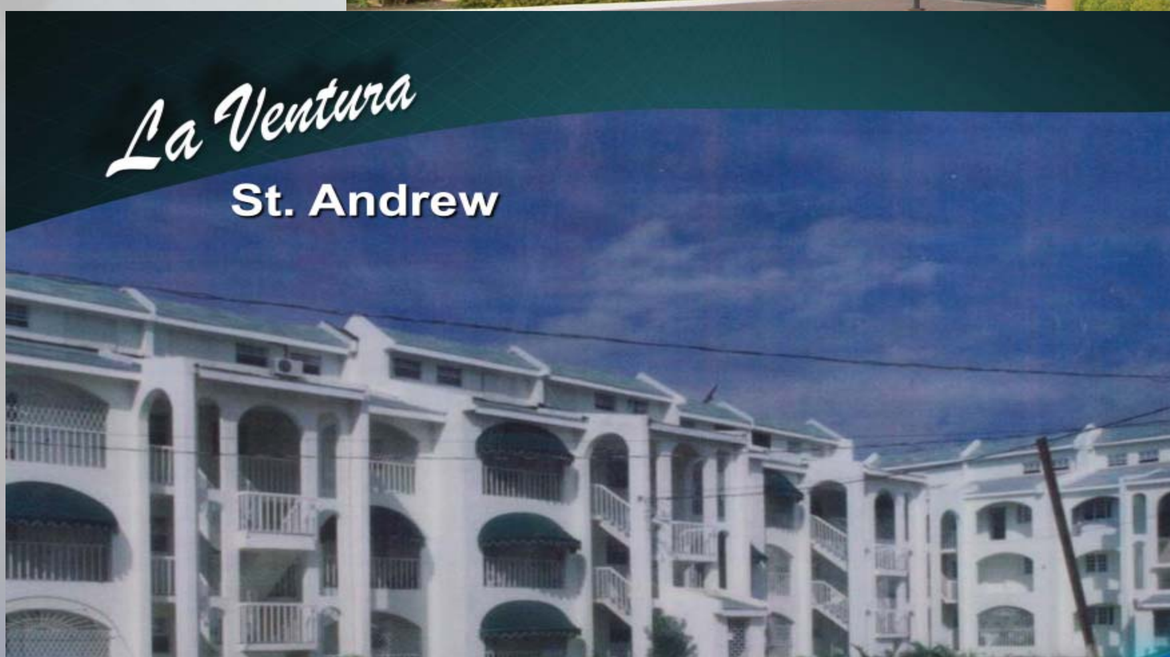

Mannings Manor
St. Andrew


Monte Cristo
St. Andrew


Pleasant Valley
St. Andrew


Stone Brook
Trelawny


The Venetian
St. James
Venetian


La Ventura
St. Andrew

The Shores

St. James

JMB
Facilitating Home Ownership
40th
Anniversary

"Pleasures and palaces though we may roam,
Be it ever so humble, there's no place like home" -**John Howard Payne**