45th

JMB

ANNIVERSARY

JAMAICA MORTGAGE BANK

Facilitating Home Ownership

Since 1971

ANNUAL REPORT **2016**

JMB

Facilitating *Home* Ownership

ANNUAL REPORT **2016**

CONTENTS

LETTER OF TRANSMITTAL

July 1, 2016

Hon. Dr. Horace Chang
Minister without Portfolio
with responsibility for Water, Works and Housing
Ministry of Economic Growth and Job Creation
25 Dominica Drive
Kingston 5

Dear Sir:

In accordance with Section 15 (1) of the Jamaica Mortgage Bank Act, No. 16 of 1972, I have the honour of transmitting herewith the Bank's Report for the year ended March 31, 2016 and a copy of the Statement of the Bank's Accounts as at March 31, 2016, duly certified by the Auditors.

Yours respectfully,

....
Dr. Patrick W. Thelwell
Chairman

Vision

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

Mission Statement

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 Core Values

Respect

Accountability

Integrity

Service-oriented

Excellence

SUMMARY OF **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 institutions.

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 investment 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 residential 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 INSURANCE

The insuring of residential mortgage loans.

BOARD OF DIRECTORS' REPORT

Overview

For the 2015/16 fiscal year, the Jamaican economy continued to benefit from the austerity measures implemented as a result of the International Monetary Fund's (IMF) Extended Fund Facility (EFF). The year was marked by increased confidence in the Jamaican economy resulting in an improvement in the country's credit rating and the Government's ability to raise US$2B in the international capital market. Also, in the 2015 Doing Business Ranking, Jamaica moved up 27 places from 85th to number 58th out of 189 economies worldwide.

However, despite the macroeconomic improvements, reports from the Statistical Institute of Jamaica show that the unemployment rate in Jamaica remained relatively high and was estimated at 13.5 percent. The unemployment rate for youth was considerably higher at 30.3 percent, and the average unemployment rate for women was double that for men: 18.5 versus 9.3 percent.

An examination of the construction sector and specifically the housing sub-sector showed continued challenges. The PIOJ 2015 report shows a third consecutive year of decline in housing starts, housing completions and the number of mortgages issued by the National Housing Trust (NHT).

Notwithstanding the challenges resulting from the slow growth in the economy and housing sector, the JMB has shown resilience and innovation that have resulted in year over year financial growth in revenues and profits and improvements in most areas of its operations, especially in its Primary Market business where it funds affordable housing solutions for the Jamaican people.

Macroeconomy

Inflation: The rate of inflation for 2015 was 3.7 percent, compared to 6.4 percent in 2014 and 9.7 percent in 2013. This change is attributed to oil prices remaining relatively low during 2015.

Exchange Rate: The Jamaican Dollar devalued in 2015 to the US dollar by approximately 5.02 percent which indicates a moderate reduction of the value of the Jamaican dollar when compared to the rapid devaluation of 7.78 percent experienced in 2014.

Interest Rate: Interest Rate on the benchmark Six-Month Treasury Bill declined from 7.14 percent in December 2014, to a rate of 6.04 percent at the end of December 2015.

Growth: According to the Economic and Social Survey of Jamaica (ESSJ) report published by the Planning Institute of Jamaica (PIOJ), Jamaica's GDP grew by 0.8 percent during 2015, and represented the third consecutive year of growth. Economic growth rates have been low during the past three years but are steadily rising, and the World Bank forecasts GDP growth accelerating to 1.7 percent in 2016 and to over 2 percent in 2017, aided by improving growth in the U.S., low oil prices, and reforms of local investment climate regulations.

The PIOJ further reported that the Construction sector grew by 0.9 percent when compared to the previous year and contributed 7.2 percent to Gross Domestic Product (GDP).

In respect to the residential housing sector, the number of housing starts by the NHT and private developers has declined by 28.1 percent; however, there was a slight increase in the housing completion compared to the previous year. The total number and value of mortgages increased in 2015; however, the percentage attributable to the NHT has been on a gradual decline, indicating a shift to private developers, commercial banks and other financial institutions.

Nonetheless, the construction sector is expected to continue its growth trend in 2016 and given the recent initiatives and announcements by the NHT, to build over 5,000 new homes, we also anticipate some growth in the residential housing sector in the short to medium term.

Annual Report 2015

The Jamaica Mortgage Bank (JMB) continues to operate in a challenging macroeconomic environment, characterized by high borrowing cost, and a competitive and low growth construction sector. Despite these challenges, The Jamaica Mortgage Bank (the Bank) continues to effectively execute its mandate of facilitating affordable housing solutions for Jamaicans. The Board of Directors are therefore pleased to present the Bank's Annual Report for the financial year ended March 31, 2016.

Performance

The Jamaica Mortgage Bank projected to commit J$1.3B to finance 675 housing solutions for its Primary Market programme for the financial year 2015/2016. Despite the austerity conditions described above, the JMB was able to realized total commitment of $2.1B for the construction of approximately 650 units. This is an improvement when compared to the prior year 2014/15 of commitment of $1.4B and 674 units, respectively. Further, the JMB aggressively recovered and collected over $197M of its bad debt during the financial year.

As a result, the Bank increased its total revenues by 18.6 percent, interest income by 4.2 percent and net profit after tax by 202.7 percent.

For the 2015/2016 year, the Bank delayed going to the private market for funding; however, approximately $625M was funded by syndication arrangements with another financial institution. The Bank had one $500M bond which matured and was paid out during the financial year. This caused a deduction in the size of the Balance Sheet. The JMB will be working with financial institutions for loans of approximately one Billion Dollars ($1B) to finance its Primary Market housing programme in 2016/2017, as the Bank currently has over $2B of applications in the pipeline, including proposals to build low and middle-income houses.

The amendments to the Mortgage Insurance Act (MIA) 2014 that allow for the percentage of the appraised value of a property on which a mortgage loan is granted, to be increased from 90 percent to 97 percent has started to bear fruit. As a result of the JMB's promotion of this change, the number of undertakings-to-insure mortgages nearly doubled in 2015/2016 when compared to 2014/15. Interest in the product from the Mortgage issuing institutions has also increased, evident in the number of financial institutions now in negotiations to participate in the plan.

This legislative amendment has reduced the burden of a high down payment, which currently is between 10 and 15 percent. The Bank is now seeing mortgages being offered at 95 percent and will continue to promote a 97 percent mortgage especially to younger home purchasers. Essentially, the amendment is aimed at making mortgages more accessible to homeowners and consequently brings the dream of home ownership within the grasp of more Jamaicans. This is far reaching, as younger working Jamaicans as an example, can now afford a down payment earlier in their careers. Likewise, it opens the door for mortgage institutions to offer more innovative products such as Adjustable Rate Mortgages (ARM) or Graduated Payment Mortgages (GPM). The JMB anticipates a further improvement in the number of mortgages benefitting from the Mortgage Indemnity Insurance plan during 2016/2017.

The Way Forward

The JMB has established itself as the premier expert in housing and commercial short-term finance lending in Jamaica, partly, by utilizing its project management strengths across the public and private housing sector, including offering these services to the Diaspora. The JMB will endeavour to sell these skills to private developers, as well as, within joint ventures involving private and public sector interests. The Bank now provides technical services to developers and other commercial institutions in the housing sector, and is currently working on its first Diaspora Home Building project to project manage the building of houses on "owned land" for Jamaicans in the Diaspora who wish to return or retire here.

The Board of Directors and Management is of the view that the financial sector as a whole could improve performance in the construction industry if it leverages the Bank's technical expertise to support other industry players to better manage the risks associated with the technical aspects of construction financing. As such, in the mid- to long term, the JMB will seek to transform itself into a commercial entity where it will earn management fees for services, including the continued administration of the MII programme, while continuing its mandate of facilitating home ownership in the middle to lower income markets.

Appreciation

The Board of Directors deeply appreciates the support of the Most Hon. Prime Minister, Minister of Economic Growth and Job Creation; the Hon. Dr. Horace Chang, our Portfolio Minister for Water, Works and Housing, former Ministers, Permanent Secretary, Mrs. Audrey Sewell and the staff of the Ministry, for their support during the year.

To our business partners, especially the National Commercial Bank (our loan syndication partner), we thank you for the confidence that you continue to place in the Jamaica Mortgage Bank as we strive to maintain the greatness of this most relevant institution.

Finally, we would like to thank the former Board of Directors and team members of the Bank for their steadfast and unwavering commitment to the continued success of the organization. The current Directors are excited about the Bank's future and look forward to working with all stakeholders to overcome the challenges and achieve the mandate of providing affordable housing solutions for Jamaicans.

For and on Behalf of the Board of Directors

....
Dr. Patrick Wayne Thelwell
Chairman

GENERAL MANAGER'S REPORT

Overview

At the end of fiscal year 2015/2016, the Jamaica Mortgage Bank's (the Bank) core business, experienced the second of two consecutive years of improved operating performance, resulting in revenue and profit growth. This was primarily due to the tight execution of the three year strategic plan implemented in 2014.

In recognition of the difficulty of raising funds in the private market post the National Debt Exchange (NDX) programme, the Bank deliberately stayed out of the debt market and continued with its syndication strategy as an alternative means of funding its mandate. Similarly, the Bank, through its promotion of the 97% Mortgage Indemnity Insurance programme drove the residential mortgage financing market to the offering of between 95% and 97% end user mortgages at lower interest rates, when compared to the previous periods.

The Strategy

In 2014, the Bank employed a three (3) year strategy to 2017, to strengthen its capital base and return to sustainable growth and profitability, using three pillars; i) increasing the loan portfolio, while leveraging its expertise to offer other services, thereby increasing income, ii) finding more innovative means of funding and iii) aggressively pursuing collections on the bad debt portfolio.

During the 2015/2016 fiscal year, the Bank continued to execute on the three pillar strategy with increasing success. While the total loans portfolio declined slightly, commitments increased year over year. The Bank also introduced a new product: a project management service tailored for the Diaspora and is now implementing its first project. Likewise, the Bank funded its commitments from existing resources and deepened the relationship with its syndication partner, resulting in alternative funding of $625M. The Bank also continued to intensify its bad debt collection efforts, resulting in various settlements, foreclosures and cash collections.

The Bank maintained its posture of identifying only quality projects in order to minimize any chance of delinquency, by using a robust set of risk management metrics to assess and price construction projects. The metrics also allowed the Bank to maintain its flexibility with developers, while reducing some of the inherent risks experienced with past operating procedures.

Similarly, the Bank has upgraded its computer and software systems to enable the staff to be more efficient and productive in their respective functions.

Additionally, the Bank continued to seek out buyers to convert its hard assets to cash in order to ensure liquidity was available to meet commitments.

Financial Performance

As a result of the strategy execution, the Bank showed year over year improvement in most of its key financial indicators. These results were driven by increased loan commitments and disbursements when compared to the previous period. Additionally, collections, including bad debt recoveries, was as impressive as the previous year.

Revenues

Total income of $259.1M was $40.6M or 18.6% higher than the previous year, primarily in the categories of Loan interest and other income.

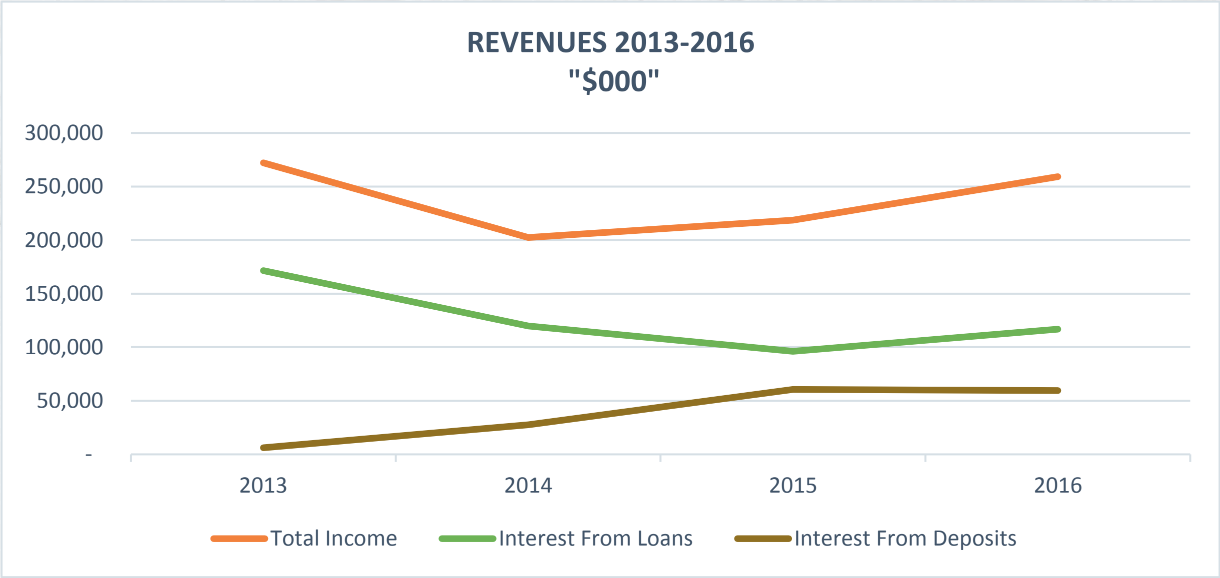
Total Interest income of $176.4M for the reporting period was 4.2% higher than the previous year, but lower than budget by 34.9%, primarily due to lower than expected yield on the loan portfolio, as well as, delayed disbursement on approved projects in the pipeline. Interest income from loans of $116.8M was 21.5% higher than the previous year, while interest from deposits was 1.7% lower due to the decline in interest rates in the investment market.

Net interest income of $77.5M was significantly higher than the previous year and budget by 31.2% and 23.8%, respectively, primarily due to increased year over year income from interest on loans and lower interest expenses.

Non-Interest income of $82.7M also significantly exceeded that of the previous year by $33.4M or 67.7% and exceeded budget by $16.4M or 24.8%, primarily driven by fees associated with increased commitments, when compared to budget, as well as, bad debt recoveries.

Expenses

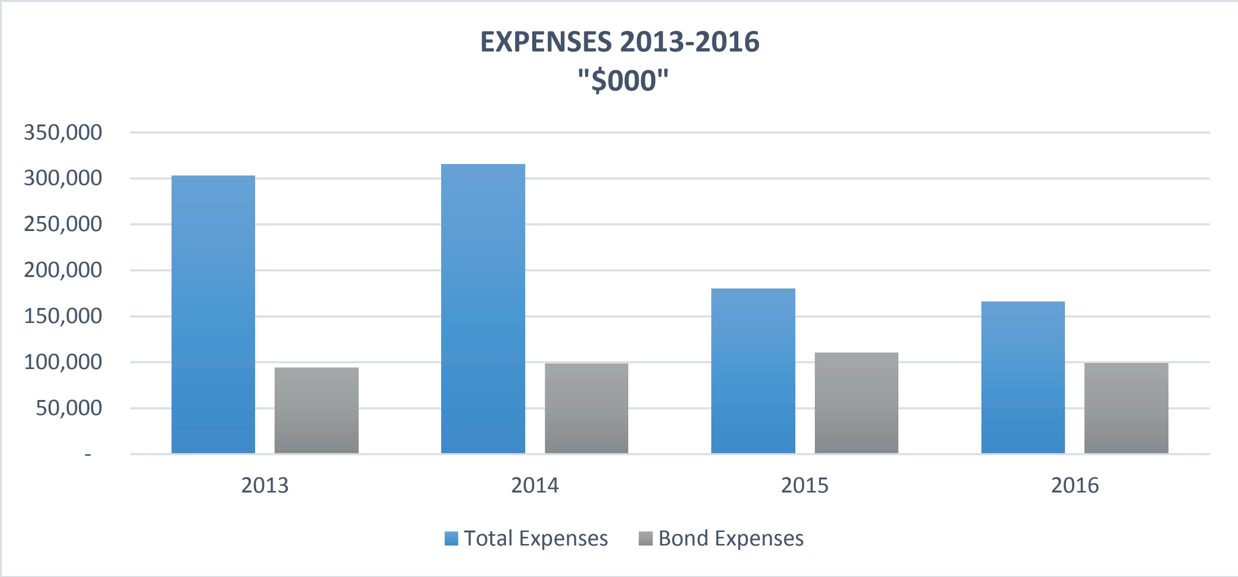
Total expenses of $165.9M were lower than the previous year by $13.8M or 7.7% primarily due to higher write back of $76.7M when compared to the previous year.



Interest expenses on Bonds was $99.0M or 10.2% lower than the previous year. Likewise, bond expenses were 52.5% lower than budgeted, due to expected funding not materializing, as well as, lower cost of funds on existing variable bonds.

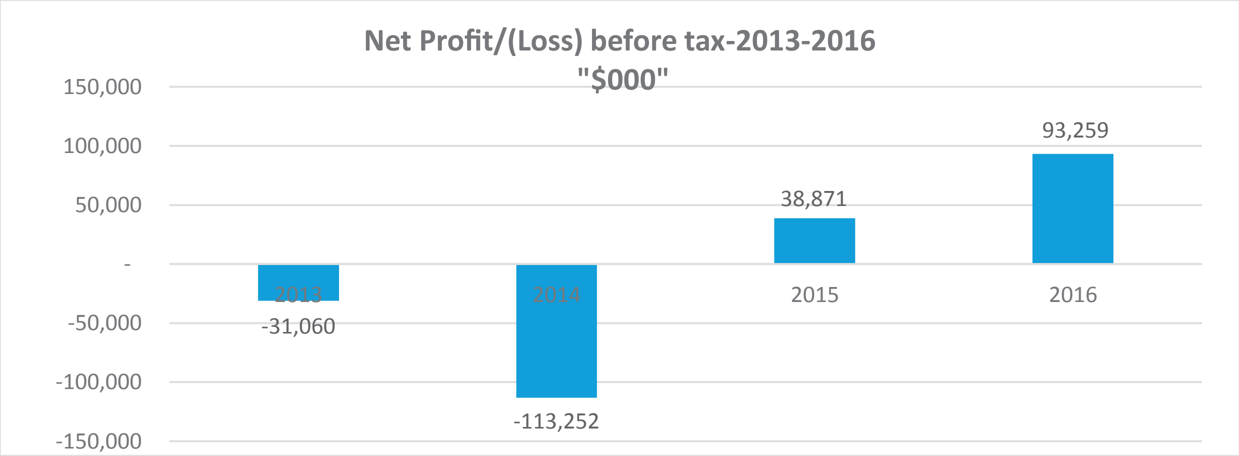
Operating Expenses (OPEX) of $143.6M was higher than that of the previous year and budget by 30.2% and 17.7% respectively due to salary increases, reorganization expenses and bad debt expenses of $10.0M.

As a result of the work done on the bad debt portfolio, the Bank experienced a write back in its provision of $76.7M, compared to the $40.6M during the previous year. This was primarily due to the bank's recovery of property securing a non-performing loan, as well as various other bad debt negotiated settlements.



Profit/(Loss)

Resulting from the improved performance mentioned above in the fiscal year 2015/2016, the Bank increased its after tax profit by 202.7% to $77.7M, or by $52.0M when compared to the previous year. Likewise, the Bank exceeded its budgeted net profit after tax by $69.1M or 807.4%. When the results are normalized for the $76.7M write back, the Bank's profit before tax exceeded budget by 142.1% or $18.5M compared to the previous year.



ANALYSIS OF CHANGE IN INCOME & EXPENDITURE 2014/15 to 2015/2016

ITEM	2016 $'000	2015 $'000	Variance $'000	Var. %
Interest Income				
Interest from Loans	116,878	96,190	20,688	21.5%
Interest from Deposits	59,552	60,579	-1,027	-1.7%
Interest from other Investments	-	12,497	-12,497	-100.0%
Total Interest Income	**176,430**	**169,266**	**7,164**	4.2%
Interest Expenses				
Interest on Bonds Payable	98,965	110,207	-11,242	-10.2%
Net Interest Income/(Loss)	**77,465**	**59,059**	18,406	31.2%
Non Interest Income	82,701	49,305	33,396	67.7%
Gross Margin before Provision and Expenses	**160,166**	**108,364**	**51,802**	47.8%
Less Operating Expenses	-143,584	-110,248	-33,336	30.2%
Operating Profit/(Loss) for the year before Provision	16,582	-1,884	**18,466**	980.1%
Provisions	76,677	40,755	35,922	88.1%
Profit/(Loss) for the year before taxes	93,259	38,871	54,388	139.9%
Taxes	-15,574	-13,203	**-2,371**	18.0%
Profit/(Loss) for the year	77,685	25,668	52,017	202.7%

Balance Sheet

The JMB continued to strategically manage its balance sheet by positioning its cash and near-cash to meet its disbursement commitments. The Bank did not go to the market for funding during the year; however, the Bank reduced its bond liabilities by $500M from $1,457M to $995M. The Bank will further reduce its liabilities by another $500M in the first quarter of the following fiscal year.

Other Key Performance Indicators

Primary Market

During the 2015/2016 fiscal year, the Jamaica Mortgage Bank (JMB) issued loan commitments amounting to $2,120M (Syndication with NCB $625M) to construct 650 new units. This achievement was 110.1% and 96.3% of its respective targets of $1,925M (including Syndication with NCB – $625M) and 675 units. These commitments included the financing of Phase 2 of the student accommodation project on the Mona Campus of the University of the West Indies through the syndication partnership commenced in the prior year with the National Commercial Bank.

On the loan disbursements side, the Bank drew down on the overhang in undrawn commitments from the previous fiscal period, disbursing $996.3M, representing an 86.6% improvement over the previous year. The achievement amounted to 99.6% of planned disbursements despite application submissions being skewed toward the latter half of the year, and delayed satisfaction of pre-disbursement conditions by developers.

The Bank was very pleased to also launch a new product, "Diaspora Home Building Services" during the fiscal year. This product is tailored to meet an identified need of Jamaicans living overseas who wish to find a trusted partner to project manage the building of their home, by leveraging the in-house expertise developed by JMB over time. The services provided, range from initial technical assessments of projects through to monitoring, implementation and close-out activities, and will serve as an additional income stream for the Bank.

OTHER KEY PERFORMANCE METRICS

Budget-2015/16 $'000	Actual-2015/16 $'000	Variance $'000	Variance %	Metric	Budget-2016/2017 $'000
1,925,000	2,120,000	195,000	10.1%	**Commitments ***	2,000,000
1,000,000	996,300	-3,700	-0.4%	**Disbursements**	1,500,000
1,002,000	1,282,890	280,890	28.0%	**Collections**	1,267,000
387,000	208,580	-178,420	-46.1%	**Bad Debt Recovery**	387,000
675	650	-25	-3.7%	**Units Funded**	675

Secondary Market

As mentioned during the previous fiscal year, the Bank sold its Secondary Mortgage Market (SMM) portfolio and the funds used to support the facility requirements under the core business. JMB continued to monitor the economic environment in readiness to re-engage in the Secondary Mortgage Market when the interest rate environment is considered opportune.

Mortgage Insurance

Following from the Government of Jamaica's amendment to the Mortgage Indemnity Insurance Act in the third quarter of fiscal year 2014/2015, the JMB hosted a series of breakfast meetings with Business Leaders and Executives of mortgage lending institutions during the year. These meetings were combined with a multimedia promotion and advertising campaign to:

- Underscore the new features and benefits of the Mortgage Indemnity Insurance (MII) product, administered by the Bank on behalf of the Government – offering up to 97% financing,
- Increase participation in the product by mortgage lenders, and
- Raise awareness among the final beneficiaries of aspiring or potential home owners.

The initiative generated significant interest from financial institutions and the general public, and resulted in two new institutions being signed on under the programme as Approved Lenders. As well, there has been a general increase in the market of up to 95% in the mortgage amount being offered by lenders (from a previous high of 90%). Improved participation in the MII by financial institutions is expected to follow.

During the year, fifty (50) Undertakings to Insure (UTIs) valuing $90.1M and thirty-nine (39) new policies valuing $59.55M were issued. The performance represents an 85% improvement in the number and a 176% increase in the value of UTIs issued during the previous year.

Bad Debt

In 2015/2016, the Bank took a very strategic approach in its effort to try to reduce the bad debt portfolio. An overview of the entire portfolio was undertaken and a resolute strategy was adopted to deal with each bad loan individually. As a result the Bank recovered a total sum of $208.6M from foreclosure, sale of units held and settlements.

The Bank successfully foreclosed on a property being held as security for a loan and recovered $98.0M, thereby removing that loan from its books. The Bank was also successful in selling some of the properties held as security under its Power of Sale and as a result of persistent pressure on the bad debtors. Consequently, an additional three (3) bad loans totalling $61.5M, were settled.

The Bank continues to take steps to aggressively reduce its bad debt portfolio, by persisting in its efforts to sell properties held as security under its Power of Sale and to institute litigation proceedings against delinquent borrowers when it is deemed necessary.

The Bank has tightened its loan assessment and approval processes to attempt to eliminate the granting of loans to poor quality projects and has also tightened its monitoring controls on the approved loans. The JMB continues to implement its aggressive delinquency management programme and as soon as there are signs of deviations from the agreed terms of the loan, action is immediately taken in order to mitigate the development of any additional bad loans.

Budget for the 2016/2017 Year

Budget-2015/16 $'000	Actual-2015/16 $'000	Variance $'000	Variance %	ITEMS	Budget-2016/2017 $'000
				Interest Income	
216,476	116,878	-99,598	-46.0%	Interest from Loans	140,393
54,638	59,552	4,914	9.0%	Interest from Deposits	48,257
-	-	0	100.0%	Interest from other Investments	1,000
271,114	**176,430**	-94,684	-34.9%	**Total Interest Income**	189,650
				Interest Expenses	
208,545	98,965	109,580	52.5%	Interest on Bonds Payable	103,453
62,569	**77,465**	14,896	23.8%	**Net Interest Income/(Loss)**	86,197
66,266	82,701	16,435	24.8%	**Non Interest Income**	63,322
128,835	**160,166**	31,331	24.3%	**Gross Margin before Provision and Expenses**	149,519
-121,986	-143,584	**-21,598**	-17.7%	Less Operating Expenses	-131,798
6,849	16,582	9,733	-142.1%	**Operating Profit/(Loss) for the year before Provision**	17,721
0	76,677	76,677	100.0%	**Provisions**	-
6,849	93,259	86,410	-1261.6%	**Profit/(Loss) for the year before taxes**	17,721
1,712	-15,574	-17,286	-100.0%	Taxes	-4,430
8,561	77,685	69,124	-807.4%	**Profit/(Loss) for the year**	13,291

Conclusion

The 2015/16 financial year, although challenging, resulted in significant improvement in respect to the Bank's goal of closing the demand-supply gap for affordable housing. Additionally, the Bank was able to turn a profit for two consecutive years after several years of losses.

While the 2016/2017 financial year is predicted to be an equally challenging year, as the country enters into its final year under the IMF programme, the Bank continues to be encouraged by the direction of the macroeconomic indicators and prospect for growth. We believe there is a direct correlation between economic growth and growth in the construction sector, especially in the residential housing space.

In light of the above, the Bank continues with its three-year strategic programme to achieve sustainable profitability, while exploring the commercialization of the JMB, thereby increasing the housing stock. We are committed to achieving our financial and other key metrics objectives, as outlined in the budget included, as well as, ensuring that all supporting structures, including staff and technological systems, are continuously upgraded.

We are also equally committed to the vision of financing safe and affordable housing so that all Jamaicans can have access to home ownership.

……………………………
Courtney Wynter
General Manager

DIASPORA PROJECT MANAGEMENT SERVICES

Rationale

In response to enquiries received, informal observation and anecdotes, the management of the Jamaica Mortgage Bank (JMB) formed the opinion, during the year under review that a substantial demand exists among Jamaicans in the Diaspora for a dependable home building service. Available information suggests that the provider of such service should be able to facilitate the construction of private housing solutions for interested persons in readiness for their retirement or when they otherwise return home to Jamaica. Furthermore, the market seems to comprise several segments but indications are that demand is greatest in two where the Bank could have the greatest impact:

1. Persons who have acquired land, completed building plans and have some relationship with a contractor but are wary of remitting funds to undertake the project, largely due to the fear of being swindled;
2. Persons who own land but need professional assistance to undertake the necessary next steps to build their desired housing units.

Methodology

Management deduced that the nature of the support required by the Diaspora is best delivered via a new product, and obtained the approval of the Board to begin offering the Diaspora Home Building Services (DHBS). This is a project management type service under which the Bank has firstly, established a panel of professionals:

- Contractors
- Architects
- Quantity Surveyors
- Land Surveyors
- Clerk of Works
- Attorneys-At-Law
- Land Appraisers
- Engineers

Professionals were invited to participate in the programme and required to submit certain documentation as a basis for inclusion on the panel - resumes, bank references, testimonials from their clientele, evidence of registration with their respective regulatory/professional bodies (as appropriate), proof of certification, etc.

Secondly, in each case, contractual arrangements are established between JMB and the Client, and between each Professional and the Client, depending on the need identified. JMB then refers Panellists to the particular Client and coordinates the contractual arrangements between them, from Requests for Proposals (RFPs) up to and including project implementation and delivery/handover. Whilst maintaining the extant reporting relationships within the JMB, specific management and direction of the project management service delivery comes from the Technical Team residing within the Bank.

Services Available

The DHBS provides for the following:

- Referral to members of the Professional Team (Panel)
- Coordination of service delivery between Client and Professional
- Contract Supervision between Client and Professional
- Project implementation/management, including:
    - Budget sign-off
    - Schedule sign-off
    - Drawings review
    - Bill of Quantities (BQ) Assessment
    - Regulatory approvals
    - Construction monitoring
    - Quantity Surveyor (QS)/payment certificate take-off and verification
    - Payment requisition and disbursement
    - Periodic reporting
    - Close-Out and delivery

Fees & Service Levels

The initial consultation and professional referral from JMB is free of charge. However, each element of the service delivery suite is competitively priced with associated delivery timelines clearly articulated and forming part of the agreement between the Bank and the Client (and between the Client and Professional). All fees attract GCT and range between 5% and 8.5% of the overall project cost. Also, the fee structure comprises fixed, variable and non-refundable components – dependent on the service choice of the Client.

Marketing & Promotion

JMB made a "soft launch" of the DHBS at the Diaspora Conference held at the Jamaica Conference Centre in Montego Bay in June 2015. The Bank will partner with Jamaica Information Service (JIS), Ministry of Foreign Affairs, Diaspora Conferences/Groups and other partner agencies who have established relationships with the Diaspora communities especially in the United States/North America and the United Kingdom to market and promote the service. We believe our best advertisements will take the form of endorsements from satisfied Clients as we eliminate the horror stories usually associated with attempts by members of the Diaspora to construct houses in Jamaica.

Conditions

As may be expected, certain conditions which serve to protect the parties involved form part of the contractual arrangements.

The JMB is pleased to state that we are currently engaged in the first project under the new product. We are currently in the pre-construction phase and are as eager to see to its completion as our first Clients under the programme are to receive the key to their new home on the Rock.

HIGHLIGHTS

Courtney Wynter, General Manager, Jamaica Mortgage Bank; Steve Bennett, Managing Director, Richmond Development Corporation; Carlton Earl Samuels, Assistant General Manager, JNBS; and Peter Reid, Senior Vice President, Victoria Mutual Building Society, attending day four of the Sixth Biennial Jamaica Diaspora Conference at the Montego Bay Convention Centre in St. James, where they made presentations on housing development and services. (Photo Credit: Jamaica Observer).

Mr. Raymond Johnson, Technical Officer at the JMB, in discussion with Governor-General, Sir Patrick Allen, at the Diaspora Conference held June 13-18, 2015.

JMB uses a JUTC bus as part of its ad campaign to promote the 97% Mortgage Financing.

CORPORATE INFORMATION

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Kingston 5

First Global Bank Limited
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Kingston 5

ATTORNEYS-AT-LAW
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21 East Street
Kingston

Hart Muirhead Fatta
53 Knutsford Boulevard
Kingston 5

Samuda & Johnson
2-6 Grenada Crescent
Kingston 5

Livingston Alexander & Levy
72 Harbour Street
Kingston

DEPARTMENTS

Finance & Accounts

Financial and Management Accounting

Treasury and Cash Management

Budgeting & Control

Business Operations:

- ***Primary Market Financing***
  Project Financing
  Project Appraisal and Monitoring
  Project Risk Analysis
  Technical Support Services

- ***Secondary Mortgage Market***
  Mortgage-backed Securities

- ***Mortgage Insurance***
  Evaluation of proposals for insurance coverage for housing schemes
  Claims processing
  Issuing of Undertakings-to-Insure
  Preparation of mortgage insurance policies
  Promotion of mortgage insurance facilities

Corporate Secretarial/Legal

Corporate Secretarial activities, including Corporate Governance and Board of Directors issues

Legal Conveyancing, and title registration

General Legal Services

Human Resource, Administration & Corporate Services

Human Resource Management

Policy Development and Administration

Office Administration

General Manager's Office

Strategy Development, Implementation and Execution

Information and Communications Technology

Public Relations and Marketing

BOARD OF **DIRECTORS**

Dr. Patrick W. Thelwell
Chairman
Member, Projects Committee and HR Committee

Mr. Ryan Parkes
Chairman, Audit and Finance Committee

Mr. Courtney Hamilton
Chairman, Projects Committee

Mrs. Doreen Prendergast
Member, Projects Committee

Mrs. Tiva Forbes
Member, Audit Committee and HR Committee

Mr. Louis Campbell
Member, Audit and Finance Committee and Projects Committee

Mr. Hugh Faulkner
Chairman, Human Resource Committee

LEADERSHIP TEAM

From left: Donna Samuels-Stone, Courtney Wynter, Denise Bryson-Hinds, Doreen Mowen and Hecton Hemans

DEPARTMENT TEAMS

Finance and Accounts

From left: Doreen Shaw, Latoya Cole, Doreen Mowen and Christopher Richards

Business Operations

From left: Hecton Hemans, Marlene Lawrence, Raymond Johnson, Christopher White and Gregory Charvis

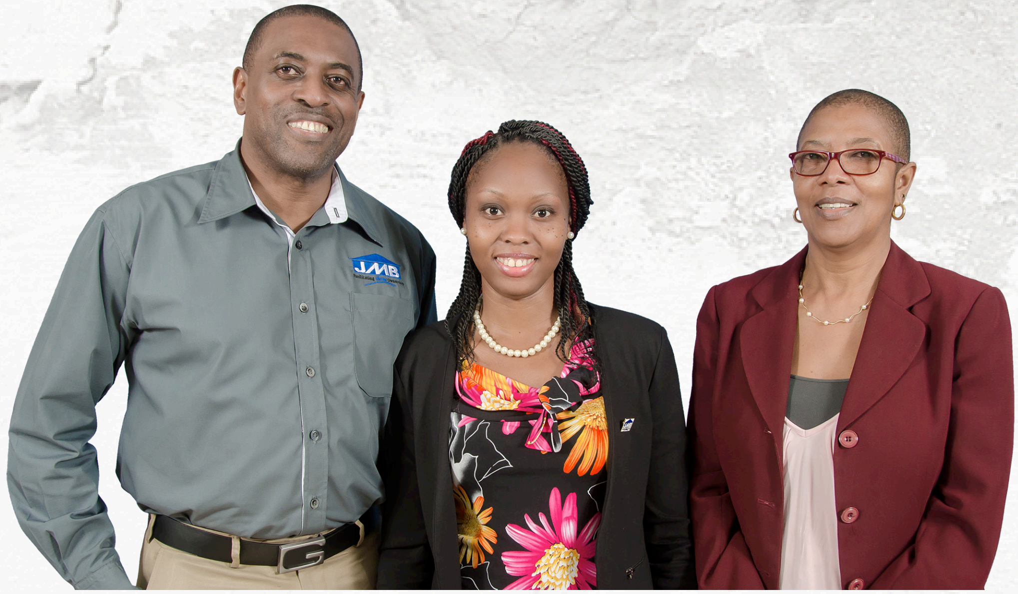
Administration

From left: Daniel Scott, Rashard Tracey, Monica Ewan, Jefton Samma, Clifton Bennett, Marcia Morrison, Dwight Hall, Danovan Blackburn and Kerryan Saulas

Legal Department

From left: Donna Samuels Stone and Antionette Symister

General Manager's Office



From left: Courtney Wynter, Shedina Powell, Denise Bryson-Hinds

PROJECTS FINANCED **BY THE JMB**

Happy Grove, St. Andrew

Knightsdale, St. Andrew

Student Residence, UWI, Mona (Phase II), St. Andrew

Completed Student Residence, UWI, Mona (Phase I), St. Andrew

Hillview, St. Andrew

The Colleges, St. Andrew

Directors' & Senior Executive Compensation

DIRECTORS' COMPENSATION

April 1, 2015-March 31, 2016

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	**141,000**	-	-	-	**141,000**
Director/Deputy Chairman	-	-	-	-	-
Director/ Sub-committee Chairman	**135,000**	-	-	-	**135,000**
Director/ Sub-committee Chairman	**85,500**	-	-	-	**85,500**
Director	**141,000**	-	-	-	**141,000**
Director	**84,000**	-	-	-	**84,000**
Director	**59,500**	-	-	-	**59,500**

SENIOR EXECUTIVE COMPENSATION

April 1, 2015 – March 31, 2016

Position of Senior Executive	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	**7,687,140**	**3,441,492**	**1,219,656**	**Nil**	**-**	**Nil**	**12,348,288**
Director, Business Operations	**5,075,565**	**2,279,523**	**1,219,656**	**Nil**	**12,045**	**Nil**	**8,586,789**
Corporate Secretary/Legal Officer	**5,614,033**	**-**	**1,219,656**	**302,211**	**60,224**	**Nil**	**7,196,124**
Director, Human Resource, Administration & Corporate Services	**5,664,970**	**-**	**1,219,656**	**354,056**	**60,224**	**Nil**	**7,298,906**
Director of Finance	**1,845,577**	**-**	**393,295**	**124,720**	**27,352**	**Nil**	**2,390,943**

Financial Statements

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2016

(Expressed in Jamaican Dollars)

8 Olivier Road
Kingston 8
Jamaica, W.I.

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Fax: +1 876 755 0413
ey.com

Building a better working world

Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Jamaica Mortgage Bank

Report on the Financial Statements

We have audited the accompanying financial statements of Jamaica Mortgage Bank and its subsidiary (the "Group") and the financial statements of Jamaica Mortgage Bank (the "Bank"), which comprise the Group's and Bank's statements of financial position as at March 31, 2016, 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 information.

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.

Auditor's responsibility

Our responsibility is to express an opinion on these 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 about whether 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.

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INDEPENDENT AUDITOR'S REPORT (Continued)

To the Board of Directors of Jamaica Mortgage Bank (Continued)

Report on the Financial Statements (Continued)

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, 2016, 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.

Ernst & Young
Chartered Accountants
Kingston, Jamaica

July 8, 2016

A member firm of Ernst & Young Global Limited

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2016

	Notes	2016 $'000	2015 $'000
ASSETS			
Cash		32,917	55,083
Certificates of deposit	4	421,492	468,772
Resale agreements	5	191,668	570,199
Receivables and prepayments	6	13,611	35,052
Income tax recoverable		204,819	189,949
Loans receivable	8	1,162,999	1,208,024
Non-current asset held for sale	9	98,000	-
Land held for development and sale	10(c)	408,989	413,501
Post-retirement benefits	11(b)	43,148	33,217
Property and equipment	12	53,587	56,125
Total assets		2,631,230	3,029,922
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Payable and accruals	13	41,612	31,752
Bonds and loan payable	14	955,139	1,457,655
Income tax payable		17,967	9,046
		1,014,718	1,498,453
SHAREHOLDERS' EQUITY			
Share capital	15	500,000	500,000
Reserve fund	16	500,000	500,000
Special reserve fund	17	340,083	340,083
Retained earnings		276,429	191,386
		1,616,512	1,531,469
Total liabilities and shareholders' equity		2,631,230	3,029,922

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

The financial statements were approved for issue by the Board of Directors on July 8, 2016 and are signed on its behalf by:

Director

Director

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED MARCH 31, 2016

	Notes	2016 $'000	2015 $'000
Revenue			
Interest from loans		116,878	96,190
Interest from deposits		59,552	60,579
Interest from other investments		-	12,497
Total interest income	21	176,430	169,266
Other income	18	82,701	49,305
		259,131	218,571
Expenses			
Staff costs	19	(94,071)	(67,029)
Allowance for impairment losses on loans, net of recoveries	20	76,677	40,755
Other administrative and general expenses		(49,513)	(43,219)
Finance costs:			
Interest on bonds payable		(98,965)	(110,207)
		(165,872)	(179,700)
Profit before taxation	22	93,259	38,871
Taxation	23	(15,574)	(13,203)
Net profit for the year		77,685	25,668
Other comprehensive income/(expense)			
Other comprehensive income/(expense) not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains/(losses) on the defined benefit plan	11	9,811	(16,389)
Deferred tax relating to the remeasurement gains/(losses) on the defined benefit plan	23	(2,453)	4,097
Other comprehensive income/(expense) for the year, net of tax		7,358	(12,292)
Total comprehensive income for the year, net of tax		85,043	13,376

The accompanying notes on form an integral part of these financial statements.

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED MARCH 31, 2016
(Expressed in Jamaican dollars)

	Note	Share Capital (Note 15) $'000	Reserve Fund (Note 16) $'000	Special Reserve Fund (Note 17) $'000	Retained Earnings $'000	Total $'000
Balance at April 1, 2014		500,000	500,000	340,083	178,010	1,518,093
Net profit for the year		-	-	-	25,668	25,668
Other comprehensive expense		-	-	-	(12,292)	(12,292)
Total comprehensive income		-	-	-	13,376	13,376
Balance at March 31, 2015		500,000	500,000	340,083	191,386	1,531,469
Net profit for the year		-	-	-	77,685	77,685
Other comprehensive income		-	-	-	7,358	7,358
Total comprehensive income		-	-	-	85,043	85,043
Balance at March 31, 2016		500,000	500,000	340,083	276,429	1,616,512

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

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2016
(Expressed in Jamaican dollars)

	Notes	2016 $'000	2015 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year before taxation		93,259	38,871
Adjustments to reconcile profit/loss for the year to net cash provided by operating activities:			
Depreciation of property and equipment	12	4,365	2,961
Provision for impairment losses on loans and other receivables, net of recoveries	20	(76,677)	(40,755)
Loss on sale of land held for development	10(d)	2,170	3,289
Post-retirement benefits expense/(income)	11(b)(iii)	1,999	(583)
Amortisation of bond issue costs	14	552	2,115
Interest income	21	(176,430)	(169,266)
Interest expense		98,965	110,207
		(51,797)	(53,161)
Change in operating assets:			
Decrease/(Increase) in receivables and prepayments		14,612	(1,559)
(Increase)/Decrease in loans receivable		(5,845)	412,724
Change in operating liabilities:			
Increase in payables and accrued charges		9,860	19,999
Contributions paid post-retirement employee benefits	11(b)(ii)	(2,119)	(2,082)
		(35,289)	375,921
Interest received		223,638	223,724
Income tax (paid)/ received		(23,976)	18,275
Net cash provided by operating activities		164,373	617,920
CASH FLOWS FROM INVESTING ACTIVITIES			
Resale agreements		375,047	(211,245)
Certificates of deposit		39,932	(459,336)
Proceeds on disposal of land held for development and sale		3,230	7,211
Addition to land held for development and sale		(888)	-
Additions to property and equipment	12	(1,827)	(6,267)
Net cash provided by/(used in) investing activities		415,494	(669,637)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(102,033)	(108,728)
Issue of bearer bonds (net)		-	150,000
Loan proceeds received		-	50,000
Loan repaid		(500,000)	-
Net cash (used in)/ provided by financing activities		(602,033)	91,272
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		(22,166)	39,555
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		55,083	15,528
CASH AND CASH EQUIVALENTS AT END OF YEAR		32,917	55,083
Non-cash item:			
Non-current asset held for sale	9	98,000	45,000

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

JAMAICA MORTGAGE BANK

STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2016
(Expressed in Jamaican dollars)

	Notes	2016 $'000	2015 $'000
ASSETS			
Cash		32,917	55,083
Certificates of deposit	4	421,492	468,772
Resale agreements	5	191,668	570,199
Receivables and prepayments	6	13,611	35,052
Income tax recoverable		204,819	189,949
Interest in subsidiary	7	124,476	124,476
Loans receivable	8	1,162,999	1,208,024
Non-current asset held for sale	9	98,000	-
Land held for development and sale	10(c)	408,988	413,500
Post-retirement benefits	11(b)	43,148	33,217
Property and equipment	12	53,587	56,125
Total assets		2,755,705	3,154,397
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Payables and accruals	13	29,562	19,742
Bonds and loan payable	14	955,139	1,457,655
Income tax payable		17,967	9,046
		1,002,668	1,486,443
SHAREHOLDERS' EQUITY			
Share capital	15	500,000	500,000
Reserve fund	16	500,000	500,000
Special reserve fund	17	340,083	340,083
Retained earnings		412,954	327,871
		1,753,307	1,667,954
Total liabilities and shareholders' equity		2,755,705	3,154,397

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

The financial statements were approved for issue by the Board of Directors on July 8, 2016 and are signed on its behalf by:

Director

Director

JAMAICA MORTGAGE BANK

STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED MARCH 31, 2016
(Expressed in Jamaican dollars)

	Notes	2016 $'000	2015 $'000
Revenue			
Interest from loans		116,878	96,190
Interest from deposits		59,552	60,579
Interest from other investments		-	12,497
Total interest income	21	176,430	169,266
Other income	18	82,701	49,305
		259,131	218,571
Expenses			
Staff costs	19	(94,071)	(67,029)
Allowance for impairment losses on loans, net of recoveries	20	76,677	40,755
Other administrative and general expenses		(49,473)	(43,156)
Finance costs:			
Interest on bonds payable		(98,965)	(110,207)
		(165,832)	(179,637)
Profit before taxation	22	93,299	38,934
Taxation	23	(15,574)	(13,203)
Profit for the year		77,725	25,731
Other comprehensive income/(expense)			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains/(losses) on the defined benefit plan	11	9,811	(16,389)
Deferred tax relating to the remeasurement gains/(losses) on the defined benefit plan	23	(2,453)	4,097
Other comprehensive income/(expense) for the year, net of tax		7,358	(12,292)
Total comprehensive income for the year, net of tax		85,083	13,439

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

JAMAICA MORTGAGE BANK

STATEMENT OF CHANGES IN EQUITY
YEAR ENDED MARCH 31, 2016
(Expressed in Jamaican dollars)

	Note	Share Capital (Note 15) $'000	Reserve Fund (Note 16) $'000	Special Reserve Fund (Note 17) $'000	Retained Earnings $'000	Total $'000
Balance at April 1, 2014		500,000	500,000	340,083	314,432	1,654,515
Net profit for year		-	-	-	25,731	25,731
Other comprehensive expense		-	-	-	(12,292)	(12,292)
Total comprehensive income		-	-	-	13,439	13,439
Balance at March 31, 2015		500,000	500,000	340,083	327,871	1,667,954
Net profit for year		-	-	-	77,725	77,725
Other comprehensive income		-	-	-	7,358	7,358
Total comprehensive income		-	-	-	85,083	85,083
Balance at March 31, 2016		500,000	500,000	340,083	412,954	1,753,037

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

JAMAICA MORTGAGE BANK

STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2016
(Expressed in Jamaican dollars)

	Notes	2016 $'000	2015 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year before taxation		93,299	38,934
Adjustments to reconcile profit for the year to net cash provided by operating activities:			
Depreciation	12	4,365	2,961
Provision for impairment losses on loans and other receivables, net of recoveries	20	(76,677)	(40,755)
Loss on sale of land held for development	10(d)	2,170	3,289
Post-retirement benefits expense/(income)	11(b)(iii)	1,999	(583)
Amortisation of bond issue costs	14	552	2,115
Interest income	21	(176,430)	(169,266)
Interest expense		98,965	110,207
		(51,757)	(53,098)
Change in operating assets:			
Decrease/(Increase) in receivables and prepayments		14,612	(1,559)
(Increase)/Decrease in loans receivable		(5,845)	412,724
Change in operating liabilities:			
Increase in payables and accruals		9,820	7,999
Contributions paid post retirement employee benefits	11(b)(ii)	(2,119)	(2,082)
		(35,289)	363,984
Interest received		223,638	223,724
Income tax (paid)/received		(23,976)	18,275
Net cash provided by operating activities		164,373	605,983
CASH FLOWS FROM INVESTING ACTIVITIES			
Resale agreements		375,047	(211,245)
Certificates of deposit		39,932	(459,336)
Interest in subsidiary		-	11,937
Proceeds on disposal of land for development and sale		3,230	7,211
Addition to land held for development and sale		(888)	-
Additions to property and equipment	12	(1,827)	(6,267)
Net cash provided by/(used in) investing activities		415,494	(657,700)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(102,033)	(108,728)
Issue of bearer bonds (net)		-	150,000
Loan proceeds received		-	50,000
Loan repaid		(500,000)	-
Net cash (used in)/ provided by financing activities		(602,033)	91,272
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		(22,166)	39,555
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		55,083	15,528
CASH AND CASH EQUIVALENTS AT END OF YEAR		32,917	55,083
Non-cash item:			
Non-current asset held for sale	9	98,000	45,000

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2016
(Expressed in Jamaican dollars)

1 CORPORATE INFORMATION

(a) The Jamaica Mortgage Bank was established in 1971 as a private limited company under the Companies Act of 1965, with an authorised 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 and incorporated 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. This entity is domiciled and incorporated in Jamaica.

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

(i) lend money on mortgage and carry out any other transactions 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) as issued by the International Accounting Standards Board (IASB) and the relevant requirements of the Jamaica Mortgage Bank Act,1973.

(b) Basis of preparation and presentation

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Changes in accounting standards and interpretations

Current year changes

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2015. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Although these new standards and amendments applied for the first time in the current year, they did not have a material impact on the annual financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

- **Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions***

  IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after July 1, 2014. This amendment is not relevant to the Group as contributions are not dependent on years of service.

- **Annual Improvements 2010-2012 Cycle**

  With the exception of the improvement relating to IFRS 2 *Share-based Payment* applied to share-based payment transactions with a grant date on or after July 1, 2014, all other improvements are effective for accounting periods beginning on or after July 1, 2014. The Group has applied these improvements for the first time in these financial statements. They include:

  - **IFRS 2 *Share-based Payment***

    This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions. The Group had not granted any awards during the year and thus these amendments did not impact the Group's financial statements.

  - **IFRS 3 *Business Combinations***

    The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This amendment did not impact the Group's accounting policies as there were no business combinations during the year.

  - **IFRS 8 *Operating Segments***

    The amendments are applied retrospectively and clarify that:

    - An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';
    - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

    These amendments did not have any impact on the financial statements of the Group as it is not required and the Group does not present segment information.

3 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(a) Changes in accounting standards and interpretations (Continued)

Current year changes (Continued)

- **Annual Improvements 2010-2012 Cycle (Continued)**

  - **IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets***
    The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact on the revaluation adjustments recorded by the Group during the current year.

  - **IAS 24 *Related Party Disclosures***
    The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment did not result in any changes as such disclosures were already being made by the Group for such services.

- **Annual Improvements 2011-2013 Cycle**
  These improvements are effective from July 1, 2014 and the Group has applied these amendments for the first time in these financial statements. They include:

  - **IFRS 3 *Business Combinations***
    The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:
    - Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
    - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

    This amendment is not relevant to the Group as it is not a joint arrangement.

  - **IFRS 13 *Fair Value Measurement***
    The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The Group does not apply the portfolio exception in IFRS 13.

  - **IAS 40 *Investment Property***
    The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. This amendment did not impact the financial statements of the Group.

3 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(a) Changes in accounting standards and interpretations (Continued)

Future changes

The standards and interpretations that are issued, but not yet effective are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

- **IFRS 9 *Financial Instruments***

  In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement, and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The Group plans to adopt the new standard on the required effective date.

  (i) Classification and measurement

  All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

  With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability, that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of change 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. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

  The Group does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9.

  (ii) Impairment

  IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group does not expect a significant impact on its equity as the majority of its loans and receivables are secured, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

  (iii) Hedge accounting

  This amendment would not apply as the Group does not apply hedge accounting.

3 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(a) Changes in accounting standards and interpretations (Continued)

Future changes (Continued)

- **IFRS 14 *Regulatory Deferral Accounts***

  IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

- **IFRS 15 *Revenue from Contracts with Customers***

  This new standard provides a single, principles based five-step model to be applied to all contracts with customers. The five steps are:

  - Identify the contract with the customer,
  - Identify the performance obligations in the contract,
  - Determine the transaction price,
  - Allocate the transaction price to the performance obligations in the contracts,
  - Recognise revenue when (or as) the entity satisfies a performance obligation.

  There is new guidance on whether revenue should be recognised at a point in time or over time, which replaces the previous distinction between goods and services. Where revenue is variable, a new recognition threshold has been introduced by the standard. This threshold requires that variable amounts are only included in revenue if, and to the extent that, it is highly probable that a significant revenue reversal will not occur in the future as a result of re-estimation. However, a different approach is applied for sales and usage-based royalties from licenses of intellectual property; for such royalties, revenue is recognised only when the underlying sale or usage occurs. The standard also introduces new guidance on costs of fulfilling and obtaining a contract, specifying the circumstances in which such costs should be capitalised. Costs that do not meet the criteria must be expensed when incurred.

  The standard provides detailed guidance on various issues such as identifying distinct performance obligations, accounting for contract modifications and accounting for the time value of money, sales with a right of return, customer options for additional goods or services, principal versus agent considerations, licensing, and bill-and hold arrangements.

  The standard introduces new, increased requirements for disclosure of revenue in an IFRS reporter's financial statements.

  IFRS 15 must be applied in an entity's annual IFRS financial statements for periods beginning on or after January 1, 2018. Application of the Standard is mandatory and early adoption is permitted. The directors and management have not yet assessed the impact of the application of this standard on the Group's financial statements.

3 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(a) Changes in accounting standards and interpretations (Continued)

Future changes (Continued)

- **IFRS 16 *Leases***

  This new standard requires lessees to account for all leases under a single on-balance sheet model, subject to certain exemptions in a similar way to finance leases under IAS 17. Lessees recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately. The standard provides guidance on the two recognition exemptions for leases – leases of “low value” assets and short-term leases with a term of 12 months or less. Lessor accounting is substantially the same as IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted but not before the Group applies IFRS 15. The directors and management have not yet assessed the impact of the application of this standard on the Group’s financial statements.

- **Amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests***

  The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

  The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group’s financial statements.

- **Amendments to IAS 16 and IAS 38: *Clarification of Acceptable Methods of Depreciation and Amortisation***

  The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

- **Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants***

  The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply.

3 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(a) Changes in accounting standards and interpretations (Continued)

Future changes (Continued)

- **Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants (Continued)***

  The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group's financial statements as the Group does not have any bearer plants.

- **Amendments to IAS 27: *Equity Method in Separate Financial Statements***

  The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

  For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Group's financial statements.

- **Amendments to IFRS 10 and IAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

  The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group's financial statements.

- **Amendments to IAS 1 *Disclosure Initiative***

  The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

  - The materiality requirements in IAS 1
  - That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
  - That entities have flexibility as to the order in which they present the notes to financial statements
  - That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

  Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Group is currently assessing the impact of these amendments on its financial statements.

3 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(a) Changes in accounting standards and interpretations (Continued)

Future changes (Continued)

- **Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception***
  The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

  These amendments are not expected to have any impact on the Group's financial statements.

- **Annual Improvements *2012-2014 Cycle***
  These improvements are effective for annual periods beginning on or after January 1, 2016. They include:

  - **IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations***
    Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

  - **IFRS 7 *Financial Instruments: Disclosures***
    (i) Servicing contracts
    The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

    (ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements
    The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

  - **IAS 19 *Employee Benefits***
    The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Changes in accounting standards and interpretations (Continued)

Future changes (Continued)

- **Annual Improvements *2012-2014 Cycle (Continued)***

  - **IAS 34 *Interim Financial Reporting***

    The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments are not expected to have any impact on the Group’s financial statements.

(b) 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 $43.15 million (2015: $33.22 million) (Note 11) are determined actuarially using several assumptions. The primary assumptions used in determining the amounts recognised include the discount rate used to determine the present value of estimated future cash flows required to settle the pension obligations and to determine the return on plan assets.

3 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(b) Critical accounting judgements and key sources of estimation uncertainty (Continued)

(ii) Key sources of estimation uncertainty (Continued)

- Pension and other post-employment benefits (Continued):

  The Bank's defined benefit obligation is discounted at a rate set by reference to market yields at the end of the reporting period on high quality corporate bonds or, in their absence, certain Government of Jamaica bonds. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of the bonds include the issue size of the bonds and the quality of the bonds. There are also demographic assumptions that impact the result of the valuation. Any changes in these assumptions will impact the amounts recorded in the financial statements for these obligations. Note 11(f) details sensitivity analyses in respect of some of these assumptions.

- 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 $577.70 million to $589.25 million (2015: $660.59 million to $673.80 million).

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

- Taxes

  Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. The Group establishes provisions, based on reasonable estimates taking cognizance of possible differing interpretations of tax regulations by the taxable entity and the relevant tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the Group.

  Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies (Note 23).

  Management exercises judgement in designating withholding tax recoverable as collectible. On this basis, the fair value of this amount is determined to approximate its carrying value.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and the entity controlled by the Bank (its subsidiary, JMB Developments Limited). Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary. 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.

Changes in the Group's ownership interests in existing subsidiaries

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 Group.

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 IFRS). 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.

3 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(d) 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.

(i) Initial and subsequent 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.

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss and loans and receivable. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

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 rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

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.

Interest income is recognised by applying the effective interest rate, except when the recognition of interest would be immaterial.

(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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial assets and liabilities (continued)

(ii) Derecognition (continued)

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, 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.

(iii) 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.

The Group has no financial instruments which are measured at fair value. The fair values of financial instruments measured at amortised cost are disclosed in Note 26.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

3 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(d) Financial assets and liabilities (continued)

(iv) Fair value measurement (continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets for which fair value is disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets and liabilities
Level 2 - Valuation techniques for which the lowest level input that significant to the fair value measurement is directly or indirectly observable
Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

(e) Cash and cash equivalents

Cash comprises cash on hand and in banks. Short-term deposits are highly liquid investments with an original maturity of three months or less. For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at bank and in hand.

(f) Certificates of deposit

Certificates of deposit are short-term deposits held with financial institutions.

(g) 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(h)), 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.

(h) 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.

3 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(i) 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade or loans receivables, where the carrying amount is reduced through the use of an allowance account. When a trade or loan 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.

3 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(j) 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 before taxation 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.

(k) Investment in subsidiary

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

(l) Non-current assets held-for-sale

The Group classifies non-current assets as held-for-sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets held for sale are measured at the lower of their carrying amounts and fair value less cost to sell. The criteria for held-for-sale classification is regarded as net only when the sale is highly probable and the asset is available for immediate sale in its present condition.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Land held for development and sale

Land held for development and sale is shown at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs to sell.

(n) 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, National Insurance Scheme (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 external 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 11). 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 of the Group post-employment benefits obligation is performed by a qualified actuary using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to the retained earnings through OCI in the period in which they occur. Re-measurements are not classified to profit or loss in subsequent periods.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognizes service costs (current service cost, past service cost, gains and losses on curtailments) and net interest expense/income in the staff costs in the statement of comprehensive income. 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 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(o) Property and equipment and depreciation

Property 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. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	50 years
Furniture, fixtures and equipment	10 years
Computer equipment	4 years
Plant and machinery	10 years

An item of property 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.

(p) 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). When 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. When 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Impairment of tangible and intangible assets (Continued)

When 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.

(q) Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made.

(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. 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 borrower accepts the terms of the credit in writing. Other amounts included in other income are generally recognised on the accrual basis.

(r) 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 on initial recognition. Interest expense includes coupons paid on fixed rate instruments and accretion of discount or amortisation of premium on instruments issued at other than par.

(s) Foreign currencies

In preparing the financial statements of the Group, transactions in currencies other than the Group's functional currency, the Jamaican dollar, 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 CERTIFICATES OF DEPOSIT

	Group and Bank	
	2016	2015
	$'000	$'000
Certificates of deposit	419,404	459,336
Interest receivable	2,088	9,436
	421,492	468,772

Certificates of deposit are made for a period of six months and earn interest at rates ranging between 6.00% to 6.30% (2015: 7.60% to 8.30%) per annum.

5 RESALE AGREEMENTS

	Group and Bank	
	2016	2015
	$'000	$'000
Government of Jamaica - Local Registered Stock	190,344	565,391
Interest receivable	1,324	4,808
	191,668	570,199

These securities mature within one year after year end with interest rates on local currency ranging between 5.05% to 6.20% (2015: 6.50% to 7.40%) and interest rates on US$ currency ranging between 2.50% to 2.55% (2015: 3.00%) per annum. Securities with a carrying value of $104.64 million (2015: $83.82 million) included in a debt service reserve account have been pledged as part of the security for borrowings of the Group totaling $500 million in relation to Shelter Bond 13. (See Note 14(c)).

6 RECEIVABLES AND PREPAYMENTS

	Group and Bank	
	2016 2015 $'000	
	$'000	
Receivables	11,350	32,305
Prepayments	2,261	2,747
	13,611	35,052

7 INTEREST IN SUBSIDIARY

	The Bank	
	2016	2015
	$'000	$'000
Ordinary shares*	-	-
Long term loan	124,476	124,476
	124,476	124,476

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

7 INTEREST IN SUBSIDIARY (Continued)

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. JMBD had deficiency in assets at the reporting date. The Bank has pledged to, and continues to support the subsidiary.

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 by land owned by the subsidiary. During the prior year, a deposit of $12 million was received in respect of a portion of the land and this was applied to the loan.

8 LOANS RECEIVABLE

		Group and Bank	
		2016	2015
		$'000	$'000
Construction loans - non-governmental borrowers (see Note 8(a) below)		1,473,794	1,566,796
Accrued interest receivable		216,110	252,486
		1,689,904	1,819,282
Less: Allowance for impairment losses (see Note 8(b) below)		(577,695)	(660,590)
		1,112,209	1,158,692
Mortgages (see Note 8(c) below)	- Staff	11,593	3,152
	- Other	39,197	46,180
		1,162,999	1,208,024

(a) Construction loans are issued at interest rates ranging from 11.50% - 21.00%. The loans are repayable over periods of 12 to 24 months. The loans are generally secured by the properties being developed.

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

	Group and Bank	
	2016	2015
	$'000	$'000
At beginning of year	660,590	736,092
Charged against revenue during the year (Note 20)	3,536	3,472
Write back of provision (Note 20)	(66,731)	(793)
Bad debt recovery (Note 20)	(19,700)	(45,000)
	577,695	693,771
Bad debts written off	-	(33,181)
At end of year	577,695	660,590
Comprising:		
Specific provisions	572,045	653,613
General provisions	5,650	6,977
	577,695	660,590

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

(d) Constructions loans in the amount of $75 million have been pledged as collateral for bonds and loans payable (Note 14(a)).

9 NON-CURRENT ASSET HELD FOR SALE

During the year, the Bank foreclosed on the loan receivable in relation to the Adventure Plaza property and as a result all the titles were transferred in the name of the Bank during July 2015. The Bank obtained a valuation which indicated that the value of the property exceeded the carrying amount of the loan receivable. The provision on the loan receivable of $19.70 million was therefore written back.

Subsequently, management decided to sell the property. The asset was declared available for immediate sale and was listed with several realtors. This resulted in the assets being recognised as a non-current asset held for sale, in accordance with IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations, and is measured at its carrying value.

10 LAND HELD FOR DEVELOPMENT AND SALE

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

(a) The property held by the subsidiary was acquired from the Ministry of Transport, Works and Housing (the Ministry) 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 subsequently an agreement was arrived at to transfer other lands to the Bank to cover the terms of the agreement. In the 2010/2011 financial year, the Ministry transferred the Whitehall property to the Bank in part settlement of the obligation of the subsidiary.

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

	2016 $'000	2015 $'000
Whitehall	270,000	270,000
Phoenix Park (see Note 9(d))	28,100	33,500
Norwich (see Note 9(f))	45,888	45,000
Mount Gotham	65,000	65,000
	408,988	413,500

	2016 $'000	2015 $'000
(c) Bank	408,988	413,500
Subsidiary	1	1
Group	408,989	413,501

(d) Two (2) lots at Phoenix Park were sold during the year, resulting in gain on disposal of $0.23 million (2015: loss on disposal of $3.29 million). In addition, an impairment adjustment of $2.40 million was recognised based on a property valuation report which was commissioned during the year.

10 LAND HELD FOR DEVELOPMENT AND SALE (Continued)

(e) Assets pledged as security

Land held by the Bank, specifically Phoenix Park and Mount Gotham with a carrying value of $93.10 million (2015: $98.50 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 related to Shelter Bond 13 (See Note 14 (c)).

(f) The Company received land in respect of a loan which was fully provided for in previous years. The cost of the land was determined based on a property valuation report prepared by an external valuator.

11 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. The plan is governed by the Jamaica Mortgage Bank Act, 1973 and the Jamaica Mortgage Bank (Pensioners) Regulations, 1978. The plan's activities are controlled by the Board of Trustees, which consist of a number of employer and employee representatives. The Board of Trustees is responsible for the administration of the plan assets and the definition of the investment strategy. Since August 1993, a life assurance company has been engaged to execute this role.

The plan requires the establishment of a fund which is subject to triennial actuarial funding valuations, carried out by an external firm of actuaries. The latest actuarial valuation for funding purposes, undertaken as at July 31, 2013 indicated a past service surplus of $64.9 million. The actuaries 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 year ended March 31, 2016 were at a rate of 5.2% of pensionable salaries. The next valuation is due on July 31, 2016. The employees of the Bank pay a basic contribution of 5% of annual earnings with the option to contribute an additional 9.8% of earnings. The pensionable earnings are 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 Bank's Board of Directors in August 2007.

The plan has financial risk management policies which are directed by the Trustees. The policies are in respect of the plan's overall business strategies and its risk management philosophy. This risk management programme seeks to minimise potential adverse effects of financial performance of the Plan through risk reports from the fund manager which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk, liquidity risk and operational risk.

The most recent actuarial valuation of the plan's assets and the present value of the defined benefit obligations for IFRS purposes was carried out on April 27, 2016 (2015: March 31, 2015) by Rambarran & Associates Limited, Consulting Actuaries. This valuation was in respect of balances at March 31, 2016 (2015: March 31, 2015). The valuation was carried out using the projected unit credit method.

11 POST-RETIREMENT BENEFITS (Continued)

(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	
	2016 2015 $'000	
	$'000	
Present value of funded obligations	(164,370)	(149,517)
Fair value of plan assets	207,518	182,734
Employee benefit asset	43,148	33,217

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

	Group and Bank	
	2016	2015
	$'000	$'000
Net defined benefit asset at beginning of year	33,217	46,941
Employer contributions	2,119	2,082
Company (expense)/income	(1,999)	583
Remeasurements recognised in OCI	9,811	(16,389)
Net defined benefit asset at year end	43,148	33,217

(iii) Income/(Expense) recognised in the statement of comprehensive income:

	Group and Bank	
	2016	2015
	$'000	$'000
Current service cost	5,449	4,180
Net interest cost:		
Interest on defined benefit obligation	13,854	10,571
Interest income on plan assets	(17,304)	(15,644)
Interest on effect of asset ceiling	-	310
Expense/(Income) recognised in net profit	1,999	(583)
Change in demographic assumptions	-	-
Change in financial assumptions	9,545	-
Experience adjustments	(19,356)	19,959
Change in effect of asset ceiling	-	(3,570)
(Income)/ Expense recognised in other comprehensive income	(9,811)	16,389

11 **POST-RETIREMENT BENEFITS (Continued)**

(c) Movement in present value of obligations:

	Group and Bank	
	2016	**2015**
	$'000	**$'000**
Present value at beginning	149,517	112,533
Service cost	5,449	4,180
Interest cost on defined benefit obligation	13,854	10,571
Member contributions	4,221	4,458
Benefits paid	(14,617)	(2,573)
Value of Annuities purchased	7,076	-
Remeasurement – change in financial assumptions	10,402	-
Remeasurement – experience adjustments	(11,532)	20,348
Present value at end	164,370	149,517

(d) Movements in fair value of plan assets:

	Group and Bank	
	2016	**2015**
	$'000	**$'000**
Fair value of plan assets at beginning of year	182,734	162,734
Contributions paid - employer	2,119	2,082
- employee	4,221	4,458
Interest income on plan assets	17,304	15,644
Benefits paid	(14,617)	(2,573)
Value of annuities purchased	7,076	-
Remeasurement – changes in financial assumptions	857	-
Remeasurement – experience adjustment	7,824	389
Fair value of plan assets at end of year	207,518	182,734
Plan assets consist of the following:		
Investment in pooled investment funds with investment strategies as follows:		
Equities	17,898	11,167
Fixed income securities	144,971	135,598
Mortgage and real estate	16,108	12,762
Annuity purchased	30,121	22,558
Other	(1,580)	649
Total invested assets	207,518	182,734

11 **POST-RETIREMENT BENEFITS (Continued)**

(e) Movements on asset ceiling

	Group and Bank	
	2016	**2015**
	$'000	**$'000**
Effect of asset ceiling at beginning	-	3,260
Interest on effect of asset ceiling	-	310
Re-measurement	-	(3,570)
	-	-

(f) Principal actuarial assumptions used for the purpose of the actuarial valuations are as follows:

	Group and Bank	
	2016	**2015**
	%	**%**
Discount rate at March 31	9.00	9.50
Future salary increases	5.50	6.00
Future pension increases	4.40	4.80
Administrative expense	1.00	1.00
Inflation	5.50	6.00
Minimum funding rate	0.25	0.25

Demographic Assumptions

(i) Mortality

American 1994 Group Annuitant Mortality (GAM94) table with mortality improvement of 5 years.

Mortality rates per 1,000 are set out below:

Age	**Males**	**Females**
20 – 30	0.35 – 0.66	0.22 – 0.29
30 – 40	0.66 – 0.85	0.29 – 0.48
40 – 50	0.85 – 1.58	0.48 – 0.97
50 – 60	1.58 – 4.43	0.97 – 2.29
60 – 70	4.43 – 14.54	2.29 – 8.64

(ii) Retirement - males and females are assumed to retire at age 60.

(iii) Terminations - No assumption was made for exit prior to retirement.

11 POST-RETIREMENT BENEFITS (Continued)

(f) (Continued)

A quantitative sensitivity analysis for significant assumptions is shown below:

	2016			
	Discount rate		Salary growth	
	1% increase	1% decrease	1% increase	1% decrease
Sensitivity level	$'000	$'000	$'000	$'000
Impact on defined benefit obligation	(16,097)	20,929	7,280	(6,253)

	2015			
	Discount rate		Salary growth	
	1% increase	1% decrease	1% increase	1% decrease
Sensitivity level	$'000	$'000	$'000	$'000
Impact on defined benefit obligation	(17,406)	22,514	8,101	(6,960)

	2016			
	Future Pension Increase		Mortality Improvement	
	1% increase	1% decrease	1 year increase	1 year decrease
Sensitivity level	$'000	$'000	$'000	$'000
Impact on defined benefit obligation	18,151	(15,345)	2,099	(2,136)

	2015			
	Future Pension Increase		Mortality Improvement	
	1% increase	1% decrease	1 year increase	1 year decrease
Sensitivity level	$'000	$'000	$'000	$'000
Impact on defined benefit obligation	16,649	(14,150)	2,258	(2,305)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

(g) The estimated contributions (for both employer and employee) expected to be paid into the pension fund during the next financial year amount to $5,447,000 (2015: $6,532,000).

(h) The expected pension benefit expense in the next year is expected to be $1,207,000 (2015:$1,990,000).

(i) The weighted average duration of the defined benefit obligation at the end of the reporting period is 34 years (2015: 35 years).

12 PROPERTY AND EQUIPMENT

	Freehold Land	Freehold Buildings	Furniture, Fixtures and Equipment	Plant and Machinery	Total
	$'000	$'000	$'000	$'000	$'000
Group and Bank					
At Cost:					
April 1, 2014	3,000	72,110	29,940	110	105,160
Additions	-	-	6,267	-	6,267
March 31, 2015	3,000	72,110	36,207	110	111,427
Additions	-	-	1,827	-	1,827
March 31, 2016	3,000	72,110	38,034	110	113,254
Depreciation:					
April 1, 2014	-	25,608	26,623	110	52,341
Charge for the year	-	1,712	1,249	-	2,961
March 31, 2015	-	27,320	27,872	110	55,302
Charge for the year	-	1,893	2,472	-	4,365
March 31, 2016	-	29,213	30,344	110	59,667
Net book values:					
March 31, 2016	3,000	42,897	7,690	-	53,587
March 31, 2015	3,000	44,790	8,335	-	56,125

Property located at 33 Tobago Avenue, Kingston has been pledged as collateral for Bond 12B (Note 14 (e)).

13 PAYABLES AND ACCRUALS

	Group		Bank	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Other payables	21,150	22,117	9,150	10,107
Accruals	20,462	9,635	20,412	9,635
	41,612	31,752	29,562	19,742

14 BONDS AND LOAN PAYABLE

	Group and Bank	
	2016	2015
	$'000	$'000
National Insurance Fund Loan (See Note 14(a) below)	50,000	50,000
Shelter Bond 11 (see Note 14(b) and Note 14(f) below)	-	500,000
Shelter Bond 12A (see Note 14(d) below)	250,000	250,000
Shelter Bond 12B (see Note 14(e) below)	150,000	150,000
Shelter Bond 13 (see Note 14(c) below)	500,000	500,000
	950,000	1,450,000
Unamortised bond issuance costs	(1,563)	(2,115)
	948,437	1,447,885

	Group and Bank	
	2016	2015
	$'000	$'000
Principal		
Due within 12 months of the statement of financial position date	750,000	600,000
Due thereafter (within two to five years)	198,437	847,885
	948,437	1,447,885
Accrued interest on bonds and loan	6,702	9,770
	955,139	1,457,655

(a) In May 2014, the Bank received a loan from the National Insurance Fund at a fixed rate of 8.50% per annum for five years. Interest payments are due six months after the date of disbursement of the loan proceeds and quarterly thereafter. The loan is repayable in full in May 2019. The loan is secured by the assignment of mortgages on construction loans for $75 million and the assignment of the flow of funds from the loan(s) funded through this borrowing.

(b) In March 2009, the Bank issued Shelter Bond 11 at 1.50% above the weighted average treasury bill rate. This bond was repaid in full on February 28, 2016 and was not secured.

(c) In May 2011, the Bank issued Shelter Bond 13 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 $93.10 million (2015: $98.50 million), and land owned by the subsidiary with a carrying value of $1,000 (See Note 10(e)). 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 5).

(d) In March 2014, the Bank issued Shelter Bond 12A, at a fixed rate of 7.88% for 2 years and variable thereafter at 0.95% above the weighted average treasury bill rate. The bond is repayable in full on March 20, 2017 and is not secured.

(e) In July 2014, the Bank issued Shelter Bond 12B, at a fixed rate of 7.50% for 2 years and variable thereafter at 0.95% above the weighted average treasury bill rate. The bond is repayable in full on July 23, 2017. The bond is secured by a property located at 33 Tobago Avenue (See Note 12).

14 **BONDS AND LOAN PAYABLE (Continued)**

(f) The Bank was required to maintain a segregated sinking fund for the redemption of Bond 11, such that 20% of the outstanding principal sum accumulates in each year of the term of the bonds. As at March 31, 2015, the Bank did not maintain the sinking fund at the required amount.

In computing the variable rates above, the weighted average treasury bill yield used is from the most recent auction of 90 day and 180 day treasury bills prior to the commencement of the particular interest period. At the end of the period, the treasury bill yields were 5.72% and 6.94%, respectively (2015: 7.19% and 8.50%). Unamortised bond issuance costs related to the bonds is $1.56 million (2015: $2.12 million).

15 **SHARE CAPITAL**

	Group and Bank	
	2016 $'000	2015 $'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

16 **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 17).

17 **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 16).

18 **OTHER INCOME**

	Group and Bank	
	2016 $'000	2015 $'000
Administration fee – Mortgage Insurance Fund	22,920	21,499
Commitment and administration fees	17,154	23,418
Settlement of loans receivable	28,926	-
Other	13,701	4,388
	82,701	49,305

19 STAFF COSTS

The aggregate cost of employees was as follows:

	Group and Bank	
	2016	2015
	$'000	$'000
Salaries and wage-related expenses	84,305	60,933
Statutory payroll contributions	6,991	5,617
Employee benefit expense(credit) (Note 11(b)(iii))	1,999	(583)
Staff welfare	776	1,062
	94,071	67,029

20 ALLOWANCE FOR IMPAIRMENT LOSSES (NET OF RECOVERIES)

	Group and Bank	
	2016	2015
	$'000	$'000
Charged against revenue during the year (Note 8)	3,536	3,472
Recoveries during the year (Note 8)	(19,700)	(45,000)
Write back of provision (Note 8)	(66,731)	(793)
Direct write off of amounts not deemed collectible	6,218	1,566
	(76,677)	(40,755)

21 INTEREST INCOME

	Group and Bank	
	2016	2015
	$'000	$'000
Construction loans	110,772	65,069
Mortgage loans	6,106	31,121
Deposits (including cash and cash equivalents)	59,552	60,579
Other	-	12,497
	176,430	169,266

22 PROFIT BEFORE TAXATION

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

	Group and Bank	
	2016 2015 $'000	
	$'000	
Depreciation	4,365	2,961
Directors' emoluments - fees (Note 24)	646	802
Auditors' remuneration - current year	2,961	2,396
Loss on disposal of land held for development and sale	2,170	3,289

23 TAXATION

(a) Income tax

Current and deferred taxes have been calculated using the tax rate of 25% (2015: 25%).

(i) The total charge for the period comprises:

	Group and Bank	
	2016 $'000	2015 $'000
Current tax	18,027	9,106
Deferred tax	(2,453)	4,097
	15,574	13,203

(ii) The actual tax charge differed from the expected tax charge for the year as follows:

	Group		Bank	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Profit before taxation	93,259	38,871	93,299	38,934
Computed "expected" tax expense	23,315	9,718	23,325	9,734
Tax effect of treating the following items differently for financial statement purposes than for tax reporting purposes				
Taxation losses (recognised)/not recognised	(10,347)	5,729	(10,347)	5,729
Employment tax credit	(210)	(3,035)	(210)	(3,035)
Expenses not allowed	3,303	959	3,303	959
Other	(487)	(168)	(497)	(184)
Actual tax charge recognised in the statement of profit or loss	15,574	13,203	15,574	13,203
Tax (credit)/charge recognised directly in other comprehensive income	(2,453)	4,097	(2,453)	4,097

23 **TAXATION (Continued)**

(b) Deferred taxation

(i) Deferred taxes are calculated on all temporary differences using the current tax rate of 25% (2015: 25%).

Analysis for financial reporting purposes:

	Group and Bank	
	2016 2015 $'000	
	$'000	
Deferred tax assets	65,668	74,987
Deferred tax liabilities	(65,668)	(74,987)
Net asset (liability)	-	-

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

	Group and Bank	
	2016	**2015**
	$'000	**$'000**
Net liabilities at the beginning of period	-	-
Credited/(Charged) to income for the year	2,453	(4,097)
(Charged)/ Credited to other comprehensive income for the period	(2,453)	4,097
Net asset/(liability) at the end of the period	-	-

(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**	**Accelerated Capital Allowances**	**Other**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
At April 1, 2014	989	85,800	2,073	2,122	1,048	92,032
Credited/(Charged) to income for the year	104	(17,871)	370	(344)	696	(17,045)
At March 31, 2015	1,093	67,929	2,443	1,778	1,744	74,987
Credited/(Charged) to income for the year	(325)	(7,949)	(768)	54	(331)	(9,319)
At March 31, 2016	768	59,980	1,675	1,832	1,413	65,668

23 **TAXATION (Continued)**

(b) Deferred taxation (continued)

(b) Deferred tax liabilities

	Group and Bank		
	Pension Plan Asset	Interest Receivable	Total
	$'000	$'000	$'000
At April 1, 2014	(11,735)	(80,297)	(92,032)
(Charged)/Credited to income for the year	(666)	13,614	12,948
Credited to other comprehensive income	4,097	-	4,097
At March 31, 2015	(8,304)	(66,683)	(74,987)
(Charged)/Credited to income for the year	(30)	11,802	11,772
Charged to other comprehensive Income	(2,453)	-	(2,453)
At March 31, 2016	(10,787)	(54,881)	(65,668)

Subject to agreement with the Commissioner General, Tax Administration Jamaica, at the end of the reporting period, the Group had unused tax losses of approximately $259.08 million (2015: $332.27 million) available for offset against future profits. A deferred tax asset of approximately $59.98 million (2015: $67.93 million) has been recognised in respect of $239.92 million (2015: $271.72 million) of these losses.

24 **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 and Joint Ventures)* of the Bank;
(c) the party is a joint venture in which the Bank is a venturer (see IFRS 11, Joint Arrangements*);*
(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.

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

24 RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

Balances outstanding at the end of the reporting period:

	Group and Bank	
	2016	2015
	$'000	$'000
Due from the Mortgage Insurance Fund	5,514	16,376

	Group and Bank	
	2016	2015
	$'000	$'000
Related party transaction		
Administration fees - Mortgage Insurance Fund	22,920	21,499

Balances receivable from key management personnel are as follows:

	Group and Bank	
	2016 $'000	2015 $'000
Staff loans	-	252

Key management compensation is as follows:

	Group and Bank	
	2016	2015
	$'000	$'000
Directors' fees (Note 22)	646	802
Short-term employee benefits	41,177	31,960
Post-employment expense/(benefits)	437	(22)

25 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

25 FINANCIAL RISK MANAGEMENT (Continued)

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

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 Group 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 alia,* 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 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 statement of financial position, as follows:

	Group		Bank	
	2016	**2015**	**2016**	**2015**
	$'000	**$'000**	**$'000**	**$'000**
Cash	32,917	55,083	32,917	55,083
Certificates of deposit	421,492	468,772	421,492	468,772
Resale agreements	191,668	570,199	191,668	570,199
Receivables	11,350	32,305	11,350	32,305
Loans receivable	1,162,999	1,208,024	1,162,999	1,208,024
Investment in subsidiary	-	-	124,476	124,476
	1,820,426	2,334,383	1,944,902	2,458,859

25 FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework (Continued)

(a) Credit risk (continued)

(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.

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 allowance shown in the statement of comprehensive income for the year end is specifically applied to the portion of loans and interest receivable deemed uncollectible by the Group.

(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) Resale agreements and certificates of deposit

Collateral is held for all resale agreements.

(4) Receivables

The Group has adopted a policy of dealing with credit worthy counter parties as a means of mitigating the risk of financial loss from defaults. The Group’s exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst approved counter parties. The book value of receivables is stated after allowance for likely losses estimated by the Group’s managed based on prior year experience and their assessment of the current economic environment.

(5) Investment in subsidiary

The directors believe that the credit risk associated with this financial instrument is minimal. The carrying amount of $124.48 million (2015: $124.48 million) at the reporting date represents the Bank’s maximum exposure of this class of financial assets.

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

25 FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework (Continued)

(a) Credit risk (continued)

(iii) Credit quality of loans

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

	2016		2015	
	Gross	**Impairment**	**Gross**	**Impairment**
	$'000	**$'000**	**$'000**	**$'000**
Not past due and not impaired	567,637	-	541,072	-
Past due but not impaired				
Under 12 months	67,735	-	203,579	-
Past due and impaired				
Over 12 months	1,105,322	572,045	1,123,963	653,613
	1,740,694	572,045	1,868,614	653,613

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.

(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.

(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.

25 **FINANCIAL RISK MANAGEMENT (Continued)**

Risk management framework (Continued)

(a) Credit risk (continued)

(iv) Concentration of loans

There are significant concentrations of credit risk in that there are significant investments in various forms of 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:

		2016	
	Construction Loans	Mortgage Loans	Total
	$'000	$'000	$'000
Developers	1,689,904	-	1,689,904
Staff	-	11,593	11,593
Other	-	39,197	39,197
	1,689,904	50,790	1,740,694

		2015	
	Construction Loans	Mortgage Loans	Total
	$'000	$'000	$'000
Developers	1,819,282	-	1,819,282
Staff	-	3,152	3,152
Other	-	46,180	46,180
	1,819,282	49,332	1,868,614

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, 2016 or 2015.

25 FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework (Continued)

(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 significant 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.

25 **FINANCIAL RISK MANAGEMENT (Continued)**

(b) Market risk (continued)

(i) Interest rate risk (continued)

The following table summarises the carrying amounts of statement of financial position 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	**2016**				
	Within 3 Months	**Three to 12 Months**	**Over 12 Months**	**Non-rate Sensitive**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Cash	-	-	-	32,917	32,917
Certificates of deposit	183,297	236,107	-	2,088	421,492
Resale agreements	85,706	104,638	-	1,324	191,668
Receivables	-	-	-	11,350	11,350
Loans receivable	16,959	317,546	612,384	216,110	1,162,999
Total financial assets	285,962	658,291	612,384	263,789	1,820,426
Payables	-	-	-	21,150	21,150
Bonds and loan payable	500,000	250,000	198,437	6,702	955,139
Total financial liabilities	500,000	250,000	198,437	27,852	976,289
Interest rate sensitivity gap	(214,038)	408,291	413,947	235,937	844,137
Cumulative gap	(214,038)	194,253	608,200	844,137	

25 **FINANCIAL RISK MANAGEMENT (Continued)**

(b) Market risk (continued)

(i) Interest rate risk (continued)

Group	**2015**				
	Within 3 Months	**Three to 12 Months**	**Over 12 Months**	**Non-rate Sensitive**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Cash	-	-	-	55,083	55,083
Certificates of deposit	199,336	260,000	-	9,436	468,772
Resale agreements	487,990	77,401	-	4,808	570,199
Receivables	-	-	-	32,305	32,305
Loans receivable	118,000	456,431	381,107	252,486	1,208,024
Total financial assets	805,326	793,832	381,107	354,118	2,334,383
Payables	-	-	-	22,117	22,117
Bonds and loan payable	-	600,000	847,885	9,770	1,457,655
Total financial liabilities	-	600,000	847,885	31,887	1,479,772
Interest rate sensitivity gap	805,326	193,832	(446,778)	322,231	854,611
Cumulative gap	805,326	999,158	532,380	854,611	

25 **FINANCIAL RISK MANAGEMENT (Continued)**

(b) Market risk (continued)

(i) Interest rate risk (continued)

Bank	**2016**				
	Within 3 Months	**Three to 12 Months**	**Over 12 Months**	**Non-rate Sensitive**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Cash	-	-	-	32,917	32,917
Certificates of deposit	183,297	236,107	-	2,088	421,492
Resale agreements	85,706	104,638	-	1,324	191,668
Receivables	-	-	-	11,350	11,350
Loans receivable	16,959	317,546	612,384	216,110	1,162,999
Long-term loan	-	-	-	124,476	124,476
Total financial assets	285,962	658,291	612,384	388,265	1,944,902
Payables	-	-	-	9,150	9,150
Bonds and loan payable	500,000	250,000	198,437	6,702	955,139
Total financial liabilities	500,000	250,000	198,437	15,852	964,289
Interest rate sensitivity gap	(214,038)	408,291	413,947	372,413	980,613
Cumulative gap	(214,038)	194,253	608,200	980,613	

25 **FINANCIAL RISK MANAGEMENT (Continued)**

(b) Market risk (continued)

(i) Interest rate risk (continued)

Bank	**2015**				
	Within 3 Months	**Three to 12 Months**	**Over 12 Months**	**Non-rate Sensitive**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Cash	-	-	-	55,083	55,083
Certificates of deposit	199,336	260,000	-	9,436	468,772
Resale agreements	487,990	77,401	-	4,808	570,199
Receivables	-	-	-	32,305	32,305
Loans receivable	118,050	456,431	381,107	252,486	1,208,074
Long-term loan	-	-	-	124,476	124,476
Total financial assets	805,376	793,832	381,107	478,594	2,458,909
Payables	-	-		10,107	10,107
Bonds and loan payable	-	600,000	847,885	9,770	1,457,655
Total financial liabilities	-	600,000	847,885	19,877	1,467,762
Interest rate sensitivity gap	805,376	193,832	(466,778)	458,717	991,147
Cumulative gap	805,376	999,208	532,430	991,147	

(Expressed in Jamaican dollars)

25 FINANCIAL RISK MANAGEMENT (Continued)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

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

	2016		
	Within 3 Months	Three to 12 Months	Over 12 Months
	%	%	%
Certificates of deposit	6.04	6.00	-
Resale agreements	4.73	6.18	-
Loans receivable	12.75	13.94	9.91
Bonds payable	6.94	-	7.82

Group and Bank

	2015		
	Within 3 Months	Three to 12 Months	Over 12 Months
	%	%	%
Certificates of deposit	8.30	7.60	-
Resale agreements	6.89	6.75	-
Loans receivable	13.02	13.73	13.32
Bonds payable	-	6.09	7.90

Sensitivity analysis

If the interest rate had been 100 basis points higher and 100 basis points lower and all other variables were held constant for local interest bearing assets and liabilities, the Bank's/Group's profit for the period would increase by $7.95 million and decrease by $7.95 million respectively (2015: increase by $19.70 million and decrease by $7.90 million). For foreign interest bearing assets and liabilities, if interest rates were 100 basis points higher or 50 basis points lower, and all other variables were held constant, the Bank's/Group's profit for the period would increase by $0.11 million and decrease by $0.05 million respectively (2015: increase by $0.14 million and decrease by $0.04 million).

(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 material exposure to foreign currency risk as there are no significant transactions that are denominated in foreign currencies.

25 FINANCIAL RISK MANAGEMENT (Continued)

(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 liquid market, less loan commitments to borrowers within the coming year.

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

Group

	2016					
	Within One Month	One to 3 Months	Three to 12 Months	One to 5 Years	Cash flows Total	Carrying Values Total
	$'000	$'000	$'000	$'000	$'000	
Cash	32,917	-	-	-	32,917	32,917
Certificates of deposit	185,741	-	242,919	-	428,660	421,492
Resale agreements	41,796	24,555	127,298	-	193,649	191,668
Receivables	151	9,183	-	2,016	11,350	11,350
Loans receivable	17,735	318,203	613,831	216,110	1,165,879	1,162,999
Total financial assets	278,340	351,941	984,048	218,126	1,832,455	1,820,426
Payables	8,741	-	12,409	-	21,150	21,150
Bonds and loan payable	-	512,373	276,449	212,386	1,001,209	955,139
Total financial liabilities	8,741	512,373	288,858	212,386	1,022,359	976,289

25 FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

Group

	2015					
	Within One Month	One to 3 Months	Three to 12 Months	One to 5 Years	Cash flows Total	Carrying Values Total
	$'000	$'000	$'000	$'000	$'000	
Cash	55,083	-	-	-	55,083	55,083
Certificates of deposit	209,497	-	265,360	-	474,857	468,772
Resale agreements	80,574	417,554	78,919	-	577,047	570,199
Receivables	-	18,432	2,747	13,873	35,052	35,052
Loans receivable	-	133,068	533,338	626,849	1,293,255	1,208,024
Total financial assets	345,154	569,054	880,364	640,722	2,435,294	2,337,130
Payables	9,291	3,426	19,035	-	31,752	31,752
Bonds and loan payable	-	19,656	690,445	901,839	1,611,940	1,457,655
Total financial liabilities	9,291	23,082	709,480	901,839	1,643,692	1,489,407

Bank

	2016						
	Within One Month	One to 3 Months	Three to 12 Months	One to 5 Years	No specific maturity	Cash flows Total	Carrying values Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash	32,917	-	-	-	-	32,917	32,917
Certificates of deposit	185,741	-	242,919	-	-	428,660	421,492
Resale agreements	41,796	24,555	127,298	-	-	193,649	191,668
Receivables	151	9,183	-	2,016	-	11,350	11,350
Loans receivable	17,735	318,203	613,831	216,110	-	1,165,879	1,162,999
Long-term loan	-	-	-	-	124,476	124,476	124,476
Total financial assets	278,340	351,941	984,048	218,126	124,476	1,956,931	1,944,902
Payables	8,741	409	-	-	-	9,150	9,150
Bonds and loan payable	-	512,373	276,449	212,386	-	1,001,209	955,139
Total financial liabilities	8,741	512,782	276,449	212,386	-	1,010,359	964,289

25 FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

Bank	2015						
	Within One Month	One to 3 Months	Three to 12 Months	One to 5 Years	No specific maturity	Cash flows Total	Carrying values Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash	55,083	-	-	-	-	55,083	55,083
Certificates of deposit	209,497	-	265,360	-	-	474,857	468,772
Resale agreements	80,574	417,554	78,919	-	-	577,047	570,199
Receivables	-	18,432	2,747	13,873	-	35,052	35,052
Loans receivable	-	133,068	533,338	626,849	-	1,293,255	1,208,024
Long-term loan	-	-	-	-	124,476	124,476	124,476
Total financial assets	345,154	569,054	880,364	640,722	124,476	2,559,770	2,461,606
Payables	9,291	3,426	7,025	-	-	19,742	19,742
Bonds and loan payable	-	19,656	690,445	901,839	-	1,611,941	1,457,655
Total financial liabilities	9,291	23,082	697,470	901,839	-	1,631,683	1,477,397

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

(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.

25 **FINANCIAL RISK MANAGEMENT (Continued)**

(d) Operational risk (continued)

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 and Finance 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 Jamaica Mortgage Bank Act (see Note 16) and stated Board policy (see Note 17), 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.

26 FAIR VALUE MEASUREMENT

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. A market price, where an active market (such as a recognised stock exchange) exists, is the best evidence of the fair value of a financial instrument. Where market prices are not available for the financial assets and liabilities, fair values are determined using various estimation techniques based on market conditions existing at the end of the reporting period. Generally, judgement is necessarily required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented in these financial statements are not necessarily indicative of the amounts that the Group would realize in a current market exchange.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Long term fixed rate and variable rate receivables/borrowings are evaluated by the Group based on parameters such as interest rate, individual credit worthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the expected losses of these receivables. The long term loan to the subsidiary has no fixed repayment date. Fair value determined to be amount payable on demand which approximates to the carrying amount.
- Fair values of the Group's interest bearing borrowings and loans are determined by using discounted cash flow methods using a discount rate that reflects the issuer's borrowing rate as at the end of the reporting period.

Management has assessed that the carrying values of cash and certificates of deposit, repurchase agreements, trade receivables and payables approximate their fair values largely due to the short-term nature of these instruments. Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments, other than those where the carrying amounts are reasonable approximations of fair value.

Group	2016 Carrying Amount	2015 Carrying Amount	2016 Fair Value	2015 Fair Value
	$'000	$'000	$'000	$'000
ASSETS				
Loans receivable	1,162,999	1,208,024	1,104,603	1,209,822
LIABILITIES				
Bonds and loan payable	955,139	1,457,655	947,817	1,352,639

26 **FAIR VALUE MEASUREMENT (Continued)**

Bank	**2016 Carrying Amount**	**2015 Carrying Amount**	**2016 Fair Value**	**2015 Fair Value**
	$'000	**$'000**	**$'000**	**$'000**
ASSETS				
Loans receivable	1,162,999	1,208,024	1,104,603	1,209,822
Investment in subsidiary	124,476	124,476	124,476	124,476
	1,287,475	1,332,500	1,229,079	1,334,298
LIABILITIES				
Bonds and loan payable	955,139	1,457,655	947,817	1,352,639

The following table provides the fair value measurement hierarchy for the Group's and the Bank's financial assets and liabilities:

Quantitative disclosures fair value measurement hierarchy

Group

	Quoted prices in active market Level 1	**Significant observable inputs Level 2**	**Significant unobservable inputs Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
At March 31, 2016				
Assets for which fair value is disclosed:				
- Loans and receivables	-	1,104,603	-	1,104,603
Liabilities for which fair values are disclosed:				
- Long-term liabilities:				
Bonds payable	-	947,817	-	947,817

	Quoted prices in active market Level 1	**Significant observable inputs Level 2**	**Significant unobservable inputs Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
At March 31, 2015				
Assets for which fair value is disclosed:				
- Loans and receivables	-	1,209,822	-	1,209,822
Liabilities for which fair values are disclosed:				
- Long-term liabilities:				
Bonds and loan payable	-	1,352,639	-	1,352,639

26 FAIR VALUE MEASUREMENT (Continued)

Quantitative disclosures fair value measurement hierarchy (Continued)

Bank

	Quoted prices in active market Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
	$'000	$'000	$'000	$'000
At March 31, 2016				
Assets for which fair value is disclosed:				
- Loans and receivables	-	1,104,603	-	1,104,603
- Long term loan	-	-	124,276	124,276
Liabilities for which fair values are disclosed:				
- Long-term liabilities:				
Bonds payable	-	947,817	-	947,817

	Quoted prices in active market Level 1	Significant Observable Inputs Level 2	Significant unobservable inputs Level 3	Total
	$'000	$'000	$'000	$'000
At March 31, 2015				
Assets for which fair value is disclosed:				
- Loans and receivables	-	1,209,822	-	1,209,822
- Long term loan		-	124,476	124,476
Liabilities for which fair values are disclosed:				
- Long-term liabilities:				
Bonds payable	-	1,352,639	-	1,352,639

There were no transfers between Level 1 and Level 2 during the period.

27 COMMITMENTS

Loans approved but not disbursed by the Group and the Bank at March 31, 2016 amounted to approximately $1,118,878,000 (2015: $1,175,154,000).

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 for administering 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 by the Mortgage Insurance Fund; 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 of Jamaica's Consolidated Fund.

	2016 $'000	2015 $'000
Cost of Administration of Mortgage Insurance Fund		
Bank charges and interest	14	3
Professional and other	8,214	620
Audit fees	200	233
Total costs	8,428	856
Funded by:		
Contribution of:		
Two-fifths of Mortgage Insurance fees	2,584	948
Loan investigation fees	93	60
One-half of investment income of Mortgage (Government Guaranteed Loans) Insurance Reserve Fund	-	1
	2,677	1,009
Recovered by the Mortgage Insurance Fund	5,751	(153)
Total funding	8,428	856

29 CONTINGENCIES

The Bank, because of the nature of its business, is subject to various threatened or filed legal actions.

(i) On April 1, 2013, a borrower, who is in default, filed a claim against the Bank asking the Court to make an order for an interlocutory injunction to restrain the Bank from selling or transferring the property it holds as security for a loan to the borrower. Additionally, a claim of approximately $51.9 million has been made against the Bank for profit the borrower believes it would have made had the Bank completed funding of the related project. The borrower is also asking the Court to declare that the Bank breached the loan agreement and should continue disbursement of relevant loan funds.

The Bank's attorney filed a defense to this claim on June 5, 2013 denying a breach of contract. On October 29, 2013 the borrower filed an Application for interim injunction to restrain the Bank's exercise of its powers of sale. The Bank filed Affidavits opposing the borrowers application which was heard on December 5, 2013 at which time the Court refused the borrowers application for interim injunction.

The matter went to mediation on April 2, 2014 however no settlement was reached.

The Bank is awaiting notification of the date for Case Management Conference. No

provision has been made in these financial statements in respect of this matter.

JAMAICA MORTGAGE BANK

SUPPLEMENTARY INFORMATION TO THE

FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2016

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

OTHER ADMINISTRATIVE AND GENERAL EXPENSES - BANK ONLY
YEAR ENDED MARCH 31, 2016
(Expressed in Jamaican dollars)

	2016 $'000	2015 $'000
Advertising	755	70
Auditors' remuneration	2,961	2,396
Bank charges and interest	280	194
Bond expenses	1,188	1,492
Computer expenses	935	645
Consulting and other professional fees	6,299	6,900
Depreciation	4,365	2,961
Directors' fees	646	802
Donations	199	204
Electricity	3,568	4,494
General insurance	2,365	1,199
Group health and group life insurance	5,314	4,675
Legal expenses	3,274	642
Local travelling and incidentals	868	1,141
Overseas travel	-	320
Printing and stationery	748	472
Property taxes	525	708
Public relations	1,502	1,478
Conference, seminar and retreat expenses	333	56
Repairs and maintenance	1,691	830
Mortgage processing fee	293	1,115
Subscriptions and publications	870	962
Telephone, cables and postage	903	1,233
Other expenses	9,591	8,167
	49,473	43,156

THE MORTGAGE INSURANCE FUND AND

MORTGAGE (GOVERNMENT GUARANTEED LOANS)

INSURANCE RESERVE FUND

FINANCIAL STATEMENTS

MARCH 31, 2016

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Chartered Accountants

INDEPENDENT AUDITOR'S 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)

We have audited the accompanying financial statements of The Mortgage Insurance Fund and Mortgage (Government Guaranteed Loans) Insurance Reserve Fund (the "Funds"), which comprise the statements of financial position as at March 31, 2016, and the statements of changes in fund balances and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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.

Auditor's responsibility

Our responsibility is to express an opinion on these 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 about whether 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.

Building a better
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INDEPENDENT AUDITOR'S REPORT (Continued)

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) (Continued)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Funds as at March 31, 2016, and of the changes in fund balances and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Ernst & Young

Chartered Accountants
Kingston, Jamaica

July 8, 2016

A member firm of Ernst & Young Global Limited

THE MORTGAGE INSURANCE FUND
(Established under the Mortgage Insurance Act Administered by Jamaica Mortgage Bank)

STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2016
(Expressed in Jamaican dollars)

	Notes	2016 $'000	2015 $'000
ASSETS			
Cash and cash equivalents		5,198	11,591
Investments	4	1,057,511	1,007,086
Receivables	5	246,182	222,767
Property and equipment	6	-	-
		1,308,891	1,241,444
LIABILITIES			
Payables		398	198
Due to Mortgage (Government Guaranteed Loans) Insurance Reserve Fund		78	77
Due to Jamaica Mortgage Bank		5,514	16,376
		5,990	16,651
Net assets		1,302,901	1,224,793
Represented by:			
ACCUMULATED SURPLUS		1,302,901	1,224,793

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

The financial statements were approved for issue by the Board of Directors on July 8, 2016 and are signed on its behalf by:

Chairman

Director

THE MORTGAGE INSURANCE FUND
(Established under the Mortgage Insurance Act
Administered by Jamaica Mortgage Bank)

STATEMENT OF CHANGES IN FUND BALANCE
YEAR ENDED MARCH 31, 2016
(Expressed in Jamaican dollars)

	2016 $'000	2015 $'000
Increase in Fund:		
Three-fifths of mortgage loan insurance fees	3,876	1,122
Investment income	102,905	93,292
	106,781	94,414
Decrease in Fund:		
Recovered by the Bank as contribution towards the cost of administering the Mortgage Insurance Act	(5,753)	153
Administration charges paid to the Bank	(22,920)	(21,499)
Miscellaneous expense	-	(127)
	(28,673)	(21,473)
Net increase in Fund balance for year	78,108	72,941
Fund balance at beginning of year	1,224,793	1,151,852
Fund balance at end of year	1,302,901	1,224,793

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

THE MORTGAGE INSURANCE FUND
(Established under the Mortgage Insurance Act
Administered by Jamaica Mortgage Bank)

STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2016
(Expressed in Jamaican dollars)

	Notes	**2016 $'000**	**2015 $'000**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		78,108	72,941
Adjustments to reconcile income for the year to net cash provided by operating activities:			
Depreciation of property and equipment		-	10
		78,108	72,951
Change in operating assets:			
Increase in receivables		(23,415)	(642)
Change in operating liabilities:			
Increase in payables		200	124
Increase in due to Mortgage (Government Guaranteed Loans) Insurance Reserve Fund		1	2
(Decrease)/Increase in due to Jamaica Mortgage Bank		(10,862)	1,173
Net cash provided by operating activities		44,032	73,608
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments		(50,425)	(68,694)
Net cash used in investing activities		(50,425)	(68,684)
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		(6,393)	4,914
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		11,591	6,677
CASH AND CASH EQUIVALENTS AT END OF YEAR		5,198	11,591

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

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, 2016
(Expressed in Jamaican dollars)

	2016	2015
	$'000	$'000
ASSETS		
Due from Mortgage Insurance Fund	78	77
Government of Jamaica investment debenture	16	15
	94	92
Represented by:		
ACCUMULATED SURPLUS	94	92

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

The financial statements were approved for issue by the Board of Directors on July 8, 2016 and are signed on its behalf by:

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, 2016
(Expressed in Jamaican dollars)

	2016 $'000	2015 $'000
One-half of investment income transferred to the Bank as contribution towards the cost of administering the Mortgage Insurance Act	2	2
Net increase in Fund for year	2	2
Fund balance at beginning of year	92	90
Fund balance at end of year	94	92

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

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

STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2016
(Expressed in Jamaican dollars)

	Notes	2016 $'000	2015 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		2	2
Change in operating assets:			
Increase in due from Mortgage Insurance Fund		(1)	(2)
Net cash provided by operating activities		1	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments		(1)	-
Net cash used in investing activities		(1)	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		-	-
CASH AND CASH EQUIVALENTS AT END OF YEAR		-	-

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

1 CORPORATE INFORMATION

(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 (together 'the Funds'). 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) These Funds are 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) as issued by the International Accounting Standards Board (IASB).

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 Funds.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Changes in accounting standards and interpretations

Current year changes

The Funds applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2015. The Funds have not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Although these new standards and amendments applied for the first time during the current year, they did not have a material impact on the annual financial statements of the Funds. The nature and the impact of each new standard or amendment is described below:

- **Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions***

  IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after July 1, 2014. This amendment is not relevant to the Funds as contributions are not dependent on years of service.

3 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(a) Changes in accounting standards and interpretations (Continued)

Current year changes

- **Annual Improvements 2010-2012 Cycle**

  With the exception of the improvement relating to IFRS 2 *Share-based Payment* applied to share-based payment transactions with a grant date on or after July 2014, all other improvements are effective for accounting periods beginning on or after July 1, 2014. The Funds have applied these improvements for the first time in these financial statements. They include:

  - **IFRS 2 *Share-based Payment***

    This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions. The Funds have not granted any awards during the year and thus these amendments did not impact the Funds' financial statements.

  - **IFRS 3 *Business Combinations***

    The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This amendment did not impact the Funds' accounting policies as there were no business combinations during the year.

  - **IFRS 8 *Operating Segments***

    The amendments are applied retrospectively and clarify that:

    - An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';
    - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

  These amendments did not have any impact on the financial statements of the Funds as they are not applicable as the Funds do not present segment information.

3 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(a) Changes in accounting standards and interpretations (Continued)

Current year changes (Continued)

- **Annual Improvements 2010-2012 Cycle (Continued)**

  - **IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets***

    The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact on the revaluation adjustments recorded by the Funds during the current year.

  - **IAS 24 *Related Party Disclosures***

    The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment did not result in any changes as such disclosures were already being made by the Funds for such services.

- **Annual Improvements 2011-2013 Cycle**

  These improvements are effective from July 1, 2014 and the Funds have applied these amendments for the first time in these financial statements. They include:

  - **IFRS 3 *Business Combinations***

    The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

    - Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
    - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

    This amendment is not relevant to the Funds as they are not a joint arrangement.

  - **IFRS 13 *Fair Value Measurement***

    The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The Funds do not apply the portfolio exception in IFRS 13.

  - **IAS 40 *Investment Property***

    The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. This amendment did not impact the financial statements of the Funds.

3 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(a) Changes in accounting standards and interpretations (Continued)

Future changes

The standards and interpretations that are issued, but not yet effective are disclosed below. The Funds intend to adopt these standards, if applicable, when they become effective.

- **IFRS 9 *Financial Instruments***

  In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement, and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The Funds plan to adopt the new standard on the required effective date.

  (i) Classification and measurement

  All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

  With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability, that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of change 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. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

  The Funds do not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9.

  (ii) Impairment

  IFRS 9 requires the Funds to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Funds does not expect a significant impact on its equity but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

3 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(a) Changes in accounting standards and interpretations (Continued)

Future changes (Continued)

- **IFRS 9 *Financial Instruments (Continued)***

  (iii) Hedge accounting
  This amendment would not apply as the Fund do not apply hedge accounting.

- **IFRS 14 *Regulatory Deferral Accounts***

  IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Funds are existing IFRS preparers, this standard would not apply.

- **IFRS 15 *Revenue from Contracts with Customers***

  This new standard provides a single, principles based five-step model to be applied to all contracts with customers. The five steps are:

  - Identify the contract with the customer,
  - Identify the performance obligations in the contract,
  - Determine the transaction price,
  - Allocate the transaction price to the performance obligations in the contracts,
  - Recognise revenue when (or as) the entity satisfies a performance obligation.

  There is new guidance on whether revenue should be recognised at a point in time or over time, which replaces the previous distinction between goods and services. Where revenue is variable, a new recognition threshold has been introduced by the standard. This threshold requires that variable amounts are only included in revenue if, and to the extent that, it is highly probable that a significant revenue reversal will not occur in the future as a result of re-estimation. However, a different approach is applied for sales and usage-based royalties from licences of intellectual property; for such royalties, revenue is recognised only when the underlying sale or usage occurs. The standard also introduces new guidance on costs of fulfilling and obtaining a contract, specifying the circumstances in which such costs should be capitalised. Costs that do not meet the criteria must be expensed when incurred.

  The standard provides detailed guidance on various issues such as identifying distinct performance obligations, accounting for contract modifications and accounting for the time value of money, sales with a right of return, customer options for additional goods or services, principal versus agent considerations, licensing, and bill-and hold arrangements.

  The standard introduces new, increased requirements for disclosure of revenue in an IFRS reporter's financial statements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Changes in accounting standards and interpretations (Continued)

Future changes (Continued)

- **IFRS 15 *Revenue from Contracts with Customers (Continued)***

  IFRS 15 must be applied in an entity's annual IFRS financial statements for periods beginning on or after January 1, 2018. Application of the Standard is mandatory and early adoption is permitted. The directors and management have not yet assessed the impact of the application of this standard on the Funds' financial statements.

- **IFRS 16 *Leases***

  This new standard requires lessees to account for all leases under a single on-balance sheet model, subject to certain exemptions in a similar way to finance leases under IAS 17. Lessees recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately. The standard provides guidance on the two recognition exemptions for leases – leases of "low value" assets and short-term leases with a term of 12 months or less. Lessor accounting is substantially the same as IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted but not before the Funds apply IFRS 15. The directors and management have not yet assessed the impact of the application of this standard on the Funds' financial statements.

- **Amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests***

  The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

  The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Funds' financial statements.

- **Amendments to IAS 16 and IAS 38: *Clarification of Acceptable Methods of Depreciation and Amortisation***

  The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Funds given that the Funds have not used a revenue-based method to depreciate its non-current assets.

3 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(a) Changes in accounting standards and interpretations (Continued)

Future changes (Continued)

- **Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants***

  The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply.

- **Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants (Continued)***

  The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Funds' financial statements as the Funds do not have any bearer plants.

- **Amendments to IAS 27: *Equity Method in Separate Financial Statements***

  The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

  For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Funds' financial statements.

- **Amendments to IFRS 10 and IAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

  The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Funds' financial statements.

3 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(a) Changes in accounting standards and interpretations (Continued)

Future changes (Continued)

- **Amendments to IAS 1 *Disclosure Initiative***

  The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

  - The materiality requirements in IAS 1
  - That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
  - That entities have flexibility as to the order in which they present the notes to financial statements
  - That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

  Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Funds' are currently assessing the impact of these amendments on their financial statements.

- **Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception***

  The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

  These amendments are not expected to have any impact on the Funds' financial statements.

- **Annual Improvements *2012-2014 Cycle***

  These improvements are effective for annual periods beginning on or after January 1, 2016. They include:

  - **IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations***

    Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

3 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(a) Changes in accounting standards and interpretations (Continued)

Future changes (Continued)

- **Annual Improvements *2012-2014 Cycle (Continued)***

  - **IFRS 7 *Financial Instruments: Disclosures***

    (i) Servicing contracts

    The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

    (ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

    The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

  - **IAS 19 *Employee Benefits***

    The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

  - **IAS 34 *Interim Financial Reporting***

    The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments are not expected to have any impact on the Funds' financial statements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) 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.

- Withholding tax recoverable

  Management exercises judgement in designating withholding tax recoverable as collectible. On this basis, the fair value of this amount is determined to approximate its carrying value.

(c) Cash and cash equivalents

Cash comprises cash on hand and in banks. Short-term deposits are highly liquid investments with an original maturity of three months or less. For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at bank and in hand.

(d) 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.

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. These Funds generally use net present value techniques or the discounted cash flow method.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Investments (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by these Funds.The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Funds use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets for which fair value is disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active market for identical assets and liabilities
Level 2 - Valuation techniques for which the lowest level input that significant to the fair value measurement is directly or indirectly observable
Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

(e) Receivables

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

3 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(f) Impairment

The carrying amounts of the Funds' 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 Funds' 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.

(g) Payables

Trade and other payables are stated at cost.

(h) Property and equipment

Property 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 and equipment is derecognised 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.

4 INVESTMENTS - MORTGAGE INSURANCE FUND

	2016	2015
	$'000	$'000
Government of Jamaica:		
Repurchase agreements	304,967	264,242
Investment bonds	742,912	733,667
Accrued interest	9,632	9,177
	1,057,511	1,007,086

5 RECEIVABLES

	2016	2015
	$'000	$'000
Withholding tax recoverable	246,182	222,767

6 PROPERTY AND EQUIPMENT - COMPUTER

	$'000
Cost	
April 1, 2014, March 31, 2015 and March 31, 2016	115
Depreciation	
April 1, 2014	105
Charge for the year	10
March 31, 2015 and 2016	115
Net book value	
March 31, 2016	-
March 31, 2015	-

7 RELATED PARTY BALANCES AND TRANSACTIONS

A party is related to these Funds if:

(a) directly, or indirectly through one or more intermediaries, the party:
   (i) controls, is controlled by, or is under common control with, these Funds;
   (ii) has an interest in these Funds that gives it significant influence over the Fund; or
   (iii) has joint control over these Funds;
(b) the party is an associate (as defined in IAS *28, Investments in Associates and Joint Ventures)* of these Funds;
(c) the party is a joint venture in which these Funds is a venturer (see *IFRS 11, Joint Arrangements);*
(d) the party is a member of the key management personnel of the Funds;
(e) the party is a close member of the family of any individual referred to in (a) or (d);
(f) the party is a Fund that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such Fund 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 Funds, or of any Fund that is a related party of the Funds.

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:

	2016 $'000	2015 $'000
Due to Jamaica Mortgage Bank	5,514	16,376

	2016 $'000	2015 $'000
Related party transaction		
Administration fees - Jamaica Mortgage Bank	22,920	21,499

Administration fee is charged at an annual rate of 2.25% of the Fund's investment portfolio balance at the end of each month.

8 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, due to Jamaica Mortgage Bank, and due to the Mortgage (Government Guaranteed Loans) Insurance Reserve Fund.

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.

8 **FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)**

(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 Funds' 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 $750 million (2015: $740 million). The fair values are estimated on the basis of pricing models or other recognized valuation techniques.

The investments held are classified as level 2 investments. There were no transfers during the year.

(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 Funds' exposure to each of the above risks, and the Funds' 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 Funds' risk management framework. The Board has established Finance and Audit and Loans and Projects Committees for the Bank and, by extension, the Funds. 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.

8 **FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)**

(b) Financial risk management (continued):

Risk management framework (continued)

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

(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 Funds' 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 Funds' exposure to credit risk is limited to the carrying values of financial assets in the statement of financial position. There has not been any change in the Funds' 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 Funds' 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.

8 **FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)**

(b) Financial risk management (Continued)

(ii) Market risk (Continued)

• Interest rate risk (Continued):

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.

	2016						
	Immediately Rate Sensitive	**Within 3 months**	**Three to 12 months**	**Over 12 months**	**Non-rate Sensitive**	**Total**	**Average Effective yield**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**%**
Investments	-	8,175	296,920	742,912	9,504	1,057,511	9.07
Cash and cash equivalents	-	-	-	-	5,198	5,198	
	-	8,175	296,920	742,912	14,702	1,062,709	

	2015						
	Immediately Rate Sensitive	**Within 3 months**	**Three to 12 months**	**Over 12 months**	**Non-rate Sensitive**	**Total**	**Average Effective yield**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**%**
Investments	7,786	94,034	170,208	733,667	9,177	1,014,872	9.20
Cash and cash equivalents	-	-	-	-	11,591	11,591	
	7,786	94,034	170,208	733,667	20,768	1,026,463	

8 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

(b) Financial risk management (continued)

(ii) Market risk (continued)

- 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 they have 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.

9 FUND VALUATION

The Fund is subjected to triennial actuarial valuations carried out by an external firm of actuaries. The latest actuarial valuation for funding purposes, undertaken at March 31, 2015, indicated the actuarial value of net assets of $1.23 billion exceeded the unearned premium liability, claim liability and contingency reserves total of $19 million by a surplus of $1.21 billion. Unearned premium reserve was estimated at 0.73% of the Fund, and annual default rate was estimated at 0.06% of the average fund.

Notes

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