JMB

Facilitating Home Ownership

ANNUAL REPORT **2014**

CONTENTS

Letter of Transmittal

July 1, 2014

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

Dear Sir:

In accordance with Section 15 (1) of the Jamaica Mortgage Bank Act, No. 16 of 1973, I have the honour of transmitting herewith the Bank's Report for the year ended March 31, 2014 and a copy of the Statement of the Bank's Accounts at March 31, 2014, duly certified by the Auditors.

Yours respectfully,

.....
Howard P. Mollison
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.

Chairman's Message

Howard P. Mollison
Chairman

Overview

The Jamaican economy showed signs of growth in the latter part of the calendar year 2013. The performance of the economy was influenced by an improvement in international economic conditions, especially in North America, which has facilitated modest increases, primarily in tourism and remittance inflows. The initiatives and legislative changes implemented as conditionalities attendant on the borrowing relationship between the Government and the International Monetary Fund (IMF) have also contributed to growth as the economy moves towards fiscal balance. Notwithstanding the improvements, growth in domestic demand remained relatively weak in a context of continued high unemployment and a fall in real wages due to inflation.

Macroeconomy

The results of the macroeconomic climate are being characterised by:

Inflation: Headline inflation for December 2013 was 0.6 per cent, which was below the average rate of 0.8 per cent for December of the last five years. As at December 2013, calendar year inflation was 9.7 per cent, relative to the 8.0 per cent for 2012.

Increase in the NIR: The NIR stock at the end of December 2013 amounted to US$1,048M, US$137.6 million higher than the quarter ending September 2013, and was US$220M above the target set under the International Monetary Fund Facility. The Bank's gross reserves at the end of December 2013 amounted to US$1,822.6M, which represented approximately 12.6 weeks of projected imports for goods and services.

Exchange rate adjustment: Movement in the local currency to the United States Dollar over the 12-month period January to December reflected a steady depreciation of the Jamaican dollar of approximately 13%.

Movement in interest rates: Interest rates on the benchmark Six-Month Treasury Bills increased from 7.18% in December 2012 to a rate of 8.25% at the end of December 2013.

Positive Growth: Real GDP recorded growth for the July to September 2013 quarter of 0.60% and 1.8% for the October to December 2013 quarter. The aforementioned macroeconomic conditions have continued to contribute to a stagnant bond market, increased unemployment, steady depreciation of the Jamaican dollar against its main trading partners, and increased inflation, which have resulted in a decline in disposable income.

These conditions have also contributed to lower demands in the housing sector and a slight increase in housing prices. Similarly, the post NDX environment has created market conditions that make it difficult to raise unsecure financing in the private markets.

Annual Report 2014

Despite the macroeconomic challenges, the Jamaica Mortgage Bank (the Bank) continued to meet its mandate of facilitating affordable housing solutions for the Jamaican people. I am therefore pleased to present the Bank's Annual Report for the financial year ended March 31, 2014.

Performance

The Bank recorded a loss of $89.1M on the statement of comprehensive income for fiscal year 2013/2014. This compared to $46.2M in the previous year. When normalized for the $100M ($25M, 2012/2013) net bad debt provision, the Bank's profit was $11M ($20M loss, 2012/2013). In addition to a tax credit of $17.7M, these results represent a slight operating improvement, attributable to the strategic plan employed to streamline the Bank's operations a year ago. When normalized for the one-time write back of legal accruals and inflation in 2012/2013, the Bank's operating expenses slightly increased by $2.5M, year-over-year, and continue to be managed as a matter of priority.

Although the loan portfolio declined due to some maturities during the year, the Bank's loan commitments increased by 21.6% when compared to the corresponding period last year. The year-on-year loan disbursement remained relatively flat at $429M ($444M, 2012/2013). The Bank was able to fund approximately 77 new units for the year, which was below budget. The less than budgeted performance is directly correlated to the lower demand and slow growth rate in the housing sector.

The Bank's consolidated financial statement reflects stability with total assets at $2.8B or $351M less than the previous year, attributable to repayment of $500M of Shelter Bond maturity and netted by a re-issue of $250M. It should be noted that the asset allocation of the Bank's balance sheet has shifted more to liquid assets. The total equity of the Bank remains very strong at 54% of total assets, compared to 51% in the previous year. Total liabilities were reduced primarily due to the bond repayment mentioned earlier.

The Mortgage Indemnity Insurance (MII) plan, which is administered by the Bank on behalf of the Government of Jamaica (GOJ), remains robust. A total of 54 undertakings-to-insure providing coverage of $58.8M were issued during the reporting period. This represents a slight year-over-year increase in policies insured. Despite the impact of the NDX, the fund also increased to $1.15B from $1.08B, the year before, due to prudent investment management.

During the fiscal year, the Bank maintained the existing Secondary Mortgage Market (SMM) portfolio due to the interest rate environment mentioned above which is not conducive to the growth of the SMM product. As a result, the SMM product has been placed on hold in its current format until adequate low-cost facilities can be identified to relaunch the plan.

The Way Forward

From all indicators, the road ahead will require astute stewardship to attain the Bank's medium and long-term objectives. The Bank anticipates that the economy will continue to be impacted by the structural adjustment programme during the next fiscal year. We will continue to assess the leading and lagging macroeconomic indicators, housing industry trends, and feedback from our partners to optimally execute our immediate-term operating plan, while focussing on the medium to long-term strategic objectives. Assuming there are no significant exogenous shocks, the Bank will continue to steadfastly implement the strategic plan that will result in a sustainable positive performance. As such, the Bank's strategy for the ensuing year 2014/2015 is grounded in three major activities:

1). Strengthen the loan assessment process to reduce any inherent risk in our policies and procedure, thereby minimizing any new non-performing loans. Against this background, the Bank will reset its lending rate to be competitive in the market and write commitments of $1.1B and disbursement of $1.0B for an estimated 320 housing solutions.

2). Convert 80% to 90% of our assets to earned assets, including selling all land held for sale. This will supplement any funding the Bank will be able to obtain in the private marketplace.

3). A laser-like focus approach to our delinquent portfolio to recover in excess of $644M of non-performing loans. This will be used to strengthen the Bank's liquidity in order to meet its project funding demands.

Additionally, the draft amendments to the Mortgage Insurance Act to increase the coverage to 97% were taken to the Legislative Committee of Cabinet for review. The Bank fully expects these amendments to become law during the new year. As such, we expect to see an all-round improvement in the Mortgage Indemnity Insurance (MII) with the total of 80 undertakings-to-insure providing coverage of $100M. The Bank will also seek to bring on other major mortgage lenders to its MII portfolio.

The Bank will also use inexpensive and targeted means to improve its visibility in the marketplace.

Appreciations

I deeply appreciate the support of the Minister of Transport, Works and Housing, Dr. Hon. Omar Davies, our Portfolio Minister, Hon. Dr. Morais Guy, and the staff of the Ministry for their support during the year.

To our business partners, we thank you for the confidence that you continue to repose in the Jamaica Mortgage Bank as we strive to maintain the greatness of this most relevant institution.

Finally, I would like to thank the Board of Directors and team members of the Bank for their steadfast and unwavering commitment to the continued success of the organization. I'm excited about the Bank's future as we work together to overcome the challenges and achieve the mandate of providing affordable housing solutions for Jamaicans.

.....

Howard P. Morrison
Chairman

Corporate Information

REGISTERED OFFICE

33 Tobago Avenue
Kingston 5

AUDITORS

Ernst & Young
8 Olivier Road
Kingston 8

BANKERS

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

National Commercial Bank
1 Knutsford Boulevard
Kingston 5

First Global Bank Limited
28-48 Barbados Avenue
Kingston 5

ATTORNEYS-AT -LAW

Myers Fletcher & Gordon
21 East Street
Kingston

Hart Muirhead Fatta
53 Knutsford Boulevard
Kingston 5

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
- ***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

Management Information Systems

Office Administration

Public Relations

Board of Directors

Howard Mollison

Chairman
Chairman, HR Committee

Lorna Phillips

Deputy Chairman
Member, HR Committee and Projects Committee

Paul Williams

Chairman, Projects Committee

Ryan Reid

Chairman
Audit & Finance Committee and Member, Projects Committee

Patrick Gayle

Member
HR Committee and Audit & Finance Committee

Doreen Prendergast

Member
Projects Committee

Carlene O'Connor

Member
Audit & Finance Committee

Management Team

Courtney Wynter
General Manager

Hecton Hemans
Director, Business Operations

Donna Samuels Stone
Corporate Secretary/ Legal Officer

Marion Ebanks
Director of Finance

Hope Barnett
Director, Human Resource, Administration & Corporate Services

Department Teams

Finance & Accounts

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

Business Operations

L-R: Hecton Hemans, Marlene Lawrence, Raymond Johnson, Dalton Patrick Myrie

General Manager's Office & Corporate Secretarial/Legal

L-R: Corretta Haughton, Antionette Symister, Courtney Wynter, Donna Samuels Stone

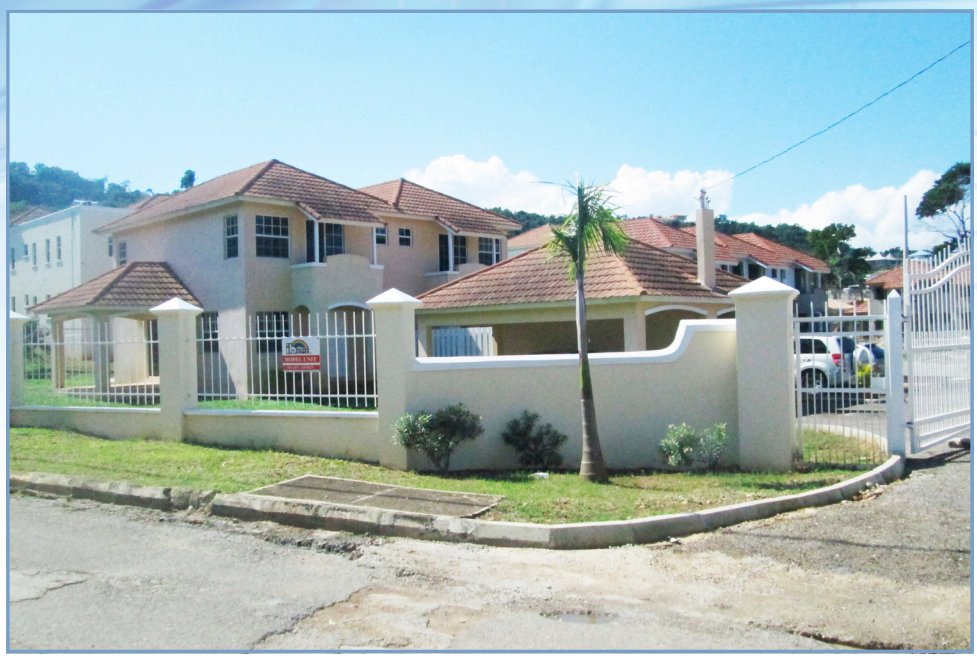
Human Resource, Administration & Corporate Services

Seated: L-R: Patricia Carter, Earlrel Anderson, Phallon Cummings
Standing: L-R: Danovan Blackburn, Monica Ewan, Daniel Scott, Hope Barnett, Marcia Morrison, Kerryan Saulas, Jefton Samma

Projects Financed by the JMB

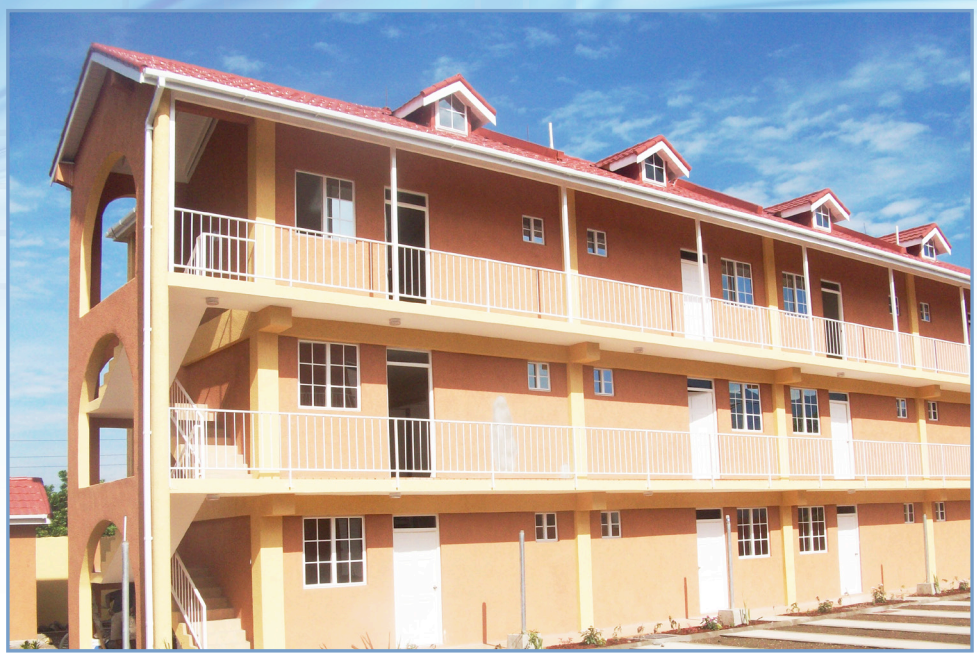
Hillview, St. Andrew

Kings Manor, St. Andrew



Huddersfield, St. Mary

Riviera, St. Andrew



Lilford, St. Andrew

Little Bay, Hanover

Directors & Senior Executive Compensation

DIRECTORS COMPENSATION **April 1, 2013-March 31, 2014**

Position of Director	Fees ($)	Motor Vehicle Upkeep/Travelling or Value of Assignment Motor Vehicle ($)	Honoraria ($)	All Other Compensation including Non-Cash Benefits as applicable ($)	Total ($)
Board Chairman/ Subcommittee Chairman	153,000	-	-	-	153,000
Director/Deputy Chairman	122,500	-	-	-	122,500
Director/ Subcommittee Chairman	152,500				152,500
Director/ Subcommittee Chairman	131,500	-	-	-	131,500
Director	91,500	-	-	-	91,500
Director	74,500	-	-	-	74,500
Director	66,500	-	-	-	66,500

SENIOR EXECUTIVE COMPENSATION **April 1, 2013-March 31, 2014**

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 Acting & One-Off Payment ($)	Non-Cash Benefits ($)	Total ($)
General Manager	7,911,811	1,531,250	1,103,493	Nil	-	Nil	10,546,554
Director, Business Operations	836,932	-	181,469	Nil	-	Nil	1,018,401
Corporate Secretary/Legal Officer	5,070,928	Nil	975,720	252,633	646,374	Nil	6,945,655
Director, Human Resource, Administration & Corporate Services	5,070,928	Nil	975,720	252,633	25,000	Nil	6,324,281
Director of Finance	4,305,566	Nil	975,720	221,678	25,000	Nil	5,527,964

Financial Statements

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2014

(Expressed in Jamaican Dollars)

EY
Building a better working world
Chartered Accountants

8 Olivier Road
Kingston 8
Jamaica, W.I.

Tel: +1 876 925 2501
Fax: +1 876 755 0413
ey.com

INDEPENDENT AUDITORS' REPORT

To the Directors of Jamaica Mortgage Bank

Report on the financial statements

We have audited the financial statements of Jamaica Mortgage Bank and its subsidiary (the "Group") and the financial statements of Jamaica Mortgage Bank (the "Bank"), which comprise the Group's and Bank's statements of financial position as at March 31, 2014, 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

INDEPENDENT AUDITORS' REPORT (Continued)

To the Directors of Jamaica Mortgage Bank (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, 2014, 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.

Other Matter

The financial statements of the Group and the Bank for the financial year ended March 31, 2013 were audited by another auditor who expressed anunmodified opinion on those financial statements on May 29, 2013.

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

May 27, 2014

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2014

	Notes	2014 $'000	2013 $'000
ASSETS			
Cash and short-term deposits		15,528	17,851
Resale agreements	4	355,125	111,379
Receivables and prepayments	5	33,493	27,391
Income tax recoverable		210,264	203,360
Loans receivable	7	1,692,716	2,301,907
Land held for development and sale	8	379,001	382,001
Post-retirement benefits	9(b)	46,941	38,230
Property, plant and equipment	10	52,819	54,771
Total assets		2,785,887	3,136,890
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Payable and accruals	11	11,753	9,867
Bonds payable	12	1,254,061	1,502,155
Income tax payable		1,980	-
Deferred tax liabilities	21	-	17,622
		1,267,794	1,529,644
SHAREHOLDERS' EQUITY			
Share capital	13	500,000	500,000
Reserve fund	14	500,000	500,000
Special reserve fund	15	340,083	340,083
Retained earnings		178,010	267,163
		1,518,093	1,607,246
Total liabilities and shareholders' equity		2,785,887	3,136,890

The accompanying notes form an integral part of these Financial Statements.

The financial statements were approved for issue by the Board of Directors on May 27, 2014 and are signed on its behalf by:

Director

Director

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED MARCH 31, 2014

	Notes	2014 $'000	2013 $'000
Revenue			
Interest from loans		119,867	171,486
Interest from deposits		27,645	6,167
Interest from other investments		24,991	21,145
Total interest income	19	172,503	198,798
Other income	16	29,915	73,311
		202,418	272,109
Expenses			
Staff costs	17,28	(65,187)	(65,889)
Allowance for impairment losses on loans	18	(100,017)	(25,523)
Other administrative and general expenses		(51,694)	(29,822)
Loss on sale of assets		-	(87,800)
Finance costs:			
Interest on bonds		(98,772)	(94,135)
		(315,670)	(303,169)
Loss before taxation	20	(113,252)	(31,060)
Taxation	21,28	17,756	(14,775)
Net loss for the year	28	(95,496)	(45,835)
Other comprehensive (expense)/income			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains/(losses) on the defined benefit plan	9,28	8,457	(522)
Income tax relating to the remeasurement gains(losses) on the defined benefit plan	21,28	(2,114)	131
Other comprehensive income (expense) for the year, net of tax		6,343	(391)
Total comprehensive expense for the year, net of tax		(89,153)	(46,226)

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, 2014

	Note	Share Capital (Note 13) $'000	Reserve Fund (Note 14) $'000	Special Reserve Fund (Note 15) $'000	Retained Earnings $'000	Total $'000
Balance at April 1, 2012		500,000	500,000	340,083	313,389	1,653,472
Net loss for the year, as restated	28				(45,835)	(45,835)
Other comprehensive expense, as restated	28	-	-	-	(391)	(391)
Total comprehensive expense		-	-	-	(46,226)	(46,226)
Balance at March 31, 2013		500,000	500,000	340,083	267,163	1,607,246
Net loss for the year		-	-	-	(95,496)	(95,496)
Other comprehensive income		-	-	-	6,343	6,343
Total comprehensive expense		-	-	-	(89,153)	(89,153)
Balance at March 31, 2014		500,000	500,000	340,083	178,010	1,518,093

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, 2014

	Notes	2014 $'000	2013 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year before taxation		(113,252)	(31,060)
Adjustments to reconcile loss for the year to net cash provided by/(used in) operating activities:			
Depreciation of property, plant and equipment	10	3,142	3,252
Provision for impairment losses on loans and other receivables, net of recoveries	18	100,017	25,523
(Gain)/Loss on sale of land held for development	8(d)	(435)	87,800
Other losses		-	668
Post-retirement benefits expense	9(b)(iii)	1,631	81
Amortisation of bond issue costs	12	2,115	3,186
Interest income		(172,503)	(198,798)
Interest expense		98,772	94,135
		(80,513)	(15,213)
Change in operating assets:			
Increase in receivables and prepayments		(6,102)	(1,270)
Decrease/(Increase) in loans receivable		376,940	(456,675)
Change in operating liabilities:			
Increase/(Decrease) in payables and accrued charges		1,886	(16,894)
Contributions paid post-retirement employee benefits	9(b)(ii)	(1,885)	(2,077)
		290,326	(492,129)
Interest received		304,038	118,062
Income tax paid		(6,904)	(1,542)
Net cash provided by/(used in) operating activities		587,460	(375,609)
CASH FLOWS FROM INVESTING ACTIVITIES			
Resale agreements		(243,047)	(54,029)
Investment securities		-	6,132
Proceeds on disposal of land held for development and sale		3,435	487,950
Additions to property, plant and equipment	10	(1,190)	(419)
Net cash (used in)/provided by investing activities		(240,802)	439,634
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(98,981)	(94,783)
Redemption of bearer bonds		(500,000)	-
Issue of bearer bonds (net)		250,000	-
Net cash used in financing activities		(348,981)	(94,783)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(2,323)	(30,758)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		17,851	48,609
CASH AND CASH EQUIVALENTS AT END OF YEAR		15,528	17,851

Cash and cash equivalents comprise cash balances at March 31, 2014 and 2013.

The accompanying notes form an integral part of the Financial Statements.

JAMAICA MORTGAGE BANK

STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2014

	Notes	2014 $'000	2013 $'000
ASSETS			
Cash and short-term deposits		15,528	17,851
Resale agreements	4	355,125	111,379
Receivables and prepayments	5	33,493	27,391
Income tax recoverable		210,264	203,360
Interest in subsidiary	6	136,413	136,350
Loans receivable	7	1,692,716	2,301,907
Land held for development and sale	8	379,000	382,000
Post-retirement benefits	9(b)	46,941	38,230
Property, plant and equipment	10	52,819	54,771
Total assets		2,922,299	3,273,239
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Payables and accruals	11	11,743	9,857
Bonds payable	12	1,254,061	1,502,155
Income tax payable		1,980	-
Deferred tax liabilities	21	-	17,622
		1,267,784	1,529,634
SHAREHOLDERS' EQUITY			
Share capital	13	500,000	500,000
Reserve fund	14	500,000	500,000
Special reserve fund	15	340,083	340,083
Retained earnings		314,432	403,522
		1,654,515	1,743,605
Total liabilities and shareholders' equity		2,922,299	3,273,239

The accompanying notes form an integral part of the Financial Statements.

The financial statements were approved for issue by the Board of Directors on May 27, 2014 and are signed on its behalf by:

Director

Director

JAMAICA MORTGAGE BANK

STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED MARCH 31, 2014

	Notes	2014 $'000	2013 $'000
Revenue			
Interest from loans		119,867	171,486
Interest from deposits		27,645	6,167
Interest from other investments		24,991	21,145
Total interest income	19	172,503	198,798
Other income	16	29,915	73,311
		202,418	272,109
Expenses			
Staff costs	17,28	(65,187)	(65,889)
Allowance for impairment losses on loans	18	(100,017)	(25,523)
Other administrative and general expenses		(51,631)	(29,794)
Loss on sale of assets		-	(87,800)
Finance costs:			
Interest on bonds		(98,772)	(94,135)
		(315,607)	(303,141)
Loss before taxation	20	(113,189)	(31,032)
Taxation	21,28	17,756	(14,775)
Loss for the year	28	(95,433)	(45,807)
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains/(losses) on the defined benefit plan	9,28	8,457	(522)
Income tax relating to the remeasurement gains/(losses) on the defined benefit plan	21,28	(2,114)	131
Other comprehensive income/(expense) for the year, net of tax		6,343	(391)
Total comprehensive expense for the year, net of tax		(89,090)	(46,198)

The accompanying notes form an integral part of these Financial Statements.

JAMAICA MORTGAGE BANK

STATEMENT OF CHANGES IN EQUITY
YEAR ENDED MARCH 31, 2014

	Note	Share Capital (Note 13) $'000	Reserve Fund (Note 14) $'000	Special Reserve Fund (Note 15) $'000	Retained Earnings $'000	Total $'000
Balance at April 1, 2012		500,000	500,000	340,083	449,720	1,789,803
Net loss for year, as restated	28	-	-	-	(45,807)	(45,807)
Other comprehensive expense, as restated	28	-	-	-	(391)	(391)
Total comprehensive expense		-	-	-	(46,198)	(46,198)
Balance at March 31, 2013		500,000	500,000	340,083	403,522	1,743,605
Net loss for year		-	-	-	(95,433)	(95,433)
Other comprehensive income		-	-	-	6,343	6,343
Total comprehensive expense		-	-	-	(89,090)	(89,090)
Balance at March 31, 2014		500,000	500,000	340,083	314,432	1,654,515

The accompanying notes form an integral part of these Financial Statements.

JAMAICA MORTGAGE BANK

STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2014

	Notes	2014 $'000	2013 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year before taxation		(113,189)	(31,032)
Adjustments to reconcile loss for the year to net cash provided by/(used in) operating activities:			
Depreciation	10	3,142	3,252
Provision for impairment losses on loans and other receivables, net of recoveries	18	100,017	25,523
(Gain)/Loss on sale of land held for development	8(d)	(435)	87,800
Other losses		-	668
Post-retirement benefits expense	9(b)(iii)	1,631	81
Amortisation of bond issue costs	12	2,115	3,186
Interest income		(172,503)	(198,798)
Interest expense		98,772	94,135
		(80,450)	(15,185)
Change in operating assets:			
Increase in receivables and prepayments		(6,102)	(1,270)
Decrease/(Increase) in loans receivable		376,940	(456,675)
Change in operating liabilities:			
Increase/(Decrease) in payables and accruals		1,886	(16,794)
Contributions paid post retirement employee benefits	9(b)(ii)	(1,885)	(2,077)
		290,389	(492,001)
Interest received		304,038	118,062
Income tax paid		(6,904)	(1,542)
Net cash provided by/(used in) operating activities		587,523	(375,481)
CASH FLOWS FROM INVESTING ACTIVITIES			
Resale agreements		(243,047)	(54,029)
Investment securities		-	6,132
Interest in subsidiary		(63)	(128)
Proceeds on disposal of land for development and sale		3,435	487,950
Additions to property, plant and equipment	10	(1,190)	(419)
Net cash (used in)/provided by investing activities		(240,865)	439,506
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(98,981)	(94,783)
Redemption of bearer bonds		(500,000)	-
Issue of bearer bonds (net)		250,000	-
Net cash used in financing activities		(348,981)	(94,783)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(2,323)	(30,758)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		17,851	48,609
CASH AND CASH EQUIVALENTS AT END OF YEAR		15,528	17,851

Cash and cash equivalents comprise cash balances at March 31, 2014 and 2013.

The accompanying notes form an integral part of the Financial Statements.

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

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 authorized share capital of J$5,000,000. On June 5, 1973, the Bank was converted to a statutory corporation by the enactment of the Jamaica Mortgage Bank Act. The Jamaica Mortgage Bank ("the Bank") is subject to the provisions of Section 28 of the Interpretation Act 1968, and is wholly-owned by the Government of Jamaica. The Bank is domiciled 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 Jamaica dollars, which is the functional currency of the Group, and rounded to the nearest thousand, unless otherwise stated.

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Changes in accounting standards and interpretations:

i) Current year changes

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted the following amendments to IFRS effective as of 1 January 2013:

- IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1 – Effective 1 July 2012
- IAS 19 Employee Benefits (Revised) – Effective 1 January 2013
- IAS 27 Separate Financial Statements – Effective 1 January 2013
- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011) – Effective 1 January 2013
- IFRS 1 Government Loans – Amendments to IFRS 1 – Effective 1 January 2013
- IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 – Effective 1 January 2013
- IFRS 10 Consolidated Financial Statements – Effective 1 January 2013
- IFRS 11 Joint Arrangements – Effective 1 January 2013
- IFRS 12 Disclosure of Interests in Other Entities – Effective 1 January 2013
- IFRS 13 Fair Value Measurement – Effective 1 January 2013
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine – Effective 1 January 2013

The effect of the adoption of the standards or interpretations is described below:

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1
The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example net loss or gain on valuation of available-for-sale financial assets) are presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and gains on revaluation of land and buildings). The amendments affect presentation only and have no impact on the Group's financial position or performance.

IAS 19 Employee Benefits (Revised)
The International Accounting Standards Board (IASB) has issued amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amended standard will impact the net benefit expense as the expected return on plan assets will be calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. The Group applied the amendments retrospectively in the current period in accordance with the transitional provisions set out in the revised standard. The impact of the amendments is as follows:

- The interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a net interest amount under IAS 19 (Revised 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset at the start of each annual reporting period. In view of this change, $522,000 was credited to the Group's profit and loss for the year ended March 31, 2013 with a consequential expense in other comprehensive income. There was no impact on the overall equity of the Group and as a result restatement of the earliest comparative period was not necessary. A third balance is therefore not presented in this regard. Refer to Note 28 for further details.

IAS 27 Separate Financial Statements (as revised in 2011)
As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The adoption of this standard has had no impact on the Group's financial position or performance.

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

(a) Changes in accounting standards and interpretations (continued):

i) Current year changes (continued)

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
As a consequence of the new IFRS 11, 'Joint Arrangements', and IFRS 12 'Disclosure of Interests in Other Entities', IAS 28 'Investments in Associates', has been renamed IAS 28, 'Investments in Associates and Joint Ventures', and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment has no impact on the Group's financial statements.

IFRS 1 Government Loans – Amendments to IFRS 1
These amendments require first-time adopters to apply the requirements of IAS 20, 'Accounting for Government Grants and Disclosure of Government Assistance', prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendments have no impact on the Group's financial position or performance.

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7
These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The adoption of this standard has had no impact on the Group's financial position or performance.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements
IFRS 10 replaces the portion of IAS 27, 'Consolidated and Separate Financial Statements' that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12, 'Consolidation — Special Purpose Entities'. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The adoption of this standard has had no impact on the Group's financial position or performance.

IFRS 11 Joint Arrangements
IFRS 11 replaces IAS 31, 'Interests in Joint Ventures' and SIC-13, 'Jointly-controlled Entities — Non-monetary Contributions by Venturers'. Under this standard, joint arrangements are either joint operations or joint ventures. IFRS 11 removes the option to account for joint ventures using proportionate consolidation. Instead, joint ventures must be accounted for using the equity method. This standard is effective for annual periods beginning on or after 1 January 2013. The amendments have no impact on the Group's financial statements.

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The adoption of this standard has had no impact on the disclosures in the Group's financial statements.

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

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

(a) Changes in accounting standards and interpretations (continued):

i) Current year changes (continued)

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements and disclosures. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure and disclose fair value under IFRS when fair value is required or permitted. Fair value is defined as an exit price. The adoption of this standard has resulted in additional disclosures in relation to fair value of the Group's financial assets and liabilities. Refer to Note 24. The standard had no impact on the Group's financial position or performance.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine – Effective 1 January 2013
IFRIC 20 now clarifies when an entity should recognise production phase waste removal (stripping) costs (production stripping costs) incurred in relation to a surface mining operation, as an asset. Such an asset will be referred to as a stripping activity asset. The amendments have no impact on the Group's financial statements.

ii) Improvements to IFRSs

Certain limited amendments, which primarily consist of clarifications to existing guidance, were made to the following standards resulting in changes to accounting policies. The adoption of the following amendments did not have any impact on the financial position or performance of the Group:

IFRS 1 First–time Adoption of International Financial Reporting Standards
The amendment clarifies that, upon adoption of IFRS, an entity that capitalised borrowing costs in accordance with its previous GAAP, may carry forward, without adjustment, the amount previously capitalised in its opening statement of financial position at the date of transition. Once an entity adopts IFRS, borrowing costs, including those incurred on qualifying assets under construction, are recognised in accordance with IAS 23.

IAS 1 Presentation of Financial Statements
The amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period.

IAS 16 Property Plant and Equipment
The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation
The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders.

IAS 34 Interim Financial Reporting
The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments.

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

(a) Changes in accounting standards and interpretations (continued):

iii) Future changes

The Group has not early adopted any new or revised IFRSs and IFRICs that have been issued but are not yet effective. The following have been issued but are not yet effective:

- IAS 27 (Amended), Separate Financial Statements – Investment Entities (effective for annual periods beginning on or after 1 January 2014)
- IAS 32 (Amended), Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014)
- IAS 39 (Amended), Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014)
- IFRIC Interpretation 21 Levies (effective for annual periods beginning on or after 1 January 2014)
- IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018)
- IFRS 10 (Amended), Consolidated Financial Statements – Investment Entities (effective for annual periods beginning on or after 1 January 2014)
- IFRS 12 (Amended), Disclosure of Interests in Other Entities – Investment Entities (effective for annual periods beginning on or after 1 January 2014)
- IFRS 14 Regulatory Deferral Accounts (effective for annual periods beginning on or after 1 January 2016

Management is currently assessing the impact of these new standards and interpretations on the Group's financial reporting, in particular, IFRS 9 which is the most relevant.

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. 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 directors and management anticipate that IFRS 9 will be adopted in the Group's financial statements for the annual period beginning April 1, 2018 and that the application of IFRS 9 may impact the amounts reported in respect of the Group's financial assets and liabilities. However, the directors have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the likely impact.

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 $46.94 million (2012: $38.23 million) (Note 9) 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.

  The expected return on plan assets considers the long-term historical returns, asset allocation and future estimates of long-term investment returns. The discount rate is based on the estimate of yield on long-term government securities that have maturity dates approximating the terms of the Bank's obligation; in the absence of such instruments in Jamaica, it has been necessary to estimate the rate by extrapolating from the longest-tenor security on the market. 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 9(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.

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)

- Allowance for loan losses (continued)

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 $736.09 million to $750.81 million (2013: $781.32 million to $786.82 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.

(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.

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

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

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.

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

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. 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.

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

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

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

The Group derecognises financial liabilities when, 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.

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

(d) Financial assets and liabilities (continued)

(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 24.

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.

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 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) Cash and cash equivalents

Cash comprises cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

(f) 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.

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

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

(g) Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs (except for those classified as fair value through profit or loss where the transaction cost is expensed) and subsequently accounted for on the basis of their classification as loans and receivables, held-to-maturity, fair value through profit or loss, or available-for-sale securities. All of the Group's investment securities are designated as loans and receivables (see Note 3(h)).

(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.

(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) 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.

(m) Employee benefits

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

(i) Employee benefits that are earned as a result of past or current service are recognised in the following manner: Short-term employee benefits are recognised as a liability, net of payments made, and charged as expense. The expected cost of vacation leave that accumulates is recognised when the employee becomes entitled to the leave. Post-employment benefits are accounted for as described below.

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

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

(k) Employee benefits (continued)

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

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.

(l) Property, plant and equipment and depreciation

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

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

Freehold land is not depreciated. 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

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

(l) Property, plant and equipment and depreciation (continued)

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

(m) Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). 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.

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.

(n) 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.

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Revenue recognition (continued)

(i) Interest income (continued)

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.

(o) Interest expense

Interest expense is recognised in profit or loss on the accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability to the carrying amount of the financial liability. Interest expense includes coupons paid on fixed rate instruments and accretion of discount or amortisation of premium on instruments issued at other than par.

(p) Foreign currencies

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

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

(q) Reclassification

Certain balances have been reclassified to conform with the current year presentation.

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

4 RESALE AGREEMENTS

	Group and Bank	
	2014	2013
	$'000	$'000
Government of Jamaica - Local Registered Stock	354,146	111,099
Interest receivable	979	280
	355,125	111,379

These securities mature within one month (2013: within one month) after year end with interest rates ranging between 8.50% to 9.30% (2013: 6.25% and 6.65%) per annum. Securities with a carrying value of $79 million (2013: $60 million) included in a debt service reserve account have been pledged as part of the security for borrowings of the Group totalling $500 million in relation to Shelter Bond 13. (See Note 12(c)).

5 RECEIVABLES AND PREPAYMENTS

	Group and Bank	
	2014	2013
	$'000	$'000
Receivables	31,609	24,620
Prepayments	1,884	2,771
	33,493	27,391

6 INTEREST IN SUBSIDIARY

	The Bank	
	2014	2013
	$'000	$'000
Ordinary shares*	-	-
Long term loan	136,413	136,350
	136,413	136,350

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

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

The long-term loan, which represents draw-downs under a $250,000,000 facility, should have been repaid over the 5 years ended March 31, 2006, after a moratorium of 24 months on principal. The balance is supported by a promissory note and is secured on land owned by the subsidiary.

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

7 LOANS RECEIVABLE

	Group and Bank	
	2014	2013
	$'000	$'000
Construction loans - non-governmental borrowers (see Note 7(a) below)	1,370,645	1,831,541
Accrued interest receivable	320,209	452,443
	1,690,854	2,283,984
Less: Allowance for impairment losses (see Note 7(b) below)	(736,092)	(781,323)
	954,762	1,502,661
Secondary Mortgage market (see Note 7(c) below)	195,842	320,000
Mortgages (see Note 7(d) below) - Staff	4,021	5,341
- Other	538,091	473,905
	1,692,716	2,301,907

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

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

	Group and Bank	
	2014	2013
	$'000	$'000
At beginning of year	781,323	841,580
Charged against revenue during the year (Note 18)	102,650	52,845
Write back of general provision (Note 18)	(4,005)	-
Bad debt recovery (Note 18)	(31,959)	(23,976)
	848,009	870,449
Bad debts written off	(111,917)	(89,126)
At end of year	736,092	781,323
Comprising:		
Specific provisions	731,897	773,123
General provisions	4,195	8,200
	736,092	781,323

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

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

8 LAND HELD FOR DEVELOPMENT AND SALE

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

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

The condition to the agreement, as outlined above, was not fulfilled and 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 of Water and Housing (MOWH) transferred the Whitehall property to the Bank in part settlement of the obligation of the subsidiary. The MOWH is to transfer one additional parcel of land to the Bank to fully cover the obligation of the subsidiary.

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

	2014 $'000	2013 $'000
Whitehall	270,000	270,000
Phoenix Park (see Note 8(d))	44,000	47,000
Mount Gotham	65,000	65,000
	379,000	382,000

		2014 $'000	2013 $'000
(c)	Bank	379,000	382,000
	Subsidiary	1	1
	Group	379,001	382,001

(d) Two (2) lots at Phoenix Park were sold during the year, resulting in gain on disposal of $0.43 million (2013: loss on disposal of $87.25 million).

(e) Assets pledged as security
Land held by the Bank, specifically Phoenix Park and Mount Gotham with a carrying value of $109 million (2013: $112 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 12 (c)).

9 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 have recommended that, based on the value of the fund, contributions of 5.2% of pensionable salaries should be made by the Bank. Contributions during the valuation period were at a rate of 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.

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

9 POST-RETIREMENT BENEFITS (Continued)

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 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 30, 2014 (2013: May 6, 2013) by Rambarran & Associates Limited, Consulting Actuaries. This valuation was in respect of balances at March 31, 2014 (2013: March 31, 2013). The valuation was carried out using the projected unit credit method.

(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	
	2014	2013
	$'000	$'000
Present value of funded obligations	(112,533)	(108,213)
Fair value of plan assets	162,734	146,443
	50,201	38,230
Unrecognised asset due to asset ceiling	(3,260)	-
Employee benefit asset	46,941	38,230

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

	Group and Bank	
	2014	2013
	$'000	$'000
Net defined benefit asset at beginning of year	38,230	36,756
Employer contributions	1,885	2,077
Company expense	(1,631)	(81)
Remeasurements recognised in OCI	8,457	(522)
Net defined benefit asset at year end	46,941	38,230

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

	Group and Bank	
	2014	2013
	$'000	$'000
Current service cost	5,083	3,316
Net interest cost:		
Interest on defined benefit obligation	8,961	6,019
Interest income on plan assets	(12,413)	(12,152)
Interest on effect of asset ceiling	-	2,898
3Expense recognised in net profit	1,631	81
Change in demographic assumptions	9,549	-
Change in financial assumptions	6,087	-
Experience adjustments	(27,353)	37,517
Change in effect of asset ceiling	3,260	(36,995)
(Income)/Expense recognised in other comprehensive income	(8,457)	522

9 POST-RETIREMENT BENEFITS (Continued)

(c) Movement in present value of obligations:

	Group and Bank	
	2014	2013
	$'000	$'000
Present value at beginning	108,213	73,117
Service cost	5,083	3,316
Interest cost on defined benefit obligation	8,961	6,019
Member contributions	2,979	3,055
Benefits paid	(3,232)	(26,423)
Value of annuities purchased	-	19,231
Remeasurement – change in demographic assumptions	12,053	-
Remeasurement – change in financial assumptions	6,935	-
Remeasurement – experience adjustments	(28,459)	29,898
Present value at end	112,533	108,213

(d) Movements in fair value of plan assets:

	Group and Bank	
	2014	2013
	$'000	$'000
Fair value of plan assets at beginning of year	146,443	143,970
Value of annuities purchased	-	19,231
Contributions paid - employer	1,885	2,077
- employee	2,979	3,055
Interest income on plan assets	12,413	12,152
Benefits paid	(3,232)	(26,423)
Remeasurement – changes in demographic assumptions	2,504	-
Remeasurement – changes in financial assumptions	848	-
Remeasurement – experience adjustment	(1,106)	(7,619)
Fair value of plan assets at end of year	162,734	146,443
Plan assets consist of the following:		
Investment in pooled investment funds with investment strategies as follows:		
Equities	9,385	8,977
Fixed income securities	117,034	113,690
Mortgage and real estate	12,706	10,919
Annuity purchased	23,197	23,433
Other	412	(10,576)
Total invested assets	162,734	146,443

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

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

(e) Movements on asset ceiling

	Group and Bank	
	2014	2013
	$'000	$'000
Effect of asset ceiling at beginning	-	34,097
Interest on effect of asset ceiling	-	2,898
Re-measurement	3,260	(36,995)
	3,260	-

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

	Group and Bank	
	2014	2013
	%	%
Discount rate at March 31	9.50	10.00
Expected return on plan assets at March 31	9.50	8.50
Future salary increases	5.50	5.50
Future pension increases	4.40	4.40
Inflation	5.50	5.50
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.

A quantitative sensitivity analysis for significant assumptions as at March 31, 2014 is shown below:

	Discount rate		**Salary growth**	
	1% increase	1% decrease	1% increase	1% decrease
Sensitivity level	$'000	$'000	$'000	$'000
Impact on defined benefit obligation	(13,275)	16,579	5,838	(5,584)

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.

9 POST-RETIREMENT BENEFITS (Continued)

(g) The estimated contributions (for both employer and employee) expected to be paid into the pension fund during the next financial year amount to $5,214,000 (2013: $5,067,000).
(h) The expected pension benefit expense in the next year is expected to be $520,000.
(i) The weighted average duration of the defined benefit obligation at the end of the reporting period is 33 years (2013: 36 years).

10 PROPERTY, PLANT 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, 2012	3,000	72,110	28,337	110	103,557
Additions	-		419	-	419
Disposals	-	-	(6)	-	(6)
March 31, 2013	3,000	72,110	28,750	110	103,970
Additions	-	-	1,190	-	1,190
March 31, 2014	3,000	72,110	29,940	110	105,160
Depreciation:					
April 1, 2012	-	21,983	23,860	110	45,953
Charge for the year	-	1,731	1,521	-	3,252
Eliminated on disposals	-	-	(6)	-	(6)
March 31, 2013	-	23,714	25,375	110	49,199
Charge for the year	-	1,894	1,248	-	3,142
March 31, 2014	-	25,608	26,623	110	52,341
Net book values:					
March 31, 2014	3,000	46,502	3,317	-	52,819
March 31, 2013	3,000	48,396	3,375	-	54,771

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

11 PAYABLES AND ACCRUALS

	Group		Bank	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Other payables	4,665	3,503	4,665	3,493
Accruals	7,088	6,364	7,078	6,364
	11,753	9,867	11,743	9,857

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

12 BONDS PAYABLE

	Group and Bank	
	2014	2013
	$'000	$'000
Shelter Bond 10 (see Note 10(a) and Note 10(e) below)	-	500,000
Shelter Bond 11 (see Note 10(b) and Note 10(e) below)	500,000	500,000
Shelter Bond 12A (see Note 10(d) below)	250,000	-
Shelter Bond 13 (see Note10(c) below)	500,000	500,000
	1,250,000	1,500,000
Unamortised bond issuance costs	(4,230)	(6,345)
	1,245,770	1,493,655

	Group and Bank	
	2014	2013
	$'000	$'000
Principal		
Due within 12 months of the statement of financial position date	100,000	700,000
Due thereafter (within two to five years)	1,145,770	793,655
	1,245,770	1,493,655
Accrued interest on bonds	8,291	8,500
	1,254,061	1,502,155

(a) In March 2009, the Bank issued Shelter Bond 10 at 1.124% above the weighted average Treasury bill rate. These bonds were repaid in full on February 28, 2014.

(b) In March 2009, the Bank issued Shelter Bond 11 at 1.5% above the weighted average Treasury bill rate. These bonds are repayable in full on February 28, 2016.

(c) In May 2011, the Bank issued Shelter Bond 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 $109 million (2013: $112 million), and land owned by the subsidiary with a carrying value of $1,000 (See Note 8). The Bond is also secured by a charge over a debt service reserve account and investments therefrom. The Bank is required to maintain the debt service account at the equivalent of four quarter's interest and all proceeds of sale of the respective lands. The account is managed internally by the Bank and comprises designated investments that it holds in particular financial institutions. (See Note 4).

(d) In March 2014, the Bank issued, Shelter Bond 12A, at a fixed rate of 7.875% 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,

(e) The Bank is required to maintain a segregated sinking fund for the redemption of the bonds, such that 20% of the outstanding principal sum will be accumulated in each year of the term of the bonds. As at March 31, 2014 and 2013, the Bank did not maintain the sinking fund at the required amount.

The weighted average Treasury bill yield used is from the most recent auction of 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 8.34% and 9.10%, respectively (2013: 5.82% and 6.22%). Amortised bond issuance costs related to the bonds is $2.115 million (2013: $3.186 million).

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

13 SHARE CAPITAL

	Group and Bank	
	2014	2013
	$'000	$'000
Authorised, issued and fully paid:		
500,000,000 ordinary shares of no par value at the beginning and end of the year	500,000	500,000

14 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 13), no further transfers are required (see also Note 15).

15 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 14).

16 OTHER INCOME

	Group and Bank	
	2014	2013
	$'000	$'000
Administration fee – Mortgage Insurance Fund	19,956	59,184
Commitment and administration fees	9,450	4,650
Other	509	9,477
	29,915	73,311

17 STAFF COSTS

The aggregate cost of employees was as follows:

	Group and Bank	
	2014	2013
	$'000	$'000
Salaries and wage-related expenses	57,087	59,736
Statutory payroll contributions	5,225	5,185
Employee benefit expense (credit) (Note 9(b)(iii))	1,631	81
Staff welfare	1,244	887
	65,187	65,889

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

18 ALLOWANCE FOR IMPAIRMENT LOSSES (NET OF RECOVERIES)

	Group and Bank	
	2014	2013
	$'000	$'000
Charged against revenue during the year (Note 7)	102,650	52,845
Recoveries during the year (Note 7)	(31,959)	(23,976)
Write back of general provision (Note 7)	(4,005)	-
Write back of provision for other receivables	-	(3,346)
Write off of interest receivable not deemed collectible	33,331	-
	100,017	25,523

19 INTEREST INCOME

	Group and Bank	
	2014	2013
	$'000	$'000
Construction loans	100,276	116,340
Mortgage loans	19,591	55,146
Deposits (including cash and cash equivalents)	27,645	6,167
Other	24,991	21,145
	172,503	198,798

20 LOSS BEFORE TAXATION

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

		Group		Bank	
		2014	2013	2014	2013
		$'000	$'000	$'000	$'000
Depreciation		3,142	3,252	3,142	3,252
Directors' emoluments	- fees (Note 22)	792	611	792	611
Auditors' remuneration	- current year	3,000	2,500	3,000	2,500

21 TAXATION

(a) Income tax

By Jamaica Gazette Supplement dated December 31, 2012, effective January 1, 2013, the corporate tax rate was reduced from 33⅓% to 25% for unregulated entities. Consequently, the current and deferred taxes have been calculated using the tax rate of 25% (2013: 25%).

(i) The total charge for the period comprises:

	2014	2013
	$'000	$'000
Current tax	1,980	-
Deferred tax	(19,736)	14,775
	(17,756)	14,775

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

	Group		Bank	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Loss before taxation	(113,252)	(31,060)	(113,189)	(31,032)
Computed "expected" tax expense	(28,313)	(7,765)	(28,297)	(7,758)
Tax effect of treating the following items differently for financial statement purposes than for tax reporting purposes				
Taxation losses not utilised	9,408	-	9,408	-
Employment tax credit	(660)	-	(660)	-
Expenses not allowed	1,642	22,117	1,642	22,117
Other	167	423	151	416
Actual tax (credit)/charge recognised in the statement of profit or loss	(17,756)	14,775	(17,756)	14,775
Tax charge/(credit) recognised directly in other comprehensive income	2,114	(131)	2,114	(131)

(b) Deferred taxation

(i) Deferred taxes are calculated on all temporary differences using the current tax rate of 25% (2013: 25%).

Analysis for financial reporting purposes:

	Group and Bank	
	2014	2013
	$'000	$'000
Deferred tax assets	92,032	105,131
Deferred tax liabilities	(92,032)	(122,753)
Net asset (liability)	-	(17,622)

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

21 **TAXATION (Continued)**

(b) Deferred taxation (continued)

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

	Group and Bank	
	2014	2013
	$'000	$'000
Net liabilities at the beginning of period	(17,622)	(2,978)
Credited/(Charged) to income for the year	19,736	(14,775)
(Charge)/Credit to other comprehensive income for the period	(2,114)	131
Net asset/(Liability) at the end of the period	-	(17,622)

(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, 2012	1,366	123,888	3,049	2,662	2,373	133,338
Credited (Charged) to income for the year	(420)	(26,040)	(924)	(500)	(323)	(28,207)
At March 31, 2013	946	97,848	2,125	2,162	2,050	105,131
Credited (Charged) to income for the year	43	(12,048)	(52)	(40)	(1,002)	(13,099)
At March 31, 2014	989	85,800	2,073	2,122	1,048	92,032

21 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, 2012	(12,252)	(124,064)	(136,316)
Credited to income for the year	2,563	10,869	13,432
Credited to other comprehensive income	131	-	131
At March 31, 2013	(9,558)	(113,195)	(122,753)
(Charged) Credited to income for the year	(63)	32,898	32,835
Charged to other comprehensive income	(2,114)	-	(2,114)
At March 31, 2014	(11,735)	(80,297)	(92,032)

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 $380.8 million (2013: $391.4 million) available for offset against future profits. A deferred tax asset of approximately $85.8 million (2013: $97.8 million) has been recognised in respect of $343.2 million of these losses.

22 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.

Balances outstanding at the end of the reporting period:

	Group and Bank	
	2014	2013
	$'000	$'000
Due from the Mortgage Insurance Fund	15,203	4,943

	Group and Bank	
	2014	2013
	$'000	$'000
Related party transaction		
Administration fees - Mortgage Insurance Fund	19,956	59,184

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

22 RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

Balances receivable from key management personnel are as follows:

	Group and Bank	
	2014	2013
	$'000	$'000
Staff loans	4,021	5,340

Key management compensation is as follows:

	Group and Bank	
	2014	2013
	$'000	$'000
Directors' fees (Note 20)	792	611
Short-term employee benefits	30,395	34,469
Post-employment benefits	330	114

23 FINANCIAL RISK MANAGEMENT

Introduction and overview

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

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

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

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.

23 FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework (Continued)

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

(i) Exposure to credit risk

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

	Group		Bank	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Cash and cash equivalents	15,528	17,851	15,528	17,851
Resale agreements	355,125	111,379	355,125	111,379
Receivables	31,609	24,620	31,609	24,620
Loans receivable	1,692,716	2,301,907	1,692,716	2,301,907
Long-term loan	-	-	136,413	136,350
	2,094,978	2,455,757	2,231,391	2,592,107

(ii) Management of credit risk

(1) Loans receivable

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

(2) Cash and cash equivalents

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

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

23 FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework (Continued)

(a) Credit risk (continued)

(ii) Management of credit risk (continued)

(3) Resale agreements and certificates of deposit

Collateral is held for all resale agreements.

(4) Receivables

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

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

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

(iii) Credit quality of loans

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

	2014		2013	
	Gross	Impairment	Gross	Impairment
	$'000	$'000	$'000	$'000
Not past due and not impaired	949,588	-	1,587,607	-
Not past due, but impared	215,554	-	-	-
Past due but not impaired				
Under 12 months	34,576	-	33,389	-
Over 12 months	29,662	-	392,754	-
Past due and impaired				
Over 12 months	1,199,428	731,897	1,069,480	773,123
	2,428,808	731,897	3,083,230	773,123

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 7(b).

23 FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework (Continued)

(a) Credit risk (continued)

(iii) Credit quality of loans (continued)

(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.

(4) 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.

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

23 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 Corporate Bonds, Government of Jamaica securities, and loans are substantially to borrowers in the construction sector.

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

	2014		
	Construction Loans	Mortgage Loans	Total
	$'000	$'000	$'000
Secondary mortgage market	-	195,842	195,842
Developers	1,690,854	-	1,690,854
Staff	-	4,021	4,021
Other	-	538,091	539,091
	1,690,854	737,954	2,428,808

	2013		
	Construction Loans	Mortgage Loans	Total
	$'000	$'000	$'000
Secondary mortgage market	-	320,000	320,000
Developers	2,283,984	-	2,283,984
Staff	-	5,341	5,341
Other	-	473,905	473,905
	2,283,984	799,246	3,083,230

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, 2014 or 2013.

23 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 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.

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

23 **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	2014					
	Immediately Rate Sensitive	Within 3 Months	Three to 12 Months	Over 12 Months	Non-rate Sensitive	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	-	-	-	-	15,528	15,528
Resale agreements	355,125	-	-	-	-	355,125
Receivables	-	-	-	-	31,609	31,609
Loans receivable	-	292,716	363,636	1,036,364	-	1,692,716
Total financial assets	355,125	292,716	363,636	1,036,364	47,137	2,094,978
Payables	-	-	-	-	4,665	4,665
Bonds payable	-	-	108,291	1,145,770	-	1,254,061
Total financial liabilities	-	-	108,291	1,145,770	4,665	1,258,726
Interest rate sensitivity gap*	355,125	292,716	255,345	(109,406)	42,472	836,252
Cumulative gap	355,125	647,841	903,186	793,780	836,252	

23 **FINANCIAL RISK MANAGEMENT (Continued)**

(b) Market risk (continued)

(i) Interest rate risk (continued)

Group	2013					
	Immediately Rate Sensitive	Within 3 Months	Three to 12 Months	Over 12 Months	Non-rate Sensitive	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	-	-	-	-	17,851	17,851
Resale agreements	111,379	-	-	-	-	111,379
Receivables	-	-	-	-	24,620	24,620
Loans receivable	-	-	1,242,632	1,059,275	-	2,301,907
Total financial assets	111,379	-	1,242,632	1,059,275	42,471	2,455,757
Payables	-	-	-	-	3,503	3,503
Bonds payable	-	-	708,500	793,655	-	1,502,155
Total financial liabilities	-	-	708,500	793,655	3,503	1,505,658
Interest rate sensitivity gap*	111,379	-	534,132	265,620	38,968	950,099
Cumulative gap	111,379	111,379	645,511	911,131	950,099	

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

23 **FINANCIAL RISK MANAGEMENT (Continued)**

(b) Market risk (continued)

(i) Interest rate risk (continued)

Bank	2014					
	Immediately Rate Sensitive	Within 3 Months	Three to 12 Months	Over 12 Months	Non-rate Sensitive	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	-	-	-	-	15,528	15,528
Resale agreements	355,125	-	-	-	-	355,125
Receivables	-	-	-	-	31,609	31,609
Loans receivable	-	292,716	363,636	1,036,364	-	1,692,716
Long-term loan	-	-	-	-	136,413	136,413
Total financial assets	355,125	292,716	363,636	1,036,364	183,550	2,231,391
Payables	-	-			4,665	4,665
Bonds payable	-	-	108,291	1,145,770	-	1,254,061
Total financial liabilities	-	-	108,291	1,145,770	4,665	1,258,726
Interest rate sensitivity gap	355,125	292,716	255,345	(109,406)	178,885	972,665
Cumulative gap	355,125	647,841	903,186	793,780	972,665	

23 **FINANCIAL RISK MANAGEMENT (Continued)**

(b) Market risk (continued)

(i) Interest rate risk (continued)

Bank	2013					
	Immediately Rate Sensitive	Within 3 Months	Three to 12 Months	Over 12 Months	Non-rate Sensitive	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	-	-	-	-	17,851	17,851
Resale agreements	111,379	-	-	-	-	111,379
Receivables	-	-	-	-	24,620	24,620
Loans receivable	-	-	1,242,632	1,059,275	-	2,301,907
Long-term loan	-	-	-	-	136,350	136,350
Total financial assets	111,379	-	1,242,632	1,059,275	178,821	2,592,107
Payables	-	-	-	-	3,493	3,493
Bonds payable	-	-	708,500	793,655	-	1,502,155
Total financial liabilities	-	-	708,500	793,655	3,493	1,505,648
Interest rate sensitivity gap*	111,379	-	534,132	265,620	175,328	1,086,459
Cumulative gap	111,379	111,379	645,511	911,131	1,086,459	

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

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

23 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

	Immediately Rate Sensitivity	Within 3 Months	Three to 12 Months	Over 12 Months
	%	%	%	%
Resale agreements	9.25	-	-	-
Loans receivable	-	7.28	12.09	15.26
Bonds payable	-	-	-	7.83

Group and Bank

	Immediately Rate Sensitivity	Within 3 Months	Three to 12 Months	Over 12 Months
	%	%	%	%
Resale agreements	5.74	-	-	-
Loans receivable	-	-	11.65	13.73
Bonds payable	-	-	4.81	7.81

Sensitivity analysis

If the interest rate had been 250 basis points higher and 100 basis points lower and all other variables were held constant, the Bank/Group profit for the period would increase by $12.855 million and decrease by $5.142 million respectively (2013: increase by $40.985 million and decrease by $11.394 million).

23 FINANCIAL RISK MANAGEMENT (Continued)

(b) Market risk (Continued)

(ii) Foreign currency risk

Foreign currency risk is the risk that the market value of, or the cash flows from, financial instruments will vary because of exchange rate fluctuations. The Group has no exposure to foreign currency risk as there are no transactions that are denominated in foreign currencies.

(c) Liquidity risk

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

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

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

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

Group	2014					
	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 and cash equivalents	15,528	-	-	-	15,528	15,528
Resale agreements	356,915	-	-	-	356,915	355,125
Receivables	9,936	5,527	1,256	14,890	31,609	31,609
Loans receivable	-	300,273	400,714	1,154,246	1,855,233	1,692,716
Total financial assets	382,379	305,800	401,970	1,169,136	2,259,285	2,094,978
Payables	3,662	1,003	-	-	4,665	4,665
Bonds payable	-	15,416	82,396	1,378,008	1,475,820	1,254,061
Total financial liabilities	3,662	16,419	82,396	1,378,008	1,480,485	1,258,726

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

23 FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

Group

	2013					
	Within One Month	One to 3 Months	Three to 12 Months	One to 5 Years	Total cash flows	Carrying values
	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents		17,851	-	-	17,851	17,851
Resale agreements	111,511	-	-	-	111,511	111,511
Receivables		4,943	19,677	-	24,620	24,620
Loans receivable		1,930	1,354,992	1,519,108	2,876,030	2,301,907
Total financial assets	111,511	24,724	1,374,669	1,519,108	3,030,012	2,455,889
Payables	1,741	-	1,762	-	3,503	3,503
Bonds payable	-	23,421	570,522	1,134,399	1,728,342	1,502,155
Total financial liabilities	1,741	23,421	572,284	1,134,399	1,731,845	1,505,658

Bank

	2014						
	Within One Month	One to 3 Months	Three to 12 Months	One to 5 Years	No specific maturity	Total cash flows	Carrying values
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	15,528	-	-	-	-	15,528	15,528
Resale agreements	356,915	-	-	-	-	356,915	355,125
Receivables	9,936	5,527	1,256	14,890	-	31,609	31,609
Loans receivable	-	300,273	400,714	1,154,246	-	1,855,233	1,692,716
Long-term loan	-	-	-	-	136,413	136,413	136,413
Total financial assets	382,379	305,800	401,970	1,169,136	136,413	2,395,698	2,231,391
Payables	3,662	1,003	-	-	-	4,665	4,665
Bonds payable	-	15,416	82,396	1,378,008	-	1,475,820	1,254,061
Total financial liabilities	3,662	16,419	82,396	1,378,008	-	1,480,485	1,258,726

23 FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

Bank	2013						
	Within One Month	One to 3 Months	Three to 12 Months	One to 5 Years	No specific maturity	Total cash flows	Carrying value
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	-	17,851	-	-	-	17,851	17,851
Resale agreements	111,511	-	-	-	-	111,511	111,511
Receivables	-	4,943	19,677	-	-	24,620	24,620
Loans receivable	-	1,930	1,238,771	1,840,598	-	3,081,299	2,301,907
Long-term loan	-	-	-	-	136,350	136,350	136,350
Total financial assets	111,511	24,724	1,258,448	1,840,598	136,350	3,371,631	2,592,239
Payables	1,741	-	1,752	-	-	3,493	3,493
Bonds payable	-	23,421	570,522	1,134,399	-	1,728,342	1,502,155
Total financial liabilities	1,741	23,421	572,274	1,134,399	-	1,731,835	1,505,648

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.

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

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

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

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

23 FINANCIAL RISK MANAGEMENT (Continued)

(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 14) and stated Board policy (see Note 15), 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.

24 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. As at March 31, 2014, the carrying amounts of such receivables, net of allowances, were not materially different from their calculated fair values. 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 short term deposits, repurchase agreements, trade receivables and payables and accruals 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 with carrying amounts are reasonable approximation of fair value.

Group	2014 Carrying Amount	2013 Carrying Amount	2014 Fair Value	2013 Fair Value
	$'000	$'000	$'000	$'000
ASSETS				
Loans receivable	1,692,716	2,301,907	1,692,716	2,301,907
LIABILITIES				
Bonds payable	1,254,061	1,502,155	1,197,186	1,502,155

Bank	2014 Carrying Amount	2013 Carrying Amount	2014 Fair Value	2013 Fair Value
	$'000	$'000	$'000	$'000
ASSETS				
Loans receivable	1,692,716	2,301,907	1,692,716	2,301,907
Long term loan	136,413	136,350	136,413	136,350
	1,829,129	2,438,257	1,829,129	2,438,257
LIABILITIES				
Bonds payable	1,254,061	1,502,155	1,197,186	1,502,155

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

24 FAIR VALUE MEASUREMENT (Continued)

The following table provides the fair value measurement hierarchy for the Bank's financial assets and liabilities as at March 31, 2014:

Quantitative disclosures fair value measurement hierarchy

Group

	Quoted prices in active market Level 1 $'000	Significant observable inputs Level 2 $'000	Significant unobservable inputs Level 3 $'000	Total $'000
At March 31, 2014				
Assets for which fair value is disclosed:				
- Loans and receivables	-	1,692,716	-	1,692,716
Liabilities for which fair values are disclosed:				
- Long-term liabilities:				
Bonds payable	-	1,254,061	-	1,254,061

Bank

	Quoted prices in active market Level 1 $'000	Significant observable inputs Level 2 $'000	Significant unobservable inputs Level 3 $'000	Total $'000
At March 31, 2014				
Assets for which fair value is disclosed:				
- Loans and receivables	-	1,692,716	-	1,692,716
- Long term loan		-	136,413	136,413
Liabilities for which fair values are disclosed:				
- Long-term liabilities:				
Bonds payable	-	1,254,061	-	1,254,061

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

25 COMMITMENTS

Loans approved but not disbursed by the Group and the Bank at March 31, 2014 amounted to $293,888,003 (2013: $202,700,000).

26 COSTS OF AND FUNDING FOR ADMINISTRATION OF MORTGAGE INSURANCE FUND

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

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

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

	2014	2013
	$'000	$'000
Cost of Administration of Mortgage Insurance Fund		
Bank charges and interest	13	3
Professional and other	122	2,411
Audit fees	238	200
Total costs	373	2,614
Funded by:		
Contribution of:		
Two-fifths of Mortgage Insurance fees	1,469	1,173
Loan investigation fees	62	110
One-half of investment income of Mortgage (Government Guaranteed Loans) Insurance Reserve Fund	1	1
	1,532	1,284
Contributed/(recovered) by the Mortgage Insurance Fund	(1,159)	1,330
Total funding	373	2,614

27 CONTINGENCIES

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 has requested its attorneys to file a defence to this claim and has requested an opinion from its attorneys on the likely outcome of this matter.

No provisions have been made in these financial statements in respect of this matter.

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

28 FINANCIAL EFFECT OF FINANCIAL STATEMENTS RESTATEMENTS AND RECLASSIFICATIONS

As disclosed in Note 2, during the year, the Group applied IAS 19, Employee Benefits (as revised in 2011) with the consequent retrospective adjustments detailed below. The adjustments did not impact amounts previously reported in the Statement of financial position.

Below is the reconciliation of impact on the Statement of Comprehensive Income for the year ended March 31, 2013.

Group	2013 As previously reported $'000	Adjustments $'000	Notes	2013 As restated $'000
Revenue				
Interest from loans	171,486	-		171,486
Interest from deposits	6,167	-		6,167
Interest from other investments	21,145	-		21,145
Total interest income	198,798	-		198,798
Other income	73,311	-		73,311
	272,109	-		272,109
Expenses				
Staff costs	(66,411)	522	(1)	(65,889)
Allowance for impairment losses on loans	(25,523)	-		(25,523)
Other administrative and general expenses	(29,822)	-		(29,822)
Loss on sale of assets	(87,800)	-		(87,800)
Finance costs:				
Interest on bonds	(94,135)	-		(94,135)
	(303,691)			(303,169)
Loss before taxation	(31,582)	522		(31,060)
Taxation	(14,644)	(131)	(2)	(14,775)
Net loss for the year	(46,226)	391		(45,835)
Other comprehensive income				
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:				
Remeasurement gains/(losses) on defined benefit plan	-	522	(1)	522
Income tax relating to the component of other comprehensive income	-	(131)	(2)	(131)
	-	391		391
Other comprehensive expense for the year, net of tax	-	391		391
Total comprehensive expense for the year, net of tax	(46,226)	-		(46,226)

Notes

(1) Reclassification of remeasurement adjustments on defined benefit plan to other comprehensive income.

(2) Tax impact of the above reclassification.

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

28 FINANCIAL EFFECT OF FINANCIAL STATEMENTS RESTATEMENTS AND RECLASSIFICATIONS (Continued)

Bank	2013 As previously reported $'000	Adjustments $'000	Notes	2013 As restated $'000
Revenue				
Interest from loans	171,486	-		171,486
Interest from deposits	6,167	-		6,167
Interest from other investments	21,145	-		21,145
Total interest income	198,798	-		198,798
Other income	73,311	-		73,311
	272,109	-		272,109
Expenses				
Staff costs	(66,411)	522	(1)	(65,889)
Allowance for impairment losses on loans	(25,523)	-		(25,523)
Other administrative and general expenses	(29,794)	-		(29,794)
Loss on sale of assets	(87,800)	-		(87,800)
Finance costs:				
Interest on bonds	(94,135)	-		(94,135)
	(303,663)			(303,141)
Loss before taxation	(31,554)	522		(31,032)
Taxation	(14,644)	(131)	(2)	(14,775)
Net loss for the year	(46,198)	391		(45,807)
Other comprehensive income				
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:				
Remeasurement gains/(losses) on defined benefit plan	-	522	(1)	522
Income tax relating to the component of other comprehensive income	-	(131)	(2)	(131)
	-	391		391
Other comprehensive expense for the year, net of tax	-	391		391
Total comprehensive expense for the year, net of tax	(46,198)	-		(46,198)

Notes
(1) Reclassification of remeasurement adjustments on defined benefit plan to other comprehensive income.
(2) Tax impact of the above reclassification.

JAMAICA MORTGAGE BANK

SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2014

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

OTHER ADMINISTRATIVE AND GENERAL EXPENSES - BANK ONLY

YEAR ENDED MARCH 31, 2014

	2014	2013
	$'000	$'000
Advertising	350	-
Auditors' remuneration - current year	3,000	2,500
- other	-	500
Bank charges and interest	540	2,284
Bond expenses	4,687	7
Computer expenses	975	775
Consulting and other professional fees	8,635	5,784
Depreciation	3,142	3,252
Other losses	-	668
Directors' fees	792	611
Donations	94	143
Electricity	5,132	4,732
General insurance	1,489	1,556
General office expenses	5,202	4,654
Group health and group life insurance	4,727	4,926
Legal expenses	2,771	(12,261)
Local travelling and incidentals	1,089	1,034
Motor vehicle expenses	-	(53)
Printing and stationery	1,246	1,932
Property taxes	1,379	2,992
Public relations	1,712	116
Conference, seminar and retreat expenses	-	62
Repairs and maintenance	1,623	1,495
Subscriptions and publications	1,595	640
Telephone, cables and postage	1,451	1,445
	51,631	29,794

THE MORTGAGE INSURANCE FUND AND

MORTGAGE (GOVERNMENT GUARANTEED LOANS)

INSURANCE RESERVE FUND

FINANCIAL STATEMENTS

MARCH 31, 2014

EY
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INDEPENDENT AUDITORS' REPORT

To the Directors of

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

Report on the financial statements

We have audited the financial statements of The Mortgage Insurance Fund and Mortgage (Government Guaranteed Loans) Insurance Reserve Fund ("the Funds"), which comprise the statements of financial position as at March 31, 2014, the statements of changes in fund balances 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.

Auditors ' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Chartered Accountants

Report on the financial statements (Cont'd)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the funds as at March 31, 2014, and of the changes in fund balances for the year then ended, in accordance with International Financial Reporting Standards.

Other Matter

The financial statements of the funds for the financial year ended March 31, 2013 were audited by another auditor who expressed an unmodified opinion on those financial statements on May 29, 2013.

Ernst & Young

Chartered Accountants

Kingston, Jamaica

May 27, 2014

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

STATEMENT OF FINANCIAL POSITION AS AT MARCH 31, 2014

	Notes	2014 $'000	2013 $'000
ASSETS			
Cash and cash equivalents		6,677	8,808
Investments	4	938,392	878,888
Receivables	5	222,125	200,776
Property, plant and equipment	6	10	38
		1,167,204	1,088,510
LIABILITIES			
Payables		74	127
Due to Mortgage (Government Guaranteed Loans) Insurance Reserve Fund		75	74
Due to Jamaica Mortgage Bank		15,203	4,943
		15,352	5,144
Net assets		1,151,852	1,083,366
Represented by:			
ACCUMULATED SURPLUS		1,151,852	1,083,366

The financial statements were approved for issue by the Board of Directors on May 27, 2014 and are signed on its behalf by:

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

Chairman

Director

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

STATEMENT OF CHANGES IN FUND BALANCE
YEAR ENDED MARCH 31, 2014

	2014 $'000	2013 $'000
Increase in fund:		
Three-fifths of mortgage loan insurance fees	2,116	1,775
Investment income	85,393	114,063
Miscellaneous income	330	1,985
	87,839	117,823
Decrease in fund:		
Recovered by (Transferred to) the Bank as contribution towards the cost administering the Mortgage Insurance Act	1,159	(1,330)
Administration charges paid to the Bank	(19,956)	(59,184)
Miscellaneous expense	(556)	-
Investment write down on debt exchange	-	(190,551)
	(19,353)	(251,065)
Net increase (decrease) in fund balance for year	68,486	(133,242)
Fund balance at beginning of year	1,083,366	1,216,608
Fund balance at end of year	1,151,852	1,083,366

The Notes on Pages 86 to 100 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, 2014

	2014	2013
	$'000	$'000
ASSETS		
Due from Mortgage Insurance Fund	75	74
Government of Jamaica investment debenture	15	15
	90	89
Represented by:		
ACCUMULATED SURPLUS	90	89

The financial statements were approved for issue by the Board of Directors on May 27, 2014 and are signed on its behalf by:

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

Chairman

Director

MORTGAGE (GOVERNMENT GUARANTEED LOANS) INSURANCE RESERVE FUND

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

STATEMENT OF CHANGES IN FUND BALANCE
YEAR ENDED MARCH 31, 2014

	2014 $'000	2013 $'000
One-half of investment income transferred to the Bank as contribution towards the cost of administering the Mortgage Insurance Act	1	1
Net increase in fund for year	1	1
Fund balance at beginning of year	89	88
Fund balance at end of year	90	89

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

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

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. Section 14 of the Mortgage Insurance Act provides for the Bank to meet its costs of administering the Act in the following way:

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

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

(e) The Fund is exempt from taxation.

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

2 STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Changes in accounting standards and interpretations:

i) Current year changes

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted the following amendments to IFRS effective as of 1 January 2013:

- IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1 – Effective 1 July 2012
- IAS 19 Employee Benefits (Revised) – Effective 1 January 2013
- IAS 27 Separate Financial Statements – Effective 1 January 2013
- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011) – Effective 1 January 2013
- IFRS 1 Government Loans – Amendments to IFRS 1 – Effective 1 January 2013
- IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 – Effective 1 January 2013
- IFRS 10 Consolidated Financial Statements – Effective 1 January 2013
- IFRS 11 Joint Arrangements – Effective 1 January 2013
- IFRS 12 Disclosure of Interests in Other Entities – Effective 1 January 2013
- IFRS 13 Fair Value Measurement – Effective 1 January 2013
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine – Effective 1 January 2013

The effect of the adoption of the standards or interpretations is described below:

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1
The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example net loss or gain on valuation of available-for-sale financial assets) are presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and gains on revaluation of land and buildings). The amendments have no impact on the Funds' financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

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

(a) Changes in accounting standards and interpretations (continued):

i) Current year changes (continued)

IAS 19 Employee Benefits (Revised)
The International Accounting Standards Board (IASB) has issued amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amended standard will impact the net benefit expense as the expected return on plan assets will be calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. The amendments have no impact on the Funds.

IAS 27 Separate Financial Statements (as revised in 2011)
As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The adoption of this standard has had no impact on the Funds' financial position or performance.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
As a consequence of the new IFRS 11, 'Joint Arrangements', and IFRS 12 'Disclosure of Interests in Other Entities', IAS 28 'Investments in Associates', has been renamed IAS 28, 'Investments in Associates and Joint Ventures', and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment has no impact on the Funds' financial statements.

IFRS 1 Government Loans – Amendments to IFRS 1
These amendments require first-time adopters to apply the requirements of IAS 20, 'Accounting for Government Grants and Disclosure of Government Assistance', prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendments have no impact on the Funds' financial position or performance.

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7
These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The adoption of this standard has had no impact on the Funds' financial position or performance.

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

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

(a) Changes in accounting standards and interpretations (continued):

i) Current year changes (continued)

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements
IFRS 10 replaces the portion of IAS 27, 'Consolidated and Separate Financial Statements' that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12, 'Consolidation — Special Purpose Entities'. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The adoption of this standard has had no impact on the Funds' financial position or performance.

IFRS 11 Joint Arrangements
IFRS 11 replaces IAS 31, 'Interests in Joint Ventures' and SIC-13, 'Jointly-controlled Entities — Non-monetary Contributions by Venturers'. Under this standard, joint arrangements are either joint operations or joint ventures. IFRS 11 removes the option to account for joint ventures using proportionate consolidation. Instead, joint ventures must be accounted for using the equity method. This standard is effective for annual periods beginning on or after 1 January 2013. The amendments have no impact on the Funds' financial statements.

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The adoption of this standard has had no impact on the disclosures in the Funds' financial statements.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements and disclosures. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure and disclose fair value under IFRS when fair value is required or permitted. Fair value is defined as an exit price. The adoption of this standard has resulted in additional disclosures in relation to fair value of the Funds' financial assets and liabilities. The standard had no impact on the Funds' financial position or performance.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine – Effective 1 January 2013
IFRIC 20 now clarifies when an entity should recognise production phase waste removal (stripping) costs (production stripping costs) incurred in relation to a surface mining operation, as an asset. Such an asset will be referred to as a stripping activity asset. The amendments have no impact on the Funds' financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

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

(a) Changes in accounting standards and interpretations (continued):

ii) Improvements to IFRSs

Certain limited amendments, which primarily consist of clarifications to existing guidance, were made to the following standards resulting in changes to accounting policies. The adoption of the following amendments did not have any impact on the financial position or performance of the Funds:

IFRS 1 First–time Adoption of International Financial Reporting Standards
The amendment clarifies that, upon adoption of IFRS, an entity that capitalised borrowing costs in accordance with its previous GAAP, may carry forward, without adjustment, the amount previously capitalised in its opening statement of financial position at the date of transition. Once an entity adopts IFRS, borrowing costs, including those incurred on qualifying assets under construction, are recognised in accordance with IAS 23.

IAS 1 Presentation of Financial Statements
The amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period.

IAS 16 Property Plant and Equipment
The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation
The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders.

IAS 34 Interim Financial Reporting
The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments.

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

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

(a) Changes in accounting standards and interpretations (continued):

iii) Future changes

The Funds have not early adopted any new or revised IFRSs and IFRICs that have been issued but are not yet effective. The following have been issued but are not yet effective:

- IAS 27 (Amended), Separate Financial Statements – Investment Entities (effective for annual periods beginning on or after 1 January 2014)
- IAS 32 (Amended), Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014)
- IAS 39 (Amended), Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014)
- IFRIC Interpretation 21 Levies (effective for annual periods beginning on or after 1 January 2014)
- IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018)
- IFRS 10 (Amended), Consolidated Financial Statements – Investment Entities (effective for annual periods beginning on or after 1 January 2014)
- IFRS 12 (Amended), Disclosure of Interests in Other Entities – Investment Entities (effective for annual periods beginning on or after 1 January 2014)
- IFRS 14 Regulatory Deferral Accounts (effective for annual periods beginning on or after 1 January 2016

Management is currently assessing the impact of these new standards and interpretations on the Funds' financial reporting, in particular, IFRS 9 which is the most relevant.

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- 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.

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

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

(a) Changes in accounting standards and interpretations (continued):

iii) Future changes (continued)

Key requirements of IFRS 9 (continued):

- 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 Trustees and management anticipate that IFRS 9 will be adopted in the Funds' financial statements for the annual period beginning April 1, 2015 and that the application of IFRS 9 may impact the amounts reported in respect of the Funds' financial assets and liabilities. However, the directors have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the likely impact.

(b) Cash and cash equivalents

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

(c) 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.

<u>Effective interest method</u>

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.

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

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

(c) Investments (continued)

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 Fund generally uses net present value techniques or the discounted cash flow method.

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 Fund.

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 Fund 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 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

(d) Receivables

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

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

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

(e) Impairment

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

(i) Calculation of recoverable amount

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

(ii) Reversals of impairment

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

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

(f) Payables

Trade and other payables are stated at cost.

(g) Property, plant and equipment

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

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

An item of property, plant and equipment is 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.

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

4 INVESTMENTS - MORTGAGE INSURANCE FUND

	2014	2013
	$'000	$'000
Government of Jamaica:		
Repurchase agreements	198,196	139,453
Investment bonds including accrued interest	740,196	739,435
	938,392	878,888

5 RECEIVABLES

	2013	2013
	$'000	$'000
Withholding tax recoverable	222,125	200,776

6 PROPERTY, PLANT AND EQUIPMENT - COMPUTER

	$'000
Cost	
April 1, 2012, March 31, 2013 and March 31, 2014	115
Depreciation	
April 1, 2012	48
Charge for the year	29
March 31, 2013	77
Charge for the year	28
March 31, 2014	105
Net book value	
March 31, 2014	10
March 31, 2013	38

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

7 RELATED PARTY BALANCES AND TRANSACTIONS

A party is related to the Fund if:

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

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:

	2014	2013
	$'000	$'000
Due to Jamaica Mortgage Bank	15,203	4,943

	2014	2013
	$'000	$'000
Related party transaction		
Administration fees - Jamaica Mortgage Bank	19,956	59,184

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 and Due to 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.

(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.

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

8 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

(a) Fair value (continued)

Determination of fair value:

The carrying values of the Fund's financial instruments, except for investments, are all considered to approximate their estimated fair values because of their short-term nature. At the end of the period, the fair value of the fund's investments was $745 million (2013: $720 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 Fund's exposure to each of the above risks, and the Fund's objectives, policies and processes for measuring and managing risk.

Risk management framework

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

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

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

(i) Credit risk

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

The assets presented on the Statement of Financial Position comprise the Fund's exposure to credit risk. Except for significant investments in various forms of Government of Jamaica securities, there is no significant concentration of credit risk. The Fund's exposure to credit risk is limited to the carrying values of financial assets in the balance sheets. There has not been any change in the Fund's management of credit risk during the year.

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

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

(b) Financial risk management: (continued)

(ii) Market risk

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

- Interest rate risk:

Interest rate risk is the risk that that the value of a financial instrument will fluctuate due to changes in market interest rates. It arises when there is a mismatch between interest-earning assets and interest-bearing liabilities, which are subject to interest rate adjustment within a specified period. It can be reflected as a loss of future net interest income and/or a loss of current market values. The Funds manage interest rate risk by monitoring interest rates daily, and ensuring that the maturity profile of its financial assets is matched by that of its financial liabilities to the extent practicable, given the nature of the business.

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

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.

	2014					
	Immediately Rate Sensitive	Within 3 months	Three to 12 months	Over 12 months	Total	Average Effective yield
	$'000	$'000	$'000	$'000	$'000	%
Investments	10,826	193,899	-	733,667	938,392	9.47
Cash and cash equivalents		6,677	-	-	6,677	-
	10,826	200,576	-	733,667	945,069	

	2013					
	Immediately Rate Sensitive	Within 3 months	Three to 12 months	Over 12 months	Total	Average Effective yield
	$'000	$'000	$'000	$'000	$'000	%
Investments	122,496	16,957	-	739,435	878,888	9.33
Cash and cash equivalents	-	8,808	-	-	8,808	-
	122,496	25,765	-	739,435	887,696	

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2014

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 it has no foreign currency liabilities and limited foreign currency assets.

- Other market price risks

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

(iii) Liquidity risk

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

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

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, 2012, indicated the actuarial value of net assets of $1.217 billion exceeded the unearned premium liability, claim liability and contingency reserves total of $114 million by a surplus of $1.103 billion. Unearned premium reserve was estimated at 4.57% of the Fund, and annual default rate was estimated at 0.05652% of the average fund. The next valuation is due on March 31, 2015.

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