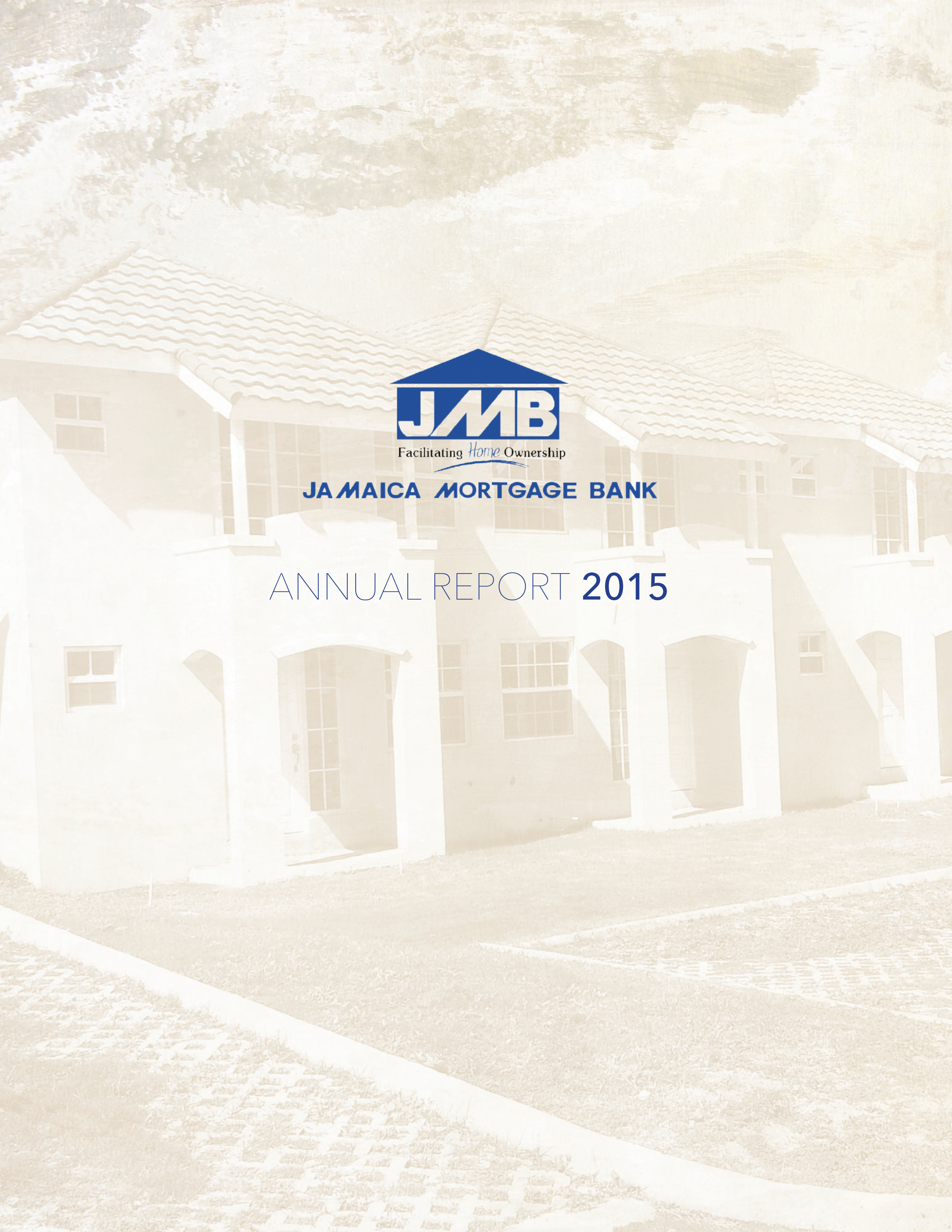
Facilitating *Home* Ownership

JAMAICA MORTGAGE BANK

ANNUAL REPORT **2015**



Facilitating Home Ownership

JAMAICA MORTGAGE BANK

ANNUAL REPORT 2015

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LETTER OF TRANSMITTAL

July 1, 2015

Hon. Dr. Morais Guy
Minister without Portfolio
with responsibility for Housing
Ministry of Transport, Works and 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, 2015 and a copy of the Statement of the Bank's Accounts at March 31, 2015, 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 improvement and growth during the calendar year 2014. The performance of the economy was influenced by deliberate fiscal management emanating from the agreement with the International Monetary Fund (IMF). Additionally, an improvement in international economic conditions, especially in North America, has facilitated modest increases, primarily in tourism and remittance inflows. 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.

Despite the challenges, however, the JMB has shown resilience and innovation that have resulted in significant strides in the provision of affordable housing solutions for the Jamaican people, during the past year.

Macroeconomy

The results of the macroeconomic climate are being characterised by:

Inflation: Annual inflation at December 2014 was 6.4 per cent, when compared to the 9.7 per cent recorded for the previous year. This was primarily as a result of price reduction in electricity, gas and other fuels.

Increase in the Net International Reserves (NIR): The NIR stock as at December 2014 amounted to US$2,002M compared to US$1,048M or US$954M higher than the previous year ending December 2013. The Central Bank's gross reserves at the end of December 2014 amounted to US$2,474M, which represented approximately 17.9 weeks of projected imports of goods and services.

Exchange rate adjustment: Movement in the local currency to the United States dollar over the 12-month period January to December 2014 reflected a steady depreciation of the Jamaican dollar of approximately 6.9%, indicating a slowing of the rate of depreciation when compared to 13% experienced in 2013.

Movement in interest rates: Interest rates on the benchmark Six-Month Treasury Bills declined from 8.25% in December 2013, to a rate of 7.14% at the end of December 2014.

Positive Growth: The Jamaican economy grew by 1.2% as at the June 2014 quarter, as reported by the PIOJ. Similarly, the PIOJ predicts real GDP growth of three per cent (3%) during the fiscal year 2015/2016. This is against the previously targeted 1.5% to 2.0% under the current IMF agreement. Nonetheless, disposable income continues to decline, primarily due to stagnant wages, compared to cumulative inflation.

Overall, the above economic indicators have resulted in an improved macro environment evidenced by the number of passing marks from the International Monetary Fund (IMF) programme and an improvement in the Jamaican bond rating by various USA-based credit rating agencies. Similarly, the rate of increase in construction cost has slowed somewhat. Despite the improved macroeconomic climate, the effective demand in the housing sector remains flat. Additionally, the post NDX environment has created market conditions that make it difficult to raise unsecured financing in the private markets.

Annual Report 2015

Notwithstanding the macroeconomic conditions, 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, 2015.

Performance

The Bank had mixed successes during the reporting period, but made significant strides compared to the previous two years. As a result, the Bank recorded a net after tax profit of $25.7M compared to a budgeted loss of $8.0M and two consecutive prior years of losses.

This was achieved primarily due to the Bank's execution of its three major strategic initiatives in 2014/2015:

1). "To 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 $1.0B for an estimated 320 housing solutions".

The Bank revised its "go-to-Market" procedures in order to mitigate risk associated with past delinquency, while maintaining flexibility with our Primary Market developers. This has resulted in zero default, thus far, within the project financing portfolio. Similarly, the Bank was able to exceed its planned project financing commitments, the number of residential housing solutions financed and its collection targets.

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

During the year, the Bank collected over $790M, thereby converting near liquid assets to over $1B in cash and investments, evidenced from the year over year asset allocation in the balance sheet. This was to ensure that the Bank had sufficient liquidity to fund its commitments, and was supplemented by $200M of Shelter Bonds, issued to the private market during the year. Additionally, the Bank demonstrated innovation by participating in its first syndicated arrangement with a major financial institution to fund a $1.4B Public-Private Partnership (PPP) project.

3). "A laser focus approach to our delinquent loan 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".

As mentioned above, the Bank was able to overcome many challenges and collected 42% of its bad debt target during the year. However, sufficient groundwork was also done to realise an even greater target in ensuing periods.

In December 2014, the Government of Jamaica revised the Mortgage Insurance Act (MIA) to provide for Approved Lenders (Financial Institutions offering mortgages) to insure up to 97% of the appraised value of a property compared to 90% prior. The Bank believes that this revision will result in younger professionals applying for mortgages at an earlier age than before, thereby increasing home ownership.

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 27 undertakings-to-insure providing coverage of $32.6M were issued during the reporting period. This represents a year over year decrease in policies issued. Despite the impact of the NDX, the fund also increased to $1.22B from $1.15B, the year before, due to prudent investment management.

During the fiscal year, the Bank sold its 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 product.

The Way Forward

From all indicators, the road ahead will require astute stewardship to attain the Bank's medium and long-term objectives. Despite growth projections, 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 three-year strategic plan that will result in a sustainable positive performance by year 2017/2018. As such, the Bank's strategy is to remain on course with the initiatives that worked well in previous years and tweak those that require improvements. These initiatives include but are not limited to the following:

1). Grow the loan portfolio with AAA projects, preferably low to middle income residential housing projects, by committing and disbursing $1.0B annually for the build out of approximately 650 housing solutions. Additionally, continue to use loan syndication with our banking partners, as a key strategy for funding.

2). Continue to convert hard or unearned assets to earning assets, including selling of land held for sale. This will supplement any funding the Bank will be able to obtain in the private marketplace.

3). Continue to laser focus on our delinquent loan portfolio to recover in excess of $380M of bad loans. This will continue to strengthen the Bank's liquidity in order to meet its project funding demands.

4). Leverage the Bank's expertise to design and offer technical services to facilitate home ownership.

Additionally, given the amendments to the Mortgage Insurance Act that increases the coverage to 97%, the Bank will implement and execute on a "push and pull" strategy to encourage increased utilization of the MII plan, by the financial institutions, as well as heighten awareness within the general public.

The Bank will also use cost effective 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. the 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 place 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 am 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. Mollison
Chairman

GENERAL MANAGER'S REPORT

Courtney Wynter
General Manager

Overview

At the end of fiscal year 2013/2014, the Jamaica Mortgage Bank's (the Bank's) core business had experienced two consecutive years of net losses primarily due to increased impairment of loan receivables. The fall-out were a declining interest-earning portfolio and a shrinking balance sheet. Additionally, the Bank also faced the impact of the National Debt Exchange (NDX) programme, where sovereign debt was viewed as riskier instruments, thereby making it extremely difficult to raise funds in the private market without the security or Government guarantees. As a result, the Bank had to re-engineer itself to return to sustainable profitability.

The Strategy

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

In order to identify only quality projects and minimize any chance of delinquency, a robust set of risk management metrics were created to assess and price construction projects. The metrics also allowed the Bank to maintain its flexibility with developers, while reducing some of the inherent risks experienced with past operating procedures. This was instrumental in the Bank exceeding its commitment target, while improving the loan assessment standards. Additionally, the Bank had to strengthen its relationship with its clients and other stakeholders.

Likewise, the Bank converted its receivables to more liquid instruments in order to ensure liquidity was available to meet commitments. This initiative was bolstered by an aggressive bad debt collection drive and the raising of new capital through the issue of $200M of bonds.

Financial Performance

As a result of the strategy execution, the Bank made an after tax profit of $25.7M, or $121.2M more than the previous year, and $33.7M better than budget.

Interest income of $169.3M for the reporting period was only 1.9% lower than the previous year, but lower than budget by 17.6%, primarily due to lower than expected disbursements of loans; however, this was offset, somewhat, by increased inflows from deposits and investments.

Interest Expense of $110.2M for the same period was higher than the previous year by 11.6% due to the increased bond issue, but lower than budgeted by 16.6%, due to a strategy change to adopt alternative means of funding.

Net interest income was lower than previous year and budget by 19.9% and 19.3%, respectively, again, due to lower than planned income.

Non-Interest income of $49.3M exceeded that of the previous year by $19.4M or 64.8% and exceeded budget by $14.3M or 40.9%, primarily driven by fees associated with increased commitments, compared to budget.

Operating Expenses (OPEX) of $110.2M were lower than the previous year by 5.7% and better than budget by 5.2%, primarily due to lower electricity and other cost management strategies.

As a result of the work done on the bad debt portfolio, the Bank experienced a net write back in its provision of $40.7M, compared to an increase of $100M during the previous year. This was primarily due to the Bank's recovery of land securing a non-performing loan.

The JMB also strategically managed its balance sheet by positioning its cash and near-cash of over $1B to meet its disbursement commitments in the previous and current years. The Bank's balance sheet grew by approximately $245M primarily due to increased borrowing.

ANALYSIS OF CHANGE IN INCOME & EXPENDITURE 2014/5 vs 2013/4

ITEM	2015 $'000	2014 $'000	Variance $'000	Var. %
Interest Income				
Interest from Loans	96,190	119,867	-23,677	-19.8%
Interest from Deposits	60,579	27,645	32,934	119.1%
Interest from other Investments	12,497	24,991	-12,494	-50.0%
Total Interest Income	169,266	172,503	-3,237	-1.9%
Interest Expenses				
Interest on Bonds Payable	110,207	98,772	11,435	11.6%
Net Interest Income/(Loss)	59,059	73,731	-14,672	-19.9%
Non Interest Income	49,305	29,915	19,390	64.8%
Gross Margin before Provision and Expenses	108,364	103,646	4,718	4.6%
Less Operating Expenses	-110,248	-116,881	6,633	5.7%
Operating Profit/(Loss) for the year before Provision	-1,884	-13,235	11,351	85.8%
Provisions	40,755	-100,017	140,772	140.7%
Profit/(Loss) for the year before taxes	38,871	-113,252	152,123	134.3%
Taxes	-13,203	17,756	-30,959	-174.4%
Profit/(Loss) for the year	25,668	-95,496	121,164	126.9%

Other Key Performance Indicators

Primary Market

Through its Primary Market operations, Jamaica Mortgage Bank issued loan commitments amounting to $1,386M during the FY, exceeding its target of $1,000M for the period by 38.6%. The funds were advanced for construction of 674 units, against a target of 320 units. One milestone was JMB's first entry into a syndication financing arrangement with National Commercial Bank to finance construction of the first phase of a two-phase student accommodation facility on the Mona Campus of the University of the West Indies, under a Public-Private Partnership arrangement – thus leading to the Bank's largest loan to date.

Actual loan disbursements for the FY were just over $534M or approximately 53% of the Bank's target of $1,000M. The lower than expected performance in this area was attributable to delays by developers in fulfilling disbursement preconditions. The upside of this, however, is that there should be a substantial pool of approvals to jump-start disbursements in the new fiscal year.

We were very pleased to also launch a new product, "Technical Support Services" during the year. This product is tailored to meet an identified need in the wider construction financing market, by leveraging the in-house expertise developed by JMB over time, to provide technical support for projects undertaken by other financial intermediaries. The services provided range from initial technical assessments of projects through to monitoring implementation and close-out activities, and will serve as an additional income stream for the Bank.

OTHER KEY PERFORMANCE METRICS

Budget: 2014/15 $'000	Actual: 2014/15 $'000	Variance $'000	Variance %	Metric	Budget: 2015/2016 $'000
1,000,000	1,386,000	386,000	38.6%	Commitments	1,300,000
1,000,000	534,000	-466,000	-46.6%	Disbursements	1,000,000
600,000	524,000	-76,000	-12.7%	Collections	1,002,000
644,000	267,000	-377,000	-58.5%	Bad debt Collections	387,000
320	674	354	110.6%	Units Funded	650

Secondary Market

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

Mortgage Insurance

During the third quarter, the Government of Jamaica (GOJ) approved legislation amending the Mortgage Insurance Act to increase coverage from 90% to 97% of the appraised value of the mortgaged properties. The Bank hosted a forum in the last quarter of the FY to sensitize mortgage lenders of the increased benefits of the amendment and to encourage them to explore creative avenues to better meet the needs of aspiring homeowners. For the year, JMB issued twenty-seven (27) new Undertakings-to-Insure valuing $32.6M. The Direct Sales approach will be utilized during the new fiscal year to increase the cohort of Approved Lenders and accelerate the rate of growth in the portfolio.

Bad Debt

The Bank continues to implement measures to aggressively reduce its bad debt portfolio. The Bank has taken steps to sell properties being held as security to recover the outstanding loan sums; as well as to institute foreclosure proceedings on some properties held as security which it has been unsuccessful in selling under its Power of Sale. A total sum of $266.67M was collected for the financial year 2014/2015 against a budgeted sum of $644M. This shortfall in the bad debt collection was primarily attributed to the delay in the completion of the foreclosure proceedings for lands held as security for two loans and the delay in the commencement of a Court hearing in a lawsuit filed against a delinquent developer for over $1billion.

The Bank has instituted tight monitoring controls on the approved loans and moves to implement its aggressive delinquency management programme as soon as there are any signs of deviations from their agreed terms in order to mitigate the development of any further bad loans.

The Bank has also tightened its loan assessment and approval processes to eliminate the Bank granting loans to poor quality projects.

Budget for the 2015/2016 Year

2015/16 BUDGET OF INCOME & EXPENDITURE

Budget: 2014/15 $'000	Actual: 2014/15 $'000	Variance $'000	Variance %	ITEMS	Budget: 2015/2016 $'000
				Interest Income	
161,421	96,190	-65,231	-40.4%	Interest from Loans	216,477
43,968	60,579	16,611	37.8%	Interest from Deposits	54,638
-	12,497	12,497	100.0%	Interest from other Investments	-
205,389	169,266	-36,123	-17.6%	Total Interest Income	271,115
				Interest Expenses	
132,173	110,207	21,966	16.6%	Interest on Bonds Payable	208,545
73,216	59,059	-14,157	-19.3%	Net Interest Income/(Loss)	62,570
34,995	49,305	14,310	40.9%	Non Interest Income	66,266
108,211	108,364	153	0.1%	Gross Margin before Provision and Expenses	128,836
-116,270	-110,248	6,022	5.2%	Less Operating Expenses	-121,986
-8,059	-1,884	6,175	76.6%	Operating Profit/(Loss) for the year before Provision	6,850
0	40,755	40,755	100.0%	Provisions	-
-8,059	38,871	46,930	582.3%	Profit/(Loss) for the year before taxes	6,850
0	-13,203	-13,203	-100.0%	Taxes	-4,000
-8,059	25,668	33,727	418.5%	Profit/(Loss) for the year	2,850

Conclusion

The 2014/15 financial year, although challenging, resulted in significant improvement with respect to the Bank's goal of closing the demand-supply gap for affordable housing. Additionally, the Bank was able to turn a profit after two consecutive years of losses.

While the 2015/2016 financial year is predicted to be an equally challenging year, as the country tries to position itself for growth under the IMF programme, the Bank is encouraged by the direction of the macro-economic indicators. We believe there is a direct correlation between economic growth and growth in the construction sector, especially in the residential housing space.

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

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

Courtney Wynter
General Manager

TECHNICAL SUPPORT SERVICES

INTRODUCTION

With its vision "To finance safe and affordable housing so that all Jamaicans will have access to home ownership", the JMB's main pillar of operations is the provision of interim financing to developers of housing solutions. The Bank has acquired substantial technical expertise in the field over the years, and is widely recognized in the industry for successfully financing a wide range of housing projects across the island.

On February 26, 2015, in response to frequent enquiries, the JMB launched its Technical Support Services, offering access to its technical expertise as a means of supporting other providers of bridge, or interim, financing to the housing sector to improve the success rate of their financing activities in the sector. It is expected that this new service will not only serve to reduce construction risks experienced by other players, but will also produce improved returns on their investments in the sector, while advancing our joint effort to increase Jamaica's housing stock and bring home ownership within the grasp of more of our people.

CATEGORIES OF SERVICES

1. ASSESSMENT

   a. Assessment of drawings to ensure:
      i. Approvals obtained
      ii. All elements are captured
      iii. Consistency of scale

   b. Evaluation of the Bill of Quantities (BQ)
      i. All elements of approved drawings are suitably accounted for
      ii. Costs are reasonable given local market prices
      iii. Adequate provisions are made for Contingencies, Preliminaries, etc.

   c. Regulatory Approvals/Certificate(s) of Title/JV Agreement/Professionals
      i. All statutory approvals in place
      ii. Special conditions, if any, are observed/satisfied
      iii. Proper title held for development lands and restrictive covenants, if any suitably addressed
      iv. Joint Venture agreement in place, where necessary – refer to Legal to ensure adequacy of provisions
      v. Systems to be used have Bureau of Standards Approval
      vi. Professions employed are suitably certified/registered as necessary/reputable

   d. Checklist – all required support documentation is submitted, e.g.
      i. Valuation report
      ii. Surveyor's Identification

2. MONITORING

   a. Conducting periodic site visits and preparing reports of findings/observations
   b. Verification that execution of the works is consistent with the approved designs
   c. Ascertaining that variations are appropriately documented and approved
   d. Evaluation of Quantity Surveyor's (QS) Certificates against work completed/funds disbursed/ BQ/Construction schedule
   e. Recommendation for resolving technical issues encountered
   f. Recommendation for disbursement of funds
   g. Verification of the progress of the works against the construction schedule
   h. Attending site meetings/open house events with Business/Relationship Manager

3. CLOSE-OUT

   a. Verification of practical completion and recommending application for Certificate of Practical Completion
   b. Ensuring application submitted for splinter/strata titles
   c. Verification that all close-out steps are taken and that project executed in line with Approvals & Loan Agreement
   d. Preparation of final Technical Report

REPORTS

1. Initial BQ/Drawings Assessment Report
2. Site Visits Report
3. BQ Payment Recommendation
4. Close-out Report

CONDITIONS

1. Recommendations provided on basis of information/documentation provided and without liability for accuracy of that information/documentation
2. Technical advice provided based on disclosures made by providers of information/documentation and reliable to the best of our knowledge and belief
3. No responsibility taken for execution of works or for the integrity of structures, inputs or any matter reasonably outside the scope of the technical support services provided
4. Indemnity granted to JMB by the Financial Institution for which the JMB is providing the service.

JMB launches New Product – Technical Support Services

February 26, 2015

Minister, Hon. Dr. Morais Guy, addresses the participants.

JMB's General Manager makes a presentation on the Bank's new Technical Support Services.

Permanent Secretary, Mrs. Audrey Sewell, listens intently.

A section of the group of participants listening keenly.

CORPORATE INFORMATION

REGISTERED OFFICE
33 Tobago Avenue
Kingston 5

AUDITORS
Ernst & Young
8 Olivier Road
Kingston 8

BANKERS
Sagicor 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

Samuda & Johnson
2-6 Grenada Crescent
Kingston 5

Livingston Alexander & Levy
72 Harbour Street
Kingston

DEPARTMENTS

Finance & Accounts

Financial and Management Accounting

Treasury and Cash Management

Budgeting & Control

Business Operations:

- ***Primary Market Financing***
  Project Financing
  Project Appraisal and Monitoring
  Project Risk Analysis
  Technical Support Services
- ***Secondary Mortgage Market***
  Mortgage-backed Securities
- ***Mortgage Insurance***
  Evaluation of proposals for insurance coverage for housing schemes
  Claims processing
  Issuing of Undertakings-to-Insure
  Preparation of mortgage insurance policies
  Promotion of mortgage insurance facilities

Corporate Secretarial/Legal

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

Legal Conveyancing, and title registration

General Legal Services

Human Resource, Administration & Corporate Services

Human Resource Management

Policy Development and Administration

Management Information Systems

Office Administration

Public Relations

BOARD OF DIRECTORS

Howard Mollison
Chairman
Member, HR Committee

Carl Tucker
Chairman, Projects Committee

Ryan Reid
Chairman, Audit & Finance Committee and Member, Projects Committee

Patrick Gayle
Chairman, HR Committee, Member 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

PROJECTS FINANCED **BY THE JMB**

Abu Dhabi, St. Andrew

City View, St. Andrew

Huddersfield, St. Mary

Knightsdale, St. Andrew

Student Residence, UWI, Mona

Directors & Senior Executive Compensation

DIRECTORS COMPENSATION **April 1, 2014 – March 31, 2015**

Position of Director	Fees ($)	Motor Vehicle Upkeep/Travelling or Value of Assignment of Motor Vehicle ($)	Honoraria ($)	All Other Compensation including Non-Cash Benefits as applicable ($)	Total ($)
Board Chairman/ Sub-Committee Chairman	150,000	-	-	-	150,000
Director/Deputy Chairman	113,500	-	-	-	113,500
Director/ Sub-committee Chairman	145,500	-	-	-	145,500
Director/ Sub-committee Chairman	167,000	-	-	-	167,000
Director	74,500	-	-	-	74,500
Director	84,500	-	-	-	84,500
Director	67,000	-	-	-	67,000

SENIOR EXECUTIVE COMPENSATION **April 1, 2014 – March 31, 2015**

Position of Senior Executive	Salary ($)	Gratuity or Performance Incentive ($)	Travelling Allowance or Value of Assignment of Motor Vehicle ($)	Pension or Other Retirement Benefits ($)	Other Allowances ($)	Non-Cash Benefits ($)	Total ($)
General Manager	6,800,000	-	975,720	Nil	18,378	Nil	7,794,098
Director, Business Operations	4,675,000	-	975,720	Nil	47,915	Nil	5,698,635
Corporate Secretary/Legal Officer	5,070,928	Nil	975,720	263,688	25,000	Nil	6,335,336
Director, Human Resource, Administration & Corporate Services	5,070,928	Nil	975,720	263,688	25,000	Nil	6,335,336
Director of Finance	4,560,687	Nil	975,720	234,945	25,000	Nil	5,796,351

Financial Statements

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2015

(Expressed in Jamaican Dollars)

EY
Building a better working world
Chartered Accountants

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INDEPENDENT AUDITORS' REPORT

To the Directors of Jamaica Mortgage Bank

Report on the financial statements

We have audited the accompanying financial statements of Jamaica Mortgage Bank and its subsidiary (the "Group") and the financial statements of Jamaica Mortgage Bank (the "Bank"), which comprise the Group's and Bank's statements of financial position as at March 31, 2015, 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 and presentation 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 these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

A member firm of Ernst & Young Global Limited
Partners: Allison Peart, Linval Freeman, Andrew Tom, Winston Robinson, Anura Jayatillake, Kayann Sudlow

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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, 2015, and of the Group's and the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on additional requirements of the Jamaica Mortgage Bank Act

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

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

Ernst & Young

Chartered Accountants
Kingston, Jamaica

June 19, 2015

A member firm of Ernst & Young Global Limited

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2015

	Notes	2015 $'000	2014 $'000
ASSETS			
Cash		55,083	15,528
Certificates of deposit	4	468,772	-
Resale agreements	5	570,199	355,125
Receivables and prepayments	6	35,052	33,493
Income tax recoverable		189,949	210,264
Loans receivable	8	1,208,024	1,692,716
Land held for development and sale	9(c)	413,501	379,001
Post-retirement benefits	10(b)	33,217	46,941
Property and equipment	11	56,125	52,819
Total assets		3,029,922	2,785,887
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Payable and accruals	12	31,752	11,753
Bonds and loan payable	13	1,457,655	1,254,061
Income tax payable		9,046	1,980
		1,498,453	1,267,794
SHAREHOLDERS' EQUITY			
Share capital	14	500,000	500,000
Reserve fund	15	500,000	500,000
Special reserve fund	16	340,083	340,083
Retained earnings		191,386	178,010
		1,531,469	1,518,093
Total liabilities and shareholders' equity		3,029,922	2,785,887

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

The financial statements were approved for issue by the Board of Directors on June 19, 2015 and are signed on its behalf by:

Director

Director

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED MARCH 31, 2015

	Notes	2015 $'000	2014 $'000
Revenue			
Interest from loans		96,190	119,867
Interest from deposits		60,579	27,645
Interest from other investments		12,497	24,991
Total interest income	20	169,266	172,503
Other income	17	49,305	29,915
		218,571	202,418
Expenses			
Staff costs	18	(67,029)	(65,187)
Allowance for impairment losses on loans, net of recoveries	19	40,755	(100,017)
Other administrative and general expenses		(43,219)	(51,694)
Finance costs:			
Interest on bonds payable		(110,207)	(98,772)
		(179,700)	(315,670)
Profit/(Loss) before taxation	21	38,871	(113,252)
Taxation	22	(13,203)	17,756
Net profit/(loss) for the year		25,668	(95,496)
Other comprehensive income/(expense)			
Other comprehensive (expense)/income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement (losses)/gains on the defined benefit plan	10	(16,389)	8,457
Deferred tax relating to the remeasurement (losses)/gains on the defined benefit plan	22	4,097	(2,114)
Other comprehensive (expense)/income for the year, net of tax		(12,292)	6,343
Total comprehensive income/(expense) for the year, net of tax		13,376	(89,153)

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, 2015
(Expressed in Jamaican dollars)

	Note	Share Capital (Note 14) $'000	Reserve Fund (Note 15) $'000	Special Reserve Fund (Note 16) $'000	Retained Earnings $'000	Total $'000
Balance at April 1, 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
Net profit for the year		-	-	-	25,668	25,668
Other comprehensive expense		-	-	-	(12,292)	(12,292)
Total comprehensive income		-	-	-	13,376	13,376
Balance at March 31, 2015		500,000	500,000	340,083	191,386	1,531,469

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, 2015
(Expressed in Jamaican dollars)

	Notes	2015 $'000	2014 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(Loss) for the year before taxation		38,871	(113,252)
Adjustments to reconcile profit/loss for the year to net cash provided by operating activities:			
Depreciation of property and equipment	11	2,961	3,142
Provision for impairment losses on loans and other receivables, net of recoveries	19	(40,755)	100,017
Loss/(Gain) on sale of land held for development	9(d)	3,289	(435)
Post-retirement benefits (income) expense	10(b)(iii)	(583)	1,631
Amortisation of bond issue costs	13	2,115	2,115
Interest income	20	(169,266)	(172,503)
Interest expense		110,207	98,772
		(53,161)	(80,513)
Change in operating assets:			
Increase in receivables and prepayments		(1,559)	(6,102)
Decrease in loans receivable		412,724	376,940
Change in operating liabilities:			
Increase in payables and accrued charges		19,999	1,886
Contributions paid post-retirement employee benefits	10(b)(ii)	(2,082)	(1,885)
		375,921	290,326
Interest received		223,724	304,038
Income tax received/(paid)		18,275	(6,904)
Net cash provided by operating activities		617,920	587,460
CASH FLOWS FROM INVESTING ACTIVITIES			
Resale agreements		(211,245)	(243,047)
Certificates of deposit		(459,336)	-
Proceeds on disposal of land held for development and sale		7,211	3,435
Additions to property and equipment	11	(6,267)	(1,190)
Net cash used in investing activities		(669,637)	(240,802)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(108,728)	(98,981)
Redemption of bearer bonds		-	(500,000)
Issue of bearer bonds (net)		150,000	250,000
Loan proceeds received		50,000	-
Net cash provided by/(used in) financing activities		91,272	(348,981)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		39,555	(2,323)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		15,528	17,851
CASH AND CASH EQUIVALENTS AT END OF YEAR		55,083	15,528
Non-cash item:			
Acquisition of land held for development	9(f)	45,000	-

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

JAMAICA MORTGAGE BANK

STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2015
(Expressed in Jamaican dollars)

	Notes	2015 $'000	2014 $'000
ASSETS			
Cash		55,083	15,528
Certificates of deposit	4	468,772	-
Resale agreements	5	570,199	355,125
Receivables and prepayments	6	35,052	33,493
Income tax recoverable		189,949	210,264
Interest in subsidiary	7	124,476	136,413
Loans receivable	8	1,208,024	1,692,716
Land held for development and sale	9(c)	413,500	379,000
Post-retirement benefits	10(b)	33,217	46,941
Property and equipment	11	56,125	52,819
Total assets		3,154,397	2,922,299
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Payables and accruals	12	19,742	11,743
Bonds and loan payable	13	1,457,655	1,254,061
Income tax payable		9,046	1,980
		1,486,443	1,267,784
SHAREHOLDERS' EQUITY			
Share capital	14	500,000	500,000
Reserve fund	15	500,000	500,000
Special reserve fund	16	340,083	340,083
Retained earnings		327,871	314,432
		1,667,954	1,654,515
Total liabilities and shareholders' equity		3,154,397	2,922,299

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

The financial statements were approved for issue by the Board of Directors on June 19, 2015 and are signed on its behalf by:

Director

Director

JAMAICA MORTGAGE BANK

STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED MARCH 31, 2015
(Expressed in Jamaican dollars)

	Notes	2015 $'000	2014 $'000
Revenue			
Interest from loans		96,190	119,867
Interest from deposits		60,579	27,645
Interest from other investments		12,497	24,991
Total interest income	20	169,266	172,503
Other income	17	49,305	29,915
		218,571	202,418
Expenses			
Staff costs	18	(67,029)	(65,187)
Allowance for impairment losses on loans, net of recoveries	19	40,755	(100,017)
Other administrative and general expenses		(43,156)	(51,631)
Finance costs:			
Interest on bonds payable		(110,207)	(98,772)
		(179,637)	(315,607)
Profit/(Loss) before taxation	21	38,934	(113,189)
Taxation	22	(13,203)	17,756
Profit/(Loss) for the year		25,731	(95,433)
Other comprehensive income/(expense)			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement (losses)/gains on the defined benefit plan	10	(16,389)	8,457
Deferred tax relating to the remeasurement (losses)/gains on the defined benefit plan	22	4,097	(2,114)
Other comprehensive (expense)/income for the year, net of tax		(12,292)	6,343
Total comprehensive income/(expense) for the year, net of tax		13,439	(89,090)

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

JAMAICA MORTGAGE BANK

STATEMENT OF CHANGES IN EQUITY
YEAR ENDED MARCH 31, 2015
(Expressed in Jamaican dollars)

	Note	Share Capital (Note 14) $'000	Reserve Fund (Note 15) $'000	Special Reserve Fund (Note 16) $'000	Retained Earnings $'000	Total $'000
Balance at April 1, 2013		500,000	500,000	340,083	403,522	1,743,605
Net loss for year, as restated		-	-	-	(95,433)	(95,433)
Other comprehensive expense, as restated		-	-	-	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
Net profit for year		-	-	-	25,731	25,731
Other comprehensive expense		-	-	-	(12,292)	(12,292)
Total comprehensive expense		-	-	-	13,439	13,439
Balance at March 31, 2015		500,000	500,000	340,083	327,871	1,667,954

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

JAMAICA MORTGAGE BANK

STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2015
(Expressed in Jamaican dollars)

	Notes	2015 $'000	2014 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(Loss) for the year before taxation		38,934	(113,189)
Adjustments to reconcile profit/(loss) for the year to net cash provided by operating activities:			
Depreciation	11	2,961	3,142
Provision for impairment losses on loans and other receivables, net of recoveries	19	(40,755)	100,017
Loss/(Gain) on sale of land held for development	9(d)	3,289	(435)
Post-retirement benefits (income) expense	10(b)(iii)	(583)	1,631
Amortisation of bond issue costs	13	2,115	2,115
Interest income		(169,266)	(172,503)
Interest expense		110,207	98,772
		(53,098)	(80,450)
Change in operating assets:			
Increase in receivables and prepayments		(1,559)	(6,102)
Decrease in loans receivable		412,724	376,940
Change in operating liabilities:			
Increase in payables and accruals		7,999	1,886
Contributions paid post retirement employee benefits	10(b)(ii)	(2,082)	(1,885)
		363,984	290,389
Interest received		223,724	304,038
Income tax received/(paid)		18,275	(6,904)
Net cash provided by operating activities		605,983	587,523
CASH FLOWS FROM INVESTING ACTIVITIES			
Resale agreements		(211,245)	(243,047)
Certificates of deposit		(459,336)	
Interest in subsidiary		11,937	(63)
Proceeds on disposal of land for development and sale		7,211	3,435
Additions to property and equipment	11	(6,267)	(1,190)
Net cash used in investing activities		(657,700)	(240,865)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(108,728)	(98,981)
Redemption of bearer bonds		-	(500,000)
Issue of bearer bonds (net)		150,000	250,000
Loan proceeds received		50,000	-
Net cash provided by/(used in) financing activities		91,272	(348,981)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		39,555	(2,323)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		15,528	17,851
CASH AND CASH EQUIVALENTS AT END OF YEAR		55,083	15,528
Non-cash item:			
Acquisition of land held for development	9 (f)	45,000	-

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

1 CORPORATE INFORMATION

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

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

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

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

The present activities of the Bank are the:

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

2 STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of preparation and presentation

These financial statements are prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The financial statements are presented in Jamaica dollars, which is the functional currency of the Group, and rounded to the nearest thousand, unless otherwise stated.

(Expressed in Jamaican dollars)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Changes in accounting standards and interpretations:

Standards and Disclosures affecting amounts reported and or disclosures in the current period (and/or prior periods)

There were no standards and interpretations that were applied in the year that affected the presentation and disclosures in these financial statements. The following additional new and revised Standards and Interpretations have been adopted in these financial statements. Their adoption has not had any impact on the amounts reported in these financial statements but may impact the accounting for future transactions or arrangements.

		Effective for annual periods beginning on or after
Amendments to Standards		
IAS 32	Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32	January 1, 2014
IAS 36	Recoverable Amount Disclosures for Non-Financial Assets — Amendments to IAS 36	January 1, 2014
IAS 39	Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39	January 1, 2014
IFRS 10, 12 and IAS 27	IFRS 10, IFRS 12 and IAS 27 Investment Entities - Amendments to IFRS 10, IFRS 12 and IAS 27	January 1, 2014
New and Revised Interpretations		
IFRIC 21	Levies	January 1, 2014

Standards and interpretations in issue not yet effective

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

		Effective for annual periods beginning on or after
New and Revised Standards		
IAS 1	Disclosure Initiative – Amendment to IAS 1	January 1, 2016
IAS 16, 24 and IFRS 2, 3, 8 and 13	Amendments arising from 2010 – 2012 Annual Improvements to IFRS	July 1, 2014
IAS 40 and IFRS 3 and 13	Amendments arising from 2011 – 2013 Annual Improvements to IFRS	July 1, 2014
IAS 19, 34, IFRS 5 and IFRS 7	Amendments arising from 2012 – 2014 Annual Improvements to IFRS	January 1, 2016
IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization	January 1, 2016
IAS 16 and IAS 41	Agriculture: Bearer Plants	January 1, 2016
IAS 19	Defined Benefit Plans: Employee Contributions – Amendment to clarify the requirements that relate to how contributions from employees or third parties linked to service should be attributed to periods of service	July 1, 2014

(Expressed in Jamaican dollars)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Standards and interpretations in issue not yet effective (Continued)

New and Revised Standards		Effective for annual periods beginning on or after
IAS 27	Equity Method in Separate Financial Statements – Amendment to allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.	January 1, 2016
IFRS 9	Financial Instruments	January 1, 2018
IFRS 10, 12 and IAS 28	IFRS 10, IFRS 12 and IAS 28 Investment Entities - Applying the Consolidation Exemption - Amendments to IFRS 10, IFRS 12 and IAS 28	January 1, 2016
IFRS 11	Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations – Amendment to IFRS 11	January 1, 2016
IFRS 14	Regulatory Deferral Accounts	January 1, 2016
IFRS 15	Revenue for Contracts with Customers	January 1, 2017

New and Revised Standards and Interpretations in issue not yet effective that are relevant
The Board of Directors and management have assessed the impact of all the new and revised Standards and Interpretations in issue not yet effective and have concluded that the following are relevant to the operations of the Bank and are likely to impact amounts reported in the Bank's financial statements:

- IFRS 9 *Financial Instruments*

  IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include impairment requirements for financial assets and limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' measurement category for certain simple debt instruments.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Standards and interpretations in issue not yet effective (Continued)

- IFRS 9 *Financial Instruments (Continued)*

  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.

    - 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.

    - In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, instead of the incurred loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risks since initial recognition.

    - The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available under IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Standards and interpretations in issue not yet effective (Continued)

- IFRS 9 *Financial Instruments (Continued)*

  Key requirements of IFRS 9 (Continued):

  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.

- IFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

  IFRS 15 must be applied in an entity's annual IFRS financial statements for periods beginning on or after January 1, 2017. Application of the Standard is mandatory and early adoption is permitted. The directors and management have not yet assessed the impact of the application of this standard on the Group's financial statements, which the Group will apply for the annual period beginning April 1, 2017.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Standards and interpretations in issue not yet effective (Continued)

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

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

(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 $33.22 million (2014: $46.94 million) (Note 10) are determined actuarially using several assumptions. The primary assumptions used in determining the amounts recognised include the discount rate used to determine the present value of estimated future cash flows required to settle the pension obligations and to determine the return on plan assets.

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

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

(ii) Key sources of estimation uncertainty (Continued)

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

  The 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 10(f) details sensitivity analyses in respect of some of these assumptions.

- Allowance for loan losses

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

  To the extent that the net present value of estimated cash flows changed adversely by 2 percent, the provision as estimated would be increased from $660.59 million to $673.80 million (2014: $736.09 million to $750.81 million).

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

- Taxes

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

  Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. (Note 22).

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Basis of consolidation

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

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary. Total comprehensive income of the subsidiary is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

<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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial assets and liabilities

The Group classifies its financial assets as loans and receivables. Management determines the classification of its investments based on its nature and purpose at initial recognition. Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

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

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

Financial liabilities are classified as other financial liabilities. Other financial liabilities (including borrowings and trade and other payables) are initially measured at fair value, net of transaction costs (where applicable). Other financial liabilities are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

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

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

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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

(d) Financial assets and liabilities (continued)

(ii) Derecognition (continued)

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

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

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

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

The Group has no financial instruments which are measured at fair value. The fair values of financial instruments measured at amortised cost are disclosed in Note 25.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial assets and liabilities (continued)

(iv) Fair value measurement (continued)

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

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

(e) Cash and cash equivalents

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

(f) 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.

(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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of financial assets

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

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

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Taxation

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

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

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

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

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

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

(k) Investment in subsidiary

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

(l) 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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, National Insurance Scheme (NIS) contributions, annual vacation and sick leave, and non-monetary benefits such as medical care and housing; post-employment benefits such as pensions; and other long-term employee benefits such as termination benefits.

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

(ii) The effect on the financial statements of the undertaking to provide post-employment benefits, comprising pensions, are actuarially determined by a qualified external actuary, appointed by management. The appointed actuary's report outlines the scope of the valuation and the actuary's opinion. The actuarial valuations are conducted in accordance with IAS 19, and the financial statements reflect the Group's and Bank's post-employment benefit asset and obligation as computed by the actuary.

In carrying out their audit, the auditors rely on the actuary's report.

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

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

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognizes service costs (current service cost, past service cost, gains and losses on curtailments) and net interest expense/income in the staff costs in the statement of comprehensive income. Where the calculation results in a pension surplus to the Group, the recognised asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan, less any unrecognised actuarial losses and past service costs.

(n) Property and equipment and depreciation

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Property and equipment and depreciation (continued)

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

Freehold land is not depreciated. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

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

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

(o) 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.

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

(o) Impairment of tangible and intangible assets

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.

(p) Revenue recognition

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

(i) Interest income

Interest income is recognised in profit or loss for all interest earning instruments on the accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset. Interest income includes coupons earned on fixed income investments, accretion of discount on instruments purchased at a discount, and amortisation of premium on instruments purchased at a premium.

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

(ii) Other income

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

(q) Interest expense

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

(r) Foreign currencies

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

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

4 CERTIFICATES OF DEPOSIT

	Group and Bank	
	2015	2014
	$'000	$'000
Certificates of deposit	459,336	-
Interest receivable	9,436	-
	468,772	-

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

5 RESALE AGREEMENTS

	Group and Bank	
	2015	2014
	$'000	$'000
Government of Jamaica - Local Registered Stock	565,391	354,146
Interest receivable	4,808	979
	570,199	355,125

These securities mature within one year after year end with interest rates ranging between 6.50% to 7.40% (2014: 8.50% and 9.30%) per annum. Securities with a carrying value of $83.82 million (2014: $79.38 million) included in a debt service reserve account have been pledged as part of the security for borrowings of the Group totaling $500 million in relation to Shelter Bond 13. (See Note 13(c)).

6 RECEIVABLES AND PREPAYMENTS

	Group and Bank	
	2015	2014
	$'000	$'000
Receivables	32,305	31,609
Prepayments	2,747	1,884
	35,052	33,493

7 INTEREST IN SUBSIDIARY

	The Bank	
	2015	2014
	$'000	$'000
Ordinary shares*	-	-
Long term loan	124,476	136,413
	124,476	136,413

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

7 INTEREST IN SUBSIDIARY (Continued)

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

The long-term loan, which represents draw-downs under a $250,000,000 facility, should have been repaid over the 5 years ended March 31, 2006, after a moratorium of 24 months on principal. The balance is supported by a promissory note and is secured by land owned by the subsidiary. During the year, a deposit of $12 million was received in respect of a portion of the land and this was applied to the loan.

8 LOANS RECEIVABLE

	Group and Bank	
	2015	**2014**
	$'000	**$'000**
Construction loans - non-governmental borrowers (see Note 8(a) below)	1,566,796	1,370,645
Accrued interest receivable	252,486	320,209
	1,819,282	1,690,854
Less: Allowance for impairment losses (see Note 8(b) below)	(660,590)	(736,092)
	1,158,692	954,762
Secondary Mortgage market (see Note 8(c) below)	-	195,842
Mortgages (see Note 8(d) below) - Staff	3,152	4,021
- Other	46,180	538,091
	1,208,024	1,692,716

(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 by the properties being developed.

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

	Group and Bank	
	2015	**2014**
	$'000	**$'000**
At beginning of year	736,092	781,323
Charged against revenue during the year (Note 19)	3,472	102,650
Write back of general provision (Note 19)	(793)	(4,005)
Bad debt recovery (Note 19)	(45,000)	(31,959)
	693,771	848,009
Bad debts written off	(33,181)	(111,917)
At end of year	660,590	736,092
Comprising:		
Specific provisions	653,613	731,897
General provisions	6,977	4,195
	660,590	736,092

(c) These were loans granted to credit unions for the writing of mortgages. These loans were granted for an initial period of 18 months and were to be repaid by way of the Bank taking an interest in the mortgages written by the institution(s) to the value of the loan. The secondary mortgage portfolio was sold during the year.

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

8 LOANS RECEIVABLE (Continued)

(e) Constructions loans in the amount of $75 million have been pledged as collateral for bonds and loans payable (Note 13 (a)).

9 LAND HELD FOR DEVELOPMENT AND SALE

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

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

The condition to the agreement, as outlined above, was not fulfilled and subsequently an agreement was arrived at to transfer other lands to the Bank to cover the terms of the agreement. In the 2010/2011 financial year, the Ministry transferred the Whitehall property to the Bank in part settlement of the obligation of the subsidiary. The Ministry 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:

	2015 $'000	2014 $'000
Whitehall	270,000	270,000
Phoenix Park (see Note 9(d))	33,500	44,000
Norwich (see Note 9(f))	45,000	-
Mount Gotham	65,000	65,000
	413,500	379,000

	2015 $'000	2014 $'000
(c) Bank	413,500	379,000
Subsidiary	1	1
Group	413,501	379,001

(d) Five (5) lots at Phoenix Park were sold during the year, resulting in loss on disposal of $3.29 million (2014: gain on disposal of $0.43 million).

(e) Assets pledged as security
Land held by the Bank, specifically Phoenix Park and Mount Gotham with a carrying value of $98.50 million (2014: $109 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 13 (c)).

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

10 POST-RETIREMENT BENEFITS

(a) Retirement pensions are the only post-employment benefits provided by the Group. For this purpose, the Group operates a contributory, defined-benefit pension plan, the assets of which are held separately from those of the Group. The plan is governed by the Jamaica Mortgage Bank Act, 1973 and the Jamaica Mortgage Bank (Pensioners) Regulations, 1978. The plan's activities are controlled by the Board of Trustees, which consist of a number of employer and employee representatives. The Board of Trustees is responsible for the administration of the plan assets and the definition of the investment strategy. Since August 1993, a life assurance company has been engaged to execute this role.

The plan requires the establishment of a fund which is subject to triennial actuarial funding valuations, carried out by an external firm of actuaries. The latest actuarial valuation for funding purposes, undertaken as at July 31, 2013 indicated a past service surplus of $64.9 million. The actuaries recommended that, based on the value of the fund, contributions of 5.2% of pensionable salaries should be made by the Bank. Contributions during the year ended March 31, 2015 were at a rate of 5.2% of pensionable salaries. The next valuation is due on July 31, 2016. The employees of the Bank pay a basic contribution of 5% of annual earnings with the option to contribute an additional 9.8% of earnings. The pensionable earnings are the average annual earnings over the three years prior to retirement and contributions are vested after five years of pensionable service.

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

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

The most recent actuarial valuation of the plan's assets and the present value of the defined benefit obligations for IFRS purposes was carried out on March 31, 2015 (2014: April 30, 2014) by Rambarran & Associates Limited, Consulting Actuaries. This valuation was in respect of balances at March 31, 2015 (2014: March 31, 2014). 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	
	2015	**2014**
	$'000	**$'000**
Present value of funded obligations	(149,517)	(112,533)
Fair value of plan assets	182,734	162,734
	33,217	50,201
Unrecognised asset due to asset ceiling	-	(3,260)
Employee benefit asset	33,217	46,941

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

(b) (continued)

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

	Group and Bank	
	2015	**2014**
	$'000	**$'000**
Net defined benefit asset at beginning of year	46,941	38,230
Employer contributions	2,082	1,885
Company income/(expense)	583	(1,631)
Remeasurements recognised in OCI	(16,389)	8,457
Net defined benefit asset at year end	33,217	46,941

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

	Group and Bank	
	2015	**2014**
	$'000	**$'000**
Current service cost	4,180	5,083
Net interest cost:		
Interest on defined benefit obligation	10,571	8,961
Interest income on plan assets	(15,644)	(12,413)
Interest on effect of asset ceiling	310	-
(Income) Expense recognised in net profit	(583)	1,631
Change in demographic assumptions	-	9,549
Change in financial assumptions	-	6,087
Experience adjustments	19,959	(27,353)
Change in effect of asset ceiling	(3,570)	3,260
Expense/(Income) recognised in other comprehensive income	16,389	(8,457)

(c) Movement in present value of obligations:

	Group and Bank	
	2015	**2014**
	$'000	**$'000**
Present value at beginning	112,533	108,213
Service cost	4,180	5,083
Interest cost on defined benefit obligation	10,571	8,961
Member contributions	4,458	2,979
Benefits paid	(2,573)	(3,232)
Remeasurement – change in demographic assumptions	-	12,053
Remeasurement – change in financial assumptions	-	6,935
Remeasurement – experience adjustments	20,348	(28,459)
Present value at end	149,517	112,533

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

(d) Movements in fair value of plan assets:

	Group and Bank	
	2015	**2014**
	$'000	**$'000**
Fair value of plan assets at beginning of year	162,734	146,443
Contributions paid - employer	2,082	1,885
- employee	4,458	2,979
Interest income on plan assets	15,644	12,413
Benefits paid	(2,573)	(3,232)
Remeasurement – changes in demographic assumptions	-	2,504
Remeasurement – changes in financial assumptions	-	848
Remeasurement – experience adjustment	389	(1,106)
Fair value of plan assets at end of year	182,734	162,734
Plan assets consist of the following:		
Investment in pooled investment funds with investment strategies as follows:		
Equities	11,167	9,385
Fixed income securities	135,598	117,034
Mortgage and real estate	12,762	12,706
Annuity purchased	22,558	23,197
Other	649	412
Total invested assets	182,734	162,734

(e) Movements on asset ceiling

	Group and Bank	
	2015	**2014**
	$'000	**$'000**
Effect of asset ceiling at beginning	3,260	-
Interest on effect of asset ceiling	310	-
Re-measurement	(3,570)	3,260
	-	3,260

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

(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	
	2015	**2014**
	%	**%**
Discount rate at March 31	9.50	9.50
Expected return on plan assets at March 31	9.50	9.50
Future salary increases	6.00	5.50
Future pension increases	4.80	4.40
Inflation	6.00	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 is shown below:

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

	2014			
	Discount rate		**Salary growth**	
	1% increase	**1% decrease**	**1% increase**	**1% decrease**
Sensitivity level	**$'000**	**$'000**	**$'000**	**$'000**
Impact on defined benefit asset	(13,275)	16,579	5,838	(5,584)

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

A quantitative sensitivity analysis for significant assumptions is shown below:

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

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

(g) The estimated contributions (for both employer and employee) expected to be paid into the pension fund during the next financial year amount to $6,532,000 (2014: $5,214,000).

(h) The expected pension benefit expense in the next year is expected to be $1,990,000 (2014:$520,000).

(i) The weighted average duration of the defined benefit obligation at the end of the reporting period is 35 years (2014: 33 years).

11 **PROPERTY AND EQUIPMENT**

	Freehold Land	Freehold Buildings	Furniture, Fixtures and Equipment	Plant and Machinery	Total
	$'000	$'000	$'000	$'000	$'000
Group and Bank					
At Cost:					
April 1, 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
Additions	-	-	6,267	-	6,267
March 31, 2015	3,000	72,110	36,207	110	111,427
Depreciation:					
April 1, 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
Charge for the year	-	1,712	1,249	-	2,961
March 31, 2015	-	27,320	27,872	110	55,302
Net book values:					
March 31, 2015	3,000	44,790	8,335	-	56,125
March 31, 2014	3,000	46,502	3,317	-	52,819

11 PROPERTY AND EQUIPMENT (Continued)

Property located at 33 Tobago Avenue, Kingston has been pledged as collateral for Bond 12B (Note 13 (e)).

12 PAYABLES AND ACCRUALS

	Group		Bank	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Other payables	22,117	4,665	10,107	4,665
Accruals	9,635	7,088	9,635	7,078
	31,752	11,753	19,742	11,743

13 BONDS AND LOAN PAYABLE

	Group and Bank	
	2015 $'000	2014 $'000
National Insurance Fund Loan (See Note 13(a) below)	50,000	-
Shelter Bond 11 (see Note 13(b) and Note 13(f) below)	500,000	500,000
Shelter Bond 12A (see Note 13(d) below)	250,000	250,000
Shelter Bond 12B (see Note 13(e) below)	150,000	-
Shelter Bond 13 (see Note 13(c) below)	500,000	500,000
	1,450,000	1,250,000
Unamortised bond issuance costs	(2,115)	(4,230)
	1,447,885	1,245,770

	Group and Bank	
	2015 $'000	2014 $'000
Principal		
Due within 12 months of the statement of financial position date	600,000	100,000
Due thereafter (within two to five years)	847,885	1,145,770
	1,447,885	1,245,770
Accrued interest on bonds and loan	9,770	8,291
	1,457,655	1,254,061

13 BONDS AND LOAN PAYABLE (Continued)

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

(b) In March 2009, the Bank issued Shelter Bond 11 at 1.50% above the weighted average treasury bill rate. 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 $98.50 million (2014: $109 million), and land owned by the subsidiary with a carrying value of $1,000 (See Note 10(e)). The Bond is also secured by a charge over a debt service reserve account and investments therefrom. The Bank is required to maintain the debt service account at the equivalent of four quarter's interest and all proceeds of sale of the respective lands. The account is managed internally by the Bank and comprises designated investments that it holds in particular financial institutions. (See Note 5).

(d) In March 2014, the Bank issued Shelter Bond 12A, at a fixed rate of 7.88% for 2 years and variable thereafter at 0.95% above the weighted average treasury bill rate. The bond is repayable in full on March 20, 2017.

(e) In July 2014, the Bank issued Shelter Bond 12B, at a fixed rate of 7.50% for 2 years and variable thereafter at 0.95% above the weighted average treasury bill rate. The bond is repayable in full on March 20, 2017. (See Note 11).

(f) The Bank is required to maintain a segregated sinking fund for the redemption of Bond 11, such that 20% of the outstanding principal sum will be accumulated in each year of the term of the bonds. As at March 31, 2015 and 2014, the Bank did not maintain the sinking fund at the required amount.

In computing the variable rates above, the weighted average treasury bill yield used is from the most recent auction of 90 day and 180 day treasury bills prior to the commencement of the particular interest period. At the end of the period, the treasury bill yields were 7.19% and 8.50%, respectively (2014: 8.34% and 9.10%). Amortised bond issuance costs related to the bonds is $2.12 million (2014: $2.12 million).

14 SHARE CAPITAL

	Group and Bank	
	2015	**2014**
	$'000	**$'000**
Authorised, issued and fully paid:		
500,000,000 ordinary shares of no par value at the beginning and end of the year	500,000	500,000

15 RESERVE FUND

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

16 SPECIAL RESERVE FUND

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

17 OTHER INCOME

	Group and Bank	
	2015	2014
	$'000	$'000
Administration fee – Mortgage Insurance Fund	21,499	19,956
Commitment and administration fees	23,418	9,450
Other	4,388	509
	49,305	29,915

18 STAFF COSTS

The aggregate cost of employees was as follows:

	Group and Bank	
	2015	2014
	$'000	$'000
Salaries and wage-related expenses	60,933	57,087
Statutory payroll contributions	5,617	5,225
Employee benefit (credit) expense (Note 10(b)(iii))	(583)	1,631
Staff welfare	1,062	1,244
	67,029	65,187

19 ALLOWANCE FOR IMPAIRMENT LOSSES (NET OF RECOVERIES)

	Group and Bank	
	2015	**2014**
	$'000	**$'000**
Charged against revenue during the year (Note 8)	3,472	102,650
Recoveries during the year (Note 8)	(45,000)	(31,959)
Write back of general provision (Note 8)	(793)	(4,005)
Direct write off of amounts not deemed collectible	1,566	33,331
	(40,755)	100,017

20 INTEREST INCOME

	Group and Bank	
	2015	**2014**
	$'000	**$'000**
Construction loans	65,069	100,276
Mortgage loans	31,121	19,591
Deposits (including cash and cash equivalents)	60,579	27,645
Other	12,497	24,991
	169,266	172,503

21 PROFIT/(LOSS) BEFORE TAXATION

The following are among the items charged in arriving at the profit/(loss) before income taxes:

	Group and Bank	
	2015	**2014**
	$'000	**$'000**
Depreciation	2,961	3,142
Directors' emoluments - fees (Note 23)	802	792
Auditors' remuneration - current year	3,000	3,000
Loss/(Gain) on disposal of land held for development and sale	3,289	(431)

22 TAXATION

(a) Income tax

Current and deferred taxes have been calculated using the tax rate of 25% (2013: 25%).

(i) The total charge for the period comprises:

	Group and Bank	
	2015	2014
	$'000	$'000
Current tax	9,106	1,980
Deferred tax	4,097	(19,736)
	13,203	(17,756)

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

	Group		Bank	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
Profit/(Loss) before taxation	38,871	(113,252)	38,934	(113,189)
Computed "expected" tax expense (credit)	9,718	(28,313)	9,734	(28,297)
Tax effect of treating the following items differently for financial statement purposes than for tax reporting purposes				
Taxation losses not recognised	5,729	9,408	5,729	9,408
Employment tax credit	(3,035)	(660)	(3,035)	(660)
Expenses not allowed	959	1,642	959	1,642
Other	(168)	167	(184)	151
Actual tax charge/(credit) recognised in the statement of profit or loss	13,203	(17,756)	13,203	(17,756)
Tax (credit)/charge recognised directly in other comprehensive income	(4,097)	2,114	(4,097)	2,114

22 **TAXATION (Continued)**

(b) Deferred taxation

(i) Deferred taxes are calculated on all temporary differences using the current tax rate of 25% (2014: 25%).

Analysis for financial reporting purposes:

	Group and Bank	
	2015	**2014**
	$'000	**$'000**
Deferred tax assets	74,987	92,032
Deferred tax liabilities	(74,987)	(92,032)
Net asset (liability)	-	-

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

	Group and Bank	
	2015	**2014**
	$'000	**$'000**
Net liabilities at the beginning of period	-	(17,622)
(Charged)/Credited to income for the year	(4,097)	19,736
Credited /(Charged) to other comprehensive income for the period	4,097	(2,114)
Net asset/(liability) at the end of the period	-	-

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

(a) Deferred tax assets

	Group and Bank					
	Accrued Vacation	**Tax Loss**	**Interest Payable**	**Accelerated Capital Allowances**	**Other**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
At April 1, 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
Credited/(Charged) to income for the year	104	(17,871)	370	(344)	696	(17,045)
At March 31, 2015	1,093	67,929	2,443	1,778	1,744	74,987

22 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, 2013	(9,558)	(113,195)	(122,753)
(Charged)/Credited to income for the year	(63)	32,898	32,835
(Charged)/Credited to other comprehensive income	(2,114)	-	(2,114)
At March 31, 2014	(11,735)	(80,297)	(92,032)
(Charged)/Credited to income for the year	(666)	13,614	12,948
Credited to other comprehensive income	4,097	-	4,097
At March 31, 2015	(8,304)	(66,683)	(74,987)

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 $332.27 million (2014: $380.83 million) available for offset against future profits. A deferred tax asset of approximately $67.93 million (2014: $85.80 million) has been recognised in respect of $271.72 million (2014: $343.20 million) of these losses.

23 RELATED PARTY BALANCES AND TRANSACTIONS

A party is related to the Bank if:

(a) directly, or indirectly through one or more intermediaries, the party:
  (i) controls, is controlled by, or is under common control with, the Bank;
  (ii) has an interest in the Bank that gives it significant influence over the Bank; or
  (iii) has joint control over the Bank;
(b) the party is an associate (as defined in IAS *28, Investments in Associates 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.

23 RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

Balances outstanding at the end of the reporting period:

	Group and Bank	
	2015	**2014**
	$'000	**$'000**
Due from the Mortgage Insurance Fund	16,376	15,203

	Group and Bank	
	2015	**2014**
	$'000	**$'000**
Related party transaction		
Administration fees - Mortgage Insurance Fund	21,499	19,956

Balances receivable from key management personnel are as follows:

	Group and Bank	
	2015	**2014**
	$'000	**$'000**
Staff loans	252	4,021

Key management compensation is as follows:

	Group and Bank	
	2015	**2014**
	$'000	**$'000**
Directors' fees (Note 21)	802	792
Short-term employee benefits	31,960	30,395
Post-employment (benefits)/expense	(22)	330

24 FINANCIAL RISK MANAGEMENT

Introduction and overview

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

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

24 FINANCIAL RISK MANAGEMENT (Continued)

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

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

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

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

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

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

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

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

	Group		Bank	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
Cash	55,083	15,528	55,083	15,528
Certificates of deposit	468,772	-	468,772	-
Resale agreements	570,199	355,125	570,199	355,125
Receivables	32,305	31,609	32,305	31,609
Loans receivable	1,208,024	1,692,716	1,208,024	1,692,716
Investment in subsidiary	-	-	124,476	136,413
	2,334,383	2,094,978	2,458,859	2,231,391

24 FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework (Continued)

(a) Credit risk (continued)

(ii) Management of credit risk

(1) Loans receivable

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

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

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

(2) Cash and cash equivalents

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

(3) Resale agreements and certificates of deposit

Collateral is held for all resale agreements.

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:

	2015		2014	
	Gross $'000	Impairment $'000	Gross $'000	Impairment $'000
Not past due and not impaired	541,072	-	1,165,142	-
Past due but not impaired				
Under 12 months	203,579	-	34,576	-
Over 12 months	-	-	29,662	-
Past due and impaired				
Over 12 months	1,123,963	653,613	1,199,428	731,897
	1,868,614	653,613	2,428,808	731,897

24 FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework (Continued)

(a) Credit risk (continued)

(iii) Credit quality of loans (continued)

The management of the Bank believes that no impairment allowance is necessary in respect of other financial assets. The movement on the allowance for impairment is presented in Note 8(b).

(1) Impaired loans

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

(2) Past due but not impaired loans:

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

(3) Loans with renegotiated terms

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

(4) Allowances for impairment

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

(5) Write-off policy

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

24 FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework (Continued)

(a) Credit risk (continued)

(iv) Concentration of loans

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

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

	2015		
	Construction Loans	**Mortgage Loans**	**Total**
	$'000	**$'000**	**$'000**
Developers	1,803,884	-	1,803,884
Staff	-	3,152	3,152
Other	-	61,578	61,578
	1,803,884	64,730	1,868,614

	2014		
	Construction Loans	**Mortgage Loans**	**Total**
	$'000	**$'000**	**$'000**
Secondary mortgage market	-	306,952	306,952
Developers	1,648,575	-	1,648,575
Staff	-	4,021	4,021
Other	-	469,260	469,260
	1,648,575	780,233	2,428,808

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, 2015 or 2014.

24 FINANCIAL RISK MANAGEMENT (Continued)

Risk management framework (Continued)

(b) Market risk

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

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

(i) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. It arises when there is a mismatch between interest-earning assets and interest-bearing liabilities which are subject to interest rate adjustment within a specified period. It can be reflected as a loss of future net interest income and/or a loss of current market values.

24 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	2015					
	Immediately Rate Sensitive	Within 3 Months	Three to 12 Months	Over 12 Months	Non-rate Sensitive	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cash	-	-	-	-	55,083	55,083
Certificates of deposit		199,336	260,000	-	9,436	468,772
Resale agreements	-	487,990	77,401	-	4,808	570,199
Receivables	-	-	-	-	32,305	32,305
Loans receivable	-	130,242	488,576	589,206	-	1,208,024
Total financial assets	-	817,568	825,977	589,206	101,632	2,334,383
Payables	-	-	-	-	22,117	22,117
Bonds and loan payable	-	-	600,000	847,885	9,770	1,457,655
Total financial liabilities	-	-	600,000	847,885	31,887	1,479,772
Interest rate sensitivity gap	-	817,568	225,977	(258,679)	69,745	854,611
Cumulative gap	-	817,568	1,043,545	784,866	854,611	

24 FINANCIAL RISK MANAGEMENT (Continued)

(b) Market risk (continued)

(i) Interest rate risk (continued)

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	

24 FINANCIAL RISK MANAGEMENT (Continued)

(b) Market risk (continued)

(i) Interest rate risk (continued)

Bank

	2015					
	Immediately Rate Sensitive	Within 3 Months	Three to 12 Months	Over 12 Months	Non-rate Sensitive	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cash	-	-	-	-	55,083	55,083
Certificates of deposit	-	199,336	260,000	-	9,436	468,772
Resale agreements	-	487,990	77,401	-	4,808	570,199
Receivables	-	-	-	-	32,305	32,305
Loans receivable	-	130,242	488,576	589,206	-	1,208,024
Long-term loan	-	-	-	-	124,476	124,476
Total financial assets	-	817,568	825,977	589,206	226,108	2,458,859
Payables	-	-	-		10,107	10,107
Bonds and loan payable	-	-	600,000	847,885	9,770	1,457,655
Total financial liabilities	-	-	600,000	847,885	19,877	1,467,762
Interest rate sensitivity gap	-	817,568	225,977	(258,679)	206,231	991,097
Cumulative gap	-	817,568	1,043,545	784,866	991,097	

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2015
(Expressed in Jamaican dollars)

24 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	

(Expressed in Jamaican dollars)

24 **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

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

Group and Bank

	2014			
	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	-	-	7.81	7.83

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's/Group's profit for the period would increase by $19.79 million and decrease by $7.92 million respectively (2014: increase by $12.86 million and decrease by $5.14 million).

(ii) Foreign currency risk

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

24 FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk

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

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

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

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

Group	**2015**					
	Within One Month	**One to 3 Months**	**Three to 12 Months**	**One to 5 Years**	**Cash flows Total**	**Carrying Values Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	
Cash	55,083	-	-	-	55,083	55,083
Certificates of deposit	209,497	-	265,360	-	474,857	468,772
Resale agreements	80,574	417,554	78,919	-	577,046	570,199
Receivables	-	18,432	2,747	13,873	35,052	35,052
Loans receivable	-	133,068	533,338	626,849	1,293,255	1,208,024
Total financial assets	345,154	569,054	880,364	640,722	2,435,293	2,337,130
Payables	9,291	3,426	19,035	-	31,752	31,752
Bonds and loan payable	-	19,656	690,445	901,839	1,611,940	1,457,655
Total financial liabilities	9,291	23,082	709,480	901,839	1,643,692	1,489,407

24 FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

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

Bank	2015						
	Within One Month	One to 3 Months	Three to 12 Months	One to 5 Years	No specific maturity	Cash flows Total	Carrying values Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash	55,083	-	-	-	-	55,083	55,083
Certificates of deposit	209,497	-	265,360	-	-	474,857	468,772
Resale agreements	80,574	417,554	78,919	-	-	577,046	570,199
Receivables	-	18,432	2,747	13,873	-	35,052	35,052
Loans receivable	-	133,068	533,338	626,849	-	1,293,255	1,208,024
Long-term loan	-	-	-	-	124,476	124,476	124,476
Total financial assets	345,154	569,054	880,364	640,722	124,476	2,559,769	2,461,606
Payables	9,291	3,426	7,025	-	-	19,742	19,742
Bonds and loan payable	-	19,656	690,445	901,839	-	1,611,941	1,457,655
Total financial liabilities	9,291	23,082	697,470	901,839	-	1,631,683	1,477,397

24 FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

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

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.

24 **FINANCIAL RISK MANAGEMENT (Continued)**

(d) Operational risk (continued)

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

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

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

(e) Capital management:

The Bank is a statutory body and is not a regulated entity. Accordingly, there are no rules relating to capital that are imposed by regulations. However, by virtue of the provisions of the Jamaica Mortgage Bank Act (see Note 14) and stated Board policy (see Note 16), the Bank is required to set aside retained profits in special reserves.

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

Capital allocation

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

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

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

25 FAIR VALUE MEASUREMENT

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

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

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

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

Group	**2015 Carrying Amount**	**2014 Carrying Amount**	**2015 Fair Value**	**2014 Fair Value**
	$'000	**$'000**	**$'000**	**$'000**
ASSETS				
Loans receivable	1,208,024	1,692,716	1,209,822	1,692,716
LIABILITIES				
Bonds and loan payable	1,457,655	1,254,061	1,352,639	1,197,186

25 FAIR VALUE MEASUREMENT (Continued)

Bank	2015 Carrying Amount	2014 Carrying Amount	2015 Fair Value	2014 Fair Value
	$'000	$'000	$'000	$'000
ASSETS				
Loans receivable	1,208,024	1,692,716	1,209,822	1,692,716
Investment in subsidiary	124,476	136,413	124,476	136,413
	1,332,500	1,829,129	1,334,298	1,829,129
LIABILITIES				
Bonds and loan payable	1,457,655	1,254,061	1,337,612	1,197,186

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

Quantitative disclosures fair value measurement hierarchy

Group

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

	Quoted prices in active market Level 1	Significant Observable inputs Level 2	Significant unobservable inputs Level 3	Total
	$'000	$'000	$'000	$'000
At March 31, 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	-	1,197,186	-	1,197,186

25 FAIR VALUE MEASUREMENT (Continued)

Quantitative disclosures fair value measurement hierarchy (Continued)

Bank

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

	Quoted prices in active market Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
	$'000	$'000	$'000	$'000
At March 31, 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	-	1,197,186	-	1,197,186

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

26 COMMITMENTS

Loans approved but not disbursed by the Group and the Bank at March 31, 2015 amounted to approximately $1,175,154,000 (2014: $293,888,000).

27 COSTS OF AND FUNDING FOR ADMINISTRATION OF MORTGAGE INSURANCE FUND

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

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

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

	2015 $'000	2014 $'000
Cost of Administration of Mortgage Insurance Fund		
Bank charges and interest	3	13
Professional and other	620	122
Audit fees	233	238
Total costs	856	373
Funded by:		
Contribution of:		
Two-fifths of Mortgage Insurance fees	948	1,469
Loan investigation fees	60	62
One-half of investment income of Mortgage (Government Guaranteed Loans) Insurance Reserve Fund	1	1
	1,009	1,532
Recovered by the Mortgage Insurance Fund	(153)	(1,159)
Total funding	856	373

28 CONTINGENCIES

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

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

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

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

The Bank is awaiting notification of the date for Case Management Conference.

(ii) A claim was brought against the Bank for breach of contract. The bank offered a loan to a construction company to fund infrastructural works at a proposed development of lands located at Norwich, Port Antonia. The loan was secured by a debenture. When the construction company defaulted on repayment of the loan, the Bank exercised its powers under the debenture to place the construction company in receivership and appoint a Receiver and Manager.

The claimant has claimed an outstanding balance of $35.72 million for works it had done under contract with the construction company during receivership. The claimant claims that the Receiver entered into a contract with it for the continuation of the infrastructural works which it had commenced prior to receivership. It claims that the Receiver acted as a servant and/or agent of the Bank and therefore the Bank is liable for the Receivers failure to pay the sum owed.

The Bank is of the opinion that it has a strong defence and should be successful in this matter.

No provision has been made in these financial statements in respect of these matters.

JAMAICA MORTGAGE BANK

SUPPLEMENTARY INFORMATION TO THE

FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2015

JAMAICA MORTGAGE BANK AND ITS SUBSIDIARY

OTHER ADMINISTRATIVE AND GENERAL EXPENSES - BANK ONLY
YEAR ENDED MARCH 31, 2015
(Expressed in Jamaican dollars)

	2015 **$'000**	**2014** **$'000**
Advertising	70	350
Auditors' remuneration	3,000	3,000
Bank charges and interest	194	540
Bond expenses	1,492	4,687
Computer expenses	645	975
Consulting and other professional fees	6,296	8,635
Depreciation	2,961	3,142
Directors' fees	802	792
Donations	204	94
Electricity	4,494	5,132
General insurance	1,199	1,489
General office expenses	9,282	5,202
Group health and group life insurance	4,675	4,727
Legal expenses	642	2,771
Local travelling and incidentals	1,141	1,089
Overseas travel	320	-
Printing and stationery	472	1,246
Property taxes	708	1,379
Public relations	1,478	1,712
Conference, seminar and retreat expenses	56	-
Repairs and maintenance	830	1,623
Subscriptions and publications	962	1,595
Telephone, cables and postage	1,233	1,451
	43,156	51,631

THE MORTGAGE INSURANCE FUND AND

MORTGAGE (GOVERNMENT GUARANTEED LOANS)

INSURANCE RESERVE FUND

FINANCIAL STATEMENTS

MARCH 31, 2015

Building a better working world
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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 accompanying financial statements of The Mortgage Insurance Fund and Mortgage (Government Guaranteed Loans) Insurance Reserve Fund ("the Funds"), which comprise the statements of financial position as at March 31, 2015, and the statements of changes in fund balances and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and presentation 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 these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

Report on the financial statements (Continued)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Funds as at March 31, 2015, and of the changes in fund balances and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Ernst & Young
Chartered Accountants
Kingston, Jamaica

June 19, 2015

A member firm of Ernst & Young Global Limited

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

STATEMENT OF FINANCIAL POSITION AS AT MARCH 31, 2015

	Notes	2015 $'000	2014 $'000
ASSETS			
Cash and cash equivalents		11,591	6,677
Investments	4	1,007,086	938,392
Receivables	5	222,767	222,125
Property and equipment	6	-	10
		1,241,444	1,167,204
LIABILITIES			
Payables		198	74
Due to Mortgage (Government Guaranteed Loans) Insurance Reserve Fund		77	75
Due to Jamaica Mortgage Bank		16,376	15,203
		16,651	15,352
Net assets		1,224,793	1,151,852
Represented by:			
ACCUMULATED SURPLUS		1,224,793	1,151,852

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

The financial statements were approved for issue by the Board of Directors on June 19, 2015 and are signed on its behalf by:

Chairman

Director

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

STATEMENT OF CHANGES IN FUND BALANCE
YEAR ENDED MARCH 31, 2015

	2015 $'000	2014 $'000
Increase in Fund:		
Three-fifths of mortgage loan insurance fees	1,122	2,116
Investment income	93,292	85,393
Miscellaneous income	-	330
	94,414	87,839
Decrease in Fund:		
Recovered by the Bank as contribution towards the cost of administering the Mortgage Insurance Act	153	1,159
Administration charges paid to the Bank	(21,499)	(19,956)
Miscellaneous expense	(127)	(556)
	(21,473)	(19,353)
Net increase in Fund balance for year	72,941	68,486
Fund balance at beginning of year	1,151,852	1,083,366
Fund balance at end of year	1,224,793	1,151,852

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

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

STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2015
(Expressed in Jamaican dollars)

	Notes	2015 $'000	2014 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		72,941	68,486
Adjustments to reconcile income for the year to net cash provided by operating activities:			
Depreciation of property and equipment		10	28
		72,951	68,514
Change in operating assets:			
Increase in receivables		(642)	(21,349)
Change in operating liabilities:			
Increase/(decrease) in payables		124	(53)
Increase in due to Mortgage (Government Guaranteed Loans) Insurance Reserve Fund		2	1
Increase in due to Jamaica Mortgage Bank		1,173	10,260
Net cash provided by operating activities		73,608	57,373
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments		(68,694)	(59,504)
Net cash used in investing activities		(68,684)	(59,476)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		4,914	(2,131)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		6,677	8,808
CASH AND CASH EQUIVALENTS AT END OF YEAR		11,591	6,677

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

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

STATEMENT OF FINANCIAL POSITION AS AT MARCH 31, 2015

	2015 $'000	2014 $'000
ASSETS		
Due from Mortgage Insurance Fund	77	75
Government of Jamaica investment debenture	15	15
	92	90
Represented by:		
ACCUMULATED SURPLUS	92	90

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

The financial statements were approved for issue by the Board of Directors on June 19, 2015 and are signed on its behalf by:

H P. yl.

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, 2015

	2015 $'000	2014 $'000
One-half of investment income transferred to the Bank as contribution towards the cost of administering the Mortgage Insurance Act	2	1
Net increase in Fund for year	2	1
Fund balance at beginning of year	90	89
Fund balance at end of year	92	90

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

MORTGAGE (GOVERNMENT GUARANTEED LOANS) INSURANCE RESERVE FUND

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

STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2015
(Expressed in Jamaican dollars)

	Notes	2015 $'000	2014 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		2	1
Change in operating assets:			
Increase in due from Mortgage Insurance Fund		(2)	(1)
Net cash provided by operating activities		-	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		-	-
CASH AND CASH EQUIVALENTS AT END OF YEAR		-	-

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

1 CORPORATE INFORMATION

(a) The Mortgage Insurance Fund

(i) Establishment and functions

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

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

(ii) Funding

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

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

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

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

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

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

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

(e) These Funds are exempt from taxation.

(Expressed in Jamaican dollars)

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 Funds.

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:

Standards and Disclosures affecting amounts reported and or disclosures in the current period (and/or prior periods)

There were no standards and interpretations that were applied in the year that affected the presentation and disclosures in these financial statements. The following additional new and revised Standards and Interpretations have been adopted in these financial statements. Their adoption has not had any impact on the amounts reported in these financial statements but may impact the accounting for future transactions or arrangements.

		Effective for annual periods beginning on or after
Amendments to Standards		
IAS 32	Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32	January 1, 2014
IAS 36	Recoverable Amount Disclosures for Non-Financial Assets — Amendments to IAS 36	January 1, 2014
IAS 39	Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39	January 1, 2014
IFRS 10, 12 and IAS 27	IFRS 10, IFRS 12 and IAS 27 Investment Entities - Amendments to IFRS 10, IFRS 12 and IAS 27	January 1, 2014
New and Revised Interpretations		
IFRIC 21	Levies	January 1, 2014

(Expressed in Jamaican dollars)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Changes in accounting standards and interpretations:

Standards and interpretations in issue not yet effective

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

New and Revised Standards		Effective for annual periods beginning on or after
IAS 1	Disclosure Initiative – Amendment to IAS 1	January 1, 2016
IAS 16, 24 and IFRS 2, 3, 8 and 13	Amendments arising from 2010 – 2012 Annual Improvements to IFRS	July 1, 2014
IAS 40 and IFRS 3 and 13	Amendments arising from 2011 – 2013 Annual Improvements to IFRS	July 1, 2014
IAS 19, 34, IFRS 5 and IFRS 7	Amendments arising from 2012 – 2014 Annual Improvements to IFRS	January 1, 2016
IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization	January 1, 2016
IAS 16 and IAS 41	Agriculture: Bearer Plants	January 1, 2016
IAS 19	Defined Benefit Plans: Employee Contributions – Amendment to clarify the requirements that relate to how contributions from employees or third parties linked to service should be attributed to periods of service	July 1, 2014
IAS 27	Equity Method in Separate Financial Statements – Amendment to allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.	January 1, 2016
IFRS 9	Financial Instruments	January 1, 2018
IFRS 10, 12 and IAS 28	IFRS 10, IFRS 12 and IAS 28 Investment Entities - Applying the Consolidation Exemption - Amendments to IFRS 10, IFRS 12 and IAS 28	January 1, 2016
IFRS 11	Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations – Amendment to IFRS 11	January 1, 2016
IFRS 14	Regulatory Deferral Accounts	January 1, 2016

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Standards and interpretations in issue not yet effective (Continued)

<u>New and Revised Standards and Interpretations in issue not yet effective that are relevant</u>
The Board of Directors and management have assessed the impact of all the new and revised Standards and Interpretations in issue not yet effective and have concluded that the following are relevant to the operations of the Funds and are likely to impact amounts reported in the Funds' financial statements:

- IFRS 9 *Financial Instruments*

  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.

  - 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 Funds' 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 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.

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

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

Standards and interpretations in issue not yet effective (Continued)

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

- IFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

  IFRS 15 must be applied in an entity's annual IFRS financial statements for periods beginning on or January 1, 2017. Application of the Standard is mandatory and early adoption is permitted. The directors and management have not yet assessed the impact of the application of this standard on the Funds' financial statements.

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

(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.

<u>Fair value measurement</u>
The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments, fair value is determined using valuation techniques. These Funds generally 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 these Funds.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Investments (continued)

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

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

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

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

(d) Receivables

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Impairment

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

(i) Calculation of recoverable amount

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

(ii) Reversals of impairment

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

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

(f) Payables

Trade and other payables are stated at cost.

(g) Property and equipment

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

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

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

4 INVESTMENTS - MORTGAGE INSURANCE FUND

	2015 $'000	2014 $'000
Government of Jamaica:		
Repurchase agreements	266,739	198,196
Investment bonds including accrued interest	740,347	740,196
	1,007,086	938,392

5 RECEIVABLES

	2015 $'000	2014 $'000
Withholding tax recoverable	222,767	222,125

6 PROPERTY AND EQUIPMENT - COMPUTER

	$'000
Cost	
April 1, 2013, March 31, 2014 and March 31, 2015	115
Depreciation	
April 1, 2013	77
Charge for the year	28
March 31, 2014	105
Charge for the year	10
March 31, 2015	115
Net book value	
March 31, 2015	-
March 31, 2014	10

7 RELATED PARTY BALANCES AND TRANSACTIONS

A party is related to these Funds if:

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

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

Balances outstanding at the end of the reporting period:

	2015 $'000	2014 $'000
Due to Jamaica Mortgage Bank	16,376	15,203

	2015 $'000	2014 $'000
Related party transaction		
Administration fees - Jamaica Mortgage Bank	21,499	19,956

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

8 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

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

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

8 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

(a) Fair value

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

Determination of fair value:

The carrying values of the Funds' financial instruments, except for investments, are all considered to approximate their estimated fair values because of their short-term nature. At the end of the period, the fair value of the Fund's investments was $970 million (2014: $745 million). The fair values are estimated on the basis of pricing models or other recognized valuation techniques.

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

(b) Financial risk management:

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

- credit risk
- market risk
- liquidity risk

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

Risk management framework

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

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

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

(b) Financial risk management (continued):

Risk management framework (continued)

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

(i) Credit risk

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

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

(ii) Market risk

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

- Interest rate risk:

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

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, 2015
(Expressed in Jamaican dollars)

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.

	2015						
	Immediately Rate Sensitive $'000	Within 3 months $'000	Three to 12 months $'000	Over 12 months $'000	Non-rate Sensitive $'000	Total $'000	Average Effective yield %
Investments	7,786	94,034	170,208	733,667	9,177	1,007,086	9.20
Cash and cash equivalents	-	-	-	-	11,591	11,591	
	7,786	94,034	170,208	733,667	20,768	1,018,677	

	2014						
	Immediately Rate Sensitive $'000	Within 3 months $'000	Three to 12 months $'000	Over 12 months $'000	Non-rate Sensitive $'000	Total $'000	Average Effective yield %
Investments	-	195,839	-	733,667	8,886	938,392	9.47
Cash and cash equivalents	-	-	-	-	6,677	6,677	-
	-	195,899	-	733,667	15,563	945,069	

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 $1.22 billion exceeded the unearned premium liability, claim liability and contingency reserves total of $114 million by a surplus of $1.10 billion. Unearned premium reserve was estimated at 4.57% of the Fund, and annual default rate was estimated at 0.06% of the average fund.

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